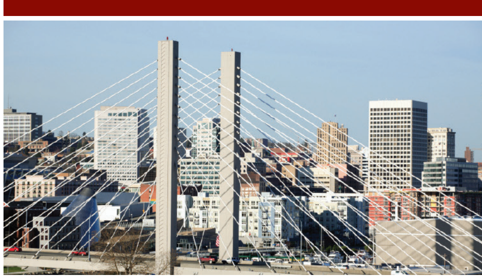
Washington State Department of
Labor & Industries

Workers' Compensation Program

An Enterprise Fund of the State of Washington

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018
Olympia, Washington



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October 2018

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Olympia, Washington

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Washington State Investment Board

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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STATISTICAL SECTION

Introductory Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

October 23, 2018

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

RE: Comprehensive Annual Financial Report

The Revised Code of Washington 51.44.115 requires the Department of Labor & Industries (L&I) to publish a Comprehensive Annual Financial Report (CAFR) for the Workers' Compensation Program within six months of the close of each fiscal year. This report is published to fulfill that requirement for the fiscal year ended June 30, 2018.

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

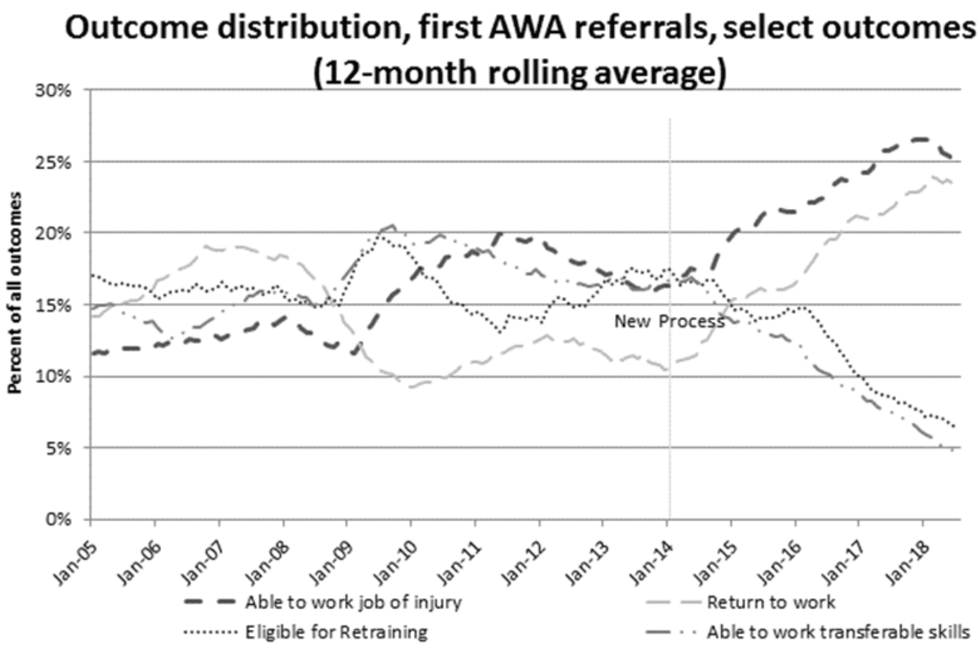
The State Auditor has issued an unmodified ("clean") opinion on the Workers' Compensation Program's financial statements for the year ended June 30, 2018. The independent auditor's report is located at the front of the financial section of this report.

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

MAJOR INITIATIVES

The Department of Labor & Industries has implemented many major initiatives during the last several years that have significantly improved the way we partner with employers and employees to help injured workers heal and return to work. Each of these changes has helped injured workers get better treatment and stay on the job, which has reduced disability and has saved millions of dollars. Two changes that have had a major impact are highlighted below.

First, L&I uses vocational rehabilitation counselors (VRCs) to provide return-to-work services and employability assessments of injured workers to determine certain benefits and ultimately resolve claims. During fiscal year 2015, L&I began to make Able to Work Assessment (AWA) referrals to VRCs much earlier, hoping to reduce time-loss and associated costs, while maintaining or improving injured worker return-to-work outcomes. As AWA referrals to VRCs are made earlier, outcomes are improving. The percentage of workers returning to work increased dramatically (by more than 120 percent for all first referrals), as shown in the chart below. The chart also shows that, since the process change, the percentage of assessments ending with the worker being "able to work job of injury" has been increasing. At the same time, because more workers are returning to work or being found able to work job of injury, the shares ending in the outcomes of "able to work transferable skills" and "eligible for retraining" are declining. Our next improvement efforts will focus on interventions that shift more of these outcomes to "return to work". L&I is now focusing on evidence-based best practices for vocational providers in order to further increase return-to-work outcomes.



Second, our country's opioid epidemic is well-documented. L&I has concentrated on reducing the percentage of claims with opioid use at six to twelve weeks from date of injury, because data shows these claimants are much more likely to become disabled long-term. In 2010, five percent of claims within six to twelve weeks of date of injury had opioid prescriptions. As of December 2017, only one percent of claims within six to twelve weeks of date of injury had opioid prescriptions, an 88 percent decrease from 2010. In addition, in 2018, about four percent of L&I's prescription drug costs were for opioids, down from 11-12 percent in 2016.

Two guidelines implemented by L&I since July 2013 give providers the tools they need to minimize the number of workers on long-term opioids. Early contact with VRCs, as well as reducing opioid use where appropriate, are just two of the many changes that have significantly helped injured workers heal and return to work. These changes have also reduced the costs to treat injured workers and contributed to the increase in the contingency reserve. 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. The contingency reserve is viewed as the financial resources available to ensure stable premium rates and absorb fluctuations in investment values.

To better anticipate and meet customer needs both now and in the future, L&I recently launched a Business Transformation initiative. Business Transformation works to align people, processes, and technology with the goals of simplifying and standardizing processes and systems across the agency and providing employees the training and support they need to deliver the highest-quality service. Transformation will make it easier for customers to do business with L&I and easier for employees to do their jobs. Our entire transformation will take at least a decade and includes numerous projects.

Progress was made in the following areas during fiscal year 2018:

- Workers' Compensation System Review – A project to assess the current business processes and systems. This project also includes a feasibility study, which will review and recommend potential technology solutions.

- Credentialing Replacement – This partnership with the Health Care Authority (HCA) will replace L&I's existing medical provider credentialing and payment systems with HCA's existing Provider One application.

- Enterprise Data Strategy – A holistic review of L&I's current data and records management. This project will recommend a future state that supports a large-scale system transformation, increase data consistency, and increase opportunities to link and use data across platforms.

- Technology Assessment & Readiness Plan – These assessments will review the current Information Technology (IT) services and give recommendations for improvements to prepare for new technology solutions.

- Website Redesign – A project to assess, create, and launch a new Lni.wa.gov website. The project will create a modern website that is easy for customers to use and for L&I to manage.

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

The workers' compensation system has existed in Washington State for 107 years. Washington was one of the first states to enact workers' compensation laws. Our state's Workmen's Compensation Act, established on July 28, 1911, was designed to protect workers and employers from injustice and financial hardship arising from work-related injuries in extremely hazardous work. In 1923, Washington became one of only two states where workers pay a portion of the insurance premiums.

Washington's workers' compensation insurance was provided solely through the State Fund, managed by L&I, until 1971, when the Legislature created an option for qualified employers to self-insure and expanded the scope of coverage to virtually all workers. The Self-Insurance Program allows employers with sufficient financial resources to pay the cost of claims for their injured workers from their own funds and assume significant responsibility for their own claims administration. The workers of self-insured employers are entitled to the same rights and benefits as those workers insured by the State Fund. There are currently 351 active employers who are self-insured, covering close to one-quarter of all workers in Washington.

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

The State Fund Workers' Compensation Program covers approximately 179,000 employers and 2.99 million workers statewide. Total premiums assessed in the State Fund during fiscal year 2018, including both the employer and worker portions, were $2.68 billion. More than 95,000 claims were accepted in fiscal year 2018; about 84 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 36,448 claims were active during fiscal year 2018, and 15,036 of these claims were receiving time-loss benefits, many of which involve long-term disability and complex medical issues. In fiscal year 2018, vocational rehabilitation retraining plans were completed by 347 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 2017-2019 appropriated budget for administering the Workers' Compensation Program is $738,496,000, which includes $675,512,000 that was appropriated to L&I and the remainder for other state agencies. This budget includes $20,504,000 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 2018 for the Workers' Compensation Program was $373,707,500, and the portion of the total fiscal year 2018 budget for L&I was $342,953,500.

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

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES - FISCAL YEAR 2018[1]

Washington is the thirteenth largest state, with a population of 7.4 million[2], and has the thirteenth largest state economy ($506.35 billion) in the U.S.[3] It is comprised of 11 major metropolitan areas and vast regions of wilderness and farmland. The Seattle/Tacoma/Bellevue metropolitan area alone accounts for 60.3 percent of the state's non-farm employment[4] and an even higher share of the state's 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 the world's second- and third-most-valuable companies: Amazon ($791.89 billion) and Microsoft ($766.78 billion).[5] Other Washington-based Fortune 500 companies include Costco, Starbucks, Nordstrom, Weyerhaeuser, Paccar, and Expeditors.

CURRENT ECONOMIC SITUATION AND OUTLOOK FOR WASHINGTON STATE

Washington was the fastest-growing state economy in calendar year 2017, with an annual growth rate of 4.4 percent, followed by Colorado (3.6 percent) and Nevada (3.5 percent).[6] Washington was also recognized as one of the top economies in several state economic and business ranking studies published recently, including "2018's Best & Worst States for Jobs" by WalletHub (ranked 1st)[7] and "The Economy of Each State and DC" by Business Insider (ranked 2nd).[8] Real personal income in Washington was projected to grow by 3.3 percent, 3.4 percent, and 3.3 percent in fiscal years 2018, 2019, and 2020, respectively.[9]

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[1] Unless otherwise indicated, the cut-off date for all data used in this report was June 1, 2018.
[2] "State Population Totals: 2010-2017", U.S. Census Bureau, December, 2017.
[3] "Annual GDP by state", Bureau of Economic Analysis (BEA). Data retrieved on May 31, 2018.
[4] BLS: https://www.bls.gov/news.release/metro.t03.htm.
[5] Ycharts.com. Market values retrieved on May 31, 2018.
[6] Gross Domestic Product by state: Fourth Quarter and Annual 2017 (see Table 4), BEA, May 4, 2018.
https://www.bea.gov/newsreleases/regional/gdp_state/2018/pdf/qgdpstate0518.pdf
[7] https://wallethub.com/edu/best-states-for-jobs/35641/.
[8] http://www.businessinsider.com/state-economy-ranking-q1-2018-2.
[9] "Table 2.6, Final February 2018 Fiscal Year Tables for Economic Forecast", Washington State Economic and Revenue Forecast Council (ERFC), February 7, 2018.

Washington was ranked fourth and fifth among all states in terms of number of jobs added (94,000 jobs) and the over-the-year percent change in employment (2.8 percent).[10] However, payroll employment cooled off in the first 10 months of fiscal year 2018, with employers adding only 6,400 jobs per month, compared to the monthly averages of 7,517 and 7,275 jobs created in 2016 and 2017, respectively.[11] Looking ahead, employment growth is projected to slow to 2.2 percent, 1.9 percent, 1.3 percent, 1.1 percent, and 1.0 percent from fiscal year 2019 to fiscal year 2023.[12] The statewide seasonally-adjusted unemployment rate was 4.8 percent in April 2018, unchanged from June 2017,[13] but is expected to decrease to nearly 4.1 percent in the next few years.[14] The jobless rate in the Seattle/Bellevue/Everett metropolitan area also remained unchanged at 3.8 percent from June 2017 to April 2018.

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.[15]

In fiscal year 2018, Washington State's housing market remained one of the hottest in the country. Home prices across the state continued to rise faster than in any other state in recent months, mainly driven by robust demand and a tight supply of houses on the market. According to the CoreLogic report, Washington led all other states in each month of fiscal year 2018 so far (July 2017-April 2018), with a 12 percent or higher year-over-year home price gain. In August 2017, Washington posted the largest home price inflation with a 13 percent year-over-year increase, followed by Utah (11.0 percent). The median home value in Washington has gone up 11.8 percent over the past year to $371,000 (as of April 30, 2018) and was predicted to rise another 7.7 percent in the coming year.[16] Building permits averaged 3,873 units per month in the first 10 months of the fiscal year, which was the highest monthly reading since fiscal year 2007. In the Seattle/Tacoma/Bellevue metropolitan area, home prices rose even faster than the state average, with 13.5 percent and 13.2 percent year-over-year gains in July and August 2017, respectively, and at least a 12.7 percent increase in all other months of fiscal year 2018.[17]

The equity market had a strong start and continued its upward trend until the second half of this fiscal year. The Dow Jones Industrial Average and S&P 500 reached record highs of 26,616.71 and 2,872.87 points, respectively, on January 26, 2018, and Nasdaq Composite peaked at 7,588.32 points on March 12, 2018. Over the first 11 months of this fiscal year, they gained 14.4 percent, 11.6 percent, and 21.2 percent, respectively.[18] For the market of fixed income securities, treasury yields on bonds, notes, and bills all turned higher over the last year. On May 31, 2018, the average

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[10] Based on employment change from April 2017 to April 2018. "State Employment and Unemployment – April 2018", BLS, May 18, 2018.
[11] As of May 31, 2018, Employment Security Department (ESD).
[12] Washington State Economic and Revenue Forecast, ERFC, February 2018.
[13] Historical resident Labor Force and Employment, ESD, May 30, 2018.
[14] Washington State Economic and Revenue Forecast, ERFC, February 2018.
[15] November 2017 Credit Rating Report, Washington State Treasurer. (http://www.tre.wa.gov/partners/for-investors/debt-management/bond-ratings/).
[16] Data Source: http://www.zillow.com/wa/home-values/.
[17] Data Source: S&P/Case-Shiller WA-Seattle Home Price Index, Federal Reserve Bank of St. Louis.
[18] Data Source: Federal Reserve Bank of St. Louis.

rates for 1-year, 5-year, 10-year, and 30-year treasury constant maturity series were 99, 79, 52, and 16 basis points higher, respectively, than the last day of fiscal year 2017.[19]

Workers' Compensation Impacts

Overall, the robust employment growth in recent years in Washington State has boded well for workers' compensation premiums. Nevertheless, the projected weakening job growth in the near future would likely result in slower growth in premiums assessed, barring other changes. 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 and exposure may outpace that of the overall labor market.

At the industry level, Construction was one of the largest job contributors, accounting for more than 10 percent of total state private non-farm jobs added in the first 10 months of fiscal year 2018.[20] Construction was also projected to be the third-fastest-growing industry, with an average annual employment growth rate of 2.75 percent during 2016-2021, only trailing Information (4.07 percent) and Professional, Scientific, and Technical Services (2.99 percent).[21] While this is expected to result in higher total insurance premiums collected, it may also negatively affect 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. Other industries that have high incidence rates include Transportation and Warehousing, Manufacturing, Health Services and Social Assistance, and Retail Trade. These industries were projected to fluctuate at an annual rate of between -0.07 percent (Manufacturing) and 2.19 percent (Health Services and Social Assistance) during the same 5-year period. The vastly different growth projections for these industries will have a mixed impact on total premiums and workers' compensation costs alike.

Wage growth picked up at a faster rate in the past year, translating into a larger liability increase in time-loss and pension benefits for most workers injured on or before July 1, 2017. These benefits are required to be recalculated each year to reflect the wage inflation (Cost-of-Living-Adjustment, or COLA). In Washington, the average annual wage increased 5.1 percent to $62,077 in 2017 (preliminary data), the largest annual gain since 2007 (calendar year).[22] L&I will increase time-loss and pension benefit payments for eligible workers effective July 1, 2018, based on a final wage inflation rate that will be announced by the Employment Security Department.

The state minimum wage was increased to $11.50 per hour in calendar year 2018 and is set to reach $13.50 in calendar year 2020 as a result of Initiative 1433 passed in November 2016. In some cities, such as Seattle and Tacoma, the minimum wages were higher than the state rate in 2018.[23] The increase in minimum wages will add costs to the workers' compensation system, in that the wage replacement benefit paid to eligible minimum wage earners will also increase.

[19] Data Source: Treasury Constant Maturity data series, Federal Reserve Bank of St. Louis.
[20] Washington Employment Estimates, ESD, May 31, 2018.
[21] Industry Employment Projections, ESD, June 2018.
[22] Quarterly Census of Employment and Wages (QCEW) for 2017, ESD, May 23, 2018.
[23] In CY2018, minimum wage in Seattle was between $11.50 and $15.45 depending on firm size and medical benefit provision; Minimum wage in Tacoma was $12.

Medical inflation (based on the Consumer Price Index for medical care) increased at a much slower pace in fiscal year 2018. The inflation index peaked at a 4.9 percent annual gain in August and September of 2016, but decelerated since then and declined to 1.6 percent in September 2017, the smallest annual gain since January 1965. While the mix of medical services provided in the workers' compensation system is somewhat different from general medical care, if this downward trend continues, it will likely help reduce medical expenses in Washington's workers' compensation system.

A strong equity market brings higher returns on investment for L&I. Although equity only accounted for 13.5 percent of L&I's total investment assets,[24] its high return rate in the last few years has substantially enhanced the agency's overall investment performance, which has helped to build up a healthy contingency reserve that will protect the agency against unexpected large rate fluctuations in the future. In the first half of fiscal year 2018, the equity market continued to rise, with the Dow, S&P 500, and Nasdaq up 15.8 percent, 10.3 percent, and 12.4 percent, respectively. However, the second half of fiscal year 2018 has seen extremely high market volatility and low investment returns. The Dow lost 1.2 percent from January to May 2018, with the S&P 500 up 1.2 percent and Nasdaq gaining 7.8 percent over the same period.

LONG-TERM FINANCIAL PLANNING

The passage of Senate Bill (SB) 6393 in the 2018 legislative session gave L&I flexibility to reduce the pension discount rate. L&I can now have two different pension discount rates for pensions of self-insured employers and for the State Fund. In the fourth quarter of fiscal year 2018, the overall pension discount rate was reduced from 6.2 to 6.1 percent. Additional liability has been accrued to account for this reduction. Using the authority granted by SB 6393, the State Fund pension discount rate will decrease from 6.1 percent to 4.5 percent during fiscal year 2019. This change increases benefit liabilities by $554 million and decreases the contingency reserve by the same.

In order to ensure premium rate stability, the Director of Labor & Industries and the Workers' Compensation Finance Committee are currently analyzing the appropriate contingency reserve target as a percent of total liabilities for the Workers' Compensation Fund and whether to purchase reinsurance, which will provide some protection in the event of a catastrophe.

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.

[24] Data Source: Labor & Industries Portfolio Review-As of March 31, 2018, Washington State Investment Board.

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. We anticipate that by December 2018, we will be purchasing two to three real estate properties.

AWARDS AND ACKNOWLEDGEMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to L&I for its CAFR for the fiscal year ended June 30, 2017. A copy of the Certificate of Achievement is included in the introductory section of the CAFR. This was the eighth 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

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, 2017

Christopher P. Morrill

Executive Director/CEO

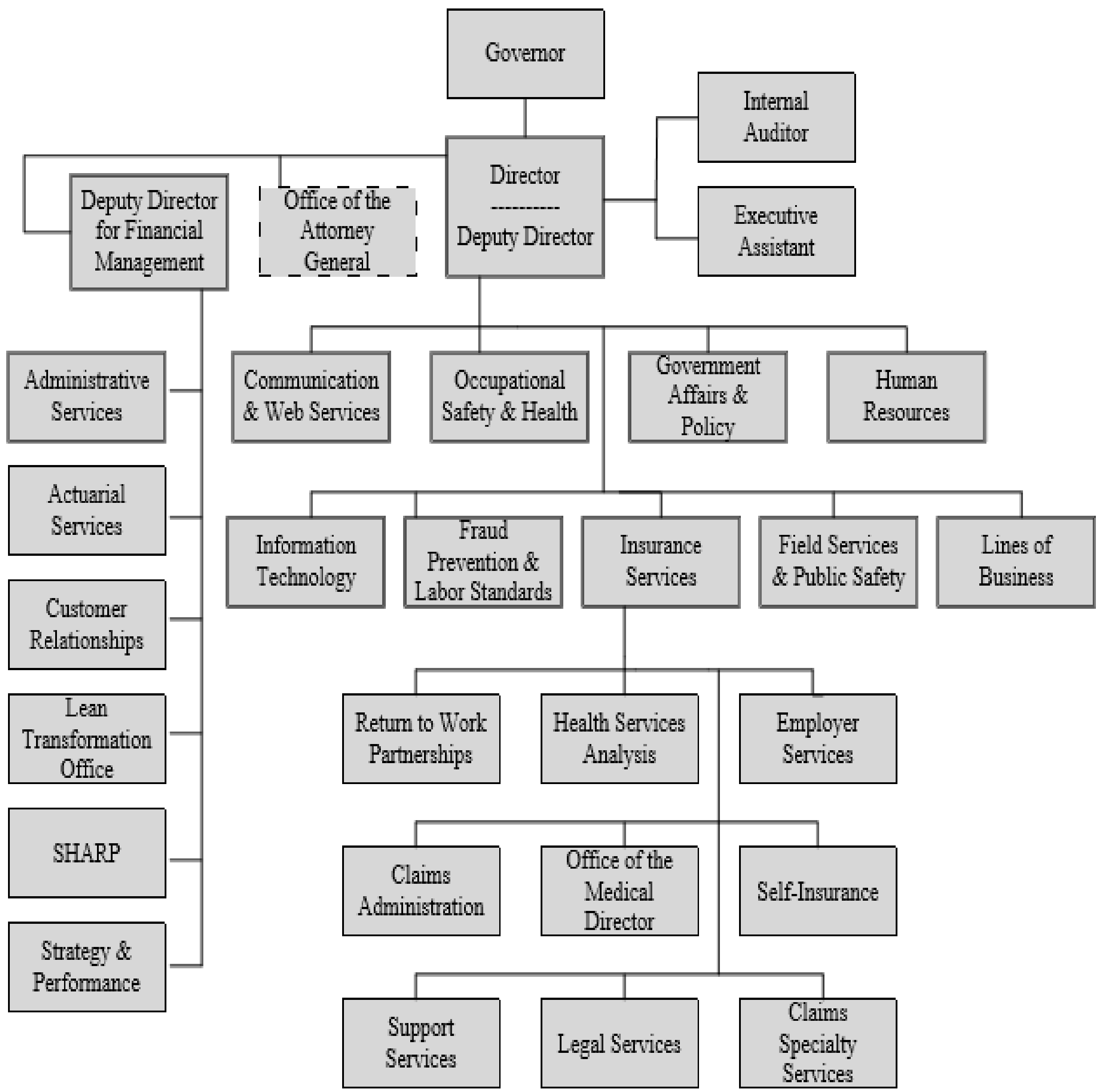
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Department of Labor & Industries

Organization Chart

June 30, 2018



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 23, 2018

Joel Sacks
Workers Compensation Funds
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Workers Compensation Funds, an enterprise fund of the state of Washington, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Labor and Industries' Funds of the state of Washington as managed by the Washington State Investment Board, which include the Program's investments and related investment income as discussed in Note 3. These investments represent 93 percent, and 8 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 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Workers Compensation Funds, as of June 30, 2018, 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, 2018, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, in 2018, the Program adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial*

Reporting for Postemployment Benefits Other Than Pensions. 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. The Letter of Transmittal and the combining financial statements and schedules are presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The 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 23, 2018, 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, 2018. The information included here should be considered along with the transmittal letter, which can be found on pages 3-11 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 $517 million from the prior fiscal year, mainly due to an increase in investments of $363 million and an increase in premium receivables of $152 million.

- Total liabilities and deferred inflows of resources increased $1,227 million from the prior year. The increase is largely due to increases in claims payable of $1,134 million, recognition of an additional other postemployment benefits liability of $64 million, and $29 million in additional accrued liabilities.

- Total revenues earned decreased $284 million due to realized and unrealized losses on fixed income securities and equities.

- Total expenses incurred increased $398 million from the prior year, primarily due to a $399 million increase in claims expense.

- Total net deficit increased $711 million from the prior year, mainly due to an increase in claims expense and 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, and Industrial Insurance Rainy Day Fund Accounts, known collectively as the Workers' Compensation Program. The Accident, Medical Aid, Pension Reserve, and Industrial Insurance Rainy Day Fund Accounts represent the Workers' Compensation Program Industrial Insurance Fund, or Basic Plan.

For the fiscal year ended on June 30, 2018, the basic financial statements show financial position and results of operations at the roll-up level. Detailed financial information for the individual accounts can be found in the Supplementary Information section on pages 99-102 of this report.

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

The Statement of Net Position presents information on the program's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. It reflects the program's financial position as of June 30, 2018. It can be found on page 35 of this report.

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

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

The Notes to the Basic Financial Statements are an integral part of the basic financial statements and provide additional information that is essential to a full understanding of the information provided in the Workers' Compensation Program's financial statements. They can be found on pages 39-85 of this report.

Financial Analysis of the Workers' Compensation Program

Statement of Net Position
(dollars in millions)

	June 30, 2018	June 30, 2017	$ Change	% Change
Assets				
Current assets	$ 2,576	$ 1,678	$ 898	53.5%
DOE* assets, noncurrent	5	5	-	0.0%
Investments, noncurrent	15,389	15,755	(366)	(2.3%)
Capital assets, net	58	65	(7)	(10.8%)
Total Assets	18,028	17,503	525	3.0%
Deferred outflows of resources	29	37	(8)	(21.6%)
Liabilities				
Current liabilities	2,567	2,348	219	9.3%
Noncurrent liabilities	25,806	24,836	970	3.9%
Total Liabilities	28,373	27,184	1,189	4.4%
Deferred inflows of resources	41	3	38	1266.7%
Net Position (Deficit)				
Investment in capital assets	58	65	(7)	(10.8%)
Unrestricted	(10,416)	(9,712)	(704)	7.2%
Total Net Position (Deficit)	$ (10,358)	$ (9,647)	$ (711)	7.4%

*Noncurrent assets of the U.S. Department of Energy

Current assets - Current assets increased by $898 million during fiscal year 2018, largely due to increases in current investments and receivables. Current investments increased by $729 million due to more fixed income securities held having earlier maturity dates than those held in the prior year. Premium receivables increased by $152 million, mainly due to more hours reported by employers.

Noncurrent investments - Noncurrent investments decreased during fiscal year 2018 by $366 million, mainly due to $729 million that moved from noncurrent investments to current investments as discussed above, offset by increases in fixed income securities and equity investments. Fixed income securities increased due to reinvestment of interest income and realized gains. Equities increased due to a strong stock market.

Current liabilities - Current liabilities, other than claims payable, increased during fiscal year 2018 by $29 million, mainly due to increases of $21 million in accrued liabilities and $5 million in security lending collateral. Accrued liabilities increased $21 million, mainly due to an increase in the retrospective rating liability as compared to fiscal year 2017. The fiscal year 2018 retrospective rating liability is higher due to the increases in reported hours and slightly higher refund ratios. The increase in securities lending is due to higher borrower demand and better market conditions.

Claims payable - Claims payable liabilities include benefit and claims administration expense liabilities. claims payable, included in current and noncurrent liabilities, was $27,774 million at the end of fiscal year 2018, an increase of $1,134 million, or 4.3 percent, when compared to the previous fiscal year. This increase is primarily due to a net increase in benefit liabilities. Benefit liabilities increased $1,083 million, as shown by the table below:

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

	June 30, 2018	June 30, 2017
Benefit liabilities, beginning of year	$ 26,033	$ 25,239
New liabilities incurred, current year	1,938	1,903
Development on prior years		
Change in reserve discount	805	735
Change in discount rate	37	44
Other development on prior liabilities	445	200
Claim payments	(2,142)	(2,088)
Change in benefit liabilities	1,083	794
Benefit liabilities, end of year	$ 27,116	$ 26,033

* 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 $718 million. The Supplemental Pension Account provides for the Cost-of-Living Adjustments (COLAs) on workers' compensation time loss and pension benefit payments for injured workers insured through both the State Fund and Self-Insurance Program. The COLA calculation is based on the state's average annual wage, which increased 4.97 percent in 2017, as published by the Washington State Employment Security Department.

- The Workers' Compensation Program reduced the pension discount rate from 6.2 to 6.1 percent in fiscal year 2018 for the State Fund and the Self-Insurance Program. Additional liability has also been accrued for the pension discount rate reduction from 6.1 to 4.5 percent that will occur in fiscal year 2019 for the State Fund. These pension discount rate reductions increased the Pension Reserve liability estimate by $646 million.

- The increase in benefit liabilities was partially offset by favorable development on prior year claims. Each year, the actuaries reassess liabilities based on the most recent information. As a result of this evaluation, the estimate for benefit liabilities was reduced due to fewer active time-loss claims, reductions in permanent partial disability awards, and lower-than-estimated average award amounts. The Medical Aid Account benefit liability also declined due to lower-than-expected claim counts and lower-than-anticipated medical payments.

Total net position (deficit) - The Workers' Compensation Program's deficit increased by $711 million during fiscal year 2018 as a result of the COLA increase, ending the year with a deficit balance of $10,358 million. This deficit consists of a $13,765 million deficit in the Supplemental Pension Account, offset by net position balances in the other Workers' Compensation Program accounts. Additional detail regarding the Supplemental Pension Account deficit can be found in Note 8 of this report.

Changes in Net Position (dollars in millions)	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	$ Change	% Change
Operating Revenues				
Premiums and assessments, net	$ 2,725	$ 2,698	$ 27	1.0%
Miscellaneous revenues	50	61	(11)	(18.0%)
Total Operating Revenues	2,775	2,759	16	0.6%
Nonoperating Revenues				
Earnings on investments	249	551	(302)	(54.8%)
Other revenues	11	9	2	22.2%
Total Revenues	3,035	3,319	(284)	(8.6%)
Operating Expenses				
Salaries and wages	177	161	16	9.9%
Employee benefits	65	69	(4)	(5.8%)
Personal services	15	6	9	150.0%
Goods and services	87	82	5	6.1%
Travel	4	4	-	0.0%
Claims	3,287	2,887	400	13.9%
Depreciation	8	10	(2)	(20.0%)
Miscellaneous expenses	24	50	(26)	(52.0%)
Total Operating Expenses	3,667	3,269	398	12.2%
Nonoperating Expenses				
Interest expense	-	-	-	-
Total Expenses	3,667	3,269	398	12.2%
Income (Loss) before Transfers	(632)	50	(682)	(1364.0%)
Net Transfers	-	-	-	0.0%
Change in Net Position (Deficit)	(632)	50	(682)	(1364.0%)
Net Position (Deficit) - Beginning of Year*	(9,726)	(9,697)	(29)	0.3%
Net Position (Deficit) - End of Year	$ (10,358)	$ (9,647)	$ (711)	7.4%

*Net Position (Deficit) – Beginning of Year for fiscal year ended June 30, 2018 is restated.

Premiums and assessments, net - Net premium and assessment revenues during fiscal year 2018 were $2,725 million compared to $2,698 million for fiscal year 2017, an increase of $27 million. This increase resulted from additional hours reported by employers and a calendar year 2017 composite premium rate increase, offset by a composite premium rate decrease of 2.5 percent in calendar year 2018. The premium rate decreases in the Accident and Medical Aid Accounts resulted from fewer work-related injuries, along with agency initiatives to improve outcomes for injured workers and reduce costs. The Supplemental Pension Account's premium rate increase resulted from a 4.97 percent increase to the state average annual wage. In fiscal year 2017, employers reported 3,827 million hours worked; this figure increased to 3,938 million hours for fiscal year 2018. There has been a steady growth of quarterly standard premiums for 29 quarters since March 31, 2011.

Earnings on investments - The earnings on investments decreased by $302 million from the prior fiscal year, as explained below:

Significant Changes in Investment Activity*
(dollars in millions)

	June 30, 2018	June 30, 2017	$ Change	% Change
Fixed Income				
Interest earnings	$ 478	$ 483	$ (5)	(1.0%)
Realized gains and losses	39	104	(65)	(62.5%)
Unrealized gains and losses	(504)	(369)	(135)	36.6%
Fixed Income Total	13	218	(205)	(94.0%)
Equities				
Realized gains and losses	1,059	1	1,058	105800.0%
Unrealized gains and losses	(818)	338	(1,156)	(342.0%)
Equities Total	241	339	(98)	(28.9%)
Total Fixed Income and Equities	$ 254	$ 557	$ (303)	(54.4%)

*The above does not include investment expenses.

- Interest earnings decreased due to a lower average rate of return on the fixed income portfolio during fiscal year 2018. As higher-rate bonds that were purchased years ago mature, they are reinvested in fixed income securities with lower coupon rates due to the lower interest rate environment.

- Fixed income realized gains of $39 million for fiscal year 2018 resulted mainly from corporate bond recalls. As interest rates increase, some corporations are calling higher-rated bonds and reissuing at lower interest rates. For fiscal year 2017, the $104 million in realized gains, resulted mainly from a $900 million sale in fixed income securities to shorten duration targets to match the revised asset allocation policy.

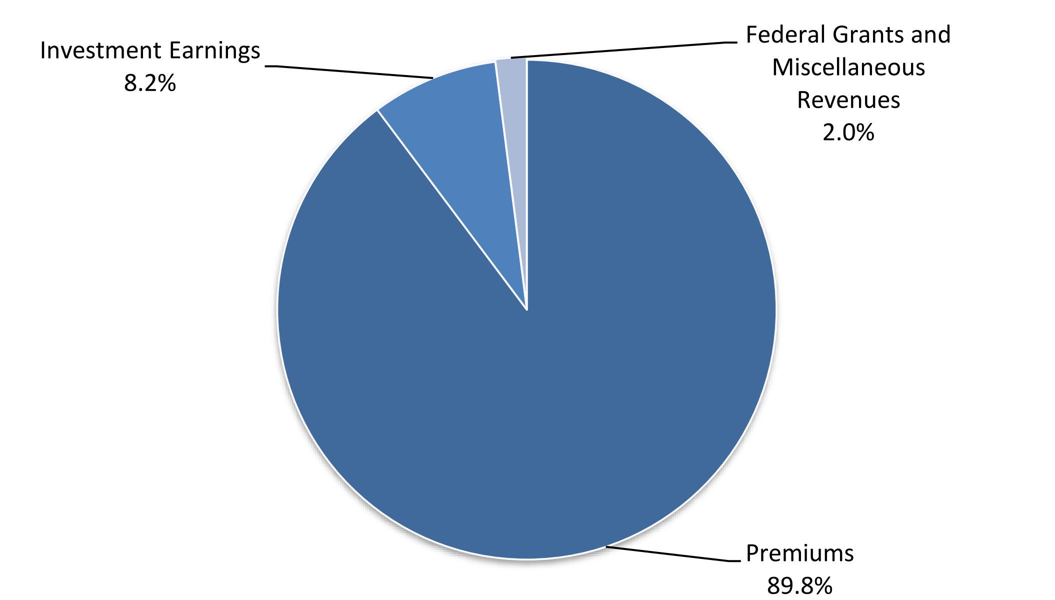
- Fixed income unrealized losses resulted from rising interest rates. The fair market value of debt securities moves in the opposite direction to changes in interest rates: rising interest rates result in decreasing bond market prices, while falling rates cause bond prices to increase. There were three interest rate hikes during fiscal year 2018, which resulted in unrealized losses in fixed income securities.

- In fiscal year 2018, realized gains in equities resulted from the sale of equities for three reasons. First, U.S. equities were sold and non-U.S. equities were purchased to align with the new asset allocation policy, which changed the U.S./non-U.S. percent mix from 60/40 to 52/48. Second, the equity portfolio was rebalanced in January 2018, because the value of equities exceeded the asset allocation policy guidelines. Third, all Workers' Compensation Program equity assets were moved from two separately-managed portfolios (one for the U.S. and one for the non-U.S.) to a single global equity fund. As a result, all equities were sold and repurchased in a global commingled fund under Blackrock.

- The $818 million unrealized loss in equities for fiscal year 2018 is mainly due to the sale of the equities that generated the realized gain. When the equities were sold, all unrealized gains in prior years that increased the contingency reserve were removed from unrealized gains and included in realized gains. The strong stock market in fiscal year 2017 resulted in the $338 million unrealized gain for that year.

The following chart provides additional detail on the distribution of revenues by source during fiscal year 2018:

Fiscal Year 2018 Revenues by Source



Claims expense - Claims expense for fiscal year 2018 increased $400 million, or 13.9 percent, as compared to fiscal year 2017. Claims expense includes two main components: payments to beneficiaries and the change in claims payable.

Claim payments to beneficiaries increased by $55.5 million, or 2.6 percent, when compared to the prior year. Increases in claim payments in the Medical Aid, Pension Reserve, and Supplemental Pension Accounts were partially offset by a decrease in the Accident Account. The net increase is explained by the following:

- The Medical Aid Account's $10 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 $18 million, mostly because of higher numbers of pensioners receiving benefits, together with higher average monthly benefits.

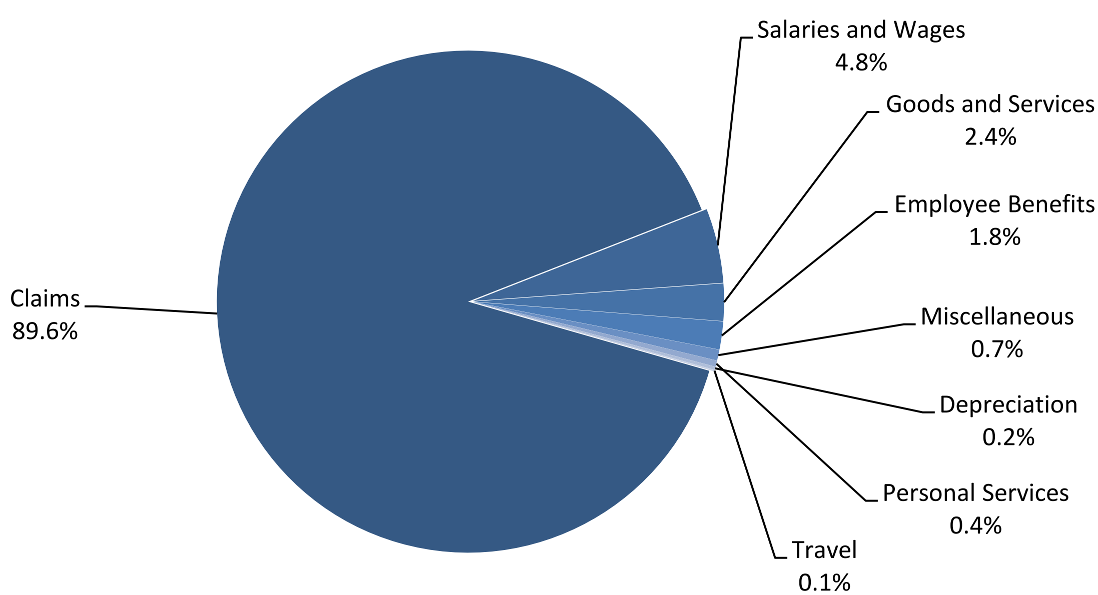
- The Supplemental Pension Account's $35 million increase in claim payments to beneficiaries resulted mainly from an increase in the state's average annual wage.

- The Accident Account's $8 million decrease in claim payments to beneficiaries resulted primarily from fewer active time-loss claims.

Operating expenses - Operating expenses for fiscal year 2018, other than claims expense, were $380 million as compared to $382 million in fiscal year 2017. The slight decrease in operating expenses in fiscal year 2018 resulted mainly from a decrease in miscellaneous expenses, offset by increases in state employee salaries and personal services. State employee salaries increased due to a two percent pay increase for all employees effective July 1, 2017, and from an increase in the number of employees due to new initiatives that were to be implemented. Personal services also increased as a result of the system replacement project. The decrease in miscellaneous expenses is due primarily to a $27 million decrease in bad debt expense. Previously, penalty and interest receivables waived as a result of negotiation or settlement were charged against bad debt expense. During fiscal year 2018, the Workers' Compensation Program began reversing the revenues that were originally accrued when the receivables were recorded. This resulted in a decrease in penalty and interest revenues and a decrease in bad debt expense.

The following chart provides additional detail on the distribution of operating expenses by type during fiscal year 2018:

Fiscal Year 2018 Operating Expenses by Type



Capital Asset and Debt Administration

Capital assets - Capital assets, net of accumulated depreciation, as of June 30, 2018, was $58 million. The $7 million decrease from the previous year mainly resulted from depreciation expense. Each year, capital assets are expensed over their useful lives. 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

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 years old. A budget request has been submitted for funding to replace the old computer systems that support Washington's Workers' Compensation Program. The Workers' Compensation Program has completed extensive research, developed cost and timeline estimates, and produced a business case that details the findings and proposed approach. The seven-year project will simplify the program's technology architecture, replace manual and paperwork processes with electronic features, and free up staff time to focus on further improving services to injured workers and employers. The total estimated cost of this project is $299 million, with $82 million of that being requested for the next biennium.

In June 2017, the Washington State Investment Board (WSIB) adopted a new asset allocation policy, and the decision was made to purchase real estate at a cost of up to five percent of total investments in the Accident, Medical Aid, and Pension Reserve Accounts. Real estate will be gradually purchased during the next seven years, with the plan to purchase several properties during fiscal year 2019.

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/.

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Basic Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statement of Net Position
June 30, 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Cash and cash equivalents	$	45,490,079
Investments, current		1,379,906,833
DOE trust cash and investments		370,920
Collateral held under securities lending agreements		99,809,837
Receivables, net of allowance		1,044,871,641
Receivables from other state accounts and agencies		601,650
Receivables from other governments		2,057,685
Inventories		149,344
Prepaid expenses		2,584,642
Total Current Assets		2,575,842,631
Noncurrent Assets		
DOE trust receivable		4,929,114
Investments, net of current portion		15,389,476,229
Capital assets, net of accumulated depreciation		58,075,852
Total Noncurrent Assets		15,452,481,195
Total Assets		18,028,323,826
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows from pensions		26,526,796
Deferred outflow of resources on OPEB		2,045,792
Total Deferred Outflows of Resources		28,572,588
Total Assets and Deferred Outflows of Resources	$	18,056,896,414
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
Current Liabilities		
Accounts payable		6,706,656
Accrued liabilities		221,403,017
Obligations under securities lending agreements		99,809,837
Net pension liability, current		21,273
Other post-employment benefits, current		2,045,792
Payable to other state accounts and agencies		8,151,782
Due to other governments		264
Unearned revenues		2,347,450
DOE trust liabilities, current		623,707
Claims payable, current		2,226,223,000
Total Current Liabilities		2,567,332,778
Noncurrent Liabilities		
Claims payable, net of current portion		25,548,080,000
Other long-term liabilities		7,764,714
DOE trust liabilities, net of current portion		4,676,327
Other post-employment benefits, net of current portion		127,224,978
Net pension liability, net of current portion		118,184,370
Total Noncurrent Liabilities		25,805,930,389
Total Liabilities		28,373,263,167
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows from pensions		19,187,671
Deferred inflow of resources on OPEB		21,953,381
Total Deferred Inflows of Resources		41,141,052
NET POSITION (DEFICIT)		
Investment in capital assets		58,075,852
Unrestricted		(10,415,583,657)
Total Net Position (Deficit)		(10,357,507,805)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$	18,056,896,414

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, 2018

OPERATING REVENUES		
Premiums and assessments, net of refunds	$	2,724,895,978
Miscellaneous revenues		49,832,866
Total Operating Revenues		2,774,728,844
OPERATING EXPENSES		
Salaries and wages		177,028,140
Employee benefits		64,792,687
Personal services		14,968,135
Goods and services		86,736,999
Travel		4,575,465
Claims		3,286,635,977
Depreciation		8,499,377
Miscellaneous expenses		23,841,286
Total Operating Expenses		3,667,078,066
Operating Income (Loss)		(892,349,222)
NONOPERATING REVENUES (EXPENSES)		
Earnings on investments		249,354,614
Other revenues		11,505,008
Total Nonoperating Revenues (Expenses)		260,859,622
Change in Net Position		(631,489,600)
Net Position (Deficit) at July 1		(9,647,104,632)
Prior Period Adjustment		(78,913,573)
Net Position (Deficit) - July 1, as Restated (See Note 2)		(9,726,018,205)
Net Position (Deficit) - June 30	$	(10,357,507,805)

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, 2018

CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$	2,714,433,694
Payments to/for beneficiaries		(2,152,813,108)
Payments to employees		(243,032,245)
Payments to suppliers		(107,152,250)
Other		45,940,308
Net Cash Flows from Operating Activities		257,376,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received		10,762,010
License fees collected		114,995
Net Cash Flows from Noncapital Financing Activities		10,877,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets		(1,504,078)
Net Cash Flows from Capital and Related Financing Activities		(1,504,078)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of trust investments		(282,985)
Receipt of interest and dividends		475,719,912
Investment expenses		(5,936,375)
Proceeds from sale of investment securities		8,861,102,121
Purchases of investment securities		(9,587,170,433)
Net Cash Flows from Investing Activities		(256,567,760)
Net increase in Cash and Cash Equivalents		10,181,565
Cash & Cash Equivalents, July 1 (includes trust cash of $653,905)		35,679,434
Cash & Cash Equivalents, June 30 (includes trust cash of $370,920)	$	45,860,999
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating loss	$	(892,349,222)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities		
Depreciation		8,499,377
Change in Assets: Decrease (Increase)		
Receivables		(1,849,222)
Inventories		27,246
Prepaid expenses		(979,502)
Change in Liabilities: Increase (Decrease)		
Claims and judgments payable		1,133,765,000
Accrued liabilities		10,262,722
Net Cash Flows from Operating Activities	$	257,376,399
NON CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Decrease in fair value of investments	$	(1,321,453,198)

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, 2018

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Note 1 - Summary of Significant Accounting Policies

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

1.A. Reporting Entity

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

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

1.B. Basic Financial Statements

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

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

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

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

The Pension Reserve Account pays benefits to the surviving spouse or dependents of fatally injured workers and to all permanently and totally disabled workers. This includes benefits for pensions awarded to employees of self-insured employers. Funding for pension payments is generated by transfers from the Accident and Second Injury Accounts and reimbursements from self-insured employers. The funds are invested in securities to cover payments for the expected life of the injured worker or survivor(s).

The Industrial Insurance Rainy Day Fund Account 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 or their survivors receiving disability payments. Per RCW 51.32.073, this account operates on a current payment basis, and no assets are allowed to accumulate for the future servicing of claim payments.

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

The Second Injury Account 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, 2018, trust cash and investments of $370,920, 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 2018.

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, 2018, are estimated. All receivables are reported net of an allowance for accounts estimated to be uncollectible. Current accounts receivable are generally expected to be collected within one year following the end of the fiscal year.

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

The Workers' Compensation Program establishes claims liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not resolved and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the type of benefit involved. Because actual claim costs depend on complex factors, such as inflation, changes in doctrines of legal liabilities, claims adjudication, and judgments, the actual ultimate claim costs may differ from the estimates. In accordance with GASB Statement No.10, the claims liabilities are reported net of recoveries.

Claims payable are recomputed quarterly using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, expected inflation, and other economic, legal, and social factors. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

The benefit and claims administrative expense liabilities are discounted to reflect the time value of money using an average discount rate of 2.30 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 6.1 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 6.1 percent through the fourth quarter of fiscal year 2018. With the passage of

Senate Bill (SB) 6393 this rate will be reduced to 4.5 percent, effective fiscal year 2019. 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, 2018, prepaid expenses amounted to $2,584,642.

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 2018 reporting, the Workers' Compensation Program adopted the following new standards issued by the GASB:

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*-GASB Statement No. 73 addresses three separate subjects, two of which were effective for fiscal year 2016 and one of which was effective for fiscal year 2017 reporting. It establishes financial reporting requirements for defined benefit pensions that are provided to employees of state and local government employers and that are not administered through trusts or equivalent arrangements and therefore outside the scope of Statement 68. Due to lack of data prior to fiscal year 2017 close, GASB No. 73 was implemented in fiscal year 2018.

Statement No. 75. *Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions*-this Statement establishes standards of accounting and financial reporting for defined benefit Other Postemployment Benefits (OPEB) and defined contribution OPEB that are provided to the employees of state and local governmental employers.

Prior Period Adjustments

L&I recorded a reduction to the beginning net position in the following accounts in order to report the fund's proportion of the Higher Education Retirement Plans per GASB Statement No. 73:

- Accident Account, a major proprietary fund, in the amount of $630,991.
- Medical Aid Account, a major proprietary fund, in the amount of $639,031.

L&I recorded a reduction to the beginning net position in the following accounts as a result of implementing GASB Statement No. 75:

- Accident Account, a major proprietary fund, in the amount of $38,077,365.
- Medical Aid Account, a major proprietary fund, in the amount of $39,566,186.

This change is mainly due to the reduction in the amortization period. Previously, liabilities were amortized over 30 years; for fiscal year 2018, liabilities are amortized over nine years.

The Workers' Compensation Program recorded a reduction to the beginning net position as a result of these reporting changes. The Net Position (Deficit) at July 1, 2018, has been restated as follows:

Restated Net Position (Deficit)		
Net Position (Deficit) at June 30, 2017, as previously reported	$	(9,647,104,632)
Prior Period Adjustment - Reporting Changes		(78,913,573)
Net Position (Deficit) at July 1, 2017, as restated	$	(9,726,018,205)

Note 3 - Deposits and Investments

3.A. Deposits

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

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

The OST manages the deposits for the Workers' Compensation Program. At June 30, 2018, $45.7 million of the Workers' Compensation Program's deposits with financial institutions were either insured or collateralized, with the remaining $120,920 uninsured/uncollateralized. The Federal Deposit Insurance Corporation (FDIC) covers the Workers' Compensation Program's insured deposits, and the PDPC provides collateral protection.

3.B. Investments

3.B.1. Summary of Investment Policies

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

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

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

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

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

- Credit bonds
- Mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Asset-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Commercial mortgage-backed securities rated investment grade, as defined by Bloomberg Barclays Family of Fixed Income Indices
- Investment grade non-U.S. dollar bonds
- Real estate

Investment Policies and Restrictions

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

- All assets under the management of the WSIB are to be invested to maximize return at a prudent level of risk, in accordance with RCW 43.33A.110 and RCW 43.33A.140.
- No corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time.
- Asset allocations are to be reviewed every four years or sooner if there are significant changes in funding levels or the liability durations. Asset allocations per the June 2017 L&I asset investment policy are:

Asset Allocation Target and Ranges

Account	Fixed Income	Equity	Real Estate
Accident Account	80% ±6	15% ±4	5% ±2
Pension Reserve Account	85% ±5	10% ±3	5% ±2
Medical Aid Account	75% ±7	20% ±5	5% ±2
Supplemental Pension Account	100%	0%	0%

- Assets are to be rebalanced across asset classes when the fair value of the assets falls outside the policy ranges. The timing of any rebalancing will be based on market opportunities, cash flows, and the consideration of transaction costs; therefore, they need not occur immediately.

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

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

Fixed Income - Sector allocation of fixed income investments 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 practicable. Target allocations for the fixed income sectors include:

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

Total market value of below-investment-grade credit bonds (as defined by Bloomberg 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:

- 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 and Financial Services unit of the WSIB, which regularly monitors fair value measurements. Fair value measurements are prepared and reviewed monthly, and any third party valuations are reviewed for reasonableness and compliance with relevant accounting standards.

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

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

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

The Workers' Compensation Program 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, 2018:

Schedule of Fair Value Measurement
June 30, 2018
(in thousands)

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Debt securities				
Mortgage and other asset-backed securities	$ 1,225,313		$ 1,225,313	
Corporate bonds	9,813,569		9,813,569	
U.S. and foreign government and agency securities	3,299,641		3,299,641	
Total investments by fair value level	$ 14,338,523		$ 14,338,523	
Investments measured at net asset value (NAV)				
Commingled equity investment trusts	2,308,282			
Total investments measured at the NAV	2,308,282			
Total investments measured at fair value	$ 16,646,805			
Other assets (liabilities) measured at fair value				
Collateral held under securities lending agreements	$ 99,810		$ 99,810	
Obligations under securities lending agreements	(99,810)		(99,810)	
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 a single collective investment trust fund (fund). The fund is passively managed to track the investment of a broad, global equity index, the MSCI All Country World Investable Market

Index. The fund determines a fair value by obtaining the values of underlying holdings using reputable pricing sources and computing an overall net asset value per share. The holdings are publicly traded equity securities.

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

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, 2018, the Workers' Compensation Program had $99,809,837 of cash collateral received in the Accident, Medical Aid, Pension Reserve and Supplemental Pension Accounts invested through the WSIB.

Securities Lending – WSIB

State law and WSIB policy permit the Workers' Compensation Program to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with State Street Corporation to act as agent for the Workers' Compensation Program in securities lending transactions. As State Street Corporation is the custodian bank for the Workers' Compensation Program, it is counterparty to securities lending transactions.

The fair value of the securities on loan at June 30, 2018, was approximately $348.0 million. The Workers' Compensation Program reports securities on loan on the Statement of Net Position in their respective categories. At June 30, 2018, cash collateral received totaling $99.8 million is reported as a securities lending obligation, and the fair value of the reinvested cash collateral totaling $99.8 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, 2018, was $254.2 million.

During fiscal year 2018, 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, 2018, 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, 2018
(in thousands)

	Cash Collateral	Non-Cash Collateral	Total
Mortgage-backed	$ -	$ 254,212	$ 254,212
Repurchase agreements	23,430	-	23,430
Yankee CDs	33,619	-	33,619
Commercial Paper	29,464	-	29,464
Cash equivalents and other	13,297	-	13,297
Total Collateral Held	$ 99,810	$ 254,212	$ 354,022

Securities lending transactions can be terminated on demand either by the Workers' Compensation Program or the borrower. As of June 30, 2018, the cash collateral held had an average duration of 16.2 days and an average weighted final maturity of 79.0 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 2018, 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 2018 resulting from a default by either the borrowers or the securities lending agents.

Securities Lending – OST

State statutes permit the OST to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with Northern Trust Company as a lending agent and receives a share of income earned from this activity. The lending agent lends U.S. government 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. During fiscal year 2018, cash received as collateral was invested in the LGIP money market fund, which allow withdrawals each business day to cover maturing loans. There was no cash collateral from securities lending as of June 30, 2018.

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, 2018, the fair value of securities on loan for the Workers' Compensation Program totaled $412,208.

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 2018, the OST had no credit risk exposure to borrowers, because the amounts owed to the borrowers exceeded the amounts the borrowers owed to the OST.

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

3.B.4. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. While the Workers' Compensation Program does not have a formal policy relating to interest rate risk, the risk is managed within the Workers' Compensation Program's portfolio using effective duration, which is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Increases in prevailing interest rates generally translate into decreases in fair values of fixed income investments. As of June 30, 2018, the Workers' Compensation Program's portfolio durations were within the prescribed duration targets.

The schedules below provide information about the interest rate risks associated with the Workers' Compensation Program investments as of June 30, 2018. 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, 2018
(dollars in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	Maturity: 1-5 years	Maturity: 6-10 years	Maturity: More than 10 years	Effective Duration (years)**
Mortgage and other asset-backed securities	$ 1,225,313	$ 5,248	$ 773,103	$ 396,307	$ 50,655	4.90
Corporate bonds	9,813,569	739,884	4,386,772	2,076,622	2,610,291	6.20
U.S. government and agency securities	2,246,134	401,879	730,579	745,501	368,175	6.30
Foreign government and agencies	1,053,507	110,243	689,952	223,676	29,636	3.70
Total investments categorized	14,338,523	$ 1,257,254	$ 6,580,406	$ 3,442,106	$ 3,058,757	
Investments Not Required to be Categorized						
Commingled investment trusts	2,308,282					
Cash and cash equivalents	122,653					
Total investments not categorized	2,430,935					
Total*	$ 16,769,458					

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

**Excludes cash and cash equivalents

Investments with multiple credit ratings at June 30, 2018, are presented using the Moody's rating scale as follows:

Multiple Credit Rating Disclosure
June 30, 2018
(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	$ 1,225,313	$ 544,097	$ 325,511	$ 2,094,921
Aa1	-	160,421	84,051	$ 244,472
Aa2	-	141,222	212,075	$ 353,297
Aa3	-	1,052,769	244,498	$ 1,297,267
A1	-	1,680,608	109,337	$ 1,789,945
A2	-	1,304,262	-	$ 1,304,262
A3	-	1,738,896	-	$ 1,738,896
Baa1	-	1,161,472	22,906	$ 1,184,378
Baa2	-	1,303,554	55,129	$ 1,358,683
Baa3		464,451	-	$ 464,451
Ba1 or lower	-	261,817	-	$ 261,817
Total Fair Value	$ 1,225,313	$ 9,813,569	$ 1,053,507	$ 12,092,389

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, 2018, were rated by Moody's and/or an equivalent national rating organization.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Workers' Compensation Program's policy states that no corporate fixed income issue cost shall exceed three percent of the fund's fair value at the time of purchase, nor shall its fair value exceed six percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2018.

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 securities held by the Workers' Compensation Program with foreign currency exposure at June 30, 2018, consisted of $1,018 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, 2018 (in thousands)		
Foreign Currency Denomination		**Equity Securities**
Australia - Dollar	$	51,824
Brazil - Real		14,984
Canada - Dollar		71,829
Denmark - Krone		12,649
E.M.U. - Euro		230,410
Hong Kong - Dollar		81,985
Japan - Yen		185,463
Mexico - Peso		7,899
New Taiwan - Dollar		32,812
Russian - Ruble		7,102
Singapore - Dollar		9,754
South Africa - Rand		16,109
South Korea - Won		39,342
Sweden - Krona		21,781
Switzerland - Franc		53,980
United Kingdom - Pound		134,106
Miscellaneous Foreign Currencies		45,638
Total	$	1,017,667

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, 2018, the only derivative securities held directly by the Workers' Compensation Program were collateralized mortgage obligations (CMOs) of $683.3 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 2018, and there were no liabilities outstanding as of June 30, 2018.

Note 4 - Receivables

Receivables at June 30, 2018, consisted of the following:

Receivables June 30, 2018		
Current Receivables		
Premiums receivable		
Actual premiums receivable	$	158,915,946
Estimated premiums receivable[1]		705,454,000
Estimated self-insurance premiums receivable[2]		63,973,165
Total Premiums Receivable		928,343,111
Other receivables		
Receivable from overpayments		1,203,950
Investment interest receivable		110,047,511
Safety fines & penalties receivable		18,425,319
Unsettled trades receivable		150,000,000
Miscellaneous receivables		4,161,763
Total Current Receivables, Gross		1,212,181,654
Less: Allowance for uncollectible receivables		167,310,013
Total Current Receivables, Net of Allowance	$	1,044,871,641

[1]Estimated premiums receivable represents premiums due for the quarter ended June 30, 2018. 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, 2018, 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, 2018, consisted of the following:

Receivables From Other State Accounts and Agencies
June 30, 2018

General Fund	$	9,130
L&I accounts*		585,783
Other state agencies		6,737
Total Receivables From Other State Accounts and Agencies	$	601,650

*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, 2018.

Payables to other state accounts and agencies as of June 30, 2018, consisted of the following:

Payables To Other State Accounts and Agencies
June 30, 2018

General Fund	$	5,027
L&I accounts*		623,356
Other state agencies		7,523,399
Total Payables To Other State Accounts and Agencies	$	8,151,782

*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, 2018, and paid after the fiscal year ended.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

Capital Assets Activity
June 30, 2018

	Beginning Balance July 1, 2017	Increases	Decreases	Ending Balance June 30, 2018
Capital Assets Not Being Depreciated				
Land and collections	$ 3,239,748	$ -	$ (35,446)	$ 3,204,302
Construction in progress	9,067,811	1,309,951	(2,254,377)	8,123,385
Total Capital Assets Not Being Depreciated	12,307,559	1,309,951	(2,289,823)	11,327,687
Capital Assets Being Depreciated				
Buildings and building components	65,133,602	-	-	65,133,602
Accumulated depreciation	(33,055,468)	(1,353,502)	-	(34,408,970)
Net Buildings and Building Components	32,078,134	(1,353,502)	-	30,724,632
Furnishings, equipment, and collections	60,953,392	193,856	(817,605)	60,329,643
Accumulated depreciation	(59,126,154)	(528,124)	775,180	(58,879,098)
Net Furnishings, Equipment, and Collections	1,827,238	(334,268)	(42,425)	1,450,545
Other improvements	1,289,262	-	-	1,289,262
Accumulated depreciation	(768,399)	(20,408)	-	(788,807)
Net Other Improvements	520,863	(20,408)	-	500,455
Total Capital Assets Being Depreciated, Net	34,426,235	(1,708,178)	(42,425)	32,675,632
Intangible assets - definite useful lives	44,954,218	2,254,377	-	47,208,595
Accumulated amortization	(26,538,719)	(6,597,343)	-	(33,136,062)
Total Capital Assets Being Amortized, Net	18,415,499	(4,342,966)	-	14,072,533
Total Capital Assets, Net of Depreciation and Amortization	$ 65,149,293	$ (4,741,193)	$ (2,332,248)	$ 58,075,852

For fiscal year 2018, the total depreciation expense was $8,499,377.

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 2018.

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, 2018 and 2017

Claims Payable	**June 30, 2018**	**June 30, 2017**
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 26,640,538,000	$ 25,852,326,000
Incurred claims and claim adjustment expenses		
Provision for insured events of the current fiscal year	2,111,642,000	2,062,195,000
Increase in provision for insured events of prior fiscal years	1,333,719,000	968,518,000
Total Incurred Claims and Claim Adjustment Expenses	3,445,361,000	3,030,713,000
Payments		
Claims and claim adjustment expenses attributable to		
Events of the current fiscal year	325,933,000	309,490,000
Insured events of prior fiscal years	1,985,663,000	1,933,011,000
Total payments	2,311,596,000	2,242,501,000
Total Unpaid Claims and Claim Adjustment Expenses at Fiscal Year End	$ 27,774,303,000	$ 26,640,538,000
Current portion	$ 2,226,223,000	$ 2,035,874,000
Noncurrent portion	$ 25,548,080,000	$ 24,604,664,000

At June 30, 2018, $39,117 million of unpaid loss and loss adjustment expense liabilities are presented at their net present and settlement value of $27,774 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 $27,774 million as of June 30, 2018, include $14,024 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 $13,750 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, 2018, was as follows:

Current and Noncurrent Liability Activity
For the Fiscal Year Ended June 30, 2018

Current and Noncurrent Liabilities	Beginning Balance June 30, 2017	Additions	Reductions	Ending Balance June 30, 2018	Due Within One Year[2]	Noncurrent Balance June 30, 2018
Claims payable, current & noncurrent	$ 26,640,538,000	$ 3,445,361,000	$ (2,311,596,000)	$ 27,774,303,000	$ 2,226,223,000	$ 25,548,080,000
Other current and noncurrent liabilities						
Compensated absences[1]	14,314,231	16,948,825	(15,339,095)	15,923,961	8,159,247	7,764,714
DOE trust liabilities	5,593,573	-	(293,539)	5,300,034	623,707	4,676,327
Other postemployment benefits[3]	143,263,186	12,689,645	(26,682,062)	129,270,769	2,045,791	127,224,978
Net pension liability[3]	156,709,226	19,047,499	(57,551,082)	118,205,643	21,273	118,184,370
Total Other Current and Noncurrent Liabilities	319,880,216	48,685,969	(99,865,778)	268,700,407	10,850,018	257,850,389
Total Current and Noncurrent Liabilities	$ 26,960,418,216	$ 3,494,046,969	$ (2,411,461,778)	$ 28,043,003,407	$ 2,237,073,018	$ 25,805,930,389

[1]Compensated absences due within one year are included in accrued liabilities on the Statement of Net Position.
[2]There are other current liabilities that are not included in the table above.
[3] Beginning balances for OPEB & Net Pension Liability were changed because of prior period adjustments (See Note 2).

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 in order to continue the obligation. Since the possibility of not receiving funding from the Legislature is remote, leases are considered non-cancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. Management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2018:

Future Minimum Payments for Operating Leases
June 30, 2018

Fiscal Year Ended June 30,	
2019	$ 8,111,629
2020	6,196,420
2021	4,516,735
2022	2,269,402
2023	942,288
Total Future Minimum Lease Payments	$ 22,036,474

The total operating lease rental expense for fiscal year 2018 was $12,294,955.

Note 8 - Deficit

At June 30, 2018, the Workers' Compensation Program had a deficit of $10,358 million. This is a result of a $13,765 million deficit in the Supplemental Pension Account at June 30, 2018, offset by a combined $3,407 million net position in the total Basic Plan, Second Injury Account, Self-Insured Employer Overpayment Reimbursement Account, and the Industrial Insurance Rainy Day Fund Account. The Workers' Compensation Program Basic Plan is funded based on rates that will keep the plan solvent in accordance with recognized actuarial principles. Supplemental COLA adjustments granted for time-loss and disability payments, however, are funded on a pay-as-you-go basis. According to RCW 51.32.073, the Supplemental Pension Account is allowed to collect only enough revenue to provide for current payments. At June 30, 2018, noncurrent claims payable in the Supplemental Pension Account totaled $13,435 million.

The following table summarizes the change in deficit balance for the Supplemental Pension Account during fiscal year 2018:

Supplemental Pension Account Net Position (Deficit)		
Balance, July 1, 2017	$	(13,062,633,352)
Fiscal year 2017 activity		(702,435,675)
Balance, June 30, 2018	$	(13,765,069,027)

Note 9 - Retirement Plans and Net Pension Liability

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

The table below shows the net pension liability, deferred outflows of resources, and deferred inflows of resources reported on June 30, 2018, for the Workers' Compensation Program's proportionate share of the liabilities for the PERS and TRS employee retirement plans and the Higher Education Retirement Plan Supplemental Defined Benefit Plans. Additional detail is provided later in this note.

Workers' Compensation Program Proportionate Share
June 30, 2018

	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERS 1	$ 61,659,391	$ 8,786,327	$ (2,300,956)	$ 1,422,061
PERS 2/3	55,546,160	17,726,443	(16,513,115)	7,879,448
TRS 1	59,122	8,787	(2,505)	1,128
TRS 2/3	18,413	5,239	(7,603)	4,539
Higher Ed	922,557	-	(363,493)	16,027
Total	$ 118,205,643	$ 26,526,796	$ (19,187,671)	$ 9,323,203

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

9.A. Public Employees' Retirement System

Plan Descriptions

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

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

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

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

Benefits Provided

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

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

Contributions

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

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

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

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2018 for each of Plans 1, 2, and 3 was 12.70 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, 2018, was 7.38 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, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
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 (OSA) applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2016, 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 2016 actuarial valuation report.

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

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

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

The OSA selected a 7.50 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 allocations as of June 30, 2017, are summarized in the following table:

Rates of Return

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	100%	

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

The discount rate of 7.50 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	$	75,112,946	$	149,647,134
Current Discount Rate	$	61,659,391	$	55,546,159
1% Increase	$	50,005,755	$	(21,555,668)

Net Pension Liability

At June 30, 2017, the Workers' Compensation Program reported a liability of $61,659,391 for its proportionate share of the collective net pension liability for PERS 1 and $55,546,160 for PERS 2/3. The Workers' Compensation Program's proportion for PERS 1 was 3.10 percent, a decrease of 0.12 percent since the prior reporting period, and 3.18 percent for PERS 2/3, a decrease of 0.13 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, 2018, an increase to pension expense of $1,422,061 was recognized for PERS 1, and an increase to pension expense of $7,879,416 was recognized for PERS 2/3.

At June 30, 2018, PERS 1 and PERS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources June 30, 2018						
		PERS 1		PERS 2/3		Total
Difference between expected and actual experience	$	-	$	5,628,135	$	5,628,135
Changes of assumptions		-		590,005		590,005
Net difference between projected and actual earnings on pension plan investments		-		-		-
Change in proportionate share of contributions		-		(991,874)		(991,874)
Contributions subsequent to measurement date		8,786,327		12,500,177		21,286,504
Total	$	8,786,327	$	17,726,443	$	26,512,770

At June 30, 2018, PERS 1 and PERS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources June 30, 2018						
		PERS 1		PERS 2/3		Total
Difference between expected and actual experience	$	-	$	1,826,819	$	1,826,819
Changes of assumptions		-		-		-
Net difference between projected and actual earnings on pension plan investments		2,300,956		14,807,268		17,108,224
Change in proportionate share of contributions		-		(120,972)		(120,972)
Contributions subsequent to measurement date		-		-		-
Total	$	2,300,956	$	16,513,115	$	18,814,071

Pension contributions made subsequent to the measurement date in the amount of $8,786,327 and $12,500,177 for PERS 1 and PERS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2018, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ended June 30,		PERS 1		PERS 2/3
2019	$	(1,555,299)	$	(5,764,653)
2020	$	491,032	$	1,465,900
2021	$	(114,013)	$	(1,485,435)
2022	$	(1,122,676)	$	(6,167,080)
2023	$	-	$	288,878
Thereafter	$	-	$	375,543

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

TRS members who joined the system by September 30, 1977, are Plan 1 members. Plan 1 is closed to new entrants. Those who joined on or after October 1, 1977, and by June 30, 1996, are Plan 2 members, unless they exercised an option to transfer their membership to Plan 3. TRS members joining the system on or after July 1, 1996, and by June 30, 2007, are members of TRS Plan 3.

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

Benefits Provided

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

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

Contributions

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

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

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

The employer contribution rate for the Workers' Compensation Program at the close of fiscal year 2018 for each of Plans 1, 2, and 3 was 15.20 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, 2018, was 7.06 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, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.75%
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 OSA applied offsets to the base table and recognized future improvements in mortality by projecting the mortality rates using 100 percent Scale BB. Mortality rates are applied on a generational basis, meaning members are assumed to receive additional mortality improvements in each future year, throughout their lifetimes.

The actuarial assumptions used in the June 30, 2016, 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 2016 actuarial valuation report.

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

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

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

The OSA selected a 7.5 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 allocations as of June 30, 2017, are summarized in the following table:

Rates of Return		
Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Fixed Income	20%	1.70%
Tangible Assets	5%	4.90%
Real Estate	15%	5.80%
Global Equity	37%	6.30%
Private Equity	23%	9.30%
Total	100%	

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

The discount rate of 7.50 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	$ 73,517	$ 62,537
Current Discount Rate	$ 59,122	$ 18,413
1% Increase	$ 46,663	$ (17,423)

Net Pension Liability

At June 30, 2017, the Workers' Compensation Program reported a liability of $59,122 for its proportionate share of the collective net pension liability for TRS 1 and $18,413 for TRS 2/3. Workers' Compensation Program proportion for TRS 1 was 0.19 percent, a decrease of 0.02 percent since the prior reporting period, and 0.21 percent for TRS 2/3, a decrease of 0.04 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, an increase to pension expense of $1,128 was recognized for TRS 1, and an increase to pension expense of $4,539 was recognized for TRS 2/3.

At June 30, 2018, TRS 1 and TRS 2/3 reported deferred outflows of resources related to pensions from the following sources:

Deferred Outflows of Resources
June 30, 2018

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 4,592	$ 4,592
Changes of assumptions	-	217	217
Net difference between projected and actual earnings on pension plan investments	-	-	-
Change in proportionate share of contributions	-	(9,358)	(9,358)
Contributions subsequent to measurement date	8,787	9,788	18,575
Total	$ 8,787	$ 5,239	$ 14,026

At June 30, 2018, TRS 1 and TRS 2/3 reported deferred inflows of resources related to pensions from the following sources:

Deferred Inflows of Resources
June 30, 2018

	TRS 1	TRS 2/3	Total
Difference between expected and actual experience	$ -	$ 939	$ 939
Changes of assumptions	-	-	-
Net difference between projected and actual earnings on pension plan investments	2,505	6,664	9,169
Change in proportionate share of contributions	-	-	-
Contributions subsequent to measurement date	-	-	-
Total	$ 2,505	$ 7,603	$ 10,108

Pension contributions made subsequent to the measurement date in the amount of $8,787 and $9,788 for TRS 1 and TRS 2/3, respectively, were reported as deferred outflows of resources at June 30, 2018, and will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019.

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

Net Deferred Outflows and (Inflows) of Resources				
Fiscal Year ended June 30,		**TRS 1**		**TRS 2/3**
2019	$	(1,840)	$	(4,692)
2020	$	689	$	(2,220)
2021	$	(61)	$	(3,627)
2022	$	(1,292)	$	(3,194)
2023	$	-	$	329
Thereafter	$	-	$	1,252

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

Plan Description

The Higher Education Retirement Plans are privately administered single-employer defined contribution plans with a supplemental defined benefit plan component, which guarantees a minimum retirement benefit based upon a one-time calculation at each employee's retirement date. The supplemental component is financed on a pay-as-you-go basis. State institutions of higher education make direct payments to qualifying retirees when the retirement benefits provided by the fund sponsors do not meet the benefit goals. No assets are accumulated in trusts or equivalent arrangements. The University of Washington employees paid from Workers' Compensation Program funds are members of Higher Education Retirement Plans. The University of Washington promotes health and minimizes occupational disease or injury through teaching, research, and service for the Workers' Compensation Program.

The state and regional universities, the state college, the state community and technical colleges, and the Student Achievement Council each participated in a separate plan. As authorized by chapter 28B.10 RCW, the plans cover faculty and other positions as designated by each participating employer.

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

Benefits Provided

The Higher Education Supplemental Retirement Plans provide retirement, disability, and death benefits to eligible members. As of July 1, 2011, all Higher Educational Retirement Plans were closed to new entrants. Members are eligible to receive benefits under this plan at age 62 with 10 years of credited service. The supplemental benefit is a lifetime benefit equal to the amount a member's goal income exceeds their assumed income. The monthly goal income is one-twelfth of two percent of the member's average annual salary multiplied by the number of years of service (such product not to exceed one-twelfth of 50 percent of the member's average annual salary). The member's assumed income is an annuity benefit the retired member would receive from their defined contribution retirement plan benefit in the first month of retirement had they invested all employer and member contributions equally between fixed income and variable income annuity investments. Plan members have the option to retire early with reduced benefits.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, with the results rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% - 4.25%
Fixed Income and Variable Income Investment Returns	4.25% - 6.25%

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

Most actuarial assumptions used in the June 30, 2017, valuation were based on the results of the April 2016 Supplemental Plan Experience Study. Additional assumptions related to the fixed income and variable income investments were based on feedback from financial administrators of the Higher Education Supplemental Retirement Plans.

Material assumption changes during the measurement period include the discount rate increase from 3.58 percent to 3.87 percent and the variable income investment return rate drop from 6.75 percent to 6.25 percent.

The discount rate used to measure the total pension liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Index, or 3.87 percent for the June 30, 2018, measurement date.

Plan Membership

Membership of the Higher Education Supplemental Retirement Plans consisted of the following at June 30, 2016, the date of the latest actuarial valuation for all plans. The Workers' Compensation Program comprises less than one percent of the membership.

Number of Participating Members			
Inactive Members (Or Beneficiaries) Currently Receiving Benefits	Inactive Members Entitled To But Not Yet Receiving Benefits	Active Members	Total Members
696	4	7,046	7,746

Net Pension Liability

The following table presents the changes in total pension liability/(asset) of Higher Educational Supplemental Retirement Plans at June 30, 2018:

Changes in Total Pension Liability/(Asset) June 30, 2018		
Total pension liability service cost	$	33,074
Interest		36,072
Changes of benefit terms		-
Differences between expected and actual experience		(292,464)
Changes in assumptions		(110,437)
Benefit payments		(13,710)
Other		-
Net Change in Total Pension Liability		(347,465)
Total Pension Liability - Beginning		1,270,022
Total Pension Liability - Ending	$	922,557

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

For the year ended June 30, 2018, the Higher Education Supplemental Retirement Plans reported a pension expense of $34,262.

The following table presents the total pension liability/(asset), calculated using the discount rate of 3.87 percent, as well as what the employers' total pension liability/(asset) would be if it were calculated using a discount rate that is one percentage point lower (2.87 percent) or one percentage point higher (4.87 percent) than the current rate:

Employers' Proportionate Share of Net Pension Liability/(Asset)		
1% Decrease	$	1,059,309
Current Discount Rate	$	922,557
1% Increase	$	809,114

At June 30, 2018, the Higher Education Supplemental Retirement Plans reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Outflows and Inflows of Resources June 30, 2018		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 255,352
Changes of assumptions	-	108,141
Transactions subsequent to measurement date	-	-
Total	$ -	$ 363,493

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense in the fiscal years ended June 30:

Net Deferred Outflows and (Inflows) of Resources	
Fiscal Year ended June 30,	
2019	$ (57,699)
2020	$ (57,699)
2021	$ (57,699)
2022	$ (57,699)
2023	$ (57,699)
Thereafter	$ (75,001)

Note 10 - Other Postemployment Benefits

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

Plan Description and Funding Policy

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

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

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

The PEBB retiree OPEB plan is available to employees who elect to continue coverage and pay the administratively established premiums at the time they retire, under the provisions of the retirement system to which they belong. Retirees' access to 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 Retirement Plan, Judicial Retirement System, and the Law Enforcement Officers' and Fire Fighters' Retirement System.

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the state's non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on the claims experience for active employees and other non-Medicare retirees. The subsidy is valued using the difference between the age-based claim costs and the premium. In calendar year 2017, the average weighted implicit subsidy was valued at $328 per member per month, and in calendar year 2018, the average weighted implicit subsidy is projected to be $348 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 2017, the explicit subsidy was $150 per adult unit per month, and it remained $150 per adult unit per month in calendar year 2018. This will increase in calendar year 2019 to $168 per member per month.

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.

Total OPEB Liability

As of June 30, 2018, the Workers' Compensation Program reported a total L&I liability of $129,270,770. This liability was determined based on a measurement date of June 30, 2017.

Actuarial Assumptions

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

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.

The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	3.75%
Healthcare trend rates	7.00%
Post-retirement participation	65.0%
Percentage with spouse coverage	45.0%

In projecting the growth of the explicit subsidy, the cap is assumed to remain constant until 2019, at which time the explicit subsidy cap is assumed to grow at the healthcare trend rate. The Legislature determines the value of cap and no future increases are guaranteed; however based on historical growth patterns, future increases to the cap are assumed.

Sensitivity of the Healthcare Cost Trend Rate		
1% Decrease	$	104,432,984
Current Healthcare Cost Trend Rate	$	129,270,770
1% Increase	$	162,605,284

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

Most demographic actuarial assumptions, including mortality and when members are expected to terminate and retire, were based on the results of the 2007-2012 Experience Study Report. The post-retirement participation percentage and percentage with spouse coverage were reviewed in 2017. Economic assumptions, including inflation and salary increases, were based on the results of the 2015 Economic Experience Study.

Actuarial Methodology

The total OPEB liability was determined using the following methodologies:

Actuarial Valuation Date	1/1/2017
Actuarial Measurement Date	6/30/2017
Actuarial Cost Method	Entry Age
Amortization Method	9 years
Asset Valuation Method	N/A – No Assets

In order to calculate the beginning total OPEB liability balance under GASB 75, the January 1, 2017, actuarial valuation was projected backwards to the measurement date of June 30, 2016, while the ending balance was determined by projecting the January 1, 2017, valuation forward to June 30, 2017. Both the forward and backwards projections reflect the plan's assumed service cost, assumed interest, and expected benefit payments.

Discount Rate

Since OPEB benefits are funded on a pay-as-you-go basis, the discount rate used to measure the total OPEB liability was set equal to the Bond Buyer General Obligation 20-Bond Municipal Bond Index, or 2.85 percent for the June 30, 2016, measurement date, and 3.58 percent for the June 30, 2017, measurement date.

The following represents the Workers' Compensation Program's proportionate share of the total OPEB liability, calculated using the discount rate of 3.58 percent, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58 percent) or one percentage point higher (4.58 percent) than the current rate.

Sensitivity of the Discount Rate OPEB Liability		
1% Decrease	$	157,726,291
Current Discount Rate	$	129,270,770
1% Increase	$	107,250,758

The following table shows changes in the Workers' Compensation Program's total OPEB liability.

Changes in Total OPEB Liability		
Total OPEB Liability - Beginning	$	138,518,235
Changes for the year		
Service cost		8,763,767
Interest cost		4,105,009
Changes of assumptions*		(20,024,270)
Benefit payments		(2,091,971)
Net Changes in Total OPEB Liability		(9,247,465)
Total OPEB Liability - Ending	$	129,270,770

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

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

The following table shows components of the Workers' Compensation Program's allocated annual OPEB costs for fiscal year 2018. The Workers' Compensation Programs will recognize OPEB expense of $10.6 million.

Proportionate Share of OPEB Expense June 30, 2018		
Current year allocated costs		
Service cost	$	8,763,768
Interest cost		4,105,009
Amortization of changes in proportionate share of contributions*		(519,253)
Amortization of changes of assumptions		(2,224,924)
Total OPEB Expense	$	10,124,600

*The changes in proportionate share was not included in the OPEB expense amount booked as it was not completed until after the Office of the State Actuary's (OSA) valuation.

For fiscal year 2018, L&I reported its proportionate share of the state-reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Deferred Outflows and Inflows of Resources June 30, 2018	Outflows	Inflows
Difference between expected and actual experience	$ -	$ -
Changes of assumptions	-	17,799,359
Changes in proportionate share of contributions	-	4,154,022
Transactions subsequent to the measurement date	2,045,792	-
Total	$ 2,045,792	$ 21,953,381

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date will be recognized as a reduction of total OPEB liability in the fiscal year ended June 30, 2019.

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

Future OPEB expense		
Fiscal Year ended June 30,		
2019	$	(2,224,924)
2020	$	(2,224,924)
2021	$	(2,224,924)
2022	$	(2,224,924)
2023	$	(2,224,924)
Thereafter	$	(6,674,749)

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 2018 was $11.47 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 19, 2018, the Director announced a proposed 5.0 percent decrease in the average premium rate for 2019. This rate decrease will reduce the overall hourly rate from $0.675 to $0.641, or $0.034 per hour, which equates to an average cost reduction of $64.50 a year per employee. Decreases in work-related injuries, along with agency initiatives to improve outcomes for injured workers and reduce costs, have made the system healthier and are contributing to the proposed decrease.

The final rates will be adopted in December 2018 and go into effect on January 1, 2019.

12.B. Industrial Insurance Rainy Day Fund Account

RCW 51.44.023 was enacted during the 2011 Legislative session, creating an Industrial Insurance Rainy Day Fund Account to hold transfers from the Accident and Medical Aid Accounts when assets for those accounts combined are between 10 and 30 percent of total liabilities for the Industrial Insurance Fund. Money from the Industrial Insurance Rainy Day Fund Account should be applied to reduce a rate increase or aid business as in recovering from or during economic recessions. Based on the June 30, 2018, Statutory Financial Information Report for the Industrial Insurance Fund, the combined contingency reserve is 24.65 percent of total liabilities. As a part of the 2019 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).

Washington State Department of
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Required Supplementary Information

Washington State Department of
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Reconciliation of Claims Liabilities by Plan
Fiscal Years 2018 and 2017
(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 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
Unpaid loss and loss adjustment expenses at beginning of fiscal year	$ 13,334,538	$ 13,591,324	$ 13,306,000	$ 12,261,000	$ 26,640,538	$ 25,852,324
Incurred claims and claim adjustment expenses						
Provision for insured events of the current fiscal year	1,796,823	1,775,245	314,819	286,952	2,111,642	2,062,197
Increase (decrease) in provision for insured events of prior fiscal years	413,359	(271,892)	920,360	1,240,410	1,333,719	968,518
Total incurred claims and claim adjustment expenses	2,210,182	1,503,353	1,235,179	1,527,362	3,445,361	3,030,715
Less: Payments						
Claims and claim adjustment expenses attributable to						
Events of the current fiscal year	325,933	309,490	-	-	325,933	309,490
Insured events of prior fiscal years	1,468,484	1,450,649	517,179	482,362	1,985,663	1,933,011
Total payments	1,794,417	1,760,139	517,179	482,362	2,311,596	2,242,501
Total Unpaid Loss and Loss Adjustment Expenses at Fiscal Year End	$ 13,750,303	$ 13,334,538	$ 14,024,000	$ 13,306,000	$ 27,774,303	$ 26,640,538
Current portion	$ 1,637,215	$ 1,490,328	$ 589,008	$ 545,546	$ 2,226,223	$ 2,035,874
Noncurrent portion	$ 12,113,088	$ 11,844,210	$ 13,434,992	$ 12,760,454	$ 25,548,080	$ 24,604,664

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

	2017	2016	2015	2014
Workers' Compensation Program's employers' proportionate share of the net pension liability*	3.10%	3.22%	3.26%	3.24%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 61,659,391	$ 72,577,582	$ 70,982,707	$ 69,146,130
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 1	$ 2,645,571	$ 3,324,167	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 2/3	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's employers' covered-employee payroll*	$ 159,381,602	$ 157,200,870	$149,664,275	$143,786,141
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	2330.66%	2183.33%	1804.35%	1483.82%
Plan fiduciary net position as a percentage of the total pension liability	61.24%	57.03%	59.10%	61.19%

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

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

	2017	2016	2015	2014
Workers' Compensation Program's employers' proportionate share of the net pension liability*	3.18%	3.31%	3.34%	3.30%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 55,546,159	$ 82,761,762	$ 58,566,959	$ 32,912,727
Workers' Compensation Program's employers' covered-employee payroll*	$ 156,736,031	$ 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*	35.44%	53.78%	40.19%	23.66%
Plan fiduciary net position as a percentage of the total pension liability	90.97%	85.82%	89.20%	93.29%

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

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

	2017	2016	2015	2014
Workers' Compensation Program's employers' proportionate share of the net pension liability*	0.190%	0.210%	0.380%	0.800%
Workers' Compensation Program's employers' proportionate share of the net pension liability	$ 59,122	$ 70,402	$ 104,621	$ 183,886
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$ 4,703	$ 12,044	$ 14,869	$ 36,888
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 2/3	110,321	104,508	161,784	282,403
Workers' Compensation Program's employers' covered-employee payroll*	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's employers' proportionate share of the net pension liability as a percentage of its covered-employee payroll*	1257.24%	584.57%	700.00%	497.30%
Plan fiduciary net position as a percentage of the total pension liability	65.58%	62.07%	65.70%	68.77%

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

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

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

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

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

	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contributions	$ 8,695,876	$ 7,552,340	$ 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	271,824	295,632	366,587	360,952	420,032
Workers' Compensation Program's employer UAAL contributions related to covered payroll of employees participating in PERS Plan 2/3	8,424,052	7,256,708	7,064,968	5,703,131	5,522,847
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	8,695,876	7,552,340	7,431,555	6,064,083	5,942,879
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 1	$ 2,149,230	$ 2,645,571	$ 3,324,167	$ 3,934,364	$ 4,660,286
Workers' Compensation Program's covered payroll of employees participating in PERS Plan 2/3	166,552,341	156,736,031	153,876,703	145,729,911	139,125,855
Workers' Compensation Program's covered-employee payroll	$168,701,571	$159,381,602	$ 157,200,870	$ 149,664,275	$ 143,786,141
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	5.15%	4.74%	4.73%	4.05%	4.13%

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

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

	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually-required contribution	$ 12,370,246	$ 9,749,591	$ 9,501,317	$ 7,327,801	$ 6,911,983
Less: Workers' Compensation Program's contributions in relation to the contractually-required contribution	12,370,246	9,749,591	9,501,317	7,327,801	6,911,983
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered-employee payroll	$166,552,341	$156,736,031	$153,876,703	$145,729,911	$139,125,855
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	7.43%	6.22%	6.17%	5.03%	4.97%

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

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

	2018	2017	2016	2015	2014
Workers' Compensation Program's contractually required contributions	$ 8,706	$ 6,855	$ 6,174	$ 7,297	$ 12,295
Workers' Compensation Program's employer contributions related to covered-payroll of employees participating in TRS Plan 1	516	619	775	1,475	3,605
Workers' Compensation Program's employer UAAL contributions related to covered-payroll of employees participating in TRS Plan 2/3	8,190	6,236	5,399	5,822	8,690
Workers' Compensation Program's contributions in relation to the actuarially determined contributions	8,706	6,855	6,174	7,297	12,295
Workers' Compensation Program's contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Workers' Compensation Program's covered payroll of employees participating in TRS Plan 1	$ 3,597	$ 4,703	$ 12,044	$ 14,869	$ 36,888
Workers' Compensation Program's covered-payroll of employees participating in TRS Plan 2/3	128,713	110,321	104,508	161,784	282,403
Workers' Compensation Program's covered-employee payroll	$ 132,310	$ 115,024	$ 116,552	$ 176,653	$ 319,291
Workers' Compensation Program's contributions as a percentage of covered-employee payroll	6.58%	5.96%	5.30%	4.13%	3.85%

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

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

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

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

Schedule of Changes in Total Pension Liability and Related Ratios
Higher Education Supplemental Defined Benefit Plans
Fiscal Years Ended and Measurement Date June 30, 2018

Total Pension Liability		
Service cost	$	33,074
Interest		36,072
Changes of benefit terms		-
Differences between expected and actual experience		(292,464)
Changes in assumptions		(110,437)
Benefit payments		(13,710)
Other		-
Net Change in Total Pension Liability		(347,465)
Total Pension Liability - Beginning		1,270,022
Total Pension Liability - Ending	$	922,557
Covered-Employee Payroll	$	1,699,122
Total Pension Liability/(Asset) as a Percentage of Covered Employee Payroll		54.30%

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

Source: Washington State Office of the State Acturary

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.

Schedule of the Workers' Compensation Program's Changes in Total OPEB Liability and Related Ratios
Fiscal Year Ended June 30, 2018
(Dollar amounts in thousands)

Total OPEB Liability		
Service Cost	$	8,764
Interest Cost		4,105
Difference between expected and actual experience		-
Changes in benefit terms		-
Changes in assumptions		(20,024)
Benefit Payments		(2,092)
Other		-
Net Changes in Total OPEB Liability		(9,247)
Total OPEB Liability - Beginning		138,518
Total OPEB Liability - Ending	$	129,271
Covered employee payroll	$	168,834
Total OPEB Liability as a Percentage of Covered-Employee Payroll		76.6%

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

Notes to Required Supplementary Information

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

Washington State Department of
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Supplementary and Other Information

Washington State Department of
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Keep Washington Safe and Working

Combining Schedule of Net Position
June 30, 2018

	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
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES									
Current Assets									
Cash and cash equivalents	$ 8,164,464	$ 2,741,991	$ 1,685,640	$ -	$ 12,592,095	$ 1,236,948	$ 31,201,063	$ 459,973	$ 45,490,079
Investments, current	509,308,612	567,125,058	252,481,041	-	1,328,914,711	50,992,122	-	-	1,379,906,833
DOE trust cash and investments, current	-	-	370,920	-	370,920	-	-	-	370,920
Collateral held under securities lending agreements	2,014,662	40,980,911	55,857,512	-	98,853,085	956,752	-	-	99,809,837
Receivables, net of allowance	482,191,904	315,438,570	89,047,734	-	886,678,208	144,103,275	14,090,158	-	1,044,871,641
Receivables from workers' compensation accounts	385,064	357,209	81,901,661	1,600,754,181	1,683,398,115	-	-	-	1,683,398,115 *
Receivables from other state accounts and agencies	298,091	299,935	-	-	598,026	3,624	-	-	601,650
Receivables from other governments	1,723,779	333,906	-	-	2,057,685	-	-	-	2,057,685
Inventories	74,672	74,672	-	-	149,344	-	-	-	149,344
Prepaid expenses	1,219,532	1,365,110	-	-	2,584,642	-	-	-	2,584,642
Total Current Assets	1,005,380,780	928,717,362	481,344,508	1,600,754,181	4,016,196,831	197,292,721	45,291,221	459,973	4,259,240,746
Noncurrent Assets									
DOE trust cash and investments, noncurrent	-	-	-	-	-	-	-	-	-
DOE trust receivable	-	-	4,929,114	-	4,929,114	-	-	-	4,929,114
Investments, net of current portion	5,816,893,867	5,245,589,465	4,261,605,346	-	15,324,088,678	65,387,551	-	-	15,389,476,229
Capital assets, net of accumulated depreciation	26,427,359	31,648,493	-	-	58,075,852	-	-	-	58,075,852
Total Noncurrent Assets	5,843,321,226	5,277,237,958	4,266,534,460	-	15,387,093,644	65,387,551	-	-	15,452,481,195
Deferred Outflows of Resources									
Deferred outflows from pensions	13,431,649	13,095,147	-	-	26,526,796	-	-	-	26,526,796
Deferred outflow of resources from OPEB	1,017,751	1,028,041	-	-	2,045,792	-	-	-	2,045,792
Total Deferred Outflows of Resources	14,449,400	14,123,188	-	-	28,572,588	-	-	-	28,572,588
Total Assets and Deferred Outflows of Resources	$ 6,863,151,406	$ 6,220,078,508	$ 4,747,878,968	$ 1,600,754,181	$ 19,431,863,063	$ 262,680,272	$ 45,291,221	$ 459,973	$ 19,740,294,529

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

Combining Schedule of Net Position
June 30, 2018

	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
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)									
Current Liabilities									
Accounts payable	$ 3,480,568	$ 3,121,487	$ 14,691	$ -	$ 6,616,746	$ 83,758	$ 6,152	$ -	$ 6,706,656
Accrued liabilities	205,490,784	11,051,763	4,124,671	-	220,667,218	731,480	4,319	-	221,403,017
Obligations under securities lending agreements	2,014,662	40,980,911	55,857,512	-	98,853,085	956,752	-	-	99,809,837
Net pension liability, current	10,569	10,704	-	-	21,273	-	-	-	21,273
Other post-employment benefits, current	1,017,751	1,028,041	-	-	2,045,792	-	-	-	2,045,792
Payables to workers' compensation accounts	455,545,465	1,212,532,849	-	-	1,668,078,314	16,413	15,303,388	-	1,683,398,115 *
Payables to other state accounts and agencies	4,784,816	3,365,978	-	-	8,150,794	988	-	-	8,151,782
Payables to other governments	132	132	-	-	264	-	-	-	264
Unearned revenues	247,264	140,278	-	-	387,542	1,959,908	-	-	2,347,450
DOE trust liabilities, current	-	-	623,707	-	623,707	-	-	-	623,707
Claims payable, current	682,275,000	476,349,000	478,591,000	-	1,637,215,000	589,008,000	-	-	2,226,223,000
Total Current Liabilities	1,354,867,011	1,748,581,143	539,211,581	-	3,642,659,735	592,757,299	15,313,859	-	4,250,730,893
Noncurrent Liabilities									
Claims payable, net of current portion	4,515,302,000	3,423,184,000	4,174,602,000	-	12,113,088,000	13,434,992,000	-	-	25,548,080,000
Other long-term liabilities	4,056,461	3,708,253	-	-	7,764,714	-	-	-	7,764,714
DOE trust liabilities, net of current portion	-	-	4,676,327	-	4,676,327	-	-	-	4,676,327
Other post-employment benefits, net of current portion	63,292,568	63,932,410	-	-	127,224,978	-	-	-	127,224,978
Net pension liability, net of current portion	60,106,888	58,077,482	-	-	118,184,370	-	-	-	118,184,370
Total Noncurrent Liabilities	4,642,757,917	3,548,902,145	4,179,278,327	-	12,370,938,389	13,434,992,000	-	-	25,805,930,389
Total Liabilities	5,997,624,928	5,297,483,288	4,718,489,908	-	16,013,598,124	14,027,749,299	15,313,859	-	30,056,661,282
Deferred Inflows of Resources									
Deferred inflows from pensions	9,887,748	9,299,923	-	-	19,187,671	-	-	-	19,187,671
Deferred inflow of resources from OPEB	10,921,486	11,031,895	-	-	21,953,381	-	-	-	21,953,381
Total Deferred Inflows of Resources	20,809,234	20,331,818	-	-	41,141,052	-	-	-	41,141,052
Net Position (Deficit):									
Investment in capital assets	26,427,359	31,648,493	-	-	58,075,852	-	-	-	58,075,852
Unrestricted	818,289,885	870,614,909	29,389,060	1,600,754,181	3,319,048,035	(13,765,069,027)	29,977,362	459,973	(10,415,583,657)
Total Net Position (Deficit)	844,717,244	902,263,402	29,389,060	1,600,754,181	3,377,123,887	(13,765,069,027)	29,977,362	459,973	(10,357,507,805)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 6,863,151,406	$ 6,220,078,508	$ 4,747,878,968	$ 1,600,754,181	$ 19,431,863,063	$ 262,680,272	$ 45,291,221	$ 459,973	$ 19,740,294,529

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

Combining Schedule of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2018

	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
OPERATING REVENUES									
Premiums and assessments, net of refunds	$ 1,239,256,495	$ 883,691,796	$ 23,644,527	$ -	$ 2,146,592,818	$ 524,970,672	$ 53,332,773	$ (285)	$ 2,724,895,978
Miscellaneous revenues	36,808,959	2,246,146	56,087	-	39,111,192	10,721,669	5	-	49,832,866
Total Operating Revenues	1,276,065,454	885,937,942	23,700,614	-	2,185,704,010	535,692,341	53,332,778	(285)	2,774,728,844
OPERATING EXPENSES									
Salaries and wages	87,686,872	89,341,268	-	-	177,028,140	-	-	-	177,028,140
Employee benefits	32,270,769	32,521,918	-	-	64,792,687	-	-	-	64,792,687
Personal services	6,528,797	8,439,338	-	-	14,968,135	-	-	-	14,968,135
Goods and services	45,835,179	40,901,820	-	-	86,736,999	-	-	-	86,736,999
Travel	2,974,604	1,600,861	-	-	4,575,465	-	-	-	4,575,465
Claims	1,087,635,765	360,330,864	601,855,965	-	2,049,822,594	1,235,218,099	1,358,616	236,668	3,286,635,977
Depreciation	2,888,435	5,610,942	-	-	8,499,377	-	-	-	8,499,377
Miscellaneous expenses	13,450,991	6,165,919	(4,166)	-	19,612,744	4,228,465	77	-	23,841,286
Total Operating Expenses	1,279,271,412	544,912,930	601,851,799	-	2,426,036,141	1,239,446,564	1,358,693	236,668	3,667,078,066
Operating Income (Loss)	(3,205,958)	341,025,012	(578,151,185)	-	(240,332,131)	(703,754,223)	51,974,085	(236,953)	(892,349,222)
NONOPERATING REVENUES (EXPENSES)									
Earnings on investments	82,426,499	111,144,409	54,465,158	-	248,036,066	1,318,548	-	-	249,354,614
Other revenues	9,521,310	1,983,698	-	-	11,505,008	-	-	-	11,505,008
Total Nonoperating Revenues (Expenses)	91,947,809	113,128,107	54,465,158	-	259,541,074	1,318,548	-	-	260,859,622
Income (Loss) Before Transfers	88,741,851	454,153,119	(523,686,027)	-	19,208,943	(702,435,675)	51,974,085	(236,953)	(631,489,600)
Transfers in	39,187,999	-	396,729,866	1,489,732,825	1,925,650,690	-	13,311,648	-	1,938,962,338
Transfers out	(722,612,524)	(1,102,070,550)	(50,649,175)	-	(1,875,332,249)	-	(63,630,089)	-	(1,938,962,338)
Net Transfers	(683,424,525)	(1,102,070,550)	346,080,691	1,489,732,825	50,318,441	-	(50,318,441)	-	-
Changes in Net Position	(594,682,674)	(647,917,431)	(177,605,336)	1,489,732,825	69,527,384	(702,435,675)	1,655,644	(236,953)	(631,489,600)
Net Position (Deficit) at July 1	1,478,108,274	1,590,386,050	206,994,396	111,021,356	3,386,510,076	(13,062,633,352)	28,321,718	696,926	(9,647,104,632)
Prior Period Adjustment	(38,708,356)	(40,205,217)	-	-	(78,913,573)	-	-	-	(78,913,573)
Net Position (Deficit) - July 1, as Restated (See Note 2)	1,439,399,918	1,550,180,833	206,994,396	111,021,356	3,307,596,503	(13,062,633,352)	28,321,718	696,926	(9,726,018,205)
Net Position (Deficit) - June 30	$ 844,717,244	$ 902,263,402	$ 29,389,060	$ 1,600,754,181	$ 3,377,123,887	$ (13,765,069,027)	$ 29,977,362	$ 459,973	$ (10,357,507,805)

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, 2018

	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	$ 1,255,120,492	$ 871,722,611	$ 24,439,038	$ -	$ 2,151,282,141	$ 506,067,351	$ 57,084,487	$ (285)	$ 2,714,433,694
Payments to/for beneficiaries	(556,677,572)	(601,126,788)	(476,167,472)	-	(1,633,971,832)	(517,249,209)	(1,355,399)	(236,668)	(2,152,813,108)
Payments to employees	(120,590,356)	(122,441,889)	-	-	(243,032,245)	-	-	-	(243,032,245)
Payments to suppliers	(55,227,727)	(51,978,999)	(25,792)	-	(107,232,518)	74,116	6,152	-	(107,152,250)
Other	34,486,812	676,505	56,087	-	35,219,404	10,720,899	5	-	45,940,308
Net Cash Flows from Operating Activities	557,111,649	96,851,440	(451,698,139)	-	202,264,950	(386,843)	55,735,245	(236,953)	257,376,399
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES									
Transfers in	38,836,447	1,135,876	365,477,514	-	405,449,837	436	13,311,894	-	418,762,167
Transfers out	(306,634,108)	(592,419)	(50,649,309)	-	(357,875,836)	(1,098,456)	(59,787,875)	-	(418,762,167)
Operating grants received	8,852,955	1,909,055	-	-	10,762,010	-	-	-	10,762,010
License fees collected	97,746	17,249	-	-	114,995	-	-	-	114,995
Net Cash Flows from Noncapital Financing Activities	(258,846,960)	2,469,761	314,828,205	-	58,451,006	(1,098,020)	(46,475,981)	-	10,877,005
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES									
Acquisitions of capital assets	(775,074)	(729,004)	-	-	(1,504,078)	-	-	-	(1,504,078)
Net Cash Flows from Capital and Related Financing Activities	(775,074)	(729,004)	-	-	(1,504,078)	-	-	-	(1,504,078)
CASH FLOWS FROM INVESTING ACTIVITIES									
Net sales (purchases) of trust investments	-	-	(282,985)	-	(282,985)	-	-	-	(282,985)
Receipt of interest and dividends	181,774,838	146,542,316	145,526,126	-	473,843,280	1,876,632	-	-	475,719,912
Investment expenses	(2,163,145)	(2,031,549)	(1,534,523)	-	(5,729,217)	(207,158)	-	-	(5,936,375)
Proceeds from sale of investment securities	3,028,592,041	3,404,501,374	1,867,587,891	-	8,300,681,306	560,420,814	-	-	8,861,102,120
Purchases of investment securities	(3,504,887,547)	(3,646,603,737)	(1,874,097,187)	-	(9,025,588,471)	(561,581,962)	-	-	(9,587,170,433)
Net Cash Flows from Investing Activities	(296,683,813)	(97,591,596)	137,199,322	-	(257,076,087)	508,326	-	-	(256,567,761)
Net increase (decrease) in Cash and Cash Equivalents	805,802	1,000,601	329,388	-	2,135,791	(976,537)	9,259,264	(236,953)	10,181,565
Cash & cash equivalents, July 1 (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 & cash equivalents, June 30 (includes trust cash of $370,920)	8,164,464	2,741,991	2,056,560	-	12,963,015	1,236,948	31,201,063	459,973	45,860,999
Cash Flows from Operating Activities									
Operating income (loss)	(3,205,958)	341,025,012	(578,151,185)	-	(240,332,131)	(703,754,223)	51,974,085	(236,953)	(892,349,222)
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities									
Depreciation	2,888,435	5,610,942	-	-	8,499,377	-	-	-	8,499,377
Change in Assets: Decrease (Increase)									
Receivables	11,201,472	(2,523,718)	703,712	-	9,381,466	(14,982,480)	3,751,792	-	(1,849,222)
Inventories	13,623	13,623	-	-	27,246	-	-	-	27,246
Prepaid expenses	(480,521)	(498,981)	-	-	(979,502)	-	-	-	(979,502)
Change in Liabilities: Increase (Decrease)									
Claims and judgments payable	530,414,000	(241,197,000)	126,548,000	-	415,765,000	718,000,000	-	-	1,133,765,000
Accrued liabilities	16,280,598	(5,578,438)	(798,666)	-	9,903,494	349,860	9,368	-	10,262,722
Net Cash Flows from Operating Activities	557,111,649	96,851,440	(451,698,139)	-	202,264,950	(386,843)	55,735,245	(236,953)	257,376,399
Non Cash Investing, Capital and Financing Activities									
Increase (decrease) in fair value of investments	$ (436,331,004)	$ (497,886,351)	$ (386,820,392)	$ -	$ (1,321,037,747)	$ (415,451)	$ -	$ -	$ (1,321,453,198)

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

Statistical Section

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Statistical Section

Narrative and Index

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

Page

FINANCIAL TRENDS

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

REVENUE CAPACITY

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

DEBT CAPACITY

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

DEMOGRAPHIC INFORMATION

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

OPERATING INFORMATION

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

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

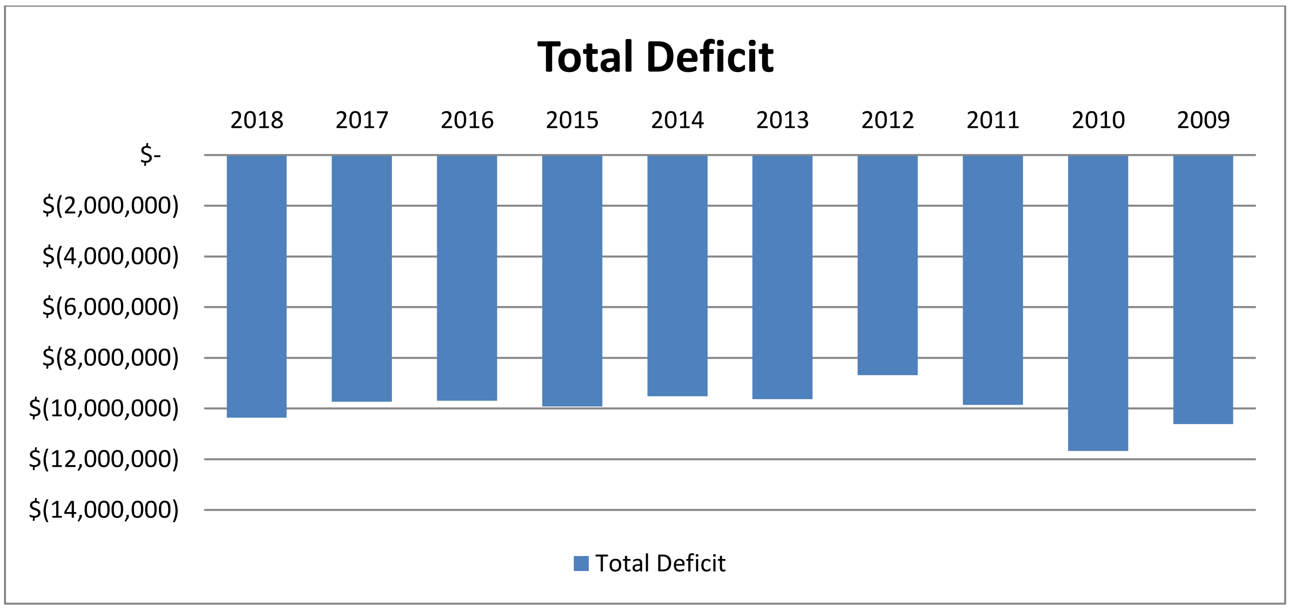
Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Net investment in capital assets	$ 58,076	$ 65,149	$ 67,452	$ 67,595	$ 58,781	$ 57,687	$ 52,708	$ 51,101	$ 41,251	$ 37,415
Unrestricted[1]	(10,415,584)	(9,791,167)	(9,764,441)	(9,987,396)	(9,577,704)	(9,682,379)	(8,741,896)	(9,911,590)	(11,708,411)	(10,654,926)
Total Net Position (Deficit) [1]	$ (10,357,508)	$ (9,726,018)	$ (9,696,989)	$ (9,919,801)	$ (9,518,923)	$ (9,624,692)	$ (8,689,188)	$ (9,860,489)	$ (11,667,160)	$ (10,617,511)

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



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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating Revenues										
Premiums and assessments, net of refunds	$ 2,724,896	$ 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
Miscellaneous revenues	49,833	61,239	57,682	56,714	53,986	47,354	47,964	51,411	40,250	52,859
Total Operating Revenues	2,774,729	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
Operating Expenses										
Salaries and wages	177,028	160,503	159,686	150,278	145,431	140,203	136,406	135,979	137,085	134,295
Employee benefits	64,793	68,547	62,966	55,397	58,367	54,367	54,379	51,397	48,545	51,025
Personal services	14,968	5,686	7,457	11,304	5,661	8,895	8,013	6,366	4,521	6,449
Goods and services	86,737	82,025	82,424	82,416	76,389	79,315	69,194	72,443	67,817	73,594
Travel	4,576	3,867	4,106	4,145	4,047	4,068	3,779	3,401	3,339	3,314
Claims	3,286,636	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
Depreciation	8,499	9,851	10,206	7,184	7,228	8,428	6,634	8,037	7,991	10,003
Miscellaneous	23,841	51,548	37,450	41,041	33,954	28,486	45,946	52,463	26,287	88,589
Total Operating Expenses	3,667,078	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
Operating Income (Loss)	(892,349)	(510,477)	(664,350)	(624,020)	(887,339)	(1,167,721)	144,262	816,514	(2,498,672)	(670,915)
Nonoperating Revenues (Expenses)										
Earnings on investments	249,354	551,367	857,707	215,557	1,119,761	223,875	1,009,688	981,927	1,441,576	216,035
Other revenues	11,505	9,186	8,909	7,840	8,329	8,998	8,421	9,294	7,878	7,477
Interest expense	-	-	(37)	(255)	(461)	(656)	(839)	(1,064)	(1,271)	(1,466)
Total Nonoperating Revenues (Expenses)	260,859	560,553	866,579	223,142	1,127,629	232,217	1,017,270	990,157	1,448,183	222,046
Income (Loss) Before Transfers [1]					240,290	(935,504)	1,161,532	1,806,671	(1,050,489)	(448,869)
Transfers in					325,015	371,670	303,273	311,777	323,623	465,908
Transfers out		(192)			(325,015)	(371,670)	(303,273)	(311,777)	(322,783)	(468,679)
Net Transfers	-	(192)	-	-	-	-	-	-	840	(2,771)
Changes in Net Position	(631,490)	49,884	202,229	(400,878)	240,290	(935,504)	1,161,532	1,806,671	(1,049,649)	(451,640)
Net Position (Deficit), July 1 [2]	(9,726,018)	(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)
Net Position (Deficit), June 30	$ (10,357,508)	$ (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)

[1] Starting in fiscal year 2015, intrafund transfers should not be reported, per GFOA comments. The balance of $192.00 is related to a one time transfer for the Moore Settlement.
[2] Fiscal years 2009, 2013, 2015, 2017, and 2018 deficits at beginning of year are restated amounts.

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

FISCAL YEAR	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Premiums and Assessments										
State Fund Premiums										
Accident	$ 1,420,464	$ 1,395,147	$ 1,299,794	$ 1,231,128	$ 1,165,138	$ 1,105,903	$ 1,060,670	$ 916,514	$ 767,915	$ 832,584
Medical Aid	870,331	855,218	820,177	779,315	695,460	624,913	596,421	614,714	601,087	637,975
Supplemental Pension	391,670	367,623	340,034	321,967	316,448	302,915	318,328	318,835	264,934	250,211
Net retrospective rating refunds	(195,578)	(169,105)	(156,378)	(188,302)	(174,854)	(136,404)	(171,509)	(75,011)	(112,494)	(81,255)
Total State Fund Premiums	2,486,887	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
Self-Insurance Assessments	238,009	248,852	212,629	193,375	198,218	226,156	210,931	208,296	206,280	184,761
Total Premiums and Assessments	$ 2,724,896	$ 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
Investments [1]										
Investment income (interest and dividend)	$ 479,112	$ 482,427	$ 503,057	$ 493,679	$ 479,457	$ 466,299	$ 488,831	$ 501,382	$ 501,143	$ 546,021
Investment balances	$16,769,383	$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
Average rate of return	2.9%	2.9%	3.2%	3.4%	3.3%	3.5%	3.7%	4.0%	4.2%	5.0%

CALENDAR YEAR	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Average Standard Premium Rates [2] (Per Hour Worked) - Effective from January 1 to December 31										
Accident	0.3564	0.3739	0.3691	0.3597	0.3601	0.3601	0.3601	0.3530	0.2720	0.2603
Medical Aid	0.2113	0.2179	0.2179	0.2179	0.2107	0.1905	0.1905	0.1897	0.2115	0.1951
Supplemental Pension	0.1026	0.0958	0.0950	0.0894	0.0909	0.0928	0.0932	0.1077	0.0969	0.0835
Stay At Work [3]	0.0045	0.0046	0.0055	0.0073	0.0073	0.0080	0.0076	N/A	N/A	N/A
Total Average Standard Premium Rates (composite rate)	0.6748	0.6922	0.6875	0.6743	0.6690	0.6514	0.6514	0.6504	0.5804	0.5389
Employer portion	0.4739	0.4871	0.4907	0.4734	0.4600	0.4578	0.4626	0.4588	0.3853	0.3644
Worker portion	0.1592	0.1592	0.1592	0.1573	0.1545	0.1457	0.1457	0.1487	0.1542	0.1393
State Fund average hourly wage	$ 34.55	$ 30.76	$ 30.01	$ 28.64	$ 27.91	$ 26.79	$ 26.26	$ 25.40	$ 24.51	$ 24.00
Composite net of Retro rate per $100 Payroll [4]	$ 1.83	$ 2.10	$ 2.17	$ 2.20	$ 2.20	$ 2.25	$ 2.32	$ 2.39	$ 2.20	$ 2.10

[1] These amounts reflect only investments managed by the Washington State Investment Board.

[2] These rates are for 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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Employers insured	178,000	176,000	177,000	174,000	169,000	168,000	166,000	163,000	163,000	168,000
Workers covered	2,993,000	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
Hours reported	3,935,000,000	3,824,000,000	3,678,000,000	3,538,000,000	3,388,000,000	3,270,000,000	3,183,000,000	3,100,000,000	3,065,000,000	3,232,000,000
Self-insured employers	351	356	355	355	355	363	365	360	363	369
Workers covered under self-insured employers	949,963	909,405	872,000	865,000	884,000	846,000	845,000	821,000	826,000	830,000
Industry Classifications - NAICS Sector										
Construction	26,100	25,309	23,562	22,460	21,998	21,229	21,191	21,631	21,963	25,051
Prof., scientific, and technical services	25,100	24,500	22,801	22,074	21,474	20,035	19,960	19,278	17,839	18,428
Other services (except public administration)	17,000	17,103	16,749	16,541	16,511	16,353	16,613	16,391	15,660	16,115
Retail trade	15,300	15,654	15,645	15,796	16,146	16,219	16,627	16,385	15,779	16,892
Accomodation and food services	15,300	15,215	15,147	15,007	15,013	14,843	14,929	14,579	13,929	14,199
Health care and social assistance	15,100	15,158	15,009	14,672	14,611	14,538	14,754	14,642	13,807	14,367
Administrative and support services	12,600	12,454	11,706	11,399	11,138	10,458	10,459	10,018	9,447	9,928
Wholesale trade	11,200	11,383	10,483	10,832	10,652	10,189	10,450	10,218	9,163	9,328
Agriculture, forestry, fishing, and hunting	7,000	7,151	7,202	7,069	6,980	7,141	7,238	7,258	7,284	7,690
Real estate, rental and leasing	7,000	7,033	6,828	6,765	6,721	6,642	6,627	6,719	6,563	7,117
Manufacturing	6,620	6,722	6,559	6,603	6,604	6,670	6,717	6,694	6,615	6,993
Finance and insurance	5,140	5,078	4,873	4,997	5,017	5,003	5,073	5,110	4,998	5,437
Transportation and warehousing	4,240	4,189	5,636	6,130	6,106	5,753	5,569	4,095	3,833	4,013
Education services	3,210	3,089	2,991	2,907	2,769	2,653	2,618	2,487	2,177	2,161
Arts, entertainment, and recreation	2,930	2,934	2,866	2,742	2,715	2,624	2,655	2,568	2,418	2,508
Information	2,390	2,159	2,090	2,144	2,147	2,114	2,107	1,836	1,746	1,880
Public administration	1,010	1,059	5,387	2,265	985	3,816	382	1,512	8,016	4,537
Unclassified establishments	480	1,024	1,025	1,027	1,028	1,026	1,030	1,040	1,042	1,063
Utilities	350	357	356	359	357	355	352	344	338	345
Mgmt. of companies and enterprises	200	193	169	158	150	144	133	118	103	99
Mining	150	156	159	167	172	177	180	178	176	200
Total Employer Accounts	178,420	177,920	177,243	172,114	169,294	167,982	165,664	163,101	162,896	168,351

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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Outstanding Debt										
General obligation bonds [1]	$ -	$ -	$ -	$ 4,050	$ 7,870	$ 11,475	$ 14,875	$ 18,080	$ 22,110	$ 25,930
Debt Ratios										
Principal paid on total debt	$ -	$ -	$ 4,050	$ 3,820	$ 3,605	$ 3,400	$ 3,205	$ 4,030	$ 3,820	$ 3,625
Ratio of principal paid to total prior year debt	0.0%	0.0%	100.0%	48.5%	31.4%	22.9%	17.7%	18.2%	14.7%	12.3%
Interest paid on total debt	$ -	$ -	$ 110	$ 325	$ 527	$ 717	$ 897	$ 1,143	$ 1,346	$ 1,537
Ratio of interest paid to total prior year debt	0.0%	0.0%	2.7%	4.1%	4.6%	4.8%	5.0%	5.2%	5.2%	5.2%
Premiums and assessments earned	$ 2,724,896	$ 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
Ratio of total debt to premiums and assessments earned	0.0%	0.0%	0.0%	0.2%	0.4%	0.5%	0.7%	0.9%	1.3%	1.4%
Total debt per covered worker [2]	$ -	$ -	$ -	$ 1.51	$ 3.05	$ 4.61	$ 6.15	$ 7.66	$ 9.49	$ 10.54

[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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Unpaid loss and loss adjustment expenses at beginning of fiscal year [1]	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,006,789	$ 21,887,148
Incurred claims and claim adjustment expenses										
Provision for insured events of the current fiscal year	2,111,642	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
Increase (decrease) in provision for insured events of prior fiscal years	1,333,719	968,518	975,846	711,211	1,043,312	1,226,506	(92,184)	(933,553)	1,895,787	109,437
Total incurred claims and claim adjustment expenses	3,445,361	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
Less: Payments										
Claims and claim adjustment expenses attributable to										
Events of the current fiscal year	325,933	309,490	303,784	300,862	296,885	296,347	283,763	288,812	297,520	327,536
Insured events of prior fiscal years	1,985,663	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
Total payments	2,311,596	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
Total unpaid loss and loss adjustment expenses at fiscal year end	$ 27,774,303	$ 26,640,538	$ 25,852,326	$ 25,066,149	$ 24,437,534	$ 23,627,560	$ 22,596,350	$ 22,943,311	$ 24,025,832	$ 22,164,068

[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)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Population	7,427.6	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
Net increase	117.3	126.6	122.3	93.2	85.8	64.6	49.9	43.4	52.3	64.0
Percent change	1.6%	1.8%	1.7%	1.3%	1.3%	1.0%	0.7%	0.6%	0.8%	1.0%
Components of change										
Births	92.0	90.8	89.8	88.5	87.0	87.3	87.1	86.4	88.4	89.8
Deaths	58.4	56.5	54.7	52.8	50.7	51.1	49.2	48.8	47.7	48.1
Net migration	83.7	92.4	87.1	57.6	49.5	28.5	12.0	5.8	11.5	22.3

Note: Washington State population estimates are as of April 1 of each year. Population estimates for 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 2018 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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Personal income	$ 417	$ 398	$ 380	$ 359	$ 333	$ 326	$ 302	$ 285	$ 279	$ 294
Percent change	5%	5%	6%	8%	2%	8%	6%	2%	-5%	5%
Per capita	$ 56,283	$ 54,632	$ 53,119	$ 50,942	$ 47,846	$ 47,368	$ 44,224	$ 42,206	$ 41,844	$ 44,794

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)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Civilian labor force	3,723	3,636	3,545	3,488	3,457	3,463	3,482	3,515	3,535	3,479
Less Employed	3,546	3,444	3,346	3,275	3,217	3,185	3,162	3,167	3,206	3,286
Total unemployed	177	192	199	213	240	278	320	348	329	193
Unemployment rate	4.8%	5.3%	5.6%	6.1%	6.9%	8.0%	9.2%	9.9%	9.3%	5.5%

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 2018

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

Industry [1]	2017 Annual Averages: Number of Employees [2]	2017: Percent of Total	2017: Number of Employers	2008 Annual Averages: Number of Employees [2]	2008: Percent of Total	2008: Number of Employers
Government	555,076	16.9%	2,118	521,183	17.6%	2,049
Healthcare and social assistance [3]	409,190	12.4%	50,312	308,960	10.5%	13,722
Retail trade	378,150	11.5%	14,561	320,713	10.9%	14,369
Manufacturing	280,287	8.5%	7,373	287,229	9.7%	7,145
Accommodation and food services	274,121	8.3%	14,309	231,652	7.8%	12,498
Professional, scientific, and technical services	194,611	5.9%	25,057	160,323	5.4%	17,627
Construction	187,140	5.7%	25,043	185,773	6.3%	24,491
Administrative and support services [4]	165,746	5.0%	12,010	143,900	4.9%	9,360
Wholesale trade	131,591	4.0%	13,007	126,740	4.3%	12,838
Information	125,735	3.8%	3,701	104,941	3.5%	2,473
Agriculture, forestry, fishing, and hunting	105,158	3.2%	7,208	86,152	2.9%	7,470
Other services [3]	97,390	3.0%	18,611	116,979	4.0%	50,539
Transportation and warehousing	96,194	2.9%	4,575	85,209	2.9%	4,050
Finance and insurance	93,674	2.9%	5,733	99,201	3.4%	5,984
Arts, entertainment, and recreation	51,005	1.7%	2,791	47,117	1.6%	2,419
Real estate, rental and leasing	50,745	1.5%	6,773	49,517	1.7%	6,653
Management of companies and enterprises	44,223	1.3%	632	34,695	1.2%	641
Education services	42,313	1.3%	3,230	32,717	1.1%	2,176
Utilities	4,738	0.1%	223	4,913	0.2%	227
Mining	2,494	0.1%	152	2,828	0.1%	170
Total average employment [5]	3,289,581	100%	217,419	2,950,742	100%	196,901

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

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

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

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

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

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

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

	Annual Average Wages [1]									
Industry [2]	**2017 [3]**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**
Information	$ 172,592	$ 159,236	$ 150,503	$ 148,429	$ 135,304	$ 131,872	$ 119,968	$ 109,777	$ 105,715	$ 104,053
Management of companies and enterprises	111,942	109,462	108,447	106,518	105,501	105,535	102,009	95,731	87,642	87,431
Utilities	93,057	88,789	85,644	87,212	86,373	84,024	82,058	77,591	84,410	76,945
Professional, scientific, and technical services	92,323	88,223	85,968	84,883	81,893	79,972	77,178	75,376	71,837	70,120
Finance and insurance	90,869	88,308	92,790	82,102	79,587	77,455	73,154	70,137	71,304	72,653
Wholesale trade	76,856	73,903	72,523	70,169	68,230	68,481	65,831	63,348	61,569	61,041
Manufacturing	76,301	74,641	73,860	74,303	70,798	69,306	68,065	64,925	62,931	61,260
Mining	71,120	67,389	67,425	63,404	62,444	60,231	58,871	55,654	52,981	54,718
Construction	61,227	58,887	56,925	55,037	53,735	53,056	52,304	51,127	51,043	49,443
Government	61,187	58,945	57,274	55,603	53,733	52,871	52,174	51,394	50,420	48,705
Transportation and warehousing	58,058	56,173	54,344	52,293	51,967	50,876	49,628	47,743	46,522	45,433
Retail trade	52,542	45,930	38,300	36,127	34,084	32,364	30,917	30,021	29,356	29,268
Real estate, rental and leasing	51,553	48,965	47,459	45,181	43,426	42,040	39,816	38,359	36,777	36,669
Healthcare and social assistance [4]	50,971	49,337	46,986	44,245	47,733	47,067	45,852	44,673	43,561	41,424
Administrative and support services [5]	48,484	47,050	45,934	44,382	43,261	43,381	42,942	41,466	39,571	37,536
Other services [4]	38,832	37,557	37,437	35,571	26,717	25,651	24,549	24,227	24,881	25,637
Education services	38,455	37,667	36,414	36,918	36,775	36,226	35,576	35,158	34,505	33,550
Arts, entertainment, and recreation	32,074	30,908	30,509	29,725	27,771	25,276	25,023	25,121	25,527	26,949
Agriculture, forestry, fishing, and hunting	31,154	29,971	28,398	27,758	26,880	26,295	25,097	24,034	23,675	24,491
Accommodation and food services	22,766	21,301	20,451	19,561	19,136	18,698	18,062	17,632	17,063	16,430

[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] 2017 data is preliminary.

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

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

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

Schedule 12 - Demographics of Accepted Claims
Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Male injured workers	67%	67%	67%	67%	67%	67%	67%	66%	66%	68%
Female injured workers	33%	33%	33%	33%	33%	33%	33%	34%	34%	32%
Average age of injured workers	38	38	38	38	38	38	38	38	38	38
Injured workers younger than 30	31%	29%	29%	29%	28%	27%	27%	28%	29%	32%
Injured workers 30 to 50	44%	44%	45%	45%	46%	46%	46%	47%	48%	48%
Injured workers older than 50	24%	25%	24%	24%	24%	24%	24%	23%	22%	21%
Injured workers age unknown	1%	1%	2%	2%	2%	2%	2%	2%	1%	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 – L&I Number of Employees by Division
Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Administrative Services	134	131	136	132	127	122	121	169	172	171
Business Transformation	18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Communications & Web Services	61	54	54	51	47	N/A	N/A	N/A	N/A	N/A
Director's Office	28	35	32	31	31	141	87	92	93	88
DOSH	361	345	349	355	356	344	341	330	335	339
Field Services & Public Safety	6	6	7	4	4	N/A	N/A	N/A	N/A	N/A
Financial Management	50	53	54	53	50	N/A	N/A	N/A	N/A	N/A
Fraud Prevention & Labor Standards	144	125	132	131	122	86	85	83	84	74
Human Resources	56	52	54	54	46	44	46	45	45	47
Information Technology	213	199	208	201	194	175	173	171	178	189
Insurance Services	1,119	1,090	1,101	1,076	1,048	955	990	945	944	954
New legislation	N/A	2	6	12	6	93	58	N/A	N/A	N/A
Region 1	56	58	58	60	60	61	59	56	57	59
Region 2	102	96	100	102	101	100	102	102	102	96
Region 3	50	51	52	54	55	55	54	56	59	60
Region 4	68	70	70	70	70	71	74	70	72	65
Region 5	68	70	72	72	68	71	71	71	71	70
Region 6	39	40	39	39	38	39	40	41	42	43
Specialty Compliance Services	N/A	N/A	N/A	N/A	N/A	37	38	37	40	36
Total	2,573	2,477	2,524	2,497	2,423	2,394	2,339	2,268	2,294	2,291

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.

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

Source: Fiscal Interactive Reporting System

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Tumwater headquarters	1	1	1	1	1	1	1	1	1	1
Field offices*	18	18	18	18	18	18	18	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	2	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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Claim Statistics										
Number of Claims Filed [1]	111,604	109,965	110,498	109,359	106,903	103,328	101,524	100,690	102,734	116,616
Number of Claims Accepted [1, 2]	95,213	94,128	95,277	82,707	86,968	84,064	84,863	81,274	86,184	102,440
Number of Claims Denied [1, 2]	16,504	15,981	16,760	14,098	14,593	14,077	13,857	12,762	12,703	14,964
Fatal Pensions Awarded	36	50	48	61	51	44	35	59	45	42
Total Permanent Disability Pensions Granted	886	1,062	1,047	1,063	1,085	1,614	925	1,036	937	1,612
Permanent Partial Disability Awards Granted	9,312	10,038	10,280	10,769	10,431	10,760	11,524	11,782	11,452	12,684
New Time-loss (Wage Replacement) Claims [3]	17,812	18,782	19,065	19,509	20,049	19,740	20,205	21,377	22,604	26,295
Medical-only Claims Accepted	79,888	78,054	78,816	66,411	69,752	67,171	67,539	63,308	66,885	80,171
Retraining Plans Completed [4]	347	411	438	474	501	1,740	1,665	1,667	1,229	1,142
Total Days Paid for Lost Work	5,732,712	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
Five Most Frequent Injuries										
Back, spine, and spinal cord: traumatic injuries to muscles, tendons, ligaments, and joints (includes sprains and strains)	11,187	10,930	11,652	10,624	10,466	10,247	10,829	10,227	12,026	13,486
Finger(s): open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	11,076	10,809	11,068	9,429	9,459	8,665	8,761	7,974	8,641	10,837
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)	4,265	4,133	4,126	3,728	3,646	3,441	3,457	-	3,501	4,053
Leg(s): traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh (excludes ankle and hip)	4,148	4,083	3,939	3,696	3,802	3,614	3,484	3,362	3,774	4,356
Face: surface wounds and bruises (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	3,824	3,724	4,056	3,473	3,611	3,723	3,775	3,320	3,753	5,020
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.

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	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
3905	Restaurants and Taverns	7,879	7,676	7,681	7,520	7,197	6,937	6,711	6,439	6,690	7,132
4803	Orchards	3,861	3,200	3,360	3,395	3,078	2,868	2,654	2,152	2,051	2,221
6109	Physicians & Medical Clinics	2,359	2,286	2,123	2,113	2,216	2,140	2,178	2,265	2,219	2,250
6509	Boarding Homes and Retirement Centers	2,358	2,324	2,431	2,371	2,502	2,407	2,482	2,398	2,437	2,396
0510	Wood Frame Building Construction	1,809	1,646	1,553	1,514	1,349	1,288	1,139	1,212	1,327	2,015
3411	Automobile Dealers, Rentals and Service Shops	1,781	1,645	1,666	1,576	1,539	1,560	1,490	1,592	1,602	1,788
2104	Fruit & Vegetable Packing - Fresh	1,756	1,548	1,685	1,861	1,561	1,480	1,304	1,246	1,309	1,412
6108	Nursing Homes	1,591	1,631	1,816	1,872	2,040	2,078	2,080	2,186	2,271	2,409
4906	Colleges & Universities	1,560	1,535	1,751	1,717	1,758	1,709	1,817	1,773	1,843	1,874
6103	Schools, Churches and Day Care - Prof./Clerical Staff	1,468	1,408	1,390	1,301	1,339	1,346	1,391	1,433	1,344	1,489
0516	Carpentry, N.O.C.	1,433	1,340	1,363	1,261	1,050	955	866	763	902	1,192
2102	Warehouses, N.O.C., Grocery Dist, & Recycle Centers	1,357	1,189	891	748	670	564	595	610	555	568
4910	Property and Building Management Services	1,341	1,361	1,286	1,280	1,241	1,276	1,295	1,243	1,288	1,335
6107	Veterinary Services	1,329	1,171	1,059	995	950	894	832	756	700	752
1101	Parcel and Package Delivery Service	1,258	1,244	1,105	985	969	957	965	958	893	1,020
0601	Electrical Wiring: Buildings and Structures	1,238	1,124	1,095	1,063	933	925	877	940	987	1,535
3402	Machine Shops and Machinery Mfg., N.O.C.	1,186	1,109	1,355	1,309	1,328	1,261	1,329	1,228	1,144	1,567
4905	Motels and Hotels	1,118	1,165	1,173	1,136	1,141	1,122	994	1,020	963	994
0518	Non Wood Frame Building Construction	1,101	843	1,004	914	757	690	609	643	762	1,448
6602	Janitorial Service	1,083	1,067	999	1,003	971	934	986	945	849	962
0307	HVAC Systems, Installation, Service and Repair	1,076	1,019	936	858	858	785	733	800	800	1,120
1102	Trucking, N.O.C.	1,034	1,137	1,030	1,046	1,030	1,041	1,104	1,151	1,172	1,264
6309	Hardware, Auto Parts and Sporting Good Stores	1,019	1,063	1,057	1,054	1,064	1,089	1,080	1,034	1,080	1,225
6406	Retail Stores, N.O.C.	997	1,009	948	985	1,017	931	1,011	1,009	1,201	1,361
6402	Supermarkets	990	961	955	1,021	1,015	886	793	823	881	961
5307	State Government - All Other Employees, N.O.C.	955	981	891	852	920	941	1,078	1,232	1,197	1,261
6511	Chore Services	923	975	949	887	976	923	921	962	935	909
0306	Plumbing	921	931	820	884	758	728	768	764	794	1,199
3902	Fruit/Vegetable Canneries/Food Product Mfg., N.O.C.	890	836	1,008	962	783	740	728	750	836	736
2903	Wood Products Manufacturing, N.O.C.	838	862	794	820	819	726	733	679	711	822
4904	Clerical Office, N.O.C.	780	727	826	884	1,016	1,014	1,114	1,164	1,206	1,436
0101	Excavation and Grading, N.O.C.	689	614	595	756	835	757	758	811	869	1,060

Notes:

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

These claim counts are estimated by fiscal accident year from counts reported through June 30 of each fiscal year. The claims are "allowed" State Fund claims which have been accepted for benefits. Data is as of June 30, 2018.

similar exposure to loss without regard to the separate employments, occupations or operations which are normally associated with the business or industry. Basic classifications describe a specific type of business operation or industry such as mechanical logging, sawmills, aircraft manufacturing, or restaurants. In most business operations, some workers are exposed to very little hazard, while others are exposed to greater hazard. Since a basic classification reflects the liability (exposure to hazard) of a given business or industry, all the operations and occupations that are common to an industry are blended together and included in the classification."

Sources: Washington State Department of Labor & Industries Actuarial Services

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Supplemental Audit Report

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

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October 10, 2018

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, 2018.

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, 2018. I have reviewed the June 30, 2018 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, 2018 is as follows:

Accident Account	$ 5,197,577,000
Medical Aid Account	3,899,533,000
Pension Reserve Account	4,653,193,000
Total Basic Plan Loss and LAE Reserves	$13,750,303,000
Supplemental Pension Account	14,024,000,000
Total Program Loss and LAE Reserves	$27,774,303,000

In my opinion, the loss and LAE amounts in total listed above and displayed in the Program's Comprehensive Annual Financial Report as of June 30, 2018:

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

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

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

Relevant Comments

A. Company-Specific Risk Factors

Actuarial Estimates of property and casualty loss and loss adjustment expense 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 in Exhibit A.

The major factors and/or particular conditions underlying the risk and uncertainties that I consider relevant to the Company's estimates of unpaid losses and loss adjustment expenses of June 30, 2018 are described in the sections below. These include but are not necessarily limited to the following items.

By statute, the Program's direct exposure is limited to one line of business (workers' compensation) in one state (Washington). Therefore, any adverse trends affecting this line of business and/or state could have a material effect on the Program's loss and 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 2.30%. Changes to the interest rate used for discounting could result in material changes to the reserves. We note that the current risk free interest rate matching the duration of these liabilities (approximately 16.8 years) was 2.89% as of June 30, 2018.

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, 2018. 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 $15.8 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 $15,823,000 ($4,709,000 for the Accident Account and $11,114,000 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 6.1%.
- For the Accident Account, combinations of interest rates are used to discount the reserves. The future total permanent disability and fatal transfers made to the Pension Reserve Account assume interest discounts based on an annual rate of 6.1% through the 1st quarter of 2019. This rate is then reduced to 4.5% for all future quarters. The actual transfer payments and all other payments are discounted using a Department selected rate of 1.5%.
- We note that although the Pension Reserve Account is currently discounted using an annual interest rate of 6.1%, the intention is to reduce the interest rate down to 4.5% for the State Fund pensions next fiscal year. Therefore, the Department has recorded a liability this year in the Accident Account for the difference between an interest rate of 6.1% and 4.5% for the State Fund pensions in the Pension Reserve Account. The amount of this liability totals $553.902 million.
- For the Supplemental Pension Account, the Department's selected interest rate is 1.5%.

The average combined interest rate for the Program is approximately 2.30% with a total discount amount of $11.3 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 2.89% as of June 30, 2018.

The interest rate used to discount the Pension Reserve Account changed from 6.2% last year to 6.1% this year. The effect of reducing these interest rate assumptions this year was an increase in the discounted unpaid claim liability of $36.948 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 increase $55.138 million. The interest rate used for all other future payments remained the same this year at 1.5%.

The combined effect of all the interest rate assumption changes combined this year (including the $553.902 million to account for the reduction of the interest rate of State Fund pensions in the Pension Reserve Account from 6.1% to 4.5% recorded in the Accident Account) was an increase in the discounted unpaid claim liability of $645.988 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 2019 of 4.97% was obtained from the Employment Security Department's State Average Annual Wage data and represents the change in calendar year 2017 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 2020 through 2028 by using a linear interpolation between the average of the most recent ten years of COLA adjustments (3.09%) and a long term constant COLA adjustment assumption of 1.5%. For projected COLA adjustments subsequent to fiscal year 2028, 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 $286 million.

In addition, we note that if the Department used the current fiscal year COLA adjustment (or 4.97%) instead of the most recent ten year average of COLA adjustments (or 3.09%) as the starting point of the linear interpolation to 1.5%, the Supplemental Pension Account unpaid claim liability estimate would have been $1.9 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 3.32% with annual changes varying between 2.30% (at the 30th percentile) and 4.05% (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 3.32% would increase the Supplemental Pension Account discounted liability by $6.3 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 2.30%. The risk free interest rate that matches the duration of these liabilities (approximately 16.8 years) as of June 30, 2018 is 2.89% which is higher than the Department's selected 2.30% 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.

Rod Morris

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October 8, 2018

Washington State Department of
Labor & Industries

Keep Washington Safe and Working

Workers' Compensation Program
Comprehensive Annual Financial Report

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