Washington State Department of
Labor & Industries

State of Washington Industrial Insurance Fund Statutory Financial Information Report

For the Fiscal Years Ended June 30, 2010 and 2009

State of Washington Industrial Insurance Fund
Statutory Financial Information Report
For the Fiscal Years Ended June 30, 2010 and 2009

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Washington State Office of Financial Management
Washington State Investment Board

Washington State Department of
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Keep Washington Safe and Working.

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

December 14, 2010

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Director of Office of Financial Management
Washington State Citizens
Olympia, Washington 98504

RE: Statutory Financial Information Report (SSAP)

In accordance with the Revised Code of Washington (RCW) 51.44.115, the Department of Labor & Industries (L&I) has prepared a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) for the fiscal years ended June 30, 2010 and 2009. The Department 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 control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance the financial statements are free of any material misstatements.

Although an audit of Statutory Financial Information is not required by law, the Department elected to have an audit of the financial information we use for a rate decision. The independent Certified Public Accounting firm Eide Bailly, LLP, has issued an unqualified (clean) opinion on the Statutory Financial Information Report for the fiscal year ended June 30, 2010. 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 consolidated statutory financial statements. The MD&A complements the information provided in this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the consolidated financial statements and notes to the financial statements. The required schedules and an independent actuarial opinion complete the Statutory Financial Information Report.

PROFILE OF WORKERS' COMPENSATION PROGRAM

The Department of Labor & Industries, an agency of Washington State, is responsible for managing the State's Workers' Compensation Program; 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.

In our 99th year of service, L&I is proud to support approximately 2.3 million workers and over 163,000 employers statewide. L&I's headquarters is located at 7273 Linderson Way SW in Tumwater, Washington. There are 20 additional L&I offices across Washington State. The additional field offices enable us to respond to specific needs in different localities.

The focus of the following report is the Industrial Insurance Fund of the Workers' Compensation Program. Washington State's "Workmen's Compensation Act," established in 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 the only state where workers paid a significant portion of the insurance premiums.

Washington remained an exclusive State Fund until 1971, when the system underwent a major overhaul. In 1971, the Legislature expanded the scope of coverage to virtually all workers and created "self insurance." The Self Insurance Program allows employers with sufficient financial resources to "self insure," thus paying the cost of claims for their injured workers from their own funds and also assuming 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 managed by L&I. There are approximately 360 employers who are self-insured, covering approximately one-third of all workers in Washington.

BUDGET CYCLE

The Workers' Compensation Program is an enterprise fund made up of six accounts, three of which are known as the Industrial Insurance Fund. The activities within the Industrial Insurance Fund 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 Workers' Compensation Program's biennial budget for administering the program is appropriated and allotted through Washington State's legislative process. The 2009-2011 appropriated budget for administering the Accident and Medical Aid Accounts of the Workers' Compensation Program, is $516,415,889. The budget includes federal funds of $8,402,000. The allotted administering budget for Fiscal Year 2010 was $254,184,984.

The benefit portions of the accounts that make up the Industrial Insurance Fund are non-appropriated and non-allotted. The cost of providing medical, time-loss, and disability benefit payments to qualifying individuals sustaining work-related injuries and illnesses is financed primarily through premiums collected from employers and workers. L&I prepares a Statutory Financial Information Report for the Washington State Industrial Insurance Fund of the Workers' Compensation Program annually, based on a fiscal year beginning July 1 and ending June 30.

LOCAL ECONOMY AND IMPACT ON LABOR & INDUSTRIES

Workers' compensation covers all industries in the state of Washington. The western part of the State is known for its industrial and commercial industries. The ports of Seattle and Tacoma facilitate import and export trade with Asia, as well as load and unload passengers from commuting ferries or traveling cruise ships. Microsoft Corporation, located in Redmond, is a world-renowned leader of the software industry. Aircraft manufacturer, Boeing Company, is located in Everett. East of the Cascades, the Yakima and Wenatchee valleys are used for farming and lead the country in the production of apples, sweet cherries, and pears. Washington State is a major producer of wheat and world-class wine.

Washington's water resources, such as bays, inlets, rivers, lakes, and coastline, provide abundant fishing and hydroelectric power. Our Cascade mountain range is a beautiful site for hiking, camping and fishing. The early development of our State relied on the lumber and wood-products industry, which has remained a sustainable industry for Washington. Low cost power attracts data centers, producers of solar-grade silicon products, and others to eastern Washington.

EFFECTS OF THE ECONOMIC RECESSION

The labor market in Washington State lost 186,260 jobs during the recession from December 2007 through December 2009 – the largest decline in comparison to other recessions, dating back to December 1969. In addition, employers cut hours or hired temporary employees rather than replacing lost positions with permanent employees. The unemployment rate for Washington State peaked at 9.7 percent in March 2010, with little improvement expected for the rest of the year.

Resources available for the Workers' Compensation Program are impacted by conditions of the labor market, in that premiums that fund workers' compensation insurance are calculated based on payroll hours reported by employers. Based on data collected by L&I's actuaries, as of March 31, 2010, an estimated 5 percent decrease is expected in hours reported between December 31, 2009 and December 31, 2010.

Of the 186,260 jobs lost in Washington, the construction industry was hit the hardest by the downturn. There was significant reduction in the demand for construction, with Washington's population growth well below trend and the housing crisis preventing people from moving out of their existing homes. Growth in residential construction was stimulated briefly by homebuyer tax credits, but tapered off when credits expired in April 2010. In reviewing claim activity for 2009, L&I received fewer new claims for the construction industry; however, a larger percentage of those claims are receiving wage replacement benefits and have increased in duration.

The number of electrical permits issued by L&I has declined as well; approximately 17,000 electrical permits were issued in 2006, but that number declined to 12,400 in 2009. A rise in electrical permits issued may indicate the construction industry is beginning to recover.

Investment transactions made on behalf of L&I remained stable and reported gains throughout Fiscal Year 2010. Real gross domestic product grew consecutively over three quarters in Fiscal Year 2010, and industrial production remained strong, good indicators the economy is recovering. In addition, private spending appears to be recovering, especially in the business sector.

Fluctuations and uncertainties hit the financial markets in the third quarter of Fiscal Year 2010, as a reaction to fear that Greece may default on its debt and the economic crises will spread to Spain, Portugal, Ireland, Italy, and possibly the United Kingdom. The strengthening of the dollar will slow U.S. exports, but Washington's export-dependent economy is expected to remain strong. In addition, Washington's export contracts and prices are negotiated in advance, and hedges are put in place to guard against exchange-rate risk. Ninety percent of the State's commodity exports are to Asia, and the dollar has remained stable against Asian currency.

ECONOMIC OUTLOOK

The Economic and Revenue Forecast Council of Washington State reports that personal income is growing moderately after sharp declines in the first quarter of 2009. Personal disposable income rose nearly 3 percent during fourth quarter 2009, thanks to tax cuts and increased transfer payments in the federal stimulus package. This means that Washington residents have more to put back into the economy now than a year ago. Boeing has plans to increase production of the 777 in 2011, the 737 in early 2012, and will start up production of the new 787 and 747-8. The software industry added 900 jobs between December 2009 and May 2010, and continued growth is expected.

Investment income, managed by the Washington State Investment Board, performed incredibly well over the past fiscal year, considering the instability of the market. Investments are expected to continue to perform well as the financial markets recover; however, investment yields are expected to decline over the long term. We will manage investments carefully to preserve income, remain innovative in developing new strategies to deliver benefits and services of the Workers' Compensation Program, and continue to work with our stakeholders to ensure the needs of the business community and workforce are met.

VOTER INITIATIVE

L&I has been the sole provider of workers' compensation insurance since established in 1911. Voter Initiative 1082 was proposed to permit employers to purchase private industrial insurance beginning July 1, 2012, from entities other than L&I. The initiative would have directed the Legislature to enact conforming legislation by March 1, 2012. The worker-paid share of medical-benefit premiums would have been eliminated and the premium basis would have changed from hours worked to a rate per $100 payroll. As of November 2, 2010, the early election results indicated that this initiative was failing.

ACKNOWLEDGEMENTS

The management and staff of Washington's Workers' Compensation Program are dedicated to the excellence of our program. Our benefits protect injured workers and their families at premium rates that are lower than half of the other states. We are the only state where employees pay a significant portion of the premium, about 28 percent, which cuts employer costs while maintaining benefits. We give a claim-free discount to 85 percent of employers. In the past year, our claims adjudicators implemented process improvements that do a better job of bringing resources such as nurses, claims managers, pension adjudicators and other experts to work as a team, ensuring decisions are made on a claim in a timely and accurate manner. The Washington State Investment Board has done an outstanding job in managing our investments and keeping a watchful eye on the financial markets. The agency finds value in training both new and existing staff to achieve a consistent level of high quality service and empowering staff to succeed in providing outstanding service to our customers and stakeholders.

As in the work and service we provide every day, this Statutory Financial Information Report represents our commitment to maintaining excellence. 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.

The economic information discussed above was based on the June 4, 2010, Economic Review and the June 17, 2010, Revenue Review, published by the Economic and Revenue Forecast Council of Washington State.

Sincerely,

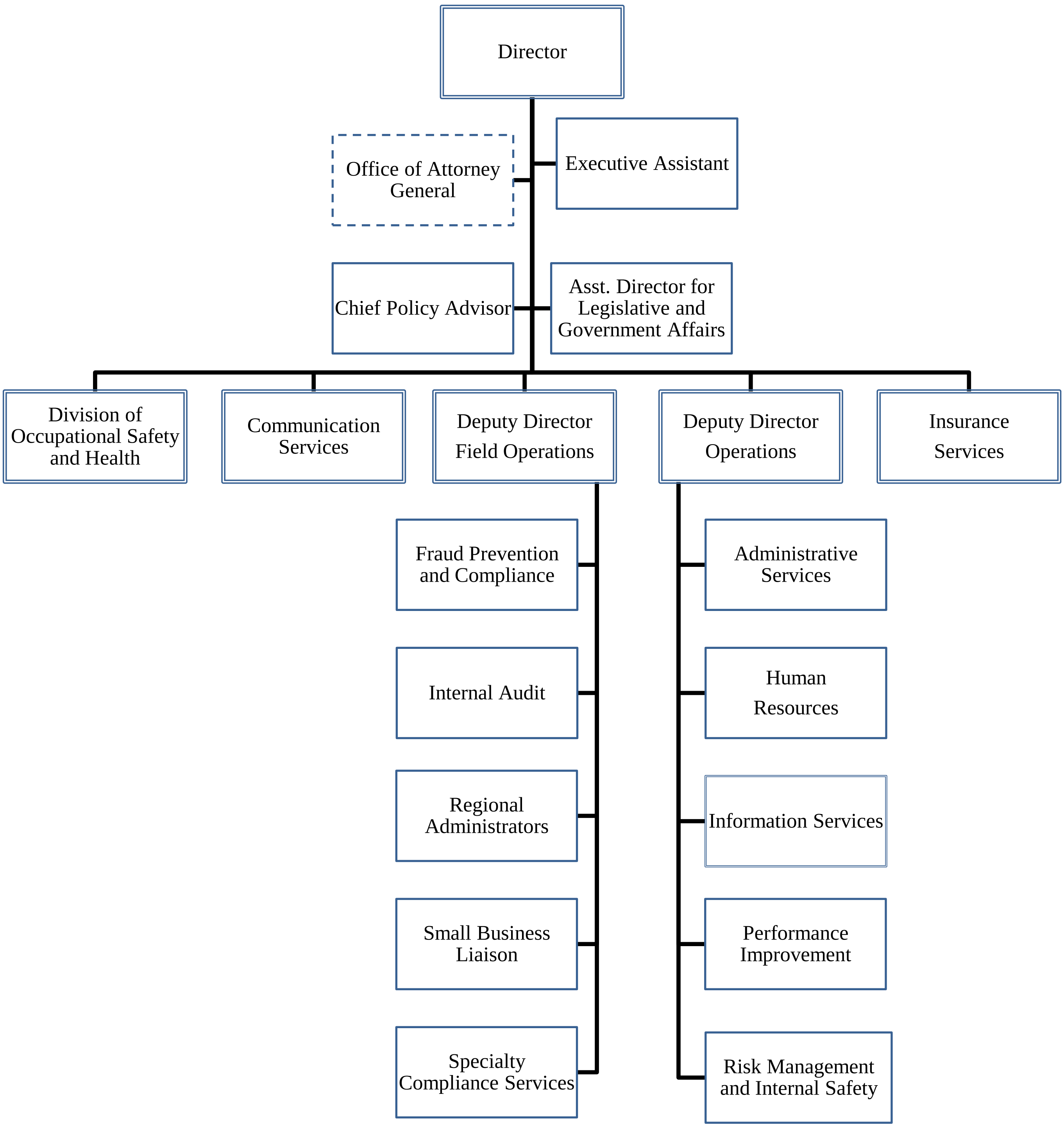
Judy Schurke
Director

Robert J. Malooly
Assistant Director, Insurance Services

Carole Washburn
Deputy Director for Operations Services

Washington State Department of
Labor & Industries

Organization Chart
2009 – 2010



June 30, 2010

Washington State Department of
Labor & Industries

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Financial Section

Washington State Department of
Labor & Industries

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EideBailly

CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

Ms. Judy Schurke Director
Washington State Department of Labor & Industries
Industrial Insurance Fund
P.O. Box 44001
Olympia, WA 98504-4001

We have audited the accompanying Consolidated Statutory Statement of Admitted Assets, Liabilities and Contingency Reserve of Washington State Department of Labor & Industries Industrial Insurance Fund as of June 30, 2010, and the related Consolidated Statutory Statement of Operations and Changes in Contingency Reserve, and Cash Flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The Statutory Statement of Admitted Assets, Liabilities and Contingency Reserve of Washington State Department of Labor & Industries Industrial Insurance Fund as of June 30, 2009 and the related Consolidated Statutory Statement of Operations and Changes in Contingency Reserve, and Cash Flows for the years then ended were audited by other auditors whose report dated December 4, 2009, expressed an unqualified opinion on those statutory financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1 to the statutory financial statements, the Fund's prepared these financial statements using accounting practices prescribed or permitted by the Insurance Division of the State of Washington, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States, although not reasonably determinable, are presumed to be material.

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In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Washington State Department of Labor & Industries Industrial Insurance Fund as of June 30, 2010, or the results of its operations or its cash flows for the year then ended.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and contingency reserve of Washington State Department of Labor & Industries Industrial Insurance Fund as of June 30, 2010, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the basic statutory-basis financial statements taken as a whole. The accompanying Supplemental Schedule of Investment Risk Interrogatories and Summary Investment Schedule on pages 73 through 76 are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and the National Association of Insurance Commissioners' Accounting Practices and Procedures Manual and are not a required part of the basic statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in our audit of the statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statutory-basis financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the basic statutory financial statements taken as a whole. The introductory section, management discussion and analysis, and information listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. The introductory section, management discussion and analysis, and information listed in the accompanying table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The introductory section, management discussion and analysis, and information listed in the accompanying table of contents have 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.

Eide Bailly LLP

Fargo, North Dakota
December 9, 2010

Management's Discussion and Analysis

The state of Washington's Department of Labor & Industries administers the State's Workers' Compensation Program, including the Industrial Insurance Fund (also known as the State Fund).

This section of the state of Washington Industrial Insurance Fund's Statutory Financial Information Report presents management's discussion and analysis of the financial performance of the Industrial Insurance Fund for the fiscal years ended June 30, 2010 and 2009. This discussion should be read in conjunction with the accompanying consolidated statutory financial statements and notes to the consolidated statutory financial statements. The consolidated statutory financial statements, notes to the consolidated statutory financial statements, and this discussion are the responsibility of the Industrial Insurance Fund's management.

History and Information that Makes the State of Washington Industrial Insurance Fund Unique

The state of Washington's "Workmen's Compensation Act" established the industrial insurance system in 1911, covering only extremely hazardous work. In 1923, Washington became the only state where workers paid a significant portion of the insurance premiums. Washington remained an exclusive State Fund and introduced "self insurance" in 1971, when large employers that met certain financial and safety criteria were allowed to self insure. Virtually all employment was recognized as having some level of hazard, and coverage was provided to the vast majority of workers.

Washington State, through Title 51 of the Revised Code of Washington (RCW), requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses, either by paying insurance premiums to the Industrial Insurance Fund or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

Under statute RCW 51.16.035, the Department is required to have the lowest possible rates while maintaining solvency of the system. It is also required to design a premium rating system that limits rate fluctuations, follows recognized insurance principles, and stimulates and encourages accident prevention. In Washington, premiums are based on the worker's exposure to risk (hours on the job), which employers and workers agreed to in the 1930's.

Workplace Injuries

Washington's workers' compensation system provides insurance for about 2.3 million employees working for 163,000 employers. Men accounted for 66 percent of injured workers, and nearly half of all injuries were to workers from 30 to 50 years of age. The most common injuries were to muscles, tendons, ligaments, joints of back, and to fingers. Forty-five fatal pensions were awarded in Fiscal Year 2010. The following table is a comparison of selected Industrial Insurance Fund statistics.

Statistics at a Glance				
		Fiscal Year 2010		Fiscal Year 2009
Employers insured		163,000		168,000
Workers covered		2,330,000		2,460,000
Hours reported		3,065,000,000		3,232,000,000
Premiums assessed (employers' portion)	$	1,087,000,000	$	1,151,000,000
Premiums assessed (workers' portion)	$	290,000,000	$	312,000,000
Benefits incurred	$	2,135,874,000	$	2,348,838,000
Number of claims filed		102,734		116,616
Total days paid for lost work		8,121,263		7,926,800

Note: The data above are a snapshot of Fiscal Year 2010 and 2009 as of the first week of the following October.

Using the Statutory Financial Statements

The accompanying consolidated statutory financial statements have been prepared in conformity with the Statements of Statutory Accounting Principles (SSAP), as promulgated by the National Association of Insurance Commissioners, whereby the main purpose of SSAP-based information is to determine solvency. Solvency is defined as the availability of the Industrial Insurance Fund's admitted assets to satisfy its obligations to injured workers and beneficiaries. The notes to the consolidated statutory financial statements provide additional information that is essential to a full understanding of the data provided in the consolidated statutory financial statements.

The accompanying consolidated statutory financial statements report the financial position and results of operations for three out of the six Workers' Compensation Program accounts. These three accounts include the Accident, Medical Aid, and Pension Reserve Accounts which represent the Workers' Compensation Program Basic Plan, also known as the Industrial Insurance Fund or State Fund. The Industrial Insurance Fund is accounted for as an enterprise fund of the state of Washington and reports business activities under the accrual basis of accounting, much like a private business enterprise.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Industrial Insurance Fund's financial statements, which consist of the following components:

The Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve provides information about the Fund's admitted assets and liabilities, and reflects the contingency reserve as of June 30, 2010, and June 30, 2009. It can be found on page 25 of this report.

The Consolidated Statutory Statement of Operations and Changes in Contingency Reserve reflects revenues and expenses for Fiscal Years 2010 and 2009. It can be found on page 26 of this report.

The Consolidated Statutory Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash during Fiscal Years 2010 and 2009. It can be found on page 27 of this report.

The Notes to the Consolidated Statutory Financial Statements are an integral part of the financial statements and are essential to a full understanding of the Industrial Insurance Fund's financial position and results of operations presented in the financial statements. They can be found on page 29 of this report.

Elimination for Consolidated Financial Statements

It is important to the readers of the Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve that we include details of each account, report the true contingency reserve balance, and show compliance with the statutory Pension Reserve Account experting requirement. In order to arrive at an accurate consolidated Industrial Insurance Fund balance, we must eliminate all transactions between the Accident, Medical Aid, and Pension Reserve Accounts. For Fiscal Year 2010 this elimination is made up of Pension Account experting, which requires the Accident Account to transfer $9,874,000 to the Pension Reserve Account.

Financial Highlights

Condensed Financial Snaphot
(dollars in millions)

	As of and For The Fiscal Year Ended June 30, 2010	As of and For The Fiscal Year Ended June 30, 2009	$ Change	% Change
Total Admitted Assets	$ 11,574	$ 11,345	$ 229	2.02%
Total Liabilities	11,392	10,795	597	5.53%
Total Revenues Earned	1,890	2,006	(116)	(5.78%)
Total Expenses Incurred	2,430	2,755	(325)	(11.80%)
Total Contingency Reserve	$ 181	$ 550	$ (369)	(67.09%)

Financial Position

The Industrial Insurance Fund's financial position at June 30, 2010, and June 30, 2009, was as follows:

Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve
(in thousands)

	June 30, 2010	June 30, 2009
Admitted Assets		
Fixed income investments	$ 8,044,065	$ 7,643,029
Treasury inflation-protected securities	1,529,333	1,552,395
Equity investments	1,323,969	1,158,922
Short-term investments	209,329	465,137
Unsettled trade receivables (payables)	(30,776)	(9,992)
Total Investments	11,075,920	10,809,491
Interest receivable	102,237	99,322
Cash and cash equivalents	5,843	12,190
Premiums receivable, net	351,159	358,912
Other assets	38,498	64,852
Total Admitted Assets	$ 11,573,657	$ 11,344,767
Liabilities and Contingency Reserve		
Benefit liabilities	$ 10,748,429	$ 10,156,721
Claims administration liabilities	474,882	464,068
Retrospective rating adjustments	114,643	116,909
Other liabilities	54,493	56,848
Total Liabilities	11,392,447	10,794,546
Contingency reserve	181,210	550,221
Total Liabilities and Contingency Reserve	$ 11,573,657	$ 11,344,767

Total admitted assets increased by $228.9 million, or 2.0 percent, mostly as a result of increases in investment balances. The increase in total investments by $266.4 million reflects a recovery from turmoil in the capital markets, which caused a $194.0 million decrease in investments during Fiscal Year 2009. Cash and cash equivalents decreased by $6.4 million in Fiscal Year 2010 due to timing differences in liquidation of short-term investments.

Total benefit liabilities of $10.7 billion increased by $591.7 million during Fiscal Year 2010. This is a result of the Accident, Medical Aid, and Pension Reserve Account benefit liabilities increasing by $369.6 million, $34.7 million, and $187.4 million, respectively. Benefit liabilities increased largely due to increasing numbers of pensions and increasing time-loss duration affecting both the current year and the benefit liabilities of prior years. The average time-loss duration has grown by 7.6 percent in Fiscal Year 2010 to 281.5 days. Time-loss claims staying open longer increases the probability they will become pensions.

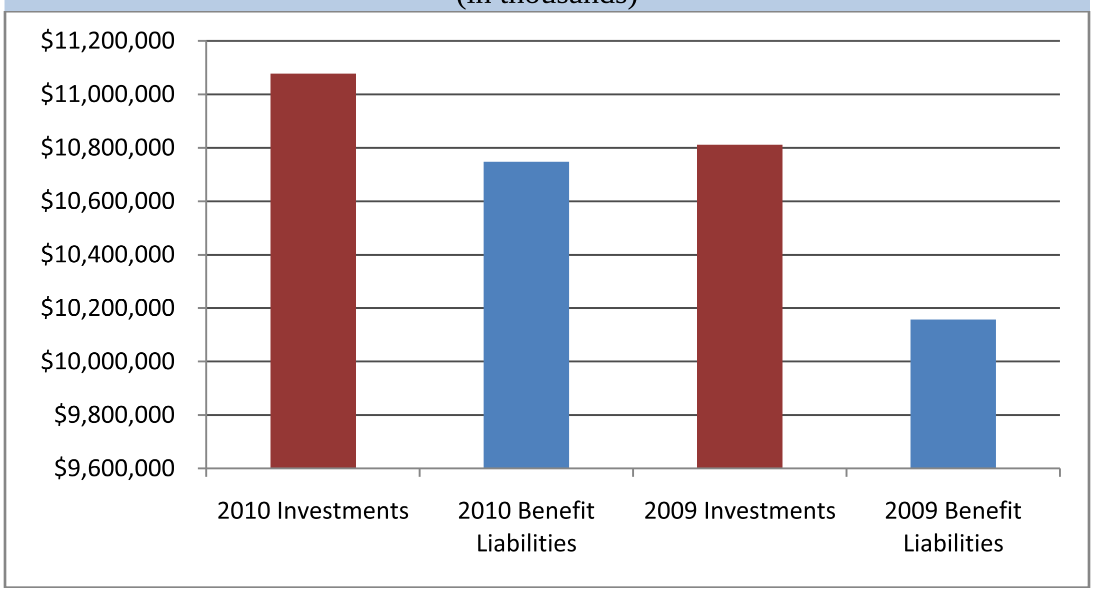
The Industrial Insurance Fund's changes in benefit liabilities as of June 30, 2010, and June 30, 2009, are shown below:

Benefit Liabilities
(in thousands)

	June 30, 2010	June 30, 2009
Benefit liabilities, July 1	$ 10,156,721	$ 9,330,953
New liabilities incurred, current year	1,546,357	1,581,451
Development on prior years		
Discount accretion	350,643	322,964
Other adverse development on prior liabilities	198,181	400,093
Claim payments	(1,544,166)	(1,523,070)
Establishing state fund pension awards	-	(396)
Establishing self-insurance second injury pension awards	40,693	44,726
Change in benefit liabilities	591,708	825,768
Benefit liabilities, June 30	$ 10,748,429	$ 10,156,721

The Industrial Insurance Fund uses its investments to pay for future costs of current claims. The following chart is a comparison of benefit liabilities to total investments for Fiscal Years 2010 and 2009.

Benefit Liabilities and Investments Comparison
(in thousands)



During Fiscal Year 2010, total liabilities other than benefit liabilities increased $6.2 million, which mostly resulted from a claims administration liabilities increase. Claims administration liabilities are calculated relative to benefit liabilities, which increased. This increase represents the future remaining costs of administering claims.

Results of Operations

Industrial Insurance Fund operating results and certain key financial ratios are presented in the following table:

Consolidated Statutory Statement of Operations
and Changes in Contingency Reserve
(dollars in thousands)

	June 30, 2010	June 30, 2009
Net premiums earned	$ 1,250,433	$ 1,360,533
Assumed premiums earned	68,074	91,312
Total net premiums earned	1,318,507	1,451,845
Net investment income earned	486,996	517,863
Net investment realized gains (losses)	17,725	(41,466)
Other income	66,442	77,705
Total Revenue Earned	1,889,670	2,005,947
Net benefits (losses) incurred	2,135,874	2,348,838
Claims administration expenses (LAE) incurred	152,309	185,980
Premium administration expenses incurred	31,278	31,295
Other administration expenses incurred	110,452	188,965
Total Expenses Incurred	2,429,913	2,755,078
Net Transfers In (Out)	840	(2,770)
Net Income (Loss)	(539,403)	(751,901)
Other changes in Contingency Reserve	170,392	(299,824)
Changes in Contingency Reserve, net	(369,011)	(1,051,725)
Beginning Contingency Reserve, July 1	550,221	1,601,946
Ending Contingency Reserve, June 30	$ 181,210	$ 550,221
Loss ratio	162.0%	161.8%
Loss adjustment expense (LAE) ratio	11.6%	12.8%
Loss and LAE Ratio	173.6%	174.6%
Underwriting expense ratio	5.7%	9.8%
Combined Ratio	179.3%	184.4%
Less: Net investment income ratio	36.9%	35.7%
Operating Ratio	142.4%	148.7%

The Industrial Insurance Fund's contingency reserve decreased by $369.0 million during Fiscal Year 2010, ending with a balance of $181.2 million. The change in the contingency reserve is largely due to the following:

- Total benefit liabilities increased $591.7 million as a result of increasing numbers of pensions and an unexpected increase in average time-loss duration.
- Increased probability that a claim will become a pension at a given age of the claim.
- Current year insurance operating losses due to adopting premium rates lower than the indicated rate. Combined Accident and Medical Aid Accounts indicated rates for Calendar Year 2010 and 2009 were 0.5478 and 0.4737, but the adopted rates were 0.4847 and 0.4565, respectively.

A premium deficiency reserve is recognized when anticipated losses, loss adjustment expenses and acquisition costs exceed unearned premium including future installments. The Fund's premium has been determined to be adequate when compared to anticipated losses, loss adjustment expenses and acquisition costs.

Net premiums earned of $1.3 billion during Fiscal Year 2010 decreased by $110.1 million or 8.1 percent from Fiscal Year 2009. This decrease is primarily due to a reduction of the number of hours reported by employers and 5,000 fewer accounts. Current economic conditions caused a decrease in the number of reported hours worked in 2010 by approximately 5.2 percent.

A decrease in net securities lending income combined with an overall drop in market interest rates contributed to a reduction of net investment income earned of $30.9 million during Fiscal Year 2010. An upturn in economic conditions resulted in net investment realized gains of $17.7 million during the fiscal year as compared to $41.5 million net investment realized losses in Fiscal Year 2009. The favorable conditions also resulted in net investment unrealized gains for Fiscal Year 2010 totaling $179.1 million, as compared to unrealized losses for Fiscal Year 2009 totaling $361.7 million.

Benefits incurred during Fiscal Year 2010 totaled $2.1 billion, a decrease of $213.0 million or 9.1 percent from Fiscal Year 2009. The decrease is primarily attributable to adverse development on prior losses of only $198.2 million in Fiscal Year 2010 as compared to $400.1 million in Fiscal Year 2009. An increase of $21.1 million in benefits paid in the current period compared to Fiscal Year 2009 offsets part of the decrease.

In Fiscal Year 2010, Labor & Industries implemented a change in reporting to separate insurance and non-insurance expenses. The goal in doing this was to capture all related expenses properly by separating non-insurance-related expenses from insurance expenses and to more closely follow insurance industry practices. The following table shows a comparison of Fiscal Year 2010 and Fiscal Year 2009 administration expenses incurred, reflecting the additional insurance expense categories:

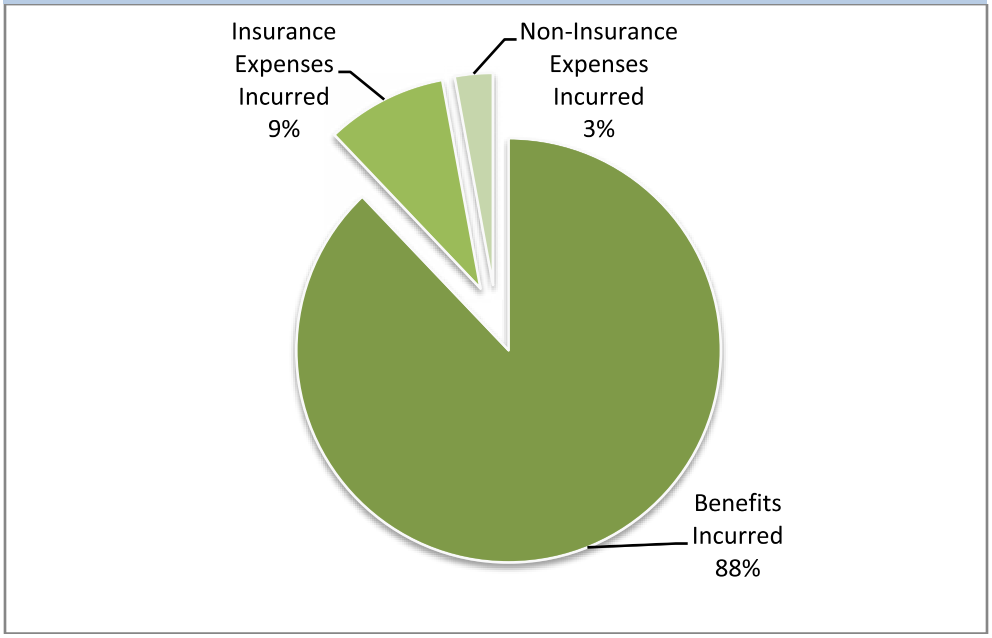
Administration Expenses Incurred
(in thousands)

	June 30, 2010	June 30, 2009
Claims administration expenses incurred	$ 152,309	$ 185,980
Premium: Administration expenses incurred	31,278	31,295
General insurance administration expenses incurred	22,397	24,803
Other state agencies insurance expenses incurred	17,700	18,115
Total Insurance Expenses	223,684	260,193
Self-insured administration expenses incurred	24,231	22,721
Non-insurance expenses incurred	46,124	46,934
Total Administration Expenses Incurred	$ 294,039	$ 329,848

A change in reporting of bad debts expense was implemented in Fiscal Year 2010. Previously, bad debt was reported as a premium administration expense. Receivables over 90 days past due are classified as a nonadmitted asset; therefore, the related bad debt expenses should be reported in this manner and have been reclassified as a change in nonadmitted assets.

Total insurance expenses decreased $36.5 million, mostly as a result of a decrease in claims administration expenses. This decrease is mainly attributable to claims administration liability account balances increasing by $44.7 million during Fiscal Year 2009 compared to an increase of $10.8 million in Fiscal Year 2010.

Fiscal Year 2010 Total Expenses Incurred



The combined ratio of 179.3 percent for Fiscal Year 2010 expresses the total sum of all costs, which includes incurred expenses for benefits and administration, less other income (including self-insured administration expense assessments), as a percentage of total net premiums earned. The ratio is a recognized industry measure of underwriting performance. The Industrial Insurance Fund is expected to have a combined ratio above 100 percent since the rate setting process recognizes that significant investment income will be earned.

The operating ratio for Fiscal Year 2010 is 142.4 percent. This reflects the combined ratio less the net investment income ratio and is another industry measure of overall financial performance. Ratios above 100 percent indicate that expenses are greater than premiums, net investment income earned, and other income. The operating ratio decreased for Fiscal Year 2010 from the previous year.

Cash Flows and Liquidity

Cash Flows - The primary sources of cash were from premiums collected and investment income. The primary uses of cash were for payments of benefits, administration expenses, and purchases of investments.

Cash flows of the Industrial Insurance Fund are summarized as follows:

Consolidated Statutory Statement of Cash Flows
(in thousands)

	June 30, 2010	June 30, 2009
Operations		
Net premiums collected	$ 1,255,920	$ 1,409,785
Other reimbursements and income	150,242	120,361
Net benefits paid	(1,544,166)	(1,523,070)
Insurance expenses paid	(209,463)	(188,662)
Self-insured expenses paid	(24,155)	(21,615)
Non-insurance expenses paid	(45,307)	(63,473)
Cash used in operations	(416,929)	(266,674)
Investment Activities		
Investment income	493,663	524,197
Net realized gains (losses)	17,725	(41,467)
Purchases, net	(97,963)	(173,610)
Investment management expenses	(2,843)	(2,712)
Cash provided by investment activities	410,582	306,408
Change in Cash		
Net increase (decrease) in cash	$ (6,347)	$ 39,734

During Fiscal Year 2010, the net out flow of cash from operations increased $150.3 million compared to Fiscal Year 2009. This is primarily a result of a decline in net premiums collected.

Cash provided by investment activities increased overall by $104.2 million in Fiscal Year 2010 from the prior fiscal year. Proceeds from investment income, net of investment management expenses, decreased $30.7 million in Fiscal Year 2010 as compared to the previous fiscal year. To provide for the net cash used in operations, fewer investments were purchased from the investment proceeds generated during Fiscal Year 2010.

Liquidity - The Industrial Insurance Fund's operations require sufficient liquidity to meet both short-term and long-term obligations. Cash inflow is mostly from premiums collected and cash outflow is mostly for benefit payments and operating expenses. The Industrial Insurance Fund continually matches cash inflows and outflows in order to minimize excess cash and maximize investment earnings.

The Industrial Insurance Fund has generally met its operating requirements by maintaining appropriate levels of liquidity in its investment portfolio and through utilization of positive cash flow. The Industrial Insurance Fund is able to match projected cash inflows from premiums and investment income from this portfolio with projected cash outflows for payment of benefits.

Future Plan

Our strategic objectives are to keep premium rates fair, stable, and as low as possible while maintaining the solvency of the Industrial Insurance Fund. In order to meet these objectives, we will manage investments carefully to preserve income, remain innovative in developing new strategies to deliver benefits and services of the Workers' Compensation Program, and continue to work with our stakeholders to ensure the needs of the business community and workforce are met.

Requests for Information

This report is designed to provide a general overview of the Industrial Insurance Fund and to illustrate the Fund's financial position and results of operations to interested parties. If you have any 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.

The Industrial Insurance Fund Statutory Financial Information Report is also available at the Department of Labor & Industries' website at:
http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

Consolidated Statutory Financial Statements

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve
As of June 30, 2010 and 2009
(amounts rounded to the nearest $1,000)

	Accident Account	Medical Aid Account	Pension Reserve Account	Elimination for Consolidated Statements	Total June 30, 2010	Total June 30, 2009
Admitted Assets						
Cash and Investments						
Investments, net:						
Fixed income @ amortized cost	$ 3,074,535,000	$ 2,417,817,000	$ 2,551,713,000	$ -	$ 8,044,065,000	$ 7,643,029,000
Treasury inflation-protected securities @ par	428,194,000	812,903,000	288,236,000	-	1,529,333,000	1,552,395,000
Equities @ fair value	448,835,000	579,679,000	295,455,000	-	1,323,969,000	1,158,922,000
Short term @ fair value	101,968,000	56,372,000	50,989,000	-	209,329,000	465,137,000
Unsettled trade receivables (payables), net	(20,730,000)	(10,048,000)	2,000	-	(30,776,000)	(9,992,000)
Total investments	4,032,802,000	3,856,723,000	3,186,395,000	-	11,075,920,000	10,809,491,000
Interest receivable	37,807,000	32,364,000	32,066,000	-	102,237,000	99,322,000
Cash and cash equivalents	3,106,000	1,926,000	811,000	-	5,843,000	12,190,000
Total Cash and Investments	4,073,715,000	3,891,013,000	3,219,272,000	-	11,184,000,000	10,921,003,000
Other Assets						
Premiums receivable, net, incl. earned but unbilled	196,446,000	154,713,000	-	-	351,159,000	358,912,000
Real estate and improvements, (less $22,110,000 encumbrances)	10,413,000	10,413,000	-	-	20,826,000	18,282,000
Self insurance receivables, net	2,868,000	2,821,000	4,124,000	-	9,813,000	12,116,000
Miscellaneous receivables, net	1,238,000	662,000	15,833,000	(9,874,000)	7,859,000	34,454,000
Total Other Assets	210,965,000	168,609,000	19,957,000	(9,874,000)	389,657,000	423,764,000
Total Admitted Assets	$ 4,284,680,000	$ 4,059,622,000	$ 3,239,229,000	$ (9,874,000)	$ 11,573,657,000	$ 11,344,767,000
Liabilities and Contingency Reserve						
Liabilities						
Benefits	$ 4,309,643,000	$ 3,202,811,000	$ 3,235,975,000	$ -	$ 10,748,429,000	$ 10,156,721,000
Other Liabilities						
Claims administration	182,163,000	292,719,000	-	-	474,882,000	464,068,000
Retrospective rating adjustments	114,643,000	-	-	-	114,643,000	116,909,000
Accrued liabilities	36,309,000	24,728,000	3,254,000	(9,874,000)	54,417,000	56,409,000
Deferred revenue	47,000	29,000	-	-	76,000	439,000
Total Other Liabilities	333,162,000	317,476,000	3,254,000	(9,874,000)	644,018,000	637,825,000
Total Liabilities	4,642,805,000	3,520,287,000	3,239,229,000	(9,874,000)	11,392,447,000	10,794,546,000
Contingency Reserve	(358,125,000)	539,335,000	-	-	181,210,000	550,221,000
Total Liabilities and Contingency Reserve	$ 4,284,680,000	$ 4,059,622,000	$ 3,239,229,000	$ (9,874,000)	$ 11,573,657,000	$ 11,344,767,000

The Notes to the Consolidated Statutory Financial Statements are an integral part of this statement.

The source of this financial information is the Washington State Agency Financial Reporting System with adjustments for Statutory Basis of Accounting.

Consolidated Statutory Statement of Operations and Changes in Contingency Reserve
For the Fiscal Years Ended June 30, 2010 and 2009
(amounts rounded to the nearest $1,000)

	Accident Account	Medical Aid Account	Pension Reserve Account	Total June 30, 2010	Total June 30, 2009
Revenues					
Net standard premiums earned	$ 763,297,000	$ 598,066,000	$ -	$ 1,361,363,000	$ 1,443,758,000
Less net retrospective rating adjustments	(110,930,000)	-	-	(110,930,000)	(83,225,000)
Net premiums earned	652,367,000	598,066,000	-	1,250,433,000	1,360,533,000
Net investment income earned	191,330,000	151,927,000	143,739,000	486,996,000	517,863,000
Net fixed income investment realized gains (losses)	9,690,000	(1,964,000)	9,917,000	17,643,000	(34,280,000)
Net equity investment realized gains (losses)	40,000	11,000	31,000	82,000	(7,186,000)
Self-insured administration expense assessments	11,914,000	11,488,000	-	23,402,000	23,091,000
Self-insured second injury pension reserve assessments	-	-	46,651,000	46,651,000	74,203,000
Self-insured cash funded & bonded pension reimbursements	-	-	21,423,000	21,423,000	17,109,000
Fines, penalties, and interest	31,728,000	3,074,000	199,000	35,001,000	39,791,000
Other income	6,579,000	1,460,000	-	8,039,000	14,823,000
Total Revenues Earned	903,648,000	764,062,000	221,960,000	1,889,670,000	2,005,947,000
Expenses					
Net benefits incurred	985,158,000	639,505,000	511,211,000	2,135,874,000	2,348,838,000
Claims administration expenses incurred	60,947,000	91,362,000	-	152,309,000	185,980,000
Premium: Administration expenses incurred	15,513,000	15,765,000	-	31,278,000	31,295,000
Bad debts expense incurred	-	-	-	-	76,392,000
General insurance administration expenses incurred	13,997,000	8,400,000	-	22,397,000	24,803,000
Other agencies insurance expenses incurred	8,856,000	8,844,000	-	17,700,000	-
Total insurance expenses	99,313,000	124,371,000	-	223,684,000	-
Self-insured administration expenses incurred	12,141,000	12,090,000	-	24,231,000	22,721,000
Non-insurance expenses incurred	33,052,000	13,072,000	-	46,124,000	65,049,000
Total Expenses Incurred	1,129,664,000	789,038,000	511,211,000	2,429,913,000	2,755,078,000
Net Income (Loss) Before Transfers	(226,016,000)	(24,976,000)	(289,251,000)	(540,243,000)	(749,131,000)
Transfers In (Out)					
Pension funding transfers	(239,284,000)	-	239,284,000	-	-
Catastrophe injury account transfer	(2,085,000)	-	2,085,000	-	-
Pension funding actuarial adjustment	(9,874,000)	-	9,874,000	-	-
Information technology pool transfer	420,000	420,000	-	840,000	(2,770,000)
Net Transfers In (Out)	(250,823,000)	420,000	251,243,000	840,000	(2,770,000)
Net Income (Loss)	(476,839,000)	(24,556,000)	(38,008,000)	(539,403,000)	(751,901,000)
Other Changes In Contingency Reserve					
Equities unrealized gains (losses)	50,807,000	65,641,000	33,427,000	149,875,000	(350,312,000)
Treasury inflation-protected securities unrealized gains (losses)	8,429,000	15,148,000	5,615,000	29,192,000	(11,337,000)
Change in nonadmitted assets	(10,160,000)	2,519,000	(1,034,000)	(8,675,000)	61,825,000
Change in Contingency Reserve, net	(427,763,000)	58,752,000	-	(369,011,000)	(1,051,725,000)
Beginning Contingency Reserve, July 1	69,638,000	480,583,000	-	550,221,000	1,601,946,000
Ending Contingency Reserve, June 30	$ (358,125,000)	$ 539,335,000	$ -	$ 181,210,000	$ 550,221,000

The Notes to the Consolidated Statutory Financial Statements are an integral part of this statement.

The source of this financial information is the Washington State Agency Financial Reporting System with adjustments for Statutory Basis of Accounting.

Consolidated Statutory Statement of Cash Flows
For the Fiscal Years Ended June 30, 2010 and 2009
(amounts rounded to the nearest $1,000)

	Accident Account	Medical Aid Account	Pension Reserve Account	Total June 30, 2010	Total June 30, 2009
Standard premiums collected	$ 772,706,000	$596,410,000	$ -	$ 1,369,116,000	$ 1,500,155,000
Less retrospective rating adjustments	(113,196,000)	-	-	(113,196,000)	(90,370,000)
Net premiums collected	659,510,000	596,410,000	-	1,255,920,000	1,409,785,000
Self-insured administration expense reimbursements	12,043,000	11,581,000	-	23,624,000	23,314,000
Self-insured second injury pension reserve reimbursements	-	-	70,169,000	70,169,000	47,402,000
Self-insured cash funded and bonded pension reimbursements	-	-	23,891,000	23,891,000	14,643,000
Fines, penalties, and interest	19,257,000	2,845,000	11,000	22,113,000	23,751,000
Other income (expenses)	7,009,000	2,970,000	19,000	9,998,000	17,622,000
Fund transfers in (out)	(316,470,000)	224,000	316,693,000	447,000	(6,371,000)
Operating Cash Flow In	381,349,000	614,030,000	410,783,000	1,406,162,000	1,530,146,000
Benefits paid	615,528,000	604,795,000	323,843,000	1,544,166,000	1,523,070,000
Claims administration expenses	56,302,000	81,043,000	-	137,345,000	135,173,000
Premium administration expenses	15,655,000	15,948,000	-	31,603,000	29,843,000
General insurance administration expenses	14,328,000	8,601,000	-	22,929,000	23,646,000
Other agencies insurance expenses	8,788,000	8,798,000	-	17,586,000	-
Total Insurance Expenses	95,073,000	114,390,000	-	209,463,000	-
Self-insured administration expenses	12,191,000	11,964,000	-	24,155,000	21,615,000
Non-insurance expenses	32,595,000	12,712,000	-	45,307,000	63,473,000
Total Administration Expenses Paid	139,859,000	139,066,000	-	278,925,000	273,750,000
Operating Cash Flow Out	755,387,000	743,861,000	323,843,000	1,823,091,000	1,796,820,000
Net Operating Cash Flow (Out)	(374,038,000)	(129,831,000)	86,940,000	(416,929,000)	(266,674,000)
Investment income - bonds	190,509,000	148,668,000	140,724,000	479,901,000	510,850,000
Investment income - equities	4,657,000	6,038,000	3,067,000	13,762,000	13,347,000
Net realized gains (losses) on investments	9,730,000	(1,953,000)	9,948,000	17,725,000	(41,467,000)
Net (purchases) sales of investments	168,460,000	(25,757,000)	(240,666,000)	(97,963,000)	(173,610,000)
Investment expenses	(1,066,000)	(982,000)	(795,000)	(2,843,000)	(2,712,000)
Net Investment Cash Flow In (Out)	372,290,000	126,014,000	(87,722,000)	410,582,000	306,408,000
Net Cash Flow In (Out)	(1,748,000)	(3,817,000)	(782,000)	(6,347,000)	39,734,000
Beginning Cash, July 1	4,854,000	5,743,000	1,593,000	12,190,000	(27,544,000)
Ending Cash, June 30	$ 3,106,000	$ 1,926,000	$ 811,000	$ 5,843,000	$ 12,190,000

The Notes to the Consolidated Statutory Financial Statements are an integral part of this statement.

The source of this financial information is the Washington State Agency Financial Reporting System with adjustments for Statutory Basis of Accounting.

Washington State Department of
Labor & Industries

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Notes to the Consolidated Statutory Financial Statements

For the Fiscal Years Ended June 30, 2010 and 2009

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Note 1 - Summary of Significant Accounting Policies

1.A. Nature of Operations

The state of Washington's Department of Labor & Industries administers the State's Workers' Compensation Program. Through Title 51 of the Revised Code of Washington (RCW), Washington State requires all employers, unless exempted, to secure coverage for job-related injuries and illnesses either by paying insurance premiums to the Industrial Insurance Fund or by self-insuring. The agency is the exclusive writer of workers' compensation in the state of Washington for all businesses except the self-insured. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations.

Statute provides six benefit accounts: the Accident Account, Medical Aid Account, Pension Reserve Account, Supplemental Pension Account, Second Injury Account and the Self-Insured Employer Overpayment Reimbursement Account, to make compensation payments to injured workers or to medical providers for rehabilitation services to injured workers. These accounts are known collectively as the Workers' Compensation Program.

The Accident, Medical Aid, and Pension Reserve Accounts are referred to as the Industrial Insurance Fund and are the focus of this report. The Supplemental Pension, Second Injury, and Self-Insured Employer Overpayment Reimbursement Accounts are not part of the Industrial Insurance Fund and are not included in this report.

The Accident, Medical Aid, and Pension Reserve Accounts are self-sustaining through the ability to assess the appropriate rates of insurance premiums and prudent investment management. The three accounts are maintained on an actuarially solvent basis, except that a cash-flow basis is used for the components of the Pension Reserve Account when self-insured employers guarantee related benefits with a surety bond. The accompanying consolidated statutory statements report on the financial position and result of operations of the Industrial Insurance Fund.

1.A.1 Description of the Industrial Insurance Fund

The Accident Account 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. Pursuant to RCW 51.44.070, funds from the Accident Account are to be transferred to the Pension Reserve Account for the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled.

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

The Medical Aid Account pays for the cost of medical and vocational rehabilitation services to injured workers. Equal contributions from employers and employees fund this account. It is the employer's responsibility to collect the employee portion of the medical aid premium and submit the employee and employer contributions to Labor & Industries.

The Pension Reserve Account pays benefits to all permanently disabled pensioners, including disabled employees of self-insured employers, their dependents, and surviving dependents of fatalities. Funding for pension payments is generated from Accident and Second Injury Accounts transfers and cash funded or bonded pension payments from self-insured employers. Funding required to cover estimated present cash value of monthly pension payments is calculated upon the basis of annuity; such annuity values are based upon rates of mortality, disability, remarriage, interest, and the experience of the reserve account according to RCW 51.44.070.

1.B. Basis of Presentation

The Industrial Insurance Fund follows the Statements of Statutory Accounting Principles (SSAP) adopted by the National Association of Insurance Commissioners (NAIC), as directed by RCW 51.44.115. The SSAP are very conservative in nature and are designed to protect injured workers and covered employers to ensure that, in the event of liquidation, sufficient amounts have been set aside to provide for outstanding claims of injured workers. This accounting basis is used to present insurance solvency and the adequacy of premium rates.

SSAP standards are required to be used by property and casualty insurance enterprises in the United States when reporting their financial position to state insurance regulators, subject to any differences prescribed or permitted by each state's law. Washington's prescribed differences from the NAIC are addressed in RCW 48.13.010 to 48.13.360, which provide limits on investments.

In accordance with Title 51 RCW and Title 296 WAC, the Industrial Insurance Fund is administered by the Department of Labor & Industries. Pursuant to Title 48 RCW and Title 284 WAC, Labor & Industries is not required to file Annual Statements with the Washington State Office of the Insurance Commissioner (WSOIC). As the Industrial Insurance Fund is not required to report to the WSOIC or complete an Annual Statement in accordance with the NAIC Annual Statement Filing Instructions, the financial statement layout and terminology was selected based on the terminology and formatting customary to governmental insurance funds.

1.B.1. Use of Estimates

The preparation of financial information in conformity with SSAP requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, and contingency reserve at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to significant changes include benefit and claims administration liabilities (loss and loss adjustment expenses liabilities), premium receivables, self insurance receivables, retrospective rating adjustments liabilities, and accrued liabilities for other postemployment benefits. Actual results could differ materially from those estimates.

Management's estimates are based on its knowledge of and experience about past and current events and circumstances, and its assumptions about conditions it expects to exist in the future. The most significant estimates made in these statutory financial statements are the loss and loss adjustment expenses liabilities at the date of the financial information. Factors relevant to the estimation of these liabilities include the estimation of the ultimate frequency and severity of losses, the level of inflation of future medical costs over long periods of time, the future legal environment, and the amount of future expenses required to investigate and settle claims. Management's estimates are reviewed after the fiscal year-end by a nationally recognized, qualified consulting actuarial firm. The independent actuarial firm's opinion is included at the end of this report.

1.B.2. Differences between SSAP and GAAP

The SSAP principles followed by the Industrial Insurance Fund vary in some respects from Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board. Some of the most significant differences between SSAP and GAAP are as follows:

- Investments in bonds are reported at amortized cost or market value based on their rating by the NAIC; for GAAP, such fixed maturity investments would be designated at purchase as held-to-maturity, trading, or available-for-sale. Held-to-maturity fixed investments would be reported at amortized cost. The remaining fixed maturity investments would be reported at fair value with unrealized holding gains and losses reported in operations for those designated as trading, and as a separate component of capital and surplus for those designated as available-for-sale.

- All mortgage-backed/asset-backed securities are adjusted for the effects of changes in prepayment assumptions using the prospective method. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under GAAP, all securities other than high-credit quality securities are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value. If high-credit quality securities are adjusted, the retrospective method is used.

- SSAP assets designated as "nonadmitted assets" are excluded from total admitted assets and defined as assets having economic value other than those which can be used to fulfill policyholder obligations, and assets unavailable due to encumbrances or third party interests. These assets consist primarily of premiums in collections that have been outstanding for over 90 days, office furniture, equipment, and prepaid expenses. Nonadmitted assets are charged against contingency reserve unless otherwise specifically addressed within the NAIC's Accounting Practices and Procedures Manual. Under GAAP, premium receivables are presented net of allowances for doubtful accounts, furniture and equipment are presented net of accumulated depreciation, and actual costs for prepaid expenses are presented in their entirety.

- SSAP limits the aggregate amount of admitted electronic data processing equipment and operating system software, net of accumulated depreciation, to 3 percent of the reporting entity's capital and surplus. Under GAAP, computer equipment and software purchases meeting the State's capitalization criteria are recorded as assets, less accumulated depreciation, with no limitations.

- The focus of SSAP accounting is solvency; therefore, it is concerned with assets that can be used immediately to cover benefit liabilities. GAAP accounting is focused on "going concern", which means that an entity has the ability to survive, and therefore, assets and liabilities are presented in the order of liquidity and classified as current and noncurrent.

- The Consolidated Statutory Statement of Operations and Changes in Contingency Reserve presents premiums earned and investment income as the primary revenue sources and expenses are presented as activities. GAAP presentations separate operating income from investment income, since investment activity is not normally a primary revenue source. GAAP also presents expenses by character rather than by the purpose of the item purchased or service obtained, and the net effect of revenues and expenses as a change in net assets.

- Both SSAP and GAAP require the statement of cash flows to be prepared using the "Direct Method." However, the statutory statement of cash flows differs in certain aspects from the presentation required by GAAP. On the SSAP Consolidated Statement of Cash Flows, *Cash Flows In* includes operating transfers and other income. *Cash Flows Out* is categorized by losses and administration expenses. The GAAP statement of cash flows includes a reconciliation between operating income from the statement of operations and cash flows from operating activities.

1.C. Significant Accounting Policies

1.C.1. Recognition of Premiums

Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Industrial Insurance Fund offers a retrospective premium rating plan under which an employer's premiums are adjusted annually for up to three years following the plan year, based on the employer's actual loss experience. The first of three annual adjustments to the original premiums is paid or collected from the associations and employers approximately 10 months after the end of each plan year in which they are enrolled.

Employers' workers' compensation insurance premiums are due within 30 days following each calendar quarter in which payroll hours are reported. Net premiums receivable reported in the financial statement is an actuarial estimate of the two most recent quarters' uncollected premium balances, based on past collection statistics, growth projection, observed development of premiums reported, statistical analysis, and other factors including actuarial judgment. This amount represents the estimated premium balance that will ultimately be collected. All premium receivables exceeding 90 days in age are adjusted as nonadmitted assets in the current period and are not included in the net premiums receivable amount. For premium receivables over 90 days in age, collection efforts are continued until the premiums are collected or all legal means are exhausted.

1.C.2. Benefit and Claims Administration Liabilities

The Industrial Insurance Fund establishes benefit and claims administration liabilities arising from its workers' compensation coverage based on estimates of the ultimate cost of benefits 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 benefit involved. Since actual claim costs depend on such complex factors as inflation, changes in doctrines of legal liabilities, claim adjudication, and judgments, the process used in computing benefit and claims administration liabilities does not necessarily result in an exact amount.

Benefit and claims administration liabilities are recomputed periodically using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect claim frequency, costs, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future benefits is implicit in the calculation, because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience.

Future premium income is not offset against benefit liabilities, because benefit liabilities come from coverage periods for which premiums have, in general, already been fully earned. The obligation to pay claims benefit expenses and claims administration liabilities is not contingent upon any future premiums for future coverage periods.

Adjustments to benefit and claims administration liabilities are charged or credited to benefit and claims administration expense in the periods in which they are made. Unpaid losses and loss adjustment expenses include amounts based on past experiences for loss development on reported losses and losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates, and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed, and any adjustments are reflected in the period determined.

1.C.3. Discounting Methodology

The Industrial Insurance Fund discounts loss and loss adjustment expense reserves to reflect the time value of money. Liabilities for pensions incurred but not yet awarded are discounted on a tabular and non-tabular basis. The pension annuity is discounted on a tabular basis to the anticipated time of award. This liability is discounted from the anticipated time of award to the present on a non-tabular basis. Because of this treatment, these liabilities appear in both the tabular and non-tabular discounted liabilities. Benefit and claims administration liabilities are discounted at assumed interest rates of 2.5 percent in the Accident and Medical Aid Accounts and 6.5 percent in the Pension Reserve Account to arrive at a settlement value that is net of third party recoveries.

1.C.4. Cash and Cash Equivalents

Cash includes cash in banks, cash on deposit with the Office of the State Treasurer, and cash on hand. It also consists of cash equivalents invested by the Office of the State Treasurer which are short-term, highly liquid investments that are readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of interest rates. Under RCW 43.08.015, the Office of the State Treasurer has the statutory responsibility to ensure the effective cash management of state public funds. RCW 43.84.080 authorizes the Treasurer to invest available cash and includes a list of eligible investments.

The beginning and ending cash and cash equivalent amounts on the Consolidated Statutory Statement of Cash Flows do not include short-term investments. It is not practical to include these short-term investments because of the volume of transactions and complexity involved in reporting, as they are managed by Washington State Investment Board, a separate Washington State agency.

The United States Department of Energy has contracted with the Department of Labor & Industries to pay benefits to the Industrial Insurance Fund for Hanford nuclear production complex workers injured on the job. The Industrial Insurance Fund has received amounts, including trust cash and trust investments in advance, from the U.S. Department of Energy to cover the pension liability for these injured workers. These amounts are not reported in the financial statements.

As of June 30, 2010, trust cash amounted to $697,899 and is available to reimburse the Industrial Insurance Fund for monthly pension payments. In addition, trust investments totaling $4,980,412 were invested in U.S. Treasury Notes and are also available to reimburse the Industrial Insurance Fund for future expenses.

1.C.5. Investments

The Industrial Insurance Fund uses the following accounting policies to value investments:

- Investment grade bonds are stated at amortized value using the scientific interest method. Non-investment grade bonds with NAIC designations of 3-6 are stated at the lower of amortized cost or fair value. Fair values are reported using the stated value required by the Securities Valuation Office of the NAIC, if applicable. The Industrial Insurance Fund holds only investment grade securities, as defined by Lehman Barclays Capital Global Family of Fixed Income Indices.

- Short-term investments are stated at fair value. Fair values are based on published market prices, quotations from national security exchanges, and security pricing services.

- Common stocks are stated at fair value.

- Investment grade loan-backed securities are stated at amortized value. Non-investment grade loan-backed securities with NAIC designations of 3-6 are stated at the lower of amortized cost or fair value. These securities are revalued using the prospective adjustment method including currently estimated cash flows and new prepayment assumptions.

1.C.6. Capital Assets

In accordance with OFM’s policy, it is the Industrial Insurance Fund’s policy to capitalize:

- All land.
- Buildings, building improvements, and leasehold improvements with a cost of $100,000 or greater.
- All capital assets with a unit cost of $5,000 or more and an estimated useful life of more than one year.
- 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.
- All capital assets acquired with a Certificate of Participation.

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

The value of assets constructed for use in the Industrial Insurance Fund includes all direct construction costs and indirect costs that are related to the construction. Net interest costs incurred during the period of construction, if material, are capitalized.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Total depreciation and amortization expense for capital assets was $8.0 million and $10.0 million for fiscal years ended June 30, 2010 and 2009, respectively.

Generally, estimated useful lives are as follows:

- Buildings and building components 5-50 years
- Furnishings, equipment, and collections 3-50 years
- Other improvements 3-50 years
- Infrastructure 20-50 years

- Intangible assets with definite useful lives 3-50 years

In accordance with SSAP, not all capitalized assets are admitted for reporting purposes. These nonadmitted assets are adjusted from the respective account's contingency reserve, and current purchases are immediately expensed.

1.C.7. Risk Management

Washington State operates a self insurance liability program pursuant to RCW 4.92.130. The Industrial Insurance Fund participates in the State's self insurance liability program to manage its various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

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 claim settlements in the Risk Management Fund, an internal service fund. A limited amount of commercial insurance is purchased for certain 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 eight years.

The self insurance liability program provides loss control and prevention services to state agencies and manages the resolution of liability claims filed against the State for injuries and property damage to third parties. Labor & Industries participates in the State's Risk Management Fund in proportion to our anticipated exposure to liability losses.

Note 2 - Investments

2.A. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the Industrial Insurance Fund'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 43.33.110, Industrial Insurance Fund investments are to be managed to limit fluctuations in the industrial insurance 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 sufficient assets are available to fund the expected liability payments.

- Subject to those 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 Industrial Insurance Fund's investment policy and RCW 43.33A.110. 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 Barclays Capital Global Family of Fixed Income Indices.
- Asset-Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Commercial Mortgage-Backed Securities rated investment grade, as defined by Barclays Capital Global Family of Fixed Income Indices.
- Investment Grade Non-U.S. Dollar Bonds.

Investment Restrictions - To meet stated objectives, investments of the Industrial Insurance Fund 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.
- Asset allocation will be reviewed every three to four years, or sooner if there are significant changes in funding levels or the liability durations.
- Assets will 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.
- No corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time.
- The benchmark and structure for U.S. equities will be the broad U.S. stock market as defined by the Dow Jones U.S. Total Stock Market Index. The benchmark and structure for international equities will be the Morgan Stanley Capital International All Country

World Ex U.S. Investable Market Index (MSCI ACW Ex U.S. IMI). Both portfolios will be 100 percent passively managed in commingled index funds. The commingled funds may use futures for hedging or establishing a long position.

- The fixed income portfolios' structure varies, depending upon the required duration target. The duration targets are reviewed every three years, or sooner if there are significant changes in the funding levels or the liability durations.

- Sector allocation of fixed income investments must be managed within the following prescribed ranges:

U.S. Treasuries and government agencies	5 to 25 percent
Credit bonds	20 to 70 percent
Asset-backed securities	0 to 10 percent
Commercial mortgage-backed securities	0 to 10 percent
Mortgage-backed securities	0 to 25 percent

These targets are long-term in nature. 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 as soon as it is practical to the target allocations.

- Total holdings of below investment grade credit bonds, as defined by Barclays Capital Global Family of Fixed Income Indices, should not exceed 5 percent of total fixed income holdings.

2.B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Effective duration is the measure of a debt investment's exposure to fair value changes arising from changes in interest rates. Effective duration uses the present value of cash flows, weighted for those flows as a percentage of the investment's full price. Increases in prevailing interest rates generally translate into decreases in fair values of those investments. The Industrial Insurance Fund does not have a formal policy specifically for interest rate risk.

As of June 30, 2010, the Industrial Insurance Fund's portfolio durations were within the duration targets below:

- Accident Account – within plus or minus 20 percent of a duration target of 7.

- Medical Aid Account – within plus or minus 20 percent of a duration target of 6.

- Pension Reserve Account – within plus or minus 20 percent of a duration target of 7.

It is the goal of the fixed income portfolios to match the target durations. Although there may be differences from the targets due to market conditions, over any extended period of time those differences should not be material. The Treasury Inflation-Protected Securities (TIPS) will be managed to plus or minus 20 percent of the duration of the Barclays Capital U.S. TIPS Index.

The Industrial Insurance Fund investments include both U.S. agencies and corporate debt variable-rate securities, most of which reset periodically to the market interest rate. Since the prices of these securities are frequently adjusted to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following four tables present the Workers' Compensation Program's investments by type and provide information about the interest rate risks associated with the investments as of June 30, 2010, and June 30, 2009. The tables display various asset classes held by maturity in years, credit ratings and effective durations. They are prepared on a GAAP basis for the Workers' Compensation Program by the WSIB and include the Supplemental Pension Account, which is not part of the Industrial Insurance Fund. Investments of the Supplemental Pension Account comprise only 0.12 percent of the Workers' Compensation Program's investments. The information compiled in these tables is not available on a SSAP basis.

Residential mortgage-backed, commercial mortgage-backed and asset-backed securities are reported using the 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. All other securities on this schedule are reported using the stated maturity date.

Schedule of Maturities and Credit Ratings
(in thousands)

June 30, 2010		Maturity					Effective
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating	Duration (years)
Residential mortgage-backed securities	$ 1,747,601	$ 23,935	$ 889,862	$ 732,074	$ 101,730	AAA	6.11
Commercial mortgage-backed securities	554,452	56,490	351,054	146,125	783	Multiple	3.91
Corporate bonds - domestic	3,081,812	125,039	680,589	1,016,490	1,259,694	Multiple	8.07
Corporate bonds - foreign (USD)	2,753,892	118,326	824,662	1,029,889	781,015	Multiple	6.67
Government securities - domestic:							
U.S. Government treasuries	605,292	-	605,292	-	-	AAA	1.63
Treasury inflation-protected securities	1,606,498	89,365	246,323	704,527	566,283	AAA	4.35
	10,349,547	$ 413,155	$3,597,782	$3,629,105	$2,709,505		
Commingled index funds - domestic	775,728						
Commingled index funds - foreign	548,241						
Money market funds	220,860						
Total investments not categorized	1,544,829						
Total	$ 11,894,376						

Schedule of Maturities and Credit Ratings
(in thousands)

June 30, 2009		Maturity					Effective
Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating	Duration (years)
Residential mortgage-backed securities	$ 1,713,023	$ 10,477	$ 253,097	$ 776,786	$ 672,663	Multiple	6.89
Commercial mortgage-backed securities	521,755	2,077	229,372	289,490	816	AAA	3.85
Corporate bonds - domestic	2,838,052	83,157	607,230	911,037	1,236,628	Multiple	7.96
Corporate bonds - foreign (USD)	2,255,943	83,033	702,602	819,569	650,739	Multiple	6.43
Government securities - domestic:							
U.S. Government treasuries	424,484	424,484	-	-	-	AAA	0.89
Treasury inflation-protected securities	1,541,920	315,562	207,788	503,647	514,923	AAA	4.09
	9,295,177	$ 918,790	$2,000,089	$3,300,529	$3,075,769		
Commingled index funds - domestic	667,631						
Commingled index funds - foreign	491,291						
Money market funds	429,911						
Total investments not categorized	1,588,833						
Total	$ 10,884,010						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows at June 30, 2010, and June 30, 2009:

Additional Credit Rating Disclosure
(in thousands)

June 30, 2010	Investment Type			
Moody's Equivalent Credit Rating	Commercial Mortgage-Backed Securities	Corporate Bonds - Domestic	Corporate Bonds-Foreign	Total
Aaa	$ 485,785	$ 116,121	$ 375,071	$ 976,977
Aa1	-	-	-	-
Aa2	28,161	-	245,091	273,252
Aa3	40,506	364,886	316,124	721,516
A1	-	307,416	329,248	636,664
A2	-	786,111	84,836	870,947
A3	-	290,627	240,360	530,987
Baa1	-	510,699	288,580	799,279
Baa2	-	513,004	522,373	1,035,377
Baa3	-	169,785	300,244	470,029
Other	-	23,163	51,965	75,128
Total Fair Value	$ 554,452	$ 3,081,812	$ 2,753,892	$ 6,390,156

Additional Credit Rating Disclosure
(in thousands)

June 30, 2009 Moody's Equivalent Credit Rating	Investment Type Residential Mortgage-Backed Securities	Corporate Bonds - Domestic	Corporate Bonds-Foreign	Total
Aaa	$ 1,698,890	$ 4,723	$ 372,212	$ 2,075,825
Aa1	-	-	73,323	73,323
Aa2	-	-	173,076	173,076
Aa3	-	267,072	215,238	482,310
A1	14,133	305,894	246,979	567,006
A2	-	790,097	93,397	883,494
A3	-	297,208	250,056	547,264
Baa1	-	423,033	201,955	624,988
Baa2	-	553,624	382,916	936,540
Baa3	-	196,401	246,791	443,192
Total Fair Value	$ 1,713,023	$ 2,838,052	$ 2,255,943	$ 6,807,018

The following additional tables are included to summarize the different classes of investments held by the Industrial Insurance Fund as they are rated by the National Association of Insurance Commissioners (NAIC). There were not any securities with an NAIC rating higher than three at the fiscal years ended June 30, 2010, and June 30, 2009.

Estimated Fair Value of Securities by NAIC Designation
(in thousands)

June 30, 2010	NAIC Designation 1	2	3	Total
U.S. Government obligations-excluding mortgage-backed securities	$ 2,092,298	$ -	$ -	$ 2,092,298
All other government obligations	98,633	-	-	98,633
Public utilities (unaffiliated)	630,765	422,769	-	1,053,534
Commercial mortgage-backed securities	511,301	-	-	511,301
Residential mortgage-backed securities	1,780,260	-	-	1,780,260
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	2,804,672	1,847,258	67,320	4,719,250
Total	$ 7,917,929	$ 2,270,027	$ 67,320	$ 10,255,276

Estimated Fair Value of Securities by NAIC Designation (in thousands)				
	NAIC Designation			
June 30, 2009	1	2	3	Total
U.S. Government obligations-excluding mortgage-backed securities	$ 1,781,635	$ -	$ -	$ 1,781,635
All other government obligations	118,286	-	-	118,286
Public utilities (unaffiliated)	624,748	327,526	-	952,274
Commercial mortgage-backed securities	521,755	-	-	521,755
Residential mortgage-backed securities	1,698,847	14,133	-	1,712,980
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	2,454,154	1,489,890	50,299	3,994,343
Total	$ 7,199,425	$ 1,831,549	$ 50,299	$ 9,081,273

2.C. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The rated debt investments of the Industrial Insurance Fund as of June 30, 2010, 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 Industrial Insurance Fund's policy states that no corporate fixed income issue cost shall exceed 3 percent of the fund's fair value at the time of purchase, nor shall its fair value exceed 6 percent of the fund's fair value at any time. There was no concentration of credit risk as of June 30, 2010.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the Industrial Insurance Fund would not be able to recover the value of investments that are in the possession of an outside party. The Industrial Insurance Fund does not have a policy specifically for custodial credit risk. The securities lending collateral balances are from securities held by the counterparty or by its trust department or agent but not in the Industrial Insurance Fund's name.

2.D. 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 Industrial Insurance Fund does not have a formal policy to limit foreign currency risk. The Industrial Insurance Fund had $548.2 million and $491.3 million invested in an international commingled equity index fund at June 30, 2010 and 2009, respectively. As such, no currency denomination risk is present at June 30, 2010.

2.E. Derivatives

The Industrial Insurance Fund is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns.

Derivative transactions involve, to varying degrees, market and credit risk. The Industrial Insurance Fund 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.

Consistent with the Industrial Insurance Fund's authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts, or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2010.

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. The only derivative securities held directly by the Industrial Insurance Fund were collateralized mortgage obligations (CMOs) of $1.7 billion for both fiscal years ended June 30, 2010, and June 30, 2009.

2.F. Reverse Repurchase Agreements

State law permits the Industrial Insurance Fund to enter into reverse repurchase agreements, that is, 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 Industrial Insurance Fund 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 during Fiscal Years 2010 and 2009, and there were no liabilities outstanding as of June 30, 2010 and 2009.

2.G. Bonds

At June 30, 2010 and 2009, the book adjusted carrying value, and estimated fair value of bonds were as follows:

Gross Unrealized Gains and (Losses)
(in thousands)

June 30, 2010	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government obligations - mortgage-backed securities	$ 2,131,399	$ 9,373	$ (48,474)	$ 2,092,298
All other government obligations	89,597	9,036	-	98,633
Public utilities - unaffiliated	945,497	109,910	(1,873)	1,053,534
Mortgage-backed securities	2,078,242	217,274	(3,956)	2,291,560
Industrial and miscellaneous excluding mortgage-backed securities	4,328,663	406,942	(16,354)	4,719,251
Total	$ 9,573,398	$ 752,535	$ (70,657)	$ 10,255,276

Gross Unrealized Gains and (Losses)
(in thousands)

June 30, 2009	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government obligations - mortgage-backed securities	$ 1,906,384	$ 6,497	$ (131,246)	$ 1,781,635
All other government obligations	114,561	3,725	-	118,286
Public utilities - unaffiliated	943,825	40,156	(31,707)	952,274
Mortgage-backed securities	2,208,354	111,869	(85,488)	2,234,735
Industrial and miscellaneous excluding mortgage-backed securities	4,022,300	141,840	(169,797)	3,994,343
Total	$ 9,195,424	$ 304,087	$ (418,238)	$ 9,081,273

Gross unrealized losses on investment securities available for sale, the fair value of the related securities aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2010 and 2009, were as follows:

Bonds with Unrealized Losses
(in thousands)

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2010	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
U.S. Government obligations- excluding mortgage-backed securities	$ -	$ -	$ 1,063,978	$ (48,473)	$ 1,063,978	$ (48,473)
All other government obligations	-	-	-	-	-	-
Public utilities (unaffiliated)	-	-	52,879	(1,873)	52,879	(1,873)
Mortgage-backed securities	-	-	61,287	(3,956)	61,287	(3,956)
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	178,396	(11,133)	197,121	(5,222)	375,517	(16,355)
Total	$ 178,396	$ (11,133)	$ 1,375,265	$ (59,524)	$ 1,553,661	$ (70,657)

Bonds with Unrealized Losses (in thousands)						
	Less than 12 Months		12 Months or Longer		Total	
June 30, 2009	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
U.S. Government obligations-excluding mortgage-backed securities	$ -	$ -	$ 1,421,150	$ (131,246)	$ 1,421,150	$ (131,246)
All other government obligations	-	-	-	-	-	-
Public utilities (unaffiliated)	-	-	403,909	(31,707)	403,909	(31,707)
Mortgage-backed securities	2,076	(3)	337,020	(85,485)	339,096	(85,488)
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	194,876	(14,273)	1,160,702	(155,524)	1,355,578	(169,797)
Total	$ 196,952	$ (14,276)	$ 3,322,781	$ (403,962)	$ 3,519,733	$ (418,238)

Gross unrealized losses related to bonds at June 30, 2010, decreased from June 30, 2009, and are comprised of investments backed by the U.S. Government, other governments, corporate, and, mortgage-backed securities with an aggregate book adjusted carrying value of $9,573,398,000 and $9,195,424,000 and fair value of $10,255,276,000 and $9,081,273,000, respectively. Management believes that these unrealized losses are related to the interest rate environment and not a result of other than temporary impairments.

In compliance with SSAP No. 43R, the WSIB uses Bloomberg investment valuation model for prepayment assumptions and determining currently estimated cash flows in valuing mortgage-backed securities. Any mortgage-backed securities with a fair value less than the book adjusted carrying value have been analyzed using a number of factors in assessing whether they are other-than-temporarily impaired. The factors that are considered include discounted cash flow on an investment, the length of time and amount of impairment, forecasts, market data, and financial condition of the issuer(s). As of June 30, 2010, no mortgage-backed securities have been determined to be other than temporarily impaired.

The following tables summarize realized gains or losses of bonds that were sold during Fiscal Years 2010 and 2009:

Bonds Redeemed or Sold (in thousands)			
June 30, 2010	**Realized Gains**	**Realized Losses**	**Net Realized Gains**
U.S. Government obligations-excluding mortgage-backed securities	$ 15,843	$ -	$ 15,843
All other government obligations	-	-	-
Public utilities (unaffiliated)	1,751	(1,674)	77
Mortgage-backed securities	-	(6,405)	(6,405)
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	12,651	(5,759)	6,892
Investments not categorized	1,375	(139)	1,236
Total	$ 31,620	$ (13,977)	$ 17,643

Bonds Redeemed or Sold (in thousands)			
June 30, 2009	**Realized Gains**	**Realized Losses**	**Gains (Losses)**
U.S. Government obligations-excluding mortgage-backed securities	$ 681	$ -	$ 681
All other government obligations	612	-	612
Public utilities (unaffiliated)	328	(3,506)	(3,178)
Mortgage-backed securities	2,770	(7,148)	(4,378)
Industrial and miscellaneous (unaffiliated)-excluding mortgage-backed securities	8,521	(39,677)	(31,156)
Investments not categorized	3,139	-	3,139
Total	$ 16,051	$ (50,331)	$ (34,280)

The amortized costs and estimated fair value of bonds at June 30, 2010 and 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Bonds by Maturity (in thousands)				
	June 30, 2010		**June 30, 2009**	
	Book Adjusted Carrying Value	**Estimated Fair Value**	**Book Adjusted Carrying Value**	**Estimated Fair Value**
Due in less than one year	$ 326,111	$ 324,772	$ 833,718	$ 805,371
Due in over one year through five yea	2,319,782	2,402,988	1,583,628	1,606,855
Due in over five years through ten yea	2,802,397	3,027,323	2,555,314	2,519,594
Due in over ten years	4,125,108	4,500,193	4,222,764	4,149,453
Total	$ 9,573,398	$ 10,255,276	$ 9,195,424	$ 9,081,273

Note 3 - Real Estate and Improvements, Net

At June 30, 2010 and 2009, the Accident and Medical Aid Accounts admitted only land, buildings, and improvements, net of accumulated depreciation and encumbrances.

SSAP No. 40 requires that buildings more than 50 percent occupied by the reporting entity be categorized as a real estate investment, and that depreciation and interest expense be classified as investment expenses. The building occupied by the Industrial Insurance Fund's employees is financed through general obligation bonds of the state of Washington. The remaining balance due on the bonds as of June 30, 2010, is $22.1 million. Due to this indirect ownership, the land, building, and improvements are not shown as a real estate investment of the Industrial Insurance Fund. The related interest and depreciation expenses are allocated between administrative and non-insurance expenses based on percentage of use by employees.

Real Estate and Improvements, Net (in thousands)	**June 30, 2010**	**June 30, 2009**
Land	$ 3,204	$ 3,204
Building occupied by Industrial Insurance Fund	62,705	62,705
Improvements, other than buildings	1,020	1,020
Encumbrances	(22,110)	(25,930)
Accumulated depreciation - building	(23,637)	(22,381)
Accumulated depreciation - improvements	(356)	(336)
Total	$ 20,826	$ 18,282

Note 4 - Investment Income

The Industrial Insurance Fund does not admit investment income due and accrued if amounts are over 90 days past due. As of June 30, 2010, and June 30, 2009, all investment income due and accrued was admitted, with balances accrued by security type as summarized in the table below.

Interest Income Admitted Due and Accrued (in thousands)	**June 30, 2010**	**June 30, 2009**
U.S. Government obligations - excluding mortgage-backed securities	$ 13,267	$ 11,473
All other government obligations	485	925
Public utilities (unaffiliated)	15,475	14,683
Mortgage-backed securities	9,699	10,370
Industrial and miscellaneous (unaffiliated) - excluding mortgage-backed securities	62,820	61,092
Other interest	491	779
Total	$ 102,237	$ 99,322

The following table provides details for net investment income by security type for the fiscal years ended June 30, 2010, and June 30, 2009.

Net Investment Income Earned (in thousands)	June 30, 2010	June 30, 2009
U.S. Government obligations - excluding mortgage-backed securities	$ 43,166	$ 40,628
All other government obligations	4,734	6,586
Public utilities (unaffiliated)	57,620	56,943
Mortgage-backed securities	121,450	129,960
Industrial and miscellaneous (unaffiliated) - excluding mortgage-backed securities	245,946	238,986
Bond interest total	472,916	473,103
Equities dividends	13,762	13,347
Net securities lending income	5,037	18,081
Other interest and litigation income	4,264	22,497
Amortization	(6,007)	(6,544)
Gross investment income	489,972	520,484
Investment expenses	(2,976)	(2,621)
Total	$ 486,996	$ 517,863

Note 5 - Retirement Plans, Compensated Absences, Deferred Compensation Plan, and Other Postemployment Benefits

5.A. Retirement Plans

Industrial Insurance Fund employees participate in the Washington State Public Employees' Retirement System (PERS), administered by the Department of Retirement Systems. 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. Participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, and by February 28, 2002, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. Participants joining the system on or after March 1, 2002, have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3.

Under PERS, the employee and employer contribute a percentage of the employee's compensation. The Industrial Insurance Fund contributed $7,464,580 and $11,214,837 to PERS during the fiscal years ended June 30, 2010 and 2009, respectively.

An actuarial valuation of the PERS plan for the Industrial Insurance Fund as a stand-alone entity is not available. Pension note disclosures for PERS are included in the Comprehensive Annual Financial Report for the state of Washington. A copy of this report may be obtained by contacting the Accounting Division of the Office of Financial Management at P.O. Box 43113, Olympia, Washington 98507-3113 or online at http://www.ofm.wa.gov/cafr.

5.B. Compensated Absences

Industrial Insurance Fund employees accrue vested annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days 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 Industrial Insurance Fund does not pay employees for unused sick leave upon termination except upon employee death or retirement. At death or retirement, the Industrial Insurance Fund is liable for 25 percent of the employee's accumulated sick leave. In addition, the Industrial Insurance Fund has a "sick leave buyout option" in which, each January, employees who accumulate sick leave in excess of 60 days 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.

It is the Industrial Insurance Fund's policy to liquidate unpaid compensated absences balances outstanding at June 30 with future resources, rather than advance funding it with currently available expendable financial resources.

The Industrial Insurance Fund recognizes the expense and accrues a liability for annual leave and estimated sick leave buyout, including related payroll taxes and benefits as applicable, as the leave is earned. The annual leave and sick leave accrued liability was $12,444,958 and $12,270,783 for Fiscal Years 2010 and 2009, respectively.

5.C. Deferred Compensation Plan

Industrial Insurance Fund employees have the option to participate in the state of Washington's Deferred Compensation Plan (DCP). There are no contributions made on behalf of employees to the Deferred Compensation Plan by the Industrial Insurance Fund. The Department of Retirement Systems administers the DCP and contracts with a third party (currently ING Groep N.V.) for record keeping and other administrative services. The Washington State Investment Board selects and monitors DCP's investment options based on advice and recommendations provided by the Employee Retirement Benefits Board.

5.D. Other Postemployment Benefits

The Industrial Insurance Fund participates fully in the Other Postemployment Benefit (OPEB) plan administered by the Washington State Health Care Authority (HCA) under the auspices of the Public Employees Benefits Board (PEBB).

The following table shows components of the Industrial Insurance Fund's OPEB costs for Fiscal Year 2010, the amount actually contributed to the plan, and changes in the Industrial Insurance Fund's net OPEB obligation (NOO):

OPEB Obligation (NOO)
June 30, 2010

	June 30, 2010	June 30, 2009
NOO, July 1	$ 11,054,375	$ 5,613,293
Annual OPEB costs	8,379,479	7,382,463
Contribution made	(1,964,554)	(1,941,381)
NOO, June 30	$ 17,469,300	$ 11,054,375

The above information was provided by the Washington State Office of Financial Management. The Industrial Insurance Fund's OPEB plan represents 2.04 percent and 2.24 percent of the state of Washington's OPEB plan as of June 30, 2010 and 2009, respectively.

The information below fully discloses the state of Washington's information with regard to funding policy, annual OPEB costs and contributions made, the funded status and funding progress of the employer individual plan, as well as actuarial methods and assumptions used. As the Industrial Insurance Fund participates in this multiple employee plan, no stand-alone information for the Industrial Insurance Fund is available. The state of Washington's OPEB plan does not issue a financial report.

Plan Description and Funding Policy

The state of Washington, through the HCA, administers a cost-sharing multiple-employer other postemployment benefit plan per RCW 41.05.065. 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.

Employers participating in the PEBB plan include the State (which includes general government agencies and higher education institutions), 57 of the State's K-12 schools and educational service districts (ESDs) and 206 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 244 K-12 schools and ESDs.

As of June 30, 2010, membership in the PEBB plan consisted of the following:

PEBB Plan Membership
June 30, 2010

	Active Employees	Retirees[1]	Total
State	111,374	26,181	137,555
K-12 schools and ESDs[2]	2,198	27,378	29,576
Political subdivisions	11,554	1,116	12,670
Total	125,126	54,675	179,801

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2010, there were 99,239 full-time equivalent active employees in the 244 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

As of June 30, 2009, membership in the PEBB plan consisted of the following:

PEBB Plan Membership
June 30, 2009

	Active Employees	Retirees[1]	Total
State	112,043	25,458	137,501
K-12 schools and ESDs[2]	2,222	26,715	28,937
Political subdivisions	11,586	1,017	12,603
Total	125,851	53,190	179,041

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2009, there were 101,295 full-time equivalent active employees in the 245 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Years 2010 and 2009, the estimated monthly cost for PEBB benefits for active employees (averaged across all plans and tiers) is as follows:

PEBB Benefits by Fiscal Year	June 30, 2010	June 30, 2009
Required Premium[1]		
Medical	$ 758	$ 730
Dental	76	73
Life	5	5
Long-term disability	2	2
Total	$ 841	$ 810
Employer contribution	$ 755	$ 728
Employee contribution	86	82
Total	$ 841	$ 810

[1] Per Index Rate Model 3.3 for Fiscal Year 2010 and 4.3 for Fiscal Year 2009

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. A substantive plan is one in which the plan terms are understood by the employers and plan members. This understanding is based on communications between the HCA, employers and plan members and the historical pattern of practice with regard to the sharing of benefit costs.

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

Per RCW 41.05.022, retirees who are not yet eligible for Medicare benefits may continue participation in the State's Non-Medicare community-rated health insurance risk pool on a self-pay basis. Retirees in the Non-Medicare risk pool receive an implicit subsidy. The implicit subsidy exists because retired members pay a premium based on a claims experience for active employees and other Non-Medicare retirees. The subsidy is valued using the difference between the age-based claims costs and the premium. In Calendar Year 2010, the average weighted implicit subsidy is projected to be $273 per member per month, and in Calendar Year 2009, the average weighted implicit subsidy was valued at $272 per member 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 2010, the explicit subsidy is $183 per member per month, and in Calendar Year 2009, the explicit subsidy was $183 per member per month.

Retirees participating in the PEBB life insurance program received an explicit subsidy of $5 per member per month in both Calendar Years 2010 and 2009.

Administrative costs as well as implicit and explicit subsidies are funded by required contributions from participating employers. The subsidies provide monetary assistance for medical and life insurance benefits.

Contributions are set each biennium as part of the budget process. In Fiscal Year 2010, the cost of the subsidies was approximately 6.7 percent of the cost of benefits for active employees. The benefits are funded on a pay-as-you-go basis.

The PEBB OPEB plan is accounted for as an agency fund on an accrual basis. The plan has no investments or other assets. The PEBB OPEB plan does not issue a publicly available financial report.

For information on the results of an actuarial valuation of the employer provided subsidies associated with the PEBB plan, refer to:
http://osa.leg.wa.gov/Actuarial_services/OPEB/OPEB.htm.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the State as the employer, an amount actuarially determined.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the State's annual OPEB cost for Fiscal Year 2010 and 2009, the amount actually contributed to the plan, and changes in the State's net OPEB obligation (NOO):

OPEB Cost Components (in thousands)		
	June 30, 2010	June 30, 2009
Annual required contribution	$ 349,326	$ 331,688
Interest on NOO	22,210	11,063
Amortization of NOO	(17,116)	(8,377)
Annual OPEB cost	354,420	334,374
Contributions made	(70,099)	(86,678)
Increase in NOO	284,321	247,696
NOO, July 1	493,551	245,855
NOO, June 30	$ 777,872	$ 493,551

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation was as follows:

OPEB History (in thousands)			
Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 354,420	19.78%	$ 777,872
6/30/2009	$ 334,374	25.92%	$ 493,551

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2010 and 2009 based on the actuarial valuation date, January 1, 2009 and 2008, respectively was as follows:

OPEB Funded Status (dollars in thousands)		
	June 30, 2010	June 30, 2009
Actuarial accrued liability (AAL)	$ 3,786,869	$ 4,014,270
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 3,786,869	$ 4,014,270
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	$ 5,678,422	$ 5,170,126
UAAL as a percentage of covered payroll	66.69%	77.64%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, following the notes to the consolidated statutory financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and 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 and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

Significant methods and assumptions

	June 30, 2010	June 30, 2009
Actuarial valuation date	January 1, 2009	January 1, 2008
Actuarial cost method	Projected Unit Credit	Projected Unit Credit
Amortization method	Closed, level percentage of projected payroll amortization method	Closed, level percentage of projected payroll amortization method
Remaining amortization period	30 years	30 years
Asset valuation method	n/a - no assets	n/a - no assets
Actuarial assumptions:		
Investment rate of return	4.5%	4.5%
Projected salary increases	4.5%	4.5%
Health care inflation rate	7.0% initial rate, 5% ultimate rate in 2067	8.5% initial rate, 5% ultimate rate in 2016
Inflation rate	3.5%	3.5%

Note 6 - Commitments and Contingencies

6.A. Summary of Significant Litigation

Davis et al. v. Department of Labor & Industries et al.

Davis and two other named plaintiffs claim to represent a class comprising “all persons whose third-party recoveries made pursuant to RCW Ch. 51.24 were subject to the Department’s claims of reimbursement and/or offset”. This case was stayed pending resolution of the Tobin case. It continued after the Supreme Court’s Tobin case decision on August 12, 2010 that the Department could not be reimbursed for any pain and suffering damages in its distribution of third-party recoveries. On November 29, 2010, oral argument was heard at the Court of Appeals, and a decision is expected three to nine months following the argument. At the time of this report, the ultimate outcome of this litigation cannot be determined and the Department intends to vigorously defend its position. If a class is eventually certified, and if the class has right under the Tobin decision, then this case could have a significant financial impact on the Industrial Insurance Fund. Management does not believe a negative outcome is probable or measureable at this time, and therefore, no adjustments have been reflected in the consolidated financial information in accordance with published guidance.

6.B. Contingencies

The Industrial Insurance Fund is party to numerous routine legal proceedings that normally occur in operations. At any given point, there may be numerous lawsuits that could impact expenses. There is a recurring volume of tort and other claims for compensation and damages against the Industrial Insurance Fund. The collective impact of these claims, however, is not likely to have a material impact on the Industrial Insurance Fund’s financial position, revenues, or expenses.

6.C. Commitments

Effective July 1, 1992, the Washington State Legislature required the Industrial Insurance Fund, under RCW 48.22.070, to participate in an assigned risk pool providing workers’ compensation coverage under the United States Longshoreman and Harbor Workers’ Act. The Industrial Insurance Fund 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. However, the Industrial Insurance Fund has not made any payments to this risk pool since enactment of this indefinite commitment.

6.D. Exposure

The lack of diversity of exposure by line of business and by state could be a risk factor for loss and LAE reserves. By statute, the Fund’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 Fund’s loss and LAE reserves. Such trends would include legislative benefit level changes that may have an effect on all open workers’ compensation claims.

Note 7 - Leases

The Industrial Insurance Fund leases land, office facilities, office and computer equipment, and other assets under a variety of operating lease agreements. Although lease terms vary, most leases are subject to appropriation from the State Legislature to continue the obligation. If the possibility of not receiving funding from the Legislature is remote, leases are considered noncancelable for financial reporting purposes. Certain operating leases are renewable for specified periods. In most cases, management expects the leases will be renewed or replaced by other leases.

The following table presents future minimum payments for operating leases as of June 30, 2010:

Future Minimum Payments
June 30, 2010

Operating Leases (by Fiscal Year)	**Accident Account**	**Medical Aid Account**	**Total**
2011	$ 3,640,869	$ 3,400,490	$ 7,041,359
2012	3,250,539	3,001,342	6,251,881
2013	3,177,923	2,919,192	6,097,115
2014	3,113,653	2,849,754	5,963,407
2015	2,853,121	2,607,325	5,460,446
2016-2020	5,147,863	4,536,828	9,684,691
Total Future Minimum Lease Payments	$ 21,183,968	$ 19,314,931	$ 40,498,899

The total operating lease rental expenses for Fiscal Years 2010 and 2009 were $9,983,595 and $10,408,417, respectively.

Note 8 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Securities Lending

Washington State law and the WSIB policy permit the Industrial Insurance Fund to participate in securities lending programs to augment investment income. The WSIB has entered into an agreement with JPMorgan to act as agent for the WSIB in securities lending transactions. As JPMorgan is the custodian bank for the WSIB, it is counterparty to securities lending transactions.

Fixed income securities were loaned and collateralized by the Industrial Insurance Fund’s agent with cash and U.S. government securities (exclusive of mortgage-backed securities and letters of credit), and irrevocable letters of credit. When the loan 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.

The collateral held and fair value of securities on loan at June 30, 2010, was $2,574,586,477 and

$2,513,515,139, respectively. The collateral held and fair value of securities on loan at June 30, 2009, was $2,026,780,825 and $1,984,744,127, respectively. All of the collateral held by the Industrial Insurance Fund is restricted and not available for its general use. In accordance with SSAP No. 91R, the Industrial Insurance Fund does not reflect the collateral as an asset or liability on the Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve. As of June 30, 2010, and June 30, 2009, the amounts the Industrial Insurance Fund owed the borrowers exceeded the amounts the borrowers owed the Industrial Insurance Fund, resulting in no credit risk exposure.

The following tables summarize securities held as collateral as of June 30, 2010, and June 30, 2009, for the Industrial Insurance Fund:

Securities as Collateral (in thousands) June 30, 2010		
Cash and cash equivalents	$	1,763,496
Commercial paper		232,552
Securitized debt instruments		178,589
Repurchase agreements		133,309
Medium term notes		112,777
Corporate bonds		66,867
Miscellaneous		61,655
U.S. Government securities		25,342
Total Collateral Held	$	2,574,587

Securities as Collateral (in thousands) June 30, 2009		
Asset backed securities	$	99,537
Cash and cash equivalents		1,146,750
U.S. Treasuries and agencies		243,131
Commerical paper		99,952
Miscellaneous		118,234
Medium term notes		175,639
Repurchase agreements		143,538
Total Collateral Held	$	2,026,781

During Fiscal Years 2010 and 2009, securities lending transactions could be terminated on demand by either the Industrial Insurance Fund or the borrower. The weighted average maturity of loans for Fiscal Year 2010 was 2.2 days. Cash collateral was invested by the Industrial Insurance Fund in the WSIB's short-term investment pool (average final maturity of 30 days). Since 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 could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were loaned with the agreement that they would be returned in the future for exchange of the collateral. JPMorgan indemnified the WSIB 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. JPMorgan'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 Years 2010 and 2009, there were no significant violations of legal or contractual provisions, no failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the Industrial Insurance Fund incurred no losses during Fiscal Years 2010 and 2009 resulting from a default by either the borrowers or the securities lending agents.

Note 9 – Changes in Incurred Losses and Loss Adjustment Expenses

The increase of $605 million in provision for insured events of prior years in benefit and claims administration liabilities is made up of $361 million of discount accretion and $244 million development in future value. Of this $244 million, $41 million is an estimate of the cost of lost future recoveries from the Tobin decision. Excluding Tobin, the Medical Aid Account developed redundant by $123 million, while the Accident Account developed adversely by $247 million, and the Pension Reserve Account developed adversely by $79 million.

Accident Account results were driven by growth in time-loss duration exceeding the assumed 2 percent per year and a higher rate of pension frequency than assumed at June 30, 2009. The Pension Reserve Account runoff is comprised of $38 million of adverse development and an additional $41 million of Second Injury Pension Account transfers.

The following schedule presents the changes in benefit and claims administration liabilities for the fiscal years ended June 30, 2010 and 2009 for the Industrial Insurance Fund:

Changes in Benefit and Claims Administration Liabilities
(in thousands)

	June 30, 2010	June 30, 2009
Unpaid benefit and claim administration liabilities, July 1	$ 10,620,789	$ 9,750,364
Incurred benefit and claims administration liabilities:		
Provision for insured events of the current year	1,679,299	1,721,074
Increase in provision for insured events of prior years	604,734	807,594
Total incurred benefit and claims administration liabilities	2,284,033	2,528,668
Payments:		
Benefit and claims administration liabilities attributable:		
To events of the current year	297,520	322,285
To insured events of prior years	1,383,991	1,335,958
Total payments	1,681,511	1,658,243
Total unpaid benefit and claims administration liabilities, June 30	$ 11,223,311	$ 10,620,789
Current portion	$ 1,683,993	$ 1,608,322
Long-term portion	$ 9,539,318	$ 9,012,467

At June 30, 2010 and 2009, $19.3 billion and $18.2 billion of unpaid benefit and claims administration liabilities are shown at their net present and settlement value of $11.2 billion and $10.6 billion, respectively. These claims liabilities are discounted at assumed interest rates of 2.5 percent in the Accident and Medical Aid Accounts and 6.5 percent in the Pension Reserve Account to arrive at a settlement value that is net of third party recoveries. However, pension reserves in the Accident Account are discounted at 2.5 percent to the expected date of transfer, and the transfer is discounted at 6.5 percent.

2010 Claims Liability Development by Program
(dollars in thousands)

Program/ Category	Undiscounted Liabilities	Discount Rate	SSAP Liabilities	Estimated Recoverables
Accident	$ 7,528,085	2.50%	$ 4,309,643	$ 113,980
Medical Aid	4,807,492	2.50%	3,202,811	41,963
Pensions	6,425,081	6.50%	3,235,975	8,212
Subtotal Benefit Liability	18,760,658		10,748,429	164,155
Claims Administration Expense (CAE)	548,652	2.50%	474,882	-
Total Benefits and CAE Liabilities	$ 19,309,310		$ 11,223,311	$164,155

2009 Claims Liability Development by Program
(dollars in thousands)

Program/ Category	Undiscounted Liabilities	Discount Rate	SSAP Liabilities	Estimated Recoverables
Accident	$ 6,795,048	2.50%	$ 3,940,013	$ 75,379
Medical Aid	4,775,436	2.50%	3,168,101	43,568
Pensions	6,093,355	6.50%	3,048,607	8,096
Subtotal Benefit Liability	17,663,839		10,156,721	127,043
Claims Administration Expense (CAE)	532,000	2.50%	464,068	-
Total Benefits and CAE Liabilities	$ 18,195,839		$ 10,620,789	$ 127,043

Note 10 - Retrospectively Rated Contracts and Contracts Subject to Redetermination

10.A. Method Used to Estimate

The Industrial Insurance Fund estimates 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 first annual adjustment through 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.

10.B. Method Used to Record

Retrospective return premiums due to employers are netted with additional premiums due from employers and recorded as a liability.

10.C. Amount and Percent of Net Retrospective Premiums

Net premiums for the fiscal years ended June 30, 2010 and 2009 on retrospectively rated workers' compensation policies were $601.5 million or 44 percent and $683.5 million or 47 percent of total workers' compensation net premiums, respectively.

10.D. Calculation of Nonadmitted Retrospective Premiums

Retrospective additional premiums 90 days past due after the third annual retrospective adjustment are nonadmitted.

Note 11 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The case reserves shown in this exhibit are the reserves for pensions awarded through June 30, 2010, only. The State Fund estimates case reserves on certain other individual claims solely for the purpose of classification rating, retrospective rating, and experience rating. Such case reserves are not maintained on claims that do not enter the rating calculations, so they are not meaningful for claims less than approximately 18 months old or more than approximately seven years old.

11.A. Tabular Discounts

The mortality table is based upon 1980 census data. The liabilities are discounted at 6.5 percent per annum. The June 30, 2010, liabilities include $6,033,557,000 of such reserves net of tabular discounts. The amount of the tabular discount for case reserves is $3,189,103,000 and $2,785,913,000 for Incurred But Not Reported (IBNR) reserves at June 30, 2010.

At June 30, 2009, the liabilities, net of tabular discounts, amounted to $5,499,836,000. The amount of the tabular discount for case reserves was $3,044,748,000 and $2,460,614,000 for IBNR reserves.

Liabilities Discounted on a Tabular Basis June 30, 2010 (in thousands)				
	Loss Liabilities	Tabular Discounts		
Loss Year	Gross of Tabular Discount	Case	IBNR	Loss Liabilities Net of Tabular Discount
Prior	$ 4,641,849	$ 1,959,188	$ 287,932	$ 2,394,729
2001	624,495	228,805	95,835	299,855
2002	679,391	228,187	123,091	328,113
2003	635,789	186,869	139,729	309,191
2004	674,721	171,493	173,359	329,869
2005	711,873	132,841	228,082	350,950
2006	755,239	113,599	268,853	372,787
2007	846,003	84,059	340,276	421,668
2008	899,507	43,438	403,532	452,537
2009	815,697	18,945	385,830	410,922
2010	724,009	21,679	339,394	362,936
Total	$ 12,008,573	$ 3,189,103	$ 2,785,913	$ 6,033,557

11.B. Non-Tabular Discounts

The non-tabular discount rate is based upon the five year average of the 20-year treasury yield rounded to the nearest half percent, less 2 percentage points. As of June 30, 2010, the rounded five year average was 4.5 percent, and the indicated non-tabular discount rate was 2.5 percent. A discount rate of 2.5 percent was selected. The non-tabular discount is calculated using the selected non-tabular discount rate and the anticipated payout of the liabilities.

The June 30, 2010, liabilities include $7,512,789,000 of such reserves for loss and $474,882,000 of such reserves for loss adjustment expenses, net of tabular and non-tabular discounts. The amount of the non-tabular discounts for IBNR reserves is $2,037,212,000, the reserve for defense and cost containment expense is $43,011,000, and the reserve for adjusting and other expense is $30,758,000.

At June 30, 2009, the liabilities included $7,108,113,000 of such reserves for loss and $464,068,000 of such reserves for loss adjustment expenses, net of tabular and non-tabular discounts. The amount of the non-tabular discounts for IBNR reserves was $2,001,756,000, the reserve for defense and cost containment expense was $40,854,000, and the reserve for adjusting and other expense was $27,078,009,000.

Liabilities Discounted on a Non-Tabular Basis
June 30, 2010
(in thousands)

Loss Year	Loss & LAE Liabilities: Net of Tabular and Gross of Non-Tabular Discount	Non-Tabular Discounts: Case	IBNR	DCC	AO	Net of Tabular and Non-Tabular Discount
Prior	$ 1,884,146	$ -	$ 571,905	$ 9,762	$ 1,973	$ 1,300,506
2001	291,958	-	67,285	1,263	758	222,652
2002	346,643	-	74,927	1,448	1,004	269,264
2003	387,244	-	79,940	1,590	1,203	304,511
2004	481,011	-	95,353	1,930	1,579	382,149
2005	606,408	-	112,733	2,368	2,152	489,155
2006	748,075	-	134,417	2,911	2,737	608,010
2007	989,735	-	173,468	3,844	3,695	808,728
2008	1,272,871	-	218,658	5,005	4,783	1,044,425
2009	1,450,803	-	249,700	5,953	5,237	1,189,913
2010	1,639,758	-	258,826	6,937	5,637	1,368,358
Total	$ 10,098,652	$ -	$ 2,037,212	$ 43,011	$ 30,758	$ 7,987,671

11.C. Changes in Discount Assumptions

The Accident and Medical Aid Account reserves have a liability payout closer to the cash payout of a 20-year bond than a 10-year bond. For this reason, the benchmark bond was changed from a U.S. Treasury 10-year bond to a U.S. Treasury 20-year bond.

The current procedure to calculate the discount rate consists of taking a five year average of the yield on the benchmark bond, applying a 2 percentage point reduction, and rounding to the nearest half percentage point. At June 30, 2010, the five year average of the 10-year and 20-year U.S. Treasuries are 4.06 percent and 4.57 percent, respectively. Historically, the difference between the five year moving averages is close to 0.5 percent, so the decision to move to the 20-year bond benchmark maintains the discount rate at 2.5 percent.

Note 12 - Related Party Transactions

The Industrial Insurance Fund transfers expenditures and cash within the Accident, Medical Aid, and Pension Reserve Accounts, as well as the Supplemental Pension and Second Injury Accounts from the Workers' Compensation Program.

Certain services are provided to Labor & Industries by other Washington State agencies. The Washington State Treasurer's Office and the Washington State Investment Board are the Industrial Insurance Fund's agents for managing its cash and investments. Fees related to the management of the Industrial Insurance Fund's investments are deducted from investment income.

The tables below summarize payments made and expenditures reported for services provided by other Washington State agencies for Fiscal Year 2010 and Fiscal Year 2009. Payments made may be more or less than reported expenditures due to differences in accruals.

Related Party Transactions Payments Made				
		June 30, 2010		June 30, 2009
Office of the Attorney General	$	16,804,028	$	17,164,819
Department of Information Services		10,708,543		11,900,813
Department of Personnel		1,793,716		1,977,588
Department of General Administration		5,782,030		6,305,823
Department of Printing		913,795		1,335,566
Office of Financial Management		574,584		567,637
Office of the State Auditor		830,514		1,535,104
Office of the Secretary of State		343,083		415,399
Washington State Patrol		463,436		527,099
Total	$	38,213,729	$	41,729,848

Related Party Transactions Expenditures Reported				
		June 30, 2010		June 30, 2009
Office of the Attorney General	$	18,321,895	$	18,425,014
Department of Information Services		11,776,278		12,140,556
Department of Personnel		1,908,397		1,949,631
Department of General Administration		6,469,656		6,402,766
Department of Printing		1,036,532		1,313,870
Office of Financial Management		632,700		551,825
Office of the State Auditor		862,640		1,003,726
Office of the Secretary of State		372,118		398,382
Washington State Patrol		555,668		485,268
Total	$	41,935,884	$	42,671,038

The Washington State Legislature and the Governor provide appropriation authority through Engrossed Substitute Senate Bill 6444 from the Industrial Insurance Fund for the use of the following Washington State agencies:

- **The Board of Industrial Insurance Appeals** hears appeals to decisions made by the Department of Labor & Industries.
- **Health Care Authority** assists with reviews to develop preferred prescription drug lists.
- **Department of Health** completes surveys and onsite investigations of farm worker housing.
- **University of Washington** aims to promote health and minimize occupational disease or injury through teaching, research, and service.

The operating expenses incurred by these agencies are summarized in the following table and are included in the Industrial Insurance Fund's financial information report totals.

Related Party Operating Expenses				
		June 30, 2010		June 30, 2009
Board of Industrial Insurance Appeals	$	17,594,733	$	17,479,198
Health Care Authority		224,183		227,109
Department of Health		147,490		168,376
University of Washington		6,737,196		6,130,637
Total	$	24,703,602	$	24,005,320

Note 13 - Income Taxes

The Industrial Insurance Fund was created by an act of the Washington State Legislature and is exempt from federal income tax under the Internal Revenue Service Code sections 115 and 501(c) (27).

Note 14 - Capital and Surplus

14.A. Capital

The Industrial Insurance Fund was created by an act of the Washington State Legislature and has no shares of stock authorized or outstanding.

14.B. Surplus

The contingency reserve represents an accumulation of net income and unrealized gains on equity and Treasury Inflation-Protected Securities (TIPS) available for financing ongoing operations and uncertainties not otherwise reserved. Other reserves are discounted to a present value so as to only reserve those assets deemed necessary for current loss coverage and general operations. Thus, the contingency reserve balance is subject to the amounts determined as probable earnings, payments established in other reserves plus current results of operations, and the investment market for equity securities.

At June 30, 2010, unrealized gains in equities and TIPS totaled $179.0 million compared to an unrealized loss of $361.6 million at June 30, 2009. The change in nonadmitted assets decreased by $79.3 million compared to Fiscal Year 2009. Part of that decrease includes a reduction in nonadmitted claim overpayment receivables from Fiscal Year 2009 of $25.6 million.

Note 15 - Asbestos and Environmental Reserves

Claims related to asbestos, hazardous chemicals or waste arise mainly as a result of exposure at work and are covered by the Industrial Insurance Fund. There is not a large exposure, and it is not fundamentally different from any other injury due to exposure to hazardous materials in normal industrial activity. Case and IBNR reserves related to asbestos or environmental exposure claims are not specially reserved. IBNR and LAE reserves, related to asbestos claims, are included as part of benefit and LAE liabilities and historically were not calculated separately.

The table below shows a gross basis for the case reserves related to asbestos as of the fiscal year ended on June 30, 2010. Labor & Industries does not currently hold any reinsurance agreements.

Workers' Compensation Asbestos Claims (in thousands)	
Beginning case reserve related to asbestos	$ 53,441,284
2010 incurred losses	6,688,454
2009 payments paid in 2010 for asbestos claims	(9,031,228)
Ending Case Reserve Related to Asbestos	$ 51,098,510

* Note - Amounts are case reserves and do not include IBNR or claims expense reserves.

Note 16 – Subsequent Events

For the annual Statutory Financial Information Report as of June 30, 2010, an analysis of subsequent events has been evaluated through the report issue date of December 30, 2010. The events described below existed after June 30, 2010.

16.A. Resolved Litigations

Tobin v. Department of Labor & Industries (including the Workers' Compensation Program)

Jim A. Tobin v. Department of Labor & Industries was settled by the Supreme Court on August 12, 2010, in favor of the plaintiff. This case is primarily about distribution of money recovered from third parties. Chapter 51.24 RCW allows workers injured by non-employer third parties to file personal injury claims against those responsible parties. “Any recovery” in such an action is subject to distribution to L&I, injured worker, and attorney(s) under a complex statutory formula. The current amount subject to distribution includes third party damages for pain and suffering. The plaintiff of this case argued that pain and suffering damages must be excluded from distribution. Upon notification of the Supreme Court decision in favor of Jim A. Tobin, an increase in the amount of $41.2 million to benefit liabilities for the Tobin Case was recorded in the contingency reserve.

16.B. Proposed Rate Announcement

Each year, the Director of the Department of Labor & Industries adopts new workers' compensation insurance premium rates for the next calendar year. The proposed new rates for the Calendar Year 2011 were announced in November 2010 and will increase an average of 12 percent.

16.C. Voter Initiative

The November 2010 statewide ballot included Voter Initiative 1082. This Initiative proposed to permit employers to purchase private industrial insurance beginning on July 1, 2012, from entities other than L&I. The initiative would have directed the Legislature to enact conforming legislation by March 1, 2012. The worker-paid share of medical-benefit premiums would have been eliminated and the premium basis would have changed from hours worked to a rate per $100 payroll; however, this initiative failed.

Supplementary Information

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

State of Washington Workers' Compensation Program - Basic Plan
Schedule of Claims Development Information
Fiscal Years 2001 through 2010
(in millions)

The table below illustrates how the Workers' Compensation Program Basic Plan earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by reinsurers) and other expenses assumed by the Program as of the end of each of the last ten fiscal years. The Workers' Compensation Program has not purchased reinsurance since September 30, 2002, and has never had a qualifying event that generated a recovery.

The rows of the table are defined as follows:

1. This line shows each fiscal year's earned contribution revenues and investment revenues.
2. This line shows the Basic Plan's incurred claims (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called fiscal accident year).
3. This section shows the cumulative amounts paid as of the end of successive years for each fiscal accident year.
4. This section shows how each fiscal accident year's incurred claims increased or decreased as of the end of successive years. Annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.
5. This line compares the latest re-estimated incurred claims amount to the amount originally established (line 2) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual fiscal accident years mature, the correlation between original estimates and re-estimates is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature fiscal accident years.

The columns of the table show data for successive fiscal years.

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.	Net earned required contribution and investment revenues	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692	$ 2,797
2.	Estimated incurred claims and expenses, end of fiscal accident year	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312
3.	Paid (cumulative) as of:										
	End of fiscal accident year	230	226	233	244	260	278	295	310	322	298
	One year later	494	500	501	528	556	589	625	679	667	
	Two years later	646	653	650	681	715	754	817	890		
	Three years later	747	756	751	784	821	873	953			
	Four years later	825	834	824	860	906	964				
	Five years later	890	896	882	925	977					
	Six years later	943	949	934	982						
	Seven years later	989	999	982							
	Eight years later	1,032	1,045								
	Nine years later	1,073									
4.	Re-estimated incurred claims and expenses:										
	End of fiscal accident year	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363	2,312
	One year later	1,963	2,158	2,277	2,203	1,989	2,053	2,234	2,559	2,535	
	Two years later	2,067	2,277	2,045	1,971	1,939	2,055	2,390	2,647		
	Three years later	2,226	2,079	1,853	1,864	1,954	2,151	2,441			
	Four years later	2,039	1,906	1,767	1,886	2,025	2,196				
	Five years later	1,864	1,859	1,788	1,941	2,067					
	Six years later	1,835	1,879	1,829	1,966						
	Seven years later	1,858	1,926	1,868							
	Eight years later	1,870	1,952								
	Nine years later	1,897									
5.	Increase (decrease) in estimated incurred claims and expenses from end of fiscal accident year	(28)	(172)	(416)	(539)	(241)	55	245	391	172	

State of Washington Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for Fiscal Years 2007 through 2009:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2007 through 2009
(dollars in millions)

	2009	2008	2007
Actuarial valuation date	1/1/2009	1/1/2008	1/1/2007
Actuarial value of plan assets	$ -	$ -	$ -
Actuarial accrued liability (AAL)*	3,787	4,014	3,800
Unfunded actuarial accrued liability (UAAL)	3,787	4,014	3,800
Funded ratio	0%	0%	0%
Covered payroll	5,678	5,170	5,427
UAAL as a percentage of covered payroll	66.69%	77.64%	70.01%

* Based on projected unit credit actuarial cost method.

Source: Washington State Office of the State Actuary

Source: Office of Financial Management
State of Washington

Supplemental Investment Risk Interrogatories
June 30, 2010

1. The Industrial Insurance Fund's total admitted assets as reported on page 25 of this annual Statutory Financial Information Report are $11,573,657,000.

2. Following are the Industrial Insurance Fund's ten largest exposures to a single issuer/borrower/investment by investment category, excluding (i) U.S. government, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the SVO's *Practices and Procedures Manual*, as exempt, (ii) property occupied by the Industrial Insurance Fund, and (iii) policy loans:

	Amount	Percentage of total admitted assets
Bond - Burlington North Santa FE	$ 90,284,000	0.78%
Bond - Citigroup Commercial Mortgage	89,715,000	0.78%
Bond - JPMorgan Chase & Co.	88,315,000	0.76%
Bond - Norfolk Southern Corp.	85,256,000	0.74%
Bond - Asian Development Bank	84,961,000	0.73%
Bond - International Finance Corp.	74,887,000	0.65%
Bond - Citigroup/Deutsche Bank Commercial	70,292,000	0.61%
Bond - European Investment Bank	69,868,000	0.60%
Bond - Canadian National Resources	69,781,000	0.60%
Bond - Southern Cal. Edison	66,912,000	0.58%

3. The Industrial Insurance Fund's total admitted assets held in bonds and preferred stocks, by NAIC rating, including bonds classified as short term investments at June 30, 2010, are:

	Amount	Percentage of total admitted assets
Bonds with an NAIC rating of 1	$ 7,418,908,000	64.10%
Bonds with an NAIC rating of 2	2,091,246,000	18.07%
Bonds with an NAIC rating of 3	63,244,000	0.55%
Bonds with an NAIC rating of 4	-	0.00%
Bonds with an NAIC rating of 5	-	0.00%
Bonds with an NAIC rating of 6	-	0.00%

4. Assets held in foreign investments:

   Assets held in foreign investments exceed 2.5% of the Industrial Insurance Fund's total admitted assets.

Supplemental Investment Risk Interrogatories
June 30, 2010

Total admitted assets held in foreign investments at June 30, 2010:

Asset Type	Amount	Percentage of Admitted Assets
Bonds	$ 2,554,268,000	22.07%
Equities	$ 548,241,000	4.74%

Total admitted assets held in foreign investments in bonds by NAIC rating:

NAIC Rating	Amount	Percentage of Admitted Assets
Countries rated NAIC – 1	$ 1,505,193,000	13.01%
Countries rated NAIC – 2	$ 1,000,298,000	8.64%
Countries rated NAIC – 3	$ 48,777,000	0.42%

Ten largest non-sovereign (i.e. non-governmental) foreign issues at June 30, 2010:

Issuer	NAIC Rating	Amount	Percentage of Admitted Assets
Asian Development Bank	1	$ 84,961,000	0.73%
European Investment Bank	1	69,868,000	0.60%
Canadian National Resources	2	69,781,000	0.60%
Trans-Canada Pipelines	1	61,901,000	0.53%
Siemens Financieringsmat	1	59,892,000	0.52%
Eksportfinans A/S	1	59,823,000	0.52%
Talisman Engergy Inc.	2	57,533,000	0.50%
Vale Overseas Limited	2	56,797,000	0.49%
Glaxosmithkline	1	54,941,000	0.47%
International Finance Corp.	1	54,888,000	0.47%

5. Total admitted assets held in Canadian investments .... $ 807,438,000 .... 6.98%

6. The Industrial Insurance Fund has no total investments with contractual sales restrictions, which are defined as investments having restrictions that prevent investments from being sold within 90 days.

Supplemental Investment Risk Interrogatories
June 30, 2010

7. The Industrial Insurance Fund's admitted assets held in equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities (including Schedule BA equity interests) and excluding money market and bond mutual funds listed in the Appendix to the SVO's *Practices and Procedures Manual*, as exempt, or Class 1) are:

Fund	Amount	Percentage of Admitted Assets
US Equity Market Fund B	$ 775,728,000	6.70%
MSCI EAFE Index SL CTF	332,320,000	2.87%
MSCI Emerging Markets FREE	112,179,000	0.97%
MSCI Small Cap Index (EAFE)	44,303,000	0.38%
Canada MSCI CTF	37,851,000	0.33%
MSCI Emerging Markets Small	15,955,000	0.14%
MSCI CDA Small Cap IDX SL	5,481,000	0.05%
MSCI Emerging Markets Small C	152,000	0.00%

8. The Industrial Insurance Fund does not hold any nonaffiliated, privately placed equities under Securities Exchange Commission (SEC) Rule 144a or SEC Rule 144 without volume restrictions.

9. The Industrial Insurance Fund does not hold general partnership interests.

10. The Industrial Insurance Fund does not own any mortgage loans.

11. The Industrial Insurance Fund does not have any individual parcels or groups of contiguous parcels of real estate.

12. The Industrial Insurance Fund held no investments in mezzanine real estate loans at June 30, 2010.

13. The Industrial Insurance Fund does not have admitted assets subject to securities lending agreements, repurchase agreements, reverse repurchase agreements, dollar repurchase agreements or dollar reverse repurchase agreements at June 30, 2010.

14. The Industrial Insurance Fund did not own any warrants not attached to other financial instruments, options, caps, and floors at June 30, 2010.

15. The Industrial Insurance Fund did not have any exposure for collars, swaps, and forwards during 2010.

16. The Industrial Insurance Fund did not have any potential exposure for futures contracts during 2010.

Summary Investment Schedule
June 30, 2010

The Industrial Insurance Fund held cash and invested assets as of June 30, 2010, consisting of the following:

	Gross investment holding		Admitted assets as reported in the annual report	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. Treasury securities	$ 2,211,790,000	18.50%	$ 2,131,399,000	19.06%
U.S. Government agency and corporate obligations (excluding mortgage-backed securities)	-	0.00%	-	0.00%
Foreign government (including Canada, (excluding mortgage-backed securities)	100,801,000	0.84%	89,597,000	0.80%
Securities issued by states, territories, and possessions and political subdivisions in the U.S.	-	0.00%	-	0.00%
Mortgage-backed securities (includes residential and commercial MBS)				
Issued or guaranteed by GNMA	104,583,000	0.87%	92,843,000	0.83%
Issued or guaranteed by FNMA, FHLMC	675,148,000	5.65%	592,173,000	5.29%
Issued or guaranteed by all other	1,522,285,000	12.73%	1,403,639,000	12.55%
Other fixed income securities (excluding short-term)				
Unaffiliated domestic securities	3,079,671,000	25.76%	2,799,076,000	25.03%
Unaffiliated foreign securities	2,652,054,000	22.18%	2,464,671,000	22.04%
Equity interests:				
Commingled index funds - domestic	775,728,000	6.49%	775,728,000	6.94%
Commingled index funds - foreign	548,241,000	4.58%	548,241,000	4.90%
Real estate investments:				
Property occupied by the Company	-	0.00%	-	0.00%
Property held for the production of income	-	0.00%	-	0.00%
Receivables for securities and interest	71,461,000	0.60%	71,461,000	0.64%
Cash and cash equivalents	5,843,000	0.05%	5,843,000	0.05%
Short-term investments	209,329,000	1.75%	209,329,000	1.87%
	$ 11,956,934,000	100.00%	$ 11,184,000,000	100.00%

Independent Actuarial Opinion

Washington State Department of
Labor & Industries

Keep Washington Safe and Working.

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November 17, 2010

Statement of Actuarial Opinion

State of Washington – Industrial Insurance Fund

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 rendering this Statement of Actuarial Opinion, and I am a Fellow of the Casualty Actuarial Society. I was appointed by the Washington State Auditors' Office to provide a Statement of Actuarial Opinion regarding the reasonableness of the State of Washington Industrial Insurance Fund's ("the Fund") carried loss and loss adjustment expense ("LAE") reserves as of June 30, 2010.

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

Scope

I have examined the reserves listed in Exhibit A: Scope, as shown in the Fund's Statutory Financial Information Report, as of June 30, 2010. The loss and loss adjustment expense reserves specified in Exhibit A, on which I am expressing an opinion, reflect the Loss Reserve Disclosure items (8 thru 10) listed in Exhibit B.

In forming my opinion on the loss and loss adjustment expense 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 items listed in Exhibit A, and did not include an analysis of any other balance sheet items. I have not examined the Fund's assets and I have formed no opinion as to the validity or value of these assets. My opinion on the loss and loss adjustment expense reserves is based upon the assumption that all reserves are backed by valid assets, which have suitably scheduled maturities and/or adequate liquidity to meet the cash flow requirements of the liabilities.

Opinion

In my opinion, the amounts carried in Exhibit A on account of the items identified:

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

(B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles.

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

Relevant Comments

A. Risk of Material Adverse Deviation

I have identified the major risk factors for the Fund as the lack of diversity of exposure by line of business and by state, future medical trend, the discounting of the reserves, and the reserve leverage. The potential impact of these risk factors is described in the following paragraphs. The absence of other risk factors from this listing does not imply that additional factors will not be identified in the future as having been a significant influence on the Fund's reserves.

By statute, the Fund'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 Fund's loss and loss adjustment expense reserves. Such trends would include legislative benefit level changes 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 Fund's medical loss reserves due to the uncertainty surrounding future medical trends and the expected length of medical payments.

The Department discounts the loss and loss adjustment expense reserves to reflect the time value of money using an average annual interest rate of 4.6%. Changes to the interest rate used for discounting could result in material changes to the reserves.

The Fund defines its "Contingency Reserve" as the difference between its assets and liabilities. Other insurance companies typically refer to this Contingency Reserve as Statutory Surplus. Due to the size of the Fund's Contingency Reserve ($181 million) relative to the size of its loss and loss adjustment expense reserve ($11.2 billion), any small changes in reserves will have a material impact on the Contingency Reserve. The current reserve leverage ratio (reserve / contingency reserve) is significantly higher than the majority of workers' compensation carriers in the industry and workers' compensation funds in other states.

With respect to this Statement of Actuarial Opinion, the amount of adverse deviation that I consider to be material is $36.2 million. My basis for determining this amount is 20% of the Contingency Reserve, which is an amount that would represent a reasonable upward fluctuation in loss and loss adjustment expense reserves from those carried by the Fund that would be material to the Contingency Reserve. At this time, my assessment is that the Fund does have a significant risk of a material adverse deviation.

My materiality standard was selected based on the context in which this opinion letter will be used. It is prepared solely to assess the reasonableness of the Fund's loss and loss adjustment expense reserves. Other measures of materiality might be used for reserves that are being evaluated in a different context.

B. Other Disclosures in Exhibit B

Underwriting Pools or Associations

The Fund 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 Fund 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 Fund has not booked a reserve to account for any unpaid claim liability related to WARP.

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

Asbestos Exposures and Environmental Exposures

I have reviewed the Fund's exposure to asbestos and environmental claims. In my opinion, the chance of material liability related to asbestos and environmental claims is remote. The Fund has not provided coverage that could reasonably be expected to produce material levels of asbestos and/or environmental liability claims activity.

Disclosure of Unearned Premium Reserves for Long Duration Contracts

The Fund does not write single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancelable and not subject to premium increase.

Reinsurance

The Fund has no ceded or assumed reinsurance. Based on discussions with the Department's management and their description of the Fund'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.

Discounting

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

- For the Medical Aid Account, the Fund's chosen interest rate is 2.5%.
- For the Pension Reserve Account, the chosen interest rate is 6.5%.
- For the Accident Account, a combination of the two interest rates is used to discount the reserves. The future permanent total disability and fatal payments made to the Pension Account are discounted assuming an interest rate of 6.5%. All other payments are discounted using a rate of 2.5%. Based on the actuarially assumed payment schedule, the average interest rate used in the Accident Account is approximately 4.9%.

The average combined interest rate for the Fund is approximately 4.6% with a total discount amount of $8.1 billion. The interest rates were chosen by the Department, and I make no opinion regarding the appropriateness of the chosen rates.

C. General Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss adjustment expense, it is necessary to project future loss and loss adjustment expense payments. It is certain that actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. No warranty is expressed or implied that such variance will not occur.

Further, my projections make no provision for the broadening of coverage by legislative action or judicial interpretation or for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in the Fund's historical data base or which are not yet quantifiable.

Actuarial Report

An actuarial report and underlying actuarial workpapers supporting the findings expressed in this Statement of Actuarial Opinion will be provided to the Department to be retained for a period of seven years in its administrative offices and available for regulatory examination.

This Statement of Opinion is solely for the use of assessing the reasonableness of the loss and LAE reserves and is only to be relied upon by the Fund and the State.

Rod Morris

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November 17, 2010

Statement of Actuarial Opinion – Year Ended June 30, 2010

State of Washington Industrial Insurance Fund

Exhibit A: SCOPE

Loss Reserves:	**Amount**
A. Net of Reinsurance Reserve for Unpaid Losses	$10,748,429,000
B. Net of Reinsurance Reserve for Unpaid Loss Adjustment Expenses	$ 474,882,000
Total Net Loss and Loss Adjustment Expenses Reserves	$11,223,311,000
C. Reserve of Unpaid Losses – Direct and Assumed	$10,748,429,000
D. Reserve for Unpaid Loss Adjustment Expenses – Direct and Assumed	$ 474,882,000
Total Gross Loss and Loss Adjustment Expense Reserves	$11,223,311,000
E. Retroactive Reinsurance Reserve Assumed	$0
F. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion	$0
Premium Reserves:	
G. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts	$0
H. Reserve for Net Unearned Premiums for Long Duration Contracts	$0
I. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion	$0

Statement of Actuarial Opinion – Year Ended June 30, 2010

State of Washington Industrial Insurance Fund

Exhibit B: DISCLOSURES

Item:	**Column 1**	**Column 2**	**Column 3**	**Column 4**
1. **Name of Appointed Actuary**		**Last** Morris	**First** Rodney	**Middle** Scott
2. **The Appointed Actuary's Relationship to the Company.** Enter E or C based upon the following: E if an Employee, C if a Consultant			C	
3. **The Appointed Actuary is a Qualified Actuary based upon what qualification?** Enter F, A, M, or O based upon the following: **F** if a Fellow of the Casualty Actuarial Society (FCAS) **A** if an Associate of the Casualty Actuarial Society (ACAS) **M** if not a member of the Casualty Actuarial Society, but a Member of the American Academy of Actuaries approved by the Casualty Practice Council, as documented with the attached approval letter. **O** for Other			F	
4. **Type of Opinion, as identified in the OPINION** paragraph. Enter R, I, E, Q, or N based upon the following: **R** if reasonable **I** if Inadequate or Deficient Provision **E** if Excessive or Redundant Provision **Q** if Qualified. Use Q when part of the OPINION is Qualified. **N** if No Opinion			R	
5. **Materiality Standard expressed in $US** (Used to answer Question #6.)	$36,242,000			
6. Is there a Significant Risk of Material Adverse Deviation? YES or NO				YES [X] NO [ ]
7. **Statutory Surplus (Contingency Reserve)**	$181,210,000			

State of Washington Industrial Insurance Fund

Exhibit B: DISCLOSURES

Item:	Column 1	Column 2	Column 3	Column 4
8. Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
8.1 Non-tabular Discount	$3,189,106,000			
8.2 Tabular Discount	$4,896,893,000			
9. The net reserves for losses and expenses for the Company's share of voluntary and involuntary underwriting pools' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines.	n/a			
9. The total claims made extended loss and expense reserve (Schedule P Interrogatories)				
9.1 Amount reported as loss reserves	n/a			
9.2 Amount reported as unearned premium reserves	n/a			
10. Other items on which the Appointed Actuary is providing Relevant Comments	n/a			

State of Washington Industrial Insurance Fund
Statutory Financial Information Report

Other formats for persons with disabilities are available on request.
Call 1-800-547-8367. TDD users, call 360-902-5797.
L&I is an equal opportunity employer.

[12-2010]