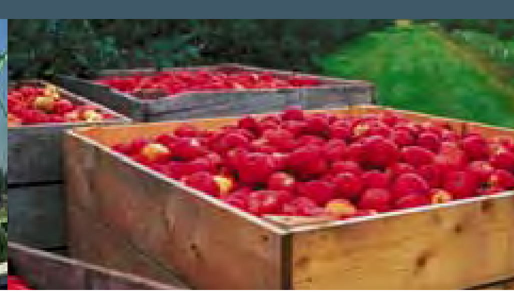
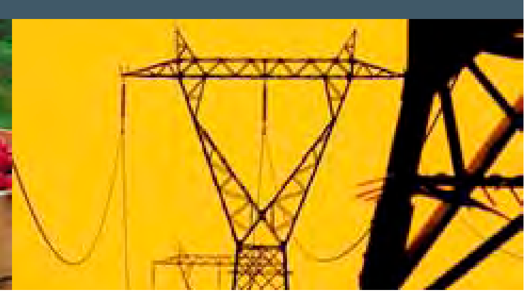
Washington State Department of
Labor & Industries

Industrial Insurance Fund

Statutory Financial Information Report

For the Fiscal Years Ended June 30, 2009 and 2008





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Office of Financial Management
Washington State Investment Board

Statistical Financial Information Report
For the Fiscal Years Ended June 30, 2009 and 2008

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Washington State Department of
Labor & Industries

L&I Mission Statement:

We support the state's economic well-being by protecting the safety of Washington's workers, providing benefits to injured workers and ensuring fair wages and quality industry services.

Areas of Focus

- Improve speed, fairness and quality of workers' compensation claims operations.
- Reduce workplace injuries, illnesses and fatalities.
- Eliminate fraud and abuse by workers, employers and providers.
- Help solve the workforce shortage in construction through apprenticeship.
- Help vulnerable workers be safe on the job and receive the wages and benefits to which they are entitled.
- Recruit and retain a high-performance workforce.

Our Principles

- We understand and embrace our mission.
- We are committed to a knowledgeable, service-oriented, high-performing workforce.
- Ours is an organization with integrity.
- We are dedicated to providing high-quality and timely customer service.

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

December 17, 2009

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

Re: Statutory Financial Information Report (SAP)

In accordance with the Revised Code of Washington 51.44.115, the Department of Labor & Industries has prepared a Statutory Financial Information Report for the Industrial Insurance Fund (State Fund) for the fiscal year that ended June 30, 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 that has been 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 that 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 on the financial information we use for a rate decision. The independent Certified Public Accounting firm of Peterson Sullivan, LLP, has issued an unqualified (clean) opinion on the Statutory Financial Information for the year ended June 30, 2009. The independent auditor's report is located at the front of the financial section of this report.

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

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

This past year has been a time of economic challenge and intense analysis. We managed investments carefully to preserve income, used new strategies to manage medical costs, expanded online services, and increased the use of occupational medicine best practices. We will continue our cost-cutting measures by re-engineering the claim filing process, involving employers earlier, and fighting fraud.

December 17, 2009
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Washington's Workers' Compensation Program has many advantages. Our benefits protect injured workers and their families at premium rates that are lower than half the other states. We're the only state where employees pay a significant portion of the premium, about 28%, which cuts employer costs while maintaining these benefits. We give a claim-free discount to 70% of employers.

These advantages along with ongoing improvements and further changes in 2010 reinforce our commitment to provide workers and employers with a premier Workers' Compensation Program.

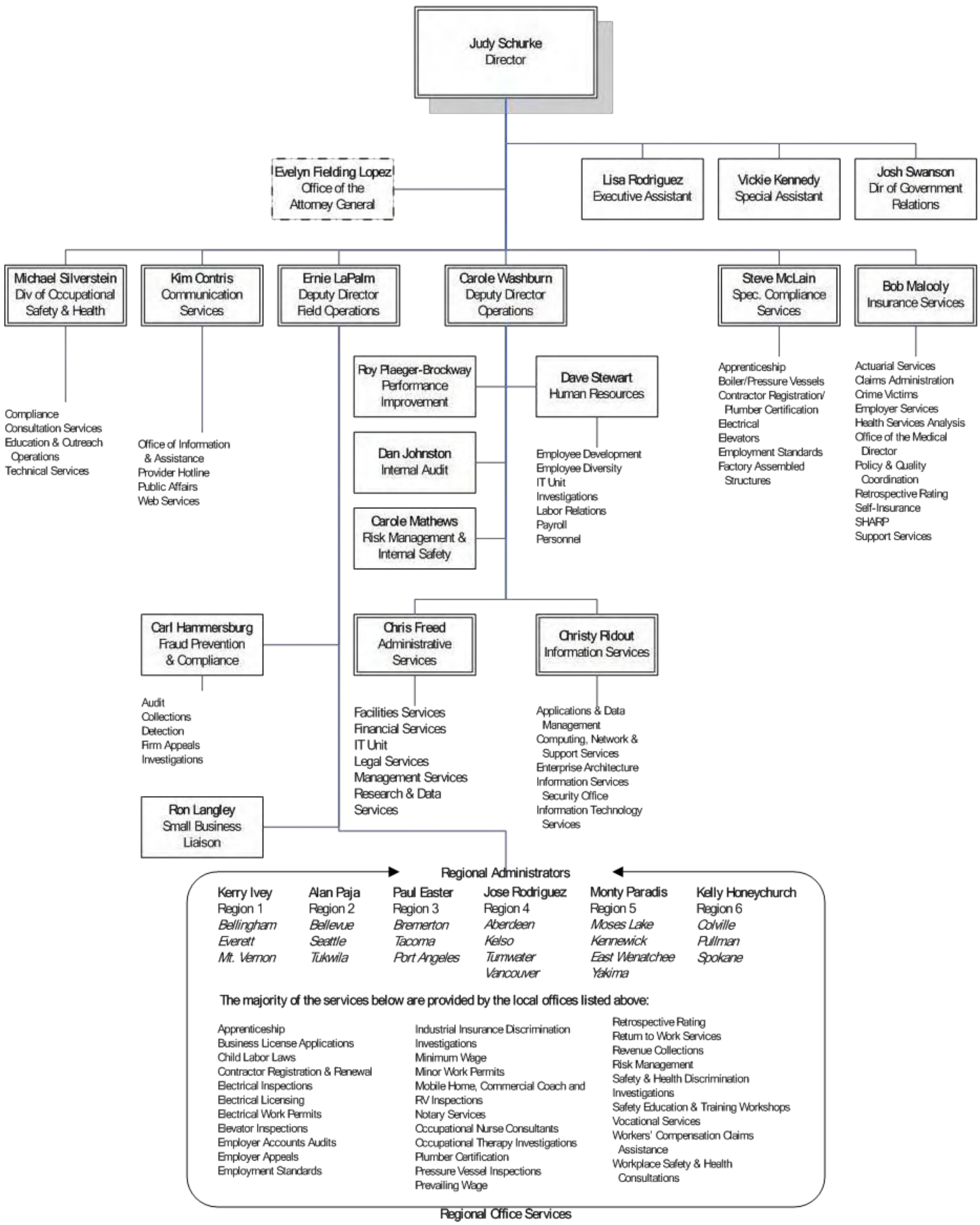
The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of the Department of Labor & Industries, the Office of Financial Management, and the Washington State Investment Board. This Statutory Financial Information Report represents our commitment to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

Judy Schurke
Director

Robert J. Malooly
Assistant Director, Insurance Services

Washington State Department of Labor & Industries Organization Chart



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Financial Section

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INDEPENDENT AUDITORS' REPORT

Judy Schurke, Director
The Workers' Compensation Program
of the State of Washington
Tumwater, Washington

We have audited the accompanying consolidated statutory statement of admitted assets, liabilities, and contingency reserve of The Washington State Department of Labor & Industries Industrial Insurance Fund ("the Fund") as of June 30, 2009, and the related consolidated statutory statements of operations, changes in contingency reserve, and cash flows for the year then ended. These consolidated statutory financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated statutory financial statements based on our audit. The statutory financial statements of The Washington State Department of Labor & Industries Industrial Insurance Fund as of June 30, 2008, were audited by other auditors whose report dated December 17, 2008, expressed an unqualified opinion on those statutory financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statutory financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated statutory financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statutory financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the consolidated statutory financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States, the financial position of The Washington Department of Labor and Industries Industrial Insurance Fund as of June 30, 2009, or the results of its operations or its cash flows for the year then ended.

However, in our opinion, the consolidated statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and contingency reserve of The Washington Department of Labor and Industries Industrial Insurance Fund as of June 30, 2009, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

The accompanying introductory section, management discussion and analysis, and supplementary information listed in the accompanying table of contents is not a required part of the basic consolidated financial statements, but is only supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

/S/ PETERSON SULLIVAN LLP

December 4, 2009

Management's Discussion and Analysis

The state of Washington's Department of Labor and Industries administers the state Workers' Compensation Program, including the Industrial Insurance Fund.

This section of the State of Washington Industrial Insurance Fund (also known as the State Fund) Statutory Financial Information Report presents management's discussion and analysis of the financial performance of the Industrial Insurance Fund for the Fiscal Years that ended on June 30, 2009 and 2008. 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, 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. Also, Washington requires both the employee and employer to contribute to the cost of premiums.

Workplace Injuries

During Fiscal Year 2009, Washington's workers' compensation system covered about 2.5 million workers employed by 168,000 employers. Employers reported a total of 3.2 billion hours. Nearly 117,000 claims were filed, though that figure is incomplete because workers have a year from the date of injury to file a claim. The majority of injured workers – 68 percent – were men, and nearly half of all injuries were to workers from 30 to 50 years of age. A total of 7,927,000 days were paid by the Industrial Insurance Fund for lost work. The most common injuries were to muscles, tendons, ligaments, joints of back, and to fingers. Forty-two fatal pensions were awarded.

Using the Statutory Financial Statements

The accompanying consolidated statutory financial statements include the Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve; Consolidated Statutory Statement of Operations and Changes in Contingency Reserve; and Consolidated Statutory Statement of Cash Flows. These 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 five Workers' Compensation Program funds including the Accident, Medical Aid, and Pension Reserve Funds. These three funds 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, 2009 and June 30, 2008.

The Consolidated Statutory Statement of Operations and Changes in Contingency Reserve reflects revenues and expenses for Fiscal Years 2009 and 2008.

The Consolidated Statutory Statement of Cash Flows reflects cash collections and cash payments to arrive at the net increase or decrease in cash during the Fiscal Years 2009 and 2008.

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.

Elimination for Consolidated Financial Statements

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 Funds.

It is important to the readers of the Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve that we include details of each fund, report the true contingency reserve balance, and show compliance with the statutory Pension Reserve Fund experting requirement. Therefore, we added an "Elimination for Consolidated Statements" column to the Fiscal Year 2009 financial statement. This elimination is made up of the following transactions:

- Pension Fund experting which requires the Accident Fund to transfer $75,325,000 to the Pension Reserve Fund.

- Interfund activity which requires the Accident Fund to transfer $1,200,000 to the Medical Aid Fund.

Financial Highlights

(dollars in millions)	Fiscal Year 2009 Ended June 30, 2009 (Audited)	Fiscal Year 2008 Ended June 30, 2008 (Audited)	$ Change	% Change
Total Admitted Assets	$ 11,345	$ 11,525	$ (180)	(1.56%)
Total Liabilities	10,795	9,923	872	8.79%
Total Revenues Earned	2,006	2,157	(151)	(7.00%)
Total Expenses Incurred	2,755	2,241	514	22.94%
Total Contingency Reserve	$ 550	$ 1,602	$ (1,052)	(65.67%)

Financial Position

Industrial Insurance Fund's financial position at the end of June 30, 2009 and June 30, 2008 is as follows:

Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve

(dollars in thousands)

	June 30,2009	June 30, 2008
Admitted Assets		
Fixed income investments	$ 7,643,029	$ 7,979,247
Treasury Inflation-Protected Securities	1,552,395	1,567,230
Equities investments	1,158,922	1,335,048
Short-term investments	465,137	141,935
Unsettled trade receivables (payables)	(9,992)	(19,982)
Total Investments	10,809,491	11,003,478
Interest receivable	99,322	98,176
Cash	12,190	(27,544)
Premiums receivable, net	358,912	415,309
Other assets	64,852	35,797
Total Admitted Assets	$ 11,344,767	$ 11,525,216
Liabilities and Contingency Reserve		
Benefit liabilities	$ 10,156,721	$ 9,330,953
Claims administration liabilities	464,068	419,411
Other liabilities	173,757	172,906
Total Liabilities	10,794,546	9,923,270
Contingency reserve	550,221	1,601,946
Total Liabilities and Contingency Reserve	$ 11,344,767	$ 11,525,216

Total admitted assets decreased by $180 million, or 1.56%, mostly as a result of reduction of investment balances. Cash increased by $39.7 million due to the negative cash balance in the Accident Fund in Fiscal Year 2008 when $36.5 million of premium refunds were issued on June 30, 2008, the last day of the fiscal year. The decrease in total investments by $194 million reflects the capital market turmoil during Fiscal Year 2009.

Total benefit liabilities increased by $826 million during Fiscal Year 2009. This is a result of the Accident, Medical Aid, and Pension Reserve Fund benefit liabilities increasing by $480 million, $157 million, and $189 million, respectively. Benefit liabilities increased largely due to the following: time-loss claims are in the system longer, medical costs grew 3.4% higher than projected in Fiscal Year 2009, and the average time-loss duration has grown by more than 10% in Fiscal Year 2009 to 266 days. Time-loss claims staying open longer increases the probability (6.1%) that they will become a pension.

Industrial Insurance Fund's changes in benefit liabilities as of June 30, 2009 and June 30, 2008 are shown below:

(dollars in thousands)	June 30, 2009	June 30, 2008
Benefit liabilities, beginning of year	$ 9,330,953	$ 8,794,375
New liabilities incurred, current year	1,581,451	1,601,212
Development on prior years		
Discount accretion	322,964	310,654
Other adverse development on prior liabilities	400,093	6,958
Claim payments	(1,523,070)	(1,382,246)
Establishing state fund pension awards	(396)	-
Establishing self insurance second injury pension awards	44,726	-
Change in benefit liabilities	825,768	536,578
Benefit liabilities, end of year	$ 10,156,721	$ 9,330,953

During Fiscal Year 2009, total liabilities other than benefit liabilities increased by $46 million, which is mostly an increase in the claims administration liability. The claims administration liability increased by $45 million mainly as a result of changes in benefit reserves.

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, 2009	June 30, 2008
Net premiums earned	$ 1,360,533	$ 1,123,824
Assumed premiums earned	91,312	70,526
Total net premiums earned	1,451,845	1,194,350
Net investment income earned	517,863	537,559
Net investment realized gains (losses)	(41,466)	347,144
Other income	77,705	78,181
Total Revenue Earned	2,005,947	2,157,234
Net benefits (losses) incurred	2,348,838	1,918,808
Claims administration expenses (LAE) incurred	185,980	130,197
Premium administration expenses incurred	31,295	28,878
Other administration expenses incurred	188,965	163,520
Total Expenses Incurred	2,755,078	2,241,403
Net Transfers In (Out)	(2,770)	-
Net Income (Loss)	(751,901)	(84,169)
Changes in Contingency Reserve, net	(1,051,725)	(491,766)
Beginning Contingency Reserve, July 1	1,601,946	2,093,712
Ending Contingency Reserve, June 30	$ 550,221	$ 1,601,946
Loss ratio	161.8%	160.6%
Loss adjustment expense (LAE) ratio	12.8%	10.9%
Loss and LAE Ratio	174.6%	171.5%
Underwriting expense ratio	9.8%	9.6%
Combined Ratio	184.4%	181.1%
Less: Net investment income ratio	35.7%	45.0%
Operating Ratio	148.7%	136.1%

The Industrial Insurance Fund's contingency reserve decreased by $1.05 billion during Fiscal Year 2009, ending with a balance of $550 million. The change in contingency reserves is largely due to the following:

- Economic conditions resulting in realized and unrealized investment losses of $403 million.

- Benefit liability increase due to a prior year adverse reserve development of $400 million as a result of an unexpected increase in average time-loss duration.
- Increased probability that a claim becomes a pension at given age of claim.
- Increase in medical growth.
- Current year insurance operating losses due to adopting premium rates lower than the indicated rate. Composite indicated rates for calendar year 2009 and 2008 were 0.5536 and .05252, but the adopted rates were 0.5390 and 0.5216, respectively.

According to the Statements of Statutory Accounting Principles, a premium deficiency reserve is recognized when premiums are inadequate and the company has unearned premium reserves for exposures that have not occurred, and future installment premiums on existing policies. Because the Industrial Insurance Fund has no unearned premium reserves or installment premium contracts, no premium deficiency reserve is recorded.

Net premiums earned of $1.36 billion during Fiscal Year 2009 increased by $237 million or 21% from Fiscal Year 2008. This increase is primarily due to lower premium revenues in 2008 which was a result of a rate holiday and premium refunds. Current economic conditions decreased the number of reported hours worked in 2009 by 7% or more. Since premiums are based on hours worked, the reduction in the number of hours reported has the impact of reducing the current year's amount of premium revenue.

As a result of the economic downturn occurring in Fiscal Year 2009, net investment income earned of $518 million during the fiscal year decreased by $20 million from the previous year. Net investment realized losses of $41 million were incurred during the fiscal year as compared to $347 million net investment realized gains in Fiscal Year 2008. Poor economic conditions also resulted in net investment unrealized losses for Fiscal Year 2009, totaling $362 million, which mostly resulted from losses in equities.

Benefits incurred during Fiscal Year 2009 totaled $2.3 billion, an increase of $430 million or 22.4% from Fiscal Year 2008. Benefits incurred increased largely due to the time-loss claims staying in the system longer, medical costs higher than projected, and more claims becoming pensions.

Premium and other administrative expenses increased from $192 million in Fiscal Year 2008 to $220 million in Fiscal Year 2009, a net increase of 14.5%. This increase was due to recording additional bad debt expense of approximately $21 million on receivables caused by revised collection rates and the recording of post-employment benefits (OPEB) of approximately $11 million.

The combined ratio of 184.4% for Fiscal Year 2009 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% because the rate setting process recognizes that significant investment income will be earned.

The operating ratio for Fiscal Year 2009 is 148.7%. This reflects the combined ratio less the net investment income ratio and is another industry measure of overall financial performance. Ratios above 100% indicate that expenses are greater than premiums, net investment income earned, and other income. The operating ratio increased for Fiscal Year 2009 over the previous year. This is primarily a result of higher net benefits incurred in Fiscal Year 2009. The LAE ratio and underwriting expense ratio both continue to remain far below industry levels.

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
(dollars in thousands)

	June 30, 2009	June 30, 2008
Operations		
Net premiums collected	$ 1,409,785	$ 1,055,858
Other reimbursements and income	120,361	102,805
Net benefits (losses) paid	(1,523,070)	(1,382,230)
Administration expenses paid	(273,750)	(255,721)
Cash provided by (used in) operations	(266,674)	(479,288)
Investment Activities		
Investment income	524,197	549,587
Net realized gains (losses)	(41,467)	347,143
Sales (purchases), net	(173,610)	(452,293)
Investment management expenses	(2,712)	(2,356)
Cash provided by (used in) investment activities	306,408	442,081
Change in Cash		
Net increase (decrease) in cash	$ 39,734	$ (37,207)

During Fiscal Year 2009, the net out-flow of cash from operations decreased $213 million compared to Fiscal Year 2008. This is primarily the result of $354 million higher net premiums collected offset by a $141 million increase in benefit payments.

Cash provided by investment activities decreased overall by $136 million in Fiscal Year 2009 from the prior period. Proceeds from investment income, net of investment management expenses, decreased $26 million in Fiscal Year 2009 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 2009.

Liquidity - The Industrial Insurance Fund's operations require sufficient liquidity to meet both short-term and long-term requirements. Resources to ensure short-term liquidity come from four basic elements:

- The Department may increase rates in order to increase its contingency reserve resulting in positive cash flow.
- Workers' compensation claims are subject to some variation.
- Premiums are paid to the Department once every three months.
- Retrospective premium returns require an increased degree of liquidity.

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, the investment portfolio has been prudently managed to maximize earnings at conservatively low levels of risk. Due to the downturn in capital markets, the Industrial Insurance Fund sustained some losses in our investment portfolio in Fiscal Year 2009 but we are still confident that we will continue to meet our strategic objectives.

More than half of the decrease in the contingency reserve is a result of economic conditions. Experts believe that from a technical perspective the recession is very likely over at this point. As the economy improves, people will return to work and premiums earned will increase. It is highly likely that as we come out of the recession we will see realized and unrealized losses decrease. For example, we already experienced $220 million in unrealized gains in the first quarter of Fiscal Year 2010.

There were no statutory changes adopted by the legislature in 2009 that are expected to materially impact the benefit liabilities for the funds. The Department has engaged independent consultants to study the Retrospective Rating Program and make recommendations for change. Through our work with the actuarial firm, Oliver Wyman Actuarial Consulting, we have identified changes that will reduce the aggregate, or target, refund for retrospective rating participants.

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 and 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 and Industries' website at http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

State of Washington Industrial Insurance Fund
Consolidated Statutory Statement of Admitted Assets, Liabilities, and Contingency Reserve
As of June 30, 2009, and 2008
(amounts rounded to the nearest $1,000)

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Elimination for Consolidated Statements	Audited Total June 30, 2009	Audited Total June 30, 2008
Admitted Assets						
Cash and Investments						
Investments, net:						
Fixed income @ amortized cost	$ 3,128,638,000	$ 2,278,302,000	$ 2,236,089,000	$ -	$ 7,643,029,000	$ 7,979,247,000
Treasury Inflation-Protected Securities @ par	457,603,000	812,145,000	282,647,000	-	1,552,395,000	1,567,230,000
Equities @ fair value	392,854,000	507,426,000	258,642,000	-	1,158,922,000	1,335,048,000
Short term @ fair value	170,371,000	159,711,000	135,055,000	-	465,137,000	141,935,000
Unsettled trade receivables (payables), net	(3,997,000)	(2,997,000)	(2,998,000)	-	(9,992,000)	(19,982,000)
Total investments	4,145,469,000	3,754,587,000	2,909,435,000	-	10,809,491,000	11,003,478,000
Interest receivable	38,275,000	31,860,000	29,187,000	-	99,322,000	98,176,000
Cash	4,854,000	5,743,000	1,593,000	-	12,190,000	(27,544,000)
Total Cash and Investments	4,188,598,000	3,792,190,000	2,940,215,000	-	10,921,003,000	11,074,110,000
Other Assets						
Premiums receivable, net, incl. earned but unbilled	205,855,000	153,057,000	-	-	358,912,000	415,309,000
Land, buildings, and improvements, net	9,141,000	9,141,000	-	-	18,282,000	15,935,000
Self Insurance receivables, net	3,011,000	2,913,000	6,192,000	-	12,116,000	8,906,000
Miscellaneous receivables, net	2,662,000	3,229,000	105,088,000	(76,525,000)	34,454,000	10,956,000
Total Other Assets	220,669,000	168,340,000	111,280,000	(76,525,000)	423,764,000	451,106,000
Total Admitted Assets	$ 4,409,267,000	$ 3,960,530,000	$ 3,051,495,000	$ (76,525,000)	$ 11,344,767,000	$ 11,525,216,000
Liabilities and Contingency Reserve						
Liabilities						
Benefits	$ 3,940,013,000	$ 3,168,101,000	$ 3,048,607,000	$ -	$ 10,156,721,000	$ 9,330,953,000
Other Liabilities						
Claims administration	179,649,000	284,419,000	-	-	464,068,000	419,411,000
Retrospective rating adjustments	116,909,000	-	-	-	116,909,000	124,054,000
Accrued liabilities	102,793,000	27,253,000	2,888,000	(76,525,000)	56,409,000	40,792,000
Unapplied cash	265,000	174,000	-	-	439,000	8,060,000
Total Other Liabilities	399,616,000	311,846,000	2,888,000	(76,525,000)	637,825,000	592,317,000
Total Liabilities	4,339,629,000	3,479,947,000	3,051,495,000	(76,525,000)	10,794,546,000	9,923,270,000
Contingency Reserve	69,638,000	480,583,000	-	-	550,221,000	1,601,946,000
Total Liabilities and Contingency Reserve	$ 4,409,267,000	$ 3,960,530,000	$ 3,051,495,000	$ (76,525,000)	$ 11,344,767,000	$ 11,525,216,000

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.

State of Washington Industrial Insurance Fund
Consolidated Statutory Statement of Operations and Changes in Contingency Reserve
For the Fiscal Years Ended June 30, 2009, and 2008
(amounts rounded to the nearest $1,000)

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Audited Total June 30, 2009	Audited Total June 30, 2008
Revenues					
Net standard premiums earned	$ 822,766,000	$ 620,992,000	$ -	$ 1,443,758,000	$ 1,221,900,000
Less net retrospective rating adjustments	(83,225,000)	-	-	(83,225,000)	(98,076,000)
Net premiums earned	739,541,000	620,992,000	-	1,360,533,000	1,123,824,000
Net investment income earned	212,670,000	162,341,000	142,852,000	517,863,000	537,559,000
Net fixed income investment realized gains (losses)	(1,223,000)	(11,494,000)	(21,563,000)	(34,280,000)	143,541,000
Net equity investment realized gains (losses)	(1,989,000)	(4,177,000)	(1,020,000)	(7,186,000)	203,603,000
Self-insured administration expense assessments	11,966,000	11,125,000	-	23,091,000	24,985,000
Self-insured second injury pension reserve assessments	-	-	74,203,000	74,203,000	55,615,000
Self-insured cash funded & bonded pension reimbursements	-	-	17,109,000	17,109,000	14,911,000
Fines, penalties, and interest	35,627,000	4,132,000	32,000	39,791,000	42,816,000
Other income	9,117,000	5,406,000	300,000	14,823,000	10,380,000
Total Revenues Earned	1,005,709,000	788,325,000	211,913,000	2,005,947,000	2,157,234,000
Expenses					
Net benefits incurred	1,093,719,000	792,240,000	462,879,000	2,348,838,000	1,918,808,000
Claims administration expenses incurred	72,412,000	113,568,000	-	185,980,000	130,197,000
Premium: Administration expenses incurred	15,282,000	16,013,000	-	31,295,000	28,878,000
Bad debts expense incurred	50,105,000	26,287,000	-	76,392,000	55,871,000
General insurance administration expenses incurred	15,227,000	9,576,000	-	24,803,000	22,196,000
Self-insured administration expenses incurred	11,439,000	11,282,000	-	22,721,000	20,239,000
Other administration expenses incurred	41,152,000	23,864,000	33,000	65,049,000	65,214,000
Total Administration Expenses Incurred	205,617,000	200,590,000	33,000	406,240,000	322,595,000
Total Expenses Incurred	1,299,336,000	992,830,000	462,912,000	2,755,078,000	2,241,403,000
Net Income (Loss) Before Transfers	(293,627,000)	(204,505,000)	(250,999,000)	(749,131,000)	(84,169,000)
Transfers In (Out)					
Pension funding transfers	(252,272,000)	-	252,272,000	-	-
Pension funding actuarial adjustment	(75,325,000)	-	75,325,000	-	-
Information Technology Pool Transfer	(1,393,000)	(1,377,000)	-	(2,770,000)	-
Net Transfers In (Out)	(328,990,000)	(1,377,000)	327,597,000	(2,770,000)	-
Net Income (Loss)	(622,617,000)	(205,882,000)	76,598,000	(751,901,000)	(84,169,000)
Other Changes In Contingency Reserve					
Equities unrealized gains (losses)	(118,752,000)	(157,728,000)	(73,832,000)	(350,312,000)	(473,712,000)
Treasury Inflation-Protected Securities unrealized gains (losses)	(3,372,000)	(5,889,000)	(2,076,000)	(11,337,000)	44,947,000
Change in nonadmitted assets	38,327,000	24,188,000	(690,000)	61,825,000	21,168,000
Change in Contingency Reserve, net	(706,414,000)	(345,311,000)	-	(1,051,725,000)	(491,766,000)
Beginning Contingency Reserve, July 1	776,052,000	825,894,000	-	1,601,946,000	2,093,712,000
Ending Contingency Reserve, June 30	$ 69,638,000	$ 480,583,000	$ -	$ 550,221,000	$ 1,601,946,000

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

State of Washington Industrial Insurance Fund
Consolidated Statutory Statement of Cash Flows
For the Fiscal Years Ended June 30, 2009, and 2008
(amounts rounded to the nearest $1,000)

	Accident Fund	Medical Aid Fund	Pension Reserve Fund	Audited Total June 30, 2009	Audited Total June 30, 2008
Standard premiums collected	$ 857,088,000	$ 643,067,000	$ -	$ 1,500,155,000	$ 1,189,628,000
Less retrospective rating adjustments	(90,370,000)	-	-	(90,370,000)	(133,770,000)
Net premiums collected	766,718,000	643,067,000	-	1,409,785,000	1,055,858,000
Self-insured administration expense reimbursements	11,890,000	11,424,000	-	23,314,000	24,536,000
Self-insured second injury pension reserve reimbursements	-	-	47,402,000	47,402,000	41,823,000
Self-insured cash funded & bonded pension reimbursements	-	-	14,643,000	14,643,000	10,677,000
Fines, penalties, and interest	21,650,000	2,086,000	15,000	23,751,000	28,799,000
Other income (expenses)	13,580,000	2,294,000	1,748,000	17,622,000	(3,030,000)
Fund transfers in (out)	(282,667,000)	(3,165,000)	279,461,000	(6,371,000)	-
Operating Cash Flow In	531,171,000	655,706,000	343,269,000	1,530,146,000	1,158,663,000
Benefits paid	587,542,000	635,575,000	299,953,000	1,523,070,000	1,382,230,000
Claims administration expenses	54,686,000	80,487,000	-	135,173,000	125,118,000
Premium administration expenses	14,541,000	15,302,000	-	29,843,000	27,223,000
General insurance administration expenses	14,540,000	9,106,000	-	23,646,000	21,313,000
Self-insured administration expenses	10,830,000	10,785,000	-	21,615,000	19,283,000
Other administration expenses	40,007,000	23,466,000	-	63,473,000	62,784,000
Total Administration Expenses Paid	134,604,000	139,146,000	-	273,750,000	255,721,000
Operating Cash Flow Out	722,146,000	774,721,000	299,953,000	1,796,820,000	1,637,951,000
Net Operating Cash Flow (Out)	(190,975,000)	(119,015,000)	43,316,000	(266,674,000)	(479,288,000)
Investment income - bonds	211,771,000	159,144,000	139,935,000	510,850,000	521,824,000
Investment income - equities	4,509,000	5,906,000	2,932,000	13,347,000	27,763,000
Net realized gains (losses) on investments	(3,212,000)	(15,671,000)	(22,584,000)	(41,467,000)	347,143,000
Net (purchases) sales of investments	13,922,000	(25,677,000)	(161,855,000)	(173,610,000)	(452,293,000)
Investment expenses	(1,067,000)	(942,000)	(703,000)	(2,712,000)	(2,356,000)
Net Investment Cash Flow In (Out)	225,923,000	122,760,000	(42,275,000)	306,408,000	442,081,000
Net Cash Flow In (Out)	34,948,000	3,745,000	1,041,000	39,734,000	(37,207,000)
Beginning cash, July 1	(30,094,000)	1,998,000	552,000	(27,544,000)	9,663,000
Ending cash, June 30	$ 4,854,000	$ 5,743,000	$ 1,593,000	$ 12,190,000	$ (27,544,000)

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.

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Notes to the Consolidated Statutory Financial Statements

For the Fiscal Years ended June 30, 2009 and 2008

Index to the Notes to the Consolidated Statutory Financial Statements

Note 1 - Summary of Significant Accounting Policies

1.A. Nature of Operations

The state of Washington's Department of Labor and Industries administers the state Workers' Compensation Program. The agency is the exclusive writer of workers' compensation in the state of Washington for all businesses except the self-insured.

Washington's "Workers' Compensation Act" established the industrial insurance system in 1911. Initially, it only covered workers in hazardous jobs. 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. It was expanded to cover almost all workers, and allowed large employers that met certain financial and safety criteria to self insure.

In Fiscal Years 2009 and 2008, 168,000 and 171,000 employers were insured and estimated 2.5 million and 2.6 million workers were covered by the Industrial Insurance Fund, respectively. Employers have reported 3.2 and 3.3 billion hours worked in 2009 and 2008, respectively.

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). These standards are required to be used by property and casualty insurance enterprises in the United States when reporting its financial position to state insurance regulators, as a component of prescribed or permitted practices. The Industrial Insurance Fund is administered by a state agency and is not required to file financial reports with the Washington State Insurance Commission in accordance with state legislation.

The accompanying consolidated statutory financial statements are based on SSAP as promulgated by NAIC. 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.

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

- SSAP investment securities are principally carried at amortized cost, whereas GAAP carries such securities at the estimated fair value with changes in fair value reflected in net income.

- SSAP assets designated as “nonadmitted assets” are excluded from total admitted assets. These assets consist primarily of premiums in collections that have been outstanding for over 90 days, office furniture and equipment, and prepaid expenses - the changes of which are credited or charged directly to the contingency reserve. 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 allows certain electronic data processing equipment assets to be admitted and presented net of accumulated depreciation. However, on the accompanying consolidated statutory financial statements, no material amounts were present or included in Land, Buildings, and Improvements. Under GAAP, computer equipment and software purchases meeting the state’s capitalization criteria are recorded as assets less accumulated depreciation.

- The focus of SSAP accounting is solvency, and 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 for the next twelve months, 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 object rather than by activity, and the net effect of revenues and expenses as a change in fund equity.

- 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.

- The aggregate effects of the above differences between GAAP and SSAP have not been determined on the accompanying consolidated statutory financial statements.

1.C. Description of the Industrial Insurance Fund

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.

The statute provides six benefit funds to make compensation payments to injured workers or to medical providers for rehabilitation services to injured workers. The Accident, Medical Aid, and Pension Reserve Funds are required to be self-sustaining by insurance premiums and assessments collected from self-insurers under RCWs 51.16.035 and 51.16.105. The Industrial Insurance Fund is self-sustaining through its ability to assess the appropriate rates of insurance premiums and prudent management of its investments.

The accompanying consolidated statutory statements report on the financial position and results of operations of these three funds known collectively as the Industrial Insurance Fund.

The Accident Fund pays compensation directly to injured workers for lost wages during temporary disability and for permanent partial disability awards. The Accident Fund also pays to the Pension Reserve Fund the present value of pensions awarded to survivors of fatally injured workers and to workers who are permanently and totally disabled. At June 30, 2009 and 2008, Accident Fund benefit liabilities are discounted to the present value assuming a 2.5 percent annual interest rate.

Revenues for this fund are from employer paid premiums, calculated on the basis of hours worked, and reported net of refunds. However, employers may elect to have their premiums retrospectively rated with an adjustment for actual losses incurred. This 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 Fund. The adjustment calculation considers both the Accident and Medical Aid Funds' experience and premiums together.

The Medical Aid Fund pays for the cost of medical and vocational rehabilitation services to injured workers. Revenues for this fund usually arise from equal contributions from employers and employees. Employers are required to withhold half of the medical aid premium from their employees' wages. At June 30, 2009 and 2008, Medical Aid Fund benefit liabilities are discounted to the present value assuming a 2.5 percent annual interest rate.

The Pension Reserve Fund pays benefits to all permanently disabled pensioners including disabled employees of self-insured employers, their dependents, and surviving dependents of fatalities. At June 30, 2009 and 2008, these benefit liabilities are discounted to the present value assuming a 6.5 percent annual interest rate. Funding for pension payments is generated from transfers from the Accident Fund and reimbursement payments from self-insured employers that are invested in securities selected to cover payments for the expected life of the injured worker or survivor.

The three funds described above are maintained on an actuarially solvent basis, except that a cash-flow basis is used for the components of the Pension Reserve Fund when self-insured employers guarantee related benefits with a surety bond.

The Supplemental Pension Fund, Second Injury Fund and the Self-Insured Employer Overpayment Reimbursement Fund are a part of the Workers' Compensation Program; however income, expenses, assets, or future claim liabilities related to these three funds are not part of the Industrial Insurance Fund and are not included in this report.

1.D. Use of Estimates in Preparation of Financial Information

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. Future premium income is not offset against claims liabilities because the claims liabilities come from coverage periods for which premiums have, in general, already been fully earned. The obligation to pay claims expenses and claims administration liabilities is not contingent upon any future premiums for future coverage periods. Although management records its best estimate of its liability for claims and settlement expenses, actual results could differ materially from those estimates.

Management's estimates are based on subjective as well as objective factors and, as a result, judgment is required to estimate amounts, particularly loss and loss adjustment expense liabilities at the date of the financial information. Management's judgment is based on its knowledge and experience about past and current events and circumstances and its assumptions about conditions it expects to exist in the future. Factors relevant to the estimation of loss and loss adjustment expense liabilities include the estimation of the ultimate frequency and severity of losses, the level of inflation to 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.E. Accounting Policies

Premiums are based on individual employers' reported payroll hours, and insurance rates are 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 premiums are adjusted annually for up to three years following the plan year based on individual employers' loss experience. Initial adjustments to the standard premiums are paid to or collected from the employers approximately ten months after the end of each plan year.

The Industrial Insurance Fund establishes claims payable liabilities (unpaid loss and loss adjustment expense liabilities) based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not resolved, and claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the benefit involved. Because 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 claims payable liabilities does not necessarily result in an exact amount. Claims payable are recomputed periodically using a variety of actuarial and statistical techniques. These techniques are used to produce current estimates that reflect recent settlements, claim frequency, and other economic, legal, and social factors. A provision for inflation in the calculation of estimated future claim costs 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. Adjustments to claims payable are charged or credited to claims expense in the periods in which they are made.

In addition, the Industrial Insurance Fund uses the following accounting policies:

- 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.
- Investment grade bonds are stated at amortized value.
- Common stocks are stated at fair value.
- Investment grade loan-backed securities are stated at amortized value. The Industrial Insurance Fund holds only investment grade securities, as defined by Lehman Barclays Capital Global Family of Fixed Income Indices.
- 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.

Note 2 – Investments

2.A. Summary of Investment Policies

Under RCW 43.33A.030, trusteeship over the investment of the Industrial Insurance Fund 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 must comply with other state laws, such as the Ethics in Public Service Act RCW 42.52, as it makes investment decisions and seeks to meet its investment objectives.

In accordance with state laws, 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 order of the objectives is:

- Maintain the solvency of the funds.
- 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 Industrial Insurance Fund are to be invested to maximize return at a prudent level of risk in accordance with RCWs 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's 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 All Country World Ex US Investable Market Index. 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 percent to 25 percent, credit bonds – 20 percent to 70 percent, asset-backed securities – 0 percent to 10 percent, commercial mortgage-backed securities – 0 percent to 10 percent and mortgage-backed securities – 0 percent 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. The Industrial Insurance Fund fixed income investments are actively managed to exceed the return of the Comparable Market Index, with volatility as measured by duration to be similar to or less than the index. As of June 30, 2009, the durations of the various fixed income classes were within the duration targets of the Comparable Market 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. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date.

The following schedules present the Industrial Insurance Fund investments by type and provide information about the interest rate risks associated with the investments as of June 30, 2009 and June 30, 2008. The schedule displays various asset classes held by maturity in years, credit ratings and effective durations. 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.

June 30, 2009
(dollars in thousands)

		Maturity					
		Less than			More than	Credit	Effective
Investment Type	**Fair Value**	**1 year**	**1-5 years**	**6-10 years**	**10 years**	**Rating**	**Duration**
Mortgages:							
Collateralized Mortgage Obligations	$ 1,713,023	$ 10,477	$ 253,097	$ 776,786	$ 672,663	Multiple	6.89
Pass Throughs	521,755	2,077	229,372	289,490	816	Aaa	3.85
Commercial Mortgage Backed Securities	2,838,052	83,157	607,230	911,037	1,236,628	Multiple	7.96
Corporate Bonds - Domestic	2,255,943	83,033	702,602	819,569	650,739	Multiple	6.43
Government Securities - Domestic:							
US 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	$ 10,884,010						

June 30, 2008
(dollars in thousands)

Investment Type	Fair Value	Maturity: Less than 1 year	1-5 years	6-10 years	More than 10 years	Credit Rating	Effective Duration
Mortgages:							
Collateralized Mortgage Obligations	$ 1,751,792	$ 175	$ 226,682	$ 330,563	$1,194,372	Aaa	7.83
Pass Throughs	1,620	22	1,598	-	-	Aaa	2.19
Commercial Mortgage Backed Securities	619,962	25,976	234,718	358,214	1,054	Multiple	4.45
Corporate Bonds - Domestic	5,128,611	138,985	1,447,294	1,469,347	2,072,985	Multiple	7.46
Government Securities - Domestic:							
US Government Treasuries	422,431	61,506	360,925	-	-	Aaa	1.74
Treasury Inflation-Protected Securities	1,583,736	-	413,038	648,540	522,158	Aaa	7.44
	$ 9,508,152	$ 226,664	$ 2,684,255	$ 2,806,664	$3,790,569		
Commingled Index Funds - Domestic	807,227						
Commingled Index Funds - Foreign	527,822						
Money Market Funds	176,006						
Total	$11,019,207						

Investments with multiple credit ratings are presented using the Moody's rating scale as follows:

June 30, 2009
(dollars in thousands)

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	$ 1,713,023	$ 2,838,052	$ 2,255,943	$ 6,807,018

June 30, 2008
(dollars in thousands)

Moody's Equivalent Credit Rating	Investment Type: Corporate Bonds - Domestic	Investment Type: Commercial Mortgage Backed Securities	Total
Aaa	$ 564,147	$ 557,966	$ 1,122,113
Aa1	51,286	61,996	113,282
Aa2	256,431	-	256,431
Aa3	666,720	-	666,720
A1	615,433	-	615,433
A2	666,720	-	666,720
A3	615,433	-	615,433
Baa1	461,575	-	461,575
Baa2	820,578	-	820,578
Baa3	410,288	-	410,288
Total	$ 5,128,611	$ 619,962	$ 5,748,573

(NOTE: The preceding four investment schedules were prepared by the WSIB on a GAAP basis for the Workers' Compensation Program as a whole and include the Supplemental Pension Fund which is not part of the Industrial Insurance Fund. Investments of the Supplemental Pension Fund account for only 0.5% of the Workers' Compensation Program total investments. These investment schedules are not available for the Industrial Insurance Fund prepared on a SSAP basis.)

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, 2009, 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 WSIB policy states that no corporate fixed income issue's 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, 2009.

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. This includes the amount of any repurchase agreement that exceeds the fair value of the underlying securities.

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 $491.3 million and $527.8 million invested in an international commingled equity index fund at June 30, 2009 and 2008, respectively. As such, no currency denomination risk is presented at June 30, 2009.

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 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, 2009. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2009, the only derivative securities held directly by the Industrial Insurance Fund were residential mortgage-backed securities of $1.7 billion and at June 30, 2008 collateralized mortgage obligations of $1.8 billion.

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 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 Year 2009 and 2008, and there were no liabilities outstanding as of June 30, 2009 and 2008.

2.G. Bonds

At June 30, 2009 and 2008, the amortized cost and estimated fair value of bonds are as follows:

(dollars in thousands) June 30, 2009	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Obligations	$ 3,544,098	$ 111,418	$ (131,256)	$ 3,524,260
All other Government Obligations	114,561	3,725	-	118,286
Public Utilities	943,825	40,156	(31,707)	952,274
Industrial and Miscellaneous	4,592,940	148,788	(255,275)	4,486,453
	$ 9,195,424	$ 304,087	$ (418,238)	$ 9,081,273

June 30, 2008	Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government Obligations	$ 3,708,803	$ 22,396	$ (126,940)	$ 3,604,259
All other Government Obligations	154,496	3,775	(56)	158,215
Public Utilities	891,122	16,207	(50,452)	856,877
Industrial and Miscellaneous	4,792,056	85,220	(163,996)	4,713,280
	$ 9,546,477	$ 127,598	$ (341,444)	$ 9,332,631

Gross unrealized losses on investment securities available for sale and 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, 2009 and 2008, were as follows:

(dollars 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	$ -	$ -	$ 1,421,266	$ (131,256)	$ 1,421,266	$ (131,256)
All other Government Obligations	-	-	-	-	-	-
Public Utilities	-	-	4,039,090	(31,707)	4,039,090	(31,707)
Industrial and Miscellaneous	196,952	(14,276)	1,497,606	(240,999)	1,694,558	(255,275)
	$ 196,952	$ (14,276)	$ 6,957,962	$ (403,962)	$ 7,154,914	$ (418,238)

	Less than 12 Months		12 Months or Longer		Total	
June 30, 2008	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
U.S. Government Obligations	$ 1,077,467	$ (80,247)	$ 1,376,903	$ (46,693)	$ 2,454,370	$ (126,940)
All other Government Obligations	-	-	19,931	(56)	19,931	(56)
Public Utilities	119,716	(4,625)	519,496	(45,827)	639,212	(50,452)
Industrial and Miscellaneous	686,311	(17,370)	2,050,352	(146,626)	2,736,663	(163,996)
	$ 1,883,494	$ (102,242)	$ 3,966,682	$ (239,202)	$ 5,850,176	$ (341,444)

Gross unrealized losses related to bonds at June 30, 2009 and 2008 increased, and are comprised of investments backed by the U.S. government, other government, corporate, and mortgage-backed securities with an aggregate amortized cost of $9,195,424,000 and $9,546,477,000, and fair value of $9,081,273,000 and $9,332,631,000, respectively. Management believes that these unrealized losses are related to the interest rate environment and not a result of other than temporary impairments.

The amortized costs and estimated fair value of bonds at June 30, 2009 and 2008, 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.

(dollars in thousands)	2009 Amortized Costs	2008 Amortized Costs	2009 Estimated Fair Value	2008 Estimated Fair Value
Due less than one year	$ 833,718	$ 235,757	$ 805,371	$ 237,212
Due over one year through five years	1,583,628	2,318,097	1,606,855	2,294,197
Due over five years through ten years	2,555,314	2,495,985	2,519,594	2,428,580
Due over ten years through fifteen years	249,779	266,919	269,100	273,509
Due over fifteen years through twenty years	815,687	812,504	777,447	776,528
Due over twenty years through twenty-five years	811,138	699,122	835,567	707,182
Due over twenty-five years through thirty-five years	2,144,896	2,496,741	2,097,512	2,401,795
Due over thirty-five years	201,264	221,352	169,827	213,628
	$ 9,195,424	$ 9,546,477	$ 9,081,273	$ 9,332,631

Note 3 – Cash

Cash consists of cash in banks, cash on deposit with the State Treasurer, and cash on hand. The Industrial Insurance Fund has a cash management agreement with the Washington State Treasurer’s Office, the Washington State Investment Board, and the Office of Financial Management. Cash balances at the end of each day are invested.

Note 4 – Premiums Receivable, Net

All employers in Washington State are subject to Title 51 of the Revised Code of Washington and are required to provide workers’ compensation insurance by paying premiums to the Industrial Insurance Fund, or by electing and qualifying to be self-insured. Premiums are normally calculated using each employer’s reported payroll hours and insurance rates based on the employer’s risk classification(s) and past employee injury experience.

Employers’ workers’ compensation insurance premiums are due within 30 days following each calendar quarter in which payroll hours are reported. A premium receivable is established for each employer not fully paying or not reporting its payroll hours as of the due date set each quarter.

An allowance for uncollectible premiums is established based on an evaluation of outstanding premium receivables. For reporting in accordance with SSAP, all premium receivables exceeding 90 days in age are adjusted as nonadmitted assets in the current period. However, collection efforts are continued until the premiums are collected or all legal means are exhausted.

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 the 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 they are enrolled.

Note 5 - Land, Buildings, and Improvements, Net

Except as noted below, the Industrial Insurance Fund capitalizes:

- All land.
- All capital assets with a unit cost of $5,000 or more.
- Capital assets acquired by capital leases with a net present value or fair market value, whichever is less, of $10,000 or more.

Purchased capital assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Capital asset costs include the purchase price plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of capital assets are not capitalized.

The value of assets constructed for use in the Industrial Insurance Fund includes all direct construction costs and indirect costs that are related to the construction.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. 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

The cost and related accumulated depreciation of capital assets retired from service, or disposed of, are removed from the accounting records.

However, for reporting in accordance with SSAP, not all capitalized assets are admitted for reporting purposes. These nonadmitted assets are adjusted from the respective fund's contingency reserve and current purchases are immediately expensed. At June 30, 2009 and 2008, the Accident and Medical Aid Funds admitted only the investment in land, buildings, and improvements other than buildings, net of accumulated depreciation.

Additionally, per SSAP No. 40 (4) & (6), buildings are reported net of encumbrances, which, for the Industrial Insurance Fund, are the general obligation bonds issued for the construction of the building housing most of the Industrial Insurance Fund's employees.

Reconciliation of GAAP Capital Assets to SSAP Financial Information Admitted Capital Assets

(dollars in thousands)

Capital Asset	**June 30, 2009**			
	GAAP Book Value	Nonadmitted	Encumbrance	SSAP Admitted
Land	$ 3,204	$ -	$ -	$ 3,204
Art	36	(36)	-	-
Building, net	40,324	-	(25,930)	14,394
Improvements other than buildings, net	684	-	-	684
Leasehold improvements, net	278	(278)	-	-
Equipment and software, net	18,319	(18,319)	-	-
Software under development	500	(500)	-	-
Total Capital Assets	$ 63,345	$ (19,133)	$ (25,930)	$ 18,282

	June 30, 2008			
	GAAP Book Value	Nonadmitted	Encumbrance	SSAP Admitted
Land	$ 3,204	$ -	$ -	$ 3,204
Art	36	(36)	-	-
Building, net	41,581	-	(29,554)	12,027
Improvements other than buildings, net	704	-	-	704
Leasehold improvements, net	382	(382)	-	-
Equipment and software, net	17,298	(17,298)	-	-
Software under development	4,187	(4,187)	-	-
Total Capital Assets	$ 67,392	$ (21,903)	$ (29,554)	$ 15,935

Note 6 – Investment Income

The Industrial Insurance Fund does not admit investment income due and accrued if amounts are over 90 days past due. The Fund has no mortgage income.

Note 7 – Retirement Plans, Compensated Absences, Deferred Compensation Plan and Other Postemployment Benefits

7.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 $11,214,837 and $8,328,658 to this plan during the Fiscal Years ended June 30, 2009 and 2008, 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 PO Box 43113, Olympia, Washington 98507-3113 or online at www.ofm.wa.gov/cafr.

7.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 leave 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.

7.C. Deferred Compensation Plan

Industrial Insurance Fund employees have the option to participate in the Deferred Compensation Plan (DCP). 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.

7.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 the Fiscal Year 2009, the amount actually contributed to the plan, and changes in the Industrial Insurance Fund's net OPEB obligation (NOO):

	June 30, 2009	June 30, 2008
NOO, Beginning of Year	$ 5,613,293	$ -
Annual OPEB costs	7,382,463	7,168,475
Contribution made	(1,941,381)	(1,555,182)
NOO, End of year	$ 11,054,375	$ 5,613,293

The above information was provided by the Office of Financial Management. The Industrial Insurance Fund's OPEB plan represents 2.24% and 2.28% of the state of Washington's OPEB plan as of June 30, 2009 and 2008, 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 an agent 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), 56 of the state's K-12 schools and educational service districts (ESDs) and 205 political subdivisions and tribal governments. Additionally, the PEBB plan is available to the retirees of the remaining 245 K-12 schools and ESDs.

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

	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.

As of June 2008, membership in the PEBB plan consisted of the following:

	Active Employees	Retirees[1]	Total
State	111,681	24,963	136,644
K-12 schools and ESDs[2]	2,132	26,013	28,145
Political subdivisions	11,393	900	12,293
Total	125,206	51,876	177,082

[1]Retirees include retired employees, surviving spouses, and terminated members entitled to a benefit.
[2]In Fiscal Year 2008, there were 100,208 full-time equivalent active employees in the 249 K-12 schools and ESDs that elected to limit participation in PEBB only to their retirees.

For Fiscal Years 2009 and 2008, the estimated monthly cost for PEBB benefits for each active employee (average across all plans and tiers) is as follows:

	June 30, 2009	June 30, 2008
Required Premium[3]		
Medical	$ 730	$ 694
Dental	73	71
Life	5	5
Long-term disability	2	2
Total	$ 810	$ 772
Employer contribution	$ 728	$ 697
Employee contribution	82	75
Total	$ 810	$ 772

[3] Per Index Rate Model 4.3. for FY 2009 and
Per Collective Bargaining Model 4.0. for FY 2008

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 2009, the average weighted implicit subsidy is projected to be $272 per member per month, and in Calendar Year 2008, the average weighted implicit subsidy was valued at $253 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 2009, the explicit subsidy is $183 per member per month and in Calendar Year 2008, the explicit subsidy was $164 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 2009 and 2008.

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 2009, the cost of the subsidies was approximately 6.6 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 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 tables show the components of the state's annual OPEB cost for Fiscal Year 2009, the amount actually contributed to the plan, and changes in the state's net OPEB obligation (NOO):

(dollars in thousands)	June 30, 2009	June 30, 2008
Annual required contribution	$ 331,688	$ 313,970
Interest on NOO	11,063	-
Amortization of NOO	(8,377)	-
Annual OPEB cost	334,374	313,970
Contributions made	(86,678)	(68,115)
Increase in NOO	247,696	245,855
NOO beginning of year	245,855	
NOO end of year	$ 493,551	$ 245,855

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

(dollars in thousands)

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$ 334,374	25.92%	$ 493,551
6/30/2008	$ 313,970	21.69%	$ 245,855

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2009 and 2008 based on the actuarial valuation date, January 1, 2008 and 2007 respectively was as follows:

(dollars in thousands)	June 30, 2009	June 30, 2008
Actuarially-accrued liability (AAL)	$ 4,014,270	$ 3,799,530
Actuarial value of plan assets	-	-
Unfunded actuarially-accrued liability (UAAL)	$ 4,014,270	$ 3,799,530
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	$ 5,170,126	$ 5,427,219
UAAL as a percentage of covered payroll	77.64%	70.01%

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 actuarially-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 actuarially-accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant methods and assumptions were as follows:

	June 30, 2009	June 30, 2008
Actuarial valuation date	January 1, 2008	January 1, 2007
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	4.50%	4.50%
Projected salary increases	4.50%	4.50%
Health care inflation rate	8.5% initial rate, 5% ultimate rate in 2016	11% initial rate, 5% ultimate rate in 2015
Inflation rate	3.50%	3.50%

The Schedule of Funding Progress, following the notes to the consolidated statutory financial statements, presents the results of the OPEB valuation for Fiscal Years 2006 through 2008. Looking forward, the schedule will provide additional multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarially-accrued liabilities for benefits.

Note 8 – Contingencies

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.

Tobin v. Department of Labor and Industries (including Industrial Insurance Fund)

This case is primarily about the formula used for the distribution of money recovered from third parties. RCW 51.24 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 under a complex statutory formula. The current distribution formula includes third party damages for pain and suffering. The plaintiff of this case argues that pain and suffering damages must be excluded from distribution. The Department's position was not upheld by the Court of Appeals, but the Supreme Court has accepted review of this case and was scheduled to hear oral argument on November 16, 2009.

A decision in this case is not anticipated until sometime in 2010. In the meantime, the plaintiff has created a class action lawsuit and numerous Board of Industrial Insurance Appeal cases and many more are expected to follow. At the time of this report, the ultimate outcome of this litigation cannot be determined and the Department intends to vigorously defend its position. However, if the plaintiff's argument prevails, the Department estimates that there would be an initial loss of expected reimbursement revenue to the Industrial Insurance Fund in the amount of $41.2 million, and thereafter the Department would expect a loss of future anticipated revenue in the amount of $11 million per year. As the potential negative outcome of this case impacts the Industrial Insurance Fund's future revenues, no adjustments have been reflected in the financial statements.

Other 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 Industrial Insurance Fund financial position, revenues, or expenses.

Note 9 –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 that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2009:

Operating Leases (by Fiscal Year)	Accident Fund	Medical Aid Fund	Total
2010	$ 3,766,907	$ 3,552,912	$ 7,319,819
2011	3,273,518	3,067,043	6,340,561
2012	2,302,248	2,093,842	4,396,090
2013	1,032,796	876,562	1,909,358
2014	379,615	364,190	743,805
2015-2018	840,433	792,221	1,632,654
Total Future Minimum Lease Payments	$ 11,595,517	$ 10,746,770	$ 22,342,287

The total operating lease rental expenses for Fiscal Years 2009 and 2008 were $10,408,417 and $9,938,288, respectively.

Note 10 – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Securities Lending

Washington State law and 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, 2009 was $2,026,780,825 and $1,984,744,127 respectively. The collateral held and fair value of securities on loan at June 30, 2008 was $2,135,090,940 and $2,091,758,169, 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. At June 30, 2009 and 2008, 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.

During Fiscal Years 2009 and 2008, securities lending transactions could be terminated on demand by either the Industrial Insurance Fund or the borrower. All loans held by the Industrial Insurance Fund at June 30, 2009 matured overnight. At June 30, 2008 the average weighted maturity of overall loans was 21 days. Cash collateral was invested by the Industrial Insurance Fund's agents in securities issued or guaranteed by the U.S. government, in the WSIB's short-term investment pool (average final maturity of 60 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be loaned.

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 2009 and 2008, 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 2009 and 2008 resulting from a default by either the borrowers or the securities lending agents.

Note 11 – Estimated Future Benefits

Liabilities for unpaid benefits and claims administration expenses in the Accident and Medical Aid Funds are provided based primarily on the development patterns of paid-to-date losses for older accident periods. For more recent accident periods, selections of several common actuarial techniques are used. These estimates are continually under review, and as changes to these liabilities become necessary, such adjustments are reflected in current income.

For insurance reporting purposes under SSAP requirements, these estimates are calculated and presented net of all recoveries. Reporting under GAAP requirements, these estimates are presented at the discounted present value without an adjustment for recoveries. Recoveries include overpayments and successful subrogation against third parties. Recoveries may be in the form of cash or a deduction against continuing benefits.

The benefit liability in the Pension Reserve Fund is determined from individual claims transferred to this fund using actuarial pension annuity tables. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.

2009 Claims Liability Development by Program
(dollars in thousands)

Program/ Category	Undiscounted Liabilities	Discount Rate	SSAP Liabilities	Overpayment Adjustments	GAAP Liabilities
Accident	$ 6,795,048	2.50%	$ 3,940,013	$ 75,379	$ 4,015,392
Medical Aid	4,775,436	2.50%	3,168,101	43,568	3,211,669
Pensions	6,093,355	6.50%	3,048,607	8,096	3,056,703
Subtotal Benefit Liability	17,663,839		10,156,721	127,043	10,283,764
Claims Administration Expense (CAE)	532,000	2.50%	464,068	-	464,068
Total Benefits and CAE Liabilities	$ 18,195,839		$ 10,620,789	$ 127,043	$ 10,747,832

2008 Claims Liability Development by Program
(dollars in thousands)

Program/ Category	Undiscounted Liabilities	Discount Rate	SSAP Liabilities	Overpayment Adjustments	GAAP Liabilities
Accident	$ 5,863,963	2.50%	$ 3,460,037	$ 71,386	$ 3,531,423
Medical Aid	4,518,363	2.50%	3,011,436	51,101	3,062,537
Pensions	5,741,120	6.50%	2,859,480	8,268	2,867,748
Subtotal Benefit Liability	16,123,446		9,330,953	130,755	9,461,708
Claims Administration Expense (CAE)	477,578	2.50%	419,411	-	419,411
Total Benefits and CAE Liabilities	$ 16,601,024		$ 9,750,364	$ 130,755	$ 9,881,119

Note 12 – Claims

The following schedule presents the changes in claims liabilities for the Fiscal Years ending June 30, 2009 and 2008 for the Industrial Insurance Fund:

(dollars in thousands)	June 30, 2009	June 30, 2008
Unpaid claims and claim adjustment expenses at beginning of fiscal year	$ 9,750,364	$ 9,208,707
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current year	1,721,074	1,683,124
Increase in provision for insured events of prior years	807,594	365,881
Total incurred claims and claim adjustment expenses	2,528,668	2,049,005
Payments:		
Claims and claim adjustment expenses attributable:		
To events of the current year	322,285	309,598
To insured events of prior years	1,335,958	1,197,750
Total payments	1,658,243	1,507,348
Total unpaid claims and claim adjustment expenses at fiscal year end	$ 10,620,789	$ 9,750,364
Current portion	$ 1,608,322	$ 1,468,827
Long-term portion	$ 9,012,467	$ 8,281,537

A description of the risks to which the Industrial Insurance Fund is exposed and the ways risks are handled are presented in Note 11. At June 30, 2009 and 2008, $17.7 billion and $16.6 billion of unpaid claims and claim adjustment expenses are shown at their net present and settlement value of $10.6 billion and $9.8 billion, respectively. These claims are discounted at assumed interest rates of 2.5 percent (Accident Fund and Medical Aid Fund) and 6.5 percent (Pension Reserve Fund) to arrive at a settlement value that is net of third party recoveries.

Note 13 – Reinsurance

Management maintains an agreement with a reinsurance broker to purchase reinsurance at reasonable rates. Current rates exceed what are considered reasonable rates. Therefore, the Industrial Insurance Fund does not carry any catastrophic reinsurance coverage for its workers' compensation program. However, management remains in contact with the broker and will purchase reinsurance coverage when it becomes available at reasonable rates.

Note 14 – Retrospectively Rated Contracts and Contracts Subject to Redetermination

14.A. Method Used to Estimate

The Industrial Insurance Fund estimates their accrued retrospective premium annual adjustments for unadjusted enrollment periods by reviewing historical participation and return patterns. The historical averages are used to arrive at the best 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 adjustment is final.

14.B. Method Used to Record

Net return premiums are recorded as liabilities.

14.C. Amount and Percent of Net Retrospective Premiums

Net premiums for Fiscal Years ending June 30, 2009 and 2008 on retrospectively rated workers' compensation policies were $683,542,522 or 47 percent and $741,096,139 or 61 percent of total workers' compensation net premiums, respectively.

Note 15 – Asbestos Reserves

The Industrial Insurance Fund is exposed to asbestos claims arising from its workers' compensation coverage. IBNR and LAE reserves related to asbestos claims are included as part of the claims and LAE liabilities and are not calculated separately.

Note 16 – Related Party Transactions

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

The Washington State Treasurer's Office and the Washington State Investment Board are the Industrial Insurance Fund's agents for managing its cash and investment assets.

Note 17 – Income Taxes

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

Note 18 – Capital and Surplus

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

Note 19 – Subsequent Events

The Director of Labor and Industries has adopted an average premium rate increase of 7.6% for the calendar year 2010.

Schedules

State of Washington Industrial Insurance Fund - Basic Plan
Schedule of Claims Development Information (Schedule P)

Fiscal Years 2000 through 2009 (dollars in millions)

The table below illustrates how the Industrial Insurance Fund Basic Plan earned revenues (net of reinsurance) and investment income compare to the related costs of losses (net of loss assumed by re-insurers) and other expenses assumed by the Fund as of the end of each of the last ten fiscal years. The Industrial Insurance Fund 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 policy year).
3. This section shows the cumulative amounts paid as of the end of successive years for each policy year.
4. This section shows how each policy 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 policy 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 policy years.

The columns of the table show data for successive fiscal years (FYs 2000 through 2007 unaudited).

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
1. Net earned required contribution and investment revenues	$ 1,057	$ 1,449	$ 1,197	$ 2,111	$ 1,337	$ 2,452	$ 1,392	$ 2,406	$ 1,697	$ 1,692
2. Estimated incurred claims and expenses, end of policy year	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363
3. Paid (cumulative) as of:										
End of policy year	218	230	226	233	244	260	278	295	310	322
One year later	473	494	500	501	528	556	589	625	679	
Two years later	608	646	653	650	681	715	754	817		
Three years later	706	747	756	751	784	821	873			
Four years later	777	825	834	824	860	906				
Five years later	837	890	896	882	925					
Six years later	889	943	949	934						
Seven years later	933	989	999							
Eight years later	974	1,032								
Nine years later	1,014									
4. Re-estimated incurred claims and expenses:										
End of policy year	1,902	1,925	2,124	2,284	2,505	2,308	2,141	2,196	2,256	2,363
One year later	1,838	1,963	2,158	2,277	2,203	1,989	2,053	2,234	2,559	
Two years later	1,913	2,067	2,277	2,045	1,971	1,939	2,055	2,390		
Three years later	1,977	2,226	2,079	1,853	1,864	1,954	2,151			
Four years later	2,088	2,039	1,906	1,767	1,886	2,025				
Five years later	1,881	1,864	1,859	1,788	1,941					
Six years later	1,778	1,835	1,879	1,829						
Seven years later	1,755	1,858	1,926							
Eight years later	1,745	1,870								
Nine years later	1,788									
5. Increase (decrease) in estimated incurred claims and expenses from end of policy year	(114)	(55)	(198)	(455)	(564)	(283)	10	194	303	

Source: Washington State Department of Labor and Industries

State of Washington
Schedule of Funding Progress for Other Postemployment Benefits

This schedule presents the results of the OPEB valuation for the Fiscal Years 2006 through 2008:

Schedule of Funding Progress
Other Postemployment Benefits
Valuation Years 2006 through 2008
(dollars in millions)

	2008	2007	2006
Actuarial valuation date	1/1/2008	1/1/2007	N/A
Actuarial value of plan assets	$ -	$ -	N/A
Actuarial accrued liability (AAL)*	4,014	3,800	N/A
Unfunded actuarial accrued liability (UAAL)	4,014	3,800	N/A
Funded ratio	0%	0%	N/A
Covered payroll	5,170	5,427	N/A
UAAL as a percentage of covered payroll	77.64%	70.01%	N/A

* Based on projected unit credit actuarial cost method.

N/A indicates data not available.

Source: Washington State Office of the State Actuary

Source: Office of Financial Management
State of Washington

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Independent Actuarial Opinion

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IDENTIFICATION

I, David F. Mohrman, am associated with the Tillinghast business of Towers Perrin. I am a member of the American Academy of Actuaries and meet its qualification standards for signing statements of actuarial opinion regarding property and casualty insurance company statutory Annual Statements. I am a Fellow of the Casualty Actuarial Society. My firm has been retained to render an opinion on the reserves for unpaid loss and loss adjustment expense liabilities at June 30, 2009 recorded in the consolidated balance sheet of the State of Washington Industrial Insurance Fund (the "Fund") and I have been assigned responsibility for that project.

SCOPE

I have examined the reserves listed in Exhibit A, as shown in the Financial Statement of the Fund as prepared, as of June 30, 2009.

My examination of the loss and loss adjustment expense reserves was based upon data and related information prepared by the Fund. In this regard, I relied on Sharon Elias, Financial Services Program Manager, and William Vasek, Chief Actuary of the Washington State Department of Labor and Industries, as to the accuracy and completeness of the data. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data points materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this evaluation, I have assumed that the Fund (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. In other respects, my examination included the use of such actuarial assumptions and methods and such tests of calculations as I considered necessary.

My review was limited to the items in Exhibit A, and did not include an analysis of any income statement items or other balance sheet items.

RELEVANT COMMENTS

The Fund has no ceded or assumed reinsurance.

The Fund has represented to me that it has no unearned premium for long duration contracts, defined as single or fixed premium policies with coverage periods of thirteen months or greater which are non-cancelable and not subject to premium increase.

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, since the Fund covers workers compensation for all insured employers in the State of Washington, and the Fund did not write lines of business which are typically exposed to such losses.

I believe that there are significant risks and uncertainties that could result in material adverse deviation in the loss and loss adjustment expense reserves. In consideration of the use of this opinion for purposes of monitoring the Contingency Reserve of the Fund, I consider $110,000,000 to be material for this Fund, calculated as 20% of the Contingency Reserve. I have identified the major risks and uncertainties as reserve leverage, reserve discounting, and medical inflation. The absence of other risks and uncertainties 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.

Due to the relative size of the Fund's surplus and loss and LAE reserves, small changes to reserves would have a material impact on the Contingency Reserve.

Changes to the interest rates for discounting could result in material changes to reserves and, therefore, the Contingency Reserve.

Future medical payments for workers compensation claims are subject to inflation. Small differences in the rate of medical inflation from expectations could result in the reserves being inadequate or redundant for covering future medical payments.

Loss (and loss adjustment expense) reserves have been discounted to present value based on an actuarially derived projected payment pattern and a 2.5% interest rate for the Accident and Medical Aid Funds, and 6.5% for the Pension Reserve Fund. I am not expressing an opinion on these rates. The amount of discount is $7,575,050,000.

Reserves are established net of anticipated salvage and subrogation.

OPINION

In my opinion, the amounts recorded in the Financial Statement for the sum of items 1 and 2 on Exhibit A:

a) meet the requirements of the insurance laws of the State of Washington;

b) are consistent with amounts computed in accordance with the Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves and relevant standards of practice promulgated by the Actuarial Standards Board; and

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

VARIABILITY

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.

Further, my projections make no provision 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.

An actuarial report, including underlying workpapers supporting the findings expressed in this statement of actuarial opinion, has been provided to the Fund to be retained for a period of seven years at its administrative offices and available for regulatory examination.

This statement of opinion is solely for the use of, and only to be relied upon by the Fund and the State.

Date: December 2, 2009

David F. Mohrman, FCAS, MAAA
Principal
Towers Perrin
Forestal Centre
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Weatogue, CT 06089
(860) 843-7041

Exhibit A: SCOPE

	Accident Fund Column 1 Amount	Medical Aid Fund Column 2 Amount	Pension Reserve Fund Column 3 Amount	Total Column 4 Amount
1. Reserve for Unpaid Losses	$3,940,013,000	$3,168,101,000	$3,048,607,000	$10,156,721,000
2. Reserve for Unpaid Loss Adjustment Expenses	$179,649,000	$284,419,000	$0	$464,068,000

STATEMENT OF ACTUARIAL OPINION

Annual Statement of the State of Washington Industrial Insurance Fund

For the Year Ended June 30, 2009

Exhibit B: DISCLOSURES

Note: Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss the difference within RELEVANT COMMENTS.

		Column 1	Column 2	Column 3	Column 4
1.	Name of the Appointed Actuary		Mohrman	David	F.
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 (MAAA) 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 if part of the OPINION is qualified. N if No Opinion			R	
5.	Materiality Standard expressed in US dollars (Used to Answer Question #6)	$110,000,000			
6.	Is there a Significant Risk of Material Adverse Deviation?			Yes [X]	No [ ]
7.	Statutory Surplus (Liabilities, Col 1, Line 35)	$550,221,000			
8.	Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col 23, Line 12 * 1000)	NA			
9.	Discount included as a reduction to loss reserves and loss expense reserves as reported in Schedule P				
	9.1 Nontabular Discount [Notes, Line 31B23, (Amounts 1, 2, 3 & 4)], Electronic Filing Cols 7, 8, 9 & 10,	NA			
	9.2 Tabular Discount [Notes, Line 31A23, (Amounts 1 & 2)], Electronic Filing Col 7 & 8	NA			
10.	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.	NA			
11.	The net reserves for losses and loss adjustment expenses that the company carries for the following liabilities included on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines. *				
	11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 32A03D, ending net asbestos reserves for current year) Electronic Filing Col 11	NA			
	11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 32D03D, ending net environmental reserves for current year), Electronic Filing Col 11	NA			
12.	The total claims made extended loss and expense reserve (Schedule P Interrogatories).				
	12.1 Amount reported as loss reserves	NA			
	12.2 Amount reported as unearned premium reserves	NA			
13.	Other items on which the Appointed Actuary is providing Relevant Comment (list separately)	$0			

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Liability.

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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.
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[12-2009]