

**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**STATE ACCIDENT INSURANCE FUND CORPORATION
SALEM, OREGON**

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

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NAIC COMPANY CODE 36196

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SALUTATION

November 10, 2014

Honorable Laura N. Cali, Commissioner
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

STATE ACCIDENT INSURANCE FUND CORPORATION
400 High Street SE
Salem, Oregon 97312

NAIC Company Code 36196

hereinafter referred to as "SAIF" or the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed a single-state financial examination of the State Accident Insurance Fund Corporation as of December 31, 2013, covering the three year period then ended. The last examination was completed as of December 31, 2010. This examination covers the period of January 1, 2011, through December 31, 2013. Material transactions or events occurring subsequent to the examination cut-off date were reviewed and noted during the examination.

We considered the provisions of ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles, annual statement instructions, and Oregon statutes and administrative rules.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

COMPANY HISTORY

The State Accident Insurance Fund Corporation was created as an independent public corporation by passage of Senate Bill 255 in 1979. By this enactment, SAIF is the successor to the State Accident Insurance Fund (the Fund), which was created for the purpose of transacting workers' compensation business formerly transacted by the State Industrial

Accident Commission. The latter operated as the exclusive state workers' compensation agency from 1914 through 1965.

Passage of ORS 731.028 made SAIF a domestic insurer subject to limited provisions of the Oregon Insurance Code covering rate filings, accounting methods, annual statement filings and examinations.

Passage of Senate Bill 255 in 1979 converted the Fund to its present structure as an independent public corporation. This bill exempted SAIF from a number of statutes that control the administration and fiscal activities of state agencies, and made SAIF subject to limited Insurance Code provisions.

Regulation of SAIF

The provisions of ORS 731.028 exempt the Company from many of the Insurance Code requirements. SAIF is not subject to several of the provisions which limit insurer investments, such as the limitations ordinarily imposed on investments in mortgage loans (ORS 733.600), real property (ORS 733.610), stocks of corporations (ORS 733.620), stocks or obligations of subsidiaries (ORS 733.630), noninvestment grade securities (733.695), and many other such items. SAIF is exempt from the "prudent investor" and prohibited investment standards of ORS 733.670 and 733.780. SAIF is not legally empowered to control its own investments or investment decisions. SAIF's investments are subject to the control of the Oregon State Treasurer, pursuant to ORS 293.701 through 293.820.

SAIF is not subject to the statutory requirements of minimum required capital or surplus per ORS 731.554. Additionally, in the event of insolvency, SAIF is not subject to supervision, rehabilitation or liquidation. See ORS 734.043; 734.150; 734.170. Ordinarily, the claims of an insolvent workers' compensation insurer are protected by the Oregon Insurance Guaranty

Association under ORS 734.550. These provisions are not applicable to SAIF, pursuant to ORS 731.028.

While SAIF is exempt from many of the Insurance Code sections, it is subject to regulatory requirements that are not applicable to other insurers. Some of these special regulatory requirements include: SAIF's Board of Directors is appointed by the Governor, SAIF's investment officer is the Oregon State Treasurer, SAIF's auditor is the Secretary of State, SAIF's legal firm is the Oregon Department of Justice, and SAIF must insure state agencies. In addition, SAIF's records are subject to public record laws.

CORPORATE RECORDS

Board Minutes

The provisions of ORS 656.751(6) and the Company's Bylaws, section 5, require the Company's Board to meet at least once every three months. The Company's Board held meetings during the period examined in accordance with the statute and the Bylaws of the Company.

The provisions of ORS 656.751(5) define a quorum as a majority of the members of the Board of Directors.

In general, the review of 2011 to 2013 Board meeting minutes of the Company, as well as the audit and compensation committees authorized by the Board, indicated that the minutes support the transactions of the Company and clearly describes the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. The Board met quarterly and additional meetings were scheduled as necessary.

Articles of Incorporation

The Company has no Articles of Incorporation. The Board of Director requirements and the Company's purpose and function are defined by ORS 656.751 and ORS 656.752.

Bylaws

There were no changes to the Company's Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

SAIF is governed by a five member Board of Directors appointed by the Governor, subject to confirmation by the Oregon Senate. Directors are appointed to four-year terms, but serve at the pleasure of the Governor. Two members of the Board are chosen to represent the public and one of the remaining three members must be an insured or an employee of a SAIF insured. The Board of Directors met all the requirements of ORS 656.751.

Board of Directors members appointed and serving as of December 31, 2013, were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Last Appointed</u>
James M. Ford** Medford, Oregon	President & CEO PremierWest Bank	July 2010
Robb E. Van Cleave The Dalles, Oregon	Chief Talent & Strategy Officer Columbia Gorge Community College	May 2009
John M. Endicott** Gresham, Oregon	Business Manager Plumbers & Steamfitters #290	February 2011

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Last Appointed</u>
Krishna Balasubramani Portland, Oregon	Partner Sather, Byerly and Holloway, LLP	September 2013
Catherine S. Travis* Portland, Oregon	Retired Attorney	May 2009

*Chair of the Board of Directors

**Obligations complete in early 2014. Replacements by the Governor have been confirmed.

Officers

SAIF's operating management as of December 31, 2013, was:

<u>Name</u>	<u>Office</u>
Brenda JP Rocklin*	President and Chief Executive Officer
Theresa R. McHugh*	Vice President – Financial Services
Gina M. Manley	Controller
Kathy L. Gehring	Vice President – Claims
Christopher J.T. Davie*	Vice President – Corporate Policy & External Affairs
Richard J. Hanson	Vice President – Information Services & CIO
Michelle J. Graham	Vice President – Policyholder Services
John D. Gilkey*	Sr. Vice President - Policyholder Services & Programs
Shannon N. Rickard	Vice President – Legal Services
Bruce E. Hoffman	Vice President – Underwriting Services
Michael E. Hartman	Vice President – Policyholder Programs
Pamela A. Woods	Vice President – Claims
Ryan W. Fleming	Vice President – Operations & Human Resources

*See Subsequent events section below.

FIDELITY BONDS AND OTHER INSURANCE

A fidelity bond written by Fidelity and Deposit Company of Maryland insures the State of Oregon (including SAIF Corporation) against losses caused by their employees and officers dishonesty. This fidelity bond coverage exceeded the NAIC recommended minimum coverage.

The State pays the cost of resolving tort claims. The purpose of self insuring is to pay reasonably for harm wrongly or negligently done by or on behalf of the state and to defend against claims that appear false or unfounded. These services are provided to state agencies by the Department of Administrative Services, Risk Management Division and the Department of Justice, Trial Division.

All other insurance coverage provided by the State of Oregon's Risk Management Division is as follows:

Real and personal property	Equipment breakdown
Excess property-terrorism	Special events liability

The Company insures its own employees for workers' compensation.

Although the Company does not have directors and officer's coverage, directors and officers of the Company are afforded protection under the State of Oregon's tort laws. Oregon tort laws limit the damages against employees performing services on behalf of the Company.

The above coverages were found to be adequate as of December 31, 2013.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Pension Funds

The majority of the Company's employees participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS Board of Trustees administers the program under the guidelines of ORS Chapter 238. Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.0 percent of their salary to the Individual Account Program (a defined contribution plan). Current law permits employers to pay employees' contributions to PERS, which the Company has elected to do. SAIF currently contributes 9.86 percent of each

covered employee's salary to fund the PERS program. Rates are subject to change as a result of subsequent actuarial valuations.

Company employees hired on or after August 29, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) after completing six months of service. OPSRP is a hybrid pension plan administered by the PERS Board of Trustees with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Currently the Company contributes 8.14 percent of each covered employee's salary to the Pension Program (defined benefit) and 6.0 percent to the Individual Account Program (defined contribution). Rates are subject to change as a result of subsequent actuarial valuations.

Along with other State of Oregon agencies, the Company participates in paying debt service for PERS bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are due to mature 25 years after the date of issuance. Currently the repayment rate is 6.7 percent of payroll each month. The payment rate is recalculated each state fiscal biennium.

Amounts contributed by the Company for all plans for the years ended December 31, 2013, and 2012 were \$12,953,590 and \$12,420,202, respectively.

Post Employment Benefits and Compensated Absences

On January 1, 2013, the Company adopted the provisions of SSAP No. 92, Accounting for Postretirement Benefits Other Than Pensions, a replacement of SSAP No. 14. SSAP 92 provided new requirements for recording and calculating the liability and expense of postretirement benefits plans other than pensions. The Company chose to recognize the entire surplus impact of adopting SSAP 92 as of January 1, 2013, resulting in recognition of an accumulated postretirement benefit obligation (APBO) of \$9,918,881. The amount will

be amortized over time through periodic charges to surplus. At December 31, 2013, the APBO was \$10,716,784, of which \$9,918,881 was recorded as a write-in liability as "APBO transition liability" and \$797,903 was recorded as accrued other expenses.

In addition, the Company has accrued obligations to former employees for benefits after their employment but before their retirement. A liability for earned but untaken vacation pay for current employees has been accrued.

TERRITORY AND PLAN OF OPERATION

The Company is a direct writer of workers' compensation insurance in the State of Oregon. The Company is not required to hold a Certificate of Authority.

The Company offers workers' compensation coverage under distinct rate tiers based on an employer's loss experience. These rate classes are select, preferred, standard, and three nonstandard classes. Rates are composed of a base rate, determined by the National Council on Compensation Insurance (NCCI) and approved by the Department of Consumer and Business Services, and then multiplied by a loss cost multiplier determined by SAIF. If an employer is unable to obtain coverage from SAIF or another insurer, then the employer must obtain coverage through the State of Oregon's Workers' Compensation Insurance Plan (WCIP). The Company participates as a servicing carrier of the WCIP residual market and pays its proportionate share of pool losses in excess of pooled premiums.

In addition to different rate classes, the Company offers various forms of premium payment plans under premium calculation methods such as the standard and retrospective plans. Under the standard plan, coverage is provided for a fixed premium paid on a monthly, quarterly, or yearly basis.

SAIF's retrospective premium plans (Retro) are generally offered to larger employers. Retro premiums are based on the employer's actual loss experience. Retro premiums are subject to maximum and minimum amounts. An employer's losses are evaluated at fixed periods following the end of a policy period.

SAIF markets its business directly and through independent agents. The Company has local offices throughout the state that offer loss control, marketing, premium audit, investigation and return-to-work services to policyholders. Local offices providing these policyholder services are in Bend, Eugene, Hermiston, Medford, North Bend, Portland, Roseburg and Salem.

Effective November 20, 2010, SAIF entered into an agreement to assume workers' compensation insurance written by Zurich American Insurance Company and American Zurich Insurance Company under a 100% quota share fronting reinsurance agreement. This agreement covers workers' compensation insurance for workers based outside Oregon whose employers are based in Oregon and insured by SAIF. This business is identified by SAIF as its "Other States Coverage" (OSC) program. The underwriting of this business is handled by SAIF.

GROWTH OF THE COMPANY

Growth of the Company since the last financial examination is reflected in the following schedule. Amounts were derived from the Company's filed annual statements, except in those years where the Oregon Insurance Division prepared an examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2010*	\$4,473,823,313	\$3,515,250,963	\$ 958,572,350	\$ 94,672,820
2011	4,445,065,251	3,527,835,720	917,229,531	(1,901,362)
2012	4,710,827,459	3,707,976,784	1,002,850,675	14,777,564
2013*	4,764,566,929	3,582,288,848	1,182,278,081	102,772,981

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 2010. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	(1) <u>Premium Earned</u>	(2) <u>Losses Incurred</u>	(3) <u>LAE & Other Underwriting Expenses</u>	(2)+(3)/(1) <u>Ratio</u>
2010*	\$332,965,896	\$334,071,145	\$101,123,592	130.70%
2011	356,841,178	242,027,020	155,898,068	111.51%
2012	402,252,479	262,692,971	168,232,084	107.13%
2013*	435,175,657	240,558,347	159,893,704	92.02%

*Per examination

A ratio of losses incurred, LAE, and other underwriting expenses to premium earned of more than 100% typically indicates an underwriting loss. An underwriting loss occurred in two of the three years covered by this examination, however, the Company's investment income offset underwriting losses to produce net income during those years. Losses incurred decreased and favorable loss developments from prior years were key factors in the underwriting gain for 2013.

REINSURANCE

Ceded Reinsurance

Effective October 1, 2013, the Company has reinsurance coverage through a First and Second Layer Workers' Compensation Catastrophic Excess of Loss Reinsurance Agreement ceding 100% of the interest and liabilities to various foreign and alien professional reinsurers. The first layer of reinsurance covers up to \$30 million ultimate net loss in excess of \$35 million retention each loss. The second reinsurance layer covers \$30 million ultimate net loss in excess of \$65 million retention each loss. Together the two layers of this reinsurance agreement establish an aggregate limit of \$95,000,000 for all occurrences. Workers'

compensation policies written by the Company with maximum policy limits up to \$10 million on any one life are covered by this reinsurance agreement.

Risk Retention

The provisions of ORS 731.504 generally prohibit an insurer from retaining risk on any one subject of insurance in excess of 10% of its surplus to policyholders. The Company, however, is not subject to this statute pursuant to ORS 731.028. Given the Company's year-end 2013 surplus as regards policyholders of \$1,182,278,081, a single risk being greater than 10% of surplus is remote.

Insolvency Clause

The reinsurance agreement's insolvency clause specified payments would be made to a statutory successor without diminution in the event of insolvency.

Assigned Risk Pool

The Company operates as a Servicing Carrier for NCCI in Oregon. Under the terms of the Servicing agreement the Company writes the Assigned Risk business and cedes it 100% to NCCI Assigned Risk Pool. The 2013 premiums ceded to NCCI was \$16,040,291. NCCI retrocedes all the assigned risk pool premiums and policies out to workers' compensation carriers writing in Oregon based on their percentage of the total workers' compensation net written premium for Oregon. This results in the Company assuming \$23,779,708 in premium from the assigned risk pool.

As of December 31, 2013, the Company assumed business from the NCCI Assigned Risk Pool as noted above and from Zurich American Insurance Company under a fronting arrangement for Other States Coverage program as discussed in "Territory and Plan of

Operations” above. The Company assumed premiums of \$11,586,575 in 2013 under this fronting agreement.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2013, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the current information system possesses most of the physical and internal controls as prescribed by the NAIC.

STATUTORY DEPOSIT

The Company is required to maintain a deposit with the Oregon Insurance Division, Department of Consumer and Business Services pursuant to ORS 737.602. As of December 31, 2013, deposits were maintained in certificates of authority with maturity values totaling \$433,550.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

No recommendations were made as a result of the prior examination.

SUBSEQUENT EVENTS

1. Executive Officers - Certain senior management changes occurred subsequent to the examination date. John Plotkin was hired to replace Brenda J. P. Rocklin as CEO effective February 2014. He was terminated in May 2014. As of the date of this examination, John D. Gilkey was appointed and acting as the interim CEO. Mr. Gilkey has announced his plans to retire and stated he will serve as interim CEO until a successor is named. Christopher J. T. Davie, VP of Corp. Policy and External Affairs retired as of June 2014. Theresa R. McHugh, VP of Financial Services, retired August 2014.

2. Policyholder dividends - At its September 10, 2014, Board meeting, SAIF declared a \$165,000,000 dividend payable to eligible policyholders with policy end dates in 2013 to be paid by end of October 2014.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of State Accident Insurance Fund Corporation as of December 31, 2013:

Statement of Assets
Statement of Liabilities, Surplus and Other Funds
Statement of Income
Reconciliation of Surplus Since the Last Examination

STATE ACCIDENT INSURANCE FUND CORPORATION

ASSETS

As of December 31, 2013

<u>ASSETS</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$3,627,583,396	\$ -	\$3,627,583,396	1
Common stock	485,713,323	-	485,713,323	1
Real estate				
Properties occupied by the company	12,796,604	-	12,796,604	
Real estate held for the production of income	665,326		665,326	
Cash, cash equivalents and short- term investments	58,376,190	-	58,376,190	
Other invested assets	27,961,832		27,961,832	
Receivable for securities	68,367		68,367	
Securities lending reinvested collateral assets	172,667,504		172,667,504	2
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$4,385,832,542</u>	<u>\$ -</u>	<u>\$4,385,832,542</u>	
Investment income due and accrued	35,875,145	-	35,875,145	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	5,458,731	-	5,458,731	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	279,103,552	-	279,103,552	
Accrued retrospective premiums	26,262,586		26,262,586	
Reinsurance				
Amounts recoverable	295,873	-	295,873	
Funds held or deposited	825,000	-	825,000	
EDP equipment and software	390,682	-	390,682	
Aggregate write-ins for other than invested assets	<u>30,522,818</u>	<u>-</u>	<u>30,522,818</u>	
Total assets	<u>\$4,764,566,929</u>	<u>\$ -</u>	<u>\$4,764,566,929</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2013

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Losses	\$2,646,271,762	\$ -	\$2,646,271,762	3
Loss adjustment expenses	409,195,230	-	409,195,230	3
Commissions payable	12,604,472	-	12,604,472	
Other expenses	19,563,612	-	19,563,612	
Taxes, licenses and fees	24,572,679	-	24,572,679	
Unearned premiums	213,457,916	-	213,457,916	
Advance premium	3,782,686	-	3,782,686	
Ceded reinsurance premium payable	3,680,117	-	3,680,117	
Amounts withheld or retained by company for account of others	29,278,868	-	29,278,868	
Remittances and items not allocated	128,065	-	128,065	
Provision for reinsurance	947,905	-	947,905	
Payable for securities	2,921	-	2,921	
Payable for securities lending	172,632,633	-	172,632,633	
Aggregate write-ins for liabilities	<u>46,169,982</u>	-	<u>46,169,982</u>	
Total Liabilities	<u>\$3,582,288,848</u>	<u>\$ -</u>	<u>\$3,582,288,848</u>	
Aggregate write-in for special surplus funds	\$ -	\$ -	\$ -	
Gross paid in and contributed surplus	-	-	-	
Unassigned funds (surplus)	<u>1,182,278,081</u>	<u>-</u>	<u>1,182,278,081</u>	
Surplus as regards policyholders	<u>1,182,278,081</u>	<u>-</u>	<u>1,182,278,081</u>	
Total Liabilities, Surplus and other Funds	<u>\$4,764,566,929</u>	<u>\$ -</u>	<u>\$ 4,764,566,929</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
STATEMENT OF INCOME
As of December 31, 2013

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Underwriting Income				
Premium earned	\$435,175,657	\$ -	\$435,175,657	
Deductions:				
Losses incurred	240,558,347	-	240,558,347	
Loss adjustment expenses incurred	74,061,552	-	74,061,552	
Other underwriting expenses incurred	85,832,152	-	85,832,152	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>400,452,051</u>	<u>-</u>	<u>400,452,051</u>	
Net underwriting gain (loss)	<u>34,723,606</u>	<u>-</u>	<u>34,723,606</u>	
Investment Income				
Net investment income earned	145,601,536	-	145,601,536	
Net realized capital gains (losses)	<u>51,289,096</u>	<u>-</u>	<u>51,289,096</u>	
Net investment gain (loss)	196,890,632	-	196,890,632	
Other Income				
Net gain (loss) from agents' or premium balances charged off	(1,030,657)	-	(1,030,657)	
Finance and service charges not included in premiums		-		
Aggregate write-ins for miscellaneous income	<u>1,155,117</u>	<u>-</u>	<u>1,155,117</u>	
Total other income	<u>124,460</u>	<u>-</u>	<u>124,460</u>	
Net income before dividends to policyholders and FIT incurred	<u>231,738,698</u>	<u>-</u>	<u>231,738,698</u>	
Dividends to policyholders	128,965,717	-	128,965,717	
Federal income taxes incurred	-	-	-	
Net income	<u>\$102,772,981</u>	<u>\$ -</u>	<u>\$102,772,981</u>	

STATE ACCIDENT INSURANCE FUND CORPORATION
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST
EXAMINATION
As of December 31, 2013

	2013	2012	2011
Surplus as regards policyholders, December 31, previous year	<u>\$1,002,850,675</u>	<u>\$ 917,229,531</u>	<u>\$958,572,350</u>
Net income	102,772,981	14,777,564	(1,901,362)
Change in net unrealized capital gains or (losses)	84,729,046	69,073,314	(39,127,353)
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	-	-	-
Change in non-admitted assets	(58,970)	299,622	(234,828)
Change in provision for reinsurance	1,076,657	1,470,644	(79,276)
Change in surplus notes	-	-	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:			
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:			
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to parent (cash)	-	-	-
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>(9,092,308)</u>	<u>-</u>	<u>-</u>
Change in surplus as regards policyholders for the year	<u>179,427,406</u>	<u>85,621,144</u>	<u>(41,342,819)</u>
Surplus as regards policyholders, December 31, current year	<u>\$1,182,278,081</u>	<u>\$1,002,850,675</u>	<u>\$917,229,531</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Investments

The Company's investments are held by the Oregon State Treasurer under the provisions of ORS 656.632. The Oregon Investment Council (OIC) sets the investment goals and determines the asset allocations in accordance with ORS 293.726 and SAIF's business needs. At year-end 2013, the Company's total investment components were 83% fixed income securities and 11% equities. During 2013 the Company earned \$196,890,632 on its investments, including realized capital gains of \$51,289,096.

Most of the SAIF's long-term bond investments were in Industrial & Miscellaneous Corporate Issues, US Agencies, US Treasury, US Special Revenue and Hybrid issues. Many of the securities were mortgage-backed and asset-backed securities. Most of the bond investments (93.5%) were investment grade NAIC Designation 1 and 2. Mutual funds classified as common stocks comprised about 11% of total cash and invested assets. A comparison of the investments over the past four years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common Stock</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2010	\$3,371,358,577	\$472,753,169	75.4%	10.6%
2011	3,427,548,852	378,851,939	77.1%	8.5%
2012	3,237,269,791	442,543,487	68.7%	9.4%
2013	3,627,583,396	485,713,323	76.1%	10.2%

Note 2 – Securities Lending Program

The Oregon Investment Council directed the Company's participation in securities lending. For the Company's securities lending arrangements, borrowers are required to deliver collateral for each loan equal to not less than 102%. Securities loaned as of year-end 2013 had a fair market value of \$167,167,052 or 3.8% of total cash and invested assets. The fair market value of collateral held was \$172,632,633 or 103.3% of loan securities. Net income earned from security lending during 2013 was \$444,020.

Note 3 – Losses and Loss Adjustment Expenses

The Insurance Division retained Steven G. McKinnon, FCAS, MAAA, FCA, Principal of Oliver Wyman Actuarial Consulting, Inc. to conduct an actuarial review of SAIF's loss liabilities as of December 31, 2013. He examined the methods and assumptions used to determine the stated reserves of SAIF as recorded on the National Association of Insurance Commissioners (NAIC) annual statement blank as of December 31, 2013. Specifically, the items examined included: Losses, Loss adjustment expenses (LAE), Retrospective premiums payable and receivable, and Dividends to policyholders.

He concluded the losses and loss adjustment reserves (LAE) as stated by SAIF were reasonable. Although Mr. McKinnon's estimate of loss and LAE reserves was lower than SAIF's estimate, they were within his range.

In Mr. McKinnon's opinion, the methods and assumptions used to allocate declared dividends are in compliance with Oregon Regulation OAR 836-080-0140. He further stated the methods and assumptions used to determine retrospective receivables and payables were reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

This examination made no adjustments to the Company's policyholders' surplus. During the three year period covered by this financial examination, the Company's surplus increased from \$958,572,350, as presented in the December 31, 2010, financial report of examination, to \$1,182,278,081, as shown in this report of financial examination. Below are the comparative assets and liabilities:

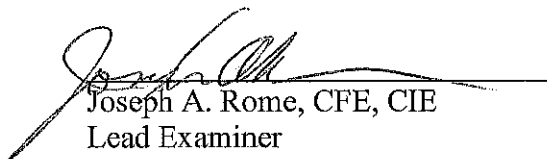
	December 31,		
	<u>2013</u>	<u>2010</u>	<u>Change</u>
Assets	\$4,764,566,929	\$4,473,823,313	\$290,743,616
Liabilities	<u>3,582,288,848</u>	<u>3,515,250,963</u>	<u>67,037,885</u>
Surplus	<u>\$1,182,278,081</u>	<u>\$ 958,572,350</u>	<u>\$223,705,731</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and contact employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Mark A. Giffin, CFE, Heather DeShores, MPA, MAFM, Mike P. Phillips, CFE, CPA, AES, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination. In addition, Steven G. McKinnon, FCAS, MAAA, FCA, consulting actuary, with Oliver Wyman Actuarial Consulting, Inc., participated in the examination.

Respectfully submitted,



Joseph A. Rome, CFE, CIE
Lead Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

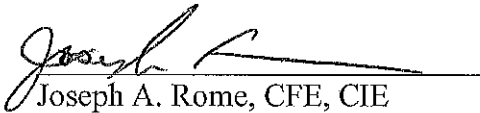
Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of State Accident Insurance Fund Corporation.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of State Accident Insurance Fund Corporation was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Joseph A. Rome, CFE, CIE
Lead Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 15 day of January, 2015.



NOTARY PUBLIC for the State of Oregon

My Commission Expires: 3/22/2017

