SAIF Corporation

(A Component Unit of the State of Oregon)

Financial Statements and Supplementary Schedule as of and for the Years Ended December 31, 2014 and 2013, and Report of Independent Auditors

SAIF CORPORATION

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OVERVIEW OF SAIF CORPORATION FINANCIAL REPORTING

SAIF Corporation (SAIF) has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America. As a discrete component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as a special purpose government engaged solely in business-type activities. Accordingly, SAIF follows the accrual basis of accounting. Revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

SAIF also prepares financial statements in conformity with statutory accounting practices, which are prescribed for use in reporting accounting transactions for insurance companies. These practices arise from state laws and from rules adopted by the State Insurance Commissioner and, for Oregon, are the practices promulgated by the National Association of Insurance Commissioners (NAIC). Statutory accounting practices are conservative in nature and are designed to protect policyholders and claimants to ensure that, in the event of liquidation, sufficient amounts will have been set aside to provide for the outstanding claims of injured workers and their dependents, whereas generally accepted accounting principles (GAAP) are based on the going-concern concept and recognize revenues when earned and expenses when incurred.

There are significant differences between the statutory statements that SAIF prepares for regulatory and management purposes and the accompanying financial statements. They include:

- Statutory accounting requires the majority of invested assets to be recorded at amortized cost, whereas investments are stated at fair value in the accompanying statements with the corresponding change in the fair value for the year recorded as investment income.

- Statutory accounting does not allow the accrual of policyholder dividends until declared by the Board of Directors. GAAP requires the accrual of estimated policyholder dividends.

- Statutory accounting requires that certain assets not readily available for the payment of claims be “nonadmitted” and removed from the statement of net position. Those assets, such as property and equipment, are included on the GAAP financial statements.

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors of
SAIF Corporation

The Secretary of State Audits Division of
The State of Oregon

Report on the Financial Statements

We have audited the accompanying financial statements of SAIF Corporation ("SAIF"), a component unit of the State of Oregon, as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise SAIF's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

MOSS-ADAMS LLP

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of SAIF Corporation as of December 31, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and postemployment healthcare benefit plan schedule of funding progress on pages 4 through 12 and 36, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise SAIF's basic financial statements. The introductory section titled, Overview of SAIF Corporation Financial Reporting, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Overview of SAIF Corporation Financial Reporting has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express on opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2015 on our consideration of SAIF Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SAIF Corporation's internal control over financial reporting and compliance.

Moss Adams LLP

Eugene, Oregon
July 30, 2015

Management of SAIF Corporation (SAIF) prepares Management's Discussion and Analysis for readers of SAIF's financial statements. This narrative overview and analysis of the financial activities of SAIF is as of and for the years ended December 31, 2014 and 2013. Readers are encouraged to consider this information in conjunction with SAIF's financial statements and notes that follow.

Financial Statements

This discussion and analysis is intended to serve as an introduction to SAIF's financial statements: the Statements of Net Position; the Statements of Revenues, Expenses, and Changes in Net Position; and the Statements of Cash Flows. The financial statements are designed to provide the readers with an overview of SAIF's financial position and activities.

The Statements of Net Position present information on SAIF's assets and liabilities, with the difference between the two reported as net position. Assets and liabilities are classified as either current or noncurrent.

The Statements of Revenues, Expenses, and Changes in Net Position are SAIF's income statements. Revenues earned and expenses incurred during the year are classified as either operating or nonoperating.

The Statements of Cash Flows present the changes in SAIF's cash and cash equivalents during the year. These statements are prepared using the direct method of cash flows. The statements break out the sources and uses of SAIF's cash and cash equivalents into the following categories: operating activities, investing activities, and capital and related financing activities.

Condensed Financial Information
(In thousands)

Condensed Statements of Net Position Information

	2014	December 31, 2013	2012	2013 to 2014 Increase (Decrease)	2012 to 2013 Increase (Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 42,199	$ 58,376	$ 88,393	$ (16,177)	$ (30,017)
Investments	4,512,514	4,323,985	4,313,235	188,529	10,750
Securities lending cash collateral	146,178	172,668	315,896	(26,490)	(143,228)
Accounts and interest receivable, net	395,337	385,546	362,037	9,791	23,509
Other assets	813	148	123	665	25
Total current assets	5,097,041	4,940,723	5,079,684	156,318	(138,961)
NONCURRENT ASSETS—Capital assets, net	14,311	15,075	15,771	(764)	(696)
TOTAL ASSETS	$ 5,111,352	$ 4,955,798	$ 5,095,455	$ 155,554	$ (139,657)
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	$ 255,309	$ 251,185	$ 243,397	$ 4,124	$ 7,788
Unearned premiums	223,501	217,434	198,567	6,067	18,867
Policyholders' dividends payable	-	-	35	-	(35)
Accounts payable	84,707	74,720	58,818	9,987	15,902
Obligations under securities lending	146,180	172,633	315,817	(26,453)	(143,184)
Other liabilities and deposits	60,312	53,385	63,998	6,927	(10,613)
Total current liabilities	770,009	769,357	880,632	652	(111,275)
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,706,754	2,790,190	2,809,214	(83,436)	(19,024)
Other postemployment benefits obligation	3,993	3,029	2,024	964	1,005
Total noncurrent liabilities	2,710,747	2,793,219	2,811,238	(82,472)	(18,019)
Total liabilities	3,480,756	3,562,576	3,691,870	(81,820)	(129,294)
NET POSITION:					
Net investment in capital assets	14,311	15,075	15,771	(764)	(696)
Unrestricted	1,616,285	1,378,147	1,387,814	238,138	(9,667)
Total net position	1,630,596	1,393,222	1,403,585	237,374	(10,363)
TOTAL LIABILITIES AND NET POSITION	$ 5,111,352	$ 4,955,798	$ 5,095,455	$ 155,554	$ (139,657)

Condensed Revenues, Expenses, and Changes in Net Position Information

	Years Ended December 31, 2014	2013	2012	2013 to 2014 Increase (Decrease)	2012 to 2013 Increase (Decrease)
OPERATING REVENUES:					
Net premiums earned	$ 474,355	$ 435,671	$ 401,350	$ 38,684	$ 34,321
Other income	28,540	27,210	25,242	1,330	1,968
Total operating revenues	502,895	462,881	426,592	40,014	36,289
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	270,861	316,818	353,123	(45,957)	(36,305)
Policyholders' dividends	164,950	129,145	149,970	35,805	(20,825)
Underwriting expenses	120,304	112,157	99,130	8,147	13,027
Bad debt provision	1,480	925	533	555	392
Total operating expenses	557,595	559,045	602,756	(1,450)	(43,711)
OPERATING LOSS	(54,700)	(96,164)	(176,164)	41,464	80,000
NONOPERATING REVENUES:					
Net investment income	292,074	85,801	398,179	206,273	(312,378)
INCREASE (DECREASE) IN NET POSITION	$ 237,374	$ (10,363)	$ 222,015	$ 247,737	$ (232,378)
NET POSITION—Beginning of year	1,393,222	1,403,585	1,182,966	(10,363)	220,619
RESTATEMENT—Beginning net position	-	-	(1,396)	-	1,396
NET POSITION—End of year	$ 1,630,596	$ 1,393,222	$ 1,403,585	$ 237,374	$ (10,363)

Financial position as of December 31, 2014

At the end of 2014, total assets increased $155.6 million from the prior year. Total liabilities decreased $81.8 million for the year, and net position increased $237.4 million.

Significant changes include:

Cash and cash equivalents—The majority of SAIF's cash accounts consist of short-term investments and money market funds utilized by external investment managers. Cash and cash equivalents decreased $16.2 million from December 31, 2013 to December 31, 2014, primarily due to a decrease in the money market fund balances held by the fixed income managers.

Investments—At the end of 2014, investments were $188.5 million or 4.4 percent higher than at the end of 2013. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2014. Investment holdings (principal and cost) increased $131.0 million for bonds and decreased $40.0 million for equities. Bond holdings increased due to the reinvestment of investment income offset somewhat by the withdrawal of bond principal to fund the policyholder dividend payment. The decrease in equities was due to withdrawals to fund the policyholder dividend. Market values increased $99.0 million for bonds and decreased $1.5 million for equities. The BlackRock MSCI ACWI fund had a positive return of 4.2 percent for 2014.

Securities lending cash collateral—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Accounts and interest receivable—The balance in this line is comprised of investment income receivable, net premiums receivable, accrued retrospective premiums receivable, and other accounts receivable. This balance increased $9.8 million or 2.5 percent from December 31, 2013 to December 31, 2014.

Accrued investment income increased $633 thousand or 1.7 percent from December 31, 2013 to December 31, 2014.

Premiums receivable increased $11.3 million or 3.8 percent in 2014, due to the growth in premiums. Net written premiums increased 5.7 percent from 2013 to 2014.

Accrued retrospective premiums receivable decreased $6.8 million or 23.3 percent due to favorable loss reserve development, primarily for the State of Oregon's retrospectively rated policies.

Other accounts receivable increased $4.7 million or 20.2 percent in 2014. Receivables due from the assigned risk pool increased $5.0 million due to a change to gross up receivables and payables related to the pool, and reinsurance recoverable decreased $0.3 million.

Other assets—This line had no significant change from 2013 to 2014.

Reserve for losses and loss adjustment expenses—The total (current and noncurrent) reserve for losses and loss adjustment expenses (LAE) decreased $79.3 million or 2.6 percent from the prior year. Loss reserves decreased $89.8 million or 3.4 percent and LAE reserves increased $10.5 million or 2.6 percent during 2014. Loss reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves. The key drivers were a decrease in the tail factor and the continuing downward trend in medical severity. The observed medical escalation rate for 2014 was well below the assumption. Indemnity loss reserves experienced unfavorable development as indemnity costs for recent accident years were higher than expected. LAE reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributable to the overall reduction in reserves.

Unearned premiums—The amount of unearned premium for 2014 increased $6.1 million or 2.8 percent due to the increase in premium.

Accounts payable—The balance in this line is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line increased $10.0 million from 2013 to 2014. The $0.7 million increase in commission payable and the $1.8 million increase in premium assessment payable are due to the growth in premium. Reinsurance payable increased $3.9 million due to a change to gross up receivables and payables related to the assigned risk pool. Other accounts payable increased $3.6 million from 2013 to 2014, primarily due to a $2.8 million increase in policyholder credits.

Obligations under securities lending—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Other liabilities and deposits—The balance in this line is comprised of accrued retrospective premiums payable, premium deposits, amounts due to brokers for security purchases, amounts due to other governments, and compensated absences payable. This balance increased $6.9 million or 13.0 percent from the prior year, primarily due to a $5.6 million increase in the estimated amount of return premium payable on retrospectively rated policies, and a $1.6 million increase in premium deposits.

Operations - year ended December 31, 2014

Significant changes in revenues and expenses include:

Net premiums earned—In 2014, net premiums earned increased $38.7 million or 8.9 percent. The increase was due to new sales and higher reported payrolls by policyholders and tempered by a 7.6 percent decrease to pure premium rates effective January 1, 2014.

Other income—This line increased $1.3 million or 4.9 percent in 2014, due to an increase in premium assessment income as a result of the growth in premium.

Net losses and loss adjustment expenses incurred—Net losses incurred for 2014 decreased by $43.3 million from 2013, while net LAE incurred decreased $2.7 million for a total net decrease of $46.0 million. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves. The key drivers were a decrease in the tail factor and the continuing downward trend in medical severity. The observed medical escalation rate for 2014 was well below the assumption. Indemnity loss reserves experienced unfavorable development driven by higher than expected actual counts for fatal claims and an increase in severity for permanent total disability claims. LAE incurred decreased as reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributable to the overall reduction in reserves.

Policyholders' dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, and/or loss reserve reductions. In 2014, policyholder dividends of $165.0 million were incurred and paid to qualifying policyholders. In 2013, policyholder dividends of $129.1 million and $129.2 million were incurred and paid, respectively, to qualifying policyholders.

Underwriting expense—This line increased $8.1 million or 7.3 percent in 2014, due to an increase in premium.

Net investment income—Net investment income for 2014 was $206.3 million higher than the amount recorded for 2013, primarily due to a significant increase in bond market values. The change in fair value of investments recorded for 2014 was a positive $97.4 million compared to a negative $111.9 million for 2013. Net realized investment gains were $46.9 million for 2014, compared to net realized gains of $51.3 million for 2013. For 2014, net realized gains from bonds were $26.7 million, while net realized gains on equity sales were $20.2 million. Investment income increased $1.8 million from 2013 to 2014, and has been adversely affected by relatively low yields on high quality securities as bonds that were sold or matured with higher yields were replaced with lower yield securities. In addition, the payment of policyholder dividends during the past several years has reduced the opportunity for investment income.

Economic outlook

It is anticipated that the economy and unemployment rates will continue to slowly improve during 2015. The 5.3 percent pure premium rate reduction approved for 2015 may off-set premium growth due to new sales and increased payrolls during 2015.

The 2015 operating budget includes $3.4 million in funds to support a home office renovation project. During 2015, consultants will be hired for the predesign and schematic design development phases of the project.

Financial position as of December 31, 2013

At the end of 2013, total assets decreased $139.7 million from the prior year. Total liabilities decreased $129.3 million for the year, and net position decreased $10.4 million.

Significant changes include:

Cash and cash equivalents—The majority of SAIF's cash accounts consist of short-term investments and money market funds utilized by external investment managers. Cash and cash equivalents decreased $30.0 million from December 31, 2012 to December 31, 2013, primarily due to a decrease in the money market fund balances held by the fixed income managers.

Investments—At the end of 2013, investments were $10.8 million or 0.3 percent higher than at the end of 2012. Effective September 25, 2013, the Oregon Investment Council approved a revised asset allocation policy for SAIF Corporation. The new allocation allows for a 5 percent target allocation to real estate in the form of private or publicly traded funds and reduces the target allocation to fixed income holdings from 90 percent to 85 percent. The target allocation to global equities is unchanged at 10 percent. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2013. Investment holdings (principal and cost) increased $165.3 million for bonds and decreased $42.7 million for equities. Bond holdings increased due to the reinvestment of investment income offset somewhat by the withdrawal of bond principal to fund the policyholder dividend payment. The decrease in equities was offset by an increase in market values. Market values decreased $197.7 million for bonds and increased $85.8 million for equities. The BlackRock MSCI ACWI fund had a positive return of 24.0 percent for 2013.

Securities lending cash collateral—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Accounts and interest receivable—The balance in this line is comprised of investment income receivable, net premiums receivable, accrued retrospective premiums receivable, and other accounts receivable. This balance increased $23.5 million or 6.5 percent from December 31, 2012 to December 31, 2013.

Accrued investment income decreased $241 thousand or 0.7 percent from December 31, 2012 to December 31, 2013, primarily due to the low interest rate environment.

Premiums receivable increased $23.3 million or 8.5 percent in 2013, due to the continued growth in premiums. Net written premiums increased 9.5 percent from 2012 to 2013.

Accrued retrospective premiums receivable decreased $5.0 million or 14.7 percent due to favorable loss reserve development, primarily for the State of Oregon's retrospectively rated policies.

Other accounts receivable increased $5.5 million or 31.3 percent, due to a $3.9 million increase in receivables due from the assigned risk pool, a $0.9 million increase in premium assessment receivables, and a $0.7 million increase in funds deposited for Other States Coverage.

Other assets—This line had no significant change from 2012 to 2013.

Reserve for losses and loss adjustment expenses—The total (current and noncurrent) reserve for losses and loss adjustment expenses (LAE) decreased $11.2 million or 0.4 percent from the prior year. Loss reserves decreased $28.7 million or 1.1 percent and LAE reserves increased $17.5 million or 4.5 percent during 2013. Loss reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years, and a change to the future medical escalation rate assumption from 8.5 percent to 8.0 percent. Indemnity loss reserves experienced favorable development as indemnity costs for recent accident years were much lower than expected. LAE reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributable to a decrease in the forecast of future activities and the overall reduction in reserves.

Unearned premiums—The amount of unearned premium for 2013 increased $18.9 million or 9.5 percent due to the increase in premium.

Accounts payable—The balance in this line is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line increased $15.9 million from 2012 to 2013. The $1.9 million increase in commission payable and the $2.4 million increase in premium assessment payable are due to the growth in premium, as well as higher commission rates effective October 1, 2012. Reinsurance payable increased $4.3 million due to an increase in the balance due to the assigned risk pool. Other accounts payable increased $7.3 million from 2012 to 2013. Advance claim recovery increased $3.1 million, due to the receipt of a large third party settlement payment received in 2013, policyholder credits increased $2.4 million, due to the increase in premiums, and unclaimed property increased $0.1 million. Employee benefits payable increased $1.7 million from 2012, primarily due to a partial shift to self-funded employee health insurance.

Obligations under securities lending—This line item can fluctuate significantly from period to period depending on the amount of investment securities on loan. The amount of securities on loan will vary depending on market conditions and the demand for certain securities in SAIF's portfolio.

Other liabilities and deposits—The balance in this line is comprised of accrued retrospective premiums payable, premium deposits, amounts due to brokers for security purchases, amounts due to other governments, and compensated absences payable. This balance decreased $10.6 million or 16.6 percent from the prior year, primarily due to a $14.6 million decrease in amounts due to brokers for security purchases. This was offset by a $2.4 million increase in premium deposits, a $1.3 million increase in the estimated amount of return premium payable on retrospectively rated policies, a $0.2 million increase in compensated absences payable, and a $0.1 million increase in amounts due to other governments.

Operations - year ended December 31, 2013

Significant changes in revenues and expenses include:

Net premiums earned—In 2013, net premiums earned increased $34.3 million or 8.6 percent. The increase is due to new sales, higher reported payrolls by policyholders, and a 1.7 percent increase to pure premium rates effective January 1, 2013.

Other income—This line increased $2.0 million or 7.8 percent in 2013, due to an increase in premium assessment income as a result of the growth in premium.

Net losses and loss adjustment expenses incurred—Net losses incurred for 2013 decreased by $17.7 million from 2012, while net LAE incurred decreased $18.6 million for a total net decrease of $36.3 million. The favorable loss reserve development for 2013 was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years and a change to the future medical escalation rate assumption from 8.5 percent to 8.0 percent. Indemnity loss reserves experienced favorable development as indemnity costs for recent accident years were much lower than expected. LAE incurred decreased as reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributable to a decrease in the forecast of future activities and the overall reduction in reserves.

Policyholders' dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, and/or loss reserve reductions. In 2013, policyholder dividends of $129.1 million and $129.2 million were incurred and paid, respectively, to qualifying policyholders. In 2012, policyholder dividends of $150.0 million and $149.9 million were incurred and paid, respectively, to qualifying policyholders.

Underwriting expense—This line increased $13.0 million or 13.1 percent in 2013, due to an increase in premium, as well as an increase in commission rates effective October 1, 2012.

Net investment income—Net investment income for 2013 was $312.4 million lower than the amount recorded for 2012, primarily due to a significant decline in bond market values offset by an increase in market values for equities. The change in fair value of investments recorded for 2013 was a negative $111.9 million compared to a positive $203.4 million for 2012. Net realized investment gains were $51.3 million for 2013, compared to net realized gains of $39.3 million for 2012. For 2013, net realized gains from bonds were $35.7 million, while net realized gains on equity sales were $15.6 million. Investment income declined $8.7 million from 2012 to 2013, and has been adversely affected by relatively low yields on high quality securities as bonds that were sold or matured with higher yields were replaced with lower yield securities. In addition, the payment of policyholder dividends during the past four years has reduced the opportunity for investment income.

SAIF CORPORATION

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 42,199	$ 58,376
Investments	4,512,514	4,323,985
Securities lending cash collateral	146,178	172,668
Investment income receivable	36,984	36,350
Premiums receivable, net	308,284	296,987
Accrued retrospective premiums receivable	22,382	29,181
Accounts receivable	27,687	23,028
Other assets	813	148
Total current assets	5,097,041	4,940,723
NONCURRENT ASSETS—Capital assets, net	14,311	15,075
TOTAL	$ 5,111,352	$ 4,955,798
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	$ 255,309	$ 251,185
Unearned premiums	223,501	217,434
Accrued retrospective premiums payable	40,303	34,720
Commissions payable	13,242	12,604
Reinsurance payable	11,342	7,424
Accrued premium assessment payable	26,649	24,833
Premium deposits	14,154	12,573
Accounts payable	33,473	29,859
Obligations under securities lending	146,180	172,633
Other liabilities	5,856	6,092
Total current liabilities	770,009	769,357
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,706,754	2,790,190
Other postemployment benefits obligation	3,993	3,029
Total noncurrent liabilities	2,710,747	2,793,219
Total liabilities	3,480,756	3,562,576
NET POSITION:		
Net investment in capital assets	14,311	15,075
Unrestricted	1,616,285	1,378,147
Total net position	1,630,596	1,393,222
TOTAL	$ 5,111,352	$ 4,955,798

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
OPERATING REVENUES:		
Net premiums earned	$ 474,355	$ 435,671
Other income	28,540	27,210
Total operating revenues	502,895	462,881
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	270,861	316,818
Policyholders' dividends	164,950	129,145
Underwriting expenses	120,304	112,157
Bad debt provision	1,480	925
Total operating expenses	557,595	559,045
OPERATING LOSS	(54,700)	(96,164)
NONOPERATING REVENUES:		
Investment income	298,714	91,913
Investment expenses	(6,640)	(6,112)
Net investment income	292,074	85,801
INCREASE (DECREASE) IN NET POSITION	$ 237,374	$ (10,363)
NET POSITION—Beginning of year	1,393,222	1,403,585
NET POSITION—End of year	$ 1,630,596	$ 1,393,222

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	$ 487,004	$ 444,290
Loss and loss adjustment expenses paid	(350,173)	(328,054)
Underwriting expenses paid	(120,304)	(112,157)
Policyholder dividends paid	(164,950)	(129,180)
Other receipts	30,395	34,921
Net cash used in operating activities	(118,028)	(90,180)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,093,519)	(1,492,604)
Proceeds from sales and maturities of investments	1,037,175	1,395,210
Interest received on investments and cash balances	158,333	157,646
Interest received from securities lending	411	622
Interest paid for securities lending	(93)	(169)
Net cash provided by investing activities	102,307	60,705
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(482)	(600)
Proceeds from disposition of capital assets	26	58
Net cash used in capital and related financing activities	(456)	(542)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(16,177)	(30,017)
CASH AND CASH EQUIVALENTS—Beginning of year	58,376	88,393
CASH AND CASH EQUIVALENTS—End of year	$ 42,199	$ 58,376

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (54,700)	$ (96,164)
Adjustments to reconcile operating loss to net cash provided by Operating activities:		
Depreciation and amortization	1,192	1,208
Bad debt provision	1,480	925
Net changes in assets and liabilities:		
Premiums receivable, net	(12,778)	(24,223)
Accrued retrospective premiums receivable	6,799	5,042
Accounts receivable	(4,659)	(5,495)
Other assets	5	4
Reserve for losses and loss adjustment expenses	(79,312)	(11,236)
Unearned premiums	6,067	18,867
Accrued retrospective premiums payable	5,583	1,328
Policyholders' dividends payable	-	(35)
Commissions payable	638	1,882
Reinsurance payable	3,918	4,280
Accrued premium assessment payable	1,816	2,465
Premium deposits	1,581	2,399
Accounts payable	3,615	7,276
Other liabilities	(236)	292
Other postemployment benefits obligation	963	1,005
Total adjustments	(63,328)	5,984
NET CASH USED IN OPERATING ACTIVITIES	$ (118,028)	$ (90,180)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through conversions and tax free exchange transactions	$ 37,645	$ 58,904

See notes to financial statements.

1. DESCRIPTION OF BUSINESS & REGULATORY ENVIRONMENT

SAIF Corporation (SAIF) is a public corporation created by an act of the Oregon Legislature. It traces its origins to 1914 when its predecessor organization commenced business.

SAIF is an insurance company authorized to write workers' compensation coverage in Oregon and is a servicing carrier for accounts in the assigned risk pool. SAIF also provides coverage governed by the Longshore and Harbor Workers' Compensation Act, Jones Act, and Federal Employers Liability Law. SAIF has partnered with Zurich American Insurance Company and United States Insurance Services to provide other states coverage effective February 1, 2011. SAIF's Board of Directors is appointed by the governor of the State of Oregon and consists of Oregon business and community leaders not otherwise in the employ of SAIF. Certain members of SAIF's Board of Directors are SAIF policyholders or are employed by SAIF policyholders. The transactions between SAIF and these policyholders were within SAIF's standard terms and conditions.

SAIF writes business on a direct basis as well as through agents. Premiums written on a direct basis were 22.7 percent and 26.5 percent of standard premium during 2014 and 2013, respectively. SAIF issues workers' compensation insurance policies to individual Oregon employers including state agencies.

The Oregon Department of Consumer and Business Services (DCBS) enforces workers' compensation laws under the Oregon Revised Statutes (ORS). Under the reporting requirements of the DCBS, Insurance Division, SAIF is subject to Risk Based Capital (RBC) requirements of the National Association of Insurance Commissioners (NAIC), which establishes that certain amounts of capital and surplus be maintained. SAIF's RBC calculated minimum capital and surplus amount on the statutory basis of accounting was $289.5 million and $298.3 million at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the statutory capital and surplus of SAIF exceeded the minimum RBC requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting—SAIF has prepared the accompanying financial statements in accordance with accounting principles generally accepted in the United States of America for governmental entities. As a discretely presented component unit of the State of Oregon, SAIF is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). Under accounting principles generally accepted in the United States of America as applied to governmental entities, SAIF accounts for its activities as a special purpose government engaged solely in business-type activities. Accordingly, SAIF follows the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

Investments—SAIF reports investments at fair value on the statement of net position and recognizes the corresponding change in the fair value of investments in the year in which the change occurs as investment income. The fair value of debt and equity securities is determined using recognized pricing services or prices quoted by one or more independent broker. Equity securities traded on a national exchange are valued at the last reported sales price. Prior to December 2014, debt securities were generally valued at the midpoint between the bid and asked prices. For some debt securities where fair value could not be determined in this manner, a similar ‘benchmark’ security was used. The benchmark security has a coupon rate and maturity date comparable to the debt security being valued, as well as similar market risk. As of December 31, 2013, the percent of SAIF’s debt securities priced using the benchmark method was 36.0 percent. In December 2014, Oregon State Treasury changed its pricing service agreement with State Street Bank, and debt securities are now valued using evaluated bid prices.

Cash and cash equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. SAIF places its temporary cash investments with the Oregon Short-Term Fund (OSTF), an external cash and investment pool. SAIF’s participation in this fund is involuntary. This fund is not registered with the Securities and Exchange Commission and is not rated. The OSTF is a cash and investment pool that operates as a demand deposit account. As a result, SAIF’s investment is not impacted by changes in the market value of the OSTF. By statute, the OSTF may hold securities with maturities no greater than three years. Audited financial statements and monthly compliance summaries, which include information about the OSTF’s maturity distribution and credit quality, may be obtained at the Oregon State Treasury’s web site: http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx. As of December 31, 2014 and 2013, SAIF’s balance in the OSTF was $33.9 million and $30.5 million, respectively.

Oregon’s State Treasurer employs the services of two external investment managers to manage SAIF’s fixed income portfolios. The cash balances of the fixed income managers are invested in the SSgA Prime Money Market Fund which had a fund credit quality rating of AAAm. This fund’s stated objectives are to maximize current income while maintaining a stable $1.00 unit value by investing in high quality, short maturity securities. The average maturity of the SSgA Prime Money Market Fund as of December 31, 2014 and 2013, was 34 days and 24 days, respectively.

Concentrations of credit risk—Financial instruments, which potentially subject SAIF to concentrations of credit risk, consist principally of temporary cash investments and debt securities. SAIF places its investment securities with financial institutions approved by the State of Oregon and limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to investments in debt securities are limited due to the large number of such investments and their distribution among many different industries and geographic regions.

Capital assets—Capital assets are stated at historical cost, less accumulated depreciation. Maintenance, repairs, and minor renovations are charged to expense as costs are incurred. Upon retirement or sale, any resulting gain or loss is recorded as other income.

Internal and external costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized; costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred.

Capital assets are capitalized and depreciated using the straight-line method over the estimated useful lives of the assets as follows:

	Capitalization Threshold	Useful Life
Buildings and improvements	All	30–40 years
Furniture, equipment, and automobiles	$0–$5,000	3–7 years
Data processing software	$500,000	3 years

Capital assets activity for the years ended December 31, 2014 and 2013, was as follows (dollars in thousands):

	2014			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	26,419	-	-	26,419
Furniture, equipment, and automobiles	5,975	482	(357)	6,100
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	41,437	482	(357)	41,562
Total	44,466	482	(357)	44,591
Less accumulated depreciation for:				
Buildings and improvements	(15,802)	(734)	-	(16,536)
Furniture, equipment, and automobiles	(4,546)	(486)	331	(4,701)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(29,391)	(1,220)	331	(30,280)
Capital assets—net	$ 15,075	$ (738)	$ (26)	$ 14,311

	2013			
	Beginning Balance	Additions	Disposals	Ending Balance
Nondepreciable capital assets - land	$ 3,029	$ -	$ -	$ 3,029
Buildings and improvements	26,419	-	-	26,419
Furniture, equipment, and automobiles	5,677	600	(302)	5,975
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	41,139	600	(302)	41,437
Total	44,168	600	(302)	44,466
Less accumulated depreciation for:				
Buildings and improvements	(15,029)	(773)	-	(15,802)
Furniture, equipment, and automobiles	(4,325)	(466)	245	(4,546)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(28,397)	(1,239)	245	(29,391)
Capital assets—net	$ 15,771	$ (639)	$ (57)	$ 15,075

Premiums—Premiums are based on individual employers' reported payroll using predetermined, DCBS-approved insurance rates based on employee risk classifications and are recognized as income on a pro rata basis over the coverage period, which is generally one year. Ceded premiums are recognized consistent with the underlying policies. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums.

Policyholders' premiums due to SAIF are recorded as premiums receivable, net of the allowance for uncollectible accounts of $840 thousand and $823 thousand, at December 31, 2014 and 2013, respectively. Premiums receivable consists of both billed amounts and unbilled amounts. Unbilled premiums receivable primarily represent premiums recorded as written at the policy inception date and not yet billed, as well as an estimate of the difference between amounts earned ratably on installment-billed policies and the amount billed on the policy. Unbilled premiums receivable also include estimated billings on payroll reporting policies that were earned but not billed prior to year-end. SAIF uses its historical experience to estimate earned but unbilled amounts, which are recorded as premiums receivable. These unbilled amounts are estimates, and while SAIF believes such amounts are reasonable, there can be no assurance the amounts ultimately received will equal the recorded unbilled amounts. The ultimate collectability of the unbilled premiums receivable can be affected by general changes in the economy and the regulatory environment due to the increased time required to determine the billable amount. SAIF considers these factors when estimating the premium receivable for unbilled premiums. Unbilled premiums receivable at December 31, 2014 and 2013 were $301.9 million and $291.4 million, respectively, including unearned premiums of $170.5 million and $168.3 million, respectively, and are included in premiums receivable, net.

Certain policyholders are required to remit deposits which represent premium expected to be payable to SAIF at the end of the month following the reporting period (monthly and quarterly), plus one additional month. Deposits are generally in the form of cash and are recorded as policyholders' premium deposits. However, policyholders may pledge surety bonds and securities, as well as letters of credit, in lieu of cash deposits. Premium deposits at December 31, 2014 and 2013, were $14.2 and $12.6 million, respectively.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10½ years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 10½ years. The estimate of the net accrued premiums receivable for retrospective rating plans as of December 31, 2014 and 2013, is as follows (dollars in thousands):

	2014	2013
Accrued retrospective premiums receivable	$ 22,382	$ 29,181
Accrued retrospective premiums payable	(40,303)	(34,720)
Net	$ (17,921)	$ (5,539)

SAIF estimates accrued retrospective premiums receivable and payable by reviewing historical loss and premium development patterns at various stages of maturity and using these historical patterns to arrive at the best estimate of return and additional retrospective premiums on all open retrospectively rated policies. Premiums written on retrospective workers' compensation policies for 2014 and 2013 were $90.8 million and $82.0 million, respectively, or 19.0 percent and 18.0 percent of net premiums written, respectively.

Reserve for losses and loss adjustment expenses—The reserve for losses and LAE is generally based on past experience. The liability includes provisions for reported claims, claims incurred but not reported, and claims that are currently closed but which experience indicates will be reopened.

Management believes that the reserve for incurred but unpaid losses and LAE at December 31, 2014 and 2013, is a reasonable estimate of the ultimate net costs of settling claims and claim expenses incurred. Annually, the Board of Directors reviews the actuarial assumptions utilized in determining the liability for such losses. Actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease, inflation, and other societal and economic factors. As a result, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates. The amount ultimately paid may be more or less than such estimates. Adjustments resulting from changes in estimates of these liabilities are charged or credited to operations in the period in which they occur (see note 4).

Premium deficiency—Premium deficiency is based upon an estimate of the amount by which the sum of anticipated claims costs, claims adjustment expenses, and maintenance expenses exceeds expected premium income and earnings on investments. At December 31, 2014 and 2013, no reserve for premium deficiency was required to be recorded.

Policyholders' dividends—Substantially all of SAIF's business is written under various participating plans wherein a dividend may be returned to the policyholder. Dividends may be paid to the extent that a surplus is accumulated from premiums, investment gains, and/or loss reserve reductions. In 2014, policyholder dividends of $165.0 million were incurred and paid to qualifying policyholders. In 2013, policyholder dividends of $129.1 million and $129.2 million were incurred and paid, respectively, to qualifying policyholders.

Taxes and assessments—The Oregon Department of Justice has determined that SAIF is exempt from federal and state taxes, because it is an integral part of the State of Oregon and, alternatively, exempt under either or both Sections 501(c)(27)(B) and 115(1) of the Internal Revenue Code.

SAIF is subject to levies by the Oregon Workers' Compensation Division of the DCBS. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $27.2 million and $25.4 million, including $26.6 million and $24.8 million of accrued premium assessments, for the years ended December 31, 2014 and 2013, respectively.

Deferred acquisition costs—There were no deferred acquisition costs or amortization expenses recorded as of December 31, 2014 and 2013. SAIF implemented GASB Statement No. 65 in 2013, which eliminates deferred acquisition costs and requires recognition of expenses in the period incurred. The effect of GASB 65 on SAIF's financial statements is discussed in further detail in the new accounting pronouncements section of note 2.

Use of estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses during the reporting period, and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

New accounting pronouncements— In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflow of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4—*Elements of Financial Statements.* This statement requires acquisition costs, such as commissions and other costs related to acquiring new business to be expensed as incurred. SAIF implemented this statement for the fiscal year ended December 31, 2013. The impact of this statement on SAIF's financials resulted in a restatement of net position. The 2013 beginning net position was restated as follows:

	January 1, 2013
Net position, as previously stated	$1,412,654
Restatement due to the write off of deferred acquisition costs from GASB 65 implementation	(9,069)
Net position, as restated	$1,403,585

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.* This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The requirements of this statement are effective for SAIF's 2015 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations.* This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. This statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. SAIF implemented this statement for the fiscal year ended December 31, 2014. There was no significant impact on the financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68.* This statement amends paragraph 137 of Statement 68 to require that, at transition, a government should recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. The requirements of this statement are effective for SAIF's 2015 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application.* This statement addresses accounting and financial reporting issues related to fair value measurements. This statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. The requirements of this statement are effective for SAIF's 2016 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

Reclassifications—Certain reclassifications have been made to prior year amounts in order to conform with current year presentation.

3. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and cash equivalents—SAIF's cash is held in demand accounts with the State Treasurer, State Street Bank and Trust Company, and U.S. Bank. The cash held by the State Treasurer is invested in the OSTF, a cash and investment pool that is available for use by all state funds and eligible local governments. Cash equivalents held by State Street Bank and Trust Company consist of $2.8 million in the SSgA Prime Money Market fund.

SAIF's cash and cash equivalents totaled $42.2 million and $58.4 million as of December 31, 2014 and 2013, respectively, and are composed of the following (dollars in thousands):

Cash balances	**2014**	**2013**
Oregon Short-Term Fund	$ 33,900	$ 30,502
State Street Bank and Trust Company	-	2
U.S. Bank	5,506	5,195
	39,406	35,699
Cash equivalents		
State Street Bank (SSgA prime money market fund)	2,793	22,677
	2,793	22,677
Total cash and cash equivalents	$ 42,199	$ 58,376

Custodial credit risk for cash and cash equivalents (deposits)—Custodial credit risk for deposits is the risk that in the event of a bank failure, SAIF will not be able to recover the value of its deposits or collateral securities that are in possession of an outside party. State Treasury demand deposit accounts and investments of the OSTF held in state banks are insured up to the Federal Deposit Insurance (FDIC) amount of $250 thousand. Where balances exceed the FDIC amount, the balances are covered by collateral held in a multiple financial institution collateral pool administered by the Oregon State Treasury in the Public Funds Collateralization Program. As of December 31, 2014, the cash held by both State Street Bank and Trust Company (State Street) and U.S. Bank is in noninterest bearing accounts, is FDIC insured up to $250 thousand, and is uninsured for any balances exceeding that amount.

Investments—SAIF's investment policies are governed by statute and the Oregon Investment Council (Council). The State Treasurer (Treasurer) is the investment officer for the Council and is responsible for the funds on deposit in the State Treasury. In accordance with ORS 293.726, the investment funds are required to be invested, and the investments of those funds managed, as a prudent investor would do, exercising reasonable care, skill, and caution. While the Treasurer is authorized to use demand deposit accounts and fixed-income investments, equity investment transactions must be directed by external investment managers that are under contract with the Council. Equity investments are limited to not more than 50 percent of the monies contributed to the Industrial Accident Fund (SAIF Corporation). However, SAIF's adopted investment policy as approved by the Council limits equity holdings to a range of 7 to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Bond, mortgage-backed, asset-backed, and equity security transactions are recorded on a trade-date basis, generally three business days prior to the settlement date. However, the number of days between trade and settlement dates for mortgage-backed securities can be up to 30 days or longer, depending on the security. Due from brokers for security sales at

December 31, 2014 and 2013, were $738 thousand and $68 thousand, respectively. Due to brokers for security purchases at December 31, 2014 and 2013, were $3 thousand.

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. SAIF's policy for fixed income investments provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2014, was 5.62 years, with an acceptable range of 4.50 to 6.74 years. As of that date, the fixed income portfolio's duration was 5.47 years.

The following 2014 maturity distribution schedule includes $1.3 billion in interest-rate sensitive securities. As of December 31, 2014, SAIF held $496.8 million of U.S. Federal Agency mortgage-backed securities and $339.5 million of collateralized mortgage obligations (CMOs). These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2014, SAIF held $473.7 million of asset-backed securities which consisted primarily of automobile and student loans. The value of these securities can be volatile as interest rates fluctuate. Additional risk inherent with these securities is the unpredictability of default on loans that are the collateral for the debt.

The following schedule represents the fixed income investments by maturity date as of December 31, 2014 and 2013, using the segmented time distribution method. Expected maturities will 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):

2014	**Less Than 1 Year**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**	**Fair Value**
Bonds:					
U.S. Treasury obligations	$ 21,999	$ 118,365	$ -	$ 12,712	$ 153,076
U.S. federal agency mortgage securities	62,710	166,698	114,618	152,737	496,763
U.S. federal agency debt	7,800	3,159	-	1,699	12,658
Corporate bonds	30,103	569,711	620,072	808,112	2,027,998
Municipal bonds	16,297	10,877	13,325	64,004	104,503
Collateralized mortgage obligations	76,081	166,745	61,770	34,862	339,458
Asset-backed securities	122,351	175,043	135,835	40,505	473,734
International debt securities	19,376	106,381	176,903	157,413	460,073
Total bonds	$ 356,717	$1,316,979	$1,122,523	$1,272,044	$4,068,263
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 444,251
Total equity securities					444,251
Total investments					$4,512,514

2013	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ 7,510	$ 72,083	$ 63,556	$ 38,347	$ 181,496
U.S. federal agency mortgage securities	79,055	154,390	80,516	225,053	539,014
U.S. federal agency debt	-	8,123	3,182	1,420	12,725
Corporate bonds	41,870	630,263	595,177	702,500	1,969,810
Municipal bonds	13,248	15,794	8,189	66,469	103,700
Collateralized mortgage obligations	64,861	166,805	74,700	27,223	333,589
Asset-backed securities	68,537	136,841	57,611	49,889	312,878
International debt securities	10,185	133,898	135,941	105,036	385,060
Total bonds	$ 285,266	$1,318,197	$1,018,872	$1,215,937	$3,838,272
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 485,713
Total equity securities					485,713
Total investments					$4,323,985

Credit risk—Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SAIF's credit risk policy is to maintain a well-diversified investment portfolio. Fixed income holdings shall be the largest component of the portfolio. The policy seeks to maintain an overall fixed income portfolio quality of at least "A" or higher.

The majority of SAIF's debt securities as of December 31, 2014 and 2013, were rated by Moody's and Standard & Poor's, which are credit rating providers. The following schedule represents the ratings of debt securities by investment type as of December 31, 2014 and 2013, using either Moody's or Standard & Poor's rating scale (dollars in thousands):

2014	Quality Ratings										
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	153,076	-	-	-	-	-	-	-	-	-	$ 153,076
U.S. federal agency mortgage securities	-	496,763	-	-	-	-	-	-	-	-	-	496,763
U.S. federal agency debt	-	4,858	7,800	-	-	-	-	-	-	-	-	12,658
Corporate bonds	20,344	171,865	634,390	950,335	183,394	36,724	2,404	-	-	-	28,542	2,027,998
Municipal bonds	-	52,620	43,382	4,068	-	-	-	-	-	-	4,433	104,503
Collateralized mortgage obligations	86,421	105,476	78,824	6,304	439	1,167	-	-	-	7,767	53,060	339,458
Asset-backed securities	224,546	86,711	7,931	-	-	-	-	-	-	332	154,214	473,734
International debt securities	-	4,674	110,286	275,391	44,975	14,711	6,003	-	-	-	4,033	460,073
Total bonds	$ 331,311	$1,076,043	$ 882,613	$1,236,098	$ 228,808	$52,602	$ 8,407	$ -	$ -	$ 8,099	$ 244,282	$4,068,263

2013	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	181,496	-	-	-	-	-	-	-	-	-	$ 181,496
U.S. federal agency mortgage securities	-	539,014	-	-	-	-	-	-	-	-	-	539,014
U.S. federal agency debt	-	9,543	-	-	-	-	-	-	-	-	3,182	12,725
Corporate bonds	19,963	167,258	630,373	938,727	157,503	24,628	4,630	-	-	-	26,728	1,969,810
Municipal bonds	-	44,642	50,799	-	-	-	-	-	-	-	8,259	103,700
Collateralized mortgage obligations	107,630	63,058	32,344	8,304	518	1,363	1,551	-	-	7,707	111,114	333,589
Asset-backed securities	152,042	88,369	-	-	-	-	-	-	-	378	72,089	312,878
International debt securities	7,955	8,392	116,778	215,802	19,791	8,018	7,407	-	-	-	917	385,060
Total bonds	$ 287,590	$1,101,772	$ 830,294	$1,162,833	$ 177,812	$34,009	$13,588	$ -	$ -	$ 8,085	$ 222,289	$3,838,272

Concentration of credit risk—Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer. SAIF's investment policy places limitations on the amount that may be invested in any one issuer. The following specific limitations reflect, in part, the Oregon Investment Council's current investment philosophy regarding diversification.

- No fixed income investment in any one issue shall be in excess of 5 percent of the outstanding fixed income obligations of the issuer.
- Issuer level restrictions shall not apply to U.S. government and agency obligations, including agency-backed mortgages (no limit) and private mortgage-backed and asset-backed securities, which shall be limited to 10 percent per issuer.
- Obligations of other national governments are limited to 10 percent per issuer.

As of December 31, 2014 and 2013, SAIF did not have a concentration of credit risk in any one issuer that exceeded the policy outlined above.

Securities on deposit—U.S. Treasury obligations with a fair value of $8.3 million and $7.5 million were on deposit with the Federal Reserve as required by the U.S. Department of Labor under the Longshore and Harbor Workers' Compensation Act as of December 31, 2014 and 2013, respectively. In addition, certificates of deposit with a fair value of $372 thousand and $434 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2014 and 2013, respectively.

Securities lending—In accordance with state investment policies, SAIF participates in securities lending transactions. The Oregon State Treasury has, through a Securities Lending Agreement, authorized State Street to lend SAIF's securities to broker-dealers and banks pursuant to a form of loan agreement. Both SAIF and the borrowers maintain the right to terminate all securities lending transactions on demand. There have been no significant violations of the provisions of securities lending agreements.

During 2014 and 2013, State Street loaned SAIF's fixed income securities and received cash and noncash collateral denominated in U.S. dollars. Borrowers were required to deliver collateral for each loan equal to at least 102 percent of the fair value of the loaned security. SAIF did not impose any restrictions on the amount of the loans State Street made on its behalf. Securities received as collateral may not be sold or pledged by SAIF, except in the event of borrower default. SAIF was fully indemnified by State Street against losses due to borrower default, and there were no losses during the year from the failure of borrowers to return loaned securities.

Cash collateral received for securities loaned is invested in the State Street Bank and Trust Company Oregon Short-Term Investment Fund (the Fund), an "external investment pool" for purposes of GASB Statement No. 31. SAIF's participation in this fund is voluntary. The fair value of investments held by this fund is based upon valuations provided by a recognized pricing service. This fund is not registered with the Securities and Exchange Commission, but the custodial agent is subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. No income from the Fund was assigned to another fund by the custodial agent during 2014 and 2013. At December 31, 2014 and 2013, the Fund had an average life-final maturity of 109 days and 146 days, respectively.

The cash collateral held at December 31, 2014 and 2013 was $146.2 million and $172.7 million, respectively. Securities received as collateral were $31.7 million as of December 31, 2014. There were no securities received as collateral as of December 31, 2013. At December 31, 2014 and 2013, the fair value, including accrued investment income related to the securities on loan, was $174.3 million and $168.8 million, respectively. For 2014 and 2013, securities lending income was $407 thousand and $613 thousand and securities lending expense was $93 thousand and $169 thousand, respectively.

4. RESERVE FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

SAIF has established a reserve for both reported and unreported insured events, which includes estimates of future payments of losses and related LAE. In estimating the reserve for losses and LAE, SAIF considers prior experience, industry information, currently recognized trends affecting data specific to SAIF, and other factors relating to workers' compensation insurance underwritten by SAIF.

The following table provides a reconciliation of the beginning and ending reserve for losses and LAE at December 31, 2014 and 2013 (dollars in thousands):

	2014	2013
Gross reserve for losses and loss adjustment expenses—beginning of year	$3,176,312	$3,187,854
Less reinsurance recoverable—beginning of year	(134,937)	(135,243)
Net reserve for losses and loss adjustment expenses—beginning of year	3,041,375	3,052,611
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	527,601	510,592
Provision for insured events of prior years	(256,740)	(193,774)
Total incurred losses	270,861	316,818
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	131,671	119,439
Insured events of prior years	218,502	208,615
Total payments	350,173	328,054
Net reserve for losses and loss adjustment expenses—end of year	2,962,063	3,041,375
Plus reinsurance recoverable—end of year	124,899	134,937
Gross reserve for losses and loss adjustment expenses—end of year	$3,086,962	$3,176,312

The reserve for losses and LAE decreased $79.3 million in 2014, which was net of favorable development of $256.7 million. Loss reserves decreased $89.8 million as compared to the prior year. Loss reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves. The key drivers were a decrease in the tail factor and the continuing downward trend in medical severity. The observed medical escalation rate for 2014 was well below the assumption. Indemnity loss reserves experienced unfavorable development as indemnity costs for recent accident years were higher than expected.

LAE reserves increased $10.5 million. LAE reserves for the 2014 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributable to the overall reduction in reserves.

The reserve for losses and LAE decreased $11.2 million in 2013, which was net of favorable development of $193.8 million. Loss reserves decreased $28.7 million as compared to the prior year. Loss reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total and permanent partial disability medical loss reserves from recent accident years, and a change to the future medical escalation rate assumption from 8.5 percent to 8.0 percent. Indemnity loss reserves experienced favorable development as indemnity costs for recent accident years were much lower than expected. LAE reserves increased $17.5 million. LAE reserves for the 2013 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE development was largely attributed to a decrease in the forecast of future activities and the overall reduction in reserves.

SAIF discounts the indemnity reserve for known unpaid fatal and permanent total disability losses on a tabular basis using the 2007 United States Life Tables, the 1997 United States of America Railroad Retirement Board Remarriage Table, and a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical unpaid losses, or unpaid LAE. Gross reserves subject to tabular discounting were $269.1 million and $258.3 million for 2014 and 2013, respectively. The discounts were $95.1 million and $89.1 million as of December 31, 2014 and 2013, respectively.

Anticipated salvage and subrogation of $33.2 million and $32.4 million was included as a reduction of the reserve for losses and LAE at December 31, 2014 and 2013, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $20.6 million and $23.1 million for losses and LAE are related to asbestos claims as of December 31, 2014 and 2013, respectively. Amounts paid for asbestos-related claims were $776 thousand and $547 thousand at December 31, 2014 and 2013, respectively.

5. REINSURANCE

In the ordinary course of business, SAIF cedes premiums for purposes of risk diversification and limiting maximum loss exposure from catastrophic events through contractual agreements with reinsurers. If such assuming reinsurers are unable to meet the obligations assumed under these reinsurance agreements, SAIF would be liable to pay the obligation. To minimize its exposure to significant losses from reinsurer insolvencies, SAIF evaluates the financial condition of its reinsurers and monitors concentration of credit risk.

SAIF maintains reinsurance protection providing limits of $60 million excess of $35 million per occurrence with a $10 million maximum on any one life and a $120 million aggregate limit. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2014, SAIF had reinsurance protection for 85 percent of losses in excess of 20 percent of 2013 direct written premium for acts of foreign and domestic terrorism through the Terrorism Risk Insurance Program Reauthorization Act.

The following amounts have been deducted in the accompanying financial statements as a result of reinsurance ceded for 2014 and 2013 (dollars in thousands):

	2014	2013
Reserve for losses and loss adjustment expenses	$ 44,131	$ 50,073
Premiums earned	682	977
Losses and loss adjustment expenses incurred	(5,780)	2,420

Of the $44.1 and $50.1 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of $24.4 million and $26.0 million, respectively as of December 31, 2014 and 2013.

In 2014, SAIF performed a commutation with Excalibur Reinsurance Corporation extinguishing Excalibur Reinsurance Corporation's 25 percent participation in SAIF's 1992 and 1993 $4 million in excess of $1 million per claim reinsurance treaty. SAIF recognized the amounts received from the reinsurer as a reduction of losses and loss adjustment expenses paid (thereby reducing losses and loss adjustment expenses incurred) in the current year. SAIF also increased its loss and loss adjustment expense reserves (thereby increasing losses and loss adjustment expenses incurred) to recognize the effect of releasing the reinsurer from its obligations under the treaty. The net effect of the commutation was a decrease in underwriting income of $2.7 million. This amount is shown below by statement of income classification and by reinsurer.

Statement of Income Account	Amount
Losses incurred	$ 2,969
Loss adjustment expenses incurred	-
Premium earned	(266)
Other	-
Total	$ 2,703

Reinsurer	Amount
Excalibur Reinsurance Corporation	$ 2,703

In November 2010, SAIF received formal approval from the DCBS for implementation of its Other States Coverage program. Beginning February 1, 2011, SAIF partnered with Zurich American Insurance Company and United States Insurance Services (USIS) to provide other states coverage. Zurich issues policies covering the non-Oregon operation of SAIF's customers and manages claims arising from those policies. SAIF reinsures those policies in full. USIS, a broker licensed in all fifty states, provides marketing and administrative services.

The following amounts are included in the accompanying financial statements as a result of participation in other states coverage in 2014 and 2013 (dollars in thousands):

Other States Coverage	2014	2013
Assumed:		
Reserve for losses and loss adjustment expenses	$ 9,474	$ 6,452
Unearned premiums	6,311	5,955
Premiums written	13,769	11,587
Premiums earned	13,412	10,151
Losses and loss adjustment expenses incurred	8,135	7,998
Commission expense	1,948	1,776

SAIF is authorized to write business on behalf of the Oregon Workers' Compensation Insurance Plan (the Plan), administered by the National Council on Compensation Insurance through the National Workers' Compensation Reinsurance Pool (NWCRP). The Plan provides a guaranteed source of workers' compensation insurance for employers unable to obtain coverage because of unstable financial conditions, poor loss experience, or the inherently dangerous nature of the work. SAIF cedes such business to the Plan. In addition, SAIF is required to assume its share of premiums and losses from the Plan based on SAIF's voluntary market share.

The following amounts are included in the accompanying financial statements as a result of participation in the Plan in 2014 and 2013 (dollars in thousands):

NWCRP	**2014**	**2013**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 70,183	$ 69,343
Unearned premiums	5,126	4,452
Premiums written	32,289	24,099
Premiums earned	31,614	23,353
Losses and loss adjustment expenses incurred	13,843	12,526
Commission expense	11,151	8,883
Ceded:		
Reserve for losses and loss adjustment expenses	$ 80,768	$ 84,864
Unearned premiums	6,555	6,477
Premiums written	17,287	16,040
Premiums earned	17,209	14,301
Losses and loss adjustment expenses incurred	3,217	4,021
Commission expense	6,725	5,885

6. LEASE COMMITMENTS

SAIF leases office space in several locations under noncancelable operating leases expiring during various years through 2021. Lease expense was $1.3 million as of December 31, 2014 and 2013.

SAIF's future minimum lease payments under operating leases at December 31, 2014, are as follows (dollars in thousands):

2015	$ 1,385
2016	1,333
2017	1,366
2018	1,297
2019	414
Total minimum payments	$ 5,795

Certain rental commitments have renewal options extending through the year 2031. Some of these renewals are subject to adjustments in future periods. Total minimum lease payments have not been reduced by minimum sublease rentals of approximately $31 thousand on leases due in the future under noncancelable subleases as of December 31, 2014.

7. RISK MANAGEMENT

The State of Oregon administers property and casualty insurance programs covering state government agencies through its Insurance Fund, an internal service fund. The Insurance Fund services claims for: direct physical loss or damage to state property; tort liability claims brought against the state, its officers, employees, or agents; workers' compensation; and employees, elected officials, and members of commissions and boards for faithful performance. The Insurance Fund is backed by a commercial excess property policy with limits of $400 million and a blanket commercial excess bond with limits of $20 million.

SAIF participates in the Insurance Fund. The cost of servicing insurance claims and payments is covered by charging an assessment to each participating state entity based on its share of services provided in a prior period. The total statewide assessment of each type of coverage is based on independent biennial actuarial forecasts and administrative expenses, less any available fund balance of the Insurance Fund from the prior biennium. SAIF's assessment was $222 thousand as of December 31, 2014 and 2013.

SAIF's employees do not participate in the State of Oregon's health insurance plans.

8. CONTINGENCIES

SAIF has entered into structured settlements wherein SAIF has purchased annuities for which the claimant is payee, but for which SAIF is contingently liable. The amount of the contingent liability is the amount of the liability due to the various claimants that has been offset by the purchase of the annuity. Contingent liabilities arising from these settlements were $3.3 million and $3.4 million at December 31, 2014 and 2013, respectively.

During the normal course of business, SAIF becomes involved in litigation arising out of matters incident to the conduct of its insurance operations. SAIF is represented in these actions by the Oregon Department of Justice. Some of these potential liabilities become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability would be recorded on SAIF's financial statements. Management believes that these matters do not materially impact the financial statements.

9. DEFERRED COMPENSATION PLAN

SAIF provides a deferred compensation plan, authorized under and consistent with Internal Revenue Code Section 457(b), as a benefit available to all its employees. The plan authorizes the employee to execute an individual agreement with the plan's record keeper, Empower Retirement Services, whereby the employee defers a portion of his or her current income until future years, as a retirement savings vehicle in which funds are sheltered from federal and state taxation until withdrawal. Participants cannot receive the funds until certain circumstances are met. Funds withheld from employee compensation and remitted to the plan are invested by the employee in a variety of mutual funds and other offerings selected by SAIF's investment committee. Plan assets are held in a trust account with Wells Fargo, and administered by Empower Retirement Services for the exclusive benefit of the participant or his or her beneficiary. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. SAIF has no rights to participant funds, and does not perform the investing function for the participant. SAIF's fiduciary accountability for the plan extends only to selection of the investment options that are made available to the participants. Thus, plan assets and any related liability to plan participants have been excluded from the financial statements.

10. RETIREMENT PLAN

SAIF's employees hired prior to August 29, 2003, participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. The PERS retirement allowance, payable monthly for life, may be selected from multiple retirement benefit options. Options include survivorship benefits and lump-sum refunds. The basic benefit formula is 1.67 percent of a member's final average salary multiplied by the member's number of years of service. Benefits may also be calculated under either a money match or an annuity-plus-pension computation if a greater benefit results. PERS also provides death and disability benefits. A copy of the Oregon Public Employees' Retirement System annual financial report may be obtained by writing to PERS, Fiscal Services Division, PO Box 23700, Tigard, Oregon 97281-3700. The report may also be accessed online at: http://oregon.gov/PERS/pages/section/financial_reports/financials.aspx.

Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.00 percent of their salary to the Individual Account Program (IAP), a defined contribution plan. Current law permits employers to pay employees' contributions to PERS, which SAIF has elected to do. Additionally, SAIF is required by statute to contribute a percentage of each covered employee's salary to fund the PERS program. For the year ended December 31, 2014, SAIF's contribution rate of each covered employee's salary was 9.86 percent. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

SAIF 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 (cost sharing multiple-employer plan) administered by the PERS Board of Trustees under the guidelines of ORS Chapter 238A with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). SAIF currently contributes 8.14 percent of each covered employee's salary to the Pension Program and 6.00 percent to the Individual Account Program. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

The retirement system does not make separate measurements of assets and pension benefit obligation for individual employers. Therefore, the present value of accrued benefits, the amount of vested benefits, and the fair value and market value of the plan assets for SAIF as of the most recent actuarial valuation date is not available.

SAIF participates, along with other State of Oregon agencies, in paying the debt service for State of Oregon general obligation bonds issued in October 2003 to reduce an unfunded PERS liability. The bonds are scheduled to mature 25 years after the date of issuance. Currently, the repayment rate is 6.70 percent of payroll each month. The payment rate is recalculated periodically, as needed.

The total amount contributed by SAIF for all plans for the years ended December 31, 2014, 2013, and 2012, consist of the following (dollars in thousands):

	2014	**2013**	**2012**
Employer contributions:			
Debt service	$ 4,195	$ 3,823	$ 3,649
PERS-Pension Program	3,902	3,938	3,954
OPSRP-Pension Program	1,877	1,561	1,318
Total employer contributions	9,974	9,322	8,921
Employee contributions paid by SAIF:			
PERS-IAP	2,373	2,435	2,478
OPSRP-IAP	1,383	1,157	982
Total employee contributions	3,756	3,592	3,460
Total contributions	$13,730	$12,914	$12,381

For the years ended December 31, 2014, 2013, and 2012, SAIF's employer contributions were equal to the annual required contributions.

11. OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan description—SAIF administers a single-employer defined benefit healthcare plan. SAIF employees retiring under Oregon PERS are eligible to receive medical coverage for self and eligible dependents until age 65. Retirees must pay the premium for the coverage elected. Premiums for coverage are identical for active and retired employees, except to the extent that SAIF pays all or a portion of its active employees' premiums. Participating retirees pay their own monthly premiums based on a blended premium rate since retirees are pooled together with active employees for insurance rating purposes. Benefit provisions are established by SAIF.

Funding policy—SAIF's funding policy provides for contributions at amounts sufficient to fund benefits on a pay-as-you-go basis. For the years ended December 31, 2014 and 2013, respectively, retired plan members contributed $718 thousand and $793 thousand through their required contributions, and the required contribution rate per retired member was an average of $893 and $787 per month.

Annual OPEB cost and net OPEB obligation—SAIF's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of SAIF's annual OPEB cost for the years ended December 31, 2014, 2013, and 2012, the amount actually contributed, and changes in SAIF's net OPEB obligation to the plan (dollars in thousands):

	2014	2013	2012
Annual required contribution	$ 1,909	$ 1,832	$ 911
Interest on net OPEB obligation	151	101	90
Adjustment to ARC	(392)	(262)	(124)
Annual OPEB cost (expense)	1,668	1,671	877
Contributions made	704	666	493
Increase in net OPEB obligation	964	1,005	384
Net OPEB obligation - beginning of year	3,029	2,024	1,640
Net OPEB obligation - end of year	$ 3,993	$ 3,029	$ 2,024
Percent of annual OPEB cost contributed	42.2%	39.9%	56.2%

Actuarial methods and assumptions—Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress shown as required supplementary information presents multi-year trend information about whether the actuarial value of assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and participating members to that point. Actuarial calculations reflect a long-term perspective and include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The postemployment healthcare benefit obligation was determined as part of the actuarial valuation prepared by a consulting actuary as of January 1, 2013, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.00

percent investment rate of return. A 5.75 percent health care cost trend rate was used for 2015, 5.50 percent for 2016, 5.75 percent for 2017 through 2025, 6.00 percent for 2026, 6.75 percent for 2027 through 2029, 6.50 percent for 2030 through 2035, 6.25 percent for 2036, 6.00 percent for 2037 through 2041, 5.75 percent for 2042 through 2048, and a 5.50 percent ultimate trend rate thereafter. The unfunded actuarial accrued liability (UAAL) is being amortized as a level dollar amount over an open period of 10 years. As GASB Statement No. 45 was implemented prospectively, there was no net OPEB liability at transition on January 1, 2007.

Funding progress information—The funded status as of the most recent actuarial valuation date is as follows (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
01/01/2009	$0	$5,701	$5,701	0.0%	$57,228	10.0%
01/01/2011	$0	$6,980	$6,980	0.0%	$56,948	12.3%
01/01/2013	$0	$10,150	$10,150	0.0%	$61,712	16.4%

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

For the years ended December 31, 2014 and 2013
(In thousands)

The Schedule of Funding Progress and the Schedule of Employer Contributions present multi-year trend information comparing the actuarial value of plan assets to the actuarial accrued liability, and the actual contributions to the annual required contributions.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Annual Covered Payroll ((b-a)/c)
01/01/2009	$0	$5,701	$5,701	0.0%	$57,228	10.0%
01/01/2011	$0	$6,980	$6,980	0.0%	$56,948	12.3%
01/01/2013	$0	$10,150	$10,150	0.0%	$61,712	16.4%

Schedule of Employer Contributions

	2014	2013	2012
Annual required contribution	$ 1,909	$ 1,832	$ 911
Interest on net OPEB obligation	151	101	90
Adjustment to ARC	(392)	(262)	(124)
Annual OPEB cost (expense)	1,668	1,671	877
Contributions made	704	666	493
Increase in net OPEB obligation	964	1,005	384
Net OPEB obligation - beginning of year	3,029	2,024	1,640
Net OPEB obligation - end of year	$ 3,993	$ 3,029	$ 2,024
Percent of annual OPEB cost contributed	42.2%	39.9%	56.2%

Summary of Key Actuarial Methods and Assumptions

Actuarial valuation date	As of January 1, 2013
Actuarial cost method	Projected Unit Credit Cost Method
Amortization	10 years
Discount rate	5.00%
Projected payroll growth rate	3.75%
Health care cost trend rate	A 5.75 percent health care cost trend rate was used for 2015, 5.50 percent for 2016, 5.75 percent for 2017 through 2025, 6.00 percent for 2026, 6.75 percent for 2027 through 2029, 6.50 percent for 2030 through 2035, 6.25 percent for 2036, 6.00 percent for 2037 through 2041, 5.75 percent for 2042 through 2048, and a 5.50 percent ultimate trend rate thereafter.