

SAIF Corporation

(A Component Unit of the State of Oregon)

*Financial Statements and Supplementary
Schedules as of and for the Years
Ended December 31, 2016 and 2015, and
Report of Independent Auditors*

SAIF CORPORATION

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OVERVIEW OF SAIF CORPORATION FINANCIAL REPORTING (Unaudited)

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 (loss).
- 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.

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, 2016 and 2015, 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 an opinion 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 opinion.

REPORT OF INDEPENDENT AUDITORS (continued)

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, 2016 and 2015, 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 on pages 4 through 13, and postemployment healthcare benefit plan schedule of funding progress and employer contributions and defined benefit pension plan schedule of proportionate share of the net pension liability (asset) and employer contributions on pages 43 through 44 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 an 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 24, 2017 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

Portland, Oregon
July 24, 2017

SAIF CORPORATION
Management's Discussion and Analysis
December 31, 2016 and 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, 2016 and 2015. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference 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

	2016	December 31, 2015	2014	2015 to 2016 Increase (Decrease)	2014 to 2015 Increase (Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 50,092	\$ 40,778	\$ 42,199	\$ 9,314	\$ (1,421)
Investments	4,593,320	4,409,271	4,512,514	184,049	(103,243)
Securities lending cash collateral	62,085	52,272	146,178	9,813	(93,906)
Accounts and interest receivable, net	413,727	404,161	395,337	9,566	8,824
Other assets	<u>416</u>	<u>246</u>	<u>813</u>	<u>170</u>	<u>(567)</u>
Total current assets	<u>5,119,640</u>	<u>4,906,728</u>	<u>5,097,041</u>	<u>212,912</u>	<u>(190,313)</u>
NONCURRENT ASSETS—Capital assets					
Nondepreciable	20,089	3,754	3,029	16,335	725
Depreciable, net	<u>10,435</u>	<u>11,513</u>	<u>11,282</u>	<u>(1,078)</u>	<u>231</u>
Total noncurrent assets	<u>30,524</u>	<u>15,267</u>	<u>14,311</u>	<u>15,257</u>	<u>956</u>
Total assets	<u>5,150,164</u>	<u>4,921,995</u>	<u>5,111,352</u>	<u>228,169</u>	<u>(189,357)</u>
DEFERRED OUTFLOWS OF RESOURCES					
Related to pensions	<u>46,663</u>	<u>5,604</u>	<u>-</u>	<u>41,059</u>	<u>5,604</u>
Total deferred outflows of resources	<u>46,663</u>	<u>5,604</u>	<u>-</u>	<u>41,059</u>	<u>5,604</u>
LIABILITIES					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	277,303	261,404	255,309	15,899	6,095
Unearned premiums	237,753	226,901	223,501	10,852	3,400
Accounts payable	99,485	88,626	84,707	10,859	3,919
Obligations under securities lending	62,051	52,284	146,180	9,767	(93,896)
Other liabilities and deposits	<u>78,378</u>	<u>73,487</u>	<u>60,312</u>	<u>4,891</u>	<u>13,175</u>
Total current liabilities	<u>754,970</u>	<u>702,702</u>	<u>770,009</u>	<u>52,268</u>	<u>(67,307)</u>
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,547,613	2,647,214	2,706,754	(99,601)	(59,540)
Other postemployment benefits obligation	4,872	4,427	3,993	445	434
Pension related payable	9,768	10,205	-	(437)	10,205
Net pension liability	<u>93,594</u>	<u>34,187</u>	<u>-</u>	<u>59,407</u>	<u>34,187</u>
Total noncurrent liabilities	<u>2,655,847</u>	<u>2,696,033</u>	<u>2,710,747</u>	<u>(40,186)</u>	<u>(14,714)</u>
Total liabilities	<u>3,410,817</u>	<u>3,398,735</u>	<u>3,480,756</u>	<u>12,082</u>	<u>(82,021)</u>
DEFERRED INFLOWS OF RESOURCES					
Related to pensions	<u>889</u>	<u>7,894</u>	<u>-</u>	<u>(7,005)</u>	<u>7,894</u>
Total deferred inflows of resources	<u>889</u>	<u>7,894</u>	<u>-</u>	<u>(7,005)</u>	<u>7,894</u>
NET POSITION:					
Net investment in capital assets	30,524	15,267	14,311	15,257	956
Unrestricted	<u>1,754,597</u>	<u>1,505,703</u>	<u>1,616,285</u>	<u>248,894</u>	<u>(110,582)</u>
Total net position	<u>\$ 1,785,121</u>	<u>\$ 1,520,970</u>	<u>\$ 1,630,596</u>	<u>\$ 264,151</u>	<u>\$ (109,626)</u>

**Condensed Revenues, Expenses,
and Changes in Net Position Information**

	Years Ended December 31,			2015 to 2016	2014 to 2015
	2016	2015	2014	Increase (Decrease)	Increase (Decrease)
OPERATING REVENUES:					
Net premiums earned	\$ 516,185	\$ 491,229	\$ 474,355	\$ 24,956	\$ 16,874
Other income	<u>32,240</u>	<u>29,980</u>	<u>28,540</u>	<u>2,260</u>	<u>1,440</u>
Total operating revenues	<u>548,425</u>	<u>521,209</u>	<u>502,895</u>	<u>27,216</u>	<u>18,314</u>
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	286,329	325,679	270,861	(39,350)	54,818
Policyholders' dividends	139,935	119,993	164,950	19,942	(44,957)
Underwriting expenses	141,057	141,016	120,304	41	20,712
Bad debt provision	<u>2,035</u>	<u>1,119</u>	<u>1,480</u>	<u>916</u>	<u>(361)</u>
Total operating expenses	<u>569,356</u>	<u>587,807</u>	<u>557,595</u>	<u>(18,451)</u>	<u>30,212</u>
OPERATING LOSS	<u>(20,931)</u>	<u>(66,598)</u>	<u>(54,700)</u>	<u>45,667</u>	<u>(11,898)</u>
NONOPERATING REVENUES:					
Net investment income (loss)	<u>285,082</u>	<u>(22,939)</u>	<u>292,074</u>	<u>308,021</u>	<u>(315,013)</u>
INCREASE (DECREASE) IN NET POSITION	<u>264,151</u>	<u>(89,537)</u>	<u>237,374</u>	<u>353,688</u>	<u>(326,911)</u>
NET POSITION—Beginning of year	1,520,970	1,630,596	1,393,222	(109,626)	237,374
Prior period adjustments (see note 2)	-	(11,071)	-	11,071	(11,071)
Cumulative effect of change in accounting principles (see note 2)	<u>-</u>	<u>(9,018)</u>	<u>-</u>	<u>9,018</u>	<u>(9,018)</u>
RESTATEMENT—Beginning net position	<u>1,520,970</u>	<u>1,610,507</u>	<u>1,393,222</u>	<u>(89,537)</u>	<u>217,285</u>
NET POSITION—End of year	<u>\$ 1,785,121</u>	<u>\$ 1,520,970</u>	<u>\$ 1,630,596</u>	<u>\$ 264,151</u>	<u>\$ (109,626)</u>

Financial position as of December 31, 2016

At the end of 2016, total assets increased \$228.2 million from the prior year, and deferred outflows of resources increased \$41.1 million. Total liabilities increased \$12.1 million for the year, deferred inflows of resources decreased \$7.0 million, and net position increased \$264.2 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 increased \$9.3 million from December 31, 2015 to December 31, 2016. A \$1.5 million decrease in cash was offset by a \$10.8 million increase in money market fund balances held by the fixed income managers.

Investments—At the end of 2016, investments were \$184.0 million or 4.2 percent higher than at the end of 2015. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2016. Investment holdings (principal and cost) increased \$85.4 million for bonds and decreased \$0.1 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. Market values increased \$60.7 million for bonds and increased \$38.1 million for equities. The BlackRock MSCI ACWI fund had a positive return of 8.7 percent for 2016.

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 \$9.6 million or 2.4 percent from December 31, 2015 to December 31, 2016.

Accrued investment income decreased \$2.4 million or 6.7 percent from December 31, 2015 to December 31, 2016.

Premiums receivable increased \$10.8 million or 3.4 percent in 2016, due to the growth in premiums. Net written premiums increased 6.9 percent from 2015 to 2016.

Accrued retrospective premiums receivable decreased \$1.5 million or 6.9 percent due to favorable loss reserve development.

Other accounts receivable increased \$2.7 million or 9.8 percent in 2016, primarily due to an increase in premium assessment receivables and receivables due from the assigned risk pool.

Other assets—This line had no significant change from 2015 to 2016.

Capital assets, nondepreciable—This line increased \$16.3 million over the prior year due to \$14.4 million of construction in progress for a significant home office renovation and addition project, and \$1.9 million of software in development for a policy and billing replacement project.

Deferred outflows of resources—The \$46.7 million balance in this line is related to pensions due to GASB Statement No. 68. The \$41.1 million increase over the prior year is primarily due to changes in assumptions and differences between projected and actual earnings on investments (see note 11).

Reserve for losses and loss adjustment expenses—The total (current and noncurrent) reserve for losses and loss adjustment expenses (LAE) decreased \$83.7 million or 2.9 percent from the prior year. Loss reserves decreased \$94.3 million or 3.8 percent and LAE reserves increased \$10.6 million or 2.5 percent during 2016. Loss reserves for the 2016 accident year were offset by favorable loss reserve development in prior accident years. The favorable loss reserve development was attributed primarily to permanent total disability (PTD) and permanent partial disability (PPD) medical loss reserves. The key drivers were a decrease in ultimate PPD counts and the continuing downward trend in medical severity for both PTD and PPD. The observed medical escalation rate for 2016 was well below the assumption. Indemnity loss reserves experienced unfavorable development driven by higher than anticipated severity for fatal and PPD. LAE reserves for the 2016 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE reserve development was largely attributable to the overall reduction in reserves.

Unearned premiums—The amount of unearned premium for 2016 increased \$10.9 million or 4.8 percent due to the growth 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 \$10.9 million from 2015 to 2016. The \$1.0 million increase in commission payable and the \$3.2 million increase in premium assessment payable are due to the growth in premium. Other accounts payable increased \$6.6 million from 2015 to 2016. This was mostly the result of a \$3.8 million increase in policyholder credits primarily due to a single policyholder, a \$1.2 million increase in miscellaneous liabilities primarily due to a contingent liability (see note 8), and a \$0.9 million increase in the accounts payable accrual primarily due to the home office renovation project.

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 \$4.9 million or 6.7 percent from the prior year, primarily due to a \$3.5 million increase in the estimated amount of return premium payable on retrospectively rated policies and a \$1.2 million increase in premium deposits.

Pension related payable—Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate, which was 7.50 percent in fiscal year 2016. The \$9.8 million balance in this line is the noncurrent portion of the pre-SLGRP pooled liability attributable to SAIF, which is being amortized over the period ending December 31, 2027.

Net pension liability—The balance in this line increased \$59.4 million over the prior year due to an overall increase in the net pension liability allocated by the State of Oregon based on GASB Statement No. 68 actuarial valuation as of December 31, 2014 (see note 11).

Deferred inflows of resources—The \$0.9 million balance in this line is related to pensions due to GASB Statement No. 68. The \$7.0 million decrease over the prior year is mostly due to differences between projected and actual earnings on investments (see note 11).

Operations - year ended December 31, 2016

Significant changes in revenues and expenses include:

Net premiums earned—In 2016, net premiums earned increased \$25.0 million or 5.1 percent. The increase was due to new sales, a pricing increase for three of the six tiers, a reduction in the prepaid discount credit, and higher reported payrolls by policyholders. Premium growth was tempered by a 5.3 percent decrease to pure premium rates effective January 1, 2016.

Other income—This line increased \$2.3 million or 7.5 percent in 2016, primarily 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 the current year decreased \$39.3 million from 2015, while net LAE incurred decreased \$0.1 million for a total net decrease of \$39.4 million. Net paid losses for 2016 were \$6.6 million lower than the prior year, and the change in loss reserves was \$32.7 million less than the prior year. The favorable loss reserve development for 2016 was attributed primarily to PTD and PPD medical loss reserves. The key drivers were a decrease in ultimate PPD counts and the continuing downward trend in medical severity for both PTD and PPD. The observed medical escalation rate for 2016 was well below the assumption. Indemnity loss reserves experienced unfavorable development driven by higher than anticipated severity for fatal and PPD. LAE incurred decreased as reserves for the 2016 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 loss 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 2016, policyholder dividends of \$139.9 million were incurred and paid to qualifying policyholders. In 2015, policyholder dividends of \$120.0 million were incurred and paid to qualifying policyholders.

Underwriting expense—This line remained flat from 2015 to 2016. An increase in underwriting expense due to an increase in premium was mostly offset by a reduction in net pension expense. Net pension expense decreased from \$27.5 million in 2015 to \$11.3 million in 2016, primarily due to a prior period adjustment recorded in 2015, to account for the implementation of GASB 68. Net pension liability increased \$59.4 million in 2016, and was offset by a \$41.1 million increase in deferred outflows of resources and a \$7.0 million decrease in deferred inflows of resources, which nets to \$11.3 million in pension expense.

Net investment income—Net investment income for 2016 was \$308.0 million higher than the amount recorded for 2015, primarily due to a significant increase in bond and equity market values. The change in fair value of investments recorded for 2016 was a positive \$98.8 million compared to a negative \$179.9 million for 2015. Net realized investment gains were \$42.0 million for 2016, compared to \$8.0 million for 2015. For 2016, net

realized gains from bonds were \$41.9 million, while net realized gains on equity sales were \$0.1 million. Investment income 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 eight years has reduced the opportunity for investment income.

Economic outlook

It is anticipated that the national and Oregon economy will continue to expand during 2017. The Federal Reserve may attempt to manage current economic growth through a series of interest rate hikes due to tightening labor markets and increasing inflation. The 6.6 percent pure premium rate reduction approved for 2017 may off-set premium growth due to new sales and increased payrolls during 2017.

The 2017 capital budget includes \$46.9 million and the operating budget includes \$2.7 million in funds to support a home office renovation project. During 2017, the construction phase will continue. As of December 31, 2016, SAIF has total future commitments of \$4.2 million for expenditures related to the project through contracts currently in place.

The 2017 capital budget also includes \$18.1 million and the operating budget includes \$1.5 million for a policy and billing system replacement project. During 2017, SAIF will continue to work with consultants on system development and testing.

Financial position as of December 31, 2015

At the end of 2015, total assets decreased \$189.4 million from the prior year, and deferred outflows of resources increased \$5.6 million. Total liabilities decreased \$82.0 million for the year, deferred inflows of resources increased \$7.9 million, and net position decreased \$109.6 million (as restated). The restatement of net position included a prior period adjustment to record a pension related payable (see note 11), which decreased net position by \$11.1 million. In addition, the cumulative effect of change in accounting principles due to GASB 68 implementation decreased net position by \$9.0 million. See note 2 new accounting pronouncements for additional information on the amounts restated due to GASB 68 implementation.

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 \$1.4 million from December 31, 2014 to December 31, 2015. A \$3.9 million decrease in cash was offset by a \$2.5 million increase in money market fund balances held by the fixed income managers.

Investments—At the end of 2015, investments were \$103.2 million or 2.3 percent lower than at the end of 2014. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2015. Investment holdings (principal and cost) increased \$76.8 million for bonds and decreased \$0.1 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. Market values decreased \$171.7 million for bonds and decreased \$8.2 million for equities. The BlackRock MSCI ACWI fund had a negative return of 1.85 percent for 2015.

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. During 2015, these balances have decreased significantly, as lending costs have increased due to regulation changes.

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 \$8.8 million or 2.2 percent from December 31, 2014 to December 31, 2015.

Accrued investment income decreased \$0.8 million or 2.1 percent from December 31, 2014 to December 31, 2015.

Premiums receivable increased \$10.1 million or 3.3 percent in 2015, due to the growth in premiums. Net written premiums increased 2.7 percent from 2014 to 2015.

Accrued retrospective premiums receivable decreased \$0.7 million or 3.1 percent due to favorable loss reserve development.

Other accounts receivable increased \$0.2 million or 0.8 percent in 2015, primarily due to an increase in premium assessment receivables.

Other assets—This line had no significant change from 2014 to 2015.

Deferred outflows of resources—The \$5.6 million balance in this line is related to pensions due to GASB Statement No. 68 implementation at December 31, 2015 (see note 11).

Reserve for losses and loss adjustment expenses—The total (current and noncurrent) reserve for losses and loss adjustment expenses (LAE) decreased \$53.4 million or 1.8 percent from the prior year. Loss reserves decreased \$60.7 million or 2.4 percent and LAE reserves increased \$7.3 million or 1.7 percent during 2015. Loss reserves for the 2015 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 ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2015 was well below the assumption. Indemnity loss reserves experienced favorable development driven by actual costs for permanent total disability being lower than expected for recent accident years and the reduction in ultimate projected counts for fatal. LAE reserves for the 2015 accident year were offset by favorable loss reserve development in prior accident years. The favorable LAE reserve development was largely attributable to the overall reduction in reserves.

Unearned premiums—The amount of unearned premium for 2015 increased \$3.4 million or 1.5 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 \$3.9 million from 2014 to 2015. The \$0.2 million increase in commission payable and the \$2.2 million increase in premium assessment payable are due to the growth in premium. Reinsurance payable increased \$1.6 million due to an increase in the balance due to the assigned risk pool. Other accounts payable decreased \$0.1 million from 2014 to 2015.

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. During 2015, these balances have decreased significantly, as lending costs have increased due to regulation changes.

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 \$13.2 million or 21.8 percent from the prior year, primarily due to an \$11.7 million increase in the estimated amount of return premium payable on retrospectively rated policies, a \$1.1 million increase in premium deposits, and the recording of a \$0.4 million current portion of the pension related payable.

Pension related payable—Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate, which was 7.75 percent in fiscal year 2015. The \$10.2 million increase in this line is the noncurrent portion of the pre-SLGRP pooled liability attributable to SAIF, which is being amortized over the period ending December 31, 2027.

Net pension liability—The \$34.2 million increase in this line is SAIF's portion of the net pension liability allocated by the State of Oregon due to GASB Statement No. 68 implementation at December 31, 2015 (see note 11).

Deferred inflows of resources—The \$7.9 million balance in this line is related to pensions due to GASB Statement No. 68 implementation at December 31, 2015 (see note 11).

Operations - year ended December 31, 2015

Significant changes in revenues and expenses include:

Net premiums earned—In 2015, net premiums earned increased \$16.9 million or 3.6 percent. The increase was due to new sales and higher reported payrolls by policyholders and was tempered by a 5.3 percent decrease to pure premium rates effective January 1, 2015.

Other income—This line increased \$1.4 million or 5.0 percent in 2015, 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 the current year increased \$38.3 million from 2014, while net LAE incurred increased \$16.5 million for a total net increase of \$54.8 million. Net paid losses for 2015 were \$9.6 million higher than the prior year, and the change in loss reserves was \$28.7 million more than the prior year. The favorable loss reserve development for 2015 was attributed primarily to permanent total and permanent partial disability medical loss reserves. The key drivers were a decrease in ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2015 was well below the assumption. Indemnity loss reserves experienced favorable development driven by actual costs for permanent total disability being lower than expected for recent accident years and the reduction in ultimate projected counts for fatal. LAE incurred increased as reserves for the 2015 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 loss 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 2015, policyholder dividends of \$120.0 million were incurred and paid to qualifying policyholders. In 2014, policyholder dividends of \$165.0 million were incurred and paid to qualifying policyholders.

Underwriting expense—This line increased \$20.7 million or 17.2 percent in 2015, due to an increase in premium and the implementation of GASB 68.

Net investment income—Net investment income for 2015 was \$315.0 million lower than the amount recorded for 2014, primarily due to a significant decrease in bond market values. The change in fair value of investments recorded for 2015 was a negative \$179.9 million compared to a positive \$97.4 million for 2014. Net realized investment gains were \$8.0 million for 2015, compared to net realized gains of \$46.9 million for 2014. For 2015, net realized gains from bonds were \$7.9 million, while net realized gains on equity sales were \$0.1 million. In addition, the payment of policyholder dividends during the past six years has reduced the opportunity for investment income.

SAIF CORPORATION

**STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2016 AND 2015
(In thousands)**

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 50,092	\$ 40,778
Investments	4,593,320	4,409,271
Securities lending cash collateral	62,085	52,272
Investment income receivable	33,759	36,200
Premiums receivable, net	329,138	318,364
Accrued retrospective premiums receivable	20,201	21,693
Accounts receivable	30,629	27,904
Other assets	416	246
Total current assets	<u>5,119,640</u>	<u>4,906,728</u>
NONCURRENT ASSETS—Capital assets		
Nondepreciable	20,089	3,754
Depreciable, net	<u>10,435</u>	<u>11,513</u>
Total noncurrent assets	<u>30,524</u>	<u>15,267</u>
Total assets	<u>5,150,164</u>	<u>4,921,995</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	<u>46,663</u>	<u>5,604</u>
Total deferred outflows of resources	<u>46,663</u>	<u>5,604</u>
LIABILITIES		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	277,303	261,404
Unearned premiums	237,753	226,901
Accrued retrospective premiums payable	55,499	52,012
Commissions payable	14,446	13,487
Reinsurance payable	13,050	12,936
Accrued premium assessment payable	32,026	28,873
Premium deposits	16,542	15,295
Accounts payable	39,964	33,330
Obligations under securities lending	62,051	52,284
Pension related payable	435	433
Other liabilities	<u>5,901</u>	<u>5,747</u>
Total current liabilities	<u>754,970</u>	<u>702,702</u>
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,547,613	2,647,214
Other postemployment benefits obligation	4,872	4,427
Pension related payable	9,768	10,205
Net pension liability	<u>93,594</u>	<u>34,187</u>
Total noncurrent liabilities	<u>2,655,847</u>	<u>2,696,033</u>
Total liabilities	<u>3,410,817</u>	<u>3,398,735</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	<u>889</u>	<u>7,894</u>
Total deferred inflows of resources	<u>889</u>	<u>7,894</u>
NET POSITION:		
Net investment in capital assets	30,524	15,267
Unrestricted	<u>1,754,597</u>	<u>1,505,703</u>
Total net position	<u>\$ 1,785,121</u>	<u>\$ 1,520,970</u>

See notes to financial statements.

SAIF CORPORATION

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES:		
Net premiums earned	\$ 516,185	\$ 491,229
Other income	<u>32,240</u>	<u>29,980</u>
Total operating revenues	<u>548,425</u>	<u>521,209</u>
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	286,329	325,679
Policyholders' dividends	139,935	119,993
Underwriting expenses	141,057	141,016
Bad debt provision	<u>2,035</u>	<u>1,119</u>
Total operating expenses	<u>569,356</u>	<u>587,807</u>
OPERATING LOSS	<u>(20,931)</u>	<u>(66,598)</u>
NONOPERATING REVENUES:		
Investment income	292,666	(16,187)
Investment expenses	<u>(7,584)</u>	<u>(6,752)</u>
Net investment income (loss)	<u>285,082</u>	<u>(22,939)</u>
INCREASE (DECREASE) IN NET POSITION	<u>264,151</u>	<u>(89,537)</u>
NET POSITION—Beginning of year	1,520,970	1,630,596
Prior period adjustments	-	(11,071)
Cumulative effect of change in accounting principles	<u>-</u>	<u>(9,018)</u>
RESTATEMENT—Beginning net position	<u>1,520,970</u>	<u>1,610,507</u>
NET POSITION—End of year	<u>\$ 1,785,121</u>	<u>\$ 1,520,970</u>

See notes to financial statements.

SAIF CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	\$ 522,602	\$ 499,683
Loss and loss adjustment expenses paid	(370,031)	(379,124)
Underwriting expenses paid	(141,057)	(141,016)
Policyholder dividends paid	(139,935)	(119,993)
Other receipts	<u>50,017</u>	<u>59,227</u>
Net cash used in operating activities	<u>(78,404)</u>	<u>(81,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,639,625)	(1,230,677)
Proceeds from sales and maturities of investments	1,573,833	1,145,755
Interest received on investments and cash balances	168,707	166,161
Interest received from securities lending	673	601
Interest paid for securities lending	<u>(331)</u>	<u>(181)</u>
Net cash provided by investing activities	<u>103,257</u>	<u>81,659</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(15,562)	(1,918)
Proceeds from disposition of capital assets	<u>23</u>	<u>61</u>
Net cash used in capital and related financing activities	<u>(15,539)</u>	<u>(1,857)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,314	(1,421)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>40,778</u>	<u>42,199</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 50,092</u>	<u>\$ 40,778</u>

(Continued)

SAIF CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In thousands)**

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ <u>(20,931)</u>	\$ <u>(66,598)</u>
Adjustments to reconcile operating loss to net cash provided by		
Operating activities:		
Depreciation and amortization	1,246	1,124
Bad debt provision	2,035	1,118
Net changes in assets and liabilities:		
Premiums receivable, net	(12,810)	(11,198)
Accrued retrospective premiums receivable	1,492	689
Accounts receivable	(2,724)	(216)
Other assets	-	6
Reserve for losses and loss adjustment expenses	(83,702)	(53,445)
Unearned premiums	10,852	3,400
Accrued retrospective premiums payable	3,487	11,709
Commissions payable	959	245
Reinsurance payable	114	1,594
Accrued premium assessment payable	3,153	2,224
Premium deposits	1,247	1,142
Accounts payable	5,671	(367)
Other liabilities	156	(110)
Net pension liability	59,407	46,538
Pension related payable	(437)	(433)
Other postemployment benefits obligation	445	434
(Increase)/decrease in deferred outflows of resources:		
Related to pensions	(41,059)	(3,140)
Increase/(decrease) in deferred inflows of resources:		
Related to pensions	<u>(7,005)</u>	<u>(15,939)</u>
Total adjustments	<u>(57,473)</u>	<u>(14,625)</u>
NET CASH USED IN OPERATING ACTIVITIES	\$ <u><u>(78,404)</u></u>	\$ <u><u>(81,223)</u></u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through tax free exchange transactions	\$ <u><u>111,372</u></u>	\$ <u><u>63,121</u></u>

See notes to financial statements.

SAIF CORPORATION

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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 18.9 percent and 20.0 percent of standard premium during 2016 and 2015, 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 \$281.3 million and \$285.2 million at December 31, 2016 and 2015, respectively. At December 31, 2016 and 2015, 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 (loss). 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. Debt securities are valued using evaluated bid prices at December 31, 2016 and 2015.

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](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx). As of December 31, 2016 and 2015, SAIF's balance in the OSTF was \$26.3 million and \$28.3 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 money market funds with the objective of maximizing current income while maintaining a stable net asset value. Money market reforms issued by the U.S. Securities and Exchange Commission took effect in October 2016 and resulted in certain money market funds, including the SSgA Prime Money Market Fund, moving from a stable \$1.00 unit value to a floating net asset value. As a result, cash balances previously invested in the SSgA Prime Money Market Fund are now invested in the State Street Institutional U.S. Government Money Market Fund. The average maturity of the Institutional U.S. Government Money Market Fund as of December 31, 2016, and the average maturity of the SSgA Prime Money Market Fund as of December 31, 2015, was 27 days. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAM as of December 31, 2016, and the SSgA Prime Money Market Fund had a credit quality rating of AAAM as of December 31, 2015. As of December 31, 2016, SAIF's balance in the Institutional U.S. Government Money Market Fund was \$16.1 million. As of December 31, 2015, SAIF's balance in the SSgA Prime Money Market Fund was \$5.3 million.

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:

	<u>Capitalization Threshold</u>	<u>Useful Life</u>
Buildings and improvements	All	30–50 years
Furniture, equipment, and automobiles	\$0–\$5,000	3–7 years
Operating and nonoperating system software	\$500,000	3-5 years

SAIF has active construction in progress for a significant home office renovation and addition project. Capital project life-to-date and year-to-date costs were \$15.1 million and \$14.4 million, respectively, for the year ended December 31, 2016.

Capital assets activity for the years ended December 31, 2016 and 2015, was as follows (dollars in thousands):

	2016			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 3,029	\$ -	\$ -	\$ 3,029
Software in development	-	1,916	-	1,916
Construction in progress	<u>725</u>	<u>14,419</u>	<u>-</u>	<u>15,144</u>
Total nondepreciable capital assets	<u>3,754</u>	<u>16,335</u>	<u>-</u>	<u>20,089</u>
Buildings and improvements	26,643	-	(6,821)	19,822
Furniture, equipment, and automobiles	6,638	414	(1,247)	5,805
Data processing software	<u>9,043</u>	<u>-</u>	<u>-</u>	<u>9,043</u>
Total depreciable capital assets	<u>42,324</u>	<u>414</u>	<u>(8,068)</u>	<u>34,670</u>
Total	<u>46,078</u>	<u>16,749</u>	<u>(8,068)</u>	<u>54,759</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,075)	(539)	6,597	(11,017)
Furniture, equipment, and automobiles	(4,693)	(707)	1,225	(4,175)
Data processing software	<u>(9,043)</u>	<u>-</u>	<u>-</u>	<u>(9,043)</u>
Total accumulated depreciation	<u>(30,811)</u>	<u>(1,246)</u>	<u>7,822</u>	<u>(24,235)</u>
Capital assets—net	<u>\$ 15,267</u>	<u>\$ 15,503</u>	<u>\$ (246)</u>	<u>\$ 30,524</u>

	2015			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 3,029	\$ -	\$ -	\$ 3,029
Construction in progress	<u>-</u>	<u>725</u>	<u>-</u>	<u>725</u>
Total nondepreciable capital assets	<u>3,029</u>	<u>725</u>	<u>-</u>	<u>3,754</u>
Buildings and improvements	26,419	224	-	26,643
Furniture, equipment, and automobiles	6,100	1,193	(655)	6,638
Data processing software	<u>9,043</u>	<u>-</u>	<u>-</u>	<u>9,043</u>
Total depreciable capital assets	<u>41,562</u>	<u>1,417</u>	<u>(655)</u>	<u>42,324</u>
Total	<u>44,591</u>	<u>2,142</u>	<u>(655)</u>	<u>46,078</u>
Less accumulated depreciation for:				
Buildings and improvements	(16,536)	(539)	-	(17,075)
Furniture, equipment, and automobiles	(4,701)	(585)	593	(4,693)
Data processing software	<u>(9,043)</u>	<u>-</u>	<u>-</u>	<u>(9,043)</u>
Total accumulated depreciation	<u>(30,280)</u>	<u>(1,124)</u>	<u>593</u>	<u>(30,811)</u>
Capital assets—net	<u>\$ 14,311</u>	<u>\$ 1,018</u>	<u>\$ (62)</u>	<u>\$ 15,267</u>

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 \$1.0 million and \$0.8 million, at December 31, 2016 and 2015, 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, 2016 and 2015 were \$323.4 million and \$312.2 million, respectively, including unearned premiums of \$180.3 million and \$172.3 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, 2016 and 2015, were \$16.5 and \$15.3 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, 2016 and 2015, is as follows (dollars in thousands):

	<u>2016</u>	<u>2015</u>
Accrued retrospective premiums receivable	\$ 20,201	\$ 21,693
Accrued retrospective premiums payable	<u>(55,499)</u>	<u>(52,012)</u>
Net	<u><u>\$ (35,298)</u></u>	<u><u>\$ (30,319)</u></u>

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 2016 and 2015 were \$89.1 million and \$93.1 million, respectively, or 16.9 percent and 18.9 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, 2016 and 2015, is a reasonable estimate of the ultimate net costs of settling claims and claim expenses incurred. Annually, executive leaders review 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, 2016 and 2015, 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 2016, policyholder dividends of \$139.9 million were incurred and paid to qualifying policyholders. In 2015, policyholder dividends of \$120.0 million were incurred and paid 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 \$29.9 million and \$28.5 million, including \$32.0 million and \$28.9 million of accrued premium assessments, for the years ended December 31, 2016 and 2015, respectively.

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.

Deferred outflows of resources and deferred inflows of resources—Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.

New accounting pronouncements— 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. SAIF implemented this statement for the fiscal year ended December 31, 2015. See note 11 for additional information. The impact of this statement on SAIF's financials resulted in a restatement of net position. The 2015 beginning net position was restated as follows:

	January 1, 2015
Net position, as previously stated	\$ 1,630,596
Prior period adjustment (Pension related payable)	(11,071)
Cumulative effect of change in accounting principle due to GASB 68 implementation	(9,018)
Net position, as restated	<u>\$ 1,610,507</u>

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 (market, cost, or income approach) that are appropriate under the circumstances and for which sufficient data are available to measure fair value. This statement establishes a hierarchy of inputs (levels 1-3) 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. SAIF implemented the requirements of this statement for the fiscal year ended December 31, 2016. Refer to note 3 for the required note disclosure.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *Other Postemployment Benefit (OPEB) Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to 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 defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. The requirements of this statement are effective for SAIF's 2018 financial statements. SAIF is currently evaluating the impact of this standard on the financial statements.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement establishes the hierarchy of GAAP for state and local governments. The requirements of this Statement apply to all state and local governmental entities. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74, and 82. SAIF implemented the requirements of this statement for the fiscal year ended December 31, 2016. There was no significant impact on the financial statements.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. This Statement clarifies that a deviation, as the term is used in Actuarial Standards of practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this statement are effective for SAIF's 2017 financial statements. A change to SAIF's note disclosure will be made in 2017 to include the presentation of covered payroll, as defined above.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this statement are effective for SAIF's 2019 financial statements. SAIF currently has no AROs.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The requirements of this statement are effective for SAIF's 2018 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 \$16.1 million in the Institutional U.S. Government Money Market fund. The Institutional U.S. Government Money Market Fund is reported at amortized cost, which approximates fair value.

SAIF's cash and cash equivalents totaled \$50.1 million and \$40.8 million as of December 31, 2016 and 2015, respectively, and are composed of the following (dollars in thousands):

	2016	2015
Cash balances		
Oregon Short-Term Fund	\$ 26,345	\$ 28,328
State Street Bank and Trust Company	1,332	1,451
U.S. Bank	<u>6,343</u>	<u>5,727</u>
	34,020	35,506
Cash equivalents		
State Street Bank (Institutional U.S. Government money market fund)	16,072	-
State Street Bank (SSgA prime money market fund)	<u>-</u>	<u>5,272</u>
	16,072	5,272
Total cash and cash equivalents	<u>\$ 50,092</u>	<u>\$ 40,778</u>

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, 2016, 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, 2016 and 2015, were \$347 thousand and \$176 thousand, respectively. Due to brokers for security purchases at December 31, 2016 and 2015, were \$3 thousand and \$4 thousand, respectively.

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, 2016, was 5.91 years, with an acceptable range of 4.73 to 7.09 years. As of that date, the fixed income portfolio's duration was 6.11 years.

The following 2016 maturity distribution schedule includes \$1.4 billion in interest-rate sensitive securities. As of December 31, 2016, SAIF held \$783.2 million of U.S. Federal Agency mortgage-backed securities and \$405.7 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, 2016, SAIF held \$217.4 million of asset-backed securities which consisted primarily of automobile, student loans, and collateralized loan obligations (CLOs). 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, 2016 and 2015, 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):

2016	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	\$ 8,077	\$ 57,363	\$ 95,860	\$ 97,471	\$ 258,771
U.S. federal agency mortgage securities	400,263	169,806	103,410	109,734	783,213
U.S. federal agency debt	-	2,885	-	1,677	4,562
Corporate bonds	60,219	489,389	676,266	711,191	1,937,065
Municipal bonds	2,902	11,547	11,835	32,156	58,440
Collateralized mortgage obligations	60,906	127,921	196,092	20,812	405,731
Asset-backed securities	22,111	112,418	46,736	36,114	217,379
International debt securities	<u>1,353</u>	<u>107,148</u>	<u>150,941</u>	<u>194,783</u>	<u>454,225</u>
Total bonds	<u>\$ 555,831</u>	<u>\$1,078,477</u>	<u>\$1,281,140</u>	<u>\$1,203,938</u>	<u>\$4,119,386</u>
Equity securities:					
BlackRock MSCI ACWI IMI index fund					\$ 473,934
Total equity securities					<u>473,934</u>
Total investments					<u>\$4,593,320</u>
2015	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	\$ 31,516	\$ 54,293	\$ -	\$ 29,502	\$ 115,311
U.S. federal agency mortgage securities	63,939	165,041	108,225	124,206	461,411
U.S. federal agency debt	-	3,019	-	1,605	4,624
Corporate bonds	54,220	536,430	685,028	707,792	1,983,470
Municipal bonds	1,347	13,276	18,213	55,803	88,639
Collateralized mortgage obligations	113,717	107,457	183,551	29,155	433,880
Asset-backed securities	42,785	155,561	79,694	142,252	420,292
International debt securities	<u>15,462</u>	<u>101,348</u>	<u>148,212</u>	<u>200,678</u>	<u>465,700</u>
Total bonds	<u>\$ 322,986</u>	<u>\$1,136,425</u>	<u>\$1,222,923</u>	<u>\$1,290,993</u>	<u>\$3,973,327</u>
Equity securities:					
BlackRock MSCI ACWI IMI index fund					\$ 435,944
Total equity securities					<u>435,944</u>
Total investments					<u>\$4,409,271</u>

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, 2016 and 2015, 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, 2016 and 2015, using either Moody's or Standard & Poor's rating scale (dollars in thousands):

2016

Quality Ratings

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	\$ -	258,771	-	-	-	-	-	-	-	-	-	\$ 258,771
U.S. federal agency mortgage securities	-	783,213	-	-	-	-	-	-	-	-	-	783,213
U.S. federal agency debt	-	4,562	-	-	-	-	-	-	-	-	-	4,562
Corporate bonds	37,037	106,789	541,295	1,052,734	156,889	40,856	-	-	-	985	480	1,937,065
Municipal bonds	-	33,604	21,138	3,698	-	-	-	-	-	-	-	58,440
Collateralized mortgage obligations	215,047	174,646	5,147	692	326	1,640	4,201	-	-	4,025	7	405,731
Asset-backed securities	162,827	43,188	4,428	4,599	-	2,147	190	-	-	-	-	217,379
International debt securities	-	27,244	84,200	307,802	24,256	8,488	-	-	-	-	2,235	454,225
Total bonds	\$ 414,911	\$ 1,432,017	\$ 656,208	\$ 1,369,525	\$ 181,471	\$ 53,131	\$ 4,391	\$ -	\$ -	\$ 5,010	\$ 2,722	\$ 4,119,386

2015

Quality Ratings

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	\$ 112,312	-	-	-	-	-	-	-	-	-	2,999	\$ 115,311
U.S. federal agency mortgage securities	-	461,411	-	-	-	-	-	-	-	-	-	461,411
U.S. federal agency debt	3,019	1,605	-	-	-	-	-	-	-	-	-	4,624
Corporate bonds	19,856	129,489	523,048	1,099,429	189,790	15,110	950	-	-	-	5,798	1,983,470
Municipal bonds	-	53,326	18,370	11,863	5,080	-	-	-	-	-	-	88,639
Collateralized mortgage obligations	196,387	139,505	52,372	166	1,089	2,090	5,384	-	-	6,549	30,338	433,880
Asset-backed securities	350,311	58,790	8,167	2,771	-	-	-	-	-	253	-	420,292
International debt securities	-	52,825	69,956	285,390	48,522	9,007	-	-	-	-	-	465,700
Total bonds	\$ 681,885	\$ 896,951	\$ 671,913	\$ 1,399,619	\$ 244,481	\$ 26,207	\$ 6,334	\$ -	\$ -	\$ 6,802	\$ 39,135	\$ 3,973,327

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, 2016 and 2015, SAIF did not have a concentration of credit risk in any one issuer that exceeded the policy outlined above.

Fair value measurement— Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Observable inputs are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are developed based on the best information available about the assumptions market participants would use in pricing the asset. The classification of securities within the fair value hierarchy is based upon the activity level in the market for the security type and the inputs used to determine their fair value, as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities: This category, for items measured at fair value on a recurring basis, includes hybrid securities and exchange-traded common stocks. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.

Level 2 – Significant other observable inputs: This category, for items measured at fair value on a recurring basis, includes bonds and common stocks which are not exchange-traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets which were not considered actively traded.

Level 3 – Significant unobservable inputs: This category, for items measured at fair value where there is no independent pricing source available, includes bonds, common stocks, and other invested assets. The estimated fair values of these items were determined by SAIF's investment managers' own assumptions using unobservable inputs.

Bonds categorized as level 2 were valued using a market approach. These valuations were determined to be level 2 valuations as quoted market prices for similar instruments in an active market were utilized. This was accomplished by the use of matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status, and call and sinking fund features.

Common stocks categorized as level 2 were valued using a market approach. These valuations were determined to be level 2 valuations because quoted market prices for identical instruments trading in an inactive market were utilized. When an equity instrument is illiquid due to limited trading activity, the use of quoted market prices for identical instruments was determined by SAIF to be the most reliable method to determine fair value.

The following schedule represents the fair value measurement of SAIF's debt securities by investment type and equity securities as of December 31, 2016 and 2015, (dollars in thousands):

	Level 1	Level 2	Level 3	Total
2016				
Bonds:				
U.S. Treasury obligations	\$ -	\$ 258,771	\$ -	\$ 258,771
U.S. federal agency mortgage securities	-	783,213	-	783,213
U.S. federal agency debt	-	4,562	-	4,562
Corporate bonds	1,936	1,934,649	-	1,936,585
Municipal bonds	-	58,440	-	58,440
Collateralized mortgage obligations	-	405,731	-	405,731
Asset-backed securities	-	217,379	-	217,379
International debt securities	-	454,225	-	454,225
Total bonds	1,936	4,116,970	-	4,118,906
Equity securities:				
BlackRock MSCI ACWI IMI index fund	-	473,934	-	473,934
Total equity securities	-	473,934	-	473,934
Total investments by fair value level	<u>\$ 1,936</u>	<u>\$4,590,904</u>	<u>\$ -</u>	<u>\$4,592,840</u>
Other investments:				
*Nonnegotiable certificates of deposit				480
Total investments				<u>\$4,593,320</u>

	Level 1	Level 2	Level 3	Total
2015				
Bonds:				
U.S. Treasury obligations	\$ -	\$ 115,311	\$ -	\$ 115,311
U.S. federal agency mortgage securities	-	461,411	-	461,411
U.S. federal agency debt	-	4,624	-	4,624
Corporate bonds	1,949	1,980,561	-	1,982,990
Municipal bonds	-	88,639	-	88,639
Collateralized mortgage obligations	-	433,880	-	433,880
Asset-backed securities	-	320,571	99,721	420,292
International debt securities	-	465,700	-	465,700
Total bonds	1,949	3,870,697	99,721	3,972,847
Equity securities:				
BlackRock MSCI ACWI IMI index fund	-	435,944	-	435,944
Total equity securities	-	435,944	-	435,944
Total investments by fair value level	<u>\$ 1,949</u>	<u>\$4,306,641</u>	<u>\$ 99,721</u>	<u>\$4,408,791</u>
Other investments:				
*Nonnegotiable certificates of deposit				480
Total investments				<u>\$4,409,271</u>

*Nonnegotiable certificates of deposit are exempt from fair value reporting under GASB 72.

Securities on deposit—U.S. Treasury obligations with a fair value of \$8.1 million and \$8.2 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, 2016 and 2015, respectively. In addition, certificates of deposit with a fair value of \$480 thousand were on deposit at U.S. Bank as required by the DCBS at December 31, 2016 and 2015.

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 2016 and 2015, 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 the Fund is voluntary. The fair value of investments held by the Fund is based upon valuations provided by a recognized pricing service. The fair value of SAIF's reinvested cash collateral is determined using the NAV (net asset value) per share of the Fund. The 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 2016 and 2015. At December 31, 2016 and 2015, the Fund had an average life-final maturity of 94 days and 139 days, respectively.

The cash collateral held at December 31, 2016 and 2015, was \$62.1 million and \$52.3 million, respectively. At December 31, 2016 and 2015, securities received as collateral were \$9.9 million and \$25.1 million, respectively. At December 31, 2016 and 2015, the fair value, including accrued investment income related to the securities on loan, was \$70.6 million and \$76.0 million, respectively. For 2016 and 2015, securities lending income was \$677 thousand and \$601 thousand and securities lending expense was \$331 thousand and \$181 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, 2016 and 2015 (dollars in thousands):

	<u>2016</u>	<u>2015</u>
Gross reserve for losses and loss adjustment expenses—beginning of year	\$3,021,751	\$3,086,962
Less reinsurance recoverable—beginning of year	<u>(113,133)</u>	<u>(124,899)</u>
Net reserve for losses and loss adjustment expenses—beginning of year	<u>2,908,618</u>	<u>2,962,063</u>
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	554,836	558,627
Provision for insured events of prior years	<u>(268,507)</u>	<u>(232,948)</u>
Total incurred losses	<u>286,329</u>	<u>325,679</u>
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	135,414	124,081
Insured events of prior years	<u>234,617</u>	<u>255,043</u>
Total payments	<u>370,031</u>	<u>379,124</u>
Net reserve for losses and loss adjustment expenses—end of year	2,824,916	2,908,618
Plus reinsurance recoverable—end of year	<u>97,403</u>	<u>113,133</u>
Gross reserve for losses and loss adjustment expenses—end of year	<u><u>\$2,922,319</u></u>	<u><u>\$3,021,751</u></u>

The reserve for losses and LAE decreased \$83.7 million in 2016, which was net of favorable development of \$268.5 million. Loss reserves decreased \$94.3 million as compared to the prior year. Loss reserves for the 2016 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 ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2016 was well below the assumption.

LAE reserves increased \$10.6 million. LAE reserves for the 2016 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 \$53.4 million in 2015, which was net of favorable development of \$232.9 million. Loss reserves decreased \$60.7 million as compared to the prior year. Loss reserves for the 2015 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 ultimate counts and the continuing downward trend in medical severity. The observed medical escalation rate for 2015 was well below the assumption. Indemnity loss reserves experienced favorable development driven by actual costs for permanent total disability being lower than expected for recent accident years and the reduction in ultimate projected counts for fatal. LAE reserves increased \$7.3 million. LAE reserves for the 2015 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.

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 \$267.5 million and \$263.9 million for 2016 and 2015, respectively. The discounts were \$96.2 million and \$94.0 million as of December 31, 2016 and 2015, respectively.

Anticipated salvage and subrogation of \$32.9 million and \$35.7 million was included as a reduction of the reserve for losses and LAE at December 31, 2016 and 2015, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of \$17.0 million and \$19.1 million for losses and LAE are related to asbestos claims as of December 31, 2016 and 2015, respectively. Amounts paid for asbestos-related claims were \$761 thousand and \$999 thousand at December 31, 2016 and 2015, 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 \$160 million excess of \$35 million per occurrence with a \$10 million maximum on any one life. This reinsurance protection excludes coverage for nuclear, biological, chemical, or radiological events in some or all instances. During 2016, SAIF had reinsurance protection for 84 percent of losses in excess of 20 percent of 2015 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 2016 and 2015 (dollars in thousands):

	<u>2016</u>	<u>2015</u>
Reserve for losses and loss adjustment expenses	\$ 27,394	\$ 37,053
Premiums earned	2,028	1,187
Losses and loss adjustment expenses incurred	(8,553)	(6,335)

Of the \$27.4 and \$37.1 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of \$16.6 million and \$21.6 million, respectively as of December 31, 2016 and 2015.

In 2016, SAIF performed a commutation with Continental Casualty Company extinguishing Continental Casualty Company'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 \$1.4 million. This amount is shown below by statement of income classification and by reinsurer.

<u>Statement of Income Account</u>	<u>Amount</u>
Losses incurred	\$ 1,441
Loss adjustment expenses incurred	-
Premium earned	-
Other	-
Total	<u>\$ 1,441</u>

<u>Reinsurer</u>	<u>Amount</u>
Continental Casualty Company	\$ 1,441

In 2015, SAIF performed a commutation with Coliseum Reinsurance Corporation extinguishing Coliseum Reinsurance Corporation's 12.5 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 \$661 thousand. This amount is shown below by statement of income classification and by reinsurer.

<u>Statement of Income Account</u>	<u>Amount</u>
Losses incurred	\$ 661
Loss adjustment expenses incurred	-
Premium earned	-
Other	-
Total	<u>\$ 661</u>

<u>Reinsurer</u>	<u>Amount</u>
Coliseum Reinsurance Corporation	\$ 661

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 2016 and 2015 (dollars in thousands):

<u>Other States Coverage</u>	<u>2016</u>	<u>2015</u>
Assumed:		
Reserve for losses and loss adjustment expenses	\$ 17,348	\$ 13,509
Unearned premiums	6,846	5,855
Premiums written	15,576	13,224
Premiums earned	14,586	13,680
Losses and loss adjustment expenses incurred	10,792	9,519
Commission expense	2,406	2,110

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 (NWCPR). 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 2016 and 2015 (dollars in thousands):

<u>NWCPR</u>	<u>2016</u>	<u>2015</u>
Assumed:		
Reserve for losses and loss adjustment expenses	\$ 83,647	\$ 75,357
Unearned premiums	5,433	5,432
Premiums written	32,874	31,331
Premiums earned	32,872	31,026
Losses and loss adjustment expenses incurred	24,184	20,960
Commission expense	10,500	11,408
Ceded:		
Reserve for losses and loss adjustment expenses	\$ 70,009	\$ 76,080
Unearned premiums	6,823	6,791
Premiums written	18,892	19,313
Premiums earned	18,859	19,077
Losses and loss adjustment expenses incurred	1,199	2,843
Commission expense	6,859	7,260

6. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2023. Lease expense was \$2.7 million and \$1.7 million as of December 31, 2016 and 2015, respectively.

SAIF's future minimum lease payments under noncancelable operating leases at December 31, 2016, are as follows (dollars in thousands):

<u>Year(s)</u>	<u>Amount</u>
2017	\$ 2,748
2018	1,645
2019	489
2020	200
2021	136
Total minimum payments	<u>\$ 5,218</u>

Certain rental commitments have renewal options extending through the year 2031.

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 \$425 million and a blanket commercial excess bond with limits of \$7.7 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 \$1.6 million as of December 31, 2016 and 2015.

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 \$2.9 million and \$3.0 million at December 31, 2016 and 2015, respectively.

On January 23, 2017, SAIF's Board of Directors voted to settle a civil litigation case filed in 2014 by a former employee for \$1.7 million. This offer was accepted by the former employee and paid in March 2017. The settlement amount was included in other liabilities on the Statement of Net Position, as of December 31, 2016.

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.

As of December 31, 2016, SAIF has entered into an \$80.0 million construction contract, of which \$69.5 million is still outstanding.

9. SUBSEQUENT EVENTS

Subsequent events have been considered through July 24, 2017, which is the date the financial statements were available to be issued (see note 8).

On September 14, 2016, SAIF's Board of Directors authorized officers to pursue the sale of the Roseburg building. In June 2017, this building was sold for \$488 thousand.

10. 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 to aspects related to the administration of the plan which includes the 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.

11. RETIREMENT PLAN

Plan descriptions—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, 2016, SAIF's contribution rate of each covered employee's salary was 13.28 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 IAP (defined contribution). SAIF currently contributes 7.31 percent of each covered employee's salary to the Pension Program and 6.00 percent to the IAP. This contribution is the minimum contribution required for future periods. Rates are subject to change as a result of subsequent actuarial valuations.

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 6.00 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, 2016, 2015, and 2014, consist of the following (dollars in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer contributions:			
Debt service	\$ 4,212	\$ 4,354	\$ 4,195
PERS-Pension Program	4,909	4,394	3,902
OPSRP-Pension Program	<u>2,431</u>	<u>2,147</u>	<u>1,877</u>
Total employer contributions	<u>11,552</u>	<u>10,895</u>	<u>9,974</u>
Employee contributions paid by SAIF:			
PERS-IAP	2,215	2,298	2,373
OPSRP-IAP	<u>1,996</u>	<u>1,670</u>	<u>1,383</u>
Total employee contributions	<u>4,211</u>	<u>3,968</u>	<u>3,756</u>
Total contributions	<u><u>\$ 15,763</u></u>	<u><u>\$ 14,863</u></u>	<u><u>\$ 13,730</u></u>

For the years ended December 31, 2016, 2015, and 2014, SAIF's employer contributions were equal to the annual required contributions.

Net pension liability—At December 31, 2016, SAIF reported a liability of \$93.6 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. At December 31, 2016, SAIF's proportionate share was .62 percent of the statewide pension plan, and 2.32 percent of employer state agencies.

For the year ended December 31, 2016, SAIF recorded pension expense of \$11.3 million. At December 31, 2016, SAIF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,097	\$ -
Changes in assumptions	19,961	
Net difference between projected and actual earnings on investments	18,490	
Changes in proportion and differences between fund contributions and proportionate share of contributions	<u>2,393</u>	<u>889</u>
Total (prior to post-measurement date contributions)	<u>43,941</u>	<u>889</u>
Net deferred outflows/(inflows) of resources before contributions subsequent to the measurement date	-	43,052
Contributions subsequent to the measurement date	<u>2,722</u>	<u>-</u>
Net deferred outflows/(inflows) of resources		<u><u>\$ 45,774</u></u>

The \$2.7 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows (in thousands):

Fiscal Year	Deferred Outflows/(Inflows) of Resources (Prior to Post-Measurement Date Contributions)
2017	\$ 7,825
2018	7,825
2019	14,622
2020	11,155
2021	1,625
Total	<u>\$ 43,052</u>

Actuarial methods and assumptions—The following methods and assumptions were used in the development of the total pension liability:

Valuation date	December 31, 2014
Measurement date	June 30, 2016
Experience study	2014, published September 2015
Actuarial assumptions:	
Inflation rate	2.50 percent (reduced from 2.75%)
Long-term expected rate of return	7.50 percent (reduced from 7.75%)
Discount rate	7.50 percent (reduced from 7.75%)
Projected salary increases	3.50 percent (reduced from 3.75%)
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with <i>Moro</i> decision; blend based on service.
Mortality	<p>Healthy retirees and beneficiaries: RP-2000 sex-distinct, generational per Scale BB, with collar adjustments and set-backs as described in the valuation.</p> <p>Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.</p> <p>Disabled retirees: Mortality rates are a percentage (70% for males, 95% for females) of the RP-2000 sex-distinct, generational per Scale BB, disabled mortality table.</p>

Long-term expected rate of return—To develop an analytical basis for the selection of the long-term expected rate of return assumptions, in July 2015 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The following table shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation:

Asset Class	Target Allocation	Compound Annual (Geometric) Return
Core fixed income	8.00%	4.00%
Short-term bonds	8.00%	3.61%
Bank/leveraged loans	3.00%	5.42%
High yield bonds	1.00%	6.20%
Large/mid cap US equities	15.75%	6.70%
Small cap US equities	1.31%	6.99%
Micro cap US equities	1.31%	7.01%
Developed foreign equities	13.13%	6.73%
Emerging market equities	4.12%	7.25%
Non-US small cap equities	1.88%	7.22%
Private equity	17.50%	7.97%
Real estate (property)	10.00%	5.84%
Real estate (REITS)	2.50%	6.69%
Hedge fund of funds-diversified	2.50%	4.64%
Hedge fund - event-driven	0.63%	6.72%
Timber	1.88%	5.85%
Farmland	1.88%	6.37%
Infrastructure	3.75%	7.13%
Commodities	1.88%	4.58%
Assumed inflation - mean		2.50%

The OIC's description of each asset class was used to map the target allocation to the asset classes. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

Discount rate—The discount rate used to measure the total pension liability was 7.50 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that the contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The following table presents the net pension liability (asset) calculated using the discount rate of 7.50 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.50 percent) or one percent higher (8.50 percent) than the current rate (in millions):

Net Pension Liability (Asset)	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Defined Benefit Pension Plan	\$ 151.1	\$ 93.6	\$ 45.5

Pension plan fiduciary net position—Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Pension related payable—Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), while local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP, effective January 1, 2002. The unfunded actuarial liability (UAL) attributable to the SCCP at the time the SLGRP was formed is maintained separately from the SLGRP and is reduced by contributions and increased for interest charges at the assumed interest rate, which was 7.50 percent in fiscal year 2016. The pre-SLGRP pooled liability attributable to SAIF is being amortized over the period ending December 31, 2027. SAIF is being assessed an employer contribution rate of 1.85 percent of covered payroll for payment of this liability. The outstanding pre-SLGRP pooled liability as of December 31, 2016 for SAIF is \$10.2 million, of which \$0.4 million is recorded as the current portion, and is reported in the accompanying financial statements as pension related payable.

12. 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, 2016 and 2015, respectively, retired plan members contributed \$703 thousand and \$644 thousand through their required contributions, and the required contribution rate per retired member was an average of \$815 and \$778 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, 2016, 2015, and 2014, the amount actually contributed, and changes in SAIF's net OPEB obligation to the plan (dollars in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 1,307	\$ 1,265	\$ 1,909
Interest on net OPEB obligation	221	200	151
Adjustment to ARC	<u>(573)</u>	<u>(517)</u>	<u>(392)</u>
Annual OPEB cost (expense)	955	948	1,668
Contributions made	<u>510</u>	<u>514</u>	<u>704</u>
Increase in net OPEB obligation	445	434	964
Net OPEB obligation - beginning of year	<u>4,427</u>	<u>3,993</u>	<u>3,029</u>
Net OPEB obligation - end of year	<u>\$ 4,872</u>	<u>\$ 4,427</u>	<u>\$ 3,993</u>
Percent of annual OPEB cost contributed	53.4%	54.2%	42.2%

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, 2015, using the projected unit credit cost method. Significant assumptions used in the actuarial valuation include a 5.00 percent investment rate of return. A 6.00 percent health care cost trend rate was used for 2017, 5.25 percent for 2018 through 2019, 5.50 percent for 2020 through 2029, 6.00 percent for 2030, 6.75 percent for 2031 through 2032, 6.50 percent for 2033 through 2037, 6.25 percent for 2038 through 2040, 6.00 percent for 2041 through 2047, 5.75 percent for 2048 through 2060, 5.50 percent for 2061 through 2063, 5.25 percent for 2064 through 2066, 5.00 percent for 2067 through 2069, and a 4.75 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)
01/01/2011	\$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%
01/01/2015	\$0	\$7,201	\$7,201	0.0%	\$68,447	10.5%

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
For the years ended December 31, 2016 and 2015
(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)
01/01/2011	\$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%
01/01/2015	\$0	\$7,201	\$7,201	0.0%	\$68,447	10.5%

Schedule of Employer Contributions

	2016	2015	2014
Annual required contribution	\$ 1,307	\$ 1,265	\$ 1,909
Interest on net OPEB obligation	221	200	151
Adjustment to ARC	(573)	(517)	(392)
Annual OPEB cost (expense)	955	948	1,668
Contributions made	510	514	704
Increase in net OPEB obligation	445	434	964
Net OPEB obligation - beginning of year	4,427	3,993	3,029
Net OPEB obligation - end of year	\$ 4,872	\$ 4,427	\$ 3,993
Percent of annual OPEB cost contributed	53.4%	54.2%	42.2%

Summary of Key Actuarial Methods and Assumptions

Actuarial valuation date	As of January 1, 2015
Actuarial cost method	Projected Unit Credit Cost Method
Amortization	10 years
Discount rate	5.00%
Health care cost trend rate	A 6.00 percent health care cost trend rate was used for 2017, 5.25 percent for 2018 through 2019, 5.50 percent for 2020 through 2029, 6.00 percent for 2030, 6.75 percent for 2031 through 2032, 6.50 percent for 2033 through 2037, 6.25 percent for 2038 through 2040, 6.00 percent for 2041 through 2047, 5.75 percent for 2048 through 2060, 5.50 percent for 2061 through 2063, 5.25 percent for 2064 through 2066, 5.00 percent for 2067 through 2069, and a 4.75 percent ultimate trend rate thereafter.

(Unaudited)
REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
AND EMPLOYER CONTRIBUTIONS
For the years ended December 31, 2016 and 2015
(In thousands)

The Schedule of the Proportionate Share of the Net Pension Liability (Asset) and the Schedule of Employer Contributions present multi-year trend information comparing the proportionate share of the net pension liability (asset) to covered-employee payroll, and the actual contributions to the contractually required contributions.

Schedule of the Proportionate Share of the Net Pension Liability (Asset)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability (asset)	0.62%	0.60%	(0.54%)
Proportionate share of the net pension liability (asset)	\$ 93,594	\$ 34,187	\$(12,351)
Covered-employee payroll	\$ 72,940	\$ 68,447	\$ 65,145
Employer net pension liability (asset) as a percentage of covered-employee payroll	128.3%	49.9%	(18.9%)
Plan fiduciary net position as a percentage of the total pension liability	80.5%	91.9%	103.6%

Schedule of Employer Contributions

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 7,340	\$ 6,541	\$ 5,778
Contributions in relation to the contractually required contributions	<u>(7,340)</u>	<u>(6,541)</u>	<u>(5,778)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 72,940	\$ 68,447	\$ 65,145
Contributions as a percentage of covered-employee payroll	10.1%	9.6%	8.9%

10-year trend information specific to SAIF Corporation is not available prior to the year ended December 31, 2014.