SAIF Corporation

(A Component Unit of the State of Oregon)

Financial Statements and Supplementary Schedules as of and for the Years Ended December 31, 2018 and 2017, 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, 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 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 certain assets not readily available for the payment of claims be “nonadmitted” and removed from the statement of net position. Those assets, such as furniture 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, 2018 and 2017, 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.

Opinion

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, 2018 and 2017, 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 14, defined benefit pension plan schedule of proportionate share of the net pension liability (asset) and employer contributions, post-employment healthcare benefit plan schedule of changes in total OPEB liability and related ratios, retiree health insurance account (RHIA) schedule of proportionate share of the net OPEB liability (asset) and employer contributions, and retiree health insurance premium account (RHIPA) schedule of proportionate share of the net OPEB liability (asset) and employer contributions on pages 50 through 53 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 an opinion 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 29, 2019 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 29, 2019

SAIF CORPORATION
Management's Discussion and Analysis
December 31, 2018 and 2017

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, 2018 and 2017. 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 and indirect 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

	December 31, 2018	2017	2016	2017 to 2018 Increase (Decrease)	2016 to 2017 Increase (Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 63,325	$ 85,117	$ 50,092	$ (21,792)	$ 35,025
Investments	4,467,486	4,779,917	4,593,320	(312,431)	186,597
Securities lending cash collateral	143,445	199,080	62,085	(55,635)	136,995
Accounts and interest receivable, net	393,506	406,313	413,727	(12,807)	(7,414)
Other assets	114	2,996	416	(2,882)	2,580
Total current assets	5,067,876	5,473,423	5,119,640	(405,547)	353,783
NONCURRENT ASSETS:					
Capital assets, nondepreciable	35,517	82,489	20,089	(46,972)	62,400
Capital assets, depreciable, net	88,062	9,144	10,435	78,918	(1,291)
Net other postemployment benefit (OPEB) asset (RHIA)	794	-	-	794	-
Total noncurrent assets	124,373	91,633	30,524	32,740	61,109
Total assets	5,192,249	5,565,056	5,150,164	(372,807)	414,892
DEFERRED OUTFLOWS OF RESOURCES					
Related to OPEB	1,103	-	-	1,103	-
Related to pensions	30,135	29,515	46,663	620	(17,148)
Total deferred outflows of resources	31,238	29,515	46,663	1,723	(17,148)
LIABILITIES					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	300,713	288,655	277,303	12,058	11,352
Unearned premiums	239,424	236,453	237,753	2,971	(1,300)
Accounts payable	101,879	106,227	99,485	(4,348)	6,742
Obligations under securities lending	143,475	199,063	62,051	(55,588)	137,012
Other liabilities and deposits	76,789	123,952	78,378	(47,163)	45,574
Total current liabilities	862,280	954,350	754,970	(92,070)	199,380
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,237,900	2,431,390	2,547,613	(193,490)	(116,223)
Total OPEB liability (SAIF)	10,100	5,259	4,872	4,841	387
Net OPEB liability (RHIPA)	803	-	-	803	-
Pension related payable	8,352	9,121	9,768	(769)	(647)
Net pension liablility	90,082	91,953	93,594	(1,871)	(1,641)
Total noncurrent liabilities	2,347,237	2,537,723	2,655,847	(190,486)	(118,124)
Total liabilities	3,209,517	3,492,073	3,410,817	(282,556)	81,256
DEFERRED INFLOWS OF RESOURCES					
Related to OPEB	291	-	-	291	-
Related to pensions	5,063	768	889	4,295	(121)
Total deferred inflows of resources	5,354	768	889	4,586	(121)
NET POSITION:					
Net investment in capital assets	123,579	91,633	30,524	31,946	61,109
Unrestricted	1,885,037	2,010,097	1,754,597	(125,060)	255,500
Total net position	$ 2,008,616	$ 2,101,730	$ 1,785,121	$ (93,114)	$ 316,609

Condensed Revenues, Expenses, and Changes in Net Position Information

	Years Ended December 31, 2018	2017	2016	2017 to 2018 Increase (Decrease)	2016 to 2017 Increase (Decrease)
OPERATING REVENUES:					
Net premiums earned	$ 523,681	$ 527,186	$ 516,185	$ (3,505)	$ 11,001
Other income	38,332	36,048	32,240	2,284	3,808
Total operating revenues	562,013	563,234	548,425	(1,221)	14,809
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	224,197	297,071	286,329	(72,874)	10,742
Policyholders' dividends	159,939	160,094	139,935	(155)	20,159
Underwriting expenses	156,276	150,012	141,057	6,264	8,955
Bad debt provision	453	645	2,035	(192)	(1,390)
Total operating expenses	540,865	607,822	569,356	(66,957)	38,466
OPERATING GAIN (LOSS)	21,148	(44,588)	(20,931)	65,736	(23,657)
NONOPERATING REVENUES:					
Net investment (loss) income	(109,509)	361,197	285,082	(470,706)	76,115
(DECREASE) INCREASE IN NET POSITION	(88,361)	316,609	264,151	(404,970)	52,458
NET POSITION—Beginning of year	2,101,730	1,785,121	1,520,970	316,609	264,151
Cumulative effect of change in accounting principles	(4,753)	-	-	(4,753)	-
RESTATEMENT—Beginning net position	2,096,977	1,785,121	1,520,970	311,856	264,151
NET POSITION—End of year	$ 2,008,616	$ 2,101,730	$ 1,785,121	$ (93,114)	$ 316,609

Financial position as of December 31, 2018

At the end of 2018, total assets decreased $372.8 million from the prior year, and deferred outflows of resources increased $1.7 million. Total liabilities decreased $282.6 million for the year, deferred inflows of resources increased $4.6 million, and net position decreased $93.1 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 of $63.3 million decreased $21.8 million from December 31, 2017 to December 31, 2018. A $14.9 million increase in cash was offset by a $36.7 million decrease in money market fund balances held by the fixed income managers.

Investments—At the end of 2018, investments were $4,467.5 million and were $312.4 million or 6.5 percent lower than at the end of 2017. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2018. Investment holdings (principal and cost) decreased $42.8 million for bonds due to the withdrawal of bond principal to fund the policyholder dividend payment and capital projects. Market values decreased $211.9 million for bonds and decreased $57.7 million for equities. SAIF's equity holdings are invested in the BlackRock MSCI ACWI fund, and this fund had a negative return of 9.8 percent for 2018.

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. The balance as of December 31, 2018 was $143.4 million, a decrease of $55.6 million from the prior year. A corresponding securities lending liability of $143.5 million was recorded on the balance sheet at December 31, 2018.

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 of $393.5 million decreased $12.8 million or 3.2 percent from December 31, 2017 to December 31, 2018.

Accrued investment income of $34.2 million increased $0.4 million or 1.2 percent from December 31, 2017 to December 31, 2018.

Premiums receivable of $318.6 million decreased $4.8 million or 1.5 percent in 2018, due to the leveling in premiums and a change to certain collection terms. Net written premiums decreased 1.4 percent from 2017 to 2018 as decreases in pure premium rates were partially offset by new business and increased policyholder payrolls.

Accrued retrospective premiums receivable of $8.6 million decreased $8.3 million or 49.2 percent due to favorable loss reserve development.

Other accounts receivable of $32.1 million decreased $0.1 million or 0.3 percent in 2018. An increase in funds deposited with a reinsurer for other states coverage was offset by a decrease in receivables due from the assigned risk pool.

Other assets—The balance in this line of $0.1 million decreased $2.9 million over the prior year due to a $2.4 million decrease in supplies and prepaid furniture for the home office renovation and addition project, and a $0.5 million decrease in receivables for securities.

Capital assets—Nondepreciable capital assets decreased $47.0 million over the prior year due to a reclassification of $54.7 million in construction in progress for a significant home office renovation and addition project, and an increase of $7.7 million in software in development for a policy and billing replacement project. Capital assets, net of depreciation increased $78.9 million over the prior year as SAIF finished construction on the primary building at the corporate headquarters. Construction costs on the home office renovation totaled $24.9 million for the year ended December 31, 2018.

Net other postemployment benefit (OPEB) asset (RHIA)—The $0.8 million balance in this line is the amount allocated by the State of Oregon for the Retirement Health Insurance Account (RHIA) due to GASB Statement No. 75 implementation at December 31, 2018. The impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million (see notes 2 and 12).

Deferred outflows of resources—The $31.2 million balance in this line is related to pensions in accordance with GASB Statement No. 68 and OPEB in accordance with GASB Statement No. 75. The deferred outflows of resources related to pensions increased $0.6 million over the prior year, primarily due to changes in assumptions, differences between projected and actual experience, and differences between projected and actual earnings on investments (see note 11). The $1.1 million balance in deferred outflows of resources related to OPEB is due to GASB Statement No. 75 implementation at December 31, 2018. The impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million. (see notes 2 and 12).

Reserve for losses and loss adjustment expenses—The total (current and noncurrent) reserve for losses and loss adjustment expenses (LAE) of $2.5 billion decreased $181.4 million or 6.7 percent from the prior year. Loss reserves decreased $154.9 million or 6.8 percent and LAE reserves decreased $26.5 million or 6.0 percent during 2018. Loss reserves for the 2018 accident year were offset by favorable loss reserve development in prior accident years. A significant portion of the reduction is due to a reduction in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on a number of assumptions, including future increases in medical costs (i.e., medical escalation), the number and types of claims, and how far into the future payments will be made. The reduction in ultimate medical claims costs was driven largely by lower medical escalation and fewer permanent disability claims in more recent years than previously forecasted. LAE reserves for the 2018 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 loss reserves.

Unearned premiums—The amount of unearned premium of $239.4 million for 2018 increased $3.0 million or 1.3 percent. An increase of $8.2 million in advance premium due to a change in the billing terms on certain policies was offset by a decrease of $5.2 million in unearned premium due to the decrease in net written premium of 1.1 percent.

Accounts payable—The balance in this line of $101.9 million is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line decreased $4.3 million from 2017 to 2018. Premium assessment payable increased $1.8 million due to higher premium assessment rates. Commission payable increased $0.8 million and reinsurance payable decreased $1.3 million. Other accounts payable decreased $5.6 million from 2017 to 2018. This was mostly due to a $3.6 million decrease in policyholder credits and a $4.0 million decrease in the accounts payable accrual as the home office renovation project neared completion. The decreases were offset by a $0.8 million increase in advance claim recovery, a $0.7 million increase in accrued payroll and employee benefits, and a $0.5 million increase in unclaimed property.

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. The balance as of December 31, 2018 was $143.5 million, a decrease of $55.6 million from the prior year. A corresponding securities lending cash collateral asset of $143.4 million was recorded on the balance sheet at December 31, 2018.

Other liabilities and deposits—The balance in this line of $76.8 million is comprised of accrued retrospective premiums payable, premium deposits, policyholder dividends payable, pension related payable, and other liabilities. This balance decreased $47.2 million from the prior year. A $0.9 million increase in premium deposits and a $0.9 million increase in compensated absences payable was offset by a $47.5 million decrease in the amount due to brokers for security purchases, and a $1.5 million decrease of return premium payable on retrospectively rated policies due to revised projections.

Total OPEB liability (SAIF)—The $10.1 million balance in this line is the amount of SAIF's OPEB liability. This line increased $4.8 million over the prior year, due to the transition from GASB Statement No. 45 to GASB Statement No. 75 implementation at December 31, 2018 (see note 12). The impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million (see notes 2 and 12).

Net OPEB liability (RHIPA)—The $0.8 million balance in this line is the amount allocated by the State of Oregon for the Retirement Health Insurance Premium Account (RHIPA) based on GASB Statement No. 75 implementation at December 31, 2018 (see note 12). The impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million (see notes 2 and 12).

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 7.20 percent in fiscal year 2018. The $8.4 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 of $90.1 million decreased $1.9 million over the prior year due to an overall decrease in the net pension liability allocated by the State of Oregon based on GASB Statement No. 68 actuarial valuation as of December 31, 2016 (see note 11).

Deferred inflows of resources—The balance in this line of $5.4 million is related to pensions based on GASB Statement No. 68 and OPEB based on GASB Statement No. 75. The $5.1 million balance in this line is related to pensions based on GASB Statement No. 68. The $4.3 million increase over the prior year is mostly due to differences between projected and actual earnings on investments and differences between SAIF's projected and actual share of fund contributions (see note 11). The $0.3 million balance in deferred inflows of resources related to OPEB based on GASB Statement No. 75 implementation at December 31, 2018. The impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million (see notes 2 and 12).

Operations - year ended December 31, 2018

Significant changes in revenues and expenses include:

Net premiums earned—In 2018, net premiums earned were $523.7 million and decreased $3.5 million or 0.7 percent compared to 2017. Premium decreases were driven by a 14.0 percent decrease to pure premium rates effective January 1, 2018. The decrease was partially offset by new sales and higher reported payrolls by policyholders. Net written premium decreased 1.1 percent due to consecutive reductions in pure premium rates beginning in 2014.

Other income—This line increased $2.3 million or 6.3 percent to $38.3 million in 2018, primarily due to an increase in premium assessment income as a result of the increased assessment rates from 6.8 percent to 7.4 percent.

Net losses and loss adjustment expenses incurred—Net losses incurred for the current year of $166.2 million decreased $40.1 million from 2017, while net LAE incurred of $58.0 million decreased $32.8 million for a total net decrease of $72.9 million. Net paid losses for 2018 were $2.3 million lower than the prior year, and the change in loss reserves was $42.4 million less than the prior year driven by favorable loss reserve development for prior accident years. A significant portion of the reduction is due to a reduction in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on a number of assumptions, including future increases in medical costs (i.e., medical escalation), the number and types of claims, and how far into the future payments will be made. The reduction in ultimate medical claims costs was driven largely by lower medical escalation and fewer permanent disability claims in more recent years than previously forecasted. LAE reserves for the 2018 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 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 a surplus is accumulated from premiums, investment gains, and/or loss reserve reductions. In 2018 and 2017, policyholder dividends of $159.9 million and $160.1 million, respectively, were incurred and paid to qualifying policyholders.

Underwriting expenses—This line increased $6.3 million or 4.2 percent over the prior year to $156.3 million. Increased employee costs, commissions, depreciation expense for completion of a home office renovation project, credit card fees, and a premium assessment expense rate increase from 6.8 percent to 7.4 percent was offset by a reduction in net pension/OPEB expense.

Net investment income (loss)—In 2018 a net investment loss of $109.5 million was recorded compared to a net investment gain of $361.2 million in 2017. This decline of $470.7 million was due primarily to a significant decrease in bond and stock fair values. The change in fair value of investments recorded for 2018 was a negative $269.7 million compared to a positive $185.2 million for 2017. Net realized investment gains were $4.3 million for 2018, compared to $30.7 million for 2017. For 2018, net realized investment gains were $4.2 million from bonds and $0.1 million from equity sales. Interest rates rose modestly during the year while recent years have been adversely affected by relatively low yields on high quality securities. The payment of policyholder dividends during the past nine years has reduced the opportunity for investment income.

Cumulative effect of change in accounting principles—SAIF implemented GASB 75 related to Other Postemployment Benefit Obligations (OPEB) for the fiscal year ended December 31, 2018. The net impact of this Statement on SAIF's financials resulted in a restatement of net position, a decrease of $4.8 million. See notes 2 and 12 for additional information.

Economic Outlook—It is anticipated the national and Oregon economy will continue to expand during 2019. The Federal Reserve may attempt to continue to manage current economic growth through interest rate hikes due to tight labor markets and inflationary risk. The 9.7 percent pure premium rate reduction approved for 2019 may offset premium growth due to new sales, rate increases, and increased policyholder payrolls during 2019.

The 2019 capital budget includes $7.7 million and the operating budget includes $580 thousand in funds to support the completion of a home office renovation project. During 2019, renovation of a secondary building, and demolition and site development of an additional property is expected to be complete by the second half of the year.

Also, the 2019 capital budget includes $5.9 million and the operating budget includes $8.2 million for some large, multi-year technology projects. The projects include implementing analytic solutions, developing a digital direct program, replacing the finance and procurement system, and the completion of a policy and billing system replacement project.

Financial position as of December 31, 2017

At the end of 2017, total assets increased $414.9 million from the prior year, and deferred outflows of resources decreased $17.1 million. Total liabilities increased $81.3 million for the year, deferred inflows of resources decreased $0.1 million, and net position increased $316.6 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 $35.0 million from December 31, 2016 to December 31, 2017. A $5.5 million decrease in cash was offset by a $40.5 million increase in money market fund balances held by the fixed income managers.

Investments—At the end of 2017, investments were $186.6 million or 4.1 percent higher than at the end of 2016. SAIF’s asset allocation was in compliance with the asset allocation policy as of December 31, 2017. Investment holdings (principal and cost) increased $1.3 million for bonds and increased $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 and renovation of the home office. Market values increased $69.9 million for bonds and increased $115.3 million for equities. The BlackRock MSCI ACWI fund had a positive return of 24.4 percent for 2017.

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 decreased $7.4 million or 1.8 percent from December 31, 2016 to December 31, 2017.

Accrued investment income increased $0.1 million or 0.3 percent from December 31, 2016 to December 31, 2017.

Premiums receivable decreased $5.7 million or 1.8 percent in 2017, due to the leveling in premiums. Net written premiums decreased 0.3 percent from 2016 to 2017 as the decrease in pure premium rates was partially offset by new business and increased payrolls.

Accrued retrospective premiums receivable decreased $3.3 million or 16.3 percent due to favorable loss reserve development.

Other accounts receivable increased $1.5 million or 5.0 percent in 2017, primarily due to an increase in premium assessment receivables and receivables due from the assigned risk pool.

Other assets—The $2.6 million increase in this line from 2016 to 2017 is comprised of $2.4 million in prepaid furniture for the home office renovation and addition project, and a $0.2 million increase in receivables for securities.

Capital assets, nondepreciable—This line increased $62.4 million over the prior year. An increase of $46.7 million in construction in progress for a significant home office renovation and addition project, and an increase of $15.8 million in software in development for a policy and billing replacement project were offset by a $0.1 million sale of the land in Roseburg.

Deferred outflows of resources—The $29.5 million balance in this line is related to pensions due to GASB Statement No. 68. The $17.1 million decrease 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 $104.9 million or 3.7 percent from the prior year. Loss reserves decreased $111.5 million or 4.7 percent and LAE reserves increased $6.6 million or 1.5 percent during 2017. Loss reserves for the 2017 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 2017 was well below the assumption. LAE reserves for the 2017 accident year were partially offset by favorable loss reserve development in prior accident years. The favorable LAE reserve development was largely attributable to the overall reduction in loss reserves.

Unearned premiums—The amount of unearned premium for 2017 decreased $1.3 million or 0.6 percent due to the decrease in net written premium of 0.3 percent.

Accounts payable—The balance in this line is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line increased $6.7 million from 2016 to 2017. Premium assessment payable increased $2.2 million due to increased rates. Commission payable increased $0.3 million and reinsurance payable decreased $0.1 million. Other accounts payable increased $4.3 million from 2016 to 2017. This was mostly due to a $4.1 million increase in the accounts payable accrual for the home office renovation project, a $1.1 million increase in accrued incentive compensation, a $0.4 million increase in advance claim recovery, and a $0.3 million increase in policyholder credits. The increases were offset by a $1.7 million decrease in miscellaneous liabilities due to a settlement paid in 2017 (see note 8).

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 $45.6 million from the prior year. A $47.5 million increase in the amount due to brokers for security purchases, and a $1.3 million increase in premium deposits was offset by a $3.7 million decrease of return premium payable on retrospectively rated policies, due to revised projections based on favorable development.

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 2017. The $9.1 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 decreased $1.6 million over the prior year due to an overall decrease in the net pension liability allocated by the State of Oregon based on GASB Statement No. 68 actuarial valuation as of December 31, 2015 (see note 11).

Deferred inflows of resources—The $0.8 million balance in this line is related to pensions due to GASB Statement No. 68. The $0.1 million decrease over the prior year is mostly due to differences between SAIF's projected and actual share of fund contributions (see note 11).

Operations - year ended December 31, 2017

Significant changes in revenues and expenses include:

Net premiums earned—In 2017, net premiums earned increased $11.0 million or 2.1 percent. The increase was due to new sales, a pricing increase for four of the six tiers, a reduction in the prepaid discount credit, and higher reported payrolls by policyholders. Premium growth was tempered by a 6.6 percent decrease to pure premium rates effective January 1, 2017. Direct written premium decreased 0.3 percent due to consecutive reductions in pure premium rates beginning in 2014.

Other income—This line increased $3.8 million or 11.8 percent in 2017, primarily due to an increase in premium assessment income as a result of the increased assessment rates from 6.2 percent to 6.8 percent.

Net losses and loss adjustment expenses incurred—Net losses incurred for the current year increased $7.9 million from 2016, while net LAE incurred increased $2.8 million for a total net increase of $10.7 million. Net paid losses for 2017 were $25.2 million higher than the prior year, and the change in loss reserves was $17.3 million less than the prior year. Total medical payments during 2016 were unusually low due to operational changes which impacted the number of medical bills paid. During 2017, SAIF processed more bills and made more medical payments. Compared to 2015, SAIF's paid medical has increased at an annual rate of 3.9 percent. The favorable loss reserve development for 2017 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 2017 was well below the assumption. LAE reserves for the 2017 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 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 2017 and 2016, policyholder dividends of $160.1 million and $139.9 million, respectively, were incurred and paid to qualifying policyholders.

Underwriting expense—This line increased $9.0 million or 6.4 percent over the prior year, primarily due to increased headcount, employee benefit costs, and premium assessment expense rate increase from 6.2 percent to 6.8 percent. Net pension expense increased from $11.3 million in 2016 to $15.4 million in 2017, due to the accounting of GASB 68. Net pension liability decreased $1.6 million in 2017, deferred outflows of resources decreased $17.1 million and deferred inflows of resources decreased $0.1 million, which nets to $15.4 million in pension expense.

Net investment income—Net investment income for 2017 was $76.1 million higher than the amount recorded for 2016, primarily due to a significant increase in bond and equity market values. The change in fair value of investments recorded for 2017 was a positive $185.2 million compared to a positive $98.8 million for 2016. Net realized investment gains were $30.7 million for 2017, compared to $42.0 million for 2016. For 2017, net realized gains were $26.4 million from bonds, $4.2 million from other invested assets, and $0.1 million from equity sales. 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.

SAIF CORPORATION

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 63,325	$ 85,117
Investments	4,467,486	4,779,917
Securities lending cash collateral	143,445	199,080
Investment income receivable	34,256	33,865
Premiums receivable, net	318,564	323,391
Accrued retrospective premiums receivable	8,594	16,906
Accounts receivable	32,092	32,151
Other assets	114	2,996
Total current assets	5,067,876	5,473,423
NONCURRENT ASSETS:		
Capital assets, nondepreciable	35,517	82,489
Capital assets, depreciable, net	88,062	9,144
Net other postemployment benefit (OPEB) asset (RHIA)	794	-
Total noncurrent assets	124,373	91,633
Total assets	5,192,249	5,565,056
DEFERRED OUTFLOWS OF RESOURCES		
Related to OPEB	1,103	-
Related to pensions	30,135	29,515
Total deferred outflows of resources	31,238	29,515
LIABILITIES		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	300,713	288,655
Unearned premiums	239,424	236,453
Accrued retrospective premiums payable	50,277	51,784
Commissions payable	15,522	14,758
Reinsurance payable	11,673	12,980
Accrued premium assessment payable	36,056	34,229
Premium deposits	18,759	17,860
Accounts payable	38,629	44,260
Obligations under securities lending	143,475	199,063
Policyholder dividends payable	54	-
Pension related payable	655	541
Other liabilities	7,043	53,767
Total current liabilities	862,280	954,350
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,237,900	2,431,390
Total OPEB liability (SAIF)	10,100	5,259
Net OPEB liability (RHIPA)	803	-
Pension related payable	8,352	9,121
Net pension liability	90,082	91,953
Total noncurrent liabilities	2,347,237	2,537,723
Total liabilities	3,209,517	3,492,073
DEFERRED INFLOWS OF RESOURCES		
Related to OPEB	291	-
Related to pensions	5,063	768
Total deferred inflows of resources	5,354	768
NET POSITION:		
Net investment in capital assets	123,579	91,633
Unrestricted	1,885,037	2,010,097
Total net position	$ 2,008,616	$ 2,101,730

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING REVENUES:		
Net premiums earned	$ 523,681	$ 527,186
Other income	38,332	36,048
Total operating revenues	562,013	563,234
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	224,197	297,071
Policyholders' dividends	159,939	160,094
Underwriting expenses	156,276	150,012
Bad debt provision	453	645
Total operating expenses	540,865	607,822
OPERATING GAIN (LOSS)	21,148	(44,588)
NONOPERATING REVENUES:		
Investment (loss) income	(99,559)	370,448
Investment expenses	(9,950)	(9,251)
Net investment (loss) income	(109,509)	361,197
(DECREASE) INCREASE IN NET POSITION	(88,361)	316,609
NET POSITION—Beginning of year	2,101,730	1,785,121
Cumulative effect of change in accounting principles	(4,753)	-
RESTATEMENT--Beginning net position	2,096,977	1,785,121
NET POSITION—End of year	$ 2,008,616	$ 2,101,730

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	$ 537,876	$ 532,461
Loss and loss adjustment expenses paid	(405,629)	(401,942)
Underwriting expenses paid	(156,276)	(150,012)
Policyholder dividends paid	(159,885)	(160,094)
Other receipts	42,519	55,226
Net cash used in operating activities	(141,395)	(124,361)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,558,217)	(1,845,388)
Proceeds from sales and maturities of investments	1,544,633	1,902,852
Interest received on investments and cash balances	168,585	164,044
Interest received from securities lending	4,203	1,628
Interest paid for securities lending	(3,625)	(1,339)
Net cash provided by investing activities	155,579	221,797
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(36,195)	(62,904)
Proceeds from disposition of capital assets	219	493
Net cash used in capital and related financing activities	(35,976)	(62,411)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(21,792)	35,025
CASH AND CASH EQUIVALENTS—Beginning of year	85,117	50,092
CASH AND CASH EQUIVALENTS—End of year	$ 63,325	$ 85,117

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
RECONCILIATION OF OPERATING GAIN (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating gain (loss)	$ 21,148	$ (44,588)
Adjustments to reconcile operating loss to net cash provided by Operating activities:		
Depreciation and amortization	2,938	1,208
Bad debt provision	453	645
Net changes in assets and liabilities:		
Premiums receivable, net	4,373	5,102
Accrued retrospective premiums receivable	8,312	3,295
Accounts receivable	59	(1,522)
Other assets	2,371	(2,347)
Net OPEB asset (RHIA)	(473)	-
Reserve for losses and loss adjustment expenses	(181,432)	(104,871)
Unearned premiums	2,971	(1,300)
Accrued retrospective premiums payable	(1,507)	(3,716)
Policyholder dividends payable	54	-
Commissions payable	764	312
Reinsurance payable	(1,307)	(70)
Accrued premium assessment payable	1,827	2,203
Premium deposits	899	1,318
Accounts payable	(4,536)	4,380
Other liabilities	784	358
Net pension liability	(1,871)	(1,641)
Pension related payable	(655)	(541)
Net OPEB liability (RHIPA)	(361)	-
Total OPEB liability (SAIF)	423	387
(Increase)/decrease in deferred outflows of resources:		
Related to pensions	(620)	17,148
Related to OPEB	(435)	-
Increase/(decrease) in deferred inflows of resources:		
Related to pensions	4,295	(121)
Related to OPEB	131	-
Total adjustments	(162,543)	(79,773)
NET CASH USED IN OPERATING ACTIVITIES	$ (141,395)	$ (124,361)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through tax free exchange transactions	$ 63,479	$ 146,615

See notes to financial statements.

1. DESCRIPTION OF BUSINESS & REGULATORY ENVIRONMENT

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

SAIF is an insurance company authorized to write workers' compensation coverage in Oregon and is a servicing carrier for accounts in the assigned risk pool. SAIF also provides coverage governed by the Longshore and Harbor Workers' Compensation Act, Jones Act, and Federal Employers Liability Law. SAIF has partnered with Zurich Insurance Group Ltd. (Zurich) and United States Insurance Services (USIS) 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 18.0 percent and 18.5 percent of standard premium during 2018 and 2017, 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, Division of Financial Regulation (Insurance Division), SAIF is subject to Risk Based Capital (RBC) requirements of the National Association of Insurance Commissioners (NAIC), which establishes certain amounts of capital and surplus be maintained. SAIF's RBC calculated minimum capital and surplus amount on the statutory basis of accounting was $303.9 million and $314.3 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, 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 brokers. 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, 2018 and 2017.

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: https://www.oregon.gov/treasury/public-financial-services/oregon-short-term-funds/documents/ostf-fund-facts/2018-q4-ostf-fund-fact-page.pdf. As of December 31, 2018 and 2017, SAIF's balance in the OSTF was $36.6 million and $21.7 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. The average maturity of the Institutional U.S. Government Money Market Fund as of December 31, 2018 and 2017, was 28 days and 27 days, respectively. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAm as of December 31, 2018 and 2017. At December 31, 2018 and 2017, SAIF's balance in the Institutional U.S. Government Money Market Fund was $7.0 million and $56.6 million, respectively.

Periodically, SAIF uses the State Street Short-Term Investment Fund (STIF) to hold cash used in trading activity. The STIF seeks to provide safety of principal, a high level of liquidity, and a competitive yield. This fund is not registered with the Securities and Exchange Commission. The average maturity of the fund as of December 31, 2018, was 24 days and the average credit quality was A1/P1 (AA-). At December 31, 2018, SAIF's balance in the fund was $1.3 million. There were no investments in the fund as of December 31, 2017.

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.

Costs incurred to develop internal-use computer software and web sites during the application development stage are capitalized, if they meet the $500 thousand threshold. Costs incurred during the preliminary project stage and post-implementation/operation stage are expensed as incurred. The predefined capitalization thresholds have not changed from those of the prior year.

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

	Capitalization Threshold	Useful Life
Buildings and improvements	All	20–50 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. Capital project life-to-date costs were $86.8 million and $61.8 million, respectively, for the years ended December 31, 2018 and 2017. Capital project year-to-date costs were $24.9 million and $46.7 million, respectively for the years ended December 31, 2018 and 2017.

SAIF has an active software replacement project for the policy and billing system. Capital project life-to-date costs were $25.5 million and $17.8 million, respectively, for the years ended December 31, 2018 and 2017. Capital project year-to-date costs were $7.7 million and $15.8 million, respectively for the years ended December 31, 2018 and 2017.

Capital assets activity for the years ended December 31, 2018 and 2017, was as follows (dollars in thousands):

	2018			
	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 2,922	$ -	$ -	$ 2,922
Software in development	17,760	7,729	-	25,489
Construction in progress	61,807	24,946	(79,657)	7,096
Capital assets not yet in service	-	10	-	10
Total nondepreciable capital assets	82,489	32,685	(79,657)	35,517
Buildings and improvements	19,193	79,750	-	98,943
Furniture, equipment, and automobiles	5,837	2,330	(1,302)	6,865
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	34,073	82,080	(1,302)	114,851
Total	116,562	114,765	(80,959)	150,368
Less accumulated depreciation for:				
Buildings and improvements	(11,308)	(1,953)	-	(13,261)
Furniture, equipment, and automobiles	(4,578)	(985)	1,078	(4,485)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(24,929)	(2,938)	1,078	(26,789)
Capital assets—net	$ 91,633	$ 111,827	$ (79,881)	$ 123,579

	2017			
	Beginning Balance	Increases	Decreases	Ending Balance
Land	$ 3,029	$ -	$ (107)	$ 2,922
Software in development	1,916	15,844	-	17,760
Construction in progress	15,144	46,663	-	61,807
Total nondepreciable capital assets	20,089	62,507	(107)	82,489
Buildings and improvements	19,822	-	(629)	19,193
Furniture, equipment, and automobiles	5,805	307	(275)	5,837
Data processing software	9,043	-	-	9,043
Total depreciable capital assets	34,670	307	(904)	34,073
Total	54,759	62,814	(1,011)	116,562
Less accumulated depreciation for:				
Buildings and improvements	(11,017)	(530)	239	(11,308)
Furniture, equipment, and automobiles	(4,175)	(678)	275	(4,578)
Data processing software	(9,043)	-	-	(9,043)
Total accumulated depreciation	(24,235)	(1,208)	514	(24,929)
Capital assets—net	$ 30,524	$ 61,606	$ (497)	$ 91,633

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 $1.1 million and $1.0 million at December 31, 2018 and 2017, 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, 2018 and 2017 were $311.8 million and $315.9 million, respectively, including unearned premiums of $173.3 million and $177.3 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, 2018 and 2017, were $18.8 million and $17.9 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, 2018 and 2017, is as follows (dollars in thousands):

	2018	2017
Accrued retrospective premiums receivable	$ 8,594	$ 16,906
Accrued retrospective premiums payable	(50,277)	(51,784)
Net	$ (41,683)	$ (34,878)

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 2018 and 2017 were $77.9 million and $77.3 million, respectively, or 15.0 percent and 14.7 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 the reserve for incurred but unpaid losses and LAE at December 31, 2018 and 2017, 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, 2018 and 2017, 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 2018 and 2017, policyholder dividends of $159.9 million and $160.1 million, respectively, 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 collects and remits levies on behalf of their policyholders to the Oregon Workers' Compensation Division of DCBS. Such assessments constitute an in-lieu-of-tax relative to premiums. Premium assessments were $36.4 million and $33.6 million for the years ended December 31, 2018 and 2017 respectively. Accrued premium assessment payable totaled $36.1 million and $34.2 million as of December 31, 2018 and 2017, 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 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 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 are also 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. SAIF implemented this Statement for the fiscal year ended December 31, 2018. See note 12 for additional information. The impact of this Statement on SAIF's financials resulted in a restatement of net position. The 2018 beginning net position was restated as follows:

	January 1, 2018
Net position, as previously stated	$ 2,101,730
Cumulative effect of change in accounting principle due to GASB 75 implementation	(4,753)
Net position, as restated	$ 2,096,977

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 postemployment benefits (pensions and other postemployment benefits [OPEB]). SAIF implemented the requirements of this Statement for the fiscal year ended December 31, 2018. There was no significant impact on the financial statements.

In June 2017, the GASB issued Statement No. 87, *Leases.* This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for SAIF's 2020 financial statements. SAIF is currently evaluating the impact of this Statement on the financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration classes. For notes to financial statements, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for SAIF's 2019 financial statements. SAIF is currently evaluating the impact of this Statement on the financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction Period*. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for SAIF's 2019 financial statements. SAIF is currently evaluating the impact of this Statement 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 $7.0 million in the Institutional U.S. Government Money Market fund, $1.3 million in the Short-Term Investment Fund, and $11.5 million in Treasury bills. The Institutional U.S. Government Money Market Fund and the Short-Term Investment Fund are reported at amortized cost, which approximates fair value. SAIF's cash and cash equivalents totaled $63.3 million and $85.1 million as of December 31, 2018 and 2017, respectively, and are composed of the following (dollars in thousands):

Cash balances	**2018**	**2017**
Oregon Short-Term Fund	$ 36,607	$ 21,698
State Street Bank and Trust Company	(64)	2
U.S. Bank	6,948	6,848
	43,491	28,548
Cash equivalents		
State Street Bank (Treasury bills)	11,497	-
State Street Bank (Short-term investment fund)	1,308	-
State Street Bank (Institutional U.S. Government money market fund)	7,029	56,569
	19,834	56,569
Total cash and cash equivalents	$ 63,325	$ 85,117

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, 2018, 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, 2018 and 2017, were $68 thousand and $578 thousand, respectively. Due to brokers for security purchases at December 31, 2018 and 2017, were $3 thousand and $47.5 million, 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, 2018, 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 2018 maturity distribution schedule includes $1.1 billion in interest-rate sensitive securities. As of December 31, 2018, SAIF held $473.1 million of U.S. Federal Agency mortgage-backed securities and $341.9 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, 2018, SAIF held $252.4 million of asset-backed securities which consisted primarily of automobile 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, 2018 and 2017, 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):

2018	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ -	$ 222,304	$ 130,078	$ 64,071	$ 416,453
U.S. federal agency mortgage securities	50,990	160,096	123,111	138,886	473,083
U.S. federal agency debt	2,550	-	-	1,672	4,222
Corporate bonds	16,866	371,661	817,870	657,282	1,863,679
Municipal bonds	3,473	8,839	8,995	39,659	60,966
Collateralized mortgage obligations	54,047	184,145	88,356	15,356	341,904
Asset-backed securities	12,800	113,272	110,663	15,623	252,358
International debt securities	1,073	153,795	189,751	178,635	523,254
Total bonds	$ 141,799	$ 1,214,112	$ 1,468,824	$ 1,111,184	$ 3,935,919
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 531,567
Total equity securities					531,567
Total investments					$ 4,467,486

2017	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ -	$ 94,796	$ 112,880	$ 129,666	$ 337,342
U.S. federal agency mortgage securities	58,897	165,366	119,306	111,541	455,110
U.S. federal agency debt	-	2,714	-	1,801	4,515
Corporate bonds	72,976	457,203	735,430	730,591	1,996,200
Municipal bonds	58,111	7,886	13,157	45,013	124,167
Collateralized mortgage obligations	69,407	205,988	174,762	25,280	475,437
Asset-backed securities	25,250	127,314	103,565	18,106	274,235
International debt securities	5,147	111,205	187,973	219,255	523,580
Total bonds	$ 289,788	$ 1,172,472	$ 1,447,073	$ 1,281,253	$ 4,190,586
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 589,331
Total equity securities					589,331
Total investments					$ 4,779,917

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, 2018 and 2017, 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, 2018 and 2017, using either Moody's or Standard & Poor's rating scale (dollars in thousands):

2018	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	416,453	-	-	-	-	-	-	-	-	-	$ 416,453
U.S. federal agency mortgage securities	-	473,083	-	-	-	-	-	-	-	-	-	473,083
U.S. federal agency debt	2,550	1,672	-	-	-	-	-	-	-	-	-	4,222
Corporate bonds	55,293	94,050	437,464	1,139,149	110,177	27,438	-	-	-	-	108	1,863,679
Municipal bonds	-	35,818	17,332	1,630	-	6,186	-	-	-	-	-	60,966
Collateralized mortgage obligations	189,485	118,266	24,042	4,582	5	4,398	-	-	-	19	1,107	341,904
Asset-backed securities	200,674	37,060	6,342	8,205	-	-	-	-	77	-	-	252,358
International debt securities	-	13,391	106,101	357,107	42,085	4,570	-	-	-	-	-	523,254
Total bonds	$ 448,002	$ 1,189,793	$ 591,281	$ 1,510,673	$ 152,267	$ 42,592	$ -	$ -	$ 77	$ 19	$ 1,215	$ 3,935,919

2017	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	337,342	-	-	-	-	-	-	-	-	-	$ 337,342
U.S. federal agency mortgage securities	-	455,110	-	-	-	-	-	-	-	-	-	455,110
U.S. federal agency debt	-	4,515	-	-	-	-	-	-	-	-	-	4,515
Corporate bonds	59,384	111,534	549,335	1,107,821	125,845	41,150	1,023	-	-	-	108	1,996,200
Municipal bonds	-	90,257	25,682	2,024	-	6,204	-	-	-	-	-	124,167
Collateralized mortgage obligations	208,933	247,622	4,498	5,498	3,736	5,088	-	-	-	62	-	475,437
Asset-backed securities	227,459	32,708	-	13,943	-	-	125	-	-	-	-	274,235
International debt securities	-	7,438	129,086	349,206	33,927	3,923	-	-	-	-	-	523,580
Total bonds	$ 495,776	$ 1,286,526	$ 708,601	$ 1,478,492	$ 163,508	$ 56,365	$ 1,148	$ -	$ -	$ 62	$ 108	$ 4,190,586

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, 2018 and 2017, 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, 2018 and 2017 (dollars in thousands):

2018	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds:					
U.S. Treasury obligations	$ -	$ 416,453	$ -	$ -	$ 416,453
U.S. federal agency mortgage securities	-	473,083	-	-	473,083
U.S. federal agency debt	-	4,222	-	-	4,222
Corporate bonds	1,982	1,861,589	-	-	1,863,571
Municipal bonds	-	60,966	-	-	60,966
Collateralized mortgage obligations	-	341,904	-	-	341,904
Asset-backed securities	-	252,358	-	-	252,358
International debt securities	-	523,254	-	-	523,254
Total bonds	1,982	3,933,829	-	-	3,935,811
Equity securities:					
BlackRock MSCI ACWI IMI index fund	-	531,567	-	-	531,567
Total equity securities	-	531,567	-	-	531,567
Total investments by fair value level	$ 1,982	$ 4,465,396	$ -	$ -	$ 4,467,378
Other investments:					
*Nonnegotiable certificates of deposit					108
Total investments					$ 4,467,486

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

2017	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds:					
U.S. Treasury obligations	$ -	$ 337,342	$ -	$ -	$ 337,342
U.S. federal agency mortgage securities	-	455,110	-	-	455,110
U.S. federal agency debt	-	4,515	-	-	4,515
Corporate bonds	2,061	1,994,031	-	-	1,996,092
Municipal bonds	-	124,167	-	-	124,167
Collateralized mortgage obligations	-	475,437	-	-	475,437
Asset-backed securities	-	274,235	-	-	274,235
International debt securities	-	523,580	-	-	523,580
Total bonds	2,061	4,188,417	-	-	4,190,478
Equity securities:					
BlackRock MSCI ACWI IMI index fund	-	589,331	-	-	589,331
Total equity securities	-	589,331	-	-	589,331
Total investments by fair value level	$ 2,061	$ 4,777,748	$ -	$ -	$ 4,779,809
Other investments:					
*Nonnegotiable certificates of deposit					108
Total investments					$ 4,779,917

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

Securities on deposit—U.S. Treasury obligations with a fair value of $7.8 million and $7.9 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, 2018 and 2017, respectively. Certificates of deposit with a fair value of $108 thousand were on deposit at U.S. Bank as required by DCBS at December 31, 2018 and 2017. U.S. Treasury obligations with a fair value of $32.6 million and $32.9 million were on deposit with Wilmington Trust for loss payments with Zurich, a reinsurer for other states coverage, as of December 31, 2018 and 2017, respectively.

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

During 2018 and 2017, 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 2018 and 2017. At December 31, 2018 and 2017, the Fund had an average life-final maturity of 148 days and 86 days, respectively.

The cash collateral held at December 31, 2018 and 2017, was $143.5 million and $199.1 million, respectively. At December 31, 2018 and 2017, securities received as collateral were $50.1 million and $1.6 million, respectively. At December 31, 2018 and 2017, the fair value, including accrued investment income related to the securities on loan, was $190.0 million and $196.8 million, respectively. For 2018 and 2017, securities lending income was $4.2 million and $1.6 million and securities lending expense was $3.6 million and $1.3 million, 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, 2018 and 2017 (dollars in thousands):

	2018	2017
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 2,807,223	$ 2,922,319
Less reinsurance recoverable—beginning of year	(87,178)	(97,403)
Net reserve for losses and loss adjustment expenses—beginning of year	2,720,045	2,824,916
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	535,154	580,472
Provision for insured events of prior years	(310,957)	(283,401)
Total incurred losses	224,197	297,071
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	142,463	150,695
Insured events of prior years	263,166	251,247
Total payments	405,629	401,942
Net reserve for losses and loss adjustment expenses—end of year	2,538,613	2,720,045
Plus reinsurance recoverable—end of year	81,538	87,178
Gross reserve for losses and loss adjustment expenses—end of year	$ 2,620,151	$ 2,807,223

The reserve for losses and LAE decreased $181.4 million in 2018, which was net of favorable loss development of $311.0 million. Loss reserves decreased $154.9 million as compared to the prior year. Loss reserves for the 2018 accident year were offset by favorable loss reserve development in prior accident years. A significant portion of the reduction is due to a reduction in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on a number of assumptions, including future increases in medical costs (i.e., medical escalation), the number and types of claims, and how far into the future payments will be made. The reduction in ultimate medical claims costs was driven largely by lower medical escalation and fewer permanent disability claims in more recent years than previously forecasted.

LAE reserves decreased $26.5 million. LAE reserves for the 2018 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 loss reserves.

The reserve for losses and LAE decreased $104.9 million in 2017, which was net of favorable development of $283.4 million. Loss reserves decreased $111.5 million as compared to the prior year. Loss reserves for the 2017 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 2017 was well below the assumption. LAE reserves increased $6.6 million. LAE reserves for the 2017 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 loss 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 $268.9 million and $268.8 million for 2018 and 2017, respectively. The discounts were $96.5 million and $97.5 million as of December 31, 2018 and 2017, respectively.

Anticipated salvage and subrogation of $36.8 million and $34.6 million was included as a reduction of the reserve for losses and LAE at December 31, 2018 and 2017, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $14.3 million and $15.9 million for losses and LAE are related to asbestos claims as of December 31, 2018 and 2017, respectively. Amounts paid for asbestos-related claims were $618 thousand and $432 thousand for the years ended December 31, 2018 and 2017, 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 which provides $160 million of coverage per occurrence in excess of a $35 million retention, with a $10 million limit on any one life. The Terrorism Risk Insurance Act provides coverage for terrorist events that are nuclear, biological, chemical, or radiological in nature, which are excluded from the reinsurance contract. During 2018, SAIF had reinsurance protection for 82 percent of losses in excess of 20 percent of 2017 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 2018 and 2017 (dollars in thousands):

	2018	2017
Reserve for losses and loss adjustment expenses	$ 24,231	$ 23,076
Premiums earned	1,898	1,971
Losses and loss adjustment expenses incurred	1,226	(4,200)

Of the $24.2 million and $23.1 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of $13.6 million and $13.2 million, respectively as of December 31, 2018 and 2017. SAIF did not commute ceded reinsurance in 2018 and 2017.

In November 2010, SAIF received formal approval from DCBS for implementation of its Other States Coverage program. Beginning February 1, 2011, SAIF partnered with Zurich and 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 2018 and 2017 (dollars in thousands):

Other States Coverage	2018	2017
Assumed:		
Reserve for losses and loss adjustment expenses	$ 18,139	$ 18,233
Unearned premiums	7,744	7,255
Premiums written	17,491	16,341
Premiums earned	17,002	15,931
Losses and loss adjustment expenses incurred	7,244	10,841
Commission expense	2,785	2,466

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

The following amounts are included in the accompanying financial statements as a result of participation in the Plan in 2018 and 2017 (dollars in thousands):

NWCRP	2018	2017
Assumed:		
Reserve for losses and loss adjustment expenses	$ 96,977	$ 84,470
Unearned premiums	4,804	5,604
Premiums written	29,055	32,069
Premiums earned	29,856	31,898
Losses and loss adjustment expenses incurred	29,806	16,755
Commission expense	9,096	9,922
Ceded:		
Reserve for losses and loss adjustment expenses	$ 57,307	$ 64,102
Unearned premiums	6,644	7,045
Premiums written	19,318	18,904
Premiums earned	19,719	18,683
Losses and loss adjustment expenses incurred	1,599	1,029
Commission expense	7,320	6,966

6. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2029. Lease expense was $2.1 million and $2.9 million during the year ended December 31, 2018 and 2017, respectively.

SAIF's future minimum lease payments under noncancelable operating leases at December 31, 2018, are as follows (dollars in thousands):

Year(s)	Amount
2019	$ 1,198
2020	1,226
2021	1,188
2022	1,076
2023	1,105
Thereafter	5,598
Total minimum payments	$11,391

Certain rental commitments have renewal options extending through the year 2039.

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 $1.0 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

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 $2.7 million at December 31, 2018 and 2017.

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, 2018, SAIF has entered into an $88.7 million construction contract, of which $8.1 million is still outstanding.

9. SUBSEQUENT EVENTS

A SAIF owned building was demolished on January 21, 2019, as part of the home office renovation and addition project. A realized loss of $187 thousand was recognized in January 2019.

Subsequent events have been considered through July 29, 2019, which is the date the financial statements were available to be issued.

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, whereby the employee defers a portion of their 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 Deferred Compensation Plan Committee. Plan assets are generally held in a trust account with Wells Fargo (the Guaranteed Interest Fund is a general account product), and administered by Empower Retirement for the exclusive benefit of the participants or their beneficiary(ies). Participants' rights under the plan are equal to the fair market value of the deferred compensation plan account for each participant. SAIF has no rights to participant funds and does not perform the investing function for the participant. SAIF's primary fiduciary responsibilities for the plan extends to selection of the investment options that are made available to the participants. Thus, plan assets and any related liability to plan participants have been excluded from the financial statements.

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. SAIF currently contributes 17.84 percent of each employee's covered salary to the PERS program. 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 10.78 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 6.20 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, 2018, 2017, and 2016, consist of the following (dollars in thousands):

	2018	**2017**	**2016**
Employer contributions:			
Debt service	$ 4,854	$ 4,487	$ 4,212
PERS-Pension Program	6,118	5,448	4,909
OPSRP-Pension Program	4,739	3,536	2,431
Total employer contributions	15,711	13,471	11,552
Employee contributions paid by SAIF:			
PERS-IAP	2,053	2,120	2,215
OPSRP-IAP	2,638	2,344	1,996
Total employee contributions	4,691	4,464	4,211
Total contributions	$20,402	$17,935	$15,763

For the years ended December 31, 2018, 2017, and 2016, SAIF's employer contributions were equal to the annual required contributions.

Net pension liability—At December 31, 2018, SAIF reported a liability of $90.1 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. At December 31, 2018, SAIF's proportionate share was 0.59 percent of the statewide pension plan, and 2.20 percent of employer state agencies.

For the year ended December 31, 2018, SAIF recorded pension expense of $1.8 million. At December 31, 2018, SAIF reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 3,064	$ -
Changes in assumptions	20,944	-
Net difference between projected and actual earnings on investments	-	4,000
Changes in proportion and differences between fund contributions and proportionate share of contributions	1,864	1,063
Total (prior to post-measurement date contributions)	25,872	5,063
Net deferred outflows/(inflows) of resources before contributions subsequent to the measurement date	-	20,809
Contributions subsequent to the measurement date	4,263	-
Net deferred outflows/(inflows) of resources		$ 25,072

The $4.3 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 ending December 31, 2019. 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)	
2019	$	11,656
2020		8,349
2021		(739)
2022		1,038
2023		505
Total	$	20,809

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

Valuation date	December 31, 2016
Measurement date	June 30, 2018
Experience study	2016, published July 26, 2017
Actuarial assumptions:	
Actuarial cost method	Entry age normal
Inflation rate	2.50 percent
Long-term expected rate of return	7.20 percent
Discount rate	7.20 percent
Projected salary increases	3.50 percent
Cost of living adjustments (COLA)	Blend of 2.00% COLA and graded COLA (1.25%/0.15%) in accordance with *Moro* decision; blend based on service.
Mortality	***Healthy retirees and beneficiaries:*** RP-2014 healthy annuitant, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation. ***Active members:*** RP-2014 employees, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation. ***Disabled retirees:*** RP-2014 disabled retirees, sex-distinct, generational with unisex, social security data scale.

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%	3.49%
Short-term bonds	8.00%	3.38%
Bank/leveraged loans	3.00%	5.09%
High yield bonds	1.00%	6.45%
Large/mid cap US equities	15.75%	6.30%
Small cap US equities	1.31%	6.69%
Micro cap US equities	1.31%	6.80%
Developed foreign equities	13.13%	6.71%
Emerging market equities	4.13%	7.45%
Non-US small cap equities	1.88%	7.01%
Private equity	17.50%	7.82%
Real estate (property)	10.00%	5.51%
Real estate (REITS)	2.50%	6.37%
Hedge fund of funds-diversified	2.50%	4.09%
Hedge fund - event-driven	0.63%	5.86%
Timber	1.88%	5.62%
Farmland	1.88%	6.15%
Infrastructure	3.75%	6.60%
Commodities	1.88%	3.84%
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 7.20 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 7.20 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 (6.20 percent) or one percent higher (8.20 percent) than the current rate (in millions):

Net Pension Liability (Asset)	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Defined Benefit Pension Plan	$ 150.5	$ 90.1	$ 40.2

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 7.20 percent in fiscal year 2018. 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 1.76 percent of covered payroll for payment of this liability. The outstanding pre-SLGRP pooled liability as of December 31, 2018 for SAIF is $9.0 million, of which $0.7 million is recorded as the current portion and is reported in the accompanying financial statements as pension related payable.

12. OTHER POSTEMPLOYMENT BENEFIT PLANS (OPEB)

SAIF administers a single-employer defined benefit healthcare plan for qualified employees and postemployment healthcare for retiring employees eligible to receive medical coverage. Additionally, for eligible PERS members, PERS administers the Retirement Health Insurance Account (RHIA), a cost-sharing, multiple-employer defined-benefit OPEB plan, and the Retirement Health Insurance Premium Account (RHIPA), a single employer plan with the State of Oregon as the employer.

Plan administered by SAIF

Plan description—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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

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, 2018 and 2017 respectively, retired plan members contributed $633 thousand and $726 thousand through their required contributions, and the required contribution rate per retired member was an average of $813 and $892 per month.

Employees covered by benefit terms—As of the measurement date of January 1, 2017, the following employees were covered by the benefit terms:

	January 1, 2017
Active employees	990
Retired members and others, receiving benefits	70
Total participants	1,060

Benefit payments—Benefit payments made for the fiscal year end December 31, 2018, were $617 thousand.

Total OPEB liability—SAIF's total OPEB liability was determined in accordance with the parameters of GASB Statement No. 75. The total OPEB liability was calculated using the entry age normal actuarial cost allocation method. In addition, GASB Statement No. 75 requires that the allocation of costs for accounting purposes be made as a level percentage of employees' projected pay, including future anticipated pay increases. The total OPEB liability was determined by an actuarial valuation as of January 1, 2017, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date (in thousands):

	December 31, 2018	**December 31, 2017**
Total OPEB liability	$10,100	$9,677
Covered payroll	$81,426	$77,158
Total OPEB liability as a % of covered payroll	12.4%	12.5%
Discount rate	3.44%	3.78%

Actuarial methods and assumptions—The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	January 1, 2017	January 1, 2017
Measurement date	December 31, 2017	December 31, 2016
Inflation	2.50%	2.50%
Salary increases	3.50%	3.50%
Healthy Mortality	RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational basis using Scale BB	RP-2000 healthy white collar male and female mortality tables, set back one year for males. Mortality is projected on a generational basis
Actuarial cost method	Entry Age Normal	Entry Age Normal

The discount rate was based on the Bond Buyer 20-Year General Obligation Bond Index.

Health Care Cost Trend	Year	Pre-65 Trend
	2017	7.00%
	2018	6.50
	2019	5.75
	2020-2029	5.25
	2030-2031	6.00
	2032	6.25
	2033-2040	6.00
	2041-2043	5.75
	2044-2052	5.50
	2053-2064	5.25
	2065-2066	5.00
	2067-2069	4.75
	2070-2072	4.50
	2073+	4.25

Health care cost trend affects both the projected health care costs as well as the projected health care premiums.

Change in total OPEB liability—At December 31, 2018, SAIF's change in total OPEB liability is as follows (in thousands):

	Total OPEB Liability
Balance as of December 31, 2017	$ 9,677
Changes for the year:	
Service cost	408
Interest on total OPEB liability	369
Effect of changes to benefit terms	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	263
Benefit payments	(617)
Balance as of December 31, 2018	$ 10,100

Discount rate—The following presents the total OPEB liability of the Plan, calculated using the discount rate of 3.44 percent, as well as what the Plan's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.44 percent) or one percentage point higher (4.44 percent) than the current rate. A similar sensitivity analysis is then presented for changes in the healthcare cost trend assumption (in thousands):

	1% Decrease (2.44%)	**Discount Rate (3.44%)**	**1% Increase (4.44%)**
Total OPEB liability	$10,908	$10,100	$9,345

	1% Decrease	**Assumed Healthcare Trend Rate**	**1% Increase**
Total OPEB liability	$9,030	$10,100	$11,346

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB—For the year ended December 31, 2018, SAIF recognized negative OPEB expense of $330 thousand. At December 31, 2018, the deferred outflows and inflows of resources related to OPEB were as follows (in thousands):

	Deferred Inflows of Resources		Deferred Outflows of Resources	
Differences between expected and actual experience	$	-	$	-
Changes of assumptions or inputs		-		223
Contributions made subsequent to measurement date		n/a		531
Total as of December 31, 2018	$	-	$	754

The contributions made subsequent to the measurement date of $531 thousand will be recognized as a reduction in the total OPEB liability during the year ending December 31, 2019.

Other amounts currently reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Year ending December 31:		
2019	$	40
2020		40
2021		41
2022		41
2023		41
Thereafter		20
Total	$	223

Plans administered by the Public Employees Retirement System (PERS)

Plan descriptions—The Retirement Health Insurance Account (RHIA), administered by PERS, is a cost-sharing, multiple employer OPEB plan. The plan authorizes a payment of up to $60 toward the monthly cost of health insurance for eligible PERS members. To be eligible the PERS member must have eight or more years of qualifying service in PERS at the time of retirement, receive both Medicare parts A and B coverage, and enroll in a PERS-sponsored health plan. The coverage also extends to members receiving a disability allowance as if the member had at least eight years of creditable service. A surviving spouse or dependent of a deceased PERS retiree is eligible if he or she is receiving a retirement benefit or allowance from PERS or was insured at the time of the member's death and the member retired before May 1, 1991. The plan is closed to entrants hired on or after August 29, 2003. The RHIA plan and benefit amount is established by ORS 238.420. There are no automatic or ad-hoc adjustments to the benefit amount in the statute.

The other plan administered by PERS is the Retiree Health Insurance Premium Account (RHIPA). This plan is a single employer plan with the State of Oregon as the single employer. As authorized by ORS 238.415, retirees receive payment for the average difference between the health insurance premiums paid by retired state employees and the premiums paid by active state employees. The average amount is determined by PERS Board on or before January 1 of each year. This plan is closed to entrants hired on or after August 29, 2003.

Retirees are eligible for the RHIPA plan if they have eight or more years of qualifying service but are not eligible for federal Medicare coverage. Retirees receiving a disability pension are also eligible if the pension was calculated as if they had eight or more years of qualifying service and are not receiving federal Medicare coverage. A surviving spouse or dependent of a retired state employee is eligible if he or she is receiving a retirement benefit from PERS or was insured at the time the member died and the member retired on or after September 29, 1991.

Funding policy—Both plans are required by statute to be funded through employer contributions actuarially necessary to fund the liabilities of the plan. Employer contribution levels must be established by the PERS Board using the same actuarial assumptions it uses to determine employer contribution rates for PERS fund. Contribution rates for the fiscal year ended December 31, 2018, were effective July 1, 2017 and based on the December 31, 2015 valuation. The rates are a percentage of covered payroll and vary by the retirement plan of the participant. The contribution rates and amounts contributed during the year ended December 31, 2018 are shown in the following table (in thousands):

	RHIA		**RHIPA**	
	PERS Tier 1/Tier 2	OPSRP	PERS Tier 1/Tier 2	OPSRP
Total required rate	0.50%	0.43%	0.49%	0.38%
Amounts contributed	$ 171	$ 189	$ 168	$ 167

Net OPEB Asset (RHIA)—At December 31, 2018, SAIF reported an asset of $0.8 million for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. At December 31, 2018, SAIF's proportionate share was 0.71 percent of the statewide pension plan, and 2.40 percent of employer state agencies.

Net OPEB Liability (RHIPA)—At December 31, 2018, SAIF reported a net OPEB liability of $0.8 million. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2016. At December 31, 2018, SAIF's proportionate share was 2.27 percent of employer state agencies.

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB—For the year ended December 31, 2018, SAIF recognized a negative OPEB expense of $50 thousand for the RHIA plan and a negative one thousand for the RHIPA plan. The deferred outflows and inflows of resources for the two plans were as follows (in thousands):

	RHIA		RHIPA	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 45	$ -	$ 59
Changes in assumptions	-	3	8	-
Net difference between projected and actual earnings on investments	-	171	-	13
Changes in proportion and differences between fund contributions and proportionate share of contributions	9	-	-	-
Total (prior to post-measurement date contributions)	9	219	8	72
Net deferred outflow/(inflow) of resources before contributions subsequent to measurement date	-	(210)	-	(64)
Contributions subsequent to the measurement date	172	-	160	-
Net deferred outflow/(inflow) of resources		$ (38)	$ 96	

The contributions made subsequent to the measurement date of $172 thousand for RHIA will be recognized as an increase to the net OPEB asset during the year ending December 31, 2019. The contributions made subsequent to the measurement date of $160 thousand for RHIPA will be recognized as a decrease to the net OPEB liability during the year ending December 31, 2019. Other amounts reported as deferred outflows or inflows of resources related to OPEB will be recognized in OPEB expense as follows (in thousands):

Fiscal Year Ending December 31	**RHIA**	**RHIPA**
2019	$ (68)	$ (13)
2020	(68)	(13)
2021	(57)	(13)
2022	(17)	(10)
2023	-	(8)
Thereafter	-	(7)
Total	$ (210)	$ (64)

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

	RHIA	RHIPA
Plan type	Cost-sharing multiple employer	Single-employer (State of Oregon)
Valuation date	December 31, 2016	December 31, 2016
Measurement date	June 30, 2018	June 30, 2018
Experience study	2016, published July 26, 2017	2016, published July 26, 2017
Actuarial assumptions:		
Actuarial cost method	Entry age normal	Entry age normal
Inflation rate	2.50 percent	2.50 percent
Long-term expected rate of return	7.20 percent	7.20 percent
Discount rate	7.20 percent	7.20 percent
Projected salary increases	3.50 percent	3.50 percent
Retiree healthcare participation	Healthy retirees: 38 percent; disabled disabled retirees: 20 percent	Healthy retirees: 38 percent; disabled disabled retirees: 20 percent
Healthcare cost trend rate	Not applicable	Applied at beginning of plan year, starting with 6.5% for 2018, decreasing to 5.9% for 2019, increasing to 6.2% for 2029, and decreasing to an ultimate rate of 4.2% for 2093 and beyond.
Mortality	Healthy retirees and beneficiaries: RP-2000 sex-distinct, generational per scale BB, with collar adjustments and set-backs as described in the valuation.	Healthy retirees and beneficiaries: RP-2014 healthy annuitant, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation.
	Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.	Active members: RP-2014 employees, sex-distinct, generational with unisex, social security data scale, with collar adjustments and set-backs as described in the valuation.
	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.	Disabled retirees: RP-2014 disabled retirees, sex-distinct, generational with unisex, social security data scale.

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 for both RHIA and RHIPA:

Asset Class	Target Allocation	Compound Annual (Geometric) Return
Core fixed income	8.00%	3.49%
Short-term bonds	8.00%	3.38%
Bank/leveraged loans	3.00%	5.09%
High yield bonds	1.00%	6.45%
Large/mid cap US equities	15.75%	6.30%
Small cap US equities	1.31%	6.69%
Micro cap US equities	1.31%	6.80%
Developed foreign equities	13.13%	6.71%
Emerging market equities	4.13%	7.45%
Non-US small cap equities	1.88%	7.01%
Private equity	17.50%	7.82%
Real estate (property)	10.00%	5.51%
Real estate (REITS)	2.50%	6.37%
Hedge fund of funds-diversified	2.50%	4.09%
Hedge fund - event-driven	0.63%	5.86%
Timber	1.88%	5.62%
Farmland	1.88%	6.15%
Infrastructure	3.75%	6.60%
Commodities	1.88%	3.84%
Assumed inflation - mean		2.50%

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 OPEB liability was 7.20 percent for both RHIA and RHIPA plans. 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 RHIA and RHIPA plans' 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 OPEB plan investments for the RHIA and RHIPA plan was applied to all periods of projected benefit payments to determine the total OPEB liability.

The following table presents the net OPEB liability (asset) for the RHIA and RHIPA plans calculated using the discount rate of 7.20 percent, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.20 percent) or one percent higher (8.20 percent) than the current rate (in thousands):

Employers' Net OPEB Liability/(Asset)	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
OPEB - RHIA	$ (463)	$ (794)	$ (1,077)
OPEB - RHIPA	$ 900	$ 803	$ 692

The following table presents the net OPEB liability (asset) for the RHIA and RHIPA plans calculated using the healthcare cost trend rate of 7.20 percent, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is one percent lower (6.20 percent) or one percent higher (8.20 percent) than the current rate (in thousands):

			Assumed Healthcare		
Employers' Net OPEB Liability/(Asset)	**1% Decrease**		**Trend Rate**		**1% Increase**
OPEB - RHIA	$	(794)	$	(794)	$	(794)
OPEB - RHIPA	$	650	$	803	$	952

RHIA and RHIPA plans' fiduciary net position—Detailed information about the RHIA and RHIPA's fiduciary net position is available in the separately issued PERS financial report.

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
DEFINED BENEFIT PENSION PLAN
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
AND EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years*

(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 payroll, and the actual contributions to the contractually required contributions.

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

	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset)	0.59%	0.68%	0.62%	0.60%	(0.54%)
Proportionate share of the net pension liability (asset)	$ 90,082	$ 91,953	$ 93,594	$ 34,187	$ (12,351)
Covered payroll	$ 81,426	$ 77,158	$ 72,940	$ 68,447	$ 65,145
Employer net pension liability (asset) as a percentage of covered payroll	110.6%	119.2%	128.3%	49.9%	(18.9%)
Plan fiduciary net position as a percentage of the total pension liability	82.1%	83.1%	80.5%	91.9%	103.6%

Schedule of Employer Contributions

	2018	2017	2016	2015	2014
Contractually required contributions	$ 10,162	$ 8,985	$ 7,340	$ 6,541	$ 5,778
Contributions in relation to the contractually required contributions	(10,162)	(8,985)	(7,340)	(6,541)	(5,778)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 81,426	$ 77,158	$ 72,940	$68,447	$65,145
Contributions as a percentage of covered payroll	12.5%	11.6%	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.

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN (SAIF)
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years*
(In thousands)

The Schedule of Changes in Total OPEB Liability and Related Ratios presents multi-year trend information comparing the proportionate share of the total OPEB liability to covered payroll.

Schedule of Changes in Total OPEB Liability and Related Ratios

Fiscal year ended December 31

Total OPEB Liability	**2018**	**2017**
Service cost	$ 408	N/A
Interest on total OPEB liability	369	N/A
Effect of changes to benefit terms	0	N/A
Effect of economic/demographic gains or (losses)	0	N/A
Effect of assumption changes or inputs	263	N/A
Benefit payments	(617)	N/A
Net change in total OPEB liability	423	N/A
Total OPEB liability, beginning	9,677	N/A
Total OPEB liability, ending	$ 10,100	$ 9,677
Covered payroll	$ 81,426	N/A
Total OPEB liability as a % of covered payroll	12.4%	N/A

*10-year trend information specific to SAIF Corporation will be presented prospectively.

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN
RETIREE HEALTH INSURANCE ACCOUNT (RHIA)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
AND EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years*
(In thousands)

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

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

	2018
Proportion of the net OPEB liability (asset)	0.71%
Proportionate share of the net OPEB liability (asset)	$ (794)
Covered payroll	$ 81,426
Employer net OPEB liability (asset) as a percentage of covered payroll	(1.0%)
Plan fiduciary net position as a percentage of the total OPEB liability	124.0%

Schedule of Employer Contributions

	2018
Contractually required contributions	$ 360
Contributions in relation to the contractually required contributions	(360)
Contribution deficiency (excess)	$ -
Covered payroll	$ 81,426
Contributions as a percentage of covered payroll	0.4%

*10-year trend information specific to SAIF Corporation will be presented prospectively.

(Unaudited)

REQUIRED SUPPLEMENTARY INFORMATION
POSTEMPLOYMENT HEALTHCARE BENEFIT PLAN
RETIREE HEALTH INSURANCE PREMIUM ACCOUNT (RHIPA)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY (ASSET)
AND EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years*
(In thousands)

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

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

	2018
Proportion of the net OPEB liability (asset)	2.27%
Proportionate share of the net OPEB liability (asset)	$ 803
Covered payroll	$ 81,426
Employer net OPEB liability (asset) as a percentage of covered payroll	1.0%
Plan fiduciary net position as a percentage of the total OPEB liability	49.8%

Schedule of Employer Contributions

	2018
Contractually required contributions	$ 335
Contributions in relation to the contractually required contributions	(335)
Contribution deficiency (excess)	$ -
Covered payroll	$ 81,426
Contributions as a percentage of covered payroll	0.4%

*10-year trend information specific to SAIF Corporation will be presented prospectively.