SAIF Corporation

(A Component Unit of the State of Oregon)

Financial Statements and Supplementary Schedules as of and for the Years Ended December 31, 2020 and 2019, and Report of Independent Auditors

SAIF CORPORATION

TABLE OF CONTENTS

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 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.

MOSSADAMS

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, 2020 and 2019, 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.

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of SAIF Corporation as of December 31, 2020 and 2019, and the 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 16, defined benefit pension plan schedule of proportionate share of the net pension liability (asset) and employer contributions, postemployment healthcare benefit plan (SAIF) 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 56 through 59 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 27, 2021 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, 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 the effectiveness of SAIF Corporation's 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 27, 2021

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, 2020 and 2019. 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, 2020	December 31, 2019	December 31, 2018	2019 to 2020 Increase (Decrease)	2018 to 2019 Increase (Decrease)
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 50,847	$ 79,427	$ 63,325	$ (28,580)	$ 16,102
Investments	5,101,550	4,784,807	4,467,486	316,743	317,321
Securities lending cash collateral	56,546	42,786	143,445	13,760	(100,659)
Accounts and interest receivable, net	373,465	395,407	393,506	(21,942)	1,901
Other assets	409	140	114	269	26
Total current assets	5,582,817	5,302,567	5,067,876	280,250	234,691
NONCURRENT ASSETS:					
Capital assets, nondepreciable	4,688	7,325	35,517	(2,637)	(28,192)
Capital assets, depreciable, net	116,423	121,055	88,062	(4,632)	32,993
Net other postemployment benefit (OPEB) asset (RHIA)	6,019	1,456	794	4,563	662
Total noncurrent assets	127,130	129,836	124,373	(2,706)	5,463
Total assets	5,709,947	5,432,403	5,192,249	277,544	240,154
DEFERRED OUTFLOWS OF RESOURCES					
Related to OPEB	4,833	1,041	1,103	3,792	(62)
Related to pensions	102,496	131,399	30,135	(28,903)	101,264
Total deferred outflows of resources	107,329	132,440	31,238	(25,111)	101,202
LIABILITIES					
CURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	305,969	282,897	300,713	23,072	(17,816)
Unearned premiums	235,613	240,863	239,424	(5,250)	1,439
Accounts payable	104,994	104,321	101,879	673	2,442
Obligations under securities lending	56,543	42,774	143,475	13,769	(100,701)
Other liabilities and deposits	58,811	65,476	76,789	(6,665)	(11,313)
Total current liabilities	761,930	736,331	862,280	25,599	(125,949)
NONCURRENT LIABILITIES:					
Reserve for losses and loss adjustment expenses	2,163,512	2,247,702	2,237,900	(84,190)	9,802
Total OPEB liability (SAIF)	9,208	8,226	10,100	982	(1,874)
Net OPEB liability (RHIPA)	271	615	803	(344)	(188)
Pension related payable	6,538	7,450	8,352	(912)	(902)
Net pension liablility	82,928	124,823	90,082	(41,895)	34,741
Total noncurrent liabilities	2,262,457	2,388,816	2,347,237	(126,359)	41,579
Total liabilities	3,024,387	3,125,147	3,209,517	(100,760)	(84,370)
DEFERRED INFLOWS OF RESOURCES					
Related to OPEB	2,897	2,362	291	535	2,071
Related to pensions	42,008	5,951	5,063	36,057	888
Total deferred inflows of resources	44,905	8,313	5,354	36,592	2,959
NET POSITION:					
Net investment in capital assets	121,111	128,380	123,579	(7,269)	4,801
Unrestricted	2,626,873	2,303,003	1,885,037	323,870	417,966
Total net position	$ 2,747,984	$ 2,431,383	$ 2,008,616	$ 316,601	$ 422,767

Condensed Revenues, Expenses, and Changes in Net Position Information

	Years Ended December 31, 2020	2019	2018	2019 to 2020 Increase (Decrease)	2018 to 2019 Increase (Decrease)
OPERATING REVENUES:					
Premiums earned, net	$ 484,397	$ 507,393	$ 523,681	$ (22,996)	$ (16,288)
Other income	42,464	41,085	38,332	1,379	2,753
Total operating revenues	526,861	548,478	562,013	(21,617)	(13,535)
OPERATING EXPENSES:					
Net losses and loss adjustment expenses incurred	365,757	423,843	224,197	(58,086)	199,646
Policyholders' dividends	99,993	159,872	159,939	(59,879)	(67)
Underwriting expenses	166,111	173,325	156,276	(7,214)	17,049
Worker safety fund	21,279	-	-	21,279	-
Bad debt provision	1,146	1,513	453	(367)	1,060
Total operating expenses	654,286	758,553	540,865	(104,267)	217,688
OPERATING (LOSS) GAIN	(127,425)	(210,075)	21,148	82,650	(231,223)
NONOPERATING REVENUES:					
Net investment income (loss)	444,026	620,904	(109,509)	(176,878)	730,413
INCREASE (DECREASE) IN NET POSITION	316,601	410,829	(88,361)	(94,228)	499,190
NET POSITION—Beginning of year	2,431,383	2,008,616	2,101,730	422,767	(93,114)
Cumulative effect of change in accounting principles	-	11,938	(4,753)	(11,938)	16,691
RESTATEMENT—Beginning net position	2,431,383	2,020,554	2,096,977	410,829	(76,423)
NET POSITION—End of year	$ 2,747,984	$ 2,431,383	$ 2,008,616	$ 316,601	$ 422,767

Financial position as of December 31, 2020

At the end of 2020, total assets increased $277.5 million from the prior year, and deferred outflows of resources decreased $25.1 million. Total liabilities decreased $100.8 million for the year, deferred inflows of resources increased $36.6 million, and net position increased $316.6 million.

On January 30, 2020 the World Health Organization declared a global health emergency in response to the coronavirus outbreak discovered in China. Significant policyholder layoffs associated with the coronavirus pandemic and economic downturn impacted SAIF's 2020 premium which are based on employers' reported payroll. In addition, many of SAIF's policyholders were affected by wildfires across Oregon. In accordance with the Oregon Department of Consumer and Business Services (DCBS) orders, SAIF took measures to suspend non-voluntary non-renewals and cancellations, provide grace periods for payments, and extend other deadlines for affected policyholders. Despite high unemployment and the economic environment, SAIF's premiums dropped just 4.5% during 2020. The financial statements include a provision for both estimated payroll and premium impacts, but due to significant uncertainty, the actual results will vary.

SAIF also has exposure to coronavirus related claims. SAIF had over 2,000 coronavirus related claims reported through December 31, 2020, with the majority being time-loss claims. Total incurred losses on these claims were $3.7 million. SAIF continues to monitor claims exposure, premium levels, and other operational impacts related to the coronavirus pandemic.

The significant economic downturn initially impacted SAIF's investment holdings before fully recovering. SAIF is continuing to monitor investments that have been hardest hit by the crisis.

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 $50.8 million decreased $28.6 million from December 31, 2019 to December 31, 2020. This was due to a $14.4 million decrease in cash and a $14.2 million decrease in money market fund balances held by the fixed income managers.

Investments—At the end of 2020, investments were $5,101.6 million and were $316.7 million or 6.6 percent higher than at the end of 2019. Investment holdings (principal and cost) decreased $21.4 million for bonds, primarily due to additional investments in real estate funds and the withdrawal of bond principal to fund the policyholder dividend payment and Worker Safety Fund. Equity holdings cost remained relatively flat in 2020. In March 2020, SAIF invested an additional $60.0 million to the Morgan Stanley Prime Property Fund, LLC. In January 2020, SAIF invested $20.0 million in DWS RREEF America REIT II, and an additional $20.0 million was added to the fund in October 2020. An additional $80.0 million is currently committed to be invested in the fund. Market values increased $155.4 million for bonds and increased $81.5 million for equities. SAIF's fixed income portfolio had a positive return of 9.1 percent for 2020, and the BlackRock MSCI ACWI fund had a positive return of 16.6 percent for the year.

Effective April 24, 2019, the Oregon Investment Council approved a revised asset allocation policy for SAIF Corporation. The new allocation reaffirms a 5 percent target allocation to real estate in the form of private or publicly traded funds, allows for an 8 percent combined target allocation to bank loans and private credit, and reduced the target allocation to fixed income holdings from 90 percent to 77 percent. The target allocation to global equities is unchanged at 10 percent. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2020.

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, 2020 was $56.5 million, an increase of $13.8 million from the prior year. A corresponding securities lending liability of $56.5 million was recorded on the balance sheet at December 31, 2020.

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 $373.5 million decreased $21.9 million or 5.6 percent from December 31, 2019 to December 31, 2020.

Accrued investment income of $31.3 million decreased $1.6 million or 4.9 percent from December 31, 2019 to December 31, 2020, largely due to the decline in interest rates.

Premiums receivable of $292.9 million decreased $23.7 million or 7.5 percent in 2020, due to increased unemployment and declining premiums. Net written premiums decreased 6.1 percent from 2019 to 2020 as decreases in pure premium rates and employer payrolls were partially offset by new business.

Accrued retrospective premiums receivable of $19.3 million increased $5.5 million or 40.1 percent due to increased claims on loss-sensitive policies.

Other accounts receivable of $30.0 million decreased $2.2 million from 2019 to 2020. Premium assessment due from policyholders decreased $0.6 million due primarily to decreased premium receivables. Receivables due from the assigned risk pool decreased $1.6 million.

Capital assets—Nondepreciable capital assets decreased $2.6 million over the prior year, due to a reclassification of software in development for a digital quote and bind software project. Capital assets, net of depreciation decreased $4.6 million over the prior year as depreciation was partially offset by investments in digital quote and bind software and the implementation of a finance and procurement software system, which went live in January 2021. Construction costs on the home office renovation totaled $1.4 million for the year ended December 31, 2020. Software development costs for the digital quote and bind project and the finance and procurement software system project totaled $0.6 million and $0.9 million, respectively, for the year ended December 31, 2020.

Net other postemployment benefit (OPEB) asset (RHIA)—The $6.0 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 (see Note 12).

Deferred outflows of resources—The $107.3 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 was $102.5 million, a decrease of $28.9 million over the prior year. This was primarily due to differences between employer contributions and employer's proportionate share of system contributions. In December of 2019, SAIF established a PERS side account, contributing $97.0 million in excess of SAIF's required contributions. These contributions are being amortized and applied against the PERS net pension liability. As of December 31, 2020, SAIF was reported separately from the state agencies proportionate share of the net pension liability. Changes in assumptions and proportionate share, differences between projected and actual experience, and differences between projected and actual earnings on investments make up the remaining balance related to pensions (see Note 11). The $4.8 million balance in deferred outflows of resources related to OPEB is based on GASB Statement No. 75. The balance in this line is mostly due to differences between employer contributions and employer's proportionate share, changes in assumptions, and differences between projected and actual earnings on investments (see Note 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 $61.1 million or 2.4 percent from the prior year. Loss reserves decreased $63.9 million or 3.0 percent and LAE reserves increased $2.8 million or 0.7 percent during 2020. This was driven by a combination of payments made on previously incurred claims and favorable development in prior accident years, offset by newly established reserves for the 2020 accident year. A significant portion of the favorable development on prior accident years is due to a decrease in estimated ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 than expected medical escalation, a decrease in permanent disability claim counts, and the continuing downward trend in medical severity for disabling claims. The favorable development on medical loss reserves was partially offset by increases in indemnity loss reserves tied to the impact of the coronavirus pandemic. The favorable development in unpaid LAE was largely attributable to the overall reduction in unpaid loss, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

Unearned premiums—The amount of unearned premium of $235.6 million for 2020 decreased $5.3 million or 2.2 percent primarily due to lower premiums written.

Accounts payable—The balance in this line of $105.0 million is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line increased $0.7 million from 2019 to 2020. Commissions payable for the current year was $15.4 million, remaining consistent with the prior year. Reinsurance payable decreased $1.2 million. Premium assessment payable decreased $1.4 million due to lower premiums. Other accounts payable increased $3.3 million from 2019 to 2020. This was mostly due to a $3.5 million increase in policyholder credits due to a system conversion and release of security deposits, and a $0.7 million increase in advance claim recovery. The increases were offset by $0.7 million decrease in the accounts payable accrual and a $0.2 million decrease in unclaimed property and miscellaneous liabilities. Increases in accrued payroll and employee benefits were mostly offset by lower PERS contribution rates.

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, 2020 was $56.5 million, an increase of $13.8 million from the prior year. A corresponding securities lending cash collateral asset of $56.5 million was recorded on the balance sheet at December 31, 2020.

Other liabilities and deposits—The balance in this line of $58.8 million is comprised of accrued retrospective premiums payable, premium deposits, policyholder dividends payable, pension related payable, and other liabilities. This balance decreased $6.7 million from the prior year. An $11.2 million decrease of return premium payable on retrospectively rated policies was largely due to increased loss experiences on retrospective policies, and premium deposits decreased $1.2 million over the prior year. Other liabilities increased $5.7 million over the prior year. Payables for securities increased $4.4 million, amounts due on federal premium assessments increased $0.4 million, and compensated absences payable increased $0.9 million.

Total OPEB liability (SAIF)—The $9.2 million balance in this line is the amount of SAIF's OPEB liability under GASB Statement No. 75 (see Note 12). This line increased $1.0 million over the prior year, primarily due to changes in assumptions.

Net OPEB liability (RHIPA)—The $0.3 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. This line decreased $0.3 million over the prior year, primarily due to changes in assumptions and differences between expect and actual experience (see Note 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 2020. The $6.5 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 $82.9 million decreased $41.9 million over the prior year. The decrease was largely due to a change in proportionate share and differences between fund contributions as the side account gets applied against the net pension liability. As of December 31, 2020, SAIF was reported separately from the state agencies proportionate share of the net pension liability. SAIF's net pension liability was allocated by the Oregon Public Employees Retirement System and was based on GASB Statement No. 68 actuarial valuation as of December 31, 2018 (see Note 11).

Deferred inflows of resources—The balance in this line of $44.9 million is related to pensions based on GASB Statement No. 68 and OPEB based on GASB Statement No. 75. The $42.0 million balance in this line is related to pensions based on GASB Statement No. 68. The $36.1 million increase over the prior year is primarily due to differences between employer contributions and employer's proportionate share of system contributions associated with the PERS side account. As of December 31, 2020, SAIF was reported separately from the state agencies proportionate share of the net pension liability (see Note 11). The $2.9 million balance in deferred inflows of resources related to OPEB increased $0.5 million over prior year mostly due to changes in assumptions and differences between projected and actual earnings on investments (see Note 12).

Operations - year ended December 31, 2020

Significant changes in revenues and expenses include:

Net premiums earned—In 2020, net premiums earned were $484.4 million and decreased $23.0 million or 4.5 percent compared to 2019. Premium decreases were driven by decreases in payrolls related to the coronavirus pandemic and economic crisis in addition to an 8.4 percent decrease to pure premium rates effective January 1, 2020 and 9.7 percent in 2019. The decrease was partially offset by new sales and increased claims on retrospective policies. Net written premium decreased 6.1 percent due to the same reasons.

Other income—This line increased $1.4 million or 3.4 percent to $42.5 million in 2020. Premium assessment income increased $0.5 million as a result of the increased assessment rates from 7.8 percent to 8.4 percent. Third party recoveries increased $0.7 million and interest due on past due accounts and other collections increased $0.2 million.

Net losses and loss adjustment expenses incurred—Net losses incurred for the current year of $265.1 million decreased $49.7 million from 2019, while net LAE incurred of $100.6 million decreased $8.4 million for a total net decrease of $58.1 million. Net paid losses for 2020 were $3.2 million higher than the prior year, and the change in loss reserves was $52.9 million lower than the prior year. A significant portion of the favorable development on prior accident years is due to a decrease in estimated ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 estimated ultimate medical claims costs was driven largely by lower than expected medical escalation, a decrease in permanent disability claim counts, and the continuing downward trend in medical severity for disabling claims. The favorable development on medical loss reserves was partially offset by increases in indemnity loss reserves tied to the impact of the coronavirus pandemic. The increase in LAE reserves was driven by a combination of paid LAE associated with previously incurred claims and newly established reserves for the 2020 accident year partially offset by favorable development in prior accident years. The favorable development in unpaid LAE was largely attributable to the overall reduction in unpaid loss, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

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 2020 and 2019, policyholder dividends of $100.0 million and $159.9 million, respectively, were incurred and paid to qualifying policyholders.

Underwriting expenses—This line decreased $7.2 million or 4.2 percent from the prior year to $166.1 million. Decreases in PERS rates, net pension expense, and reduced travel and commission expenses were partially offset by increased employee costs, depreciation of software implementation project costs, and a premium assessment expense rate increase from 7.8 percent to 8.4 percent.

Worker safety fund—SAIF established the Workers Safety Fund in March 2020 in response to the coronavirus crisis with an initial funding of $10.0 million. SAIF added $15.0 million to the fund in April due to high interest from policyholders. Final expenses settled at $21.3 million as reported on the statement of revenues, expenses, and changes in net position.

Bad debt provision—This line decreased $0.4 million over the prior year, due to fewer policy system write offs. In 2020, in response to the pandemic and in accordance with the Oregon Department of Consumer and Business Service orders, SAIF took measures to suspend non-voluntary non-renewals and cancellations, provide grace periods for payments, and extend other deadlines for affected policyholders.

Net investment income—In 2020 a net investment gain of $444.0 million was recorded compared to a net investment gain of $620.9 million in 2019. The decrease of $176.9 million was due primarily to lower returns on bond values as SAIF's fixed income portfolio gained 9.1% in 2020 and 12.2% in 2019. The payment of policyholder dividends during the past 10 years has reduced the opportunity for investment income. The change in fair value of investments recorded for 2020 was a positive $233.5 million compared to a positive $326.8 million for 2019. Net realized investment gains were $66.2 million for

2020, compared to $139.4 million for 2019. For 2020, net realized investment gains were $66.0 million from bonds, $0.1 million from equity sales, and $0.1 million from short-term investments.

Economic Outlook—It is anticipated that the national and Oregon economy will continue the current rebound during 2021; however, significant uncertainty remains in the financial markets as fears of a mutated coronavirus may drive a resurgence in infections and economic restrictions, lingering higher unemployment levels, and expiring eviction moratoriums could negatively impact the economy. The 5.6 percent pure premium rate reduction approved for 2021 may off-set premium growth due to new sales, rate increases, and increased policyholder payrolls during 2021.

The 2021 capital budget includes $12.0 million and the operating budget includes $2.3 million for some large, multi-year technology projects. The projects include extending our digital offerings, replacing the human resources' systems, and implementing a new claims system.

In 2021, Oregon State Treasury will continue to diversify SAIF's invested assets in accordance with the new investment policy starting with incremental investments in the commercial real estate allocation. As of December 31, 2020, SAIF held $121.1 million in the Morgan Stanley Prime Property Fund, LLC. and $40.0 million in DWS RREEF America REIT II, Inc. Outstanding commitments as of December 31, 2020 include $80.0 million with DWS RREEF America REIT II, Inc.

Financial position as of December 31, 2019

At the end of 2019, total assets increased $240.2 million from the prior year, and deferred outflows of resources increased $101.2 million. Total liabilities decreased $84.4 million for the year, deferred inflows of resources increased $3.0 million, and net position increased $422.8 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 $79.4 million increased $16.1 million from December 31, 2018 to December 31, 2019. This was due to a $13.6 million increase in cash and a $2.5 million increase in money market fund balances held by the fixed income managers.

Investments—At the end of 2019, investments were $4,784.8 million and were $317.3 million or 7.1 percent higher than at the end of 2018. Effective April 24, 2019, the Oregon Investment Council approved a revised asset allocation policy for SAIF Corporation. The new allocation reaffirms a 5 percent target allocation to real estate in the form of private or publicly traded funds, allows for an 8 percent combined target allocation to bank loans and private credit, and reduced the target allocation to fixed income holdings from 90 percent to 77 percent. The target allocation to global equities is unchanged at 10 percent. SAIF's asset allocation was in compliance with the asset allocation policy as of December 31, 2019. Investment holdings (principal and cost) increased $7.6 million for bonds. The reinvestment of investment income was partially offset by the withdrawal of bond principal to fund the policyholder dividend payment. Equity holdings cost decreased $77.0 million, primarily due to the selling of $180.0 million of equity holdings to fund the PERS side account and an initial reallocation of investments to a real estate fund. On December 30, 2019, SAIF invested $60.0 million in Morgan Stanley Prime Property Fund, LLC, and an additional $60.0 million was added to the fund in March 2020. In January 2020, SAIF invested $20.0 million in DWS RREEF America REIT II, and an additional $100.0 million is currently committed to be invested in the fund. Market values increased $288.5 million for bonds and increased $38.2 million for equities. SAIF's fixed income portfolio had a positive return of 12.2 percent for 2019, and the BlackRock MSCI ACWI fund had a positive return of 26.6 percent for the year.

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, 2019 was $42.8 million, a decrease of $100.7 million from the prior year. A corresponding securities lending liability of $42.8 million was recorded on the balance sheet at December 31, 2019.

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 $395.4 million increased $1.9 million or 0.5 percent from December 31, 2018 to December 31, 2019.

Accrued investment income of $32.9 million decreased $1.4 million or 4.0 percent from December 31, 2018 to December 31, 2019, largely due to the slow decline in interest rates.

Premiums receivable of $316.6 million decreased $1.9 million or 0.6 percent in 2019, due to the leveling in premiums. Net written premiums decreased 1.9 percent from 2018 to 2019 as decreases in pure premium rates were partially offset by new business and increased policyholder payrolls.

Accrued retrospective premiums receivable of $13.8 million increased $5.2 million or 60.3 percent due to the change in accounting principles related to an actuarial adjustment to estimated billings on retrospective policies (see Note 2).

Other accounts receivable of $32.1 million remained flat from 2018 to 2019. Premium assessment due from policyholders increased $1.7 million due primarily to increased assessment rates, and funds deposited with a reinsurer for other states coverage increased $1.3 million. These were offset by a decrease in receivables due from the assigned risk pool of $2.9 million.

Capital assets—Nondepreciable capital assets decreased $28.2 million over the prior year. A reclassification of $7.1 million in construction in progress for a significant home office renovation and addition project, and a reclassification of $21.4 million in software in development for a policy and billing replacement project was offset by a $0.3 million increase in deposits on fixed assets for software. Capital assets, net of depreciation increased $33.0 million over the prior year as SAIF completed both the home office renovation and addition project and the implementation of the new policy and billing system. Construction costs on the home office renovation totaled $5.5 million for the year ended December 31, 2019. Software development costs for the policy and billing replacement project totaled $2.7 million for the year ended December 31, 2019.

Net other postemployment benefit (OPEB) asset (RHIA)—The $1.5 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 (see Note 12).

Deferred outflows of resources—The $132.4 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 was $131.4 million, an increase of $101.3 million over the prior year. This was primarily due to the funding of a PERS side account totaling $97.0 million, and the balance is included as a contribution subsequent to the measurement date on the statement of net position.

Changes in employer contribution and proportion, changes in assumptions, differences between projected and actual experience, and differences between projected and actual earnings on investments make up the remaining balance related to pensions (see Note 11). The $1.0 million balance in deferred outflows of resources related to OPEB is based on GASB Statement No. 75 (see Note 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 $8.0 million or 0.3 percent from the prior year. Loss reserves decreased $11.4 million or 0.5 percent and LAE reserves increased $3.4 million or 0.8 percent during 2019. This was driven by a combination of payments made on previously incurred claims and favorable development in prior accident years, combined with newly established reserves for the 2019 accident year. A significant portion of the favorable development on prior accident years is due to a decrease in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 than expected medical escalation and fewer permanent disability claims in more recent years than previously forecasted. The increase in LAE reserves was driven by a combination of paid LAE associated with previously incurred claims and favorable development in prior accident years, offset by newly established reserves for the 2019 accident year. The favorable development in unpaid LAE was largely attributable to the overall reduction in loss reserves, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

Unearned premiums—The amount of unearned premium of $240.9 million for 2019 increased $1.4 million or 0.6 percent.

Accounts payable—The balance in this line of $104.3 million is comprised of commissions payable, reinsurance payable, accrued premium assessment, and other accounts payable. This line increased $2.4 million from 2018 to 2019. Commission payable decreased $0.1 million and reinsurance payable decreased $2.7 million. Premium assessment payable increased $1.2 million due to higher premium assessment rates. Other accounts payable increased $4.1 million from 2018 to 2019. This was mostly due to a $4.3 million increase in policyholder credits due to a system conversion and a $0.9 million increase in accrued payroll and employee benefits. The increases were offset by a $0.8 million decrease in advance claim recovery and a $0.4 million decrease in the accounts payable accrual.

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, 2019 was $42.8 million, a decrease of $100.7 million from the prior year. A corresponding securities lending cash collateral asset of $42.8 million was recorded on the balance sheet at December 31, 2019.

Other liabilities and deposits—The balance in this line of $65.5 million is comprised of accrued retrospective premiums payable, premium deposits, policyholder dividends payable, pension related payable, and other liabilities. This balance decreased $11.3 million from the prior year. An $11.9 million decrease of return premium payable on retrospectively rated policies primarily due to an accounting correction (see Note 2) was offset by a $0.6 million increase in premium deposits.

Total OPEB liability (SAIF)—The $8.2 million balance in this line is the amount of SAIF's OPEB liability under GASB Statement No. 75 (see Note 12). This line decreased $1.9 million over the prior year, primarily due to changes in assumptions.

Net OPEB liability (RHIPA)—The $0.6 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 (see Note 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 2019. The $7.5 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 $124.8 million increased $34.7 million over the prior year. Of the increase, approximately $12.7 million was due to an overall increase in the PERS unfunded actuarial liability (UAL), and the remaining $22.0 million increase was due to SAIF's share of the UAL based on a payroll allocation performed by the Department of Administrative Services (DAS). SAIF's allocation by the State of Oregon was based on GASB Statement No. 68 actuarial valuation as of December 31, 2017 (see Note 11).

Deferred inflows of resources—The balance in this line of $8.3 million is related to pensions based on GASB Statement No. 68 and OPEB based on GASB Statement No. 75. The $6.0 million balance in this line is related to pensions based on GASB Statement No. 68. The $0.9 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 $2.4 million balance in deferred inflows of resources related to OPEB increased $2.1 million over prior year mostly due to changes in assumptions (see Note 12).

Operations - year ended December 31, 2019

Significant changes in revenues and expenses include:

Net premiums earned—In 2019, net premiums earned were $507.4 million and decreased $16.3 million or 3.1 percent compared to 2018. Premium decreases were driven by a 9.7 percent decrease to pure premium rates effective January 1, 2019 and 14.0 percent in 2018. The decrease was offset by new sales and higher reported payrolls by policyholders. Net written premium decreased 1.9 percent due to consecutive reductions in pure premium rates beginning in 2014.

Other income—This line increased $2.8 million or 7.2 percent to $41.1 million in 2019. Premium assessment income increased $0.9 million as a result of the increased assessment rates from 7.4 percent to 7.8 percent. Retrospective premium tax increased $1.9 million mostly due to a change in accounting principles (see Note 2.)

Net losses and loss adjustment expenses incurred—Net losses incurred for the current year of $314.8 million increased $148.7 million from 2018, while net LAE incurred of $109.0 million increased $50.9 million for a total net increase of $199.6 million. Net paid losses for 2019 were $5.5 million higher than the prior year, and the reduction in loss reserves was $143.2 million less than the prior year. A significant portion of the favorable development on prior accident years is due to a decrease in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 than expected medical escalation and fewer permanent disability claims in more recent years than previously forecasted. The increase in LAE reserves was driven by a combination of paid LAE associated with previously incurred claims and favorable development in prior accident years, offset by new established reserves for the 2019 accident year. The favorable development in unpaid LAE was largely attributable to the overall reduction in loss reserves, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

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 2019 and 2018, policyholder dividends of $159.9 million were incurred and paid to qualifying policyholders.

Underwriting expenses—This line increased $17.0 million or 10.9 percent over the prior year to $173.3 million. This was mostly due to PERS rate increases, an increase in net pension expense, increased employee costs, depreciation expense for completion of a policy and billing system, and a premium assessment expense rate increase from 7.4 percent to 7.8 percent.

Bad debt provision—This line increased $1.1 million over the prior year, primarily due to write offs associated with the assigned risk pool.

Net investment income—In 2019 a net investment gain of $620.9 million was recorded compared to a net investment loss of $109.5 million in 2018. The increase of $730.4 million was due primarily to a significant increase in bond and stock fair values. The change in fair value of investments recorded for 2019 was a positive $326.8 million compared to a negative $269.7 million for 2018. Net realized investment gains were $139.4 million for 2019, compared to $4.3 million for 2018. For 2019, net realized investment gains were $36.4 million from bonds and $103.2 million from equity sales, offset by $0.2 million in net realized investment losses from real estate. The increase is largely due to the year end selling of equity holdings to fund the PERS side account and reallocation of investments to a real estate fund, and rising bond values as interest rates fell during the year. The payment of policyholder dividends during the past 10 years has reduced the opportunity for investment income.

Cumulative effect of change in accounting principles—While preparing the year end 2019 financial statements, SAIF discovered a change in the reporting of premium on retrospective policies, resulting in an understatement of beginning net position. The change related to estimating ultimate premiums and did not have any direct impact on policyholders. The change dates back many years, with correct ultimate premium being recognized once the retrospective policy closed. SAIF estimates the impact to be less than 1.0 percent of SAIF's annual premium across an 11-year period. In prior years, accrued retrospective premiums were understated and accrued retrospectively rated return premium was overstated, causing a net $11.9 million in estimated understatement of net position as of year end 2018. These changes have been made through an increase to beginning net position.

SAIF CORPORATION

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 50,847	$ 79,427
Investments	5,101,550	4,784,807
Securities lending cash collateral	56,546	42,786
Investment income receivable	31,271	32,884
Premiums receivable, net	292,943	316,632
Accrued retrospective premiums receivable	19,300	13,773
Accounts receivable	29,951	32,118
Other assets	409	140
Total current assets	5,582,817	5,302,567
NONCURRENT ASSETS:		
Capital assets, nondepreciable	4,688	7,325
Capital assets, depreciable, net	116,423	121,055
Net other postemployment benefit (OPEB) asset (RHIA)	6,019	1,456
Total noncurrent assets	127,130	129,836
Total assets	5,709,947	5,432,403
DEFERRED OUTFLOWS OF RESOURCES		
Related to OPEB	4,833	1,041
Related to pensions	102,496	131,399
Total deferred outflows of resources	107,329	132,440
LIABILITIES		
CURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	305,969	282,897
Unearned premiums	235,613	240,863
Accrued retrospective premiums payable	27,189	38,360
Commissions payable	15,431	15,387
Reinsurance payable	7,759	8,980
Accrued premium assessment payable	35,782	37,244
Premium deposits	18,114	19,319
Accounts payable	46,021	42,711
Obligations under securities lending	56,543	42,774
Policyholder dividends payable	72	17
Pension related payable	845	798
Other liabilities	12,592	6,981
Total current liabilities	761,930	736,331
NONCURRENT LIABILITIES:		
Reserve for losses and loss adjustment expenses	2,163,512	2,247,702
Total OPEB liability (SAIF)	9,208	8,226
Net OPEB liability (RHIPA)	271	615
Pension related payable	6,538	7,450
Net pension liability	82,928	124,823
Total noncurrent liabilities	2,262,457	2,388,816
Total liabilities	3,024,387	3,125,147
DEFERRED INFLOWS OF RESOURCES		
Related to OPEB	2,897	2,362
Related to pensions	42,008	5,951
Total deferred inflows of resources	44,905	8,313
NET POSITION:		
Net investment in capital assets	121,111	128,380
Unrestricted	2,626,873	2,303,003
Total net position	$ 2,747,984	$ 2,431,383

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
OPERATING REVENUES:		
Premiums earned, net	$ 484,397	$ 507,393
Other income	42,464	41,085
Total operating revenues	526,861	548,478
OPERATING EXPENSES:		
Net losses and loss adjustment expenses incurred	365,757	423,843
Policyholders' dividends	99,993	159,872
Underwriting expenses	166,111	173,325
Worker safety fund	21,279	-
Bad debt provision	1,146	1,513
Total operating expenses	654,286	758,553
OPERATING LOSS	(127,425)	(210,075)
NONOPERATING REVENUES:		
Investment income	450,335	629,438
Investment expenses	(6,309)	(8,534)
Net investment income	444,026	620,904
INCREASE IN NET POSITION	316,601	410,829
NET POSITION—Beginning of year	2,431,383	2,008,616
Cumulative effect of change in accounting principles	-	11,938
RESTATEMENT—Beginning net position	2,431,383	2,020,554
NET POSITION—End of year	$ 2,747,984	$ 2,431,383

See notes to financial statements.

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums collected, net of reinsurance	$ 483,711	$ 504,206
Loss and loss adjustment expenses paid	(426,875)	(431,857)
Underwriting expenses paid	(166,111)	(173,325)
Policyholder dividends paid	(99,938)	(159,909)
Other (payments) receipts	51,253	(14,223)
Net cash used in operating activities	(157,960)	(275,108)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(1,965,713)	(1,350,745)
Proceeds from sales and maturities of investments	1,937,919	1,486,364
Interest received on investments and cash balances	160,560	169,147
Interest received from securities lending	513	2,589
Interest paid for securities lending	(275)	(2,256)
Net cash provided by investing activities	133,004	305,099
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(3,655)	(13,918)
Proceeds from disposition of capital assets	31	29
Net cash used in capital and related financing activities	(3,624)	(13,889)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,580)	16,102
CASH AND CASH EQUIVALENTS—Beginning of year	79,427	63,325
CASH AND CASH EQUIVALENTS—End of year	$ 50,847	$ 79,427

(Continued)

SAIF CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(In thousands)

	2020	2019
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (127,425)	$ (210,075)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	10,895	9,225
Bad debt provision	1,146	1,513
Net changes in assets and liabilities:		
Premiums receivable, net	22,543	419
Accrued retrospective premiums receivable	(5,527)	(5,179)
Accounts receivable	2,167	(26)
Other assets	(16)	(23)
Net OPEB asset (RHIA)	(4,563)	(662)
Reserve for losses and loss adjustment expenses	(61,118)	(8,014)
Unearned premiums	(5,250)	1,439
Accrued retrospective premiums payable	(11,172)	753
Policyholder dividends payable	55	(37)
Commissions payable	44	(135)
Reinsurance payable	(1,221)	(2,693)
Accrued premium assessment payable	(1,462)	456
Premium deposits	(1,205)	560
Accounts payable	3,310	3,756
Other liabilities	1,258	(62)
Net pension liability	(41,895)	34,741
Pension related payable	(865)	(759)
Net OPEB liability (RHIPA)	(344)	(188)
Total OPEB liability (SAIF)	982	(1,874)
(Increase)/decrease in deferred outflows of resources:		
Related to pensions	28,903	(101,264)
Related to OPEB	(3,792)	62
Increase/(decrease) in deferred inflows of resources:		
Related to pensions	36,057	888
Related to OPEB	535	2,071
Total adjustments	(30,535)	(65,033)
NET CASH USED IN OPERATING ACTIVITIES	$ (157,960)	$ (275,108)
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES: Investments acquired and sold through tax free exchange transactions	$ 65,588	$ 29,173

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 partners with Zurich Insurance Group Ltd. (Zurich) and United States Insurance Services (USIS) to provide other states coverage. 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 18.1 percent of standard premium during 2020 and 2019. SAIF issues workers' compensation insurance policies to individual Oregon employers including state agencies.

DCBS enforces workers' compensation laws under the Oregon Revised Statutes (ORS). Under the reporting requirements of the DCBS, Oregon 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 Company Action Level (CAL) RBC calculated minimum capital and surplus amount was $362.1 million and $316.3 million at December 31, 2020 and 2019, respectively. At December 31, 2020 and 2019, the statutory capital and surplus of SAIF exceeded the minimum RBC requirements. While SAIF is not subject to the minimum capital and surplus requirements set forth in ORS 731.554, SAIF uses various benchmarking and risk level techniques to monitor and maintain an adequate level of capital and surplus.

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, 2020 and 2019. Real estate investments are valued at net asset value (NAV).

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/pages/default.aspx. As of December 31, 2020 and 2019, SAIF's balance in the OSTF was $33.0 million and $50.3 million, respectively.

Oregon's State Treasurer employs the services of two external investment managers to manage SAIF's fixed income portfolios. The cash balances of the fixed income managers are invested in money market funds with the objective of maximizing current income while maintaining a stable net asset value. The average maturity of the Institutional U.S. Government Money Market Fund as of December 31, 2020 and 2019, was 47 days and 35 days, respectively. The Institutional U.S. Government Money Market Fund had a credit quality rating of AAAm as of December 31, 2020 and 2019. At December 31, 2020 and 2019, SAIF's balance in the Institutional U.S. Government Money Market Fund was $8.2 million and $4.1 million, respectively.

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

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

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	15–50 years
Furniture, equipment, and automobiles	$0–$5,000	3–7 years
Operating and nonoperating system software	$500,000	3-5 years

In 2019, SAIF completed construction on a significant home office renovation. Capital project life-to-date costs were $93.7 million and $92.3 million, respectively, as of December 31, 2020 and 2019. Capital project year-to-date costs were $1.4 million and $5.5 million, respectively, for the years ended December 31, 2020 and 2019. A SAIF owned building was demolished during 2019, as part of the home office renovation and additional project. A realized loss of $187 thousand was recognized in calendar year 2019.

In 2019, SAIF implemented a new policy and billing system. Capital project life-to-date costs were $28.3 million and $28.2 million, respectively, as of December 31, 2020 and 2019. Capital project year-to-date costs were $0.1 million and $2.7 million, respectively, for the years ended December 31, 2020 and 2019.

In 2020, SAIF implemented a new system for digital quote and bind. Capital project life-to-date costs were $4.1 million and $3.5 million, respectively, as of December 31, 2020 and 2019. Capital project year-to-date costs were $0.6 million and $3.5 million, respectively, for the years ended December 31, 2020 and 2019.

SAIF has an active software replacement project for the financial system that began in 2019. Capital project life-to-date costs were $1.4 million and $0.5 million, respectively, as of December 31, 2020 and 2019. Capital project year-to-date costs were $0.9 million and $0.5 million, respectively, for the years ended December 31, 2020 and 2019.

These project costs are displayed in the table below (dollars in thousands):

	2020		**2019**	
	Year-to-date	**Life-to-date**	**Year-to-date**	**Life-to-date**
Home office renovation	$ 1,372	$ 93,659	$ 5,533	$ 92,287
Policy and billing system	58	28,252	2,705	28,194
Digital quote and bind system	534	4,066	3,532	3,532
Finance and procurement system	892	1,428	536	536

Capital assets activity for the years ended December 31, 2020 and 2019, was as follows (dollars in thousands):

	2020			
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Land	$ 2,922	$ -	$ -	$ 2,922
Software in development	4,068	1,484	(4,124)	1,428
Construction in progress	-	-	-	-
Capital assets not yet in service	335	338	(335)	338
Total nondepreciable capital assets	7,325	1,822	(4,459)	4,688
Buildings and improvements	110,709	1,372	-	112,081
Furniture, equipment, and automobiles	7,778	798	(1,242)	7,334
Data processing software	37,237	4,124	-	41,361
Total depreciable capital assets	155,724	6,294	(1,242)	160,776
Total	163,049	8,116	(5,701)	165,464
Less accumulated depreciation for:				
Buildings and improvements	(15,322)	(3,237)	-	(18,559)
Furniture, equipment, and automobiles	(5,370)	(1,192)	1,211	(5,351)
Data processing software	(13,977)	(6,466)	-	(20,443)
Total accumulated depreciation	(34,669)	(10,895)	1,211	(44,353)
Capital assets, net	$ 128,380	$ (2,779)	$ (4,490)	$ 121,111

	2019			
	Beginning Balance	**Increases**	**Decreases**	**Ending Balance**
Land	$ 2,922	$ -	$ -	$ 2,922
Software in development	25,489	6,773	(28,194)	4,068
Construction in progress	7,096	5,533	(12,629)	-
Capital assets not yet in service	10	335	(10)	335
Total nondepreciable capital assets	35,517	12,641	(40,833)	7,325
Buildings and improvements	98,943	13,046	(1,280)	110,709
Furniture, equipment, and automobiles	6,865	1,197	(284)	7,778
Data processing software	9,043	28,194	-	37,237
Total depreciable capital assets	114,851	42,437	(1,564)	155,724
Total	150,368	55,078	(42,397)	163,049
Less accumulated depreciation for:				
Buildings and improvements	(13,261)	(3,149)	1,088	(15,322)
Furniture, equipment, and automobiles	(4,485)	(1,142)	257	(5,370)
Data processing software	(9,043)	(4,934)	-	(13,977)
Total accumulated depreciation	(26,789)	(9,225)	1,345	(34,669)
Capital assets, net	$ 123,579	$ 45,853	$ (41,052)	$ 128,380

Cumulative effect of change in accounting principles—While preparing the year end 2019 financial statements, SAIF discovered a change in the reporting of premium on retrospective policies, resulting in an understatement of beginning net position. The change related to estimating ultimate premiums and did not have any direct impact on policyholders. The change dates back many years, with correct ultimate premium being recognized once the retrospective policy closed. SAIF estimates the impact to be less than 1.0 percent of SAIF's annual premium across an 11-year period. In prior years, accrued retrospective premiums were understated and accrued retrospectively rated return premium was overstated, causing a net $11.9 million in estimated understatement of net position as of year end 2018. These changes have been made through an increase to beginning net position for the year ended December 31, 2019.

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 $1.2 million and $1.0 million at December 31, 2020 and 2019, respectively. Premiums receivable consists of both billed amounts and unbilled amounts. Unbilled premiums receivable primarily represents 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 includes 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, 2020 and 2019, were $284.4 million and $308.5 million, respectively, including unearned premiums of $169.0 million and $173.6 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, 2020 and 2019, were $18.1 million and $19.3 million, respectively.

In addition to its regular premium plans, SAIF offers employers retrospective premium rating plans under which premiums are adjusted annually for up to 10½ years following the plan year based on policyholders' loss experience. Adjustments to the original premiums are paid to or collected from the policyholders six months following the expiration of the policy and annually thereafter for up to 10½ years. The estimate of the net accrued premiums receivable for retrospective rating plans as of December 31, 2020 and 2019, is as follows (dollars in thousands):

	2020	2019
Accrued retrospective premiums receivable	$ 19,300	$ 13,773
Accrued retrospective premiums payable	(27,189)	(38,360)
Net	$ (7,889)	$ (24,587)

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 2020 and 2019 were $72.0 million and $74.5 million, respectively, or 15.1 percent and 14.6 percent of net premiums written, respectively.

Reserve for losses and loss adjustment expenses—The reserve for losses and loss adjustment expenses (LAE) is generally based on past experience. The liability includes provisions for reported claims and claims incurred but not reported.

Management believes the reserve for unpaid losses and LAE at December 31, 2020 and 2019, is a reasonable estimate of net future claim costs and expenses associated with administering claims. Annually, executive leaders review key actuarial assumptions used to estimate this liability and consider the significant uncertainty associated with these estimates in booking the reserve. Actual future claims costs and LAE depend on a number of factors, including, but not limited to, the duration of worker disability, claimant and beneficiary lifespans, medical cost trends, occupational disease exposure, inflation, and other societal, legislative, judicial and economic factors. As a result, the process used to compute the ultimate cost of settling claims and expenses associated with administering claims is necessarily based on estimates. The amount ultimately paid may be higher or lower than these 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, 2020 and 2019, 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 2020 and 2019, policyholder dividends of $100.0 million and $159.9 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 income 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 $39.3 million and $37.3 million for the years ended December 31, 2020 and 2019, respectively. Accrued premium assessment payable totaled $35.8 million and $37.2 million as of December 31, 2020 and 2019, 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 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. SAIF implemented the requirements of this Statement as of December 31, 2020. SAIF currently has no AROs.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. SAIF implemented the requirements of this Statement as of December 31, 2020. 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 2022 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. SAIF implemented the requirements of this Statement as of December 31, 2020. There was no significant impact 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 2021 financial statements. SAIF is currently evaluating the impact of this Statement on the financial statements.

In January 2020, the GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan
- The applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits
- The applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature
- Terminology used to refer to derivative instruments

The requirements of this Statement are effective for SAIF's 2022 financial statements. SAIF is currently evaluating the impact of this Statement on the financial statements.

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases,* as amended*.* A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

Under this Statement, a government generally should recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability. A government should recognize the subscription liability at the commencement of the subscription term, —which is when the subscription asset is placed into service. The subscription liability should be initially measured at the present value of subscription payments expected to be made during the subscription term. Future subscription payments should be discounted using the interest rate the SBITA vendor charges the government, which may be implicit, or the government's incremental borrowing rate if the interest rate is not readily determinable. A government should recognize amortization of the discount on the subscription liability as an outflow of resources (for example, interest expense) in subsequent financial reporting periods.

The subscription asset should be initially measured as the sum of (1) the initial subscription liability amount, (2) payments made to the SBITA vendor before commencement of the subscription term, and (3) capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. A government should recognize amortization of the subscription asset as an outflow of resources over the subscription term.

Activities associated with a SBITA, other than making subscription payments, should be grouped into the following three stages, and their costs should be accounted for accordingly:

- Preliminary Project Stage, including activities such as evaluating alternatives, determining needed technology, and selecting a SBITA vendor. Outlays in this stage should be expensed as incurred.
- Initial Implementation Stage, including all ancillary charges necessary to place the subscription asset into service. Outlays in this stage generally should be capitalized as an addition to the subscription asset.
- Operation and Additional Implementation Stage, including activities such as subsequent implementation activities, maintenance, and other activities for a government's ongoing operations related to a SBITA. Outlays in this stage should be expensed as incurred unless they meet specific capitalization criteria.

This Statement provides an exception for short-term SBITAs. Short-term SBITAs have a maximum possible term under the SBITA contract of 12 months (or less), including any options to extend, regardless of their probability of being exercised. Subscription payments for short-term SBITAs should be recognized as outflows of resources. This Statement requires a government to disclose descriptive information about its SBITAs other than short-term SBITAs, such as the amount of the subscription asset, accumulated amortization, other payments not included in the measurement of a subscription liability, principal and interest requirements for the subscription liability, and other essential information. The requirements of this Statement are effective for SAIF's 2023 financial statements. SAIF is currently evaluating the impact of this Statement on the financial statements.

In June 2020, the GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or another employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. This Statement supersedes the remaining provisions of Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan's reporting period in all circumstances. The requirements of this Statement are effective for SAIF's 2022 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 $8.2 million in the Institutional U.S. Government Money Market fund. 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 $50.8 million and $79.4 million as of December 31, 2020 and 2019, respectively, and are composed of the following (dollars in thousands):

Cash balances	**2020**	**2019**
Oregon Short-Term Fund	$ 33,038	$ 50,325
State Street Bank and Trust Company	2,027	(465)
U.S. Bank	7,606	7,246
	42,671	57,106
Cash equivalents		
State Street Bank (Treasury bills)	-	18,246
State Street Bank (Institutional U.S. Government money market fund)	8,176	4,075
	8,176	22,321
Total cash and cash equivalents	$ 50,847	$ 79,427

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, 2020, 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 percent to 13 percent of the market value of invested assets with a target allocation of 10 percent.

Effective April 24, 2019, the Oregon Investment Council approved a revised asset allocation policy for SAIF Corporation. The new allocation reaffirms a 5 percent target allocation to real estate in the form of private or publicly traded funds, allows for an 8 percent combined target allocation to bank loans and private credit, and reduced the target allocation to fixed income holdings from 90 percent to 77 percent. The target allocation to global equities of 10 percent remains unchanged.

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, 2020 and 2019, were $324 thousand and $71 thousand, respectively. Due to brokers for security purchases at December 31, 2020 and 2019, were $4.4 million and $4 thousand, respectively.

Interest rate risk—Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. SAIF's policy for fixed income investments provides that a duration target be used to manage interest rate risk. The policy calls for the portfolio duration to be within 20 percent of the benchmark duration. The benchmark duration as of December 31, 2020, was 6.42 years, with an acceptable range of 5.14 to 7.70 years. As of that date, the fixed income portfolio's duration was 6.45 years.

The following 2020 maturity distribution schedule includes $1.1 billion in interest-rate sensitive securities. As of December 31, 2020, SAIF held $514.5 million of U.S. federal agency mortgage-backed securities and $344.7 million of collateralized mortgage obligations (CMOs). These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of December 31, 2020, SAIF held $240.1 million of asset-backed securities which consisted primarily of student and 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, 2020 and 2019, 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):

2020	**Less Than 1 Year**	**1–5 Years**	**6–10 Years**	**More Than 10 Years**	**Fair Value**
Bonds:					
U.S. Treasury obligations	$ 198,021	$ 75,205	$ 19,045	$ 101,591	$ 393,862
U.S. federal agency mortgage securities	111,653	195,090	78,279	129,455	514,477
U.S. federal agency debt	-	-	-	2,006	2,006
Corporate bonds	11,345	446,868	892,138	903,398	2,253,749
Municipal bonds	1,901	6,055	6,843	56,163	70,962
Collateralized mortgage obligations	95,942	156,305	85,748	6,738	344,733
Asset-backed securities	14,461	147,809	50,208	27,585	240,063
International debt securities	8,557	174,633	198,691	164,258	546,139
Total bonds	$ 441,880	$ 1,201,965	$ 1,330,952	$ 1,391,194	$ 4,365,991
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 574,370
Total equity securities					574,370
Real estate open ended funds:					
Morgan Stanley Prime Property Fund LLC					$ 121,148
DWS RREEF America REIT II					40,041
Total real estate					161,189
Total investments					$ 5,101,550

2019	Less Than 1 Year	1–5 Years	6–10 Years	More Than 10 Years	Fair Value
Bonds:					
U.S. Treasury obligations	$ 7,986	$ 194,580	$ 144,038	$ 79,594	$ 426,198
U.S. federal agency mortgage securities	45,504	122,138	76,471	69,403	313,516
U.S. federal agency debt	105,990	92,274	54,556	36,816	289,636
Corporate bonds	33,154	410,198	820,373	740,633	2,004,358
Municipal bonds	1,336	3,710	8,550	43,742	57,338
Collateralized mortgage obligations	58,406	168,054	102,906	27,422	356,788
Asset-backed securities	7,389	140,817	77,238	8,254	233,698
International debt securities	8,094	171,518	173,283	197,599	550,494
Total bonds	$ 267,859	$ 1,303,289	$ 1,457,415	$ 1,203,463	$ 4,232,026
Equity securities:					
BlackRock MSCI ACWI IMI index fund					$ 492,781
Total equity securities					492,781
Real estate open ended funds:					
Morgan Stanley Prime Property Fund LLC					$ 60,000
Total real estate					60,000
Total investments					$ 4,784,807

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, 2020 and 2019, 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, 2020 and 2019, using either Moody's or Standard & Poor's rating scale (dollars in thousands):

2020	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	$ 389,093	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,769	$ 393,862
U.S. federal agency mortgage securities	-	514,477	-	-	-	-	-	-	-	-	-	514,477
U.S. federal agency debt	-	2,006	-	-	-	-	-	-	-	-	-	2,006
Corporate bonds	25,229	139,924	571,847	1,325,313	157,184	25,838	-	-	-	-	8,414	2,253,749
Municipal bonds	-	48,904	15,194	-	6,864	-	-	-	-	-	-	70,962
Collateralized mortgage obligations	19,883	209,935	69,641	5,661	4,326	35,287	-	-	-	-	-	344,733
Asset-backed securities	101,993	102,397	16,009	12,261	-	3,048	-	-	-	-	4,355	240,063
International debt securities	-	21,663	115,246	333,413	69,464	6,353	-	-	-	-	-	546,139
Total bonds	$ 147,105	$ 1,428,399	$ 787,937	$ 1,676,648	$ 237,838	$ 70,526	$ -	$ -	$ -	$ -	$ 17,538	$ 4,365,991

2019	Quality Ratings											
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	Fair Value
Bonds:												
U.S. Treasury obligations	$ -	$ 426,198	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 426,198
U.S. federal agency mortgage securities	-	313,516	-	-	-	-	-	-	-	-	-	313,516
U.S. federal agency debt	-	289,636	-	-	-	-	-	-	-	-	-	289,636
Corporate bonds	22,739	106,216	574,992	1,194,039	86,068	19,971	-	-	-	-	333	2,004,358
Municipal bonds	-	34,487	15,780	-	7,071	-	-	-	-	-	-	57,338
Collateralized mortgage obligations	24,222	217,177	76,368	-	5,589	32,473	-	-	-	-	959	356,788
Asset-backed securities	80,085	127,076	18,718	7,797	-	-	-	-	22	-	-	233,698
International debt securities	-	12,030	115,839	360,247	50,403	6,641	-	-	-	-	5,334	550,494
Total bonds	$ 127,046	$ 1,526,336	$ 801,697	$ 1,562,083	$ 149,131	$ 59,085	$ -	$ -	$ 22	$ -	$ 6,626	$ 4,232,026

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, 2020 and 2019, 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.

On January 2, 2020, SAIF invested $20.0 million in DWS RREEF America REIT II fund and an additional $20.0 million was invested in the fund on October 1, 2020. As of December 31, 2020, SAIF had unfunded commitments of $80.0 million to be invested in the fund, subject to capital calls by the fund. On March 30, 2020, SAIF invested an additional $60.0 million in Morgan Stanley Prime Property Fund, LLC, which completed the total commitment of $120.0 million to this fund. Previously, SAIF invested $60.0 million into the Morgan Stanley fund on December 30, 2019. Both funds are open-ended real estate funds that permit quarterly redemption of shares, subject to certain requirements being met. The funds are valued using net asset value (NAV). The funds are expected to be held for the long term and generate a cash flow that will represent a significant component of the total return.

The following schedule represents the fair value measurement of SAIF's debt securities by investment type, equity securities, and real estate funds as of December 31, 2020 and 2019 (dollars in thousands):

2020	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds:					
U.S. Treasury obligations	$ -	$ 393,862	$ -	$ -	$ 393,862
U.S. federal agency mortgage securities	-	514,477	-	-	514,477
U.S. federal agency debt	-	2,006	-	-	2,006
Corporate bonds	2,138	2,251,153	-	-	2,253,291
Municipal bonds	-	70,962	-	-	70,962
Collateralized mortgage obligations	-	344,733	-	-	344,733
Asset-backed securities	-	240,063	-	-	240,063
International debt securities	-	546,139	-	-	546,139
Total bonds	2,138	4,363,395	-	-	4,365,533
Equity securities:					
BlackRock MSCI ACWI IMI index fund	-	574,370	-	-	574,370
Total equity securities	-	574,370	-	-	574,370
Real estate open ended funds:					
Morgan Stanley Prime Property Fund LLC	-	-	-	121,148	121,148
DWS RREEF America REIT II	-	-	-	40,041	40,041
Total real estate funds	-	-	-	161,189	161,189
Total investments by fair value level	$ 2,138	$ 4,937,765	$ -	$ 161,189	$ 5,101,092
Other investments:					
*Nonnegotiable certificates of deposit					458
Total investments					$ 5,101,550

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

2019	Level 1	Level 2	Level 3	Net Asset Value (NAV)	Total
Bonds:					
U.S. Treasury obligations	$ -	$ 426,198	$ -	$ -	$ 426,198
U.S. federal agency mortgage securities	-	313,516	-	-	313,516
U.S. federal agency debt	-	289,636	-	-	289,636
Corporate bonds	2,085	2,001,940	-	-	2,004,025
Municipal bonds	-	57,338	-	-	57,338
Collateralized mortgage obligations	-	356,788	-	-	356,788
Asset-backed securities	-	233,698	-	-	233,698
International debt securities	-	550,494	-	-	550,494
Total bonds	2,085	4,229,608	-	-	4,231,693
Equity securities:					
BlackRock MSCI ACWI IMI index fund	-	492,781	-	-	492,781
Total equity securities	-	492,781	-	-	492,781
Real estate open ended funds:					
Morgan Stanley Prime Property Fund LLC	-	-	-	60,000	60,000
Total real estate fund	-		-	60,000	60,000
Total investments by fair value level	$ 2,085	$ 4,722,389	$ -	$ 60,000	$ 4,784,474
Other investments:					
*Nonnegotiable certificates of deposit					333
Total investments					$ 4,784,807

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

Securities on deposit—U.S. Treasury obligations with a fair value of $8.3 million and $8.0 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, 2020 and 2019, respectively. Certificates of deposit with a fair value of $458 thousand and $333 thousand were on deposit at U.S. Bank as required by DCBS as of December 31, 2020 and 2019, respectively. U.S. Treasury obligations with a fair value of $35.7 million and $35.3 million were on deposit with Wilmington Trust for loss payments with Zurich, a reinsurer for other states coverage, as of December 31, 2020 and 2019, 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 2020 and 2019, 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 2020 and 2019. At December 31, 2020 and 2019, the Fund had an average life-final maturity of 87 days and 202 days, respectively.

The cash collateral held at December 31, 2020 and 2019, was $56.5 million and $42.8 million, respectively. At December 31, 2020 and 2019, securities received as collateral were $1.9 million and $0.2 million, respectively. At December 31, 2020 and 2019, the fair value, including accrued investment income related to the securities on loan, was $57.4 million and $42.0 million, respectively. For 2020 and 2019, securities lending income was $0.5 million and $2.6 million and securities lending expense was $0.3 million and $2.3 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, 2020 and 2019 (dollars in thousands):

	2020	2019
Gross reserve for losses and loss adjustment expenses—beginning of year	$ 2,609,916	$ 2,620,151
Less reinsurance recoverable—beginning of year	(79,317)	(81,538)
Net reserve for losses and loss adjustment expenses—beginning of year	2,530,599	2,538,613
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	546,597	572,594
Provision for insured events of prior years	(180,840)	(148,751)
Total incurred losses	365,757	423,843
Loss and loss adjustment expense payments attributable to:		
Insured events of the current year	149,269	143,702
Insured events of prior years	277,606	288,155
Total payments	426,875	431,857
Net reserve for losses and loss adjustment expenses—end of year	2,469,481	2,530,599
Plus reinsurance recoverable—end of year	78,329	79,317
Gross reserve for losses and loss adjustment expenses—end of year	$ 2,547,810	$ 2,609,916

The net reserve for losses and LAE decreased $61.1 million in 2020, which was net of favorable loss development of $180.8 million. Loss reserves decreased $63.9 million as compared to the prior year. This was driven by a combination of payments made on previously incurred claims and favorable development in prior accident years, offset by newly established reserves for the 2020 accident year. A significant portion of the favorable development on prior accident years is due to a decrease in estimated ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 than expected medical escalation, a decrease in permanent disability claim counts, and the continuing downward trend in medical severity for disabling claims. The favorable development on medical loss reserves was partially offset by increases in indemnity loss reserves tied to the impact of the coronavirus pandemic.

LAE reserves increased $2.8 million. This was driven by a combination of paid LAE associated with previously incurred claims and newly established reserves for the 2020 accident year partially offset by favorable development in prior accident years. The favorable development in unpaid LAE was largely attributable to the overall reduction in unpaid loss, due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

The reserve for losses and LAE decreased $8.0 million in 2019, which was net of favorable loss development of $148.8 million. Loss reserves decreased $11.4 million as compared to the prior year. This was driven by a combination of payments made on previously incurred claims and favorable development in prior accident years, combined with newly established reserves for the 2019 accident year. A significant portion of the favorable development on prior accident years is due to a decrease in ultimate medical claims costs. Estimates of ultimate medical claims costs are based on numerous 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 than expected medical escalation and fewer permanent disability claims in more recent years than previously forecasted.

LAE reserves increased $3.4 million. This was driven by a combination of paid LAE associated with previously incurred claims and favorable development in prior accident years, offset by newly established reserves for the 2019 accident year. The favorable development in unpaid LAE was largely attributable to the overall reduction in loss reserves due to the strong relationship of the level of unpaid LAE to the level of unpaid loss.

SAIF discounts the indemnity case reserves for workers' compensation claims 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. For federal claims, SAIF uses the 1999 United States Life Tables and a discount rate of 3.5 percent. SAIF does not discount any incurred but not reported reserves, medical reserves, or any LAE reserves, except for assumed incurred but not reported (IBNR) reserves reported by the National Workers Compensation Reinsurance Pool. Net reserves subject to tabular discounting were $196.3 million and $202.8 million for 2020 and 2019, respectively. The discounts were $94.9 million and $95.3 million as of December 31, 2020 and 2019, respectively.

Anticipated salvage and subrogation of $43.4 million and $39.6 million was included as a reduction of the reserve for losses and LAE at December 31, 2020 and 2019, respectively.

SAIF's exposure to asbestos claims arose from the sale of workers' compensation policies. Reserves of $13.0 million and $13.3 million for losses and LAE are related to asbestos claims as of December 31, 2020 and 2019, respectively. Amounts paid for asbestos-related claims were $363 thousand and $569 thousand for the years ended December 31, 2020 and 2019, 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 2020, SAIF had reinsurance protection for 80 percent of losses in excess of 20 percent of 2019 direct earned 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, excluding balances ceded to the Oregon Workers' Compensation Insurance Plan, for 2020 and 2019 (dollars in thousands):

	2020	**2019**
Reserve for losses and loss adjustment expenses	$ 20,369	$ 24,826
Premiums earned	1,795	2,013
Losses and loss adjustment expenses incurred	(3,693)	949

Of the $20.4 million and $24.8 million recoverable, SAIF had a reinsurance recoverable from an individual reinsurer of $13.9 million and $15.8 million, respectively as of December 31, 2020 and 2019. SAIF did not commute ceded reinsurance in 2020 and 2019.

SAIF partners 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 2020 and 2019 (dollars in thousands):

Other States Coverage	**2020**	**2019**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 31,214	$ 27,827
Unearned premiums	7,177	7,173
Premiums written	15,667	14,884
Premiums earned	15,663	15,454
Losses and loss adjustment expenses incurred	10,928	11,931
Commission expense	2,649	2,267

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 2020 and 2019 (dollars in thousands):

NWCRP	**2020**	**2019**
Assumed:		
Reserve for losses and loss adjustment expenses	$ 90,958	$ 97,639
Unearned premiums	3,341	3,843
Premiums written	16,691	23,152
Premiums earned	17,194	24,112
Losses and loss adjustment expenses incurred	4,978	14,251
Commission expense	5,680	7,378
Ceded:		
Reserve for losses and loss adjustment expenses	$ 57,960	$ 54,492
Unearned premiums	4,505	5,365
Premiums written	11,001	14,998
Premiums earned	11,860	16,276
Losses and loss adjustment expenses incurred	10,003	4,153
Commission expense	4,336	5,936

6. LEASE COMMITMENTS

SAIF leases office space in several locations under operating leases expiring during various years through 2029. Lease expense was $1.4 million and $1.5 million during the years ended December 31, 2020 and 2019, respectively.

SAIF's future minimum lease payments under non-cancelable operating leases at December 31, 2020, are as follows (dollars in thousands):

Year ending December 31,	Amount
2021	$ 1,260
2022	1,222
2023	993
2024	937
2025	964
Thereafter	3,779
Total minimum payments	$ 9,155

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; 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 $4.7 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. In addition, SAIF elects to purchase additional coverage, including cyber insurance, through the fund. SAIF's assessment was $0.7 million for the years ended December 31, 2020 and 2019.

SAIF is self-insured for workers' compensation insurance. 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 $2.4 million and $2.6 million at December 31, 2020 and 2019, respectively.

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

SAIF had unfunded commitments of $80.0 million to be invested in DWS RREEF American REIT II, subject to capital calls by the fund, as of December 31, 2020.

9. SUBSEQUENT EVENTS

On March 10, 2021, SAIF's Board of Directors declared a $210.0 million dividend for policyholders on policies that expired in 2020. The valuation date for eligible policies will be June 4, 2021 and will be paid before July 31, 2021.

Subsequent events have been considered through July 27, 2021, 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, collective investment trusts, and other offerings selected by SAIF's Deferred Compensation Plan Committee. Plan assets are generally held in a trust account with Great-West Trust Company, LLC 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 (or book value in the case of stable value option) 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, except in the instance where a participant fails to make an affirmative investment election. SAIF's primary fiduciary responsibilities for the plan extends to selection of the investment options that are made available to the participants as well as the monitoring of plan service providers. 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, non-survivorship benefits, and lump-sum benefits. 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://www.oregon.gov/PERS/pages/financials/actuarial-financial-information.aspx.

On December 30, 2019, SAIF funded a PERS side account totaling $97.0 million which represented approximately 90 percent of SAIF's unfunded actuarial liability based on a preliminary actuarial valuation from PERS. This side account does not impact employee benefits received under PERS; instead, it represents a prepayment of SAIF's on-going contributions. SAIF will see the benefit of lower contribution rates over the next 16 years as the account is amortized. For 2020, SAIF received rate relief of 10.34 percent of each covered employee's salary for its otherwise required pension contribution rates. The balance is included in deferred outflows of resources as a difference between employer contributions and employer's proportionate share on the statement of net position.

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. Beginning on July 1, 2020, certain amounts of the IAP contributions are "redirected" under Oregon statute from employee accounts to fund the pension UAL. This provision remains in effect until the pension reaches a certain funded status.

As of December 31, 2020, SAIF contributes 21.21 percent of each employee's covered salary to the PERS program. This contribution is the minimum contribution required for future periods. For the required contributions, 10.34 percent of employees' salaries is covered by the side account rate relief, and SAIF contributes the remaining 10.87 percent of salary. 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). As of December 31, 2020, SAIF contributes 14.75 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. For the required OPSRP Pension Program contributions, 10.34 percent of employee's salaries is covered by the side account rate relief, and SAIF contributes the remaining 4.41 percent of salary. 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 5.60 percent of payroll each month. The payment rate is recalculated periodically, as needed.

The total amount contributed by SAIF for all plans (including RHIA and RHIPA plans discussed in Note 12) for the years ended December 31, 2020 and 2019, consist of the following (dollars in thousands):

	2020	2019
Employer contributions:		
Debt service	$ 4,833	$ 5,060
PERS-Pension Program	8,150	6,425
OPSRP-Pension Program	6,784	6,308
Total employer contributions	19,767	17,793
PERS side account rate relief:	(9,014)	-
Net employer contributions	10,753	17,793
Employee contributions paid by SAIF:		
PERS-IAP	1,915	1,988
OPSRP-IAP	3,315	2,975
Total employee contributions	5,230	4,963
Total contributions	$ 15,983	$ 22,756

For the years ended December 31, 2020 and 2019, SAIF's employer contributions were equal to the annual required contributions. SAIF's contributions were less than 5.00 percent of each plan's total contributions. There are no funding improvement or rehabilitation plans implemented or pending for any of the plans SAIF participates in. SAIF did not pay any surcharges during the year ended December 31, 2020. SAIF is a funder of last resort, embodied in the scheme of ORS Chapter 238, along with every other employer in PERS. PERS' board from time to time will evaluate the liabilities of PERS and set the amount of contributions to be made by SAIF to ensure that those liabilities will be funded no more than 40 years after the date on which the determination is made.

Net pension liability—At December 31, 2020, SAIF reported a liability of $82.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. At December 31, 2020, SAIF's proportionate share was 0.38 percent of the statewide pension plan.

For the year ended December 31, 2020, SAIF recorded pension expense of $22.4 million. At December 31, 2020, 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	$ 3,650	$ -
Changes in assumptions	4,450	156
Net difference between projected and actual earnings on investments	9,751	-
Changes in proportionate share	2,942	40,549
Differences between employer contributions and employer's proportionate share of system contributions	79,795	1,303
Total (prior to post-measurement date contributions)	100,588	42,008
Net deferred outflows (inflows) of resources before contributions subsequent to the measurement date	58,580	-
Contributions subsequent to the measurement date	1,907	-
Net deferred outflows (inflows) of resources	$ 60,487	$ -

The $1.9 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, 2021. 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):

Year ending December 31,	Deferred Outflows (Inflows) of Resources (Prior to Post-Measurement Date Contributions)
2021	$ 13,771
2022	14,787
2023	14,471
2024	12,715
2025	2,836
Total	$ 58,580

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

Valuation date	December 31, 2018
Measurement date	June 30, 2020
Experience study	2018, published July 24, 2019
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:*** Pub-2010 Healthy Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. ***Active members:*** Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. ***Disabled retirees:*** Pub-2010 Disabled Retiree, sex distinct, generational with with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.

Long-term expected rate of return—To develop an analytical basis for the selection of the long-term expected rate of return assumptions, in May 2019 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:

Long-Term Expected Rate of Return[1] Asset Class	Target Allocation	Annual Arithmetic Return[2]	20-Year Annualized Geometric Mean	Annual Standard Deviation
Core fixed income	9.60 %	4.14 %	4.07 %	3.90 %
Short-term bonds	9.60	3.70	3.68	2.10
Bank/leveraged loans	3.60	5.40	5.19	6.85
High yield bonds	1.20	6.13	5.74	9.35
Large/mid cap US equities	16.17	7.35	6.30	15.50
Small cap US equities	1.35	8.35	6.68	19.75
Micro cap US equities	1.35	8.86	6.79	22.10
Developed foreign equities	13.48	8.30	6.91	17.95
Emerging market equities	4.24	10.35	7.69	25.35
Non-US small cap equities	1.93	8.81	7.25	19.10
Private equity	17.50	11.95	8.33	30.00
Real estate (property)	10.00	6.19	5.55	12.00
Real estate (REITS)	2.50	8.29	6.69	21.00
Hedge fund of funds - diversified	1.50	4.28	4.06	6.90
Hedge fund - event-driven	0.38	5.89	5.59	8.10
Timber	1.13	6.36	5.61	13.00
Farmland	1.13	6.87	6.12	13.00
Infrastructure	2.25	7.51	6.67	13.85
Commodities	1.13	5.34	3.79	18.70
Assumed inflation - mean			2.50 %	1.65 %

[1]Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of April 24, 2019.

[2]The arithmetic mean is a component that goes into calculating the geometric mean. Expected rates of return are presented using the geometric mean, which the Board uses in setting the discount rate.

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	$ 123.1	$ 82.9	$ 49.2

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 2020. 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 1.71 percent of covered payroll for payment of this liability. The outstanding pre-SLGRP pooled liability as of December 31, 2020 for SAIF is $7.4 million, of which $0.8 million is recorded as the current portion and is reported in the accompanying financial statements as pension related payable.

SAIF's future principal and interest payments on pension-related debt at December 31, 2020, are as follows (dollars in thousands):

Years ending December 31:	Principal	Interest
2021	$ 845	$ 517
2022	906	455
2023	973	388
2024	1,044	317
2025	1,121	240
2026-2027	2,494	229
Total	$ 7,383	$ 2,146

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, 2020 and 2019 respectively, retired plan members contributed $668 thousand and $657 thousand through their required contributions, and the required contribution rate per retired member was an average of $845 and $794 per month.

Employees covered by benefit terms—As of the measurement date of January 1, 2019, the following employees were covered by the benefit terms:

	January 1, 2019
Active employees	1,026
Retired members and others receiving benefits	57
Total participants	1,083

Benefit payments—Benefit payments made for the fiscal year ended December 31, 2020 was $522 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, 2019, calculated based on the discount rate and actuarial assumptions below, and was then projected forward to the measurement date (in thousands):

	December 31, 2020	**December 31, 2019**
Total OPEB liability	$9,208	$8,226
Covered payroll	$91,190	$86,110
Total OPEB liability as a % of covered payroll	10.1%	9.6%
Discount rate	2.74%	4.10%

Actuarial methods and assumptions—The total OPEB liability in the January 1, 2019 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, 2019	January 1, 2019
Measurement date	December 31, 2019	December 31, 2018
Inflation	2.50%	2.50%
Projected Salary Growth	3.50%	3.50%
Mortality Rates	RP-2014 healthy annuitant and employee mortality tables, sex distinct, blended 50/50 blue collar and white collar, set back one year for males, no set back for females. Mortality is projected on a generational basis using the Unisex Social Security Data Scale.	RP-2014 healthy annuitant and employee mortality tables, sex distinct, blended 50/50 blue collar and white collar, set back one year for males, no set back for females. Mortality is projected on a generational basis using the Unisex Social Security Data Scale.
Actuarial cost method	Entry Age Normal Level Percent of Pay	Entry Age Normal Level Percent of Pay

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

Health Care Cost Trend	Year	Pre-65 Trend
	2020	6.00%
	2021	5.50
	2022-2024	5.00
	2025-2042	4.75
	2043-2049	5.00
	2050-2064	4.75
	2065-2068	4.50
	2069-2071	4.25
	2072+	4.00

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, 2020, SAIF's change in total OPEB liability is as follows (in thousands):

	Total OPEB Liability
Balance as of December 31, 2019	$ 8,226
Changes for the year:	
Service cost	378
Interest on total OPEB liability	342
Effect of changes to benefit terms	-
Effect of economic/demographic gains or losses	-
Effect of assumptions changes or inputs	784
Benefit payments	(522)
Balance as of December 31, 2020	$ 9,208

Discount rate—The following presents the total OPEB liability of the Plan, calculated using the discount rate of 2.74 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 (1.74 percent) or one percentage point higher (3.74 percent) than the current rate. A similar sensitivity analysis is then presented for changes in the healthcare cost trend assumption (in thousands):

	1% Decrease (1.74%)	Discount Rate (2.74%)	1% Increase (3.74%)
Total OPEB liability	$9,883	$9,208	$8,570

	1% Decrease	Assumed Healthcare Trend Rate	1% Increase
Total OPEB liability	$8,252	$9,208	$10,323

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB—For the year ended December 31, 2020, SAIF recognized OPEB expense of $63 thousand. At December 31, 2020, the deferred outflows and inflows of resources related to OPEB were as follows (in thousands):

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	157	$	-
Changes of assumptions or inputs		807		(1,653)
Contributions made subsequent to measurement date		491		-
Total as of December 31, 2020	$	1,455	$	(1,653)

The contributions made subsequent to the measurement date of $491 thousand will be recognized as a reduction in the total OPEB liability during the year ending December 31, 2021.

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:		
2021	$	(166)
2022		(166)
2023		(166)
2024		(186)
2025		(76)
Thereafter		71
Total	$	(689)

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, 2020, were effective July 1, 2019 and based on the December 31, 2018 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, 2020 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 1/1-12/31	0.06%	0.00%	0.39%	0.27%
Amounts contributed	$ 19	$ -	$ 125	$ 148

Net OPEB Asset (RHIA)—At December 31, 2020, SAIF reported an asset of $6.0 million for its proportionate share of the net OPEB asset. The net OPEB asset was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018. At December 31, 2020, SAIF's proportionate share was 2.95 percent of the statewide pension plan, and 17.9 percent of employer state agencies. The increase in proportionate share from 2019 to 2020 is due to the timing of how contributions are measured.

Net OPEB Liability (RHIPA)—At December 31, 2020, SAIF reported a net OPEB liability of $0.3 million. The net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB asset was determined by an actuarial valuation as of December 31, 2018. At December 31, 2020, SAIF's proportionate share was 2.72 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, 2020, SAIF recognized a negative OPEB expense of $7.1 million for the RHIA plan and a negative $0.2 million 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	$ -	$ 615	$ -	$ 102
Changes in assumptions	-	320	6	182
Net difference between projected and actual earnings on investments	669	-	62	-
Changes in proportion and differences between fund contributions and proportionate share of contributions	2,502	24	-	-
Total (prior to post-measurement date contributions)	3,171	959	68	284
Net deferred outflow/(inflow) of resources before contributions subsequent to measurement date	2,212	-	-	(216)
Contributions subsequent to the measurement date	9	-	129	-
Net deferred outflow/(inflow) of resources	$ 2,221			$ (87)

The contributions made subsequent to the measurement date of $9 thousand for RHIA will be recognized as an increase to the net OPEB asset during the year ending December 31, 2021. The contributions made subsequent to the measurement date of $129 thousand for RHIPA will be recognized as a decrease to the net OPEB liability during the year ending December 31, 2021. 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**
2021	$ 697	$ (42)
2022	1,057	(38)
2023	247	(37)
2024	211	(38)
2025	-	(44)
Thereafter	-	(17)
Total	$ 2,212	$ (216)

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, 2018	December 31, 2018
Measurement date	June 30, 2020	June 30, 2020
Experience study	2018, published July 24, 2019	2018, published July 24, 2019
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: 32.0% Disabled retirees: 20.0%	8-14 Years of Service: 10.0% 15-19 Years of Service: 15.0% 20-24 Years of Service: 19.0% 25-29 Years of Service: 26.0% 30+ Years of Service: 34.0%
Healthcare cost trend rate	Not applicable	Applied at beginning of plan year, starting with 7.1% for 2019, decreasing to 5.0% for 2022, increasing to 5.9% for 2031, and decreasing to an ultimate rate of 4.1% for 2094 and beyond.
Mortality	Healthy retirees and beneficiaries: Pub-2010 Healthy Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. Active members: Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. Disabled retirees: Pub-2010 Disabled Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.	Healthy retirees and beneficiaries: Pub-2010 Healthy Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. Active members: Pub-2010 Employee, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation. Disabled retirees: Pub-2010 Disabled Retiree, sex distinct, generational with Unisex, Social Security Data Scale, with job category adjustments and set-backs as described in the valuation.

***Long-term expected rate of return*—**To develop an analytical basis for the selection of the long-term expected rate of return assumptions, in May 2019 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:

Long-Term Expected Rate of Return[1] Asset Class	Target Allocation	Annual Arithmetic Return[2]	20-Year Annualized Geometric Mean	Annual Standard Deviation
Core fixed income	9.60 %	4.14 %	4.07 %	3.90 %
Short-term bonds	9.60	3.70	3.68	2.10
Bank/leveraged loans	3.60	5.40	5.19	6.85
High yield bonds	1.20	6.13	5.74	9.35
Large/mid cap US equities	16.17	7.35	6.30	15.50
Small cap US equities	1.35	8.35	6.68	19.75
Micro cap US equities	1.35	8.86	6.79	22.10
Developed foreign equities	13.48	8.30	6.91	17.95
Emerging market equities	4.24	10.35	7.69	25.35
Non-US small cap equities	1.93	8.81	7.25	19.10
Private equity	17.50	11.95	8.33	30.00
Real estate (property)	10.00	6.19	5.55	12.00
Real estate (REITS)	2.50	8.29	6.69	21.00
Hedge fund of funds - diversified	1.50	4.28	4.06	6.90
Hedge fund - event-driven	0.38	5.89	5.59	8.10
Timber	1.13	6.36	5.61	13.00
Farmland	1.13	6.87	6.12	13.00
Infrastructure	2.25	7.51	6.67	13.85
Commodities	1.13	5.34	3.79	18.70
Assumed inflation - mean			2.50 %	1.65 %

[1]Based on the OIC Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund, revised as of April 24, 2019.

[2]The arithmetic mean is a component that goes into calculating the geometric mean. Expected rates of return are presented using the geometric mean, which the Board uses in setting the discount rate.

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	$ (4,860)	$ (6,019)	$ (7,011)
OPEB - RHIPA	$ 381	$ 271	$ 168

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

Employers' Net OPEB Liability/(Asset)	**1% Decrease**	**Assumed Healthcare Trend Rate**	**1% Increase**
OPEB - RHIA	$ (6,019)	$ (6,019)	$ (6,019)
OPEB - RHIPA	$ 191	$ 271	$ 373

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)

	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset)	0.38%	0.72%	0.59%	0.68%	0.62%	0.60%	(0.54%)
Proportionate share of the net pension liability (asset)	$ 82,928	$124,823	$ 90,082	$ 91,953	$ 93,594	$ 34,187	$(12,351)
Covered payroll	$ 91,190	$ 86,110	$ 81,426	$ 77,158	$ 72,940	$ 68,447	$ 65,145
Employer net pension liability (asset) as a percentage of covered payroll	90.9%	145.0%	110.6%	119.2%	128.3%	49.9%	(18.9%)
Plan fiduciary net position as a percentage of the total pension liability	75.8%	80.2%	82.1%	83.1%	80.5%	91.9%	103.6%

Schedule of Employer Contributions

	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	$ 5,615	$ 12,217	$ 10,162	$ 8,985	$ 7,340	$ 6,541	$ 5,778
Contributions in relation to the contractually required contributions	(5,615)	(12,217)	(10,162)	(8,985)	(7,340)	(6,541)	(5,778)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 91,190	$ 86,110	$ 81,426	$ 77,158	$ 72,940	$68,447	$65,145
Contributions as a percentage of covered payroll	6.2%	14.2%	12.5%	11.6%	10.1%	9.6%	8.9%

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

(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	**2020**	**2019**	**2018**	**2017**
Service cost	$ 378	$ 449	$ 408	N/A
Interest on total OPEB liability	342	354	369	N/A
Effect of changes to benefit terms	-	-	-	N/A
Effect of economic/demographic gains or (losses)	-	225	-	N/A
Effect of assumption changes or inputs	784	(2,371)	263	N/A
Benefit payments	(522)	(531)	(617)	N/A
Net change in total OPEB liability	982	(1,874)	423	N/A
Total OPEB liability, beginning	8,226	10,100	9,677	N/A
Total OPEB liability, ending	$ 9,208	$ 8,226	$10,100	$ 9,677
Covered payroll	$91,190	$86,110	$81,426	N/A
Total OPEB liability as a % of covered payroll	10.1%	9.6%	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)

	2020	2019	2018
Proportion of the net OPEB liability (asset)	2.95%	0.75%	0.71%
Proportionate share of the net OPEB liability (asset)	$ (6,019)	$ (1,456)	$ (794)
Covered payroll	$ 91,190	$ 86,110	$ 81,426
Employer net OPEB liability (asset) as a percentage of covered payroll	(6.6%)	(1.7%)	(1.0%)
Plan fiduciary net position as a percentage of the total OPEB liability	150.1%	144.4%	124.0%

Schedule of Employer Contributions

	2020	2019	2018
Contractually required contributions	$ 19	$ 207	$ 360
Contributions in relation to the contractually required contributions	(19)	(207)	(360)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 91,190	$ 86,110	$ 81,426
Contributions as a percentage of covered payroll	0.02%	0.24%	0.44%

*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)

	2020	2019	2018
Proportion of the net OPEB liability (asset)	2.72%	2.43%	2.27%
Proportionate share of the net OPEB liability (asset)	$ 271	$ 615	$ 803
Covered payroll	$ 91,190	$ 86,110	$ 81,426
Employer net OPEB liability (asset) as a percentage of covered payroll	0.3%	0.7%	1.0%
Plan fiduciary net position as a percentage of the total OPEB liability	84.5%	64.9%	49.8%

Schedule of Employer Contributions

	2020	2019	2018
Contractually required contributions	$ 273	$ 309	$ 335
Contributions in relation to the contractually required contributions	(273)	(309)	(335)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 91,190	$ 86,110	$ 81,426
Contributions as a percentage of covered payroll	0.30%	0.36%	0.41%

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