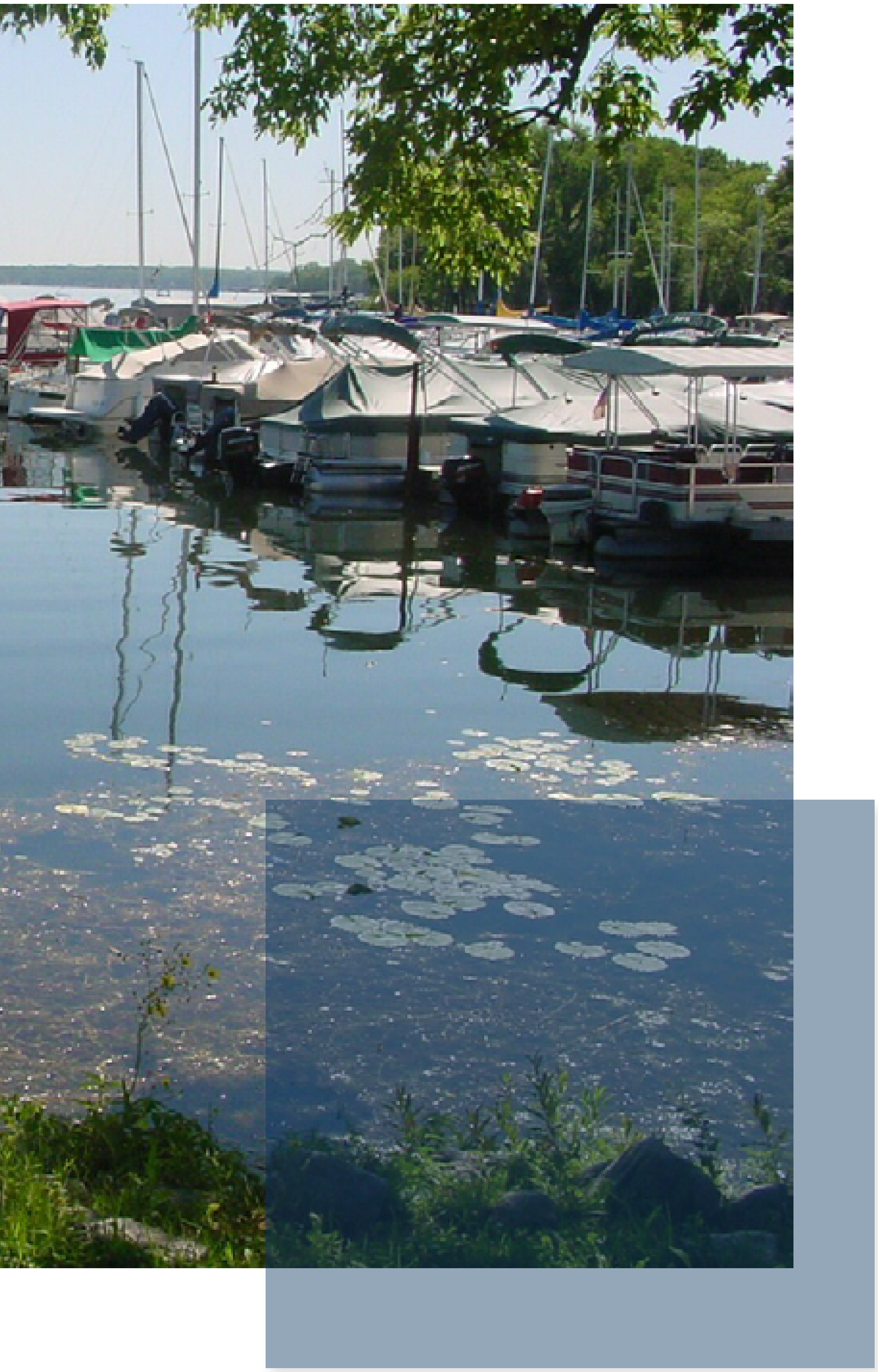
2018 ANNUAL REPORT



OVERVIEW

The WCRA's operating objective is to ensure the availability of superior reinsurance protection for Minnesota's workers' compensation insurers and self-insurers.

Our staff of innovative professionals is dedicated to achieving the highest standard of excellence through stable and reasonable rates, expert claims administration, financial stability, and informational services.

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TO OUR MEMBERS

It is our pleasure to present the WCRA's 2018 Annual Report. Several significant changes occurred in the Minnesota workers' compensation system this year that positively impacted the WCRA, its members, and injured workers. We hope you enjoy reading the following highlights of a successful 2018.

James Heer,
WCRA President and CEO

Stuart Henderson
WCRA Board Chair

RETENTION OPTIONS

A new retention option was introduced through legislation initiated by the Association. The jumbo retention level, set at $5 million, is the Association's fourth and highest retention option. The other retention options are $500 thousand, $1 million, and $2 million. The jumbo retention was added in response to feedback from members who desire a greater ability to manage their own risk and from insurance members writing large deductible policies. Approximately 27 percent of the WCRA exposure base shifted to the jumbo retention in its first year of existence, proving that this new option is an important, valuable addition to our offerings.

As you may have noticed, the retention limits of $500 thousand, $1 million, and $2 million have remained static since 2016. Historically, our retention limits were indexed to changes with the Minnesota State Average Weekly Wage, but a statutory change pursued by the Association eliminated this indexing and provided the WCRA Board of Directors ("Board") with authority to change retention limits, subject to approval by the Minnesota Commissioner of Labor and Industry. Our members supported this change and have been pleased with the results. Our Board continues to review the retention limits each year.

LEGISLATION

The 2018 Minnesota legislative session resulted in the most impactful workers' compensation benefit reform since 1995. Payments for hospital outpatient services and ambulatory surgery center services are now linked to the Medicare system of reimbursements for these services, which should help contain future costs and improve the efficiency of the system. In addition, indemnity benefits were increased for temporary partial disability, permanent partial disability, and permanent total disability. Finally, for post-traumatic stress disorder cases in certain occupations, a rebuttable presumption was implemented. While the immediate impact of these reforms was largely revenue neutral for the Association, cost savings are expected over time due to lower medical cost trends.

OPERATIONS

The WCRA continues to see reductions in our loss reserves due to declining claim frequency and relatively low claim severity trends. This marks the sixth straight year that the WCRA has reduced its loss reserve liabilities on prior accident years, which has contributed to the growth of our capital base. Our investment portfolio was impacted by market volatility in the 4th quarter and ended the year down 4.8 percent, a big swing from the 16.2 percent gain recorded in 2017. Our investment portfolio is focused on achieving our target return over the long term so short-term volatility is common. Overall, the WCRA remains in a strong financial position.

As part of our overall governance practices, an actuarial consulting firm is periodically hired to perform an independent review of WCRA loss reserves, methodologies, and economic assumptions. Following a request for proposal process, Milliman was selected to perform a review during 2018 and concluded that our reserves were within their reasonable range. Studies like these offer opportunities to validate a key driver of our financials and gather valuable insight from external experts.

The WCRA reduced its medical loss trend assumption in 2018 in response to lower observed medical inflation and recent legislative changes impacting medical benefits. Since the WCRA's loss reserves are sensitive to our economic assumptions given the long claim durations inherent in workers' compensation reinsurance, these assumptions are reviewed regularly. Medical trends are expected to remain lower in the future because medical costs for hospital and ambulatory surgical treatments are now linked to the Medicare reimbursement system, which has historically seen a lower cost trend.

BOARD OF DIRECTORS

We want to sincerely thank members of the Board that transitioned this past year for their considerable contributions during their service.

Dave Hennes, Senior Risk Manager for Toro, retired from our Board in June 2018 after 15 years of service as a self-insurer representative. Dave was active on several committees and shared his wealth of risk management experience and leadership during his tenure on the Board.

Bob Lund, former President and CEO of SFM, retired from our Board in March after 11 years of service as an insurer representative. Bob served many years as vice-chair of the Board and chair of the Audit and Financial Compliance Committee. He was always willing to share his extensive industry knowledge and experience.

We are pleased to welcome two new Board members – Dan Greensweig, Administrator for the League of Minnesota Cities Insurance Trust, as a self-insurer representative; and Terry Miller, President and CEO for SFM, as an insurer representative.

MINNESOTA WORK COMP FORUM

The inaugural Minnesota Work Comp Forum was co-hosted by the WCRA and the Minnesota Workers' Compensation Insurers Association (MWCIA) in September with participation from the Minnesota Departments of Labor and Industry and Commerce. We offer thanks to our partners who were instrumental in both the planning and execution of training sessions at the event. In addition, we want to thank the 14 sponsors who joined us for the day and educated attendees regarding their services. The sold-out event provided industry education and networking opportunities to more than 230 attendees. Please plan to attend the next Forum scheduled for the Fall of 2020.

CONCLUSION

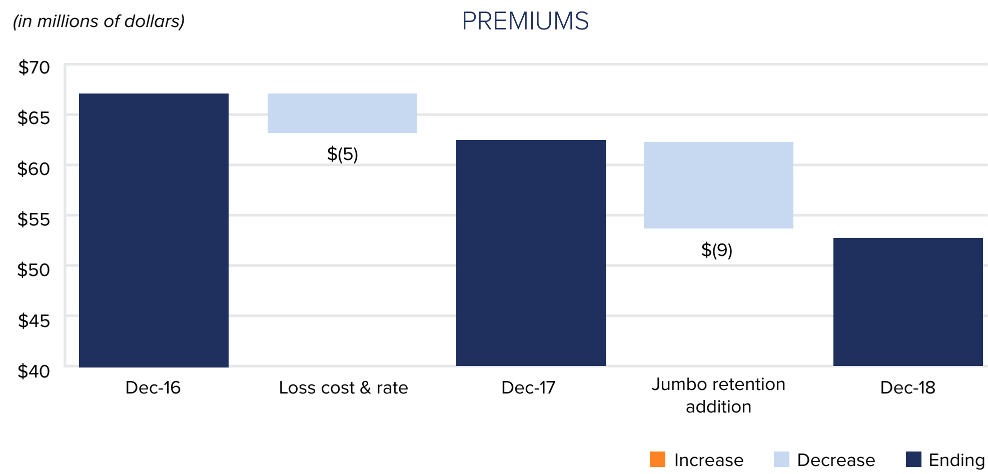
Thank you for taking time to review our annual report. The WCRA remains committed to providing exceptional service and superior workers' compensation reinsurance to our members!

FINANCIAL HIGHLIGHTS

PREMIUMS

Premiums were down 15 percent from 2017 to 2018 due primarily to the addition of a new jumbo retention option. Members representing nearly one-quarter of WCRA's exposure base chose the jumbo retention in 2018. Premiums are recognized within the Association's Comprehensive Income, Accumulated Capital, and Cash Flows.

(in millions of dollars)	2018	2017	Change
Premiums	$ 53	$ 62	$ (9)



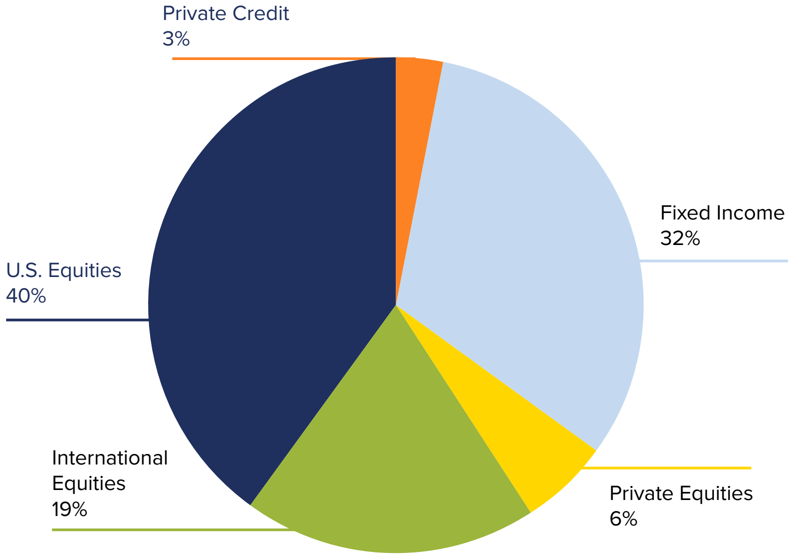
INVESTMENT RETURNS

For the year ended December 31, 2018, the investment portfolio declined 4.8 percent compared to a 16.2 percent gain in 2017. The 2018 investment results were driven by losses in both the U.S. Domestic Equity and International Equity portfolios; whereas, the 2017 investment results were driven primarily by strong returns in both the U.S. Domestic Equity and International Equity portfolios. Historically-low fixed income returns persisted in 2018, while domestic equities declined 6 percent and international equities declined 16 percent. In 2017, domestic equities returned 20 percent and international equities returned 29 percent. Investment returns are recognized within the Association's Balance Sheet, Comprehensive Income, and Accumulated Capital.

(in millions of dollars)	2018	2017	Change
Investment income, net of related expenses	$ 52	$ 43	$ 9
Net realized investment gains	24	54	(30)
Change in unrealized gains (losses) on securities	(203)	273	(476)
Total Investment Results	**$ (127)**	**$ 370**	**$ (497)**

The Association manages its current investment policy targets at the total equity and total debt ranges.

WCRA INVESTMENT ASSET ALLOCATION



	Mix at Year-end	Policy Target
US Equities	40%	35-45%
International Equities	19%	15-25%
Private Equities	6%	0-15%
Equity	**65%**	**65-75%**
Fixed Income	32%	25-35%
Private Credit	3%	0-10%
Debt	**35%**	**25-35%**

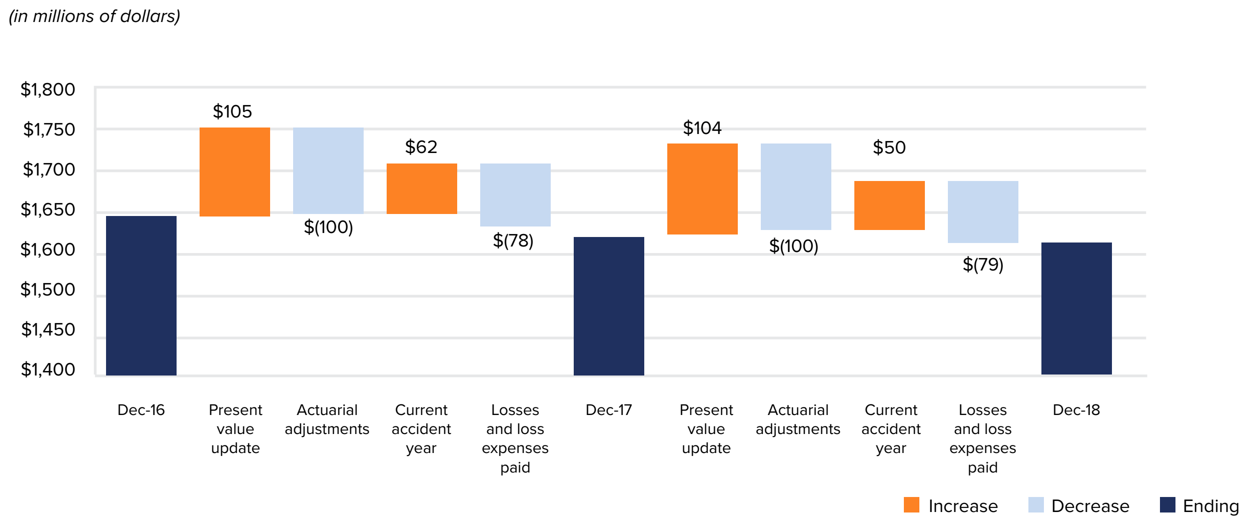
LOSSES AND LOSS EXPENSES

Total losses and loss expenses incurred decreased in 2018. The decrease was the result of a reduction in current accident year loss reserves relative to 2017. The reduction in prior accident year loss reserves of $100 million was due to favorable development on incurred losses driven by continued low medical inflation and the introduction of the jumbo retention. These changes reduced overall expenses and increased the Association's Comprehensive Income and Accumulated Capital.

(in millions of dollars)	2017	2017	Change
Prior accident years:			
Present value update	$ 104	$ 105	$ (1)
Actuarial adjustments	(100)	(100)	-
Total prior accident years	$ 4	$ 5	$ (1)
Current accident year	50	62	(12)
Total losses and loss expenses	**$ 54**	**$ 67**	**$ (13)**

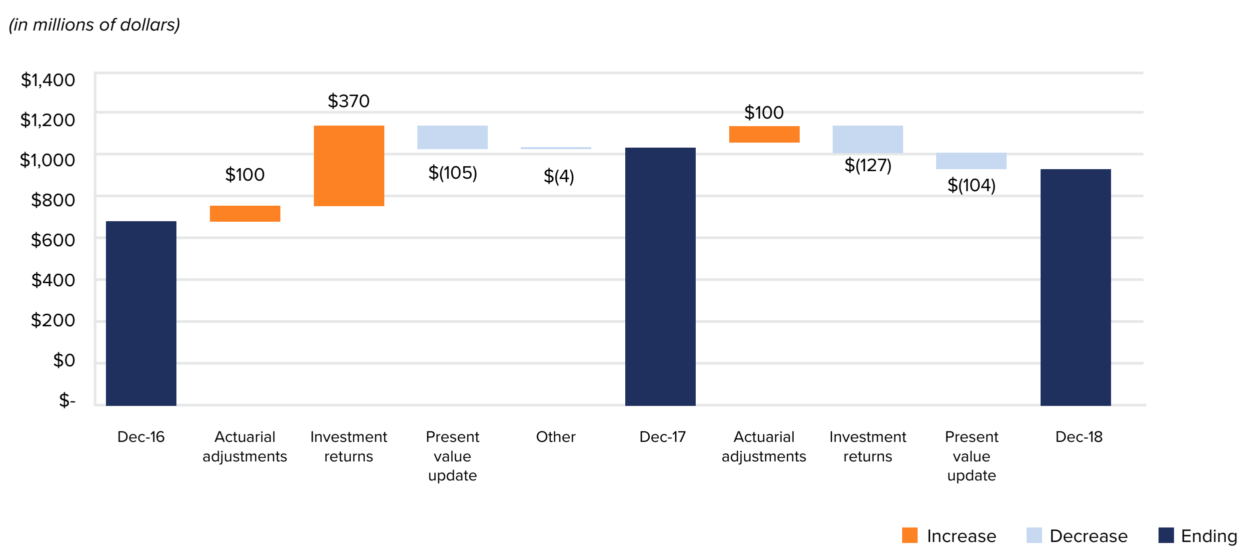
For both 2018 and 2017, the Association's earnings assumption and discount rate for loss reserves were 6.5 percent.

LOSSES AND LOSS EXPENSE RESERVES



CAPITAL

Accumulated capital is needed to maintain sufficient assets which provide for variations between expected and actual investment returns, variations between expected and actual claims experience, and other unexpected financial developments. Changes related to investment returns decreased the Association's Comprehensive Income and Accumulated Capital.



CASH FLOW AND LIQUIDITY

The WCRA's cash flow from operating activities was $22 million in 2018, down from $26 million in 2017. In 2018, the WCRA met all of its financial obligations on a timely basis and continued to have substantial liquidity from its marketable investment portfolio. Management believes that the WCRA has the liquidity necessary to continue to meet its financial obligations on a timely basis for the foreseeable future.

SELECT SUMMARY OF KEY PERFORMANCE INDICATORS

(in millions of dollars)	2018	2017	2016	2015	2014
Earned Premiums	$53	$62	$67	$68	$49
Total Revenues	$130	$159	$155	$138	$129
Net Income (Loss)	$73	$89	$158	$91	$83
Total Investments	$2,619	$2,770	$2,464	$2,235	$2,257
Losses & Loss Expenses Liability	$1,610	$1,635	$1,646	$1,734	$1,765
Accumulated Capital	$904	$1,035	$674	$453	$432
% Capital to Losses and Loss Expenses	56%	63%	41%	26%	24%
Losses and Loss Expenses Paid	$79	$78	$81	$76	$76
# of Claims Paid	3,523	3,545	3,649	3,581	3,712
Annual Investment Return	(4.8%)	16.2%	7.0%	(0.3%)	6.4%
Assumed Rate of Return	6.5%	6.5%	6.5%	6.5%	6.5%

WCRA LEADERSHIP

BOARD OF DIRECTORS

INSURER REPRESENTATIVES

Stuart Henderson Chair
Committees: Audit and Financial Compliance, Executive, Personnel
Employer: Western National Insurance Group

Jane Jasper Krumrie Vice-Chair
Committees: Actuarial, Executive
Employer: Federated Insurance Companies

Terrence Miller
Committees: Audit and Financial Compliance
Employer: SFM

Michael Thoma
Committees: Audit and Financial Compliance, Actuarial
Employer: The Travelers Companies

SELF-INSURER REPRESENTATIVES

Daniel Greensweig
Committees: Investment
Employer: League of Minnesota Cities Insurance Trust

James Oukrop
Committees: Member Advisory, Personnel, Executive
Employer: HealthPartners

EMPLOYER REPRESENTATIVES

Michele Spencer
Committees: Member Advisory, Personnel, Executive
Employer: Ecumen

Allison Waggoner
Committees: Personnel
Employer: DCI Inc

EMPLOYEE REPRESENTATIVES

William McCarthy
Committees: Member Advisory, Personnel
Employer: Minnesota AFL-CIO

Edward Reynoso
Committees: Personnel, Executive
Employer: Teamsters Joint Council 32

PUBLIC REPRESENTATIVE

Thomas Borman
Committees: Investment
Employer: Maslon, LLP

STATUTORY APPOINTMENTS

Cindy Farrell
Commissioner Designee
Committees: Audit and Financial Compliance
Employer: Minnesota Management & Budget

Mansco Perry
Executive Director Board of Investment
Committees: Investment
Employer: Minnesota State Board of Investment

WCRA LEADERSHIP

MANAGEMENT TEAM

James Heer
President and CEO

Lynn Carroll
Vice President of Actuarial

Natalie Haefner
Vice President Claims and Injury Management

David McKee
Vice President Finance and Chief Financial Officer

Cynthia Smith
Vice President of Operations and Corporate Secretary

Workers' Compensation Reinsurance Association

Financial Statements
December 31, 2018 and 2017

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Report of Independent Auditors

To the Board of Directors of Workers' Compensation Reinsurance Association

We have audited the accompanying financial statements of Workers' Compensation Reinsurance Association, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, comprehensive income and accumulated capital and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 our 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, we consider internal control relevant to the Association'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 the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Workers' Compensation Reinsurance Association as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 7, 2019

PricewaterhouseCoopers LLP, 45 South Seventh Street, Suite 3400, Minneapolis, MN 55402
T: (612) 596 6000, F: (612) 373 7160, www.pwc.com/us

Workers' Compensation Reinsurance Association
Balance Sheets
Years Ended December 31, 2018 and 2017

(in thousands of dollars)		2018		2017
Assets				
Cash and cash equivalents	$	112,172	$	125,279
Investments, at fair value		2,506,628		2,645,466
Uncollected reinsurance premiums		162		-
Due from securities brokers		25,194		39,968
Other, net		7,577		6,535
Property and equipment, less accumulated depreciation of $1,712 and $1,416 at December 31, 2018 and 2017, respectively		345		620
Total assets	$	2,652,078	$	2,817,868
Liabilities and Accumulated Capital				
Losses and loss expenses	$	1,610,268	$	1,634,558
Due to securities brokers		134,701		143,844
Accounts payable and other liabilities		2,784		4,087
Total liabilities		1,747,753		1,782,489
Accumulated retained earnings from operations		319,204		246,563
Accumulated other comprehensive income		585,121		788,816
Accumulated capital		904,325		1,035,379
Total liabilities and accumulated capital	$	2,652,078	$	2,817,868

The accompanying notes are an integral part of these financial statements.

Workers' Compensation Reinsurance Association

Statements of Operations, Comprehensive Income and Accumulated Capital

Years Ended December 31, 2018 and 2017

(in thousands of dollars)	2018	2017
Revenues		
Premiums earned	$ 53,268	$ 61,752
Investment income, net of related expenses	52,426	42,655
Realized investment gains (losses)		
Net realized investment gains, excluding other-than-temporary impairment losses	58,069	60,355
Other-than-temporary impairment losses	(33,719)	(6,230)
Net realized investment gains (losses)	24,350	54,125
Total revenues	130,044	158,532
Expenses		
Losses and loss expenses	54,263	66,542
Operating and administrative expenses	3,141	2,935
Total expenses	57,404	69,477
Net income	72,640	89,055
Other comprehensive income		
Change in net unrealized gains (losses) on investments, foreign currency translation adjustment and change in pension benefit obligation	(203,694)	272,527
Comprehensive income	(131,054)	361,582
Assessments	-	-
Accumulated capital, beginning of year	1,035,379	673,797
Accumulated capital, end of year	$ 904,325	$ 1,035,379

The accompanying notes are an integral part of these financial statements.

Workers’ Compensation Reinsurance Association
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

(in thousands of dollars)	**2018**	**2017**
Cash flows from operating activities		
Net Income	$ 72,640	$ 89,055
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	296	303
Realized (gain) or loss on investments	(24,350)	(54,125)
Change in operating assets and liabilities:		
Losses and loss expenses	(24,290)	(11,652)
Accounts payable and accrued liabilities	(1,302)	1,865
Other, net	(1,204)	418
Net cash provided by operating activities	21,790	25,864
Cash flows from investing activities		
Additions to property, plant, and equipment	(21)	(11)
Purchases of investments	(4,450,350)	(5,609,915)
Sales and maturities of investments	4,415,474	5,604,097
Other investing activities, net		-
Net cash provided by (used in) investing activities	(34,897)	(5,829)
Cash flows from financing activities		
Financing activities	-	-
Net cash (used in) provided by financing activities	-	-
Net increase (decrease) in cash and cash equivalents	(13,107)	20,035
Cash and cash equivalents at beginning of period	125,279	105,244
Cash and cash equivalents at end of period	$ 112,172	$ 125,279

(1) The Association changed its' cash flow reporting methodology in 2018 to the indirect method. The prior period has been revised to reflect the change. For more information see Footnote 9.

The accompanying notes are an integral part of these financial statements.

1. **General Information**

Description of Association
In 1979, the Minnesota Legislature created the Workers' Compensation Reinsurance Association (the "Association" or the "WCRA"), a nonprofit, unincorporated association, to provide reinsurance protection for serious workers' compensation losses to all primary workers' compensation insurance providers and self-insured employers in the state of Minnesota. The Association provides full indemnification to its members for workers' compensation losses paid in accordance with Minnesota Statutes Chapter 176 that exceed a member's retention limit.

Operating procedures are prescribed by Minnesota Statutes Section 79.34-79.40, as amended (the "Enabling Act"), and the Association's Plan of Operation (the "Plan"). Amendments to the Plan must be approved by the Board of Directors of the Association (the "Board") and the Minnesota Commissioner of Labor and Industry.

Membership
All insurance carriers authorized to underwrite workers' compensation risks in Minnesota and all employers, including political sub-divisions, authorized to self-insure their workers' compensation liabilities in Minnesota are required to be members of the Association.

Related Party Transactions
As required by Minnesota statute, the Association is governed by a 13-member Board, including the Minnesota Commissioner of Management and Budget and the executive director of the State Board of Investment or their designees; five members appointed by the Minnesota Commissioner of Labor and Industry (two employer representatives, two employee representatives, and a public member); four insurer representatives elected by insurer members from candidates approved by the Commissioner of Labor and Industry; and two self-insurer representatives elected by self-insurer members from candidates who are approved by the Commissioner of Labor and Industry. The Association may engage in transactions in the ordinary course of business between the Association and its Board, or with other companies whose directors or officers may also serve on the Board for the Association. The Association carries out these transactions as described in the Plan. In 2018, the Association collected $15 million in premiums and provided $14 million in claim reimbursements to related party organizations. In 2017, the Association collected $13 million in premiums from related party organizations and provided $12 million in claim reimbursements to related party organizations.

Retention Limits
For 2018 members selected one of four maximum per-loss occurrence retention limits, which were $500,000, $1,000,000, $2,000,000, or $5,000,000. For 2017 members selected one of three maximum per-loss occurrence retention limits, which were $500,000, $1,000,000, or $2,000,000. Retention limits are determined by the Board, subject to approval by the Minnesota Commissioner of Labor and Industry. Minnesota workers' compensation losses incurred by members in excess of the retention limit selected are reinsured by the Association.

Premiums
The estimated, aggregate annual premiums billed by the Association to members in each calendar year are calculated to cover the following estimated costs:

- The present value of the estimated ultimate liability for members' incurred losses above the selected retention limit.

- Operating and administrative expenses of the Association and loss expenses incurred by the Association. (Loss expenses incurred by members on reinsured claims are not recoverable from the Association.)

- Charges for the current year or a prior year, as determined by the Board, for any reinsurance coverage purchased by the Association.

- Adjustments due to excess or deficient premiums, if any, for prior years as determined by the Board.

Estimated premiums are billed to the individual members based on: (1) the rate for the member's selected retention limit; (2) the member's most recent actual exposure base available at the beginning of the annual billing cycle, adjusted for a factor which represents the estimated difference between the member's most recent actual exposure base and the actuarially-projected exposure base. In the following year, premium adjustments (to bring the estimated premiums to actual) are calculated and billed or credited to members.

For insurer members, the exposure base is the earned premium at the Association's standard earned premium reporting level reported in the Association's Annual Financial Call multiplied by 1.20.

For self-insurer members, the exposure base is calculated from Minnesota's covered payroll, multiplied by pure premium base rates as published by the Minnesota Workers' Compensation Insurers Association, Inc., multiplied by 1.20, multiplied by an experience rating modification factor.

Going Concern
Accounting Standards Update No. 2014-15 requires disclosure of conditions that give rise to substantial doubt about a company's ability to continue as a going concern within one year from the financial statement issuance date. Management of the Association has determined there are no conditions or events that raise substantial doubt about its ability to continue as a going concern within one year after these statements are issued.

2. Summary of Significant Accounting Policies

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Risks and Uncertainties
The Association invests in stocks and bonds of U.S. and foreign companies, U.S. government securities, corporate debt securities, mortgage-backed securities, and alternative investments. The investment viability and return of funds is dependent on, among other factors, the financial results of the underlying issuers. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the fair value will occur in the near term and that such changes could materially affect future financial statements.

The process of estimating the liability for losses and loss expenses, by its very nature, involves substantial uncertainty. The level of uncertainty is influenced by factors such as the economic assumptions associated with workers' compensation reinsurance. Ultimate, actual payments for losses and loss expenses could be significantly different from the estimates.

The Association holds cash on deposit balances throughout the fiscal year that exceed the FDIC insurable limits for banking institutions.

Comprehensive Income

The Association follows the reporting concept of "Comprehensive Income," which requires the reporting of comprehensive income in addition to net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of certain financial information that historically has not been recognized in the calculation of net income. Comprehensive income for the Association includes net income and other comprehensive income, which includes unrealized gains and losses on available-for-sale securities, the impact of foreign currency translation adjustments on securities denominated in a currency other than U.S. dollars, and the change in the funded status of the defined benefit pension plan.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit, shares in money market funds, and short-term debt securities with original maturities of three months or less.

Derivatives

Throughout the course of the year, the Association utilizes an overlay manager for its cash balances to ensure that those balances are earning a comparable amount to invested assets, with the goal of providing investment returns that mirror the asset allocation as established by the investment policy. The overlay manager employs the use of exchange-traded futures in its overlay program.

In accordance with ASC 815, Derivatives and Hedging, all of the exchange-traded futures are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on or termination of any one contract. As such, the Association has elected to report the fair value of its derivative transactions on a net basis by counterparty. Exchange-traded futures settle daily; therefore, at most, the one-day change in all open positions on the final day of the fiscal period is immaterial.

Investments

The Association's investments are classified as "available for sale" and are carried at fair value. Accordingly, the net unrealized gains or losses are included in other comprehensive income as a separate component of capital. In determining the realized gain or loss on sales of investments, cost is based on the average cost method. Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date.

Alternative investments are recorded at their most-recently available net asset valuation ("NAV") and adjusted for capital contributions and distributions. The change in net assets related to alternative investments is presented as realized and unrealized gains or losses based on the NAV of each limited partnership as determined by the general partner. The Association reviews and evaluates information provided by the general partners and has determined such values are reasonable estimates for fair value.

Purchased premiums and discounts are amortized or accreted using the effective interest rate method over the terms of the respective issues.

A decline in value of an investment is considered other-than-temporary if the Association intends to sell the investment at a loss, if it is more likely than not that the Association will be required to sell the investment, or if the Association does not expect to recover the amortized cost basis of the investment. When a decline in value is determined to be other-than-temporary, the specific investment is carried at estimated fair value, and its original book value is reduced to reflect this impairment. Such reductions in book value are recognized in the period in which they were written down as either realized investment losses or as a component of other comprehensive income for credit and non-credit impairments.

The Financial Accounting Standards Board ("FASB") has established a hierarchy for fair value measurements that distinguishes between inputs based on market data from independent sources (observable inputs) and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs). Three levels of inputs are used to measure the fair value of investments:

Level 1: Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Observable inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

To Be Announced Bonds ("TBAs")
The Association utilizes active fixed income managers to manage its fixed income exposure in accordance with the guidelines established by the investment policy. TBA is a phrase used to describe forward-settling, mortgage-backed securities ("MBS") trades. Pass-through securities issued by Freddie Mac, Fannie Mae, and Ginnie Mae trade in the TBA market, and the term TBA is derived from the fact that the actual, mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. A TBA serves as a contract to purchase or sell an MBS on a specific date, but it does not include information regarding the pool number, number of pools, or the exact amount that will be included in the transaction. This is because the TBA market assumes MBS pools to be relatively interchangeable. The TBA process increases the overall liquidity of the MBS market by taking thousands of different MBS with different characteristics and trading them through a handful of contracts.

TBA contracts normally last for one to three months as the underlying mortgages are pooled together to create the final MBS pool. As the buyer of a TBA, the Association has the option to purchase the pools with cash, sell or close the TBA and settle up for any cash difference, or settle up for the cash difference and roll to a new month to maintain exposure to the mortgage market. The active fixed income managers retained by the Association generally settle up for the cash differences and roll to a new month.

In addition, the Association utilizes a master custodian to report all equity and fixed income security transactions. From a custodial perspective, each time a TBA is purchased it is recorded on the balance sheet and the statement of cash flows on a gross basis. When the TBA is rolled to a new month, it is recorded as a sale on a gross basis, and a purchase is recorded for the newly-rolled TBA. As such, those transactions have a material impact on the statement of cash flow, as approximately two-thirds of the purchases and sales are driven by the TBA activity.

Due From / Due To Securities Brokers
The due from securities brokers account tracks receivable balances owed from securities brokers for bonds or stocks that have been sold or have matured but have not yet settled into the Association's investment account. The due to securities brokers account is used to track payables that are due to securities brokers for bonds or stocks that have been purchased but have not yet settled into the Association's investment account.

Property and Equipment
Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated, useful lives of the assets. Upon sale or retirement of property and equipment, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to operations.

Determination of Required Capital
After the close of each fiscal year or at such other times that it deems appropriate, the Board reports whether capital or a deficit exists based on the annual audited year-end financial statements. Capital is needed to maintain sufficient assets to provide for variations between expected and actual investment returns, variations between expected and actual claims experience, and other unexpected financial developments. In determining whether or not to declare a surplus distribution or an assessment, the Board evaluates the capital or deficit relative to the Required Capital Band and Deficit Band as defined in the Plan.

Surplus distributions or assessments may be declared by the Board and distributed to or collected from members or policyholders pursuant to the provisions of The Enabling Act and applicable provisions of the Plan.

Losses and Loss Expenses
In 2018 and 2017, the liability for losses and loss expenses represented the present value, discounted using a 6.5 percent annual rate (the Association's expected long-term return on investments), of the estimated liability for losses and loss expenses of the Association as determined by actuarial projections using historical pricing simulations and the payment and case reserve experience of the Association.

The selection of the discount rate is based on a long-term investment horizon, corresponding to the nature of the Association's losses and loss expenses liabilities.

Premium
Estimated premiums are billed on an annual basis for the current fiscal year. These premiums are for current fiscal year reinsurance coverage. Revenue is earned ratably over the policy term. Annual adjustments, where exposure is trued up from estimated to actual, and audits are performed after the end of the policy term. Both of these activities can lead to earned premium adjustments, which are recognized in the financials in the period they are determined.

Adoption of New Accounting Standards

Short Duration Contracts
Effective January 1, 2017, the Association adopted Accounting Standards Update No. 2015-09, Disclosures about Short Duration Contracts, which requires expanded footnote disclosures about losses and loss expense reserves. Upon adoption, the Association modified its footnote disclosures to include loss development tables on a disaggregated basis by accident year and a reconciliation of loss development data to the losses and loss expense reserves reflected on the balance sheet. The footnote disclosures have also been expanded to include information about claim frequency data, including a description of how the claims frequency data is measured. For further information see Note 6.

Nonpublic Employee Benefit Plans
Effective January 1, 2018, the Association adopted Accounting Standards Update No. 2013-09, Disclosures about Nonpublic Employee Benefit Plans, which requires expanded footnote disclosures about the quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a nonpublic employee benefit plan in its plan sponsor's own nonpublic entity equity securities, including equity securities of its plan sponsor's nonpublic affiliated entities. The footnote disclosures have also been

expanded to include information about claim frequency data, including a description of how the claims frequency data is measured. For further information see Note 7.

Future Accounting Pronouncements

Revenue from Contracts with Customers
In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, to modify the guidance for revenue recognition from contracts with customers. The scope of the new guidance excludes insurance contracts but is applicable to certain fee arrangements, such as investment management fees, fees charged to customers, and other fees for services. The association does not believe this standard has a material impact on its' financial statement disclosures. The standard is effective for fiscal years beginning after December 15, 2018.

Restricted Cash
On November 17, 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force (the "Task Force"). The new standard requires that the statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. As of December 31, 2018, the Association does not have restricted cash on its balance sheet. The amendments are effective for financial statements issued for fiscal years beginning after December 15, 2018.

Financial Instruments
In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities, which is related to the recognition and measurement of financial assets and financial liabilities. This new guidance primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. These are required to be measured at fair value with changes in fair value recognized in net income. Equity securities are no longer eligible for trading or available-for-sale classification. The association will adopt this standard for equity securities in 2019. The new standard is effective for fiscal years beginning after December 15, 2018.

Premium Amortization on Purchased Callable Debt Securities
On March 30, 2017, the FASB issued Accounting Standards Update No. 2017-08, Premium Amortization on Purchased Callable Debt Securities, that requires certain premiums on callable debt securities to be amortized to the earliest call date. The amortization period for callable debt securities purchased at a discount will not be impacted. Securities in scope are limited to those with explicit, noncontingent call features, callable at fixed prices on preset dates. Transition is on a modified retrospective basis via a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. With the assistance of the Associations' custodian and fixed income investment managers, the Association is planning to adopt this standard effective January 1, 2019.

Subsequent Events
The Association has evaluated events that have occurred subsequent to December 31, 2018, through March 7, 2019, the date the financial statements were available to be issued. The Association has not identified any events that require adjustment or disclosure in these financial statements.

3. Investments at Fair Value

The following is a summary of Association's investments, at fair value:

(in thousands of dollars)	2018	2017
Securities, at fair value	$ 2,272,032	$ 2,486,063
Alternative investments, at net asset value	234,596	159,403
Total investments, at fair value	$ 2,506,628	$ 2,645,466

Securities, at fair value distributed by type were as follows:

	2018			
(in thousands of dollars)	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Common and preferred stocks	$ 876,760	$ 575,484	$ (12,478)	$ 1,439,766
Corporate debt securities	273,900	1,019	(6,168)	268,751
U.S. government and agencies obligations	251,281	1,490	(5,229)	247,542
Residential mortgage backed securities	230,587	2,689	(5,896)	227,380
Commercial mortgage backed securities	34,022	1,245	(174)	35,093
Asset backed securities	29,585	395	(140)	29,840
Foreign government bonds and obligations	14,428	103	(170)	14,361
State and municipal obligations	8,963	341	(5)	9,299
Total securities at fair value	$ 1,719,526	$ 582,766	$ (30,260)	$ 2,272,032

	2017			
(in thousands of dollars)	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Common and preferred stocks	$ 874,954	$ 767,342	$ (2,143)	$ 1,640,153
Corporate debt securities	225,058	5,888	(731)	230,215
U.S. government and agencies obligations	313,608	596	(4,097)	310,107
Residential mortgage backed securities	204,517	2,051	(873)	205,695
Commercial mortgage backed securities	40,641	1,776	(394)	42,023
Asset backed securities	38,386	528	(40)	38,874
Foreign government bonds and obligations	9,122	232	(14)	9,340
State and municipal obligations	8,894	762	-	9,656
Total securities at fair value	$ 1,715,180	$ 779,175	$ (8,292)	$ 2,486,063

Total unrealized losses were $30.3 million and $8.3 million at December 31, 2018 and 2017, respectively. The Association has reviewed the components and duration of these unrealized losses and concluded that the losses are temporary in nature.

The following table provides information about securities, at fair value, with gross unrealized losses and the length of time that individual securities have been in a continuous unrealized loss position:

	Unrealized Losses as of December 31, 2018								
	Less than 12 months			12 months or more			Total		
(in thousands of dollars)	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses
Common and preferred stocks	150	$ 113,207	$ (12,225)	8	$ 1,578	$ (253)	158	$ 114,785	$ (12,478)
Corporate debt securities	589	191,347	(5,358)	29	32,391	(810)	618	223,738	(6,168)
U.S. government and agencies obligations	7	21,032	(136)	26	137,335	(5,093)	33	158,367	(5,229)
Residential mortgage backed securities	203	4,638	(737)	405	40,622	(5,159)	608	45,260	(5,896)
Commercial mortgage backed securities	14	9,097	(103)	16	4,788	(71)	30	13,885	(174)
Asset backed securities	27	11,876	(70)	13	6,493	(70)	40	18,369	(140)
Foreign government bonds and obligations	10	5,771	(160)	1	187	(10)	11	5,958	(170)
State and municipal obligations	1	645	(5)	-	-	-	1	645	(5)
Total securities, at fair value	1,001	$ 357,613	$ (18,794)	498	$ 223,394	$ (11,466)	1,499	$ 581,007	$ (30,260)

	Unrealized Losses as of December 31, 2017								
	Less than 12 months			12 months or more			Total		
(in thousands of dollars)	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses	Number of Securities	Estimated Fair Value	Unrealized Losses
Common and preferred stocks	56	$ 32,468	$ (2,143)	-	$ -	$ -	56	$ 32,468	$ (2,143)
Corporate debt securities	163	51,041	(474)	45	10,936	(257)	208	61,977	(731)
U.S. government and agencies obligations	49	261,204	(4,097)	-	-	-	49	261,204	(4,097)
Residential mortgage backed securities	357	97,496	(873)	-	-	-	357	97,496	(873)
Commercial mortgage backed securities	11	9,047	(97)	14	8,423	(297)	25	17,470	(394)
Asset backed securities	13	11,359	(19)	5	2,171	(21)	18	13,530	(40)
Foreign government bonds and obligations	4	2,147	(14)	-	-	-	4	2,147	(14)
State and municipal obligations	-	-	-	-	-	-	-	-	-
Total securities, at fair value	653	$ 464,762	$ (7,717)	64	$ 21,530	$ (575)	717	$ 486,292	$ (8,292)

The amortized cost and estimated fair value of securities at December 31, 2018, by contractual maturity, are shown below:

(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 40,661	$ 40,581
Due after one year through five years	248,996	246,056
Due after five years through ten years	158,470	157,051
Due after ten years	100,445	96,265
	548,572	539,953
Common stocks and preferred stocks	876,760	1,439,766
Residential mortgage backed securities	230,587	227,380
Commercial mortgage backed securities	34,022	35,093
Asset backed securities	29,585	29,840
Total securities at fair value	$ 1,719,526	$ 2,272,032

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. Residential mortgage-backed securities, commercial mortgage-backed securities, and asset-backed securities are not due at a single maturity date. As such, these securities, as well as common stocks and preferred stocks, were not included in the maturities distribution.

A summary of fixed maturity securities by rating was as follows:

(in thousands of dollars)	December 31, 2018		
Ratings	**Amortized Cost**	**Estimated Fair Value**	**Percent of Total Fair Value**
AAA	$ 520,726	$ 513,740	62%
AA	27,214	27,601	3%
A	83,664	82,646	10%
BBB	175,881	172,045	21%
Below investment grade	35,281	36,234	4%
Total fixed maturities	$ 842,766	$ 832,266	100%

(in thousands of dollars)	December 31, 2017		
Ratings	**Amortized Cost**	**Estimated Fair Value**	**Percent of Total Fair Value**
AAA	$ 566,176	$ 564,035	67%
AA	23,004	24,089	3%
A	78,134	79,344	9%
BBB	127,471	130,063	15%
Below investment grade	45,441	48,380	6%
Total fixed maturities	$ 840,226	$ 845,911	100%

The Association evaluates its investment securities for other-than-temporary impairment on an annual basis. Factors considered in determining whether an impairment is other-than-temporary include: 1) the length of time and the extent to which fair value is less than cost; 2) the financial condition, industry, and near-term prospects of the issuer; 3) adverse changes or events impacting the issuer; and 4) for debt and equity securities, the ability and intent of the Association to hold these investments until recovery.

During 2018, the Association assessed the decline in fair value of certain investments and determined that the decline was other-than-temporary. Common and preferred stocks were reduced to the fair value by $32.5 million, and the decline was recorded as realized impairment in the statement of operations, comprehensive income, and accumulated capital. Credit losses of $1.2 million were noted for fixed income securities. During 2017, the Association realized impairment losses on investments of $6.2 million that were determined to be other-than-temporary.

Gross realized gains of $140.9 million and $99.1 million, and gross realized losses of $82.8 million and $38.7 million, were realized on sales of investments during 2018 and 2017, respectively. Additional realized losses of $33.7 million and $6.2 million were recognized due to other-than-temporary impairment of securities during 2018 and 2017, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2018 and 2017, are summarized below.

	Net Investment Income				Net Realized Gains (Losses)			
(in thousands of dollars)		2018		2017		2018		2017
Cash and cash equivalents	$	1,853	$	1,335	$	(102)	$	42
Common and preferred stocks		29,891		21,776		30,891		39,542
Bonds		23,693		25,329		(8,487)		1,711
Alternatives		3,740		1,581		6,873		4,540
Derivatives		-		-		(4,825)		8,290
Miscellaneous		-		5		-		-
		59,177		50,026	$	24,350	$	54,125
Investment expenses		(6,751)		(7,371)				
	$	52,426	$	42,655				

Other comprehensive income in 2018 and 2017 is comprised of the change in unrealized gains on investments arising during the year, the impact of foreign currency translation adjustments on securities denominated in currency other than U.S. dollars, and the change in the funded status of the defined benefit pension plan as follows:

(in thousands of dollars)		2018		2017
Change in net unrealized gains (losses) on investments	$	(198,339)	$	273,675
Foreign currency net translation loss		(5,942)		(976)
Pension benefit obligation		587		(172)
Total other comprehensive income (loss)	$	(203,694)	$	272,527

Accumulated other comprehensive income consists of				
Net unrealized gains on investments	$	617,973	$	816,313
Foreign currency translation loss		(31,162)		(25,220)
Pension benefit obligation		(1,690)		(2,277)
Total accumulated other comprehensive income	$	585,121	$	788,816

4. Fair Value Measurements

ASC 820 defines fair value as the exit price that would be received for an asset in the principal or most advantageous market for the asset. See Note 2 for the three levels of inputs that may be used in measuring fair value. The Association does not have any assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2018 or 2017.

Assets measured at fair value on a recurring basis are summarized below:

	2018			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 55,470	$ 56,702	$ -	$ 112,172
Common and preferred stocks	1,144,504	295,262	-	1,439,766
Corporate debt securities	-	268,751	-	268,751
U.S. government and agencies obligations	-	247,542	-	247,542
Residential mortgage backed securities	-	227,380	-	227,380
Commercial mortgage backed securities	-	35,093	-	35,093
Asset backed securities	-	29,840	-	29,840
Foreign government bonds and obligations	-	14,361	-	14,361
State and municipal obligations	-	9,299	-	9,299
Total securities at fair value	$ 1,144,504	$ 1,127,528	$ -	$ 2,272,032

	2017			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 69,669	$ 55,610	$ -	$ 125,279
Common and preferred stocks	1,294,656	344,588	909	1,640,153
Corporate debt securities	-	228,779	1,436	230,215
U.S. government and agencies obligations	-	310,107	-	310,107
Residential mortgage backed securities	-	205,695	-	205,695
Commercial mortgage backed securities	-	42,023	-	42,023
Asset backed securities	-	38,874	-	38,874
Foreign government bonds and obligations	-	9,340	-	9,340
State and municipal obligations	-	9,656	-	9,656
Total securities at fair value	$ 1,294,656	$ 1,189,062	$ 2,345	$ 2,486,063

On September 1, 2017, the Association transitioned to a new custodian. All U.S. government and foreign government bonds were transferred from Level 1 to Level 2 as the new custodian utilizes ICE Data Services Evaluated Pricing. Those services typically involve a bid evaluation rather than an observable transaction price.

(in thousands of dollars)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Common and Preferred Stock	Corporate Debt Securities	Total
Opening balance	$ 909	$ 1,436	$ 2,345
Transfers into Level 3	-	-	-
Transfers out of Level 3	-	(1,436)	(1,436)
Total gains or (losses) for the period included in earnings (or change in net assets)	474	-	474
Included in other comprehensive income	-	-	-
Purchases, issues, sales, and settlements			
Purchases	-	-	-
Issues	-	-	-
Sales	(1,383)	-	(1,383)
Settlements	-	-	-
Closing balance	$ -	$ -	$ -

Securities transferred into Level 3 primarily represent securities that have pricing that is no longer obtained from a third-party pricing service or have unobservable pricing inputs. Certain stocks that were not independently priced and reported as Level 3 in 2017 were sold in 2018. Certain corporate debt securities reported as Level 3 in 2017 were transferred to Level 2 as those securities could be priced in 2018 by ICE Data Services Evaluated Pricing.

5. Alternative Investments at Net Asset Value

The following table includes information related to our investments in certain other invested assets, including private equity and private debt funds that calculate net asset value per share. For these investments, which are measured at fair value on a recurring basis, we use the NAV per share as an expedient to measure fair value. These investments are in closed-ended funds investing primarily in illiquid assets. Investors do not have the right to redeem their investment at any time prior to liquidation of the fund. Private funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one- or two-year increments. At December 31, 2018, assuming average original expected lives of 10 years for the funds, seventy-seven percent of the total fair value using NAV per share (or its equivalent) presented below would have expected remaining lives between seven and 10 years.

	Net Asset Value		Unfunded Commitments	
(in thousands of dollars)	2018	2017	2018	2017
Private Debt Partnerships (a)	$ 83,941	$ 58,224	$ 75,098	$ 72,351
Energy/Resource Partnerships (b)	50,399	38,291	35,399	23,217
Private Equity Partnerships (c)	55,167	29,340	151,246	97,557
Secondary Private Equity Partnerships (d)	45,089	33,548	114,075	47,615
Total alternative investments	$ 234,596	$ 159,403	$ 375,818	$ 240,740

(a) This class targets the ownership of higher yielding corporate, physical (excluding real estate), or financial assets held within a private "lock-up" fund partnership structure. Credit exposure can be either corporate (repayment comes from cash flows generated by an operating company) or asset (repayment comes from cash flows generated by a physical or esoteric asset). The landscape of private credit includes business development companies (BDCs), mezzanine funds, distressed funds, special situations funds, direct lending funds, and various other strategies like structured credit vehicles or multi-credit strategy funds.

(b) This class includes private equity funds invested predominantly in the purchase and operation of proven, producing oil and gas reserves in North America and is illiquid in nature. Energy/resource partnerships opportunistically pursue both the purchase of existing assets, contracts, and businesses and the development and construction of new ones.

(c) This class more broadly involves making investments through limited partnership structures and is illiquid in nature. Investments are typically made in unlisted companies (companies not traded on public exchanges) or in some cases listed companies are purchased and taken private. Private equity encompasses a broad array of buyout and growth equity strategies and securities. Investments may be in any sector of the economy or geography in the United States and globally, though funds will typically specialize in specific industries and regions.

(d) This class buys and sells pre-existing investor investments in private equity, resource, real estate, and other alternative investment funds and is illiquid in nature. The market provides liquidity to investors, allowing them to sell positions in alternative investment funds. Sellers of alternative investment funds sell not only the investments in the fund but also their remaining unfunded commitments to the funds.

The Association has invested in alternative types of investments, including private equity, private oil and gas, and private debt-oriented partnerships. As of December 31, 2018, the Association has made 22 partnership commitments totaling $583 million. These alternative investments totaled $235 million, including $207 million of net invested capital and $28 million of unrealized appreciation. As of December 31, 2017, the Association had made 16 partnership commitments totaling $380 million. These alternative investments totaled $159 million, including $139 million of net invested capital and $20 million of unrealized appreciation. Alternatives are recorded at their most-recently available net asset valuation and adjusted for capital contributions and distributions.

During 2018, the Association changed the Mezzanine Debt class to Private Debt Partnerships. Private Debt Partnerships include other types of credit management (i.e., direct lending, bank loans, high-yield bond investments, senior first-lien financing, uni-tranche financing, second-lien financing, special situation financing and mezzanine financing). As the class was expanded, three investments were moved from Private Equity Partnerships to the Private Debt Partnerships as their structures fall completely within the private debt class. The 2017 footnote above has been changed to reflect the movement of $48 million of net asset value and $34 million of unfunded commitments.

6. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2018 and 2017, is summarized as follows:

(in thousands of dollars)	2018	2017
Undiscounted	$ 5,199,208	$ 6,260,307
Discount	(3,588,940)	(4,625,749)
Total losses and loss expenses liabilities	$ 1,610,268	$ 1,634,558

Reserves are reviewed periodically and updated based on current claims experience, trends, and economic outlook.

	2018	2017
Discount rate at year end	6.5%	6.5%

Activity in the liability for losses and loss expenses is summarized as follows:

(in thousands of dollars)	2018	2017
Balance at January 1		
Undiscounted	$ 6,260,307	$ 6,789,087
Incurred related to		
Current year	275,115	372,373
Prior years	(1,257,679)	(822,960)
Total incurred	(982,564)	(450,587)
Paid related to		
Current year	41	35
Prior years	78,493	78,159
Total paid	78,534	78,194
Balance at December 31		
Undiscounted	5,199,208	6,260,307
Discount	(3,588,940)	(4,625,749)
Total losses and loss expenses liabilities	$ 1,610,268	$ 1,634,558

The following table compares the present value of the Association's reserve changes during 2018 with those of 2017.

(in thousands of dollars)	**2018**	**2017**
Reserves as of prior year end	$ 1,634,558	$ 1,646,210
Prior accident year impact of actuarial adjustments	(100,000)	(100,000)
Payments on prior accident years	(78,493)	(78,159)
Present value update	103,695	104,464
Reserves for current accident year	50,508	62,043
Total calendar year reserve changes	(24,290)	(11,652)
Total reserves as of year end	$ 1,610,268	$ 1,634,558

In 2018 and 2017, the reduction in prior accident year loss reserves from actuarial adjustments was due to favorable development on case incurred losses, which resulted in lower projected ultimate losses.

The first table, on the following page, reflects for each of the previous 10 accident years and on a combined basis for years prior to 2009 the, (1) cumulative total undiscounted incurred losses as of each of the previous 10 year-end evaluations, (2) total IBNR plus expected development on reported claims as of December 31, 2018, and (3) the cumulative number of reported claims as of December 31, 2018.

The second table (middle section) presents cumulative paid losses for each of the previous 10 accident years and on a combined basis for years prior to 2009, as of each of the previous 10 year-end evaluations. Also included in this table is a calculation of the liability for losses which is then included in the reconciliation to the consolidated balance sheet presented above. The liability as of December 31, 2018, is calculated as the cumulative incurred losses less the cumulative paid losses from the second table, plus any claim expense liabilities and adjustments for the effect of discount.

The third table (bottom section) is supplementary information about the average historical claims' duration as of December 31, 2018. It shows the weighted average annual percentage payout of incurred losses by accident year as of each age. For example, the first column is calculated as the incremental paid losses in the first calendar year for each given accident year (e.g. calendar year 2009 for accident year 2009, calendar year 2010 for accident year 2010) divided by the cumulative incurred losses as of December 31, 2018, for that accident year. The resulting ratios are weighted together using cumulative incurred losses as of December 31, 2018.

($'s in thousands) — Cumulative Incurred Loss For the Years Ended December 31 — As of December 31, 2018

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total * IBNR	** Cumulative number of reported claims
Prior	8,200,427	8,476,092	7,832,010	7,889,202	6,724,063	6,372,215	5,924,271	5,652,987	5,284,274	4,606,184	898,940	7,029
2009	450,568	493,447	454,908	450,036	329,922	310,975	243,997	218,515	190,059	127,604	79,399	62
2010		465,696	487,086	478,853	345,898	326,066	249,465	221,799	183,790	141,399	84,526	60
2011			442,405	541,479	383,388	381,789	282,214	258,438	212,464	154,910	95,136	69
2012				462,371	430,510	429,126	313,773	264,355	233,130	159,382	109,135	61
2013					370,507	469,805	329,539	304,763	278,287	223,162	120,777	50
2014						436,470	370,975	336,738	260,384	189,729	133,981	52
2015							421,292	374,296	272,451	201,802	140,583	78
2016								418,653	310,317	236,427	152,355	74
2017									367,590	300,313	203,377	79
2018										270,111	223,232	50
									Total	6,611,023	2,241,441	7,664

* Incurred But Not Reported ("IBNR")
** Reported claims exclude closed without payment

($'s in thousands) — Cumulative Paid Loss For the Years Ended December 31

Accident Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prior	821,134	892,684	967,052	1,040,457	1,111,298	1,181,524	1,250,324	1,323,129	1,390,336	1,458,566
2009	1,429	3,556	5,109	6,094	7,363	8,035	8,627	9,185	10,767	11,678
2010		0	134	511	1,167	1,980	2,873	4,506	5,267	6,347
2011			27	116	1,258	2,315	3,254	5,122	5,929	6,662
2012				0	522	1,591	2,550	3,191	4,095	4,474
2013					1,143	1,895	3,906	5,356	6,668	8,376
2014						40	228	730	1,946	2,737
2015							0	35	1,070	1,360
2016								0	1,322	1,378
2017									0	2,448
2018										0
									Total	1,504,026

Liabilities	
Undiscounted Claim Reserve	5,106,997
Undiscounted Claim Adjustment Expense Reserve	92,211
Discount	(3,588,940)
Discounted Claim and Claim Adjustment Expense Reserve	1,610,268

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	0.1%	0.4%	0.5%	0.5%	0.6%	0.7%	0.6%	0.5%	1.0%	0.7%

7. Employee Benefit Plans

Defined Benefit Pension Plan

The Association has a noncontributory defined benefit pension plan that covers employees who meet eligibility and entry-date requirements. The Association uses a December 31 measurement date. As of December 31, 2018, the plan's investment mix was 60 percent equities and 40 percent debt securities. The determination of the long-term rate of return on plan assets was based on historical rates of return and future estimated returns for the individual assets classes. Based on the target allocation, the overall expected long-term rate of return for the plan is 6.25 percent.

Benefits paid in 2018 and 2017 were $825,143 and $136,942, respectively. Based on retirement eligibility, the estimated benefit payments for 2019 through 2023 are $173,247, $171,560, $220,298, $240,280, and $261,367, respectively, and the aggregate total for the following five years is $1,350,512.

(in thousands of dollars)	**2018**	**2017**
Benefit obligation, end of year	$ 7,385	$ 8,668
Plan assets at fair value, end of year	5,487	6,224
Funded status (recognized as a component of other liabilities and accumulated comprehensive income)	$ (1,898)	$ (2,444)

(in thousands of dollars)	**2018**	**2017**
Employer contributions	$ 393	$ 358
Discount rate	4.19%	3.57%
Expected return on plan assets	6.25%	6.25%
Rate of compensation increase	4.00%	4.00%

The fair value of the plan's assets was determined in accordance with ASC 820, using the three levels of inputs described in Note 2.

The fair value of plan assets of $5.5 million and $6.2 million as of December 31, 2018 and December 31, 2017 were determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. All plan investments are exchange-traded funds.

For 2018 and 2017, the plan sponsor did not hold any securities where the fair value has been determined using Level 3 inputs. In addition, the plan assets did not include any assets of the plan sponsor's nonpublic entity equity securities or of its' affiliates.

Defined Contribution Plan

The Association sponsors a defined contribution plan, which covers employees who meet the plan's eligibility requirements and have completed the service requirements, under Section 401(k) of the Internal Revenue Code. Participants can contribute a certain percentage of their compensation (subject to annual contribution limits) to the plan. In 2018 and 2017, the Association matched a maximum 4.0 percent of participant eligible compensation. The Association's matching contribution to the plan was $0.1 million in both 2018 and 2017.

8. Income Tax Status

In 1996, the Association was granted an exemption from federal income taxes under Section 501(c)(27)(a) of the Internal Revenue Code. The Association received a tax-exempt determination letter from the Internal Revenue Service dated February 7, 1997. Therefore, no provision for income taxes is included in the Association's financial statements.

9. Cash Flows

In 2018, the Association changed the reporting of cash flows from the direct method to the indirect method. Under the direct method, the Association reported all cash received from premium collections and cash paid for claim reimbursements. That method required a reconciliation of net income to the cash provided by operating activities. In contrast, the indirect method shows net income followed by the adjustments needed to convert the total net income to the cash amount from operating activities. As such, the reconciliation performed under the direct method is done automatically under the indirect method.

Changing the method of reporting for the Statement of Cash Flows does not change the overall net cash provided by operating, investing, or financing activities. Furthermore, it does not change the overall cash positions. The primary benefit is the elimination of the additional reconciliation and the footnote disclosure affiliated with that reconciliation. The association will no longer provide this reconciliation as it is incorporated in the reported cash flows. 2017 cash flows have been amended to incorporate this change on page 4 Statement of Cash Flows.

The WCRA provides reinsurance protection for Minnesota's workers' compensation insurers and self-insurers. Minnesota is a beautiful state and we annually select pictures from one area of the state to highlight. This year's city is White Bear Lake.

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