ANNUAL REPORT

Workers' Compensation Reinsurance Association

2020

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

The COVID-19 pandemic has touched all our lives. The WCRA took action this year to ensure the well-being of our staff, maintain a high level of service to our members, and make progress on our enterprise-wide initiatives. We mitigated the operational impacts from the pandemic by executing our business continuity plan early to purchase needed computer equipment, revamp in-office business processes, and transition our entire staff from working in the office to working remotely. It has been our privilege to assist our members during this difficult time, and we look forward to building on these relationships in the future.

James Heer,
WCRA President and CEO

Stuart Henderson
WCRA Board Chair

Operations

The Association proudly reports that our processing times for member claim reports and claim reimbursement requests were the fastest in the past five years, getting payments to members more quickly. We also shifted the processing of checks for claim reimbursements from our office to a third-party vendor to ensure timely payments during the pandemic. We assisted members with their workers' compensation claims management and provided both individual and webinar training opportunities.

As an accommodation to our members, reporting deadlines for exposure information were extended and late reporting fees were suspended to support all members working through their reporting issues. We sincerely thank our members for their efforts in reporting data to us during this challenging year.

Our financial strength improved significantly again in 2020 with the release of $150 million dollars of loss reserves and a 15 percent return on our investment portfolio. Our capital increased from $1.4 billion at year-end 2019 to $1.9 billion at year-end 2020. The Association's discounted loss reserve indications continue to decline due to reduced claim frequency and relatively low claim severity trends. Our investment portfolio experienced some volatility at the start of the pandemic but finished strong across all asset classes, with equities leading the way.

The Association continues to prepare for the future by executing our Information Technology (IT) Strategic Plan, with the key priorities being our enterprise system and our overall IT infrastructure. We are developing a new, custom enterprise system built on the Microsoft Dynamics 365 technology platform that will be implemented over the next few years in a multi-phased approach. The first phase will replace our internal system while future phases will provide new member portals and enhanced analytic capabilities. We have also developed an IT infrastructure roadmap, based on the recommendations from an independent IT infrastructure assessment, that will be implemented over time to improve our security, performance, and resiliency.

Board of Directors

There was one transition on the Board in 2020. We welcome Sheila Brown as a new insurer representative. Ms. Brown has worked in various roles at Travelers, currently serving as Vice President in Enterprise Risk Management. We thank Michael Thoma, Global Practice Lead for Technology at Travelers, for his service on the Board since 2010.

Conclusion

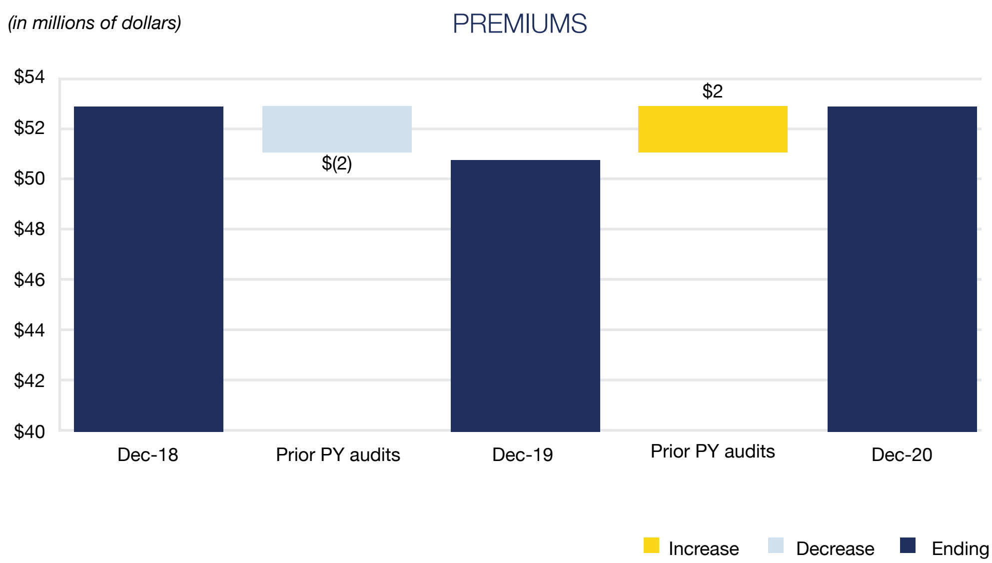
Thank you for taking time to review our annual report. Progress was made on many fronts despite the challenges presented by the pandemic. The WCRA remains committed to executing our critical role in a healthy workers' compensation system in Minnesota through exceptional service and superior reinsurance for our members!

Financial Highlights

Premiums

Premiums were up 4 percent from 2019 to 2020 due primarily to fewer prior year return premiums. Premiums are recognized within the Association's Comprehensive Income, Accumulated Capital, and Cash Flows.

(in millions of dollars)	2020	2019	Change
Premiums	$ 53	$ 51	$ 2

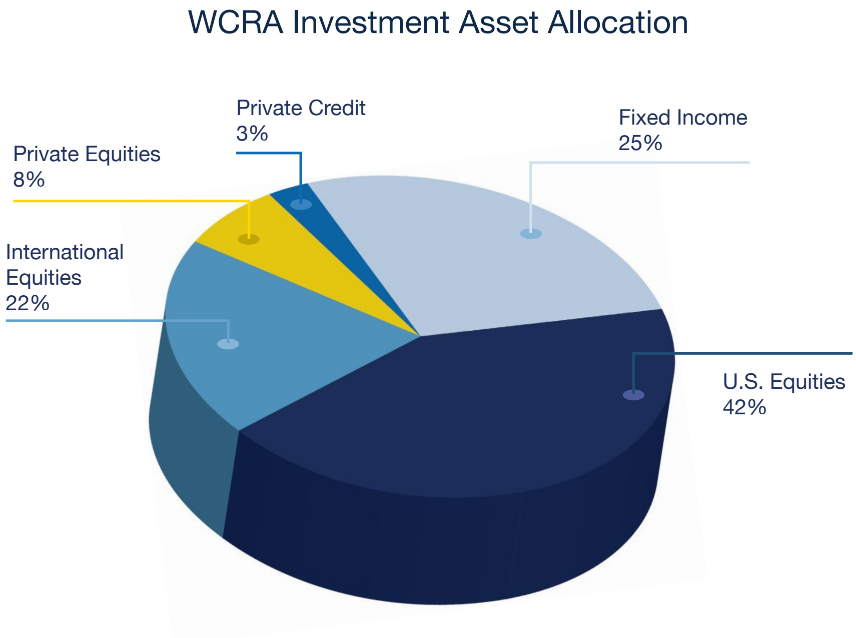


Investment Returns

For the year ended December 31, 2020, the investment portfolio increased 15 percent compared to a 20 percent increase in 2019. The 2020 and 2019 investment results were driven by broad gains across the entire investment portfolio. Domestic equities increased 20 percent, international equities increased 14 percent, and fixed income increased 9 percent in 2020. In 2019, domestic equities increased 31 percent, international equities increased 25 percent, and fixed income increased 9 percent. Investment returns are recognized within the Association's Balance Sheet, Comprehensive Income and Accumulated Capital, and Cash Flows.

(in millions of dollars)	2020	2019	Change
Investment income, net of related expenses	$ 44	$ 48	$ (4)
Net realized investment gains	173	81	92
Change in unrealized gains (losses) on securities	236	378	(142)
Total Investment Results	**$ 453**	**$ 507**	**$ (54)**

The Association manages its current asset allocation targets at the total equity and total debt ranges.



	Mix at Year-end	Target
U.S. Equities	42%	35-45%
International Equities	22%	15-25%
Private Equity	8%	0-15%
Equity	**72%**	**65-75%**
Fixed Income	25%	25-35%
Private Credit	3%	0-10%
Debt	**28%**	**25-35%**

Losses and Loss Expenses

Total losses and loss expenses incurred decreased in 2020. The decrease was the result of a reduction in prior accident year loss reserves of $150 million due to favorable development on incurred losses driven by continued low medical inflation. These changes reduced overall expenses and increased the Association's Comprehensive Income and Accumulated Capital.

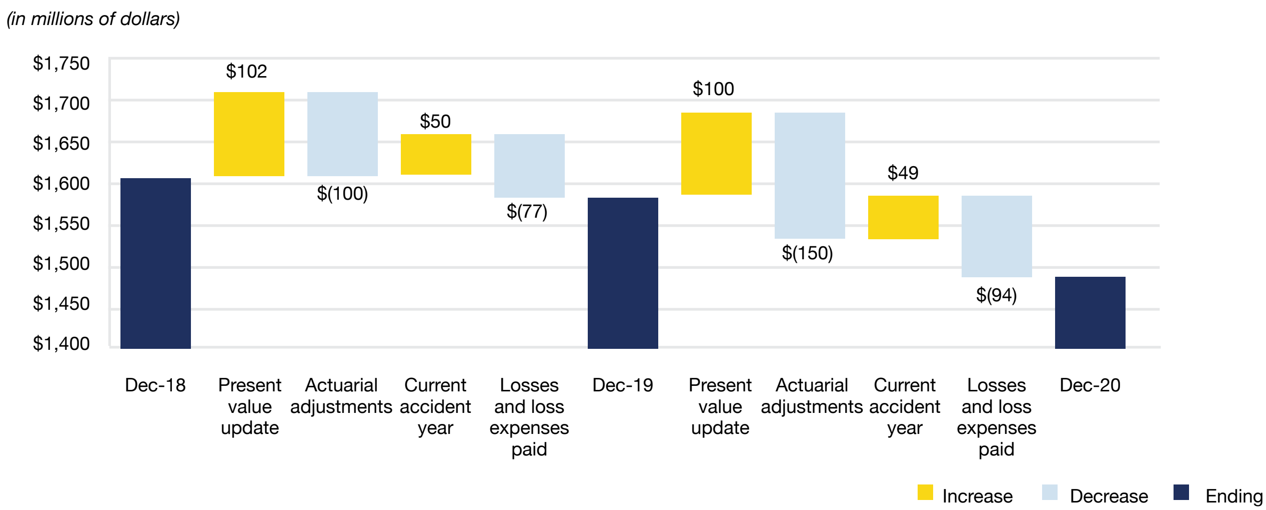
(in millions of dollars)	2020[1]	2019[1]	Change
Prior accident years:			
Present value update	$ 100	$ 102	$ (2)
Actuarial adjustments	(150)	(100)	(50)
Total prior accident years	$ (50)	$ 2	$ (52)
Current accident year	$ 49	$ 50	$ (1)
Total losses and loss expenses	**$ (1)**	**$ 52**	**$ (53)**

[1] The current accident year values for 2020 and 2019 are impacted by a rounding adjustment.

For both 2020 and 2019, the Association's investment earning's assumption and discount rate for loss reserves were 6.5 percent.

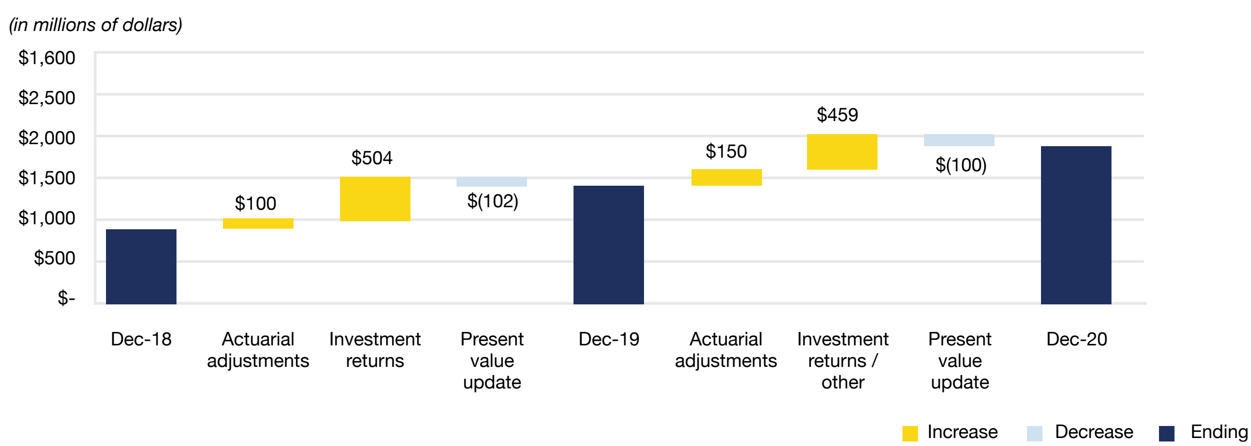
Losses and Loss Expenses Reserves (cont.)

Below are the components impacting the reserve changes.



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 increased the Association's Comprehensive Income and Accumulated Capital.



Cash Flow and Liquidity

The WCRA's cash flow from operating activities was $103 million in 2020, up from $13 million in 2019. The increase was due to positive trading portfolio outcomes and was partially offset by increased losses and loss expenses outflows. The 2019 amounts were revised to classify certain investment activities associated with the trading portfolio to operating activities. Please see page 17 - Statements of Cash Flows for more detailed information. In 2020, 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)	2020	2019	2018	2017	2016
Earned Premiums	$53	$51	$53	$62	$67
Total Income[(1)]	$509	$554	($89)	$159	$155
Net Income (Loss)[(1)]	$506	$498	($146)	$89	$158
Total Investments	$3,546	$3,114	$2,619	$2,770	$2,464
Losses and Loss Expenses Liability	$1,489	$1,584	$1,610	$1,635	$1,646
Accumulated Capital	$1,915	$1,406	$904	$1,035	$674
% Capital to Losses and Loss Expenses	129%	89%	56%	63%	41%
Losses and Loss Expenses Paid	$94	$77	$79	$78	$81
# of Claims Paid	3,371	3,357	3,523	3,545	3,649
Annual Investment Return	15.5%	20.3%	(4.8%)	16.2%	7.0%
Assumed Rate of Return	6.5%	6.5%	6.5%	6.5%	6.5%

[(1)] The Association changed its method of accounting for trading account assets in 2019. The 2018 values were restated, but the 2016-2017 values were not restated.

WCRA Leadership

Board of Directors

Insurer Representatives

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

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

Terrence Miller
Committees: Audit and Financial Compliance
Employer: SFM

Sheila Brown
Committees: Audit and Financial Compliance
Employer: The Travelers Companies

Self-insurer Representatives

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

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

Employee Representatives

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

Edward Reynoso
Committees: Personnel
Employer: Teamsters Joint Council 32

Michele Spencer
Committees: Member Advisory, Personnel
Employer: Ecumen

Allison Waggoner
Committees: Personnel
Employer: DCI Inc

Statutory Appointments

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

Cindy Farrell
Committees: Audit and Financial Compliance, IT Advisory
Employer: Accounting Services Division of Minnesota Management and Budget

Public Representative

Ken Peterson
Committees: IT Advisory, Investment

WCRA Leadership

Officers

James Heer
President and CEO

Lynn Carroll
Vice President - Actuarial

David McKee
Vice President Finance & CFO

Cynthia Smith
Vice President of Operations and Corporate Secretary

Natalie Haefner
Vice President Claims and Injury Management

Workers' Compensation Reinsurance Association

Financial Statements
December 31, 2020 and 2019

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December 31, 2020 and 2019

Report of Independent Auditors

To the Board of Directors and Members 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, 2020 and 2019, 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, 2020 and 2019, 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 4, 2021

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T: (612) 596 6000, F: (612) 373 7160, www.pwc.com/us

Workers’ Compensation Reinsurance Association
Balance Sheets
December 31, 2020 and 2019

(in thousands of dollars)		2020		2019
Assets				
Cash and cash equivalents	$	113,979	$	59,608
Investments, at fair value		3,432,134		3,054,294
Uncollected reinsurance premiums		178		33
Due from securities brokers		23,995		10,027
Other assets		10,703		7,786
Property and equipment, less accumulated depreciation of $1,922 and $1,898 at December 31, 2020 and 2019, respectively		229		54
Total assets	$	3,581,218	$	3,131,802
Liabilities and Accumulated Capital				
Losses and loss expenses	$	1,489,038	$	1,583,956
Due to securities brokers		163,687		138,082
Accounts payable and other liabilities		13,574		3,468
Total liabilities		1,666,299		1,725,506
Accumulated retained earnings from operations		1,875,949		1,369,966
Accumulated other comprehensive income		38,970		36,330
Accumulated capital		1,914,919		1,406,296
Total liabilities and accumulated capital	$	3,581,218	$	3,131,802

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, 2020 and 2019

(in thousands of dollars)	**2020**	**2019**
Income		
Premiums earned	$ 52,524	$ 50,737
Investment income, net of related expenses	43,516	47,738
Net realized investment gains	172,878	81,162
Net unrealized investment gains (losses)	236,269	374,302
Other, net	3,494	-
Total income	508,681	553,939
Expenses		
Losses and loss expenses	(454)	52,275
Operating and administrative expenses	3,152	3,245
Total expenses	2,698	55,520
Net income (loss)	505,983	498,419
Other comprehensive income		
Change in net unrealized gains (losses) on alternative investments and change in pension benefit obligation	2,640	3,552
Comprehensive income (loss)	508,623	501,971
Accumulated capital, beginning of year	1,406,296	904,325
Accumulated capital, end of year	$ 1,914,919	$ 1,406,296

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

Workers' Compensation Reinsurance Association
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands of dollars)		**2020**		**2019[1]**
Cash flows from operating activities				
Net Income	$	505,983	$	498,419
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		24		291
Realized (gain) on investments		(172,878)		(81,162)
Unrealized (gain) or loss on investments		(236,269)		(374,302)
Sales and maturities / (purchases) of trading investments, net		82,094		(22,422)
Change in operating assets and liabilities:				
Due to / from securities brokers		11,467		17,884
Losses and loss expenses		(94,918)		(26,312)
Accounts payable and other liabilities		10,106		683
Uncollected reinsurance premiums and other assets		(3,062)		(80)
Net cash provided by operating activities		102,547		12,999
Cash flows from investing activities				
Funding of alternative investments		(94,620)		(104,201)
Distributions received from alternative investments		46,643		38,638
Additions to property, plant, and equipment		(199)		-
Other investing activities, net		-		-
Net cash provided by (used in) investing activities		(48,176)		(65,563)
Cash flows from financing activities				
Financing activities		-		-
Net cash (used in) provided by financing activities		-		-
Net increase (decrease) in cash and cash equivalents		54,371		(52,564)
Cash and cash equivalents at beginning of period		59,608		112,172
Cash and cash equivalents at end of period	$	113,979	$	59,608

(1) 2019 amounts have been revised to classify certain investment activities associated with the trading portfolio to operating activities. As a result, cash outflows from investing activities decreased by $4.5M and cash inflows from operating activities decreased by the same amount. There was no impact to net cash related to this item.

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 2020, the Association collected $16 million in premiums and provided $15 million in claim reimbursements to related party organizations. In 2019, the Association collected $15 million in premiums from related party organizations and provided $16 million in claim reimbursements to related party organizations.

Retention Limits

For both 2020 and 2019 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. 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 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 alternative investments 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
Trading account assets represent equity and debt securities carried at fair value. Interest and dividend income from these investments is reported in "Investment income, net of related expenses." Realized gains and losses for these investments are reported in "Net realized investment gains (losses)." Unrealized gains and losses for these investments are reported in "Net unrealized investment gains (losses) on trading account assets."

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.

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 could 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.

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 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 2020 and 2019, 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 activities can lead to earned premium adjustments, which are recognized in the financials in the period they are determined.

Adoption of New Accounting Standards

Investment Accounting
Effective January 1, 2020, the Association adopted Accounting Standards Update No. 2018-13 – Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement amends the disclosure requirements for recurring and nonrecurring fair value measurements by removing, modifying, and adding certain disclosures. The Association does not have any investments requiring a change in disclosure but will follow the standard should any Level 3 financial instruments become identified in

future accounting periods. The adoption of this standard did not have an impact on the Association's financial statement disclosure.

Employee Benefit Plans
Effective January 1, 2020, the Association adopted Accounting Standards Update No. 2017-06 – Plan Accounting: Defined Benefit Pension Plans, which is related to clarifying the presentation and disclosure requirements for an employee benefit plan's interest in a master trust. A master trust is a trust for which a regulated financial institution serves as a trustee or custodian and in which assets of more than one employee benefit plan (EBP) sponsored by a single employer or by a group of employers under common control are held. ASU 2017-06 applies to EBPs within the scope of Topics 960, 962, or 965. The amendments require a plan to present its interest in the master trust and the change in its interest in that master trust as single line items in the statement of net assets available for benefits and the statement of changes in net assets available for benefits, respectively. The adoption of this standard did not have an impact on the Association's financial statement disclosures.

Financial Instruments
Effective January 1, 2019, the Association adopted 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 affected 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.

Effective January 1, 2019, the Association adopted Accounting Standard Update No. 2018-03, Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, the FASB issued technical corrections and improvements intended to clarify certain aspects of the guidance on recognizing and measuring financial assets and liabilities in ASU 2016-01. The adoption of this standard did not have an impact on the Association's financial statement disclosures.

Premium Amortization on Purchased Callable Debt Securities
Effective January 1, 2019, the Association adopted 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. The Association's investment custodian is recording the premium amortization as required in the accounting standards update.

Restricted Cash
Effective January 1, 2019, the Association adopted 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 are required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. As of December 31, 2020, the Association does not have restricted cash on its balance sheet.

Revenue from Contracts with Customers
Effective January 1, 2019, the Association adopted 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 adoption of this standard does not have a material impact on the Association's financial statement disclosures.

Future Accounting Pronouncements

Internal Use Software
In August 2018, the FASB issued ASU 2018-15, customer's accounting for implementation costs incurred in a cloud computing arrangement ("CCA") that is a service contract. This update amends the current guidance that exists for CCAs by providing explicit accounting for implementation costs of a hosting arrangement that is a service contract. The amendments effectively align the accounting for implementation costs for hosting arrangements, regardless of whether they convey a license to the hosted software. Thus, a hosting arrangement that is a service contract will follow the guidance in ASC 350-40, Intangibles – Goodwill and other, Internal-use software, to determine which implementation costs to capitalize or expense. The new standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted.

Lease Accounting
Over the past five years, the FASB has issued many accounting standard updates related to lease accounting. A leasing arrangement conveys the use of an asset from one party to another without transferring ownership. The leasing arrangement may take various forms. Some arrangements are clearly within the scope of lease accounting, for example, a legal form lease that provides an explicit contractual right-to-use of a building for a specified period-of-time in exchange for consideration. In June 2020, the FASB deferred the effective date for public not-for-profit entities. The new standard is effective for fiscal years beginning after December 15, 2021. At this time, the Association has less than two years left on its existing lease. The Association will early adopt the FASB Lease Standards if a new lease is ratified prior to the standard effective date.

Subsequent Events

The Association has evaluated events that have occurred subsequent to December 31, 2020, through March 4, 2021, 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)	**2020**	**2019**
Trading account assets, at fair value	$ 3,055,361	$ 2,740,930
Alternative investments, at net asset value	376,773	313,364
Total investments, at fair value	$ 3,432,134	$ 3,054,294

The following table sets forth the composition of the Association's trading account assets, as of the dates indicated:

(in thousands of dollars)	**2020**		**2019**	
	Cost/ Amortized Cost	**Fair Value**	**Cost/ Amortized Cost**	**Fair Value**
Equity securities	$ 986,954	$ 2,115,223	$ 929,454	$ 1,830,077
Debt securities	905,377	940,138	884,843	910,853
Total trading account assets	$ 1,892,331	$ 3,055,361	$ 1,814,297	$ 2,740,930

The amortized cost and estimated fair value of trading account assets at December 31, 2020, by contractual maturity, are shown below:

(in thousands of dollars)	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 56,035	$ 56,611
Due after one year through five years	251,577	262,387
Due after five years through ten years	210,356	220,025
Due after ten years	129,685	137,279
	647,653	676,302
Equity securities	986,954	2,115,223
Residential mortgage backed securities	194,895	198,286
Commercial mortgage backed securities	42,823	45,027
Asset backed securities	20,006	20,523
Total trading account assets, at fair value	$ 1,892,331	$ 3,055,361

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 equity securities, were not included in the maturity distribution.

A summary of debt securities by rating was as follows:

(in thousands of dollars)	**December 31, 2020**		
Ratings	**Amortized Cost**	**Estimated Fair Value**	**Percent of Total Fair Value**
AAA	$ 597,949	$ 610,995	64%
AA	14,449	16,235	2%
A	79,316	85,604	9%
BBB	163,252	174,851	19%
Below investment grade	50,411	52,453	6%
Total debt securities	$ 905,377	$ 940,138	100%

(in thousands of dollars) Ratings	December 31, 2019 Amortized Cost	Estimated Fair Value	Percent of Total Fair Value
AAA	$ 616,940	$ 629,118	68%
AA	23,510	25,392	3%
A	83,207	87,009	10%
BBB	138,206	144,658	16%
Below investment grade	22,980	24,676	3%
Total debt securities	$ 884,843	$ 910,853	100%

Gross realized gains of $328.8 million and $159.6 million, and gross realized losses of $155.9 million and $78.4 million, were realized on sales of investments during 2020 and 2019, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2020 and 2019, are summarized below.

	Net Investment Income		Net Realized Gains (Losses)	
(in thousands of dollars)	2020	2019	2020	2019
Cash and cash equivalents	$ 310	$ 1,831	$ 472	$ 279
Equity securities	25,733	27,533	102,847	52,362
Debt securities	20,441	22,388	38,468	9,307
Alternative investments	4,154	3,157	12,749	8,815
Derivatives	-	-	18,342	10,399
	50,638	54,909	$ 172,878	$ 81,162
Investment expenses	(7,122)	(7,171)		
	$ 43,516	$ 47,738		

Other comprehensive income in 2020 and 2019 is comprised of the change in unrealized gains on alternative investments arising during the year and the change in the funded status of the defined benefit pension plan as follows:

(in thousands of dollars)	2020	2019
Change in net unrealized gains on alternative investments	$ (2,683)	$ 4,263
Change in pension benefit obligation	43	(711)
Total other comprehensive income (loss)	$ (2,640)	$ 3,552

(in thousands of dollars)		**2020**		**2019**
Accumulated other comprehensive income consists of				
Net unrealized gains on alternative investments	$	41,413	$	38,730
Pension benefit obligation		(2,443)		(2,400)
Total accumulated other comprehensive income	$	38,970	$	36,330

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, 2020 or 2019.

Trading account assets measured at fair value on a recurring basis are summarized below:

	2020			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 113,979	$ -	$ -	$ 113,979
Equity securities	1,636,226	478,997	-	2,115,223
Corporate debt securities	-	267,687	-	267,687
U.S. government and agencies obligations	-	375,795	-	375,795
Residential mortgage backed securities	-	198,286	-	198,286
Commercial mortgage backed securities	-	45,027	-	45,027
Asset backed securities	-	20,523	-	20,523
Foreign government bonds and obligations	-	20,048	-	20,048
State and municipal obligations	-	12,772	-	12,772
Total trading account assets, at fair value	$ 1,636,226	$ 1,419,135	$ -	$ 3,055,361

	2019			
(in thousands of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 52,471	$ 7,137	$ -	$ 59,608
Equity securities	1,466,180	363,897	-	1,830,077
Corporate debt securities	-	233,293	-	233,293
U.S. government and agencies obligations	-	349,324	-	349,324
Residential mortgage backed securities	-	221,749	-	221,749
Commercial mortgage backed securities	-	49,177	-	49,177
Asset backed securities	-	26,750	-	26,750
Foreign government bonds and obligations	-	12,731	-	12,731
State and municipal obligations	-	17,829	-	17,829
Total trading account assets, at fair value	$ 1,466,180	$ 1,274,750	$ -	$ 2,740,930

The association did not have any Level 3 assets to report as of December 31, 2020 or 2019.

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, 2020, assuming average original expected lives of 10 years for the funds, thirty-nine 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)	2020	2019	2020	2019
Private Debt Partnerships (a)	$ 110,006	$ 98,935	$ 167,958	$ 84,052
Energy/Resource Partnerships (b)	48,759	48,669	74,751	80,141
Private Equity Partnerships (c)	161,939	108,992	204,359	158,599
Secondary Private Equity Partnerships (d)	56,069	56,768	88,110	94,889
Total alternative investments	$ 376,773	$ 313,364	$ 535,178	$ 417,681

(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, 2020, the Association has made 32 partnership commitments totaling $925 million. As of December 31,2020, the net asset value of these alternative investments totaled $376 million, $41 million of unrealized appreciation, and $389 million in funded commitments. As of December 31, 2019, the Association had made 27 partnership commitments totaling

$725 million. The net asset value of these alternative investments totaled $313 million, $39 million of unrealized appreciation, and $307 million in funded commitments. Alternatives are recorded at their most-recently available net asset valuation and adjusted for capital contributions and distributions.

6. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2020 and 2019, is summarized as follows:

(in thousands of dollars)	**2020**	**2019**
Undiscounted	$ 4,339,506	$ 4,813,508
Discount	(2,850,468)	(3,229,552)
Total losses and loss expenses liabilities	$ 1,489,038	$ 1,583,956

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

	2020	**2019**
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)	**2020**	**2019**
Balance at January 1		
Undiscounted	$ 4,813,508	$ 5,199,208
Incurred related to		
Current year	192,172	200,724
Prior years	(571,710)	(507,838)
Total incurred	(379,538)	(307,114)
Paid related to		
Current year	1,414	1,345
Prior years	83,055	77,241
Total paid	84,469	78,586
Payable related to		
Current year	-	-
Prior years	9,994	-
Total paid	9,994	-
Balance at December 31		
Undiscounted	4,339,506	4,813,508
Discount	(2,850,468)	(3,229,552)
Total losses and loss expenses liabilities	$ 1,489,038	$ 1,583,956

The following table compares the present value of the Association's reserve changes during 2020 with those of 2019.

(in thousands of dollars)	**2020**	**2019**
Reserves as of prior year end	$ 1,583,956	$ 1,610,268
Prior accident year impact of actuarial adjustments	(150,000)	(100,000)
Payments on prior accident years	(83,055)	(77,241)
Payable on prior accident years	(9,994)	-
Present value update	99,933	102,157
Reserves for current accident year	48,198	48,772
Total calendar year reserve changes	(94,918)	(26,312)
Total reserves as of year end	$ 1,489,038	$ 1,583,956

In 2020 and 2019, 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 2011 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, 2020, and (3) the cumulative number of reported claims as of December 31, 2020.

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 2011, 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, 2020, 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, 2020. 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 2011 for accident year 2011, calendar year 2012 for accident year 2012) divided by the cumulative incurred losses as of December 31, 2020, for that accident year. The resulting ratios are weighted together using cumulative incurred losses as of December 31, 2020.

($'s in thousands)

Cumulative Incurred Loss (1)
For the Years Ended December 31

As of December 31, 2020

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total * IBNR	** Cumulative number of reported claims
Prior	8,774,004	8,818,091	7,399,883	7,009,256	6,417,733	6,093,301	5,658,123	4,875,187	4,593,423	4,300,214	736,205	7,046
2011	442,405	541,479	383,388	381,789	282,214	258,438	212,464	154,910	127,407	107,682	49,554	65
2012		462,371	430,510	429,126	313,773	264,355	233,130	159,382	124,984	99,973	64,215	49
2013			370,507	469,805	329,539	304,763	278,287	223,162	210,338	173,203	68,772	41
2014				436,470	370,975	336,738	260,384	189,729	163,071	120,489	83,256	44
2015					421,292	374,296	272,451	201,802	193,157	154,916	77,279	64
2016						418,653	310,317	236,427	215,842	189,501	96,445	66
2017							367,590	300,313	263,928	219,535	120,860	82
2018								270,111	214,506	163,850	107,486	83
2019									195,981	209,424	102,325	66
2020										187,289	115,508	40
									Total	5,926,075	1,621,905	7,646

* Incurred But Not Reported ("IBNR")
** Reported claims exclude closed without payment
(1) Years 2011-2019 are unaudited

($'s in thousands)

Cumulative Paid Loss (1)
For the Years Ended December 31

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Prior	972,295	1,047,062	1,119,828	1,191,540	1,261,825	1,336,820	1,406,369	1,476,591	1,543,217	1,623,198
2011	27	116	1,258	2,315	3,254	5,122	5,929	6,662	7,411	8,021
2012		0	522	1,591	2,550	3,191	4,095	4,474	4,727	5,223
2013			1,143	1,895	3,906	5,356	6,668	8,376	9,317	10,180
2014				40	228	730	1,946	2,737	3,814	4,673
2015					0	35	1,070	1,360	1,716	3,434
2016						0	1,322	1,378	3,070	4,721
2017							0	2,448	5,090	7,014
2018								0	977	1,842
2019									1,304	3,509
2020										1,377
									Total	1,673,192

Liabilities	
Undiscounted Claim Reserve	4,252,883
Undiscounted Claim Adjustment Expense Reserve	86,624
Discount	(2,850,469)
Discounted Claim and Claim Adjustment Expense Reserve	1,489,038

(1) Years 2011-2019 are unaudited

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	0.2%	0.6%	0.8%	0.8%	0.7%	1.1%	0.6%	0.5%	0.6%	0.6%

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, 2020, 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 6.0 percent.

Benefits paid in 2020 and 2019 were $194,089 and $191,572, respectively. Based on retirement eligibility, the estimated benefit payments for 2021 through 2025 are $189,755, $211,226, $378,536, $224,343, and $290,773 respectively, and the aggregate total for the following five years is $6,125,902.

(in thousands of dollars)		2020		2019
Benefit obligation, end of year	$	10,848	$	9,510
Plan assets at fair value, end of year		8,194		6,891
Funded status (recognized as a component of other liabilities and accumulated comprehensive income)	$	(2,654)	$	(2,619)

(in thousands of dollars)		2020		2019
Employer contributions	$	434	$	434
Discount rate		2.44%		3.18%
Expected return on plan assets		6.00%		6.00%
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 $8.2 million and $6.8 million as of December 31, 2020 and December 31, 2019 were determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. All plan investments are exchange-traded funds.

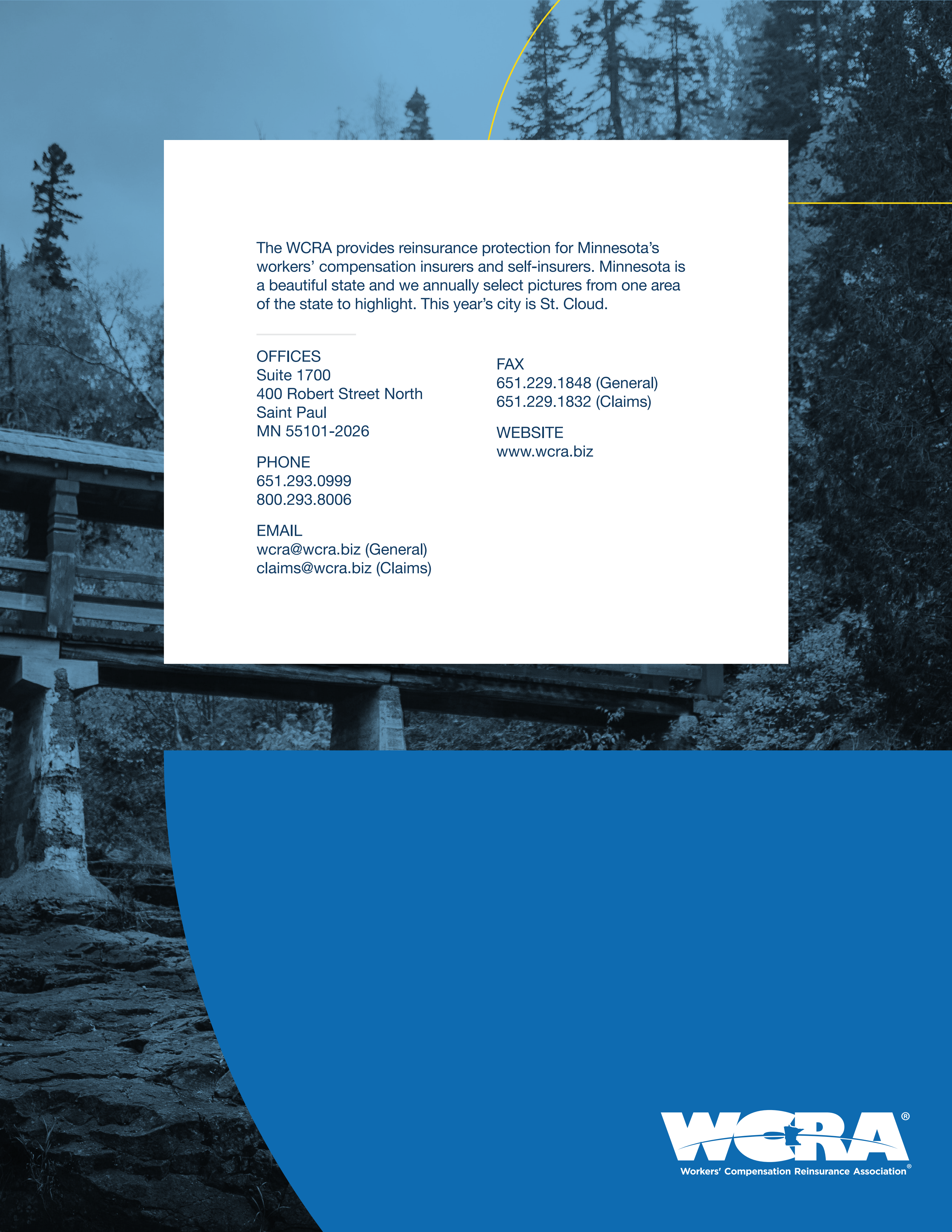
For 2020 and 2019, the plan sponsor did not hold any securities where the fair value has been determined using Level 3 inputs. In addition, the plan assets did not include any assets of the plan sponsor's nonpublic entity equity securities or of its' affiliates.

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 2020 and 2019, 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 2020 and 2019.

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.



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 St. Cloud.

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