

2021

ANNUAL REPORT

Workers' Compensation
Reinsurance Association





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James Heer
WCRA President and CEO

To Our Members

The challenges of the past two years in navigating the pandemic have indeed provided abundant opportunities for the WCRA to reevaluate how we execute our mission. We accelerated adaptations out of necessity and prudence.

In 2021, the WCRA took steps to enhance the security, resiliency, and performance of our information technology infrastructure to better serve our members. We completed an office remodeling project while our staff was working remotely during 2021 that improved our office technology and added collaboration spaces. Using lessons learned from working remotely for two years, we revamped our office policies to provide flexibility for staff while still recognizing the value of being together in the office. We are happy to report that we welcomed our staff back to our office in March 2022!



Terry Miller
WCRA Board Chair

Financial Results and Surplus Distribution

Our financial strength improved significantly again in 2021 with the release of \$100 million of loss reserves and a 16 percent return on our investment portfolio. The Association's discounted loss reserve indications continue to decline due to reduced claim frequency and relatively low claim severity trends. Over the past three years, the Association has released \$350 million in loss reserves and earned an average annual rate of return of 17 percent on our investment portfolio.

Based on our strong financial condition, the WCRA Board of Directors approved a surplus distribution of \$600 million in December. This is the fifth surplus distribution in our history, and the Association has distributed a total net amount of approximately \$1.6 billion.

Senior Management

Daniel Lovhaug was promoted to Vice President of Information Technology. Mr. Lovhaug leads our technology department and is responsible for driving key technology initiatives. He has served in various technical and leadership roles during his ten years with the Association.

Board of Directors

Two insurer representatives on our board retired in 2021. Stuart Henderson, former CEO for Western National Insurance Group, joined our board in 2006 and served as the chair of the board since 2009. Mr. Henderson provided steady leadership and guidance to the Association during his tenure. Jane Jasper Krumrie, former Vice President and Director of Actuarial Pricing for Federated Insurance, joined our board in 2012 and served as the chair of the Actuarial Committee. Ms. Krumrie contributed with her extensive actuarial expertise and deep understanding of the Association. We offer a sincere thank you for their many years of service and contributions.

We welcome Richard Long and Samuel Nolley as our new insurer representatives. Mr. Long is the CEO for Western National Insurance Group. Mr. Nolley is the Chief Pricing Actuary for Arch Insurance Group.

Conclusion

Thank you for reviewing our annual report. The WCRA remains committed to executing our critical role in contributing to a healthy workers' compensation system in Minnesota through exceptional service and superior reinsurance for our members!



In the middle of every difficulty lies opportunity.

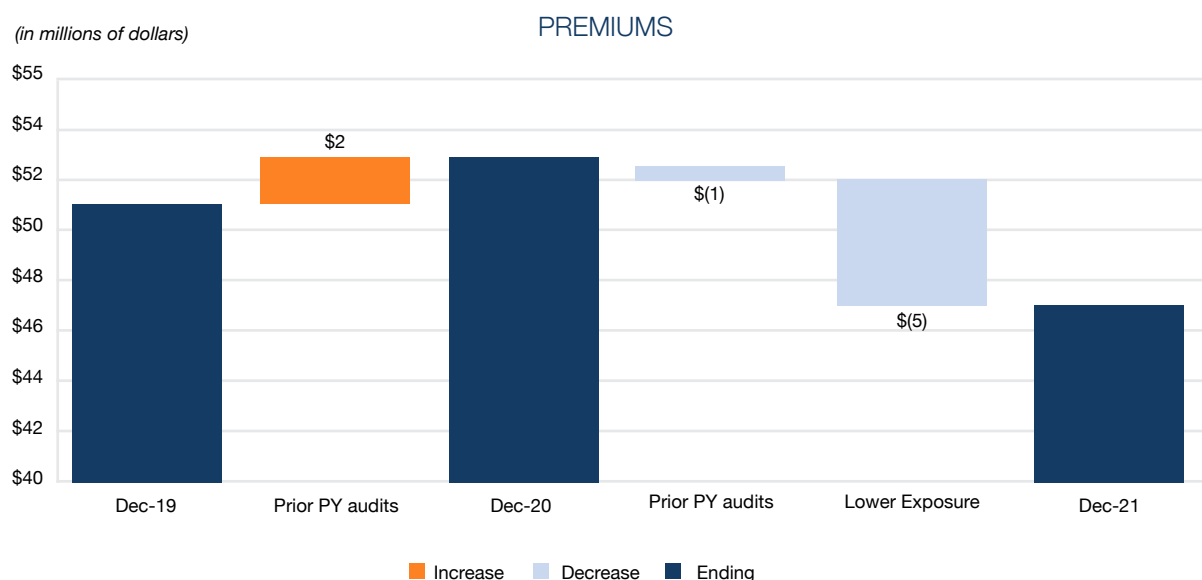
– Albert Einstein

Financial Highlights

Premiums

Premiums were down 11 percent from 2020 to 2021 due to lower exposure for 2021 and the prior year effect of annual adjustments, both a result of the economic conditions of the pandemic. Premiums are recognized within the Association's Comprehensive Income, Accumulated Capital, and Cash Flows.

<i>(in millions of dollars)</i>		2021	2020	Change
Premiums	\$	47	\$ 53	\$ (6)



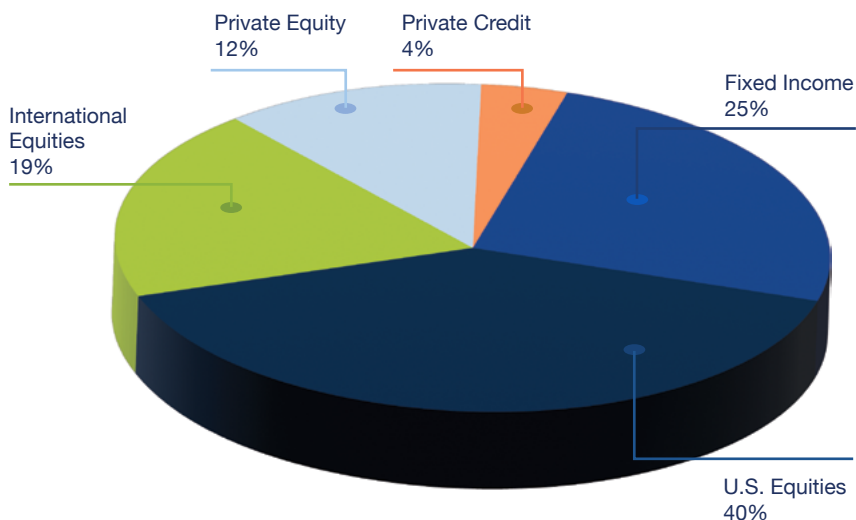
Investment Returns

For the year ended December 31, 2021, the investment portfolio increased 16 percent compared to a 15 percent increase in 2020. The 2021 and 2020 investment results were driven by broad gains across the domestic and international equity investment portfolios. Domestic equities increased 26 percent, and international equities increased 8 percent, while fixed income decreased 1 percent in 2021. In 2020, domestic equities increased 20 percent, international equities increased 14 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.

<i>(in millions of dollars)</i>	2021	2020	Change
Investment income, net of related expenses	\$ 44	\$ 44	\$ -
Net realized investment gains	280	173	107
Change in unrealized gains (losses) on securities	231	236	(5)
Total Investment Results	\$ 555	\$ 453	\$ 102

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

WCRA Investment Asset Allocation



	Mix at Year-end	Target
U.S. Equities	40%	35-45%
International Equities	19%	15-25%
Private Equity	12%	0-15%
Equity	71%	65-75%
Fixed Income	25%	25-35%
Private Credit	4%	0-10%
Debt	29%	25-35%

LOSSES AND LOSS EXPENSES

Total losses and loss expenses incurred increased in 2021. The increase was due to less prior year loss reserve release for 2021 than for 2020. These changes increased overall expenses and decreased the Association’s Comprehensive Income and Accumulated Capital.

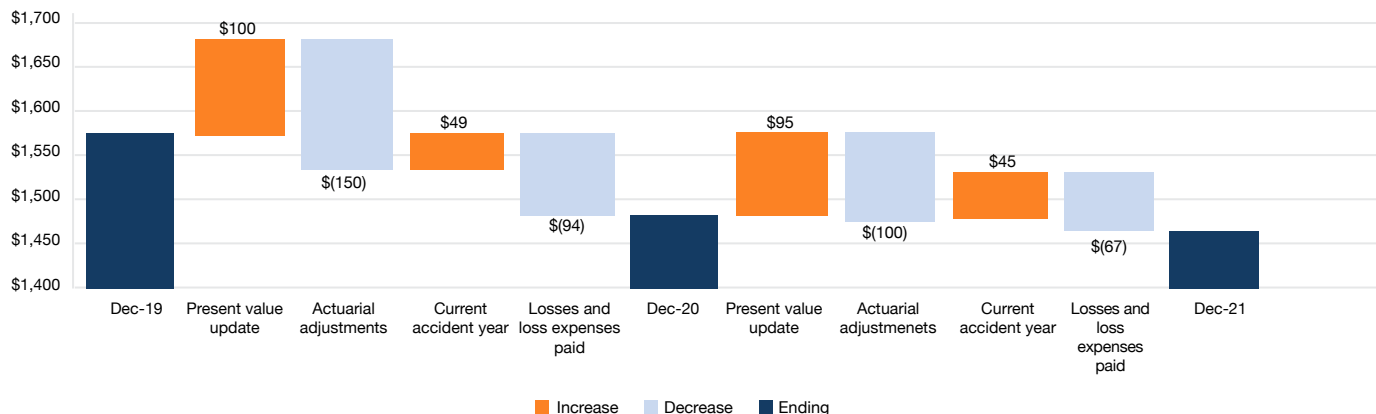
<i>(in millions of dollars)</i>	2021 ⁽¹⁾	2020 ⁽¹⁾	Change
Prior accident years:			
Present value update	\$ 95	\$ 100	\$ (5)
Actuarial adjustments	(100)	(150)	50
Total prior accident years	\$ (5)	\$ (50)	\$ 45
Current accident year	\$ 45	\$ 49	\$ (4)
Total losses and loss expenses	\$ 40	\$ (1)	\$ 41

⁽¹⁾ The current accident year values for 2021 and 2020 are impacted by rounding adjustments.

For both 2021 and 2020, the Association’s investment earning’s assumption and discount rate for loss reserves were 6.5 percent.

(in millions of dollars)

LOSSES AND LOSS EXPENSE RESERVES



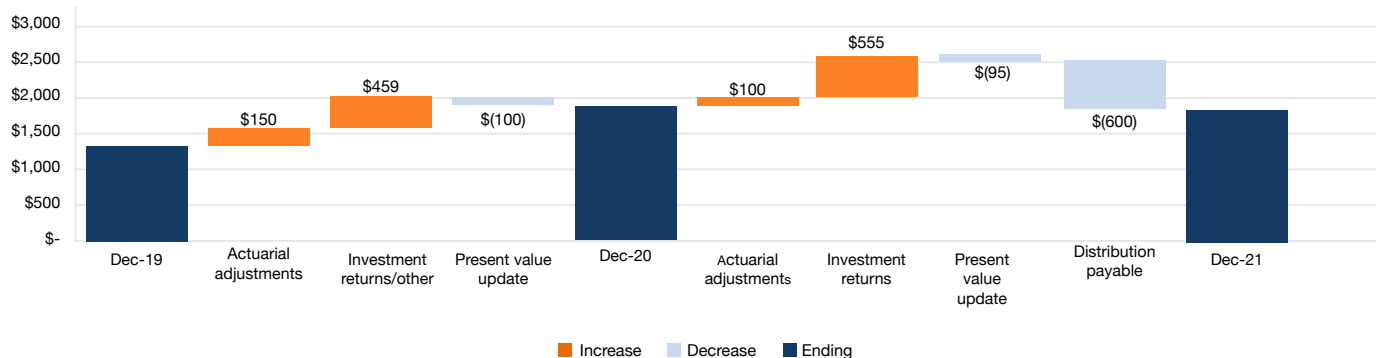
CAPITAL AND SURPLUS DISTRIBUTION

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.

In December 2021, based on prior year-end financial results, the Board of Directors determined that there was enough capital to warrant the approval of a \$600 million surplus distribution. The distribution will be made to Insurers, Self-Insurers and Policyholders in 2022. The effects of the surplus distribution were booked for 2021 but were mostly offset by investment returns and the prior year reserve release. The result was a modest decrease in the Association's Comprehensive Income and Accumulated Capital.

(in millions of dollars)

CAPITAL



CASH FLOW AND LIQUIDITY

The WCRA's cash flow provided by operating activities was \$170 million in 2021, up from \$103 million in 2020. The increase was due to positive trading portfolio outcomes and lower losses and loss expenses payments. In 2021, the WCRA met all 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

<i>(in millions of dollars)</i>	2021	2020	2019	2018	2017
Earned Premiums	\$47	\$53	\$51	\$53	\$62
Total Income ⁽¹⁾	\$479	\$509	\$554	(\$89)	\$159
Net Income (Loss) ⁽¹⁾	\$435	\$506	\$498	(\$146)	\$89
Total Investments	\$4,017	\$3,546	\$3,114	\$2,619	\$2,770
Losses and Loss Expenses Liability	\$1,462	\$1,489	\$1,584	\$1,610	\$1,635
Accumulated Capital	\$1,875	\$1,915	\$1,406	\$904	\$1,035
% Capital to Losses and Loss Expenses	128%	129%	\$89%	56%	63%
Losses and Loss Expenses Paid	\$67	\$94	\$77	\$79	\$78
# of Claims Paid	3,087	3,371	3,357	3,523	3,545
Annual Investment Return	16.4%	15.5%	20.3%	(4.8)%	16.2%
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 2017 values were not restated.

WCRA Leadership

Board Members

Insurer Representatives

Terrence Miller, Chair

Committees: Audit and Financial Compliance, Personnel
Employer: SFM

Richard Long

Committee: Member Advisory
Employer: Western National Insurance Group

Sheila Brown, Vice-Chair

Committees: Audit and Financial Compliance, IT Advisory
Employer: The Travelers Companies

Samuel Nolley

Committees: Actuarial, IT Advisory
Employer: Arch Insurance Group

Self-Insurer Representatives

Daniel Greensweig

Committee: Investment
Employer: League of Minnesota Cities Insurance Trust

James Oukrop

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

Employer Representatives

Michele Spencer

Committees: Member Advisory, Personnel
Employer: Ecumen

Allison Waggoner

Committee: Personnel
Employer: DCI Inc

Employee Representatives

William McCarthy

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

Edward Reynoso

Committee: Personnel
Employer: Teamsters Joint Council 32

Statutory Appointments

Mansco Perry

Committee: Investment
Employer: Minnesota State Board of Investment

Cindy Farrell

Committee: Audit and Financial Compliance, IT Advisory
Employer: Minnesota Management and Budget

Public Representative

Ken Peterson

Committees: Actuarial, Investment

Senior Management

James Heer

President and CEO

Lynn Carroll

Vice President - Actuarial

Natalie Haefner

Vice President Claims & Injury Management

Daniel Lovhaug

Vice President IT & Security Officer

David McKee

Vice President Finance & CFO

Cynthia Smith

Vice President of Operations &
Corporate Secretary



**Workers' Compensation
Reinsurance Association**
Financial Statements
December 31, 2021 and 2020

Workers' Compensation Reinsurance Association
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December 31, 2021 and 2020

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Report of Independent Auditors

To the Board of Directors of Workers' Compensation Reinsurance Association

Opinion

We have audited the accompanying financial statements of Workers' Compensation Reinsurance Association (the "Association"), which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, comprehensive income and accumulated capital and cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

Minneapolis, MN
March 3, 2022

Workers' Compensation Reinsurance Association
Balance Sheets
December 31, 2021 and 2020

(in thousands of dollars)

2021

2020

Assets

Cash and cash equivalents	\$ 202,866	\$ 113,979
Investments, at fair value	3,814,471	3,432,134
Uncollected reinsurance premiums	63	178
Due from securities brokers	98,069	23,995
Other assets	8,228	10,703
Property and equipment, less accumulated depreciation of \$1,963 and \$1,922 at December 31, 2021 and 2020, respectively	3,435	229
Total assets	\$ 4,127,132	\$ 3,581,218

Liabilities and Accumulated Capital

Losses and loss expenses	\$ 1,461,755	\$ 1,489,038
Due to securities brokers	186,495	163,687
Surplus distribution payable	600,000	-
Accounts payable and other liabilities	4,331	13,574
Total liabilities	2,252,581	1,666,299
Accumulated retained earnings from operations	1,711,412	1,875,949
Accumulated other comprehensive income	163,139	38,970
Accumulated capital	1,874,551	1,914,919
Total liabilities and accumulated capital	\$ 4,127,132	\$ 3,581,218

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, 2021 and 2020

<i>(in thousands of dollars)</i>	2021	2020
Income		
Premiums earned	\$ 46,725	\$ 52,524
Investment income, net of related expenses	43,983	43,516
Net realized investment gains	279,748	172,878
Net unrealized investment gains (losses)	108,523	236,269
Other, net	-	3,494
Total income	<u>478,979</u>	<u>508,681</u>
Expenses		
Losses and loss expenses	40,069	(454)
Operating and administrative expenses	3,447	3,152
Total expenses	<u>43,516</u>	<u>2,698</u>
Net income (loss)	435,463	505,983
Other comprehensive income		
Change in net unrealized gains (losses) on alternative investments and change in pension benefit obligation	124,169	2,640
Comprehensive income (loss)	<u>559,632</u>	<u>508,623</u>
Accumulated capital, beginning of year	1,914,919	1,406,296
Surplus distribution	(600,000)	-
Accumulated capital, end of year	<u>\$ 1,874,551</u>	<u>\$ 1,914,919</u>

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

Workers' Compensation Reinsurance Association
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

<i>(in thousands of dollars)</i>	2021	2020
Cash flows from operating activities		
Net Income	\$ 435,463	\$ 505,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45	24
Realized (gain) on investments	(279,748)	(172,878)
Unrealized (gain) or loss on investments	(108,523)	(236,269)
Sales and maturities / (purchases) of trading investments, net	211,743	82,094
Change in operating assets and liabilities:		
Due to / from securities brokers	(54,943)	11,467
Losses and loss expenses	(27,283)	(94,918)
Accounts payable and other liabilities	(9,243)	10,106
Uncollected reinsurance premiums and other assets	2,103	(3,062)
Net cash provided by operating activities	<u>169,614</u>	<u>102,547</u>
Cash flows from investing activities		
Funding of alternative investments	(182,674)	(94,620)
Distributions received from alternative investments	104,711	46,643
Additions to property, plant, and equipment	(2,764)	(199)
Other investing activities, net	-	-
Net cash provided by (used in) investing activities	<u>(80,727)</u>	<u>(48,176)</u>
Cash flows from financing activities		
Financing activities	-	-
Net cash (used in) provided by financing activities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	88,887	54,371
Cash and cash equivalents at beginning of period	<u>113,979</u>	<u>59,608</u>
Cash and cash equivalents at end of period	<u>\$ 202,866</u>	<u>\$ 113,979</u>

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

Workers' Compensation Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

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 2021, the Association collected \$14 million in premiums and provided \$13 million in claim reimbursements to related party organizations. In 2020, the Association collected \$16 million in premiums from related party organizations and provided \$15 million in claim reimbursements to related party organizations.

Retention Limits

For both 2021 and 2020 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.)

Workers' Compensation Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

- 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.

Workers' Compensation Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

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.

Workers' Compensation Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

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.

Lease

The Association has an operating lease for its corporate office. The Association determines if an arrangement is a lease at inception or modification. Right-of-use ("ROU") assets represent the Association's right to use an underlying asset for the lease term and corresponding lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Association uses a commercial borrowing rate to determine the present value of the future lease payments. The commercial borrowing rate is determined at the lease commencement date using a secured rate for a similar term as the period of the lease. Certain lease incentives such as free rent periods are recorded as a reduction of the ROU asset. Lease costs for operating ROU assets are recognized on a straight-line basis over the lease term.

Operating ROU assets are reflected in other assets. Operating lease liabilities are reflected in accounts payable and other liabilities.

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. See note 10 for more information.

Losses and Loss Expenses

In 2021 and 2020, 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.

Workers' Compensation Reinsurance Association

Notes to Financial Statements

December 31, 2021 and 2020

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

Leases

On February 25, 2016, FASB issued Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842). The objective of this ASU is to increase transparency and comparability in financial reporting by requiring balance sheet recognition of leases and note disclosure of certain information about lease arrangements. This ASU codifies FASB Accounting Standards Codification (ASC) 842, Leases, and makes conforming amendments to other FASB ASC topics. FASB ASU No. 2016-02 was subsequently amended by various updates. See note 6 for more information.

Future Accounting Pronouncements

Codification Improvements

The FASB issued ASU 2020-10 – Codification Improvements to further clarify and improve the Codification by codifying all guidance that requires or provides the option for an entity to disclose information within the footnotes. This clarification is meant to reduce the likelihood of a preparer missing required disclosure requirements. Amendments are effective for public business entities for fiscal years beginning after December 15, 2020, and all other entities beginning after December 15, 2021. Early application is permitted for all financial statements not yet issued for public business entities and financial statements not yet available for issuance for all other entities. The Association plans to adopt this standard in 2022.

Benefit Plans

On August 28, 2018, the FASB issued ASU 2018-14, which amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other post-retirement plans. The ASU's changes related to disclosures are part of the FASB's disclosure framework project, which the FASB launched in 2014 to improve the effectiveness of disclosures in notes to financial statements.

ASU 2018-14 adds requirements for an entity to disclose the following:

- The weighted-average interest crediting rates used in the entity's cash balance pension plans and other similar plans.
- A narrative description of the reasons for significant gains and losses affecting the benefit obligation for the period.
- An explanation of any other significant changes in the benefit obligation or plan assets that are not otherwise apparent in the other disclosures required by ASC 715.

Further, the ASU removes guidance that currently requires the following disclosures:

- The amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year.
- Information about plan assets to be returned to the entity, including amounts and expected timing.
- Information about benefits covered by related-party insurance and annuity contracts and significant transactions between the plan and related parties. (Entities separately need to provide the related-party disclosures required under ASC 850.)

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- For nonpublic entities with Level 3 plan assets in the fair value hierarchy measured on a recurring basis, a reconciliation of the opening balances to the closing balances.
- For public entities, the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits.

For public business entities, ASU 2018-14 is effective for fiscal years ending after December 15, 2020. For all other entities, the ASU is effective for fiscal years ending after December 15, 2021. Early adoption is permitted. The effective date is expressed as “fiscal years ending after” because the ASU does not amend the interim disclosure requirements of ASC 715-20. The Association plans to adopt this standard in 2022.

Subsequent Events

The Association has evaluated events that have occurred subsequent to December 31, 2021, through March 3, 2022, 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:

<i>(in thousands of dollars)</i>	2021	2020
Trading account assets	\$ 3,206,832	\$ 3,055,361
Alternative investments	<u>607,639</u>	<u>376,773</u>
Total investments	<u>\$ 3,814,471</u>	<u>\$ 3,432,134</u>

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

<i>(in thousands of dollars)</i>	2021		2020	
	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity securities	\$ 957,597	\$ 2,222,392	\$ 986,954	\$ 2,115,223
Debt securities	<u>977,721</u>	<u>984,440</u>	<u>905,377</u>	<u>940,138</u>
Total trading account assets	<u>\$ 1,935,318</u>	<u>\$ 3,206,832</u>	<u>\$ 1,892,331</u>	<u>\$ 3,055,361</u>

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The amortized cost and estimated fair value of trading account assets at December 31, 2021, by contractual maturity, are shown below:

<i>(in thousands of dollars)</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 65,379	\$ 65,577
Due after one year through five years	285,999	287,743
Due after five years through ten years	197,681	198,629
Due after ten years	<u>173,323</u>	<u>174,583</u>
	722,382	726,532
Equity securities	957,597	2,222,392
Residential mortgage-backed securities	184,000	185,268
Commercial mortgage-backed securities	40,347	41,383
Asset-backed securities	<u>30,992</u>	<u>31,257</u>
Total trading account assets, at fair value	<u>\$ 1,935,318</u>	<u>\$ 3,206,832</u>

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:

<i>(in thousands of dollars)</i>	December 31, 2021		
	Amortized Cost	Estimated Fair Value	Percent of Total Fair Value
Ratings			
AAA	\$ 619,303	\$ 619,123	63%
AA	11,664	12,688	1%
A	89,891	91,864	9%
BBB	209,234	211,950	22%
Below investment grade	<u>47,629</u>	<u>48,815</u>	<u>5%</u>
Total debt securities	<u>\$ 977,721</u>	<u>\$ 984,440</u>	<u>100%</u>

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<i>(in thousands of dollars)</i>	December 31, 2020		
	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	<u>\$ 905,377</u>	<u>\$ 940,138</u>	<u>100%</u>

Gross realized gains of \$382.2 million and \$328.8 million, and gross realized losses of \$102.5 million and \$155.9 million, were realized on sales of investments during 2021 and 2020, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2021 and 2020, are summarized below.

<i>(in thousands of dollars)</i>	Net Investment Income		Net Realized Gains (Losses)	
	2021	2020	2021	2020
Cash and cash equivalents	\$ 81	\$ 310	\$ (171)	\$ 472
Equity securities	26,931	25,733	244,183	102,847
Debt securities	16,892	20,441	(1,037)	38,468
Alternative investments	8,639	4,154	25,017	12,749
Derivatives	-	-	11,756	18,342
	<u>52,543</u>	<u>50,638</u>	<u>\$ 279,748</u>	<u>\$ 172,878</u>
Investment expenses	<u>(8,560)</u>	<u>(7,122)</u>		
	<u>\$ 43,983</u>	<u>\$ 43,516</u>		

Other comprehensive income in 2021 and 2020 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:

<i>(in thousands of dollars)</i>	2021	2020
Change in net unrealized gains on alternative investments	\$ 123,061	\$ 2,683
Change in pension benefit obligation	<u>1,108</u>	<u>(43)</u>
Total other comprehensive income (loss)	<u>\$ 124,169</u>	<u>\$ 2,640</u>

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(in thousands of dollars)

	2021	2020
Accumulated other comprehensive income consists of		
Net unrealized gains on alternative investments	\$ 164,474	\$ 41,413
Pension benefit obligation	<u>(1,335)</u>	<u>(2,443)</u>
Total accumulated other comprehensive income	<u>\$ 163,139</u>	<u>\$ 38,970</u>

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, 2021 or 2020.

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

<i>(in thousands of dollars)</i>	2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 202,866	\$ -	\$ -	\$ 202,866
Equity securities	1,761,109	461,283	-	2,222,392
Corporate debt securities	-	315,713	-	315,713
U.S. government and agencies obligations	-	355,389	-	355,389
Residential mortgage backed securities	-	185,268	-	185,268
Commercial mortgage backed securities	-	41,383	-	41,383
Asset backed securities	-	31,257	-	31,257
Foreign government bonds and obligations	-	25,669	-	25,669
State and municipal obligations	-	29,761	-	29,761
Total trading account assets, at fair value	<u>\$ 1,761,109</u>	<u>\$ 1,445,723</u>	<u>\$ -</u>	<u>\$ 3,206,832</u>

<i>(in thousands of dollars)</i>	2020			
	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	<u>\$ 1,636,226</u>	<u>\$ 1,419,135</u>	<u>\$ -</u>	<u>\$ 3,055,361</u>

The association did not have any Level 3 assets to report as of December 31, 2021 or 2020.

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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, 2021, assuming average original expected lives of 10 years for the funds, thirty-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.

<i>(in thousands of dollars)</i>	Net Asset Value		Unfunded Commitments	
	2021	2020	2021	2020
Private Debt Partnerships (a)	\$ 140,876	\$ 110,006	\$ 152,729	\$ 167,958
Energy/Resource Partnerships (b)	71,012	48,759	50,977	74,751
Private Equity Partnerships (c)	282,001	161,939	200,911	204,359
Secondary Private Equity Partnerships (d)	113,750	56,069	150,778	88,110
Total alternative investments	<u>\$ 607,639</u>	<u>\$ 376,773</u>	<u>\$ 555,395</u>	<u>\$ 535,178</u>

- (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, 2021, the Association has made 38 partnership commitments totaling \$1.1 billion. As of December 31, 2021, the net asset value of these alternative investments totaled \$608 million, \$144 million of unrealized appreciation, and \$546 million in funded commitments. As of December 31, 2020, the Association had made 32 partnership commitments totaling

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\$925 million. The net asset value of these alternative investments totaled \$376 million, \$41 million of unrealized appreciation, and \$389 million in funded commitments. Alternatives are recorded at their most-recently available net asset valuation and adjusted for capital contributions and distributions.

6. Lease Commitment

Effective January 1, 2021, the Association adopted Accounting Standards Update No. 2016-02, Leases (Topic 842), as further discussed in Note 2. At December 31, 2021, the right-of-use asset balance was \$414 thousand, recorded within Other assets on the Balance Sheet and the remaining unamortized lease incentive asset balance was \$458 thousand, recorded within Property and equipment on the Balance Sheet. At December 31, 2021, the lease liability balance was \$879 thousand, recorded within Accounts payable and other liabilities on the Balance Sheet. This lease consists of a real estate operating lease that is amortized on a straight-line basis over the term of the lease, which expires in October 2032. For the year ended December 31, 2021, operating lease costs were \$8 thousand. Lease costs are recorded in Operating and administrative expenses in the Statement of Operations.

Future minimum lease payments and the remaining term under the operating lease, as well as the discount rate, are as follows:

(in thousands of dollars)

For the years ending December 31:

2022	\$	69
2023		96
2024		98
2025		101
2026		103
Thereafter		<u>629</u>
Total undiscounted lease payments		1,096
Less: Present value adjustment		<u>217</u>
Net lease liability reported as of December 31, 2021	\$	<u>879</u>
Remaining lease term		129 mos.
Discount rate		4.0%

7. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2021 and 2020, is summarized as follows:

(in thousands of dollars)

	2021	2020
Undiscounted	\$ 4,107,354	\$ 4,339,506
Discount	<u>(2,645,599)</u>	<u>(2,850,468)</u>
Total losses and loss expenses liabilities	<u>\$ 1,461,755</u>	<u>\$ 1,489,038</u>

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

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	2021	2020
Discount rate at year end	6.5%	6.5%
Activity in the liability for losses and loss expenses is summarized as follows:		
<i>(in thousands of dollars)</i>	2021	2020
Balance at January 1		
Undiscounted	\$ 4,339,506	\$ 4,813,508
Incurred related to		
Current year	228,367	192,172
Prior years	<u>(393,167)</u>	<u>(571,710)</u>
Total	(164,800)	(379,538)
Paid related to		
Current year	1,086	1,414
Prior years	<u>76,260</u>	<u>83,055</u>
Total	77,346	84,469
Payable related to		
Current year	-	-
Prior years	<u>(9,994)</u>	<u>9,994</u>
Total	(9,994)	9,994
Balance at December 31		
Undiscounted	4,107,354	4,339,506
Discount	<u>(2,645,599)</u>	<u>(2,850,468)</u>
Total losses and loss expenses liabilities	<u>\$ 1,461,755</u>	<u>\$ 1,489,038</u>

The following table compares the present value of the Association's reserve changes during 2021 with those of 2020.

<i>(in thousands of dollars)</i>	2021	2020
Reserves as of prior year end	\$ 1,489,038	\$ 1,583,956
Prior accident year impact of actuarial adjustments	(100,000)	(150,000)
Payments on prior accident years	(76,260)	(83,055)
Payable on prior accident years	9,994	(9,994)
Present value update	94,634	99,933
Reserves for current accident year	<u>44,349</u>	<u>48,198</u>
Total calendar year reserve changes	<u>(27,283)</u>	<u>(94,918)</u>
Total reserves as of year end	<u>\$ 1,461,755</u>	<u>\$ 1,489,038</u>

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In 2021 and 2020, 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 2012 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, 2021, and (3) the cumulative number of reported claims as of December 31, 2021.

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 2012, 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, 2021, 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, 2021. 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 2012 for accident year 2012, calendar year 2013 for accident year 2013) divided by the cumulative incurred losses as of December 31, 2021, for that accident year. The resulting ratios are weighted together using cumulative incurred losses as of December 31, 2021.

Accident Year	Cumulative Incurred Loss ⁽¹⁾										As of December 31, 2021		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total * IBNR	** Cumulative number of reported claims	
Prior	9,359,570	7,783,271	7,391,045	6,699,947	6,351,739	5,870,587	5,030,097	4,720,830	4,407,895	4,221,897	782,832	7,060	
2012	462,371	430,510	429,126	313,773	264,355	233,130	159,382	124,984	99,973	81,703	29,278	47	
2013		370,507	469,805	329,539	304,763	278,287	223,162	210,338	173,203	154,327	45,890	39	
2014			436,470	370,975	336,738	260,384	189,729	163,071	120,489	95,928	50,266	36	
2015				421,292	374,296	272,451	201,802	193,157	154,916	124,925	60,841	54	
2016					418,653	310,317	236,427	215,842	189,501	164,978	51,505	56	
2017						367,590	300,313	263,928	219,535	186,304	69,027	74	
2018							270,111	214,506	163,850	153,676	86,899	84	
2019								195,981	209,424	172,703	53,549	74	
2020									187,289	167,256	59,887	57	
2021										224,702	187,749	29	
										Total	<u>5,748,398</u>	<u>1,477,724</u>	<u>7,610</u>

* Incurred But Not Reported ("IBNR")

** Reported claims exclude closed without payment

(1) Years 2012-2020 are unaudited

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(S's in thousands) Cumulative Paid Loss ⁽¹⁾
For the Years Ended December 31

Accident Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Prior	1,047,178	1,121,086	1,193,855	1,265,078	1,341,942	1,412,298	1,483,253	1,550,628	1,631,220	1,687,079
2012	0	522	1,591	2,550	3,191	4,095	4,474	4,727	5,223	5,426
2013		1,143	1,895	3,906	5,356	6,668	8,376	9,317	10,180	10,949
2014			40	228	730	1,946	2,737	3,814	4,673	5,496
2015				0	35	1,070	1,360	1,716	3,434	4,658
2016					0	1,322	1,378	3,070	4,721	5,489
2017						0	2,448	5,090	7,014	8,446
2018							0	977	1,842	2,694
2019								1,304	3,509	5,203
2020									1,377	2,234
2021										1,059
									Total	1,738,733

Liabilities

Undiscounted Claim Reserve	4,009,665
Undiscounted Claim Adjustment Expense Reserve	97,689
Discount	<u>(2,645,600)</u>
Discounted Claim and Claim Adjustment Expense Reserve	<u>1,461,755</u>

(1) Years 2012-2020 are unaudited

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	0.3%	0.7%	0.9%	0.9%	0.8%	1.0%	0.7%	0.6%	0.5%	0.2%

8. 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, 2021, 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 asset classes. Based on the target allocation, the overall expected long-term rate of return for the plan is 5.5 percent.

Benefits paid in 2021 and 2020 were \$205,498 and \$194,089, respectively. Based on retirement eligibility, the estimated benefit payments for 2022 through 2026 are \$212,098, \$380,877, \$225,571, \$226,059, and \$483,279 respectively, and the aggregate total for the following five years is \$6,253,306.

(in thousands of dollars)

	2021	2020
Benefit obligation, end of year	\$ 10,873	\$ 10,848
Plan assets at fair value, end of year	<u>9,251</u>	<u>8,194</u>
Funded status (recognized as a component of other liabilities and accumulated comprehensive income)	<u>\$ (1,622)</u>	<u>\$ (2,654)</u>

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<i>(in thousands of dollars)</i>	2021	2020
Employer contributions	\$ 434	\$ 434
Discount rate	2.79%	2.44%
Expected return on plan assets	5.50%	6.00%
Rate of compensation increase	4.00%	4.00%

The benefit obligation decreased primarily due to the change in discount rate assumption as of December 31, 2021.

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 \$9.3 million and \$8.2 million as of December 31, 2021, and December 31, 2020, were determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. All plan investments are exchange-traded funds.

For 2021 and 2020, 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 2021 and 2020, 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 2021 and 2020.

9. 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.

10. Surplus Distribution

In December 2021, based on prior year-end financial results, the Board of Directors determined that there was enough capital to warrant the approval of a \$600 million surplus distribution. This results from investment returns and reductions in loss reserve liabilities. The distribution will be made to Insurers, Self-Insurers and Policyholders in 2022.

A \$600 million surplus distribution payable has been established in the December 31, 2021 Balance Sheet, which has reduced Accumulated Capital.

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 Stillwater.

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