WCRA

WORKERS' COMPENSATION
REINSURANCE ASSOCIATION

2022

Annual Report

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James Heer
WCRA President and CEO

Terry Miller
WCRA Board Chair

To Our Members

What a difference a year makes. After a decade of low inflation, rock-bottom interest rates, and steady investment gains, the economy saw rapid and sharp reversals in those key areas.

Investment markets experienced significant declines due to economic uncertainty. Our investment portfolio experienced a 12 percent decline overall, with public equities down 19 percent, public fixed income down 13 percent, and positive private asset returns muting the negative impact of the public markets. Fortunately, inflation in workers' compensation medical payments stayed steady and did not spike to the high general inflation levels. We released $100 million of loss reserves and will continue to monitor this closely, as medical inflation is a significant driver of our loss reserves. Overall, the net effect of investment losses and released loss reserves was a drop in our capital. Our capital absorbed these impacts as our capital modeling anticipates situations like these. The Association's capital remains strong today.

As part of our governance processes, the Association's board of directors requires a periodic independent review of our loss reserves, methodologies, and economic assumptions by a consulting firm. It was especially timely this year with the economic uncertainty. Actuarial Advisors performed the study and concluded that our reserves were within their reasonable range. These studies are important for gaining valuable insights from industry experts.

Finally, the Association is thrilled to report that the surplus distribution of $600 million, approved by the board of directors in December 2021, was distributed to members and insured policyholders. We commend our staff for executing this year-long process that sent checks to nearly 90,000 insured policyholders. This is the fifth surplus distribution in our history, and the Association has distributed a total net amount of approximately $1.6 billion. This compares to $2.1 billion in premiums collected and $1.8 billion in losses paid since inception.

Senior Management

After a long and successful actuarial career, Lynn Carroll retired from the Association in 2022. Ms. Carroll served as Vice President leading our Actuarial Department for eight years and made numerous advancements in our actuarial studies. She was instrumental in providing the actuarial analysis behind the surplus distribution. We sincerely thank her for making such an impact. Congratulations and best of luck in her next phase of life!

We welcomed Alison Khan to the Association this year. Ms. Khan joined as the new Actuarial Vice President, with nearly twenty years of actuarial and leadership experience.

Board of Directors

The two statutory directors on our board retired in 2022. Mansco Perry, the executive director for the Minnesota State Board of Investment, joined our board in 2013 and served as the chair of the Investment Committee. Cynthia Farrell, Assistant Commissioner from Minnesota Management and Budget, joined our board in 2016 and served on the Audit and Financial Compliance Committee and the IT Advisory Committee. We offer a genuine thank you for their many years of service and contributions to the Association.

We welcome Jill Schurtz and Paul Moore as our new statutory directors. Ms. Schurtz is the executive director of the Minnesota State Board of Investment. Mr. Moore is an assistant commissioner for Minnesota Management and Budget.

Regulatory

The Association is regulated by the Minnesota Department of Labor and Industry. Commissioner Roslyn Robertson retired in August 2022 after serving the department for over 34 years. We appreciate her dedication to public service and offer a whole-hearted thank you. Nicole Blissenbach, formerly the deputy commissioner, was officially confirmed as the new commissioner in January 2023. Congratulations!

Conclusion

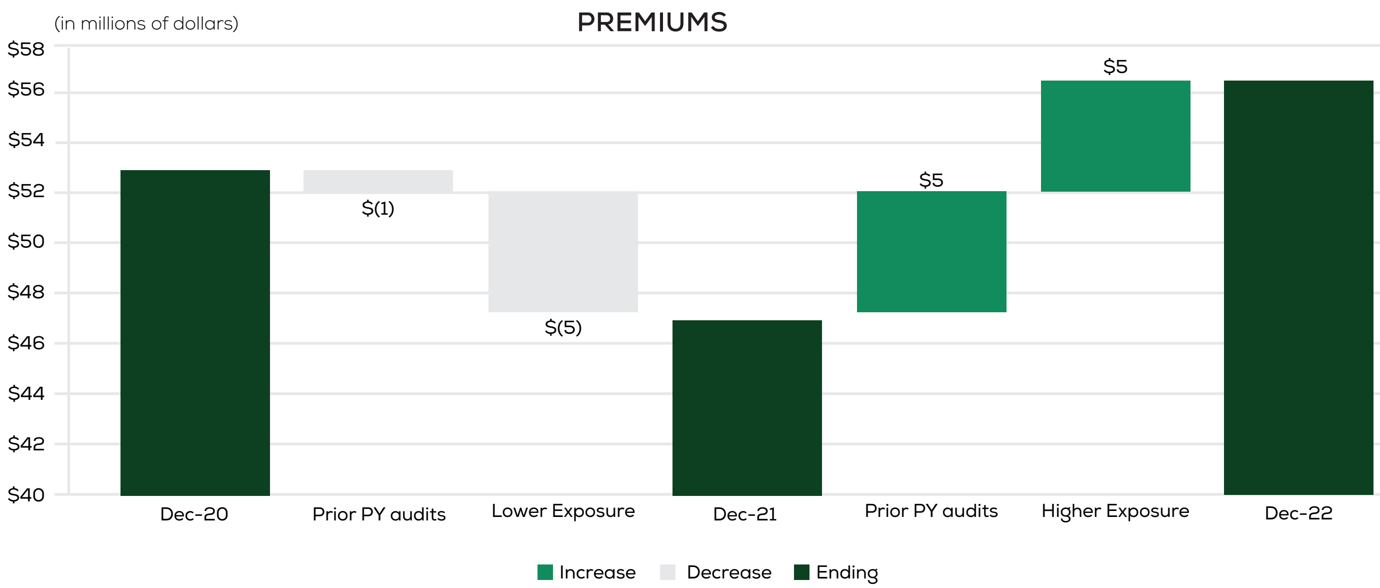
Thank you for reviewing our annual report. The WCRA remains committed to executing our critical role in contributing to Minnesota's healthy workers' compensation system through exceptional service and superior reinsurance for our members!

Financial Highlights

Premiums

Premiums increased 21 percent from 2021 to 2022 due to higher exposure in 2022 and the impacts of premium audits for prior year policies, both a result of economic recovery following the Covid-19 pandemic. Premiums are recognized within the Association's Comprehensive Income, Accumulated Capital, and Cash Flows.

(in millions of dollars)	2022	2021	Change
Premiums	$ 57	$ 47	$ 10



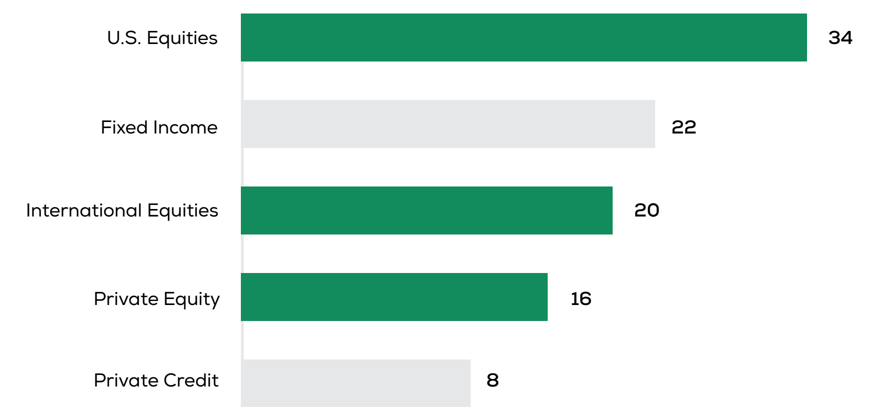
Investment Returns

For the year ended December 31, 2022, the investment portfolio decreased 12 percent compared to a 16 percent increase in 2021. The 2022 investment results were affected by broad market declines driven by higher inflation, supply chain issues, and global geo-political tensions. In contrast, the 2021 investment results were driven by broad gains across the domestic and international equity investment portfolios. Domestic equities and international equities decreased 19 percent, and fixed income decreased 13 percent in 2022. Positive private investment returns muted the negative impact of the public market portfolio losses. In 2021, domestic equities increased 26 percent, and international equities increased 8 percent, while fixed income decreased 1 percent. Investment returns are recognized within the Association's Balance Sheet, Comprehensive Income and Accumulated Capital, and Cash Flows.

(in millions of dollars)	2022	2021	Change
Investment income, net of related expenses	$ 40	$ 44	$ (4)
Net realized investment gains	216	280	(64)
Change in unrealized gains (losses) on securities	(688)	231	(919)
Total Investment Results	$ (432)	$ 555	$ (987)

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

WCRA Investment Asset Allocation



	Mix at Year-End	Policy Target
U.S Equities	34%	30-40%
International Equities	20%	15-25%
Private Equity	16 %	10-20%
Equity	70%	65-75%
Fixed Income	22%	15-25%
Private Credit	8%	5-15%
Debt	30%	25-35%

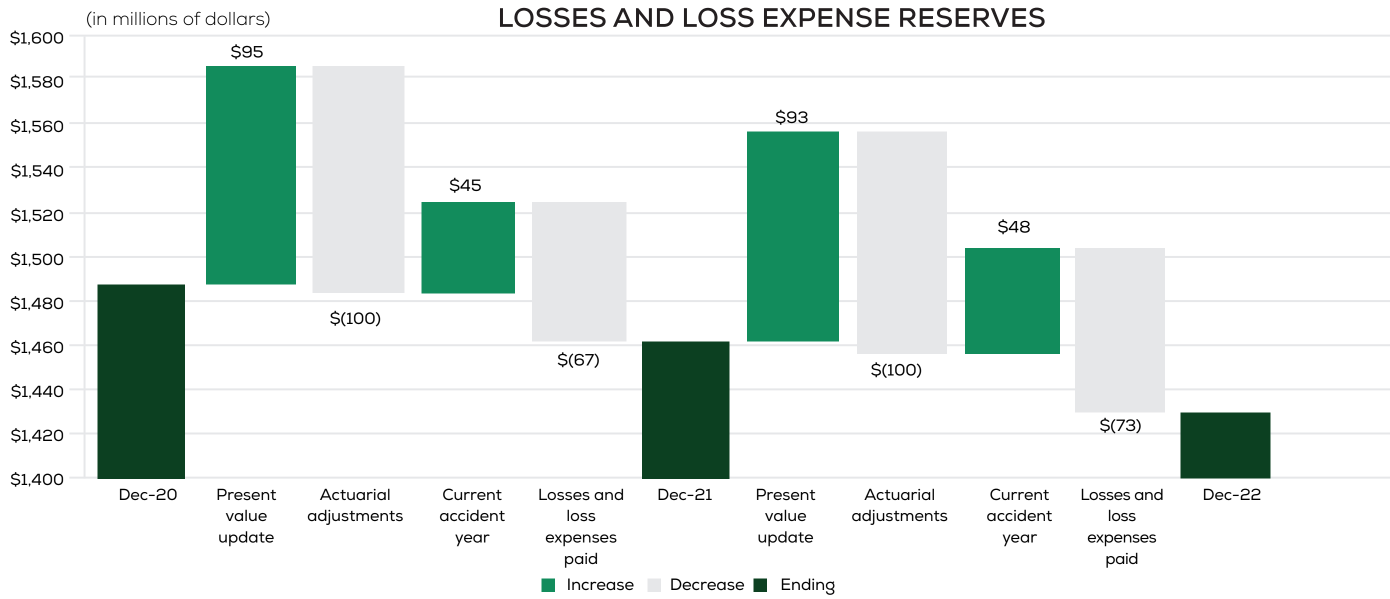
Losses and Loss Expenses

Total losses and loss expenses incurred increased in 2022. The increase was due to higher current accident year losses for 2022 versus 2021. These changes increased overall expenses and decreased the Association's Comprehensive Income and Accumulated Capital.

(in millions of dollars)	2022[1]	2021[1]	Change
Prior accident years:			
Present value update	$ 93	$ 95	$ (2)
Actuarial adjustments	$ (100)	$ (100)	-
Total prior accident years	$ (7)	$ (5)	$ (2)
Current accident year	$ 49	$ 45	$ 4
Total losses and loss expenses	$ 42	$ 40	$ 2

[1] The current accident year values for 2022 and 2021 are impacted by a rounding adjustment.

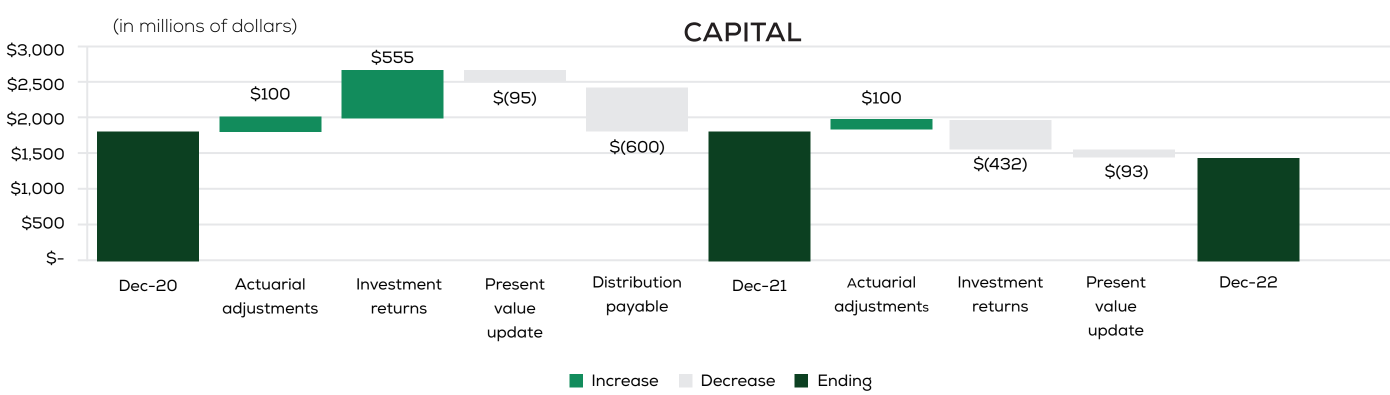
For both 2022 and 2021, the Association's investment earnings' assumption and discount rate for loss reserves were 6.5 percent.



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. This resulted from investment returns and reductions in loss reserve liabilities. $565 million was distributed to insurers and self-insurers by August 2022. The remaining $35 million was mailed to nearly 90,000 policyholders. In 2022, capital was impacted primarily by negative investment results due to broad losses in the financial markets. The effects of the surplus distribution were booked in 2021 but were mostly offset by positive investment returns and the prior year reserve release. As a result, both years saw a decrease in the Association's Comprehensive Income and Accumulated Capital.



Cash Flow and Liquidity

The WCRA's cash flow provided by operating activities was $616 million in 2022, up from $170 million in 2021.The increase was due to sales of trading investments to fund the surplus distribution payments. In 2022, 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

(in millions of dollars)	2022	2021	2020	2019	2018
Earned Premiums	$ 57	$ 47	$ 53	$ 51	$ 53
Total Income[1]	($381)	$ 479	$ 509	$ 554	($89)
Net Income (loss)[1]	($427)	$ 435	$ 506	$ 498	($146)
Total Investments	$ 2,982	$ 4,017	$ 3,546	$ 3,114	$ 2,619
Losses and Loss Expenses Liability	$ 1,430	$ 1,462	$ 1,489	$ 1,584	$ 1,610
Accumulated Capital	$ 1,450	$ 1,875	$ 1,915	$ 1,406	$ 904
% Capital to Losses and Loss Expenses	101%	128%	129%	89%	56%
Losses and Loss Expenses Paid	$ 73	$ 67	$ 94	$ 77	$ 79
# of Claims Paid	2,941	3,087	3,371	3,357	3,523
Annual Investment Return	(12.5%)	16.4%	15.5%	20.3%	(4.8%)
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.

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 Company

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

Jean Machart
Committees: IT Advisory Committee
Employer: Children's Cancer Research Fund

Allison Waggoner
Committee: Personnel
Employer: DCI Inc

Employee Representatives

William McCarthy
Committees: Member Advisory, Personnel
Employer: Retired

Edward Reynoso
Committee: Personnel
Employer: Teamsters Joint Council 32

Statutory Appointments

Paul Moore
Committee: Audit and Financial Compliance
Employer: Minnesota Management and Budget

Jill Schurtz
Committee: Investment
Employer: Minnesota State Board of Investment

Public Representative

Ken Peterson
Committees: Actuarial, Investment
Employer: Retired

Senior Management

James Heer
President and CEO

Alison Khan
Vice President - Actuarial

Natalie Haefner
Vice President Claims and Medical Management

Daniel Lovhaug
Vice President IT and Security Officer

David McKee
Vice President Finance and CFO

Cynthia Smith
Vice President of Operations and Corporate Secretary

Workers' Compensation Reinsurance Association

Financial Statements
December 31, 2022 and 2021

Workers' Compensation Reinsurance Association
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December 31, 2022 and 2021

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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, 2022 and 2021, 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 Association as of December 31, 2022 and 2021, 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 Association 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 Association's ability to continue asa 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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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 Association's internal control. Accordingly, no such opinion isexpressed.
- 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 Association'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.

Other Information

Accounting principles generally accepted in the United States of America require that the supplemental information on incurred and paid loss development included in Note 8 Liabilities for Losses and Loss Expenses be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

Minneapolis, MN
March 2, 2023

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Workers' Compensation Reinsurance Association
Balance Sheets
December 31, 2022 and 2021

(in thousands of dollars)	2022	2021
Assets		
Cash and cash equivalents	$ 155,049	$ 202,866
Investments, at fair value	2,826,949	3,814,471
Uncollected reinsurance premiums	394	63
Due from securities brokers	6,618	98,069
Other assets	7,210	8,228
Property and equipment, net	3,630	3,435
Total assets	$ 2,999,850	$ 4,127,132
Liabilities and Accumulated Capital		
Losses and loss expenses	$ 1,430,321	$ 1,461,755
Due to securities brokers	116,628	186,495
Surplus distribution payable	30	600,000
Accounts payable and other liabilities	2,536	4,331
Total liabilities	1,549,515	2,252,581
Accumulated retained earnings from operations	1,284,266	1,711,412
Accumulated other comprehensive income	166,069	163,139
Accumulated capital	1,450,335	1,874,551
Total liabilities and accumulated capital	$ 2,999,850	$ 4,127,132

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, 2022 and 2021

(in thousands of dollars)	2022	2021
Income		
Premiums earned	$ 56,509	$ 46,725
Investment income, net of related expenses	40,480	43,983
Net realized investment gains	216,139	279,748
Net unrealized investment gains (losses)	(694,611)	108,523
Other	8	-
Total income	(381,475)	478,979
Expenses		
Losses and loss expenses	41,991	40,069
Operating and administrative expenses	3,690	3,447
Total expenses	45,681	43,516
Net income (loss)	(427,156)	435,463
Other comprehensive income		
Change in net unrealized gains (losses) on alternative investments and change in pension benefit obligation	2,930	124,169
Comprehensive income (loss)	(424,226)	559,632
Accumulated capital, beginning of year	1,874,551	1,914,919
Surplus (distribution) adjustment	10	(600,000)
Accumulated capital, end of year	$ 1,450,335	$ 1,874,551

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

(in thousands of dollars)	2022	2021
Cash flows from operating activities		
Net income (loss)	$ (427,156)	$ 435,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106	45
Realized (gain) on investments	(216,139)	(279,748)
Unrealized (gain) or loss on investments	694,611	(108,523)
Sales and maturities / (purchases) of trading investments, net	569,125	211,743
Change in operating assets and liabilities:		
Due to / from securities brokers	27,629	(54,943)
Losses and loss expenses	(31,434)	(27,283)
Accounts payable and other liabilities	(1,795)	(9,243)
Uncollected reinsurance premiums and other assets	687	2,103
Net cash provided by operating activities	615,634	169,614
Cash flows from investing activities		
Funding of alternative investments	(156,872)	(182,674)
Distributions received from alternative investments	93,682	104,711
Additions to property, plant, and equipment	(770)	(2,764)
Net cash provided by (used in) investing activities	(63,960)	(80,727)
Cash flows from financing activities		
Proceeds from tenant improvement allowance	469	-
Surplus distribution payments	(599,960)	-
Net cash (used in) provided by financing activities	(599,491)	-
Net increase (decrease) in cash and cash equivalents	(47,817)	88,887
Cash and cash equivalents at beginning of period	202,866	113,979
Cash and cash equivalents at end of period	$ 155,049	$ 202,866

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 2022, the Association collected $18 million in premiums and provided $19 million in claim reimbursements to related party organizations. In 2021, the Association collected $14 million in premiums from related party organizations and provided $13 million in claim reimbursements to related party organizations.

Retention Limits
For both 2022 and 2021 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 from the date of purchase.

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)."

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.

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 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
All acquisitions of property and equipment that have useful lives of three years or more, and costs of $3,000 or more, or multiple assets whose individual cost is less than $3,000 but have aggregate costs of $50,000 or more, are capitalized at their acquisition cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated, useful lives of the assets which range from three to fifteen years. 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 11 for more information.

Losses and Loss Expenses
In 2022 and 2021, 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

Codification Improvements
Accounting Standards Update 2020-10, Codification Improvements facilitates updates to the ASC for technical corrections such as conforming amendments, clarifications to guidance, simplifications to wording or structure of guidance, and other minor improvements. The update also amends and adds new headings, adds cross referencing to other guidance, and refines certain terminology. The amendments in this update do not change GAAP and, therefore, did not result in a significant effect on the Association's current practice.

Accounting Standards Update 2020-08, Codification Improvements to Subtopic 310-20, Receivables — Nonrefundable Fees and Other Costs, states that an entity should reevaluate whether a callable debt security is within the scope of Paragraph 310-20-35-33 for each reporting period. The standard did not have a significant effect on the Association's current practice.

Accounting Standards Update 2020-03—Codification Improvements to Financial Instruments aims to clarify specific areas of accounting guidance to help avoid unintended application. The items in this project are narrow in scope and did not have a significant effect on the Association's current practice.

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. In adopting this standard, the Association expanded comparative disclosures related to components of net periodic benefit cost, changes in plan assets and benefit obligations, and narratives related to those changes.

See note 9 for more information.

Future Accounting Pronouncements

The Association evaluates Accounting Standards Updates that may have future impact on financial statements and disclosures. There are no current pronouncements that could affect the Association in future years.

Subsequent Events

The Association has evaluated events that have occurred subsequent to December 31, 2022, through March 2, 2023, 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)	2022	2021
Trading account assets	$ 2,122,870	$ 3,206,832
Alternative investments	704,079	607,639
Total investments	$ 2,826,949	$ 3,814,471

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

(in thousands of dollars)	2022		2021	
	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity securities	$ 832,080	$ 1,480,312	$ 957,597	$ 2,222,392
Debt securities	713,868	642,558	977,721	984,440
Total trading account assets	$ 1,545,948	$ 2,122,870	$ 1,935,318	$ 3,206,832

The Association does not have any trading account exposure to Russia or Ukraine.

The amortized cost and estimated fair value of trading account assets at December 31, 2022, by contractual maturity, are shown below:

(in thousands of dollars)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 58,852	$ 57,791
Due after one year through five years	140,003	131,253
Due after five years through ten years	141,422	123,419
Due after ten years	119,151	89,437
	459,428	401,900
Equity securities	832,080	1,480,312
Residential mortgage-backed securities	198,841	188,581
Commercial mortgage-backed securities	31,988	29,429
Asset-backed securities	23,611	22,648
Total trading account assets, at fair value	$ 1,545,948	$ 2,122,870

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, 2022		
Ratings	Amortized Cost	Estimated Fair Value	Percent of Total Fair Value
AAA	$ 473,815	$ 432,118	67%
AA	12,669	11,557	2%
A	64,585	56,298	9%
BBB	136,929	119,046	18%
Below investment grade	25,870	23,539	4%
Total debt securities	$ 713,868	$ 642,558	100%

(in thousands of dollars)	December 31, 2021		
Ratings	Amortized Cost	Estimated Fair Value	Percent of Total Fair Value
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	47,629	48,815	5%
Total debt securities	$ 977,721	$ 984,440	100%

Gross realized gains of $472.9 million and $382.2 million, and gross realized losses of $256.8 million and $102.5 million, were realized on sales of investments during 2022 and 2021, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2022 and 2021, are summarized below.

	Net Investment Income		Net Realized Gains (Losses)	
(in thousands of dollars)	2022	2021	2022	2021
Cash and cash equivalents	$ 1,957	$ 81	$ (35)	$ (171)
Equity securities	22,178	26,931	238,445	244,183
Debt securities	17,700	16,892	(44,510)	(1,037)
Alternative investments	6,844	8,639	36,382	25,017
Derivatives	-	-	(14,143)	11,756
	48,679	52,543	$ 216,139	$ 279,748
Investment expenses	(8,199)	(8,560)		
	$ 40,480	$ 43,983		

Other comprehensive income in 2022 and 2021 is comprised of the change in unrealized gains on alternative investments arising during the year and the net gain (loss) and other changes in plan assets and benefit obligations from the defined benefit pension plan as follows:

(in thousands of dollars)	2022	2021
Change in net unrealized gains on alternative investments	$ 1,686	$ 123,061
Net gain (loss) and other changes in plan assets and benefit obligations - defined benefit pension plan	1,244	1,108
Total other comprehensive income (loss)	$ 2,930	$ 124,169

(in thousands of dollars)	2022	2021
Accumulated other comprehensive income consists of		
Net unrealized gains on alternative investments	$ 166,160	$ 164,474
Accumulated other comprehensive income - defined benefit pension plan	(91)	(1,335)
Total accumulated other comprehensive income	$ 166,069	$ 163,139

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, 2022 or 2021.

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

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	2022			
(in thousands of dollars)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 155,049	$ -	$ -	$ 155,049
Equity securities	1,141,391	338,921	-	1,480,312
Corporate debt securities	-	180,492	-	180,492
U.S. government and agencies obligations	-	197,522	-	197,522
Residential mortgage backed securities	-	188,581	-	188,581
Commercial mortgage backed securities	-	29,429	-	29,429
Asset backed securities	-	22,648	-	22,648
Foreign government bonds and obligations	-	10,838	-	10,838
State and municipal obligations	-	13,048	-	13,048
Total trading account assets, at fair value	$ 1,141,391	$ 981,479	$ -	$ 2,122,870

	2021			
(in thousands of dollars)	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	$ 1,761,109	$ 1,445,723	$ -	$ 3,206,832

The association did not have any Level 3 assets to report as of December 31, 2022, or 2021.

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 the 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, 2022, assuming the average original expected lives of 10 years for the funds, twenty-three percent of the total fair value using the 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)	2022	2021	2022	2021
Private Debt Partnerships (a)	$ 348,990	$ 187,638	$ 210,468	$ 171,876
Private Equity Partnerships (b)	117,121	306,251	141,383	232,741
Secondary Private Equity Partnerships (c)	237,968	113,750	181,587	150,778
Total alternative investments	$ 704,079	$ 607,639	$ 533,438	$ 555,395

(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, resource royalty payments, and various other strategies like structured credit vehicles or multi-credit strategy funds.

(b) 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.

(c) 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 and private debt-oriented partnerships. As of December 31, 2022, the Association has made 42 partnership commitments totaling $1.2 billion. As of December 31, 2022, the net asset value of these alternative investments totaled $704 million, $146 million of unrealized appreciation, and $673 million in funded commitments. As of December 31, 2021, the Association had made 38 partnership commitments totaling $1.1 billion. The net asset value of these alternative investments totaled $608 million, with $144 million of unrealized appreciation, and $546 million in funded commitments. Alternatives are recorded at their most recently available net asset valuation and adjusted for capital contributions and distributions.

During 2022, the Association moved investments associated with the Energy/Resource category into the Private Equity and Private Debt categories. The Association had four managers in the resource category. Two managers make investments that provide quarterly royalty payments that are more applicable to the private debt portfolio. The other managers invest in a wide area of energy infrastructure. Their operations and investments resemble the Associations' private equity managers. To accommodate these changes, the 2021 footnote above has been changed to reflect the movement of $46.8 million of net asset value and $19.2 million of unfunded commitments to Private Debt Partnerships, and $24.2 million of net asset value and $31.8 million of unfunded commitments to Private Equity Partnerships.

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, 2022 and 2021, the right-of-use asset balance was $389 thousand and $414 thousand, respectively, recorded within Other assets on the Balance Sheet. At December 31, 2022 and 2021, the lease liability balance was $843 thousand and $879 thousand, respectively, 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 years ended December 31, 2022 and 2021, operating lease costs were $101 thousand and $98 thousand, respectively. 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:		
2023	$	96
2024		98
2025		100
2026		102
2027		105
Thereafter		525
Total undiscounted lease payments		1,026
Less: Present value adjustment		183
Net lease liability reported as of December 31, 2022	$	843
Remaining lease term		117 mos.
Discount rate		4.0%

7. Property and Equipment

The balances of the major classes of depreciable assets as of December 31, 2022 and 2021 are as follows:

(in thousands of dollars)		**2022**		**2021**
Computer hardware and software	$	1,808	$	1,808
ERP project in-progress		2,878		2,194
Furniture and equipment		226		188
Leasehold Improvements		781		1,208
Managed Services		6		-
Total		5,699		5,398
Less accumulated depreciation		(2,069)		(1,963)
Net property and equipment	$	3,630	$	3,435

8. Liabilities for Losses and Loss Expenses

The liability for losses and loss expenses at December 31, 2022 and 2021, is summarized as follows:

(in thousands of dollars)		**2022**		**2021**
Undiscounted	$	3,735,918	$	4,107,354
Discount		(2,305,597)		(2,645,599)
Total losses and loss expenses liabilities	$	1,430,321	$	1,461,755

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

	2022	2021
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)	2022	2021
Balance at January 1		
Undiscounted	$ 4,107,354	$ 4,339,506
Incurred related to		
Current year	151,667	228,367
Prior years	(449,678)	(393,167)
Total	(298,011)	(164,800)
Paid related to		
Current year	52	1,086
Prior years	73,373	76,260
Total	73,425	77,346
Payable related to		
Current year	-	-
Prior years	-	(9,994)
Total	-	(9,994)
Balance at December 31		
Undiscounted	3,735,918	4,107,354
Discount	(2,305,597)	(2,645,599)
Total losses and loss expenses liabilities	$ 1,430,321	$ 1,461,755

The following table compares the present value of the Association’s reserve changes during 2022 with those of 2021.

(in thousands of dollars)	2022	2021
Reserves as of prior year end	$ 1,461,755	$ 1,489,038
Prior accident year impact of actuarial adjustments	(100,000)	(100,000)
Payments on prior accident years	(73,373)	(76,260)
Payable on prior accident years	-	9,994
Present value update	92,629	94,634
Reserves for current accident year	49,310	44,349
Total calendar year reserve changes	(31,434)	(27,283)
Total reserves as of year end	$ 1,430,321	$ 1,461,755

In both 2022 and 2021, 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, below, reflects for each of the previous 10 accident years and on a combined basis for years prior to 2013 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, 2022, and (3) the cumulative number of reported claims as of December 31, 2022.

The second table (middle section), on the following page, presents cumulative paid losses for each of the previous 10 accident years and on a combined basis for years prior to 2013, 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, 2022, 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), on the following page, is supplementary information about the average historical claims’ duration as of December 31, 2022. 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 2013 for accident year 2013, calendar year 2014 for accident year 2014) divided by the cumulative incurred losses as of December 31, 2022, for that accident year. The resulting ratios are weighted together using cumulative incurred losses as of December 31, 2022.

Cumulative Incurred Loss (1)
($'s in thousands) For the Years Ended December 31 As of December 31, 2022

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total * IBNR	** Cumulative number of reported claims
Prior	8,213,781	7,820,171	7,013,720	6,616,094	6,103,717	5,189,479	4,845,813	4,507,868	4,303,600	4,147,524	681,247	7,039
2013	370,507	469,805	329,539	304,763	278,287	223,162	210,338	173,203	154,327	141,692	28,679	37
2014		436,470	370,975	336,738	260,384	189,729	163,071	120,489	95,928	79,994	43,389	33
2015			421,292	374,296	272,451	201,802	193,157	154,916	124,925	105,366	38,844	54
2016				418,653	310,317	236,427	215,842	189,501	164,978	143,440	53,435	57
2017					367,590	300,313	263,928	219,535	186,304	141,480	66,747	56
2018						270,111	214,506	163,850	153,676	124,154	48,270	73
2019							195,981	209,424	172,703	139,753	37,249	71
2020								187,289	167,256	136,494	60,394	61
2021									224,702	147,430	97,664	46
2022										147,875	69,592	27
									Total	5,455,204	1,225,508	7,554

* Incurred But Not Reported ("IBNR")
** Reported claims exclude closed without payment
(1) Years 2013-2021 are unaudited

($'s in thousands)

Cumulative Paid Loss [1]
For the Years Ended December 31

Accident Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Prior	1,121,608	1,195,446	1,267,628	1,345,133	1,416,393	1,487,727	1,555,354	1,636,442	1,692,505	1,750,863
2013	1,143	1,895	3,906	5,356	6,668	8,376	9,317	10,180	10,949	13,302
2014		40	228	730	1,946	2,737	3,814	4,673	5,496	6,054
2015			0	35	1,070	1,360	1,716	3,434	4,658	6,023
2016				0	1,322	1,378	3,070	4,721	5,489	5,995
2017					0	2,448	5,090	7,014	8,446	9,072
2018						0	977	1,842	2,694	3,364
2019							1,304	3,509	5,203	5,846
2020								1,377	2,234	6,816
2021									1,059	2,765
2022										22
									Total	1,810,122

Liabilities	
Undiscounted Claim Reserve	3,645,082
Undiscounted Claim Adjustment Expense Reserve	90,836
Discount	(2,305,597)
Discounted Claim and Claim Adjustment Expense Reserve	1,430,321

(1) Years 2013-2021 are unaudited

Average Annual Percentage Payout of Incurred Claims by Age

Years	1	2	3	4	5	6	7	8	9	10
	0.4%	0.9%	1.3%	0.9%	0.8%	1.0%	0.8%	0.9%	0.6%	1.7%

9. 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, 2022, the plan's investment mix was 60 percent equities and 40 percent debt securities. The Association uses an expected long-term rate of return for the plan of 5.5 percent.

Benefits paid in 2022 and 2021 were $606,828 and $236,491, respectively. Based on retirement eligibility, the estimated benefit payments for 2023 through 2027 are $364,346, $226,845, $224,466, $299,666 and $219,076 respectively, and the aggregate total for the following five years is $5,736,568.

(in thousands of dollars)	2022	2021
Components of net periodic benefit cost		
Service cost	$ 591	$ 614
Interest cost	309	263
Expected return on plan assets	(527)	(510)
Amortization of transition obligation (asset)	-	30
Amortization of net loss (gain)	40	113
Net periodic benefit cost, included in operating and administrative expense	$ 413	$ 510
Other changes in plan assets and benefit obligations, included in other comprehensive income		
Net gain (loss) and other changes in plan assets and benefit obligations	$ 1,244	$ 1,108
Change in plan assets		
Fair value of plan assets, beginning of year	$ 9,251	$ 8,194
Actual return on plan assets	(1,565)	859
Employer contribution	477	434
Annuity benefits paid	(219)	(205)
Lump sum benefits paid	(388)	(31)
Fair value of plan assets, end of year	$ 7,556	$ 9,251
Change in benefit obligation		
Benefit obligation, beginning of year	$ 10,873	$ 10,848
Service cost	591	614
Interest cost	309	263
Actuarial loss (gain)	(3,296)	(616)
Annuity benefits paid	(219)	(205)
Lump sum benefits paid	(388)	(31)
Benefit obligation, end of year	$ 7,870	$ 10,873
Funded status, end of year (plan assets less benefit obligations)	$ (314)	$ (1,622)
Amounts recognized in the balance sheet		
Noncurrent (liabilities), end of year, included in accounts payable and other liabilities	$ (314)	$ (1,622)
Accumulated benefit obligation	$ 6,455	$ 8,744

The accumulated benefit obligation is the present value of the pension liability based on the accumulated work of employees to date, while the projected benefit obligation covers the expected future work to be conducted by employees. When combined, these two values constitute the total benefit obligation of the Association, included in the calculation of the net pension liability, included in other liabilities on the balance sheet.

The net gain (loss) balance increased primarily due to a change in the discount rate assumption and was partially offset due to plan asset return losses as of December 31, 2022. The net gain (loss) balance increased primarily due to the change in the discount rate assumption and plan asset return gains 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 were determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. All plan investments are exchange-traded funds. For 2022 and 2021, 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.

The Association expects to contribute at least the minimum funding requirement to this plan in 2023.

	2022	**2021**
Discount rate	5.01%	2.79%
Expected long-term return on plan assets	5.50%	5.50%
Rate of compensation increase	4.00%	4.00%

Determination of economic assumptions

Discount rate: Matched expected future plan benefit payments to the FTSE Pension Yield Curve as of the measurement date and determined the one effective rate that produced the same present value of benefits as the FTSE Pension Yield Curve.

Long-term rate of return: Surveys of expected capital market returns for individual asset classes, reduced by expected expense adjustments are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a rate of expected return.

Compensation increase: The compensation increase assumption is based on several factors which may include, but not be limited to, employee productivity, promotions, the employer's expectations of future increases, historical trends, expected inflation, and survey results.

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 2022 and 2021, 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 2022 and 2021.

10. 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.

11. Surplus Distribution

In December 2021, based on prior year-end financial results, the Board of Directors determined there was enough capital to warrant the approval of a $600 million surplus distribution. This resulted from investment returns and reductions in loss reserve liabilities. $565 million was distributed to insurers and self-insurers by August 2022. The remaining $35 million for policyholders was delivered to the Association's transfer agent in November 2022. At December 31, 2022, $33 million has been distributed by our transfer agent and the remaining $2 million remains in a trust account (in the name of the policyholders) at the transfer agent. The Association and transfer agent are working together to identify valid mailing addresses for these policyholders. Per Minnesota Statute §79.361, any part of the surplus distribution not distributed within one year due to the inability to identify or locate policyholders will be returned to the Association's Accumulated Capital.

A $600 million surplus distribution payable was established in the December 31, 2021, Balance Sheet, which reduced Accumulated Capital. As of December 31, 2022, the surplus distribution payable balance for members was $30 thousand.

WCRA

WORKERS' COMPENSATION
REINSURANCE ASSOCIATION

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 Bloomington.

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