

2025  
**Annual Report**

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and Report of  
Independent Auditors



# To our members

The Minnesota workers' compensation system remains fundamentally strong, characterized by stability and favorable long-term trends. Loss severity has increased modestly in recent years while claims frequency has continued its downward march. Despite slowing payroll growth, Minnesota is still seeing ongoing reductions in pure premium base rates, enhancing affordability for employers.

The Association further strengthened its financial position in 2025, driven by favorable loss reserve development and excellent investment performance. Over the past three years, capital has grown by an average of \$463 million annually. Loss reserve liability reductions accounted for approximately one-fourth of this capital increase, while the remainder resulted from investment returns exceeding our assumed rate of return.

Our diversified investment portfolio delivered a 16 percent return for the year, contributing \$488 million to our overall capital growth. The portfolio has generated average annual returns of 13 percent for the past three years and over 9 percent since inception, demonstrating consistent performance across varying market environments. Despite ongoing geopolitical uncertainty and mixed economic signals, the portfolio has remained stable through the first quarter of 2026, underscoring our disciplined investment approach.

Premium declined in 2025, primarily due to credits from prior policy year exposure audits. Rate reductions were driven by continued favorable loss experience and a growing exposure base from rising employment levels and wage growth across the state. At the same time, loss reserve liabilities continued to decline, reflecting sustained favorable loss development. Importantly, the medical cost-containment features embedded within Minnesota's workers' compensation system have proven effective in mitigating the impact of inflationary pressures on severity.

System stability is further reinforced by consistency in the Association's reinsurance program structure. Apart from the introduction of the jumbo retention limit in 2018, retention levels have remained unchanged for a decade, providing predictability for our members and reinforcing the Association's role as a stable reinsurance partner.

We remain focused on strengthening the Association's long-term resiliency while continuing to support the members we serve. Throughout 2025, we continued to make progress in modernizing our enterprise systems, enhancing functionality, and driving greater operational efficiency across the organization. We are excited to carry this momentum into 2026.



**James Heer**

WCRA President and CEO



**Terry Miller**

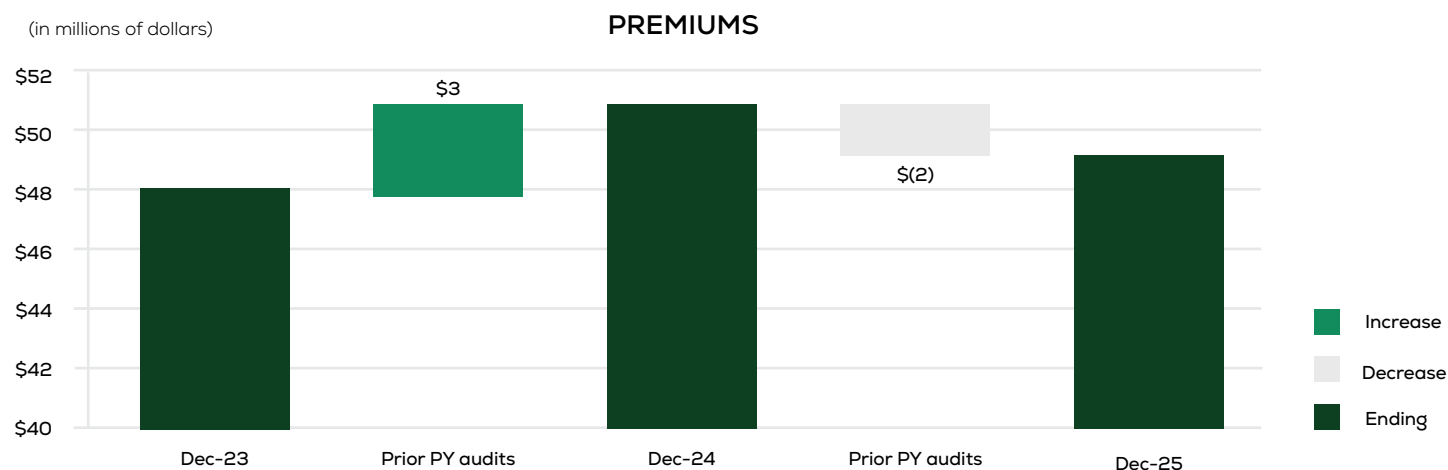
WCRA Board Chair

# Financial Highlights

## PREMIUMS

Premiums decreased 4 percent in 2025, driven primarily by prior policy year (PY) exposure audit credits and rate reductions. Premiums increased by 6% in 2024 primarily due to prior policy year (PY) exposure audit debits. Premiums are recognized within the Association’s Comprehensive Income, Accumulated Capital, and Cash Flows.

(in millions of dollars)	2025	2024	Change
Premiums	\$ 49	\$ 51	\$ (2)



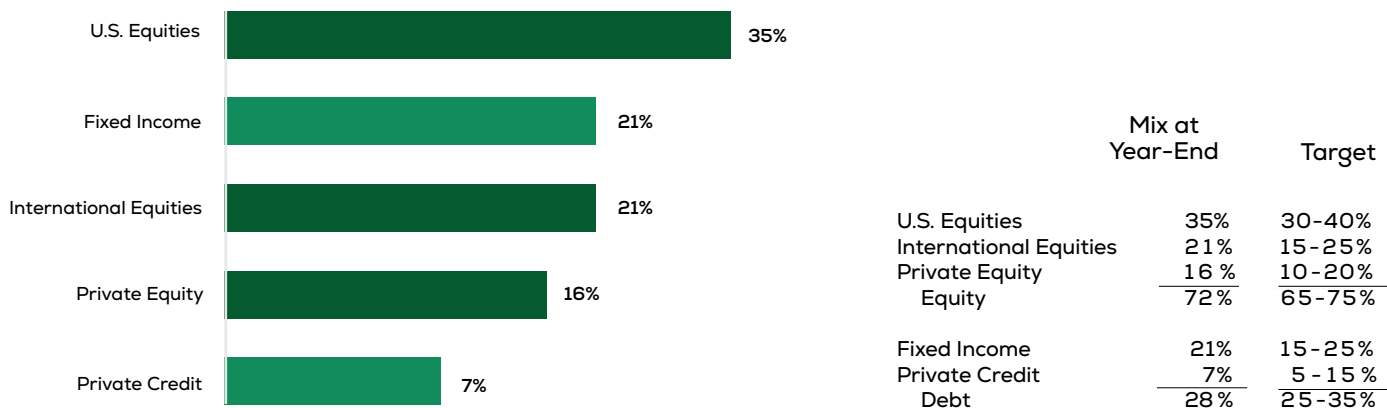
## INVESTMENT RETURNS

For the year ended December 31, 2025, the investment portfolio increased 16 percent compared to a 10 percent increase in 2024. The 2025 and 2024 investment results were supported by continued corporate earnings growth, resilient consumer spending, broader market participation, and generally favorable economic conditions. In 2025, domestic equities increased 16 percent, international equities increased 30 percent, and fixed income increased 8 percent. In 2024, domestic equities increased 23 percent, international equities increased 3 percent, and fixed income increased 2 percent. Investment returns are recognized within the Association’s Balance Sheet, Comprehensive Income and Accumulated Capital, and Cash Flows.

(in millions of dollars)	2025	2024	Change
Investment income, net of related expenses	\$ 59	\$ 57	\$ 2
Net realized investment gains	215	145	70
Change in unrealized gains (losses) on securities	296	125	171
<b>Total Investment Results</b>	<b>\$ 570</b>	<b>\$ 327</b>	<b>\$ 243</b>

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

### WCRA INVESTMENT ASSET ALLOCATION

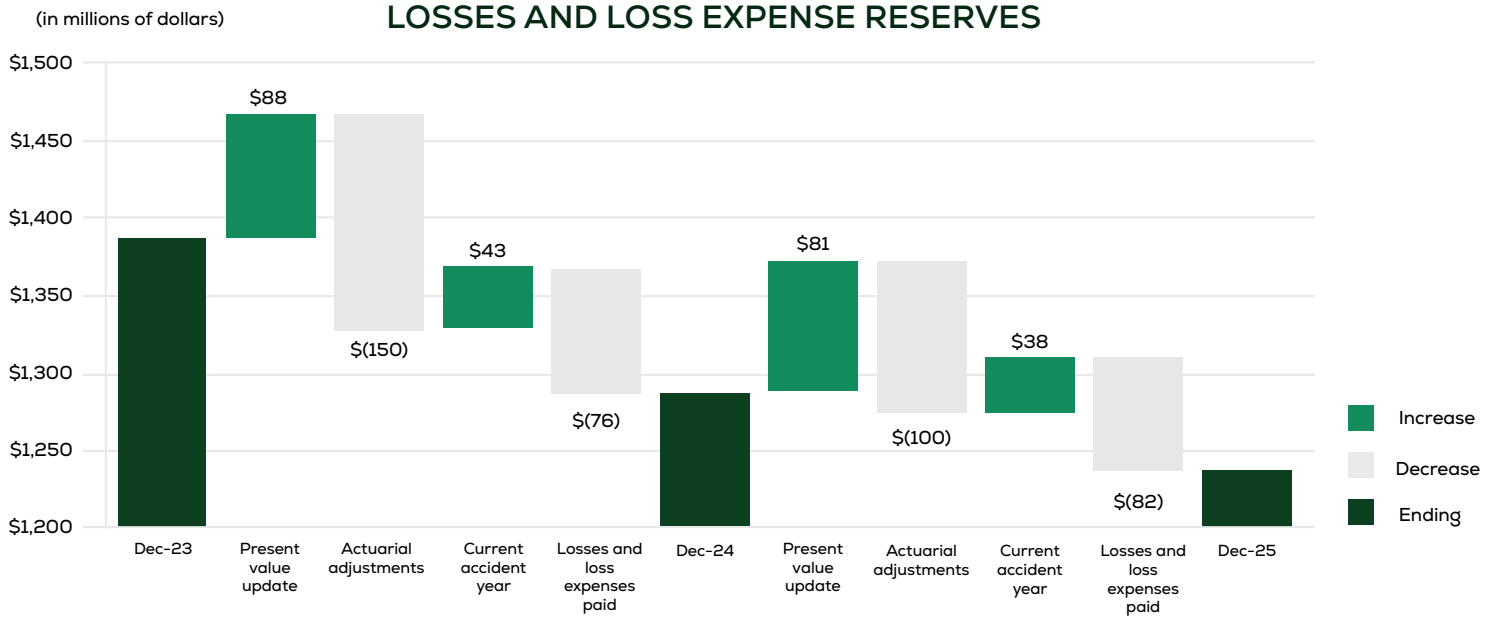


### LOSSES AND LOSS EXPENSES

Total losses and loss expenses increased in 2025 due to lower actuarial adjustments for prior accident years. These changes led to an increase in the Association's Comprehensive Income and Accumulated Capital.

(in millions of dollars)	2025	2024	Change
Prior accident years:			
Present value update	\$ 81	\$ 88	\$ (7)
Actuarial adjustments	(100)	(150)	50
<b>Total prior accident years</b>	<b>\$ (19)</b>	<b>\$ (62)</b>	<b>\$ 43</b>
Current accident year	\$ 38	\$ 43	\$ (5)
<b>Total losses and loss expenses</b>	<b>\$ 19</b>	<b>\$ (19)</b>	<b>\$ 38</b>

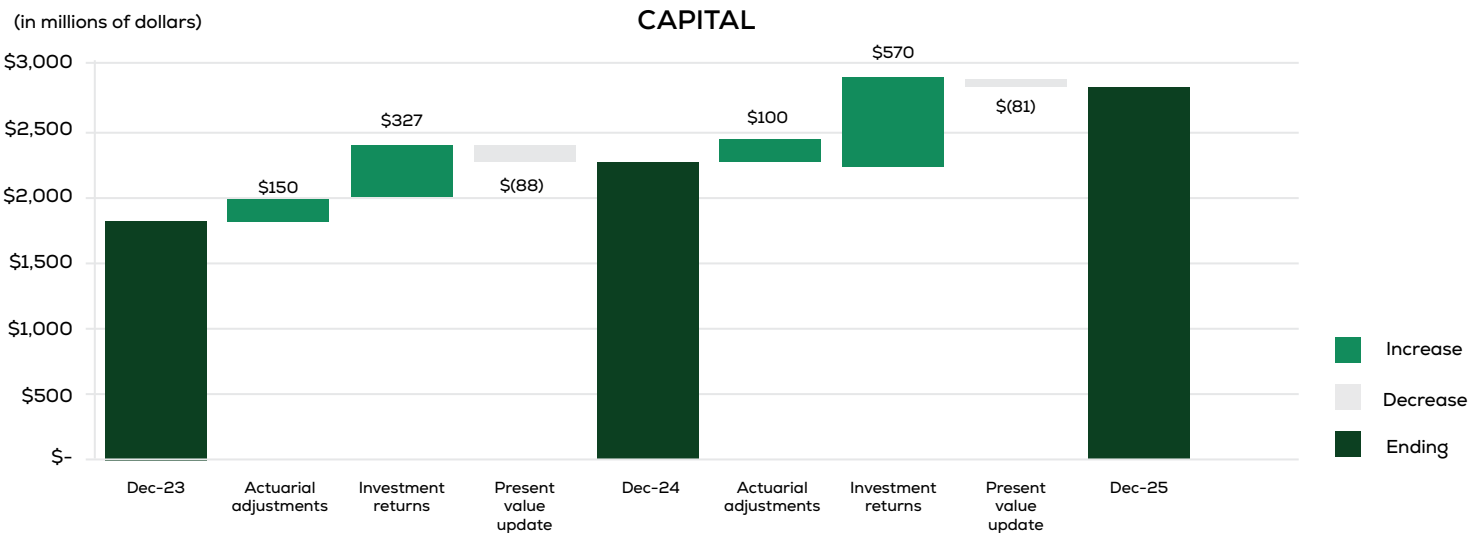
For both 2025 and 2024, the Association's assumed rate of return for investments and the discount rate for loss reserves were 6.5 percent.



## CAPITAL

Accumulated capital is needed to maintain sufficient assets that provide for variations between expected and actual investment returns, between expected and actual claims experience, and other unexpected financial developments.

Investment returns drove positive accumulated capital growth in 2025 and 2024. Both years also benefited from actuarial adjustments due to favorable development on case-incurred losses, resulting in lower projected ultimate losses.



## CASH FLOW AND LIQUIDITY

The WCRA's cash flow used in operating activities was \$9 million in 2025. Net cash used in operating activities was \$52 million in 2024. The \$43 million change was due to higher investment gains from the prior year and was partially offset by a decrease in the actuarial adjustment on losses and loss expenses. In 2025, the WCRA met all its financial obligations on time and maintained substantial liquidity from its marketable investment portfolio. Management believes that the WCRA has the liquidity necessary to meet its financial obligations on a timely basis for the foreseeable future.

## Select Summary of Key Performance Indicators

(in millions of dollars)	2025	2024	2023	2022	2021
Earned Premiums	\$49	\$51	\$48	\$57	\$47
Total Income	\$593	\$397	\$448	(\$381)	\$479
Net Income (loss)	\$564	\$ 412	\$407	(\$427)	\$435
Total Investments	\$4,240	\$3,717	\$3,448	\$2,982	\$4,017
Losses and Loss Expenses Liability	\$1,229	\$1,292	\$1,387	\$1,430	\$1,462
Accumulated Capital	\$2,839	\$2,250	\$1,861	\$1,450	\$1,875
% Capital to Losses and Loss Expenses	231%	174%	134%	101%	128%
Losses and Loss Expenses Paid	\$86	\$76	\$78	\$73	\$67
# of Claims Reimbursements	2,466	2,779	2,952	2,941	3,087
Annual Investment Return	16.1%	10.0%	14.1%	-12.5%	16.4%
Assumed Rate of Return	6.5%	6.5%	6.5%	6.5%	6.5%



# WCRA Leadership

## Public Representative

Ken Peterson

Committees: Actuarial, Investment

Employer: Retired

## Statutory Appointments

Paul Moore

Committee: Audit and Financial Compliance

Employer: Minnesota Management and Budget

Jill Schurtz

Committee: Investment

Employer: Minnesota State Board of Investment

## Insurer Representatives

Richard Long

Committee: Member Advisory

Employer: Western National Insurance Group

Samuel Nolley

Committees: Actuarial, IT Advisory

Employer: Arch Insurance Company

Terrence Miller, Chair

Committees: Audit and Financial Compliance, Personnel

Employer: SFM

Sheila Brown, Vice-Chair

Committees: Audit and Financial Compliance, IT Advisory

Employer: The Travelers Companies

## Self-insurer Representative

Daniel Greensweig

Committees: Investment, Personnel

Employer: League of Minnesota Cities Insurance Trust

## Employer Representatives

Jean Machart

Committee: IT Advisory

Employer: NMDP

Kelly Hansen

Committee: Personnel

Employer: VEIT USA

## Employee Representatives

Bernie Burnham

Committee: Personnel

Employer: Minnesota AFL-CIO

Edward Reynoso

Committee: Personnel

Employer: Teamsters Joint Council 32

# Senior Management

**James Heer**  
President and CEO

**Alison Khan**  
Vice President - Actuarial and Claims

**Daniel Lovhaug**  
Vice President IT and  
Security Officer



**David McKee**  
Vice President and CFO

**Cynthia Smith**  
Vice President of Operations and  
Corporate Secretary



**Workers' Compensation  
Reinsurance Association**  
Financial Statements  
December 31, 2025 and 2024

**Workers' Compensation Reinsurance Association**  
**Index**  
**December 31, 2025 and 2024**

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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, 2025 and 2024, and the related statements of operations, comprehensive income and accumulated capital and of 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, 2025 and 2024, 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 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.

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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.

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 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 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 is the responsibility of management and, 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 supplemental 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.



Minneapolis, Minnesota  
March 5, 2026

**Workers' Compensation Reinsurance Association**  
**Balance Sheets**  
**December 31, 2025 and 2024**

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*(in thousands of dollars)*

	<b>2025</b>	<b>2024</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 242,285	\$ 228,941
Investments, at fair value	3,998,207	3,488,418
Uncollected reinsurance premiums	795	1,169
Due from securities brokers	44,967	22,107
Other assets	13,776	10,738
Property and equipment, net	<u>2,505</u>	<u>2,606</u>
Total assets	<u>\$ 4,302,535</u>	<u>\$ 3,753,979</u>
<b>Liabilities and Accumulated Capital</b>		
Losses and loss expenses	\$ 1,229,437	\$ 1,291,791
Due to securities brokers	231,425	210,093
Accounts payable and other liabilities	<u>2,200</u>	<u>1,989</u>
Total liabilities	<u>1,463,062</u>	<u>1,503,873</u>
Accumulated retained earnings from operations	2,669,807	2,105,838
Accumulated other comprehensive income	<u>169,666</u>	<u>144,268</u>
Accumulated capital	<u>2,839,473</u>	<u>2,250,106</u>
Total liabilities and accumulated capital	<u>\$ 4,302,535</u>	<u>\$ 3,753,979</u>

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, 2025 and 2024**

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*(in thousands of dollars)*

	<b>2025</b>	<b>2024</b>
<b>Income</b>		
Premiums earned	\$ 49,193	\$ 50,621
Investment income, net of related expenses	59,392	57,373
Net realized investment gains	215,440	144,719
Net unrealized investment gains	268,537	144,668
Other	8	-
Total income	<u>592,570</u>	<u>397,381</u>
<b>Expenses</b>		
Losses and loss expenses	23,526	(19,008)
Operating and administrative expenses	5,101	4,634
Total expenses	<u>28,627</u>	<u>(14,374)</u>
Net income	563,943	411,755
<b>Other comprehensive income</b>		
Change in net unrealized gains (losses) on alternative investments and change in pension benefit obligation	25,398	(22,350)
Comprehensive income	<u>589,341</u>	<u>389,405</u>
Accumulated capital, beginning of year	2,250,106	1,860,771
Surplus (distribution) recovery	26	(70)
Accumulated capital, end of year	<u>\$ 2,839,473</u>	<u>\$ 2,250,106</u>

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

**Workers' Compensation Reinsurance Association**  
**Statements of Cash Flows**  
**Years Ended December 31, 2025 and 2024**

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 563,943	\$ 411,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	397	287
Realized (gain) on investments	(215,440)	(144,719)
Unrealized (gain) on investments	(268,537)	(144,668)
Sales and maturities / (purchases) of trading investments, net	(23,900)	(53,977)
Change in operating assets and liabilities:		
Due from securities brokers <sup>(1)</sup>	(21,949)	3,119
Due to securities brokers <sup>(1)</sup>	21,332	(25,309)
Losses and loss expenses	(62,354)	(94,920)
Accounts payable and other liabilities	237	(77)
Uncollected reinsurance premiums and other assets	(2,664)	(3,370)
<b>Net cash provided by (used in) operating activities</b>	<u>(8,935)</u>	<u>(51,879)</u>
<b>Cash flows from investing activities</b>		
Funding of alternative investments	(118,043)	(137,267)
Distributions received from alternative investments	140,618	129,165
Additions to property, plant, and equipment	(296)	(800)
<b>Net cash provided by (used in) investing activities</b>	<u>22,279</u>	<u>(8,902)</u>
<b>Cash flows from financing activities</b>		
Surplus distribution payments	-	(11)
Recovered surplus distribution	-	2,389
<b>Net cash provided by (used in) financing activities</b>	<u>-</u>	<u>2,378</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	13,344	(58,403)
Cash and cash equivalents at beginning of year	<u>228,941</u>	<u>287,344</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 242,285</u>	<u>\$ 228,941</u>
<b>Non-cash financing activities not included above</b>		
Recoverable surplus distributions (adjustment)	<u>\$ 26</u>	<u>\$ (59)</u>

<sup>(1)</sup> Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on the previously reported net income or capital.

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

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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#### 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 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 Association's Board of Directors (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 must 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 representative); 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 approved by the Commissioner of Labor and Industry.

The Association engages in transactions with related parties 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. These transactions primarily consist of collecting premiums from members and reimbursing claims to those members in accordance with the Association's Plan of Operation. Premiums are billed and collected throughout the year using the same premium rates, terms, and due-date requirements that apply to all members. Claims reimbursements are made upon submission and approval and are subject to the same eligibility and adjudication standards used for all members.

No fees, interest, advances, or other financing arrangements have been provided to, or collected from, related-party members. All related-party transactions are conducted at arm's length under policies consistent with those applied to non-related members. The Association maintains a conflict-of-interest policy and related monitoring procedures to ensure that governance and oversight of these transactions remain impartial and compliant with applicable accounting standards.

In 2025, the Association collected \$19 million in premiums and provided \$25 million in claim reimbursements to related party organizations. In 2024, the Association collected \$15 million in premiums from related party organizations and provided \$14 million in claim reimbursements to related party organizations.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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#### Retention Limits

For 2025 and 2024, 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. The Board determines retention limits, subject to the Minnesota Commissioner of Labor and Industry approval. Minnesota workers' compensation losses incurred by members above 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. Premium adjustments are calculated and billed or credited to members the following year.

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.

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

#### Going Concern

Management of the Association has determined that no conditions or events 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.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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#### **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 reporting comprehensive income and net income from operations. Comprehensive income is a more inclusive financial reporting methodology that includes disclosing 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. The Association has no current restrictions on cash and cash equivalents.

#### **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.

Variation margin is the daily exchange of funds between derivatives counterparties to settle changes in the fair value of the contract and to reduce counterparty credit risk. In accordance with ASC 815, Derivatives and Hedging, the Association's 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, upon default or termination of any one contract. Accordingly, the Association has elected to report the fair value of its derivative positions on a net basis by counterparty. The fair value of open derivative positions is presented within due from securities brokers in assets, or within due to securities brokers in liabilities, depending on the net position at period-end. Because exchange-traded futures settle daily through variation margin, the remaining one-day change in fair value for open positions at the end of the fiscal period is immaterial. Cash flows related to variation margin payments and receipts are reported within cash flows from operating activities in the statements of cash flows and are reflected in the due to/from securities brokers' balances. Realized gains and losses resulting from exchange-traded futures are recognized in Note 3 within the Net investment income and net realized investment gains (losses) financial tables.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

December 31, 2025 and 2024

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### 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 supported by little or no market activity and 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 term similar to the lease period. 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.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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#### **Property and Equipment**

All acquisitions of property and equipment with 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 using the straight-line method over the asset's estimated useful life, which ranges from three to fifteen years. Upon the 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 Capital Objective**

After the close of each fiscal year or at other times deemed 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 Capital Threshold or Deficit Threshold defined in the Premium Operating Rule.

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

#### **Losses and Loss Expenses**

In 2025 and 2024, 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 discount rate selection 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 the current fiscal year's 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.

#### **Proactive Codification Improvements**

The Association proactively added information to improve the readability and transparency of certain footnotes and related disclosures. The improvements do not change any accounting measurements or accounting policies.

Accounting Standards Codification 230 – Statement of Cash Flows improved the disclosure of the accounting policy for classifying cash flows associated with derivative instruments and related gains/losses within the statement of cash flows. Additional details were added to Note 2. Derivative gains/losses were already depicted in Note 3.

Accounting Standards Codification 305 – Cash and Cash Equivalents improved the disclosure of restrictions on cash and cash equivalents, including the amounts and nature of these restrictions. Additional details were added to Note 2 Cash and Cash Equivalents.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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Accounting Standards Codification 815 – Derivatives and Hedging improved the disclosure of the location in the financial statements where derivative instruments and related gains/losses are reported, if not obvious. Additional details were added to Note 2. Derivative gains/losses were already depicted in Note 3.

Accounting Standards Codification 850 – Related Party Disclosures improved the disclosure of amounts due to/from related parties and the terms of those arrangements, including whether they bear interest and repayment terms. Additional details were added to Note 1 Related Party Transactions.

#### Adoption of New Accounting Standards

##### Improvements to Income Tax Disclosures

In December 2023, the FASB issued Accounting Standards Update 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances income tax disclosure transparency by requiring more detailed information about the rate reconciliation and income taxes paid. The amendments are effective for annual periods beginning after December 15, 2025, and early adoption is permitted. This standards update requires not-for-profits to expand income tax disclosures for the Unrelated Business Income (UBI) component only, not for their entire operations. Additional details have been added to Note 10.

#### Future Accounting Pronouncements

The Association evaluates Accounting Standards Updates that may impact financial statements and disclosures in the future. No current pronouncements, which have been finalized but are not yet effective, are expected to affect the Association in future years.

#### Subsequent Events

The Association has evaluated events that occurred from December 31, 2025, through March 5, 2026, when 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 Association's investments are classified as trading or alternative and are reported at fair value. Fair value measurements for trading account assets are based on observations from independent third-party pricing services. See note 5 for additional details on alternative investments. The following is a summary of the Association's investments, at fair value:

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Trading account assets	\$ 3,089,815	\$ 2,651,287
Alternative investments	<u>908,392</u>	<u>837,131</u>
Total investments	<u>\$ 3,998,207</u>	<u>\$ 3,488,418</u>

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

**Workers' Compensation Reinsurance Association**  
**Notes to Financial Statements**  
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<i>(in thousands of dollars)</i>	2025		2024	
	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity securities	\$ 888,087	\$ 2,165,262	\$ 865,806	\$ 1,895,723
Debt securities	943,036	924,553	795,662	755,564
Total trading account assets	\$ 1,831,123	\$ 3,089,815	\$ 1,661,468	\$ 2,651,287

The Association has no trading account exposure to regional conflicts in Eastern Europe or the Middle East.

The amortized cost and estimated fair value of trading account assets on December 31, 2025, by contractual maturity, are shown below:

<i>(in thousands of dollars)</i>	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 64,566	\$ 64,385
Due after one year through five years	271,964	274,436
Due after five years through ten years	102,344	102,507
Due after ten years	125,005	107,095
	563,879	548,423
Equity securities	888,087	2,165,262
Residential mortgage-backed securities	309,042	305,766
Commercial mortgage-backed securities	45,013	44,987
Asset-backed securities	25,102	25,377
Total trading account assets, at fair value	\$ 1,831,123	\$ 3,089,815

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 and equity securities were not included in the maturity distribution.

**Workers' Compensation Reinsurance Association**  
**Notes to Financial Statements**  
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A summary of debt securities by rating is as follows:

<i>(in thousands of dollars)</i>	<b>December 31, 2025</b>		
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Percent of Total Fair Value</b>
AAA	\$ 656,861	\$ 637,869	69%
AA	27,528	27,279	3%
A	73,641	73,749	8%
BBB	153,226	153,214	17%
Below investment grade	31,780	32,442	3%
Total debt securities	<u>\$ 943,036</u>	<u>\$ 924,553</u>	<u>100%</u>

<i>(in thousands of dollars)</i>	<b>December 31, 2024</b>		
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Percent of Total Fair Value</b>
AAA	\$ 558,502	\$ 526,678	70%
AA	16,309	15,217	2%
A	52,124	49,935	6%
BBB	138,489	134,001	18%
Below investment grade	30,238	29,733	4%
Total debt securities	<u>\$ 795,662</u>	<u>\$ 755,564</u>	<u>100%</u>

Gross realized gains of \$344.7 million and \$260.3 million, and gross realized losses of \$129.3 million and \$115.6 million, were realized on sales of investments during 2025 and 2024, respectively. Net investment income and net realized investment gains (losses) during the years ended December 31, 2025, and 2024 are summarized below.

<i>(in thousands of dollars)</i>	<b>Net Investment Income</b>		<b>Net Realized Gains (Losses)</b>	
	<b>2025</b>	<b>2024</b>	<b>2025</b>	<b>2024</b>
Cash and cash equivalents	\$ 7,913	\$ 10,828	\$ 39	\$ 42
Equity securities	22,905	21,844	130,400	93,456
Debt securities	28,152	23,551	2,064	(13,932)
Alternative investments	6,827	8,989	69,687	58,296
Derivatives	-	-	13,250	6,857
	<u>65,797</u>	<u>65,212</u>	<u>\$ 215,440</u>	<u>\$ 144,719</u>
Investment expenses	<u>(6,405)</u>	<u>(7,839)</u>		
	<u>\$ 59,392</u>	<u>\$ 57,373</u>		

**Workers' Compensation Reinsurance Association**  
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Other comprehensive income (loss) in 2025 and 2024 is comprised of the change in unrealized gains (losses) on alternative investments arising during the year and the net gain and other changes in plan assets and benefit obligations from the defined benefit pension plan as follows:

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Change in net unrealized gains (losses) on alternative investments	\$ 24,150	\$ (23,550)
Net gain and other changes in plan assets and benefit obligations - defined benefit pension plan	<u>1,248</u>	<u>1,200</u>
Total other comprehensive income (loss)	<u>\$ 25,398</u>	<u>\$ (22,350)</u>

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Accumulated other comprehensive income consists of		
Net unrealized gains on alternative investments	\$ 166,933	\$ 142,783
Accumulated other comprehensive income - defined benefit pension plan	<u>2,733</u>	<u>1,485</u>
Total accumulated other comprehensive income	<u>\$ 169,666</u>	<u>\$ 144,268</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 has no assets or liabilities measured at fair value on a nonrecurring basis on December 31, 2025, or 2024.

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

<i>(in thousands of dollars)</i>	<b>2025</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 242,285	\$ -	\$ -	\$ 242,285
Equity securities	1,631,966	533,296	-	2,165,262
Corporate debt securities	-	234,729	-	234,729
U.S. government and agencies obligations	-	271,594	-	271,594
Residential mortgage backed securities	-	305,766	-	305,766
Commercial mortgage backed securities	-	44,987	-	44,987
Asset backed securities	-	25,377	-	25,377
Foreign government bonds and obligations	-	30,566	-	30,566
State and municipal obligations	-	11,534	-	11,534
Total trading account assets, at fair value	<u>\$ 1,631,966</u>	<u>\$ 1,457,849</u>	<u>\$ -</u>	<u>\$ 3,089,815</u>

**Workers' Compensation Reinsurance Association**  
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<i>(in thousands of dollars)</i>	<b>2024</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 228,941	\$ -	\$ -	\$ 228,941
Equity securities	1,481,622	414,101	-	1,895,723
Corporate debt securities	-	188,048	-	188,048
U.S. government and agencies obligations	-	227,411	-	227,411
Residential mortgage backed securities	-	251,809	-	251,809
Commercial mortgage backed securities	-	35,042	-	35,042
Asset backed securities	-	32,504	-	32,504
Foreign government bonds and obligations	-	16,315	-	16,315
State and municipal obligations	-	4,435	-	4,435
Total trading account assets, at fair value	<u>\$ 1,481,622</u>	<u>\$ 1,169,665</u>	<u>\$ -</u>	<u>\$ 2,651,287</u>

The Association had no Level 3 assets to report as of December 31, 2025, or 2024.

**5. Alternative Investments at Net Asset Value**

The following table includes information on 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 in accordance with ASC 820, Fair Value Measurement. 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 before 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. On December 31, 2025, assuming the average original expected lives of 10 years for the funds, fourteen 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.

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Capital Committed	\$ 1,366,680	\$ 1,291,580
Unfunded Commitments	\$ 435,123	\$ 439,552
Net Asset Value	\$ 908,392	\$ 837,131

As of December 31, 2025, the Association has made 53 partnership commitments totaling \$1.4 billion. As of December 31, 2025, the net asset value of these alternative investments totaled \$908 million, \$167 million of unrealized appreciation, and \$932 million in funded commitments. As of December 31, 2024, the Association has made 49 partnership commitments totaling \$1.3 billion. As of December 31, 2024, the net asset value of these alternative investments totaled \$837 million, \$143 million of unrealized appreciation, and \$852 million in funded commitments. Alternatives are recorded at their most recently available net asset valuation and adjusted for capital contributions and distributions.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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Alternative assets are primarily related to the following asset classes:

#### **Private Debt**

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 private credit landscape 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.

#### **Private Equity**

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.

#### **Private Market Secondaries**

This class buys and sells pre-existing investor investments in private equity, resources, 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 the investments in the fund and their remaining unfunded commitments to the funds.

#### **6. Lease Commitment**

On December 31, 2025, and 2024, the right-of-use asset balance was \$303 thousand and \$334 thousand, respectively, recorded within Other assets on the Balance Sheet. On December 31, 2025, and 2024, the lease liability balance was \$638 thousand and \$711 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 ending December 31, 2025, and 2024, operating lease costs were \$101 thousand each year. Lease costs are recorded in Operating and administrative expenses in the Statement of Operations.

**Workers' Compensation Reinsurance Association**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

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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:	
2026	\$ 102
2027	104
2028	106
2029	109
2030	111
Thereafter	<u>199</u>
Total undiscounted lease payments	731
Less: Present value adjustment	<u>93</u>
Net lease liability reported as of December 31, 2025	<u>\$ 638</u>
Remaining lease term	81 mos.
Discount rate	4.0%

**7. Property and Equipment**

The balances of the major classes of depreciable assets as of December 31, 2025 and 2024 are as follows:

*(in thousands of dollars)*

	<b>2025</b>	<b>2024</b>
Computer hardware and software	\$ 3,850	\$ 3,292
Leasehold Improvements	810	790
Member portals in-progress	-	558
Enterprise system project in-progress	275	-
Furniture and equipment	193	189
Managed Services	<u>6</u>	<u>6</u>
Total	5,134	4,835
Less accumulated depreciation	<u>(2,629)</u>	<u>(2,229)</u>
Net property and equipment	<u>\$ 2,505</u>	<u>\$ 2,606</u>

Upon completion of the member portal project, the Association transferred the accumulated costs from member portals in-progress to computer hardware and software. In-progress project accounts are used to accumulate and capitalize project-related costs until the asset is placed in service. Costs associated with the enterprise system project are currently being accumulated in the enterprise system project in-progress account.

**Workers' Compensation Reinsurance Association**  
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**December 31, 2025 and 2024**

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**8. Liabilities for Losses and Loss Expenses**

The liability for losses and loss expenses on December 31, 2025, and 2024, is summarized as follows:

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Undiscounted	\$ 2,945,617	\$ 3,170,885
Discounted	<u>(1,716,180)</u>	<u>(1,879,094)</u>
Total losses and loss expenses liabilities	<u>\$ 1,229,437</u>	<u>\$ 1,291,791</u>

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

	<b>2025</b>	<b>2024</b>
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>	<b>2025</b>	<b>2024</b>
Balance at January 1		
Undiscounted	\$ 3,170,885	\$ 3,673,089
Incurred related to		
Current year	153,191	168,861
Prior years	<u>(292,645)</u>	<u>(595,087)</u>
Total	(139,454)	(426,226)
Paid related to		
Current year	3,843	48
Prior years	<u>81,971</u>	<u>75,930</u>
Total	85,814	75,978
Balance at December 31		
Undiscounted	2,945,617	3,170,885
Discount	<u>(1,716,180)</u>	<u>(1,879,094)</u>
Total losses and loss expenses liabilities	<u>\$ 1,229,437</u>	<u>\$ 1,291,791</u>

**Workers' Compensation Reinsurance Association**  
**Notes to Financial Statements**  
**December 31, 2025 and 2024**

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The following table compares the present value of the Association's reserve changes during 2025 with those of 2024.

<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Reserves as of prior year end	\$ 1,291,791	\$ 1,386,711
Prior accident year impact of actuarial adjustments	(100,000)	(150,000)
Payments on prior accident years	(81,971)	(75,930)
Present value update	81,302	87,669
Reserves for current accident year	<u>38,315</u>	<u>43,341</u>
Total calendar year reserve changes	<u>(62,354)</u>	<u>(94,920)</u>
Total reserves as of year end	<u>\$ 1,229,437</u>	<u>\$ 1,291,791</u>

In 2025, the reduction in prior accident year loss reserves from actuarial adjustments was due to favorable development on case-incurred losses, resulting in lower projected ultimate losses. In 2024, the reduction in prior accident year loss reserves from actuarial adjustments was due to favorable development on case-incurred losses and a reduction in projected medical inflation and life expectancy, resulting 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 2016, (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, 2025, and (3) the cumulative number of reported claims as of December 31, 2025.

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 2016, 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, 2025, 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 the discount.

The third table (bottom section), on the following page, is supplementary information about the average historical claims' duration as of December 31, 2025. 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 2016 for accident year 2016, calendar year 2017 for accident year 2017) divided by the cumulative incurred losses as of December 31, 2025, for that accident year. The resulting ratios are weighted together using cumulative incurred losses as of December 31, 2025.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

Accident Year	Cumulative Incurred Loss <sup>(1)</sup> For the Years Ended December 31										As of December 31, 2025	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total * IBNR	** Cumulative number of reported claims
Prior	7,631,891	6,914,839	5,804,172	5,412,380	4,956,476	4,678,780	4,474,576	4,336,972	3,999,982	3,813,832	652,156	7,026
2016	418,653	310,317	236,427	215,842	189,501	164,978	143,440	126,987	89,905	84,700	29,306	41
2017		367,590	300,313	263,928	219,535	186,304	141,480	127,172	114,967	94,479	37,135	45
2018			270,111	214,506	163,850	153,676	124,154	121,238	94,101	89,025	30,639	57
2019				195,981	209,424	172,703	139,753	143,008	147,122	133,152	35,311	61
2020					187,289	167,256	136,494	124,660	104,764	97,075	19,934	53
2021						224,702	147,430	105,803	74,278	65,067	32,890	58
2022							147,875	142,506	118,227	108,361	20,332	56
2023								224,184	126,944	114,335	42,453	55
2024									163,433	149,030	57,361	47
2025										146,878	95,270	25
<b>Total</b>										<b>4,895,934</b>	<b>1,052,787</b>	<b>7,524</b>

\* Incurred But Not Reported ("IBNR")

\*\* Reported claims exclude closed without payment

(1) Years 2016-2024 are unaudited

Accident Year	Cumulative Paid Loss <sup>(1)</sup> For the Years Ended December 31										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Prior	1,351,254	1,426,077	1,500,200	1,570,201	1,654,729	1,713,607	1,776,244	1,841,052	1,906,502	1,972,049	
2016	-	1,322	1,378	3,070	4,721	5,489	5,995	7,453	8,097	8,262	
2017		-	2,448	5,090	7,014	8,446	9,072	10,344	10,679	12,093	
2018			-	977	1,842	2,694	3,364	3,966	5,150	6,168	
2019				1,304	3,509	5,203	5,846	7,331	8,775	10,399	
2020					1,377	2,234	6,816	7,788	9,014	10,747	
2021						1,059	2,765	3,837	4,865	5,570	
2022							22	3,086	4,569	5,778	
2023								1,107	1,821	4,512	
2024									-	3,668	
2025										3,808	
<b>Total</b>										<b>2,043,054</b>	
<b>Liabilities</b>											
Undiscounted Claim Reserve											2,852,881
Undiscounted Claim Adjustment Expense Reserve											92,736
Discount											(1,716,180)
Discounted Claim and Claim Adjustment Expense Reserve											<b>1,229,437</b>

(1) Years 2016-2024 are unaudited

#### Average Annual Percentage Payout of Incurred Claims by Age <sup>(1)</sup>

Years	1	2	3	4	5	6	7	8	9	10
	0.8%	1.8%	1.9%	1.2%	1.3%	1.0%	1.1%	1.0%	1.1%	0.2%

(1) Unaudited

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

#### 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, 2025, the plan's investment mix was 60 percent equities and 40 percent debt securities.

Benefits paid in 2025 and 2024 were \$228,061 and \$249,965, respectively. Based on retirement eligibility, the estimated benefit payments for 2026 through 2030 are \$940,000, \$270,000, \$910,000, \$430,000, and \$2,900,000, respectively, and the aggregate total for the following five years is \$3,050,000.

<i>(in thousands of dollars)</i>	<b>Pension Benefits</b>	
	<b>2025</b>	<b>2024</b>
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 338	\$ 358
Interest cost	447	401
Expected return on plan assets	(578)	(518)
Amortization of transition obligation (asset)	-	-
Amortization of net loss (gain)	(45)	-
Net periodic benefit cost, included in operating and administrative expense	\$ 162	\$ 241
<b>Other changes in plan assets and benefit obligations, included in other comprehensive income</b>		
Net gain (loss) and other changes in plan assets and benefit obligations	\$ 1,248	\$ 1,196
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ 10,310	\$ 9,020
Actual return on plan assets	1,822	990
Employer contribution	740	550
Annuity benefits paid	(228)	(250)
Lump sum benefits paid	-	-
Fair value of plan assets, end of year	\$ 12,644	\$ 10,310
<b>Change in benefit obligation</b>		
Benefit obligation, beginning of year	\$ 8,479	\$ 8,694
Service cost	338	358
Interest cost	447	401
Actuarial loss (gain)	(49)	(724)
Annuity benefits paid	(228)	(250)
Lump sum benefits paid	-	-
Benefit obligation, end of year	\$ 8,987	\$ 8,479
<b>Funded status, end of year (plan assets less benefit obligations)</b>	<b>\$ 3,657</b>	<b>\$ 1,831</b>
<b>Accumulated benefit obligation</b>	<b>\$ 7,869</b>	<b>\$ 7,320</b>

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

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The accumulated benefit obligation is the present value of the pension liability based on the accumulated work of employees to date. The total benefit obligation also includes the projected benefit obligation, which covers the expected future work to be conducted by employees. The Association's total benefit obligation is included in the calculation of the net pension asset (funded status) and is reported in other assets on the balance sheet.

The net gain (loss) balance increased primarily due to plan asset return gains as of December 31, 2025. The net gain (loss) balance increased primarily due to plan asset return gains and a change in the discount rate as of December 31, 2024.

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 was determined using Level 1 inputs consisting of quoted prices for identical securities in active markets. All plan investments are exchange-traded funds. For 2025 and 2024, 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 2026.

	<u>Pension Benefits</u>	
<i>(in thousands of dollars)</i>	<b>2025</b>	<b>2024</b>
Discount rate	5.36%	5.36%
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. The expected long-term rate of return on plan assets reflects management's judgment based on the plan's asset allocation, historical returns, and long-term capital market expectations.

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

#### **Health Reimbursement Arrangement ("HRA")**

The Association sponsors a retiree HRA plan. All full-time employees have the potential to be eligible to receive benefits under the plan if they have at least 10 years of service after 2018, are age 60 or older, and are no longer with the Association.

Eligible employees can select individual investment options within their respective HRA.

# Workers' Compensation Reinsurance Association

## Notes to Financial Statements

### December 31, 2025 and 2024

#### 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 2025 and 2024, the Association matched a maximum of 4.0 percent of participant-eligible compensation. The Association's matching contribution to the plan was \$0.1 million in both 2025 and 2024.

#### 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.

The Association has investment activities that are considered unrelated to its tax-exempt purpose under Section 501(c)(27)(a) of the Internal Revenue Code. Revenue and expenses associated with these activities are separately tracked for purposes of determining unrelated business taxable income (UBTI). The Association files Form 990-T and state tax returns when required.

The provision for unrelated business income taxes and the corresponding taxes paid during the year are based on management's estimates of UBTI for the respective fiscal year. Final amounts are determined upon filing the required federal and state tax returns, and any differences are recognized in the year they become known. To minimize potential interest and penalties, the Association remits estimated tax payments during the year. These payments are recorded and are adjusted to actual tax expense when returns are filed. Amounts paid in excess of the final liability are recorded as receivables and pursued for recovery from the respective agencies.

The Association has generated net operating loss carryforwards related to UBTI. In accordance with ASC 740, management has evaluated the realizability of the deferred tax asset associated with these losses. Based on the level and variability of historical UBTI and the uncertainty regarding the timing and extent of future taxable income, management has concluded that it is more likely than not that the benefit of these carryforwards will not be realized. Accordingly, no deferred tax asset has been recorded related to UBTI net operating losses.

A summary of UBTI payments by jurisdiction is summarized below, along with remaining net operating loss (NOL) carry-forward:

<i>(in thousands of dollars)</i>	2025	2024	2025 NOL Carry Forward	2024 NOL Carry Forward
<b>US Federal:</b>				
US Treasury Department	\$ 7	\$ -	\$ 469	\$ 625
<b>State:</b>				
California Department of Revenue	-	-	78	77
Georgia Department of Revenue	-	-	3	8
Indiana Department of Revenue	-	-	1	-
Michigan Department of Revenue	-	-	54	54
Minnesota Department of Revenue	9	1	106	313
New York Department of Revenue	-	-	138	74
Total	<u>\$ 16</u>	<u>\$ 1</u>	<u>\$ 849</u>	<u>\$ 1,151</u>



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 Detroit Lakes.

Photos courtesy of Detroit Lakes Regional Chamber of Commerce/Brian Merritt, Loans and Drones.

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