

# New York State Insurance Fund Statutory Basis Financial Statements

## Workers' Compensation Fund

**Statement of Admitted Assets, Liabilities and Surplus**  
 Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
<b>Admitted Assets</b>		
Cash and invested assets		
Bonds—at NAIC carrying value	\$ 10,574,091	\$ 10,412,216
Preferred stocks	4,197	20,118
Common stocks	1,275,718	1,154,567
Real estate	17,706	13,711
Cash and short-term investments	127,352	56,455
Other invested assets	43,914	48,031
Security lending reinvested collateral assets	<u>233,465</u>	<u>420,889</u>
Total cash and invested assets	12,276,443	12,125,987
Premiums receivables	135,412	141,054
Accrued investment income	90,909	93,801
Other admitted assets	98,158	32,942
Contingent receivable from New York State	<u>1,295,000</u>	<u>1,295,000</u>
<b>Total admitted assets</b>	<b><u>\$ 13,895,922</u></b>	<b><u>\$ 13,688,784</u></b>
<b>Liabilities and Surplus</b>		
Liabilities		
Reserve for losses	\$ 8,029,705	\$ 7,986,386
Reserve for loss adjustment expenses	866,572	855,031
Unearned premiums	331,455	337,605
Contingent policyholder dividends	930,625	1,053,502
Payables for securities lending	249,902	420,889
Accrued expenses and other liabilities	282,082	231,712
Net payable due to affiliates	<u>389,420</u>	<u>408,707</u>
Total liabilities	<u>11,079,761</u>	<u>11,293,832</u>
Security fluctuation surplus	400,000	400,000
Catastrophe surplus	270,179	319,232
Special surplus from retroactive reinsurance assumed	-	-
Foreign terrorism catastrophe surplus	228,938	188,363
Domestic terrorism catastrophe surplus	40,883	32,405
Unassigned surplus	<u>1,876,161</u>	<u>1,454,952</u>
Total surplus	<u>2,816,161</u>	<u>2,394,952</u>
<b>Total liabilities and surplus</b>	<b><u>\$ 13,895,922</u></b>	<b><u>\$ 13,688,784</u></b>

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## Workers' Compensation Fund

### Statement of Operations

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Underwriting income		
Net written premium	\$ 1,309,759	\$ 1,309,601
	1,307,817	1,311,660
Net earned premium		
	1,307,817	1,311,660
Underwriting expenses		
Losses incurred	1,189,613	1,199,289
Loss adjustment expenses incurred	178,818	175,428
Other underwriting expenses incurred	214,943	214,711
	1,583,374	1,589,428
Total underwriting expenses		
	1,583,374	1,589,428
Net underwriting loss	(275,557)	(277,768)
Investment income earned		
Investment income	520,233	546,606
Investment expenses	(24,862)	(21,769)
Net realized investment gain / (loss)	212,081	(369,662)
	707,452	155,175
Net investment income earned		
	707,452	155,175
Other income (expenses)		
Bad debt expense	(45,159)	(35,087)
Miscellaneous income	52,603	39,042
Dividends to policyholders	(38,892)	(104,921)
	(31,448)	(100,966)
Total other expenses		
	(31,448)	(100,966)
Net income (loss)	\$ 400,447	\$ (223,559)

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## Workers' Compensation Fund

### Statement of Surplus

Years Ended December 31, 2010 and 2009 (in thousands)

	Security Fluctuation Surplus	Catastrophe Surplus	Special Surplus From Retroactive Reinsurance Assumed	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Unassigned Surplus	Total Surplus
BALANCE—January 1, 2009	\$ 400,000	\$ 367,649	\$ 616	\$ 148,571	\$ 23,780	\$ 1,326,496	\$ 2,267,112
Net loss	-	-	-	-	-	(223,559)	(223,559)
Correction of an error	-	-	-	-	-	-	-
Net unrealized capital gain - investments	-	-	-	-	-	362,685	362,685
Increase in nonadmitted assets	-	-	-	-	-	(11,286)	(11,286)
Decrease in retroactive reinsurance assumed	-	-	(616)	-	-	616	-
Appropriation of assigned to unassigned surplus	-	(48,417)	-	-	-	48,417	-
Appropriation of unassigned to assigned surplus	-	-	-	39,792	8,625	(48,417)	-
<b>BALANCE—December 31, 2009</b>	<b>400,000</b>	<b>319,232</b>	<b>-</b>	<b>188,363</b>	<b>32,405</b>	<b>1,454,952</b>	<b>2,394,952</b>
Net income	-	-	-	-	-	400,447	400,447
Correction of an error	-	-	-	-	-	(18,637)	(18,637)
Net unrealized capital gain - investments	-	-	-	-	-	22,164	22,164
Decrease in nonadmitted assets	-	-	-	-	-	17,235	17,235
Decrease in retroactive reinsurance assumed	-	-	-	-	-	-	-
Appropriation of assigned to unassigned surplus	-	(49,053)	-	-	-	49,053	-
Appropriation of unassigned to assigned surplus	-	-	-	40,575	8,478	(49,053)	-
<b>Balance - December 31, 2010</b>	<b>\$ 400,000</b>	<b>\$ 270,179</b>	<b>\$ -</b>	<b>\$ 228,938</b>	<b>\$ 40,883</b>	<b>\$ 1,876,161</b>	<b>\$ 2,816,161</b>

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## Workers' Compensation Fund

### Statement of Cash Flows

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 1,330,021	\$ 1,306,137
Net investment income	457,825	502,050
Miscellaneous income (expenses)	15,273	13,671
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,144,877)	(1,082,519)
Expenses paid	(361,248)	(350,666)
Dividends to policyholders	(161,770)	(177,022)
	<u>135,224</u>	<u>211,651</u>
Cash flows from investments		
Proceeds from investments sold, matured or repaid	28,573,400	31,673,884
Cost of investments acquired	(28,603,248)	(31,877,939)
	<u>(29,848)</u>	<u>(204,055)</u>
Cash flows from other sources		
Other (applications) sources	(34,479)	(28,188)
	<u>(34,479)</u>	<u>(28,188)</u>
Net change in cash and short-term investments		
	70,897	(20,592)
Cash and short-term investments		
beginning of year	56,455	77,047
Cash and short-term investments		
end of year	<u>\$ 127,352</u>	<u>\$ 56,455</u>

See accompanying notes to statutory basis financial statements.

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### 1 - Organization and Purpose

The State Insurance Fund (the "Fund"), which includes the operations of the Workers' Compensation Fund and Disability Benefits Fund, is a nonprofit agency of the State of New York (the "State"). By statute, the Fund maintains separate records for the Workers' Compensation Fund and Disability Benefits Fund.

The Workers' Compensation Fund was established by law in 1914 to provide workers' compensation insurance for employers in the State of New York. As an agency of the State, all liabilities of the Workers' Compensation Fund are guaranteed by the State should the Workers' Compensation Fund become insolvent.

Workers' compensation insurance covers job-related disabilities and includes the cost of medical treatment.

The Workers' Compensation Fund also administers the Workers' Compensation Program for the State, which self insures.

The Workers' Compensation Fund has exposure to catastrophes, which are an inherent risk of the property-casualty insurance business, which have contributed, and may contribute, to material year-to-year fluctuations in the Workers' Compensation Fund's results of operations and financial position.

### 2 - Summary of Significant Accounting Policies

#### Basis of Presentation

The accompanying statutory basis financial statements of the Workers' Compensation Fund are presented in conformity with accounting practices prescribed by the Insurance Department of the State of New York (the "Insurance Department"). The Insurance Department recognizes only New York Statutory Accounting Practices ("NY SAP") for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP"), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, EDP and related equipment, constituting a data processing, record keeping or accounting system with a cost of \$50 and greater shall be depreciated over a period not to exceed 10 years under NY SAP. In addition, the Superintendent of the Insurance Department has the right to permit other specific practices that may deviate from prescribed practices. The Workers' Compensation Fund, as prescribed by the Insurance Department or as mandated by New York State Workers' Compensation Law, discounts all loss and loss adjustment expense reserves at 5%, assign a portion of unassigned surplus for securities fluctuation, catastrophes, foreign terrorism catastrophes and domestic terrorism catastrophes, is not required to calculate Risk Based Capital calculations and records the contingent receivable from the State as an admitted asset. In addition, the Workers' Compensation Fund is prescribed to admit the entire receivable for the Urban Development Corporation as an invested asset.

The Workers' Compensation Fund discounts reserves for loss and loss adjustment expenses at 5%, resulting in an increase to statutory surplus of \$7,747,165 and \$7,178,345 as of December 31, 2010 and 2009, respectively. If no assignments of surplus were prescribed, unassigned surplus would be increased by \$940,000 as of December 31, 2010 and 2009, respectively. If the contingent receivable from the State were not prescribed as an admitted asset, total statutory surplus would be decreased by \$1,295,000 as of December 31, 2010 and 2009, respectively. If the receivable from the Urban Development Corporation was not an admitted asset, total statutory surplus would be decreased by \$43,914 and \$48,031 as of December 31, 2010 and 2009, respectively.

The cumulative effect of prescribed practices by the Insurance Department or as mandated by New York State Workers' Compensation Law on the Workers' Compensation Fund's total surplus as of December 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Total surplus as shown on statutory statements	<u>\$ 2,816,161</u>	<u>\$ 2,394,952</u>
Discounting loss and loss adjustment expense reserves at 5% *	(7,747,165)	(7,178,345)
WCB Assessment discount	(362,110)	(335,292)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Other invested assets-receivable from Urban Development Corporation	<u>(43,914)</u>	<u>(48,031)</u>
Total cumulative affect	<u>(9,448,189)</u>	<u>(8,856,668)</u>
Total adjusted surplus to deficit	<u>\$ (6,632,028)</u>	<u>\$ (6,461,716)</u>

\* Under NAIC SAP, certain case reserves (tabular reserves), would be discounted at an appropriate interest rate. The amount of tabular discount at 3.5% as of December 31, 2010 and 2009, respectively, is \$4,281,496 and \$4,014,275.

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than generally accepted accounting principles ("GAAP") in the United States ("U.S. GAAP").

The more significant variances between NY SAP and U.S. GAAP which are applicable to the Workers' Compensation Fund are set forth below:

**a.** Bonds are generally carried at amortized cost. Under U.S. GAAP, such securities are classified into "held to maturity" and reported at amortized cost, or "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.

All single class and multi-class mortgage-backed/asset-backed securities are adjusted for the effects of changes in prepayment assumptions on the related accretion of discount or amortization of premium of such securities using either the retrospective or prospective methods. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the undiscounted estimated future cash flows. Under U.S. GAAP, all securities, purchased or retained, that represent beneficial interests in securitized assets (e.g., collateralized mortgage obligations or asset-backed securities), other than high-credit quality securities, are adjusted using the prospective method when there is a change in estimated future cash flows. If it is determined that a decline in fair value is other-than-temporary, the cost basis of the security is written down to the discounted fair value.

**b.** Common stocks are reported at fair value, as determined by the NAIC's Securities Valuation Office ("SVO") and other independent pricing sources and the related net unrealized capital gains and losses are reported in unassigned surplus. Dividend income generally is reported when received. Under U.S. GAAP, common stocks are classified as either "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus. Dividend income is recorded when the dividends are declared.

**c.** Cash and short-term investments in the statement of cash flows represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

**d.** Policy acquisition costs (principally underwriting and marketing related costs) are expensed as incurred, whereas under U.S. GAAP these costs are deferred and amortized to income on the same basis as premium income is recognized.

**e.** The Workers' Compensation Fund records written premiums when billed to policyholders and earns the related income over the life of the policy. Under U.S. GAAP, premiums would be recognized as written premium on the effective date of the policy and earned over the life of the policy.

**f.** Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days and office furniture and equipment) are charged directly against surplus. Under U.S. GAAP, such non-admitted assets would be included in total assets, less valuation allowances.

**g.** EDP and related equipment with a cost of \$2 and greater are depreciated over an estimated useful life up to 3 years. Under U.S. GAAP, such non-admitted assets, would be recorded as assets, less accumulated depreciation.

**h.** The Workers' Compensation Fund's contingent receivable (Note 6) of \$1,295,000 from the State does not have a due date. This contingent receivable is carried at the amount transferred to the State without consideration for collectability or imputed interest. Under U.S. GAAP, such an amount would be included on the balance sheet at the amount transferred to the State, net of an appropriate allowance.

**i.** The reserves for losses and loss adjustment expenses are discounted to their present value using an annual effective interest rate of 5%. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.

**j.** The Board of Commissioners (the "Board") may designate a reserve for security fluctuations to provide for the difference between the amortized cost of securities and their fair value. Such a reserve is established for future contingencies, rather than allocated to specific investments. In addition, the Board may assign a reasonable portion of unassigned surplus as a reserve for catastrophes.

The Insurance Department specifically prescribes the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such reserves are established.

**k.** For real estate owned and occupied by the Workers' Compensation Fund, rental income and corresponding rental expense is recorded. Under U.S. GAAP, no such income or expense is recorded.

**l.** The balance sheet under NAIC SAP is reported net of reinsurance, while under U.S. GAAP, the balance sheet reports reinsurance recoverables, including amounts related to losses incurred but not reported, and prepaid reinsurance premiums, as an asset.

**m.** Comprehensive income and its components are not presented in the statutory basis financial statements.

**n.** The statutory basis financial statements do not include certain disclosures about and/or the consolidation of certain variable interest entities as required by U.S. GAAP under Financial Accounting Standards Board Interpretation ASC Topic 810, Consolidation of Variable Interest Entities.

The aggregate effect of the foregoing variances on the accompanying statutory basis financial statements has not been determined, however, it is presumed to be material.

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## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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### Investments

Investments are generally valued in accordance with the valuation procedures of the NAIC.

Bonds are valued in accordance with the requirements of the SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Realized gains and losses on the sale of bonds are calculated based on the difference between the amortized cost and the consideration received at the time of sale and are included in results of operations. Market value is based on market prices obtained from the SVO, and the Interactive Data Corporation ("IDC"), primarily.

For mortgaged-back fixed maturity securities, the Workers' Compensation Fund recognizes income using constant effective yield based on anticipated prepayments over the economic life of the security. Mortgaged-backed securities are accounted for under the retrospective method and prepayment assumptions are based on market conditions. When actual payments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income.

Common stocks are carried at fair value, which is obtained from the SVO. Unrealized gains and losses resulting from fair value fluctuations are reflected as a separate component of unassigned surplus. Realized gains and losses are calculated based on the difference between fair value and the consideration received at the time of sale and are included in the results of operations.

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. If unavailable, the fair value was determined by the Workers' Compensation Fund using discounted cash flow models using discount rates of securities of similar maturity and credit characteristics.

Investment income earned consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined using the first in, first out ("FIFO") method.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Workers' Compensation Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Workers' Compensation Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Workers' Compensation Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. The amount included in 2010 and 2009 for realized losses related to Workers' Compensation Fund for impairment losses was \$65,364, and \$388,004, respectively.

Other invested assets, which represents a receivable from Urban Development Corporation (Note 7G), is stated at cost less principal pay downs. Interest income is recorded through statements of operations.

### Real Estate

The Workers' Compensation Fund records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by the Workers' Compensation Fund is used substantially for its own operations. In accordance with statutory accounting practices, the Workers' Compensation Fund records both rental income and rental expense representing the imputed rent for office space occupied in buildings owned by the Workers' Compensation Fund. The amount of rental income and expense recorded in 2010 and 2009 was \$9,381 and \$8,829, respectively.

Maintenance and repairs are charged to expense as incurred.

### Premiums Revenue and Related Accounts

The Workers' Compensation Fund records written premiums when billed to policyholders and earns the related income over the life of the policy.

The Workers' Compensation Fund records premium receivable as an admitted asset if the following three conditions are met: (1) a bill for the premium amount is no more than 90 days past due, (2) the bill date is within six months after the expiration of the policy year and (3) no other bill for the same policy is considered non-admitted.

At December 31, 2010 and 2009, the outstanding premium receivable net admitted balance in the Workers' Compensation Fund was \$135,413 and \$141,054. To reduce credit risk, the Workers' Compensation Fund performs ongoing evaluations of its customers' financial condition, but does not generally require collateral. The Workers' Compensation Fund routinely assesses the collectability of these receivables. Based upon Workers' Compensation Fund experience, less than 4% of net written premium may become uncollectible and the potential loss is not material to the Workers' Compensation Fund's financial condition.

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## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

For the Workers' Compensation Fund, unearned premiums represent the pro rata portion of premiums and endorsements billed that are applicable to the unexpired terms of policies in force at the end of the year.

Earned but unbilled premium ("EBUB") is recognized through operations as an adjustment to premium earned. EBUB premium represents in-force and auditable policies on which premium has been earned but not yet been billed to the insured.

The Workers' Compensation Fund performs an analysis of uncollectible premiums receivable and realized write offs of \$45,159 and \$35,087, for the year ended December 31, 2010 and 2009, respectively, through the statutory basis statements of operations.

### Expenses of the Workers' Compensation Board

The Workers' Compensation Fund, together with other insurance carriers, is required to contribute toward the expenses of the Workers' Compensation Board. The Workers' Compensation Fund contributes a proportion respective to indemnity payments processed through the Board. The amounts incurred in 2010 and 2009 to the Workers' Compensation Board to contribute toward their expenses were \$83,485 and \$54,760, respectively. A liability for unpaid amounts has been established by the application of a factor applied to reserves for losses, which is based on a review of historical billings to the Workers' Compensation Fund and is recorded in the due to affiliate balance. The liability as of December 31, 2010 and 2009 was \$420,770 and \$434,533, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

### Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses ("LAE") for the Workers' Compensation Fund are based on individual case estimates and formula reserves. Additional reserves are provided for losses incurred but not reported ("IBNR") based on past experience, modified for current trends.

The reserves for losses and loss adjustment expenses of the Workers' Compensation Fund are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of the Workers' Compensation Fund has been reduced by \$7,747,165 and \$7,178,345 as of December 31, 2010 and 2009, respectively, as a result of the discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law. These liabilities also include assessments for Sections 15.8 and 25A under the New York State Workers' Compensation Law, and expenses for investigating and settling claims.

Loss and loss adjustment expense reserves are significant in relation to surplus and a change in the timing of future payments could have a material impact on surplus. A change of 1% of discount reserves, would decrease surplus by 4%. Uncertainty also exists related to the impact of the Workers' Compensation Reform as described in (Note 10).

The Workers' Compensation Fund's reserves for losses and loss adjustment expenses are estimated by using recognized actuarial techniques. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. The Workers' Compensation Fund's Management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents its best estimate of the ultimate cost of investigating, defending and settling claims. However, the Workers' Compensation Fund's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary significantly from the amounts included in the statutory basis financial statements and the difference may be material.

### Security Fluctuation, Catastrophic, Foreign Terrorism and Domestic Terrorism Surplus

As described above, the Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the Insurance Department. Security fluctuation surplus remained unchanged at \$400,000 as of December 31, 2010 and 2009.

The review of the catastrophe surplus in conjunction with a risk assessment of the Workers' Compensation Fund's exposures resulted in the Board decreasing the catastrophe surplus by \$49,053 and \$48,417 as of December 31, 2010 and 2009, respectively.

The Workers' Compensation Fund has exposure to significant losses from terrorism. The Terrorism Risk Insurance Act of 2002, ("TRIA") was enacted into Federal law and established a temporary Federal program in the Department of the Treasury providing a system of shared public and private compensation for insured losses resulting from foreign terrorism.

In order for a loss to be covered under TRIA, the loss must result from an event that is certified as an act of terrorism by the U.S. Secretary of Treasury. If Congress has declared war, then only workers' compensation losses would be covered by TRIA. The Terrorism Insurance Program ("Terrorism Program") generally requires that all property casualty insurers licensed in the United States participate in the Terrorism Program. The Terrorism Program became effective upon enactment and in December 2005 was extended through December 31, 2007. In December 2007, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA"), extending TRIA for another seven years through December 31, 2014. TRIPRA adds domestic terrorism to the list of covered acts, triggers a year-long study of a proposal to mandate coverage for nuclear, biological, chemical and radiological attacks and retains the government's share of insured losses for a major attack at \$100 billion.

The amount of compensation paid to participating insurers under the Terrorism Program is 85% of certified losses after the insurer's deductible portion, subject to a cap. The deductible portion under the Terrorism Program is 1% for 2002, 7% for 2003, 10% for 2004, 15% for 2005, 17.5% for 2006, and 20% for 2007 through 2014. In each year, the deductible percentage is applied to the insurer's direct earned premium from the calendar year immediately proceeding the applicable deductible year. The Terrorism Program also

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## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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caps the annual losses to \$100 billion in aggregate per Terrorism Program year.

Once subject losses have reached the \$100 billion aggregate in a Terrorism Program year, there is no additional reimbursement from the U.S. Treasury and an insurer that has met its deductible for the Terrorism Program year is not liable for any losses (or portion thereof) that exceed the \$100 billion cap. The Workers' Compensation Fund is responsible for a deductible of \$262,332 and \$287,942 for December 31, 2010 and 2009, respectively. The Workers' Compensation Fund assigned \$228,938 and \$188,363 of surplus which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2010 and 2009, respectively. Beginning on October 1, 2005, the Workers' Compensation Fund began assigning a portion of premium to domestic terrorism, which totaled \$40,883 and \$32,405 as of December 31, 2010 and 2009, respectively.

### Contingent Policyholder Dividends

Section 90 of the New York State Workers' Compensation Law provides that dividends may be paid to safety groups that, by cooperative effort, seek to curtail accidental injuries and occupational diseases. The estimated dividend liability recorded by the Workers' Compensation Fund is based on the available contingent balance as of the most recent group accounting date and an estimate of the contingent balance for the period since the last group accounting. The contingent balance is calculated by adding premiums billed and applicable investment income less reported losses, expenses and previous dividends. The dividends paid during the year and the change in the contingent balance during the year are reflected in the statutory basis statements of operations.

### Fringe Benefits

Based on actual costs billed by various State agencies, the Workers' Compensation Fund incurred \$55,165 and \$44,976 of fringe benefits and indirect costs in 2010 and 2009, respectively.

All employees of the Workers' Compensation Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is noncontributory. For employees hired on or after July 27, 1976, but before 2010, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on or after January 1, 2010, the plan is contributory for all years of service. The portion of the fringe benefits attributed to the retirement plan for the Workers' Compensation Fund was \$20,797 and \$11,559 in 2010 and 2009, respectively.

### Post-Employment Benefits

New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of the Workers' Compensation Fund including their spouses and dependent children. Eligibility is determined by the membership in the New York State and Local Employees' Retirement System, enrollment in the New York State Health Insurance Program at the time of retirement, and the completion of a minimum number of years of service as required by the employees' membership tier in the retirement system.

Health insurance premiums for retired employees are equal to the premiums charged for active Workers' Compensation Fund employees. The dollar value of accumulated sick leave credits at the time of retirement is used to offset the health insurance premiums paid directly by retirees. The Workers' Compensation Fund pays the portion of the retirees' health insurance premiums covered by accumulated sick leave credits.

There were an average of 1,231 and 1,187 retirees participating in the plan for the years ended December 31, 2010 and 2009, respectively. The Workers' Compensation Fund is billed by the Department of Civil Service monthly. Expenses are recognized when paid and totaled \$10,498 and \$9,353 for the Workers' Compensation Fund for the years ended December 31, 2010 and 2009, respectively.

### Income Tax

The Workers' Compensation Fund is exempt from federal income taxes. However, the Workers' Compensation Fund is subject to a New York State franchise tax. The Workers' Compensation Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was \$22,874 and \$22,570 in 2010 and 2009, respectively, and recorded through the statutory basis statements of operations.

As the Workers' Compensation Fund maintains an office and does business in the metropolitan New York area, it is also subject to the Metropolitan Transit Authority ("MTA") surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2010 and 2009 was \$2,845 and \$2,875, respectively, and recorded through the statutory basis statements of operations.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Workers' Compensation Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. Balances maintained in non-interest bearing transaction accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, ("FDIC") up to \$250.

At December 31, 2010 and 2009, cash deposits in the Workers' Compensation Fund's custodian bank account were \$20,315 and \$26,168, respectively, and were not insured by the FDIC.

### Risks and Uncertainties

The Workers' Compensation Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

possible that changes in values of investment securities will occur in the near term and that changes could materially affect the participants' account balances and the amounts reported in the statutory basis financial statements.

Users of these statutory basis financial statements should be aware that the financial markets' volatility in 2009 and 2010 may significantly impact the subsequent valuation of the Workers' Compensation Fund's investments.

Accordingly, the valuation of investments at December 31, 2010 and 2009 may not necessarily be indicative of amounts that could be realized in a current market exchange.

### Use of Estimates

The preparation of these statutory basis financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassification

Certain reclassifications have been made to the prior year's statutory basis financial statement amounts to conform to the current year's presentation.

### Correction of an Error

The Workers' Compensation Fund discovered two errors in 2010 relating to the treatment of recording the reserves for the liabilities related to self-insured claims for its employees and the reporting of investment income instead of other invested assets, receivable from Urban Development Corporation ("UDC"). In prior years, other invested assets and investment income earned were overstated by \$3,164 as well as the impact on unassigned surplus. The error for the self-insured claims was identified and corrected in 2010. The liability for the current and future claims development and corresponding correction of an error was recorded through unassigned surplus of \$15,473 in accordance with NY SAP. The current year portion of the liability was reflected in the statutory basis statements of operations for \$503.

## 3 - Investments

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Workers' Compensation Fund and requires all such transactions to be approved by the Superintendent of Insurance. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Workers' Compensation Fund. J.P. Morgan Chase serves as the Workers' Compensation Fund's custodian for investments. The Workers' Compensation Fund has security lending agreements with J.P. Morgan Chase and Key Bank. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2010 and 2009, in accordance with Section 105 of the New York State Finance Law.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Workers' Compensation Fund's reserve investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Workers' Compensation Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2010 and 2009 are as follows:

	Cost or Book Adjusted Carrying Value	2010		Estimated Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and government agency obligations	\$ 5,298,352	\$ 161,874	\$ (58,861)	\$ 5,401,365
Foreign government	270,917	2,127	(3,265)	269,779
States, territories, possessions and political subdivisions	236,378	4,317	(3,007)	237,688
Corporate bonds and public utilities	3,871,266	264,956	(31,985)	4,104,237
Mortgaged-backed securities	884,619	52,455	(23,054)	914,020
Hybrid securities	12,559	4,019	(22)	16,556
Total bonds	<u>10,574,091</u>	<u>489,748</u>	<u>(120,194)</u>	<u>10,943,645</u>
Preferred stocks	2,840	1,358	(1)	4,197
Common stocks	1,066,519	212,321	(3,122)	1,275,718
Total stocks	<u>1,069,359</u>	<u>213,679</u>	<u>(3,123)</u>	<u>1,279,915</u>
Total investments	<u>\$ 11,643,450</u>	<u>\$ 703,427</u>	<u>\$ (123,317)</u>	<u>\$ 12,223,560</u>

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

	Cost or Book Adjusted Carrying Value	2009		Estimated Market Value
		Gross	Gross	
		Unrealized	Unrealized	
		Gains	Losses	
U.S. Government and government agency obligations	\$ 5,309,349	\$ 87,202	\$ (121,573)	\$ 5,274,978
Foreign government	257,423	2,744	(3,731)	256,436
States, territories, possessions and political subdivisions	133,320	6,114	(2,292)	137,142
Corporate bonds and public utilities	3,608,759	149,105	(82,677)	3,675,187
Mortgaged-backed securities	1,103,365	14,679	(56,404)	1,061,640
<b>Total bonds</b>	<b>10,412,216</b>	<b>259,844</b>	<b>(266,677)</b>	<b>10,405,383</b>
Preferred stocks	16,293	3,825	-	20,118
Common stocks	958,675	199,922	(4,030)	1,154,567
<b>Total stocks</b>	<b>974,968</b>	<b>203,747</b>	<b>(4,030)</b>	<b>1,174,685</b>
<b>Total investments</b>	<b>\$ 11,387,184</b>	<b>\$ 463,591</b>	<b>\$ (270,707)</b>	<b>\$ 11,580,068</b>

The amortized cost and market value of bonds at December 31, 2010 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

Mortgage-backed securities and collateralized mortgage obligations are distributed to maturity year based on an estimate of the rate of future prepayments of principal over the remaining lives of the securities. Prepayment assumptions are based on market expectations. Actual prepayment experience may vary from these estimates.

	Amortized Cost	Market Value
Due in one year or less	\$ 127,183	\$ 129,570
Due after one year through five years	2,807,465	2,878,527
Due after five years through ten years	3,033,065	3,162,015
Due after ten years	4,606,378	4,773,533
<b>Total bonds</b>	<b>\$ 10,574,091</b>	<b>\$ 10,943,645</b>

Investment income earned consists principally of interest and dividends on investments as follows:

	2010	2009
Bonds	\$ 484,762	\$ 510,465
Stocks	23,102	23,812
Cash, and short-term investments	764	605
Other	11,605	11,724
Investment income earned	520,233	546,606
Investment expenses	(24,862)	(21,769)
Net realized investment gain / (loss)	212,081	(369,662)
Net investment income earned	\$ 707,452	\$ 155,175

Net realized capital gains (losses) on investments, determined on the FIFO method using amortized cost, consist of the following:

	2010	2009
Bonds	\$ 95,609	\$ (201,029)
Stocks	132,585	(168,997)
Cash and short term investments	(16,113)	364
Net realized capital gain / (loss)	\$ 212,081	\$ (369,662)

For the Workers' Compensation Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2010 and 2009 were \$28,573,400 and \$31,673,884, respectively. These sales resulted in gross realized gains of \$354,304 and \$145,536, and gross realized losses of \$77,183 and \$85,940 in 2010 and 2009, respectively.

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

The following table represents the Workers' Compensation Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous loss unrealized position as of December 31, 2010 and 2009, respectively.

	Amortized Cost	2010			2009			Total Fair Value	Unrealized Losses
		Less Than 12 Months Fair Value	Unrealized Losses	Amortized Cost	12 Months or More Fair Value	Unrealized Losses	Amortized Cost		
U.S. Government and government agency obligations	\$ 1,871,326	\$ 1,809,458	\$ 61,868	\$ -	\$ -	\$ -	\$ 1,871,326	\$ 1,809,458	\$ 61,868
Foreign government	165,755	162,490	3,265	-	-	-	165,755	162,490	3,265
Corporate bonds and public utilities	851,359	818,465	32,894	285,853	263,686	22,167	1,137,212	1,082,151	55,061
<b>Total fixed maturities</b>	<b>2,888,440</b>	<b>2,790,413</b>	<b>98,027</b>	<b>285,853</b>	<b>263,686</b>	<b>22,167</b>	<b>3,174,293</b>	<b>3,054,099</b>	<b>120,194</b>
Common stocks	79,187	76,076	3,111	1,838	1,828	10	81,025	77,904	3,121
<b>Total stocks</b>	<b>79,187</b>	<b>76,076</b>	<b>3,111</b>	<b>1,838</b>	<b>1,828</b>	<b>10</b>	<b>81,025</b>	<b>77,904</b>	<b>3,121</b>
<b>Total temporarily impaired investments</b>	<b>\$ 2,967,627</b>	<b>\$ 2,866,489</b>	<b>\$ 101,138</b>	<b>\$ 287,691</b>	<b>\$ 265,514</b>	<b>\$ 22,177</b>	<b>\$ 3,255,318</b>	<b>\$ 3,132,003</b>	<b>\$ 123,317</b>

  

	Amortized Cost	2009			2009			Total Fair Value	Unrealized Losses
		Less Than 12 Months Fair Value	Unrealized Losses	Amortized Cost	12 Months or More Fair Value	Unrealized Losses	Amortized Cost		
U.S. Government and government agency obligations	\$ 3,247,131	\$ 3,124,521	\$ 122,610	\$ 30,236	\$ 28,982	\$ 1,254	\$ 3,277,367	\$ 3,153,503	\$ 123,864
Foreign government	154,691	150,960	3,731	-	-	-	154,691	150,960	3,731
Corporate bonds and public utilities	437,765	423,291	14,474	622,675	554,471	68,204	1,060,440	977,762	82,678
Mortgaged-backed securities	70,232	66,256	3,976	563,021	510,593	52,428	633,253	576,849	56,404
<b>Total fixed maturities</b>	<b>3,909,819</b>	<b>3,765,028</b>	<b>144,791</b>	<b>1,215,932</b>	<b>1,094,046</b>	<b>121,886</b>	<b>5,125,751</b>	<b>4,859,074</b>	<b>266,677</b>
Common stocks	62,123	58,144	3,979	402	352	50	62,525	58,496	4,029
<b>Total stocks</b>	<b>62,123</b>	<b>58,144</b>	<b>3,979</b>	<b>402</b>	<b>352</b>	<b>50</b>	<b>62,525</b>	<b>58,496</b>	<b>4,029</b>
<b>Total temporarily impaired investments</b>	<b>\$ 3,971,942</b>	<b>\$ 3,823,172</b>	<b>\$ 148,770</b>	<b>\$ 1,216,334</b>	<b>\$ 1,094,398</b>	<b>\$ 121,936</b>	<b>\$ 5,188,276</b>	<b>\$ 4,917,570</b>	<b>\$ 270,707</b>

Gross unrealized losses represented 1.2% and 2.6% of cost or amortized cost for the Workers' Compensation Fund as of December 31, 2010 and 2009, respectively. Fixed maturities represented 98% and 99% of the Workers' Compensation Fund's unrealized losses as of December 31, 2010 and 2009, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 347 and 229 securities for the Workers' Compensation Fund as of December 31, 2010 and 2009, respectively. The group of securities depressed for twelve months or more were comprised of 26 and 83 securities, for the Workers' Compensation Fund as of December 31, 2010 and 2009, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Workers' Compensation Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Workers' Compensation Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2010 and 2009. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence, the Workers' Compensation Fund believes that the securities in the sectors identified above were temporarily impaired.

The evaluation for other-than-temporary impairments ("OTTI") is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects and the effects of changes in interest rates.

The Workers' Compensation Fund recorded \$48,927 and \$388,004 in 2010 and 2009, respectively, for OTTI.

Effective December 31, 2009, the Workers' Compensation Fund adopted Statement of Statutory Accounting Principles No. 43 - Revised Loan-backed and Structured Securities ("SSAP No. 43R"). SSAP No. 43R requires that Other-Than-Temporary Impairment ("OTTI") be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security's amortized cost and its fair value either (i) the Workers' Compensation Fund intends to sell the security; or (ii) the Workers' Compensation Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Workers' Compensation Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

The amount included in 2010 and 2009 for realized losses related to the Workers' Compensation Fund for impairment losses related

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

to SSAP No. 43R investments was \$12,728 and \$80,862, respectively. There were no additional impairments recorded in 2010 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Workers' Compensation Fund was unable to retain the security until recovery of amortized cost.

	1 Amortized Cost Basis Before Other-than- Temporary Impairment	2 Other-than- Temporary Impairment Recognized in Loss	3 Fair Value 1-2
OTTI recognized 1st Quarter			
a. Intent to sell	\$ 37,991	\$ 7,694	\$ 30,297
b. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis			
c. Total 1st Quarter	<u>37,991</u>	<u>7,694</u>	<u>30,297</u>
OTTI recognized 2nd Quarter			
d. Intent to sell	12,003	129	11,874
e. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis			
f. Total 2nd Quarter	<u>12,003</u>	<u>129</u>	<u>11,874</u>
OTTI recognized 3rd Quarter			
g. Intent to sell	15,892	811	15,081
h. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis			
i. Total 3rd Quarter	<u>15,892</u>	<u>811</u>	<u>15,081</u>
OTTI recognized 4th Quarter			
j. Intent to sell	46,636	20,532	26,104
k. Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis			
l. Total 4th Quarter	<u>46,636</u>	<u>20,532</u>	<u>26,104</u>
m. Annual Aggregate Total	<u>\$ 112,522</u>	<u>\$ 29,166</u>	<u>\$ 83,356</u>

The Workers' Compensation Fund participates in securities lending programs whereby certain securities from the Workers' Compensation Fund's portfolio are loaned to other institutions for short periods of time. Under the terms of the lending agreements, the Workers' Compensation Fund receives a fee from the borrower and requires collateral with a market value at least 102% of the market value of securities loaned. The Workers' Compensation Fund maintains ownership rights to securities loaned and has the ability to sell securities while they are on loan. The Workers' Compensation Fund has an indemnification agreement with lending agents in the event a borrower becomes insolvent or fails to return securities.

The Workers' Compensation Fund had reinvested collateral assets in the amount of \$249,902 and \$420,889 as of December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the Workers' Compensation Fund received fees of \$546 and \$2,612, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of operations. During 2010, the Workers' Compensation Fund recorded OTTI in the amount of \$16,236 in the statutory basis statement of operations.

Based on recent comments in 2010 by the Statutory Accounting Principles Working Group and a review of the properties for hybrid securities held by the Workers' Compensation Fund, it was determined that the characteristics of these securities were similar to the characteristics of a bond. Therefore during 2010 these securities were reclassified from preferred stocks to bonds using prospective treatment. As of December 31, 2010, the Workers' Compensation Fund transferred \$12,559 of securities from preferred stocks to bonds.

### Fair Value of Financial Instruments

The statement value and estimated fair value of financial instruments at December 31, 2010 and 2009 are as follows:

	<u>2010</u>		<u>2009</u>	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	\$ 10,574,091	\$ 10,943,645	\$ 10,412,216	\$ 10,405,384
Preferred stocks	4,197	4,197	20,118	20,118
Common stocks	1,275,718	1,275,718	1,154,567	1,154,567
Cash and short-term investments	127,352	127,352	56,455	56,455
Other invested assets	43,914	43,914	48,031	48,031

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

Included in various investment related line items in the statutory basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Workers' Compensation Fund estimates fair value using methods, models and assumptions that Management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of Management estimation and judgment which become significant with increasingly complex instruments or pricing models.

Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

As of December 31, 2010, the Workers' Compensation Fund implemented SSAP No. 100 *Fair Value Measurements* ("SSAP No. 100"). SSAP No. 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

Included in various investment related line items in the statutory basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds when NAIC designations fall below a 2 and, therefore, are carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Workers' Compensation Fund estimates fair value using methods, models and assumptions that Management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

When available, the Workers' Compensation Fund uses quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. Unobservable inputs reflect the Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Workers' Compensation Fund's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on the SSAP No. 100 hierarchy. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset and liability at the reporting date.

The following table provides information as of December 31, 2010 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2
Corporate bonds	\$ 1	\$ 10,457
Mortgage and asset-backed securities – residential	6,175	17,843
Preferred stocks	4,179	-
Common stocks	1,275,718	-
Total assets at fair value:	\$ 1,286,073	\$ 28,300
Assets at fair value:	Level 3	Total
Corporate bonds	\$ 1,463	\$ 11,921
Mortgage and asset-backed securities – residential	9,836	33,854
Preferred stocks	-	4,179
Common stocks	-	1,275,718
Total assets at fair value:	\$ 11,299	\$ 1,325,672

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into Level 1 included primarily corporate bonds and common stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quote prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. Level 3 securities include corporate bonds and other common stock securities where pricing is based on the Workers' Compensation Fund's best estimate of fair value.

### Subprime Mortgage Exposure

The subprime lending sector, also referred to as B-paper, near-prime, or second chance lending, is the sector of the mortgage lending industry which lends to borrowers who do not qualify for prime market interest rates because of poor or insufficient credit history. The term also refers to paper taken on property that cannot be sold on the primary market, including loans on certain types of investment properties and certain types of self-employed individuals. Instability in the domestic and international credit markets due to problems in the subprime sector dictates the need for additional information related to exposure to subprime mortgage related risk.

For purposes of this disclosure, subprime exposure is defined as the potential for financial loss through direct investment, indirect investment, or underwriting risk associated with risk from the subprime lending sector. For purposes of this note, subprime exposure is not limited solely to the risk associated with holding direct mortgage loans, but also includes any indirect risk through investments in debt securities, asset backed or structured securities, hedge funds, common stock, subsidiaries and affiliates, and insurance product issuance.

Although it can be difficult to determine the indirect risk exposures, it should be noted that not only does it include expected losses, it also includes the potential for losses that could occur due to significantly depressed fair value of the related assets in an illiquid market.

As it relates to the exposure described above, the following information shall be disclosed:

The Workers' Compensation Fund has identified securities in conjunction with two independent reviews performed by two outside firms, which provide either subprime or Alt-A exposure in some form within structure or collateral. The Workers' Compensation Fund's investment policy limits aggregate portfolio credit rating to investment grade with on-going rigorous credit review and monitoring at the security level by Workers' Compensation Fund personnel charged with investment oversight.

The Workers' Compensation Fund has no direct subprime exposure through investments in subprime mortgage loans.

The Workers' Compensation Fund has direct subprime exposure in mortgage backed securities. All such holdings are fixed income instruments providing risk exposure via senior tranches with more credit enhancement than deemed necessary by rating

agencies. All issues, at the time of purchase, met the Workers' Compensation Fund's stringent investment guidelines. Management regularly monitors the quality of the securities and compliance to those guidelines. Collateral is typically well seasoned. The Workers' Compensation Fund exposure at December 31, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
<u>Exposure</u>		
Book value	\$ 76,525	\$ 84,626
Fair value	\$ 73,718	\$ 74,236
Actual cost	\$ 81,635	\$ 87,837
Total bond portfolio	\$ 10,574,091	\$ 10,412,216
% of bond portfolio	0.7%	0.8%

The Workers' Compensation Fund has no underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage. None of these securities were deemed to have any issues that would lead Management to believe that they were other than temporarily impaired.

### 4 - Real Estate

The Workers' Compensation Fund owned real estate at December 31, 2010 and 2009 as follows:

	<u>2010</u>	<u>2009</u>
Office buildings and improvements, at cost	\$ 33,425	\$ 30,000
Accumulated depreciation	<u>(20,567)</u>	<u>(19,255)</u>
Office buildings and improvements— net of accumulated depreciation	<u>12,858</u>	<u>10,745</u>
Land	2,992	2,502
Land Improvement	<u>1,856</u>	<u>464</u>
Total real estate	<u>\$ 17,706</u>	<u>\$ 13,711</u>

### 5 - Non-Admitted Assets

The non-admitted assets of the Workers' Compensation Fund at December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Premium in course of collection outstanding over 90 days	\$ 100,819	\$ 126,496
Electronic Data Equipment/Software	1,067	1,912
Furniture and equipment, net of accumulated depreciation	1,303	1,140
Other	<u>12,070</u>	<u>2,946</u>
Total non-admitted assets	<u>\$ 115,259</u>	<u>\$ 132,494</u>

### 6 - Transactions with New York State

Over the course of several years, the Workers' Compensation Fund was required to transfer to the State in aggregate of \$1,295,000, which is noninterest bearing and is included in the

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

accompanying statutory basis of admitted assets, liabilities and surplus as a contingent receivable due to the repayment conditions. Chapter 55 of the New York State Laws of 1982 required the Workers' Compensation Fund to transfer \$190,000 out of its surplus to the general fund of the State. Chapter 28 of the New York State Laws of 1986 authorized and directed the Workers' Compensation Fund to transfer an additional \$325,000 to the general fund of the State. Chapter 47 of the New York State Laws of 1987 required the Workers' Compensation Fund to pay an additional \$300,000 (\$150,000 to the general fund of the State and \$150,000 to the State's capital fund). Chapter 7 of the New York State Laws of 1989 required the Workers' Compensation Fund to pay an additional \$250,000 to the general fund of the State. As required by Chapter 41 of the New York State Laws of 1990, the Workers' Compensation Fund transferred \$230,000 to the State's general fund. The statutes require the State to appropriate \$1,295,000 annually for the potential repayment of any portion of the aggregate contingent receivable. Such repayment by the State is required only to maintain the solvency of the Workers' Compensation Fund. These statutes specifically direct the contingent receivable to be an admitted asset.

### 7 - Other Invested Assets-Receiveable from the Urban Development Corporation

Chapter 190 of the New York State Laws of 1990 added section 87-h, to the Workers' Compensation Law. Section 87-h authorized the Workers' Compensation Fund to purchase the Urban Development Corporation's ("UDC") beneficial interest in securities and monies held in certain debt service reserve funds which collateralize certain project bonds issued by the UDC. The Workers' Compensation Fund purchased from the UDC the beneficial interest in one reserve fund for \$45,300 on December 13, 1990. On March 19, 1991, the Workers' Compensation Fund purchased \$12,200 of additional interests in other reserve funds. These amounts are included in the accompanying statutory statements of admitted assets, liabilities and surplus of the Workers' Compensation Fund as other invested assets. The outstanding receivable has no scheduled repayment date. The purchased beneficial interest entitles the Workers' Compensation Fund to receive periodic payments from the UDC equal to: (1) the earnings of the securities and monies within the respective debt service reserve funds and (2) reserve fund releases which represent payment of debt service due to a decrease in funding requirements as the project bonds are retired. The periodic payments to the Workers' Compensation Fund commenced on July 1, 1991 and continue as long as any of the aforementioned project bonds are outstanding. The Workers' Compensation Fund's right to receive the periodic payments is fully collateralized by an irrevocable letter of credit posted by the State at a large commercial bank. Interest received by the Workers' Compensation Fund was \$398 and \$1,997 for the years 2010 and 2009, respectively.

During 2005, UDC began repayment of the Workers' Compensation Fund's UDC holding. During 2010 the Workers' Compensation Fund received \$4,117 from the UDC as a pay-down to reduce the investment. During 2009 the Workers' Compensation Fund did not receive a paydown to reduce the

investments. The balance was \$43,914 and \$48,031 as of December 31, 2010 and 2009, respectively.

### 8 - Reinsurance

As part of a prior reinsurance program, the Workers' Compensation Fund reinsures certain risks with other companies. Such arrangements serve to limit the Workers' Compensation Fund's maximum loss from catastrophes, large risks and unusually hazardous risks. To the extent that any reinsuring company might be unable to meet its obligations, the Workers' Compensation Fund would be liable for its respective participation in such defaulted amounts.

The Workers' Compensation Fund purchased no reinsurance for 2010 and 2009. The Workers' Compensation Fund has reinsurance contracts to limit the impact of excess losses with a layer of \$100,000 in excess of \$100,000 of full terrorism coverage for all Workers' Compensation Fund employees for 2005. There were no premiums ceded, as shown in the Workers' Compensation Fund statutory basis statements of operations in 2010 and 2009.

The reserves for losses and loss adjustment expenses have been decreased by \$17,318 and \$17,402 for losses recoverable under reinsurance contracts as of December 31, 2010 and 2009, respectively.

The Workers' Compensation Fund had reinsurance contracts covering a portion of the Safety Group Retention Programs which terminated effective March 31, 2003. The coverage afforded under this reinsurance contract is \$9,000 in excess of \$1,000 retention per occurrence. The reserves for losses and loss adjustment expenses have been decreased by \$58,616 and \$135,883 for losses recoverable as of December 31, 2010 and 2009, respectively.

### Unsecured Reinsurance Recoverables in Excess of 3% of Policyholder Surplus

The Workers' Compensation Fund does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Workers' Compensation Fund's policyholder surplus at December 31, 2010.

### Commutation of Ceded Reinsurance

The Fund entered into a commutation of reinsurance agreement, or portion thereof, resulting in the complete and final settlement and discharge of all, or the commuted portion thereof, present and future obligations between parties arising out of the agreement during year ended December 31, 2010 with the following companies:

C N A	\$ 37,500
Inter-Ocean Reins Ltd.	23,000
Tota	<u>\$ 60,500</u>

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### Retroactive Reinsurance

The Workers' Compensation Fund assumed retroactive reinsurance transactions from the Liquidation Bureau of the Insurance Department for which a detailed summary is below:

	<u>2010</u>	<u>2009</u>
	Assumed	Assumed
Reserves transferred:		
Initial reserves	\$ 9,919	\$ 9,919
Adjustments—prior year(s)	(6,812)	(6,779)
Adjustments—current year	(505)	(33)
Total	<u>2,602</u>	<u>3,107</u>
Consideration paid or received:		
Initial consideration	9,919	9,919
Adjustments—prior year(s)	-	-
Adjustments—current year	-	-
Total	<u>9,919</u>	<u>9,919</u>
Paid loss reimbursed or recovered:		
Prior year(s)	6,934	6,163
Current year	480	771
Total	<u>\$ 7,414</u>	<u>\$ 6,934</u>
Special surplus from retroactive reinsurance:		
Initial surplus gain or loss		
Adjustments—prior year(s)	\$ -	\$ 616
Adjustments—current year	-	(616)
Current year restricted surplus	-	-
Cumulative total transferred to unassigned funds	<u>\$ -</u>	<u>\$ -</u>

All contracts of reinsurance covering losses that have occurred prior to the inception of the contract have been accounted for in conformity with the instructions contained in the NAIC SAP.

### 9 - Related Party Transactions

The home office properties are occupied jointly by the Workers' Compensation Fund and certain affiliates. Because of this relationship, the Workers' Compensation Fund incurs joint operating expenses subject to allocation through agreed upon arrangements based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense.

The expenses allocated to the Disability Benefits Fund were \$1,339 and \$1,553 in 2010 and 2009, respectively.

The Workers' Compensation Fund acts as the administrator of the Aggregate Trust Fund ("ATF") by paying losses on behalf of the ATF. The ATF was created under New York State Worker's Compensation Law and is the disbursing agency for certain death and permanent disability claims exclusive of claims applicable to the Workers' Compensation Fund. The Workers' Compensation Fund charges the ATF an administrative fee of 3% of paid losses for such services. The total administration fees charged to the ATF during 2010 and 2009, were \$623 and \$582, respectively.

The Workers' Compensation Fund administers the claims for the State, which self-insures its liability for workers' compensation claims. The Workers' Compensation Fund is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2010 and 2009, the State reimbursed the Workers' Compensation Fund \$308,096 and \$288,822, respectively, for such costs and are recorded through the statutory basis statement of operations.

The Workers' Compensation Fund makes payments to the New York State Workers' Compensation Board for various assessments and administrative expenses. The Workers' Compensation Fund paid assessments of \$433,306 and \$189,472 in 2010 and 2009 respectively. The Workers' Compensation Fund incurred administrative expenses in 2010 and 2009, related to the Workers' Compensation Board of \$83,495 and \$54,760, respectively. A liability for unpaid amounts has been established by the application of a factor applied to reserves for losses, which is based on a review of historical billings to the Workers' Compensation Fund.

The following table summarizes all affiliate balances at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Receivables from affiliates		
Aggregate Trust Fund	\$ 51	\$ 45
Disability Benefits Fund	252	268
New York State	<u>31,047</u>	<u>25,513</u>
Total due from affiliates	<u>\$ 31,350</u>	<u>\$ 25,826</u>
Payable to affiliates		
Workers' Compensation Board	<u>\$ 420,770</u>	<u>\$ 434,533</u>
Total payable to affiliates	<u>\$ 420,770</u>	<u>\$ 434,533</u>
Net payable due to affiliates	<u>\$ 389,420</u>	<u>\$ 408,707</u>

### 10 - Workers' Compensation Reform

On March 13, 2007, former Governor Spitzer signed into law comprehensive workers' compensation reform legislation, Chapter 6 of the Laws of 2007, which includes various provisions that affect Workers' Compensation Fund's operations and statutory basis financial statements. The legislation increases the maximum weekly benefit rate that applies to all types of temporary and permanent disability from \$400 to \$500 for injuries that occur on or after July 1, 2007, \$550 for injuries that occur on or after July 1, 2008 and \$600 for injuries that occur on or after July 1, 2009. Beginning July 1, 2010, the maximum weekly benefit rate will be indexed to two-thirds of the New York State "average weekly wage" for the previous calendar year. On March 31, 2007, the Commissioner of Labor reported a State average weekly wage for 2009 of \$1,109.75. Accordingly, a maximum weekly benefit rate of \$739.83 will apply to injuries that occur on or after July 1, 2010. The legislation also increases the

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## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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minimum weekly benefit rate from the current amount of \$40 to \$100. Similarly, the maximum weekly rates for death benefits are increased.

The legislation closes the Special Disability Fund to new claims for accidents occurring on or after July 1, 2007. The Special Disability Fund was created under Workers' Compensation Law § 15(8)(h) and provides for reimbursement of carriers in cases involving (1) disabilities made materially and substantially greater by a pre-existing impairment, i.e., second injury cases, (2) dust diseases, and (3) concurrent employment. It is funded by carrier assessments. The legislation also provides that claims must be filed on eligible cases prior to July 1, 2010. The legislation authorizes the Special Disability Fund to enter into agreements with claimants making final settlement of the right to further benefits as provided under Workers' Compensation Law § 32 with financing through the issuance of bonds by the Dormitory Authority. The Dormitory Authority is an authority of the State of New York with power to borrow money and to issue negotiable bonds or notes.

The legislation also provides durational limits of awards for non-scheduled permanent partial disability, increases the number of non-ex officio Workers' Compensation Fund Commissioners from eight to ten, and provides for various fraud fighting provisions, additional investment authority for the Workers' Compensation Fund and authority for the Workers' Compensation Fund to enter into contracts with preferred provider organizations.

On January 31, 2008, former Governor Spitzer signed into law additional reform legislation, Chapter 11 of the Laws of 2008, which replaced the previous administered rate system for workers' compensation insurance with a loss cost system. In a loss cost system, the Rate Service Organization ("RSO") only files the portion of the rates related to losses. The legislation authorizes the Superintendent of the Insurance Department to promulgate regulations further defining loss costs to further define the new rating system. Each individual insurer must apply its own expense factors ("loss cost multipliers").

The legislation also amends Insurance Law § 2339(d) which governs differential charges by the Workers' Compensation Fund in order to conform it to the loss cost system. Under the current law, a differential charge is defined as a rate in excess of the manual rate promulgated by the New York Compensation Rating Board ("CIRB"). Under the legislation, a differential charge is a rate in excess of the applicable loss cost and the applicable expense constant. (The Workers' Compensation Fund's policyholders are entitled to challenge the reasonableness of a differential charge with an appeal to the Superintendent of the Insurance Department).

The legislation also established requirements for the governing structure of the RSO for workers' compensation and permits the RSO (currently the CIRB is licensed as the RSO for workers' compensation) to file loss costs with the Insurance Department; replaced the February 1, 2008 sunset date on all CIRB activities, including data collection, with a June 2, 2013 sunset date on its rate filing ability; and permits the Superintendent of Insurance to designate an entity as the "workers' compensation insurance rating board" to collect and analyze data in the event that there is no RSO for workers' compensation.

As certain provisions of the Workers' Compensation Reform have not been developed and implemented, management is unable to quantify at this time the aggregate effect of the changes noted in the preceding paragraphs, however, it is presumed to be material.

The New York Employment, Safety and Security Act of 1996 (Chapter 635 of the laws of 1996, amended by Chapter 648 of the Laws of 1996) was an omnibus measure reforming New York State's workers' compensation system. Changes included: the repeal of third party liability for all but the gravest of injuries, expanded use of managed care, an increased effort to combat workers' compensation fraud, a mandate for employers to institute safety programs, and a revision of reporting requirements.

Chapter 635 of the Laws of 1996 included a special assessment of all licensed workers' compensation insurance carriers including the Workers' Compensation Fund totaling \$98,000. Each individual special assessment was equivalent to the insurer's proportionate share of total loss reserves as of December 31, 1995. On January 15, 1997, the Workers' Compensation Fund paid \$52,445, which represented its share of the assessment. By decision dated May 12, 1998 (Thomas Majewski v. Broadalbin-Perth Central School District, Adirondack Mechanical Corporation), the New York Court of Appeals determined that the effective date for imposition of certain litigation reforms incorporated in Chapter 635 was limited to suits filed by claimants subsequent to September 10, 1996. The Workers' Compensation Fund established de minimis case reserves for cases subject to dismissal under Chapter 635 and, thus, any adjustment of the Workers' Compensation Fund's share of the proportionate total loss reserves savings should result in no additional payment by the Workers' Compensation Fund. The Insurance Department conducted a preliminary audit and request for reserve data in 2000 to which the Workers' Compensation Fund responded. Management is unable to project the amount of any potential refund of the assessment paid by the Workers' Compensation Fund pending completion of an audit of carrier loss reserve savings arising from Chapter 635.

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### 11 - Commitments

The Workers' Compensation Fund leases offices, warehouse space and vehicles under noncancellable operating leases generally varying from one to fifteen years. The Workers' Compensation Fund's aggregate minimum commitments under noncancellable operating leases at December 31, 2010, are as follows:

2012	\$ 3,964
2013	4,070
2014	4,142
2015	4,218
Thereafter	<u>13,238</u>
Net minimum commitments	<u>\$ 29,632</u>

Rental expense, which includes the imputed rental expense for the Workers' Compensation Fund, was \$13,533 and \$14,404 in 2010 and 2009, respectively, and recorded through investment income earned.

### 12 - Reserves For Losses And Loss Adjustment Expenses

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

	<u>2010</u>	<u>2009</u>
Balance—January 1 (net of reinsurance recoveries )	\$ 8,841,417	\$ 8,695,678
Incurred claims related to		
Current year	1,357,978	1,331,073
Prior years	<u>10,453</u>	<u>43,644</u>
Total incurred	<u>1,368,431</u>	<u>1,374,717</u>
Paid claims related to		
Current year	175,022	158,139
Prior years	<u>1,138,549</u>	<u>1,070,839</u>
Total paid	<u>1,313,571</u>	<u>1,228,978</u>
Balance—December 31 (net of reinsurance recoveries )	<u>\$ 8,896,277</u>	<u>\$ 8,841,417</u>

The incurred claims relating to prior years have changed in 2010 and 2009 as a result of changes in estimates of events insured in prior years. The Workers' Compensation Fund changes also reflect the amortization of the discount on reserves.

### 13 - Surplus

There were no restrictions placed on the Workers' Compensation Fund's surplus, including for whom the surplus is being held.

Changes in balances of special surplus funds from December 31, 2009 to December 31, 2010, are due to appropriations to the catastrophe, foreign terrorism reserves, and domestic terrorism reserves.

Unassigned surplus is increased/(decreased) by each item below as follows:

	<u>2010</u>	<u>2009</u>
Unrealized gains (losses)	\$ 202,525	\$ 180,361
Nonadmitted assets	<u>115,259</u>	<u>132,494</u>
Total	<u>\$ 317,784</u>	<u>\$ 312,855</u>

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### 14 - Other Underwriting Expenses

The components of other underwriting expenses are as follows:

	<u>2010</u>	<u>2009</u>
Advertising	\$ 132	\$ 112
Boards, bureaus and associations	8,473	9,841
Audit of assured's records	273	537
Salaries and payroll taxes	79,849	73,752
Employee relations and welfare	24,420	19,866
Insurance	154	166
Travel and travel items	1,011	1,079
Rent and rent items	6,469	6,338
Equipment	201	216
Cost or depreciation of EDP equipment and software	5,727	5,368
Printing and stationery	454	515
Postage and telephone	2,886	3,240
Legal and auditing	2,017	2,194
Taxes, licenses and fees	90,146	98,136
Reimbursements by uninsured plans	(13,116)	(13,000)
Miscellaneous expenses	5,847	6,351
	<u>\$ 214,943</u>	<u>\$ 214,711</u>

### 15 - Contingencies

From time to time the Workers' Compensation Fund is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have material effect on the results of operations, liquidity, or financial position of the Workers' Compensation Fund.

### 16 - Reconciliation to Annual Statement

During 2010 and 2009 there were no reconciling items between the Workers' Compensation Fund's audited statutory basis financial statements and statutory annual statement filed.

### 17 - Health Care Reform

On March 23, 2010, President Barack Obama signed into law the Patient Protection and Affordable Care Act (H.R.3590/P.L. 111-148) seeking to provide health care to all Americans. It establishes requirements for all new health benefits plans offered in the individual and small group market and establishes state exchanges for qualified health care benefit plans. Although it does not appear that this legislation is aimed at regulating the health care benefits paid by workers' compensation insurers such as the Workers' Compensation Fund, upon implementation of this legislation over a period of years, effects may become clear that are not discernable at this time.

### 18 - Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 26, 2011 for annual statement reporting, which is the date when the annual statements was issued and filed with the NAIC and the Insurance Department. After this date, subsequent events have been reviewed through May 31, 2011, the date which these audited statements were available to be issued.

#### Type I

The Workers' Compensation Fund did not experience an event that provided additional evidence with respect to conditions that existed at the date of the statutory basis balance sheet and affected estimated inherent in the process of preparing the statutory basis financial statements.

#### Type II

The Workers' Compensation Fund did not experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis balance sheet but arose subsequent to December 31, 2010.

## Notes to NYSIF Statutory Basis Financial Statements

*Workers' Compensation Fund* Years Ended December 31, 2010 and 2009 (in thousands)

The following table depicts the changes in fair value of Workers' Compensation Fund's bond and stock portfolio between December 31, 2010 and March 31, 2011:

	Cost or Book Adjusted Carrying Value	Fair Value	Net Unrealized Gain or (Loss)
As of December 31, 2010:			
U.S. Government Obligations	\$ 3,727,959	\$ 3,743,387	\$ 15,428
Other Government Obligations	507,296	507,467	171
Special Revenue Obligations, MBS	1,570,393	1,657,979	87,586
Industrial & Miscellaneous, non MBS	3,871,266	4,104,237	232,971
Residential Mortgage-backed Securities	470,426	494,163	23,737
Commercial Mortgage-backed Securities	414,192	419,857	5,665
Hybrid Securities	12,559	16,556	3,997
Stocks	1,069,359	1,279,915	210,556
Total	<u>\$ 11,643,450</u>	<u>\$ 12,223,561</u>	<u>\$ 580,111</u>
As of March 31, 2011:			
U.S. Government Obligations	\$ 3,795,683	\$ 3,752,525	\$ (43,158)
Other Government Obligations	495,506	491,723	(3,783)
Special Revenue Obligations, MBS	1,594,662	1,669,204	74,542
Industrial & Miscellaneous, non MBS	3,794,011	4,010,287	216,276
Residential Mortgage-backed Securities	300,477	340,601	40,124
Commercial Mortgage-backed Securities	398,734	409,655	10,921
Hybrid Securities	112,930	111,533	(1,397)
Stocks	1,115,122	1,371,020	255,898
Total	<u>\$ 11,607,125</u>	<u>\$ 12,156,548</u>	<u>\$ 549,423</u>
Interperiod changes:			
U.S. Government Obligations	\$ 67,724	\$ 9,138	\$ (58,586)
Other Government Obligations	(11,790)	(15,744)	(3,954)
Special Revenue Obligations, MBS	24,269	11,225	(13,044)
Industrial & Miscellaneous, non MBS	(77,255)	(93,950)	(16,695)
Residential Mortgage-backed Securities	(169,949)	(153,562)	16,387
Commercial Mortgage-backed Securities	(15,458)	(10,202)	5,256
Hybrid Securities	100,371	94,977	(5,394)
Stocks	45,763	91,105	45,342
Total	<u>\$ (36,325)</u>	<u>\$ (67,013)</u>	<u>\$ (30,688)</u>

As the table depicts, the Workers' Compensation Fund's fair value position of its bond and stock portfolio has declined subsequent to year end 2010. In addition, the Workers' Compensation Fund's has the ability to hold this portfolio to maturity. Furthermore, the average credit quality of the portfolio remains principally invest-grade, indicating a high likelihood of full collectability. Consequently, the Workers' Compensation Fund believes that any necessary criteria for impairment with respect to its portfolio holdings as of December 31, 2010 and subsequent is not met and therefore the Workers' Compensation Fund has not adjusted its surplus for the unrealized losses noted above.

The Workers' Compensation Fund recognized impairment for the first three months end of March 31, 2011 in the amount of \$5,044.



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## Independent Auditors' Report

To the Board of Commissioners  
The State Insurance Fund Workers' Compensation Fund  
New York, New York

We have audited the accompanying statutory basis statement of admitted assets, liabilities and surplus of the State Insurance Fund Workers' Compensation Fund (the "Fund") as of December 31, 2010, and the related statutory basis statements of operations, surplus, and cash flows for the year then ended. These statutory basis financial statements are the responsibility of the Fund's management. Our responsibility is to report on these statutory basis financial statements based on our audit. The 2009 statutory basis financial statements were audited by Amper, Politziner & Mattia, LLP, whose practice was combined with the practice of Eisner LLP to form EisnerAmper LLP as of August 16, 2010 and whose report dated May 14, 2010, expressed an unqualified opinion on those statutory basis financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis financial statements of the Fund have been prepared in conformity with accounting practices prescribed by the Insurance Department of the State of New York (the "Insurance Department"), and such practices differ from accounting principles generally accepted in the United States of America. The effects on the statutory basis financial statements of the differences between accounting practices prescribed by the Insurance Department and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Workers' Compensation Fund as of December 31, 2010, or the results of its operations, surplus or its cash flows for the year then ended.

However, in our opinion, the 2010 statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Workers' Compensation Fund as of December 31, 2010, and the results of its operations, surplus and its cash flows for the year then ended, in conformity with the accounting practices prescribed by the Insurance Department, as described in Note 2.

As described in Note 2A, the Workers' Compensation Fund has significant prescribed accounting practices that are mandated by New York State Workers' Compensation Law. As discussed in Note 2A and Note 2F, the Workers' Compensation Fund discounts all reserves for loss and loss adjustment expenses at 5% and, therefore, a relatively small change in the timing of future payments could have a material impact on surplus.

As described in Note 10, certain provisions of the Workers' Compensation Reform have not been developed and implemented. Therefore Management is unable to determine the impact on the statutory basis financial statements.

*EisnerAmper LLP*

May 31, 2011  
New York, New York

# New York State Insurance Fund Statutory Basis Financial Statements

## *Disability Benefits Fund*

### Statement of Admitted Assets, Liabilities and Surplus

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	\$ 116,068	\$ 124,608
Preferred stocks	246	4,922
Common stocks, at market value	446	280
Cash and short-term investments	<u>5,765</u>	<u>9,608</u>
Total cash and invested assets	122,525	139,418
Premiums receivable	2,797	3,222
Accrued investment income	1,103	985
Receivable for securities	<u>47,297</u>	<u>4,055</u>
Total admitted assets	<u>\$ 173,722</u>	<u>\$ 147,680</u>
Liabilities and surplus		
Liabilities		
Reserve for losses	\$ 4,441	\$ 4,695
Reserve for loss adjustment expenses	250	337
Unearned premiums	30,654	32,937
Due to affiliate	252	140
Payable for securities	25,853	3,730
Accrued expenses and other liabilities	<u>2,887</u>	<u>9,531</u>
Total liabilities	<u>64,337</u>	<u>51,370</u>
Surplus		
Security fluctuation surplus	4,000	4,000
Catastrophe surplus	4,000	4,000
Unassigned surplus	<u>101,385</u>	<u>88,310</u>
Total surplus	<u>109,385</u>	<u>96,310</u>
Total liabilities and surplus	<u>\$ 173,722</u>	<u>\$ 147,680</u>

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## *Disability Benefits Fund*

### Statement of Operations

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Underwriting income		
Net written premium	\$ 9,715	\$ 16,594
Net earned premium	11,998	15,218
Underwriting expenses		
Losses incurred	10,452	10,774
Loss adjustment expenses incurred	804	1,061
Other underwriting expenses incurred	2,708	2,956
Total underwriting expenses	13,964	14,791
Net underwriting (loss) income	(1,966)	427
Investment income earned		
Investment income	5,266	5,245
Investment expenses	(152)	(183)
Net realized investment gains	11,159	1,109
Net investment income earned	16,273	6,171
Other income (expenses)		
Bad debt expense	(283)	(468)
Miscellaneous income	256	537
Total other (expenses) income	(27)	69
Net income	\$ 14,280	\$ 6,667

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## *Disability Benefits Fund*

### Statement of Surplus

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Balance - January 1	\$ 96,310	\$ 88,537
Net income	14,280	6,667
Net unrealized capital (losses) gains - investments	(846)	1,138
(Increase) decrease in nonadmitted assets	(250)	(32)
Current period surplus adjustments	<u>(109)</u>	<u>-</u>
Net increase (decrease) in surplus	<u>13,075</u>	<u>7,773</u>
Balance -December 31	<u>\$ 109,385</u>	<u>\$ 96,310</u>

See accompanying notes to statutory basis financial statements.

# New York State Insurance Fund Statutory Basis Financial Statements

## Disability Benefits Fund

### Statement of Cash Flows

Years Ended December 31, 2010 and 2009 (in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 3,235	\$ 16,046
Net investment income	5,045	5,631
Miscellaneous (expenses) income	(27)	69
Losses and loss adjustment expenses paid, net of salvage and subrogation	(10,706)	(10,903)
Expenses paid	(3,235)	(4,425)
	(5,688)	6,418
Net cash (used in) provided by operations		
Cash flows from investments		
Proceeds from investments sold, matured or repaid	6,582,700	5,805,362
Cost of investments acquired	(6,580,497)	(5,806,625)
	2,203	(1,263)
Net cash provided by (used in) investments		
Cash flows from miscellaneous sources		
Net transfers to miscellaneous sources	(358)	(157)
	(358)	(157)
Net cash used in miscellaneous sources		
Net change in cash and short-term Investments	(3,843)	4,998
Cash and short-term investments Beginning of year	9,608	4,610
Cash and short-term investments End of year	\$ 5,765	\$ 9,608

See accompanying notes to statutory basis financial statements.

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## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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### 1 - Organization and Purpose

The State Insurance Fund (the "Fund"), which includes the operations of the Workers' Compensation Fund and the Disability Benefits Fund, is a nonprofit agency of the State of New York (the "State"). By statute, the Fund maintains separate records for the Workers' Compensation Fund and Disability Benefits Fund.

The Disability Benefits Fund received authority to write disability benefits insurance in 1950. As an agency of the State, all liabilities of the Disability Benefits Fund are guaranteed by the State should the Disability Benefits Fund become insolvent.

Disability benefits insurance covers off-the-job injury and sickness, but not medical care payments.

### 2 - Summary of Significant Accounting Practices

#### Basis of Presentation

The accompanying statutory basis financial statements of the Disability Benefits Fund are presented in conformity with accounting practices prescribed by the Insurance Department of the State of New York (the "Insurance Department"). The Insurance Department recognizes only New York Statutory Accounting Practices ("NY SAP") for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual ("NAIC SAP"), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, EDP and related equipment, constituting a data processing, record keeping or accounting system with a cost of \$50 and greater shall be depreciated over a period not to exceed 10 years under NY SAP. In addition, the Superintendent of the Insurance Department has the right to permit other specific practices that may deviate from prescribed practices. The Disability Benefits Fund assigns a portion of unassigned surplus for securities fluctuation and catastrophes and is not required to calculate Risk Based Capital calculations.

If no assignments of surplus were prescribed, unassigned surplus would remain unchanged at \$8,000 as of December 31, 2010 and 2009, respectively, with no change in total statutory surplus.

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States ("U.S. GAAP").

The more significant variances between NY SAP and U.S. GAAP which are applicable to the Disability Benefits Fund are set forth below:

- a. Bonds are generally carried at amortized cost. Under U.S. GAAP, such securities are classified into "held to maturity" and reported at amortized cost, or "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus.
  - b. Common stocks are reported at fair value, as determined by the NAIC's Securities Valuation Office ("SVO") and other independent pricing sources and the related net unrealized capital gains and losses are reported in unassigned surplus. Dividend income generally is reported when received. Under U.S. GAAP, common stocks are classified as either "trading" and reported at fair value with unrealized gains and losses included in earnings, or "available for sale" and reported at fair value with unrealized gains and losses reported as a separate component of surplus. Dividend income is recorded when the dividends are declared.
- Cash and short-term investments in the statutory basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.
- c. Policy acquisition costs (principally underwriting and marketing related costs) are expensed as incurred, whereas under U.S. GAAP these costs are deferred and amortized to income on the same basis as premium income is recognized.
  - d. Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days and office furniture and equipment) are charged directly against surplus. Under U.S. GAAP, such non-admitted assets would be included in total assets, less valuation allowances.
  - e. EDP and related equipment with a cost of \$2 and greater are depreciated over an estimated useful life up to 3 years. Under U.S. GAAP, such non-admitted assets, would be recorded as assets, less accumulated depreciation.
  - f. The Board of Commissioners (the "Board") may designate a reserve for security fluctuations to provide for the difference between the amortized cost of securities and their fair value. Such a reserve is established for future contingencies, rather than allocated to specific investments. In addition, the Board may assign a reasonable portion of unassigned surplus as a reserve for catastrophes. The Insurance Department specifically permits the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such reserves are established.
  - g. Comprehensive income and its components are not presented in the statutory basis financial statements.

- h. The statutory basis financial statements do not include certain disclosures about and/or the consolidation of certain variable interest entities as required by U.S. GAAP under Financial Accounting Standards Board Interpretation ASC Topic 810, consolidation of variable interest entities.

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## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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The aggregate effect of the foregoing variances on the accompanying statutory basis financial statements has not been determined however it is presumed to be material.

i. This Disability Benefits Fund records written premium based on the policy effective date and earns the related income over the life of the policy through the statutory basis statements of operations.

### Investments

Investments are generally valued in accordance with the valuation procedures of the NAIC.

Bonds are valued in accordance with the requirements of the SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Realized gains and losses on the sale of bonds are calculated based on the difference between the amortized cost and the consideration received at the time of sale and are included in results of operations. Market value is based on market prices obtained from the SVO and the Interactive Data Corporation ("IDC") primarily.

Common stocks are carried at fair value, which is obtained from the SVO. Unrealized gains and losses resulting from fair value fluctuations are reflected as a separate component of unassigned surplus. Realized gains and losses are calculated based on the difference between fair value and the consideration received at the time of sale and are included in the statutory basis statements of operations.

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. If unavailable, the fair value was determined by the Disability Benefits Fund using discounted cash flow models using discount rates of securities of similar maturity and credit characteristics. Perpetual preferred stocks are valued at estimated market value.

Investment income earned consists primarily of interest and dividends. Interest is recognized on an accrual basis and dividends are recorded as earned at the ex-dividend date. Interest income on mortgage-backed and asset-backed securities is determined on the effective yield method based on estimated principal repayments. Accrual of income is suspended for bonds and mortgage loans that are in default or when the receipt of interest payments is in doubt. Realized capital gains and losses are determined using the first in first out ("FIFO") method.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Disability Benefits Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Disability Benefits Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Disability Benefits Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. The amount included in 2010 and 2009 for realized losses related to Disability Benefits Fund for impairment losses was \$174 and \$1,442, respectively.

### Premiums Revenue and Related Accounts

The Disability Benefits Fund records written premiums on the effective date of the policy and earns premium over the life of the policy.

The Disability Benefits Fund records premium receivable as an admitted asset if the following three conditions are met: (1) a bill for the premium amount is no more than 90 days past due, (2) the bill date is within six months after the expiration of the policy year and (3) no other bill for the same policy is considered non-admitted.

The outstanding premium receivable net admitted balance in the Disability Benefits Fund was \$2,797 and \$3,222 or 61% and 63% of gross premium receivable at December 31, 2010 and 2009, respectively. To reduce credit risk, the Disability Benefits Fund performs ongoing evaluations of its customers' financial condition but does not generally require collateral. The Disability Benefits Fund routinely assesses the collectability of its receivables. Based upon the Disability Benefits Fund's experience, less than 2% of net written premium may become uncollectible and the potential loss is not material to the Disability Benefits Fund's financial condition.

For the Disability Benefits Fund, unearned premiums represent the pro rata portion of premiums and endorsements written that are applicable to the unexpired term of policies in force at the end of the year.

The Disability Benefits Fund routinely assesses the collectability of these receivables. Based upon the Disability Benefits Fund's experience, less than 2% of net written premium may become uncollectible and the potential loss is not material to the Disability Benefits Fund's financial condition.

The Disability Benefits Fund performs an analysis of uncollectible premium receivable and realized write offs of \$283 and \$468 for the year ended December 31, 2010 and 2009, respectively, through the statutory basis statements of operations.

### Expenses of the Workers' Compensation Board

Based on the payrolls covered through written premiums, the Disability Benefits Fund contributes a proportional share of the cost of payments to disabled unemployed individuals administered by the Workers' Compensation Board. The amounts paid in 2010 and 2009 to the Workers' Compensation Board to contribute to their expenses were \$623 and \$252, respectively.

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## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

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### Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses of the Disability Benefits Fund are based on individual case estimates for losses attributable to policy years prior to the current year, and on an average cost basis for the current year and for incurred but not reported (IBNR) amounts. These liabilities also include expenses for investigating and settling claims. The Disability Benefits Fund's reserves for losses and loss adjustment expenses are estimated by using recognized actuarial techniques. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. The Disability Benefits Fund's management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents its best estimate of the ultimate cost of investigating, defending and settling claims. However, the Disability Benefits Fund's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary significantly from the amounts included in the statutory basis financial statements and the difference may be material.

### Security Fluctuation and Catastrophic Surplus

As described above, the Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the Insurance Department. A review of the security fluctuation surplus in conjunction with the Disability Benefits Fund's portfolio remained unchanged at \$4,000 as of December 31, 2009 and 2010. The review of the catastrophe surplus in conjunction with a risk assessment of the Disability Benefits Fund's exposures resulted in the Board maintaining the catastrophe surplus at \$4,000 as of December 31, 2009 and 2010.

### Fringe Benefits

Based on actual costs billed by various State agencies, the Disability Benefits Fund incurred \$532 and \$479 of fringe benefits and indirect costs in 2010 and 2009, respectively recorded through other underwriting expenses.

All employees of the Disability Benefits Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is noncontributory. For employees hired on or after July 27, 1976, but before 2010, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on or after January 1, 2010, the plan is contributory for all years of service. The portion of the fringe benefits attributed to the retirement plan for the Disability Benefits Fund was \$169 and \$117 in 2010 and 2009, respectively.

### Post-Employment Benefits

New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of the Disability Benefits Fund including their spouses and dependent children. Eligibility is determined by the membership in the New York State and Local Employees' Retirement System, enrollment in the New York State Health Insurance Program at the time of retirement, and the completion of a minimum number of years of service as required by the employees' membership tier in the retirement system.

Health insurance premiums for retired employees are equal to the premiums charged for active Disability Benefits Fund's employees. The dollar value of accumulated sick leave credits at the time of retirement is used to offset the health insurance premiums paid directly by retirees. The Disability Benefits Fund pays the portion of the retirees' health insurance premiums covered by accumulated sick leave credits.

The Disability Benefits Fund is billed by the Department of Civil Service monthly. Expenses are recognized when paid and totaled \$74 and \$94 for the Disability Benefits Fund for the years ended December 31, 2010 and 2009, respectively.

### Income Tax

The Disability Benefits Fund is exempt from federal income taxes. However, the Disability Benefits Fund is subject to a New York State franchise tax. The Disability Benefits Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was \$170 and \$290 in 2010 and 2009, respectively and recorded through the statutory basis statements of operations.

The Disability Benefits Fund maintains an office and does business in the metropolitan New York area and is subject to the Metropolitan Transit Authority ("MTA") surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2010 and 2009 was \$23 and \$37, respectively, for the Disability Benefits Fund and recorded through the statutory basis statements of operations.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Disability Benefits Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. Balances maintained in non-interest bearing transaction accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, ("FDIC") up to \$250.

At December 31, 2010 and 2009, cash and cash equivalent deposits in the Disability Benefits Fund's custodian bank account were \$10,004 and \$10,073 and were not insured by the FDIC.

## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### Risks and Uncertainties

The Disability Benefits Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market risk and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities will occur in the near term and that changes could materially affect the participants' account balances and the amounts reported in the statutory basis financial statements.

Users of these statutory basis financial statements should be aware that the financial markets' volatility in 2010 and 2009 may significantly impact the subsequent valuation of the Disability Benefits Fund's investments.

Accordingly, the valuation of investments at December 31, 2010 may not necessarily be indicative of amounts that could be realized in a current market exchange.

### Use of Estimates

The preparation of these statutory basis financial statements in conformity with statutory basis accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Reclassification

Certain reclassifications have been made to the prior year's statutory basis financial statements amounts to conform to the current year's presentation.

### Correction of an Error

The Disability Benefits Fund had an error in the treatment of the recording the reserves for the liability related to self-insured claims for its employees. The error was identified and corrected in 2010. The liability for the current and future claims development and corresponding correction of an error was recorded through unassigned surplus of \$109 in accordance with NY SAP. The current year portion of the liability was reflected in the statutory basis statements of operations for \$4.

## 3 - Investments

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Disability Benefits Fund and requires all such transactions to be approved by the Superintendent of Insurance Department. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Disability Benefits Fund. J.P. Morgan Chase serves as the Disability Benefits Fund's custodian for investments. The Disability Benefits Fund has security lending agreements with J.P. Morgan Chase and Key Bank. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2010, in accordance with Section 105 of the New York State Finance Law.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Disability Benefits Fund's reserve investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Disability Benefits Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2010 and 2009 are as follows:

	Cost or Book Adjusted Carrying Value	<u>2010</u> Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 75,924	\$ 2,649	\$ (388)	\$ 78,185
All other governments	9,992	117	(127)	9,982
Corporate bonds and public utilities	26,653	975	(177)	27,451
Hybrid securities	3,499	1,335	(1)	4,833
<b>Total bonds</b>	<b>116,068</b>	<b>5,076</b>	<b>(693)</b>	<b>120,451</b>
Preferred stocks	178	68	-	246
Common stocks	342	104	-	446
<b>Total stocks</b>	<b>520</b>	<b>172</b>	<b>-</b>	<b>692</b>
<b>Total investments</b>	<b>\$ 116,588</b>	<b>\$ 5,248</b>	<b>\$ (693)</b>	<b>\$ 121,143</b>

## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

	Cost or Book Adjusted Carrying Value	2009		Estimated Market Value
		Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government and government agency obligations	\$ 92,916	\$ 1,219	\$ (1,720)	\$ 92,415
All other governments	4,991	-	(41)	4,950
Corporate bonds and public utilities	26,701	647	(1,113)	26,235
<b>Total bonds</b>	<b>124,608</b>	<b>1,866</b>	<b>(2,874)</b>	<b>123,600</b>
Preferred stocks	3,842	1,080	-	4,922
Common stocks	342	-	(62)	280
<b>Total stocks</b>	<b>4,184</b>	<b>1,080</b>	<b>(62)</b>	<b>5,202</b>
<b>Total investments</b>	<b>\$ 128,792</b>	<b>\$ 2,946</b>	<b>\$ (2,936)</b>	<b>\$ 128,802</b>

The amortized cost and market value of bonds at December 31, 2010 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Market Value
Due in one year or less	\$ 1,010	\$ 1,058
Due after one year through five years	42,684	43,283
Due after five years through ten years	43,997	46,421
Due after ten years	28,377	29,689
<b>Total bonds</b>	<b>\$ 116,068</b>	<b>\$ 120,451</b>

Investment income earned consists principally of interest and dividends on investments as follows:

	2010	2009
Bonds	\$ 5,199	\$ 4,848
Stocks	27	366
Cash and short-term investments	22	31
Other	18	-
<b>Investment income</b>	<b>5,266</b>	<b>5,245</b>
Investment expenses	(152)	(183)
<b>Net realized investment gain</b>	<b>11,159</b>	<b>1,109</b>
<b>Net investment income earned</b>	<b>\$ 16,273</b>	<b>\$ 6,171</b>

Net realized capital gains (losses) on investments, determined on the FIFO method using amortized cost, consist of the following:

	2010	2009
Bonds	\$ 11,039	\$ 967
Stocks	113	112
Cash and short-term investments	7	30
<b>Net realized capital gains</b>	<b>\$ 11,159</b>	<b>\$ 1,109</b>

For the Disability Benefits Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2010 and 2009 were \$6,582,700 and \$5,805,362 respectively. These sales resulted in gross realized gains of \$11,955 and \$4,117 and gross realized losses of \$629 and \$1,596 in 2010 and 2009, respectively.

## Notes to NYSIF Statutory Basis Financial Statements

### Disability Benefits Fund Years Ended December 31, 2010 and 2009 (in thousands)

The following table represents the Disability Benefits Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2010 and 2009, respectively.

	Amortized Cost	2010			2009			Total Fair Value	Unrealized Losses
		Less Than 12 Months Fair Value	Unrealized Losses	Amortized Cost	Less Than 12 Months Fair Value	Unrealized Losses	Amortized Cost		
U.S. Government and government agency obligation:	\$ 22,889	\$ 22,501	\$ 388	\$ -	\$ -	\$ -	\$ 22,889	\$ 22,501	\$ 388
Foreign Government	4,998	4,871	127	-	-	41	4,998	4,871	127
Corporate bonds and public utilities	5,943	5,860	83	4,057	3,963	988	10,000	9,823	177
Hybrid securities	5	4	1	-	-	-	5	4	1
<b>Total temporarily impaired investments</b>	<b>\$ 33,835</b>	<b>\$ 33,236</b>	<b>\$ 599</b>	<b>\$ 4,057</b>	<b>\$ 3,963</b>	<b>\$ 94</b>	<b>\$ 37,892</b>	<b>\$ 37,199</b>	<b>\$ 693</b>
U.S. Government and government agency obligation:	\$ 72,764	\$ 71,044	\$ 1,720	\$ -	\$ -	\$ -	\$ 72,764	\$ 71,044	\$ 1,720
Foreign Government	4,991	4,950	-	-	-	41	4,991	4,950	41
Corporate bonds and public utilities	9,036	8,911	125	9,073	8,085	988	18,109	16,996	1,113
<b>Total fixed maturities</b>	<b>86,791</b>	<b>84,905</b>	<b>1,845</b>	<b>9,073</b>	<b>8,085</b>	<b>1,029</b>	<b>95,864</b>	<b>92,990</b>	<b>2,874</b>
Common stocks	342	280	62	-	-	-	342	280	62
<b>Total stocks</b>	<b>342</b>	<b>280</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>342</b>	<b>280</b>	<b>62</b>
<b>Total temporarily impaired investments</b>	<b>\$ 87,133</b>	<b>\$ 85,185</b>	<b>\$ 1,907</b>	<b>\$ 9,073</b>	<b>\$ 8,085</b>	<b>\$ 1,029</b>	<b>\$ 96,206</b>	<b>\$ 93,270</b>	<b>\$ 2,936</b>

Gross unrealized losses represented 0.6% and 2% of cost or amortized cost for the Disability Benefits Fund as of December 31, 2010 and 2009, respectively. Fixed maturities represented 100% and 98% of the Disability Benefits Fund's unrealized losses as of December 31, 2010 and 2009, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 14 and 17 securities for the Disability Benefits Fund as of December 31, 2010 and 2009, respectively. The group of securities depressed for twelve months or more was comprised of 1 and 3 securities for the Disability Benefits Fund as of December 31, 2010 and 2009, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Disability Benefits Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Disability Benefits Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2010 and 2009. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, Management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Disability Benefits Fund believes that the securities in the sectors identified above were temporarily impaired.

The evaluation for other-than-temporary impairments ("OTTI") is a quantitative and qualitative process, which is subject to risks and uncertainties in the determination of whether declines in the fair value of investments are other-than-temporary. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or near term recovery prospects and the effects of changes in interest rates.

The Disability Benefits Fund recorded \$174 and \$1,442 in 2010 and 2009, respectively, for OTTI.

Effective for December 31, 2009, the Disability Benefits Fund adopted Statement of Statutory Accounting Principles No. 43R - Revised Loan-backed and Structured Securities (SSAP No. 43R). SSAP No. 43R requires that OTTI be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security's amortized cost and its fair value either (i) the Disability Benefits Fund intends to sell the security; or (ii) the Disability Benefits Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Disability Benefits Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

There were no impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2010 and 2009 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Disability Benefits Fund was unable to retain the security until recovery of amortized cost.

Through January 2009, the Disability Benefits Fund participated in securities lending programs whereby certain securities from the Disability Benefits Fund's portfolio were loaned to other institutions for short periods. Under the terms of the lending agreements, the Disability Benefits Fund received a fee from the borrower and requires collateral with a market value at least 102% of the market value of securities loaned. The Disability Benefits

## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

Fund maintained ownership rights to securities loaned and had the ability to sell securities while they were on loan. The Disability Benefits Fund had an indemnification agreement with lending agents in the event a borrower became insolvent or fails to return securities.

The Disability Benefits Fund had no securities on loan as of December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the Disability Benefits Fund received fees of \$0 and \$1,547, respectively. These fees have been included in investment income earned.

Based on comments by the Statutory Accounting Principles Working Group and a review of the properties for hybrid securities held by the Disability Benefits Fund, it was determined that the characteristics of these securities were similar to the characteristics of a bond. Therefore during 2010 these securities were reclassified from preferred stocks to bonds using prospective treatment. As of December 31, 2010, the Disability Benefits Fund transferred \$3,499 of securities from preferred stocks to bonds.

### Fair Value of Financial Instruments

The statement value and estimated fair value of financial instruments at December 31, 2010 and 2009 are as follows:

	2010		2009	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	\$ 116,068	\$ 120,451	\$ 124,608	\$ 123,600
Preferred stocks	246	246	4,922	4,922
Common stocks	446	446	280	280
Cash and short-term investments	5,765	5,765	9,608	9,608

Included in various investment related line items in the statutory basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Disability Benefits Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

As of December 31, 2010, the Disability Benefits Fund implemented SSAP No. 100 *Fair Value Measurements* ("SSAP No. 100"). SSAP No. 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

Included in various investment related line items in the statutory basis financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically

measured at fair value, such as when impaired, or, for certain bonds when NAIC designations fall below 2 and therefore are carried at the lower of cost or market.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Disability Benefits Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

When available, the Disability Benefits Fund used quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. There were no investments with unobservable inputs. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The Disability Benefits Fund's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on the SSAP No. 100 hierarchy. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities

## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

(Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3).

The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following table provides information as of December 31, 2010 about the Disability Benefits Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Preferred stocks	\$ 246	\$ -	\$ -	\$ 246
Common stocks	446	-	-	446
Total assets at fair value:	\$ 692	\$ -	\$ -	\$ 692

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into level 1 included primarily corporate bonds and common stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. Quote prices for these securities are provided to the Disability Benefits Fund using independent pricing services. The Disability Benefits Fund did not have any Level 2 and Level 3 securities.

### Subprime Mortgage Exposure

The Disability Benefits Fund had no exposures to subprime mortgage loans at December 31, 2010 and 2009.

### 4 - Non-Admitted Assets

The non-admitted assets of the Disability Benefits Fund at December 31, 2010 and 2009 were as follows:

	2010	2009
Premium in course of collection outstanding over 90 days	\$ 125	\$ 112
Other	266	29
Total non-admitted assets	\$ 391	\$ 141

### 5 - Related Party Transactions

The home office properties are occupied jointly by the Workers' Compensation Fund and Disability Benefits Fund. Because of this relationship, the Disability Benefits Fund incurs joint operating expenses subject to allocation through agreed upon arrangements based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable.

The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense. The expenses allocated to the Disability Benefits Fund were \$1,339 and \$1,553 in 2010 and 2009, respectively.

The Disability Benefits Fund makes payments to the New York State Workers' Compensation Board for various assessments and administrative expenses. Based on the payrolls covered through written premiums, the Disability Benefits Fund contributes a proportional share of the cost of payments to disabled unemployed individuals administered by the Workers' Compensation Board. The amounts paid in 2010 and 2009 to the Workers' Compensation Board to contribute to their expenses were \$623 and \$252, respectively.

The following schedule summarizes all affiliate balances at December 31, 2010 and 2009:

(Receivable from) payable to affiliate		
Workers' Compensation Fund	\$ 252	\$ 269
New York State Workers' Compensation Board	-	(129)
Total	\$ 252	\$ 140

### 6 - Reserves for Losses and Loss Adjustment Expenses

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

	2010	2009
Balance—January 1	\$ 5,032	\$ 5,195
Incurred claims related to		
Current year	14,308	14,688
Prior years	(3,052)	(2,853)
Total incurred	11,256	11,835
Paid claims related to		
Current year	9,363	9,703
Prior years	2,234	2,295
Total paid	11,597	11,998
Balance—December 31	\$ 4,691	\$ 5,032

The incurred claims relating to prior years have changed in 2010 and 2009 as a result of changes in estimates of events incurred in prior years.

## Notes to NYSIF Statutory Basis Financial Statements

*Disability Benefits Fund* Years Ended December 31, 2010 and 2009 (in thousands)

### 7 - Surplus

There were no restrictions placed on the Disability Benefits Fund's surplus, including for whom the surplus is being held.

There were no changes in balances of special surplus funds as of December 31, 2010 and December 31, 2009. Unassigned surplus is (decreased)/increased by each item below as follows:

	<u>2010</u>	<u>2009</u>
Unrealized gains	\$ 172	\$ 1,018
Nonadmitted assets	(391)	(141)
Current period surplus adjustment	(109)	-
Total	<u>\$ (328)</u>	<u>\$ 877</u>

### 8 - Other Underwriting Expenses

The components of other underwriting expenses are as follows:

	<u>2010</u>	<u>2009</u>
Salaries and payroll taxes	\$ 504	\$ 669
Employee relations and welfare	233	210
Travel and travel items	1	1
Equipment	-	3
Legal and auditing	1	5
Taxes, licenses and fees	731	611
Miscellaneous expenses	1,238	1,457
Total	<u>\$ 2,708</u>	<u>\$ 2,956</u>

### 9 - Contingencies

From time to time the Disability Benefits Fund is involved in pending and threatened litigation in the normal course of business in which claims for monetary damages are asserted. In the opinion of Management, the ultimate liability, if any, arising from such pending or threatened litigation is not expected to have material effect on the results of operations, liquidity, or financial position of the Disability Benefits Fund.

### 10 - Subsequent Events

Subsequent events have been reviewed in accordance with SSAP No. 9R, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 26, 2010 for annual statement reporting, which is the date when the annual statements was issued and filed with the NAIC and the Insurance Department. After this date, subsequent events have been reviewed through May 31, 2011, the date which these audited statements were available to be issued.

#### Type I

The Disability Benefits Fund did not experience an event that provided additional evidence with respect to conditions that

existed at the date of the statutory basis statement of admitted assets, liabilities and surplus and affected estimated inherent in the process of preparing the statutory basis financial statements.

#### Type II

The Disability Benefits Fund did not experience an event that provided evidence with respect to conditions that did not exist at the date of the statutory basis statement of admitted assets, liabilities, and surplus but arose subsequent to December 31, 2010.

The following table depicts the changes in fair value of the Disability Benefits Fund's bond and stock between December 31, 2010 and March 31, 2011:

	Cost or Book Adjusted Carrying Value	Fair Value	Net Unrealized Gain or (Loss)
As of December 31, 2010:			
U.S. Government Obligations	\$ 75,924	\$ 78,185	\$ 2,261
Other Government Obligations	9,992	9,982	(10)
Industrial & Miscellaneous, non MBS	26,653	27,451	798
Hybrid securities	3,499	4,833	1,334
Stocks	692	342	(350)
Total	<u>\$ 116,760</u>	<u>\$ 120,793</u>	<u>\$ 4,033</u>
As of March 31, 2011:			
U.S. Government Obligations	\$ 88,002	\$ 90,055	\$ 2,053
Other Government Obligations	9,989	9,901	(88)
Industrial & Miscellaneous, non MBS	26,672	27,539	867
Hybrid securities	3,499	4,920	1,421
Stocks	696	519	(177)
Total	<u>\$ 128,858</u>	<u>\$ 132,934</u>	<u>\$ 4,076</u>
Interperiod changes:			
U.S. Government Obligations	\$ 12,078	\$ 11,870	\$ (208)
Other Government Obligations	(3)	(81)	(78)
Industrial & Miscellaneous, non MBS	19	88	69
Hybrid securities	-	87	87
Stocks	4	177	173
Total	<u>\$ 12,098</u>	<u>\$ 12,141</u>	<u>\$ 43</u>

As the table depicts, the Disability Benefits Fund's fair value position of its bond and stock portfolio have improved subsequent to year end 2010. The Disability Benefits Fund has the ability to hold this portfolio to maturity. Furthermore, the average credit quality of the portfolio remains principally invest-grade, indicating a high likelihood of full collectability. Consequently, the Disability Benefits Fund believes that any necessary criteria for impairment with respect to its portfolio holdings as of December 31, 2010 and subsequent is not met and therefore the Disability Benefits Fund has not adjusted its capital and surplus for the unrealized losses noted above.

The Disability Benefits Fund recognized impairments for the first three months ended March 31, 2011 in the amount of \$1.



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## Independent Auditors' Report

To the Board of Commissioners  
The State Insurance Fund Disability Benefits Fund  
New York, New York

We have audited the accompanying statutory basis statement of admitted assets, liabilities and surplus of the State Insurance Fund Disability Benefits Fund (the "Fund") as of December 31, 2010, and the related statutory basis statements of operations, surplus, and cash flows for the year then ended. These statutory basis financial statements are the responsibility of the Fund's management. Our responsibility is to report on these statutory basis financial statements based on our audit. The 2009 statutory basis financial statements were audited by Amper, Politziner & Mattia, LLP, whose practice was combined with the practice of Eisner LLP to form EisnerAmper LLP as of August 16, 2010 and whose report dated May 14, 2010, expressed an unqualified opinion on those statutory basis financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory basis financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory basis financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statutory basis financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the accompanying statutory basis financial statements of the Fund have been prepared in conformity with accounting practices prescribed by the Insurance Department of the State of New York (the "Insurance Department"), and such practices differ from accounting principles generally accepted in the United State of America. The effects on the statutory basis financial statements of the differences between accounting practices prescribed by the Insurance Department and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory basis financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Disability Benefits Fund as of December 31, 2010, or the results of its operations, surplus or its cash flows for the year then ended.

However, in our opinion, the 2010 statutory basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Disability Benefits Fund as of December 31, 2010, and the results of its operations, surplus and its cash flows for the year then ended, in conformity with the accounting practices prescribed by the Insurance Department, as described in Note 2.

*EisnerAmper LLP*

May 31, 2011  
New York, New York