



100th Anniversary



Financial Highlights



Workers' Compensation Fund

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net written premium	\$2.2B	\$1.9B	\$ 1.5B
Net earned premium	2.2B	1.8B	1.4B
Net investment income	766.4M	720.1M	597.5M
Net income	304.2M	311.5M	5.4M
Total admitted assets	16.2B	14.9B	14.2B
Total surplus	3.5B	3.1B	2.8B

Disability Benefits Fund

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net written premium	\$15.8M	\$12.6M	\$ 9.3M
Net earned premium	15.5M	13.7M	12.2M
Net investment income	10.4M	9.8M	13.6M
Net income	10M	8.1M	11M
Total admitted assets	184.7M	163.6M	193.5M
Total surplus	138.6M	128.6M	120.6M

Photo, top: Early calculators used by NYSIF



A Message from the Governor

New York is rising. We are rebuilding, reforming, reimagining and reshaping our state as a place where people want to live, work and do business again. A commendable bipartisan effort of cooperation and partnership from our elected leaders is guiding New York in the right direction, cutting taxes and creating jobs.

New York is once again a national leader, implementing fiscal responsibility, bringing economic opportunity back to the state and restoring faith in government. We accomplished this with the passage of four successive on-time budgets, the state's first property tax cap, and the lowest middle class tax rate in 60 years.

Since 2010, New York has added 380,000 private sector jobs, the second most in the nation since the recession. We now have more private sector jobs than at any time in the state's history. We see the effects of this turnaround everywhere. Look at the lower Hudson Valley, where the new Tappan Zee Bridge is under construction, or Utica, where you'll find the future of nanotechnology. Look at Western New York, where RiverBend, a clean energy research and development plant, is rising in Buffalo, or the North Country, where Trudeau Institute is an emerging world class biotech hub, and a new hotel will open on Saranac Lake.

As these and other projects proceed the future bodes well for New York, a future in which we will increase economic development, in-

vest further in education and healthcare, provide more tax relief, and implement corporate and manufacturers' tax credits, all to retain and attract businesses and keep families from leaving the state.

Last year, we invited employers to establish businesses in New York with our Start-Up NY program. Now we are rolling out Global NY, to accelerate and expand New York exports to international markets. We are also working to eliminate regulatory barriers that keep start-ups from starting and businesses from growing. The Business Relief Act of 2013 took the first step by legislating needed workers' compensation reforms. The New York Workers' Compensation Board followed with a system wide review and modernization of the workers' compensation process.

The New York State Insurance Fund has played a crucial role in that system for 100 years. NYSIF's proud record of service to New York State and its people made it a state and national leader in workers' compensation and disability benefits insurance. Today, it continues to earn the public trust, helping businesses obtain needed insurance, paying timely benefits, offering workplace safety programs and fighting insurance fraud. Please join me in congratulating NYSIF on its 100th anniversary and wishing the Fund continued success and longevity.

Andrew M. Cuomo
Governor



Citation

Whereas, on March 25, 1911, a tragic fire at the Triangle Shirtwaist Factory in New York City killed 146 workers, and as a result came some of the most sweeping changes to working conditions ever enacted by a state government; and

Whereas, New York's Factory Investigation Commission, which emerged as a result of the fire, prompted New York's lawmakers to act on behalf of our most vulnerable workers; and

Whereas, laws were passed that were considered revolutionary at the time, becoming the foundation for modern labor laws, and establishing the New York State Insurance Fund in 1914; and

Whereas, in 1950, the law was extended to coverage for off-the-job injury and illness with passage of the New York State Disability Benefits Law, creating NYSIF's second line of insurance; and

Whereas, NYSIF has supplied a market for entire industries unable to insure elsewhere, including dust diseases, occupational hearing loss, asbestos abatement, roofing, window washers, scrap iron and steel companies, volunteer firefighters and ambulance workers; and

Whereas, NYSIF has supplied uninterrupted insurance for more employers, claimants and beneficiaries than any other workers' compensation carrier in the Empire State; and

Whereas, for 100 years, NYSIF has served as a stabilizing influence, offering coverage to help employers and workers avoid the hardships of on-the-job injury and illness and providing assurance of security for millions of working people and families protected by NYSIF insurance policies; and

Whereas, today, NYSIF's core mission is the same as it was 100 years ago: the solemn responsibility of protecting workers and establishing standards that have helped New York businesses maintain safe, healthy workplaces in which employees and employers can thrive; and

Whereas, NYSIF continues its commitment to a healthy and accident-free work environment for each of its policyholders and their employees; we join to celebrate this century of service as NYSIF builds on its success of serving New York's employers while protecting the safety and health of its workers;

Now, Therefore, I, Andrew M. Cuomo, Governor of the State of New York, do hereby cite the

100TH ANNIVERSARY OF THE

NEW YORK STATE INSURANCE FUND

being observed and celebrated throughout 2014 in the Empire State.



Governor
July 2014

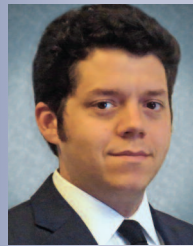
NYSIF Commissioners



Chairman
Kenneth R. Theobalds
Vice President, Government &
Regulatory Affairs, Entergy



Vice Chairman
Barry Swidler
CEO, Long Island Carpet
Cleaners, Inc.



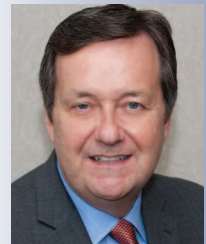
Joseph Canovas
New York AFL - CIO



Eileen A. Frank
President, J.P. West, Inc.



Joseph A. Guistino
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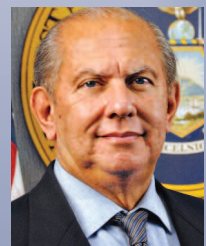
David E. Ourlicht
Managing Director,
GAMCO Asset Management



Sheila A. Stamps
Former Executive Vice President
Dreambuilder Investments, LLC



Alexis E. Thomas
Principal, The Williams Capital
Group, LP



Peter M. Rivera (ex-officio)
Commissioner
State Department of Labor



A Message from the Chairman

The New York State Insurance Fund faced significant changes and challenges in 2013, remaining solidly positioned to fulfill our obligation to NYSIF policyholders and claimants, as well as our legislative mandate to meet the workers' compensation and disability benefits insurance needs of New York businesses.

As NYSIF enters its 100th year of operation, the workers' compensation fund ended 2013 with written premium at an all-time high, while the disability benefits fund saw the largest growth in net premium since 2000. These results are attributable to an improved business climate in New York under Governor Andrew M. Cuomo, and to NYSIF's continuing commitment to integrity, efficiency and customer service in carrying out our mission.

Governor Cuomo's Business Relief Act of 2013 included a unified assessment methodology, closure of special funds and an increase in minimum weekly claim benefits among other workers' compensation reforms. NYSIF implemented all applicable provisions of the act impacting the agency and its stakeholders.

The Fund met other challenges with equal effectiveness in 2013. Among them, extending payment terms through the first quarter of the year to help businesses recovering in the aftermath of Super Storm Sandy. Modernization, meanwhile, continued at the forefront of NYSIF operations, notably an overhaul of NYSIF claims' systems to accommodate expanded medical treatment guidelines for carpal tunnel injuries, and mandatory electronic claims reporting as required by the Workers' Compensation Board.

Sadly, our leadership team experienced several changes in 2013, with the loss of three stalwarts: Robert H. Hurlbut, a former chairman and the longest serving commissioner in the history of the Fund, Acting Chairman H. Sidney Holmes, and Chief Executive Deputy Director Dennis H. Hayes. All were unwavering in their commitment to our mission on behalf of the businesses and people of New York State, and in their support of the institution. They will be missed, but we will continue to follow their example.

NYSIF managers and staff are not deterred by challenges or adversity. They get right to work, as NYSIF has for 100 years. I have utmost confidence in NYSIF's Board of Commissioners, management and dedicated employees to deliver on our mandate, guaranteeing the availability of workers' compensation and disability benefits insurance for many future generations of New York employers and workers.

On behalf of the Board, I thank Governor Cuomo for his leadership and support. I also commend my fellow commissioners, NYSIF Executive staff, our loyal policyholders, and the many dedicated NYSIF employees, past and present, who have sustained this agency over 10 decades by contributing immeasurably to its success.

Best wishes to NYSIF on its 100th anniversary. The Fund is committed to working hard to uphold our tradition. With great pride we acknowledge that the State Insurance Fund hallmarks of service and quality that originated 100 years ago are still served well today.

Kenneth R. Theobalds
Chairman



A Message from the Executive Director

It is an honor to serve as executive director of the New York State Insurance Fund as NYSIF celebrates its 100th year of service to the people of New York State.

I want to thank everyone who has had a stake in the long success of this agency – our policyholders, claimants and employees. I also thank Governor Andrew M. Cuomo and the New York State Legislature for their leadership and support, and our Board of Commissioners for its continued guidance and commitment.

Enacted on July 1, 1914, the Workers' Compensation Law established a new social contract between business, labor and government by creating the State Insurance Fund. Our original mission to provide a guaranteed source of workers' compensation insurance for any employer doing business in New York, regardless of risk, remains today. Since 1950, that has included mandatory disability benefits insurance for employees who are injured or become ill off the job.

NYSIF has honored its contract over the past century, fulfilling a mandate to provide insurance at the lowest possible cost as a not-for-profit agency. Simultaneously, we continue working to improve our products and services as a competitive insurance carrier.

While workplace accident severity generally has declined thanks to changing attitudes and economies, work-related injuries and illnesses still impact livelihoods and workers' compensation costs. NYSIF works with businesses to develop safety programs that safeguard workers and help control those costs. The results improve worker safety and health, generate policyholder discounts and dividends, and limit liability while assuring claimants receive the required care when accidents occur.

Here are some 2013 highlights:

- NYSIF totaled more than 25,400 safety surveys, safety training sessions and targeted safety action plans for policyholders.
- NYSIF managed approximately 97,000 claims for private employers. Claims staff negotiated 3,864 Section 32 claims' settlements, saving \$158,478,442 to help lower NYSIF reserves. We also saved over \$20.5 million in medical costs through our medical provider network.
- Continuing a program of uninterrupted dividends that began in 1923, NYSIF paid \$126,842,407 to workers' compensation safety group policyholders – an average dividend of 18.12%. We also returned \$3.4 million in disability benefits premium credits.
- Our Division of Confidential Investigations had 83 cases that led to arrest and prosecution of claimants, employers and medical providers for fraud against NYSIF. These resulted in \$10.9 million in restitution, additional billed premium and estimated savings.
- Our IT Department accomplished significant modernization of NYSIF's technology infrastructure by replacing multiple legacy mainframe processes with web-based applications.

Going forward, we have started the next NYSIF century with a reassessment of business operations from a service and financial perspective. Our strategic initiatives are aimed at speeding claimant processes, offering new products and services for large and small businesses, simplifying communication and making our website more user-friendly. Our goal is increased efficiency every year with services attuned to our customers' needs.

Best wishes to the State Insurance Fund on its 100th anniversary.

Eric Madoff
Executive Director



2013 In Review

In 2013, NYSIF's workers' compensation fund reached a record earned premium of \$2.26 billion. The disability benefits fund had earned premium of \$15.54 million, an increase of 13.2% over 2012. As of December 31, 2013, combined assets for the workers' compensation and disability benefits funds reached \$16.4 billion.

NYSIF had more than 166,000 policyholders and a 36% share of the New York workers' compensation market, making it the number one workers' compensation carrier in the state. The National Association of Insurance Commissioners ranked NYSIF the sixth largest workers' compensation carrier in America.

NYSIF disability benefits policyholders numbered 61,540 employers who had the option of statutory coverage or enhanced disability benefits insurance levels at \$0.14 per \$100 of payroll, which was the lowest gender-neutral disability benefits rate in New York. A new automated process to request a quote, submit a completed application with an electronic signature, pay deposit premium and bind coverage online made it easier than ever to obtain a NYSIF disability benefits insurance policy.

Governor Andrew M. Cuomo introduced major reforms to the workers' compensation system with the Business Relief Act of 2013, projecting \$800 million in savings for New York employers. Among other provisions, the law changed the methodology for Workers' Compensation Board assessments, resulting in one unified assessment for all businesses. It also provided for the closure of the Fund for Reopened Cases and the Special Disability Fund, transferring claims' liabilities of these funds to individual insurance carriers and employers, respectively. The law also eased limits on NYSIF to invest a percentage of surplus in American institutions regardless of debt rating, and increased minimum weekly benefits from \$100 to \$150 for injury claims.

NYSIF continued to offer savings for employers on workers' compensation costs, with advanced premium discounts for its safest policyholders. Safety group members also received dividends totaling \$126,842,407, for an average group dividend of 18.2%. NYSIF field reps worked with risk and group managers to conduct extensive safety training for employees in building operations and maintenance, supermarket, automotive, healthcare and construction industries.



NYSIF also issued return-of-premium credits to more than 37,000 disability benefits policyholders, many of whom also have NYSIF workers' compensation policies. Some 61% of NYSIF disability benefits policyholders received \$3.4 million in total in the form of refunds or credits applied to their premium balances.

Claims staff prepared for mandatory electronic reporting of all workers' compensation claims, as required by the Workers' Compensation Board, and worked to implement a new pharmacy benefits management program, both beginning in 2014.

In its initial year, a Drug Diversion Task Force made up of New York State Police and NYSIF's Division of Confidential Investigations (DCI) led to arrests for illegal sales of opioids prescribed for workers' compensation injuries. DCI worked with many local, state and federal law enforcement and regulatory agencies to investigate and prosecute fraud, including the New York State Department of Financial Services, New York State Office of Inspector General, New York State Attorney General's Office and New York State Department of Corrections. DCI also teamed with several local district attorneys and federal agencies on fraud investigations, as well as participated in a community education program with the NY County Lawyers Association and the Manhattan DA's Office.

NYSIF mourned the loss of three active members in 2013: Commissioner and former Chairman Robert H. Hurlbut in March, Vice Chairman and Acting Chair H. Sidney Holmes, III, in April, and Chief Executive Deputy Director Dennis J. Hayes in December.

In Memoriam

Chief Executive Deputy Director Dennis J. Hayes, who led NYSIF from July 1, 2011, died December 6, 2013, after a long illness. He was 61.



Mr. Hayes served in New York State government under four administrations and had more than 30 years' experience as an attorney and executive specializing in insurance, reinsurance and receivership matters. "On behalf of the New York State Insurance Fund and the Board of Commissioners, I express our profound sadness at the loss of our colleague and chief executive," Chairman Kenneth R. Theobalds said. "We have lost a dedicated leader, a caring manager and a friend," stated Deputy Executive Director and Chief of Staff Dorothy Carey.



Department Heads

Seated (l.-r.): Marilyn Carretta (Claims), Kerry Kirwan (Customer Service), Miriam Martinez (Investments), Linda Zafonte (ITS); Standing: Armin Holdorf (Field Services), Jeff Digman (Internal Controls), Ken Shulman (Internal Audit), John DeFazio (Premium Audit), Joseph Masi (Disability Benefits), George Tidona (Confidential Investigations), Sherwin Taylor (Underwriting), Joseph Mullen (Administration), Richard Morrison (Policyholder Services), Reuben Epstein (Actuarial)





Business Managers

Seated (l.-r.): Lisa Ellsworth (Rochester), Catherin Carillo (Suffolk), Patti Albert (Syracuse), Lorna Morris (Brooklyn/Staten Island); Standing: Assistant Director of Business Operations Joseph Nolte, Ron Reed (Buffalo), Thomas Racko (Binghamton), John Zenkewich (Upper Manhattan), Augusto Bortoloni (Albany), Michael Rachek (Bronx/Queens), Les Javorsky (Lower Manhattan), Cliff Meister (Nassau), Carl Heitner (White Plains), Director of Business Operations John Massetti

The Long Road from Branch Offices to Today's Fund

The days when NYSIF field staff set out in horse and buggy to visit policyholders in the outer reaches of New York State have long since passed.

In 1914, payroll auditors were the State Insurance Fund's first representatives, traveling from New York City to wherever NYSIF sent them. They stayed on the road for months at a time, auditing payrolls, writing new business, handling claims and providing any other service required. A historical account of NYSIF's organization during its early years refers to branch offices as consisting of one stenographer and one other staff member.

Much has changed since then. In the ensuing years, NYSIF grew to become a full-service workers' compensation insurance carrier, adding disability benefits insurance to its product line in 1950. NYSIF became the number one writer of workers' compensation insurance in New York State by 1928 and annually insures one-third or more of the market. Yearly premium exceeded \$1 billion by the 21st Century. In 2013, the National Association of Insurance Commissioners ranked NYSIF the sixth largest workers' compensation insurance writer in the nation, with more than \$2 billion in premium.

Today, NYSIF's staff of approximately 2,500 full-time employees operates 12 business offices covering every region of the state.

Claims and field services reps, underwriters, hearing reps, actuaries and payroll auditors make up NYSIF's dedicated staff. Departments including Customer Service, Information Technology, Investments, Budget and Finance, Internal Audit, Confidential Investigations, Legal and Communications complement a team of workers' compensation and disability benefits specialists that draws on 100 years of cumulative knowledge and experience.

As of 2014, most policyholders can report their own payroll to NYSIF using our website developed and designed by NYSIF staff. In addition to payroll reporting, nysif.com features online services that allow customers to obtain insurance quotes, report and track claims, submit medical reports, check the status of a benefit check or medical payment, receive benefit payments electronically, access hundreds of safety and risk management resources, pay their premiums, and create, validate and print certificates of insurance.

The concept of state insurance was a foreign idea when NYSIF set out to be a self-sufficient insurance carrier serving employers and employees across the cities and towns of New York. Along the way, NYSIF emerged as a reliable, stable and service-oriented insurer, and presently covers hundreds of thousands of businesses and millions of workers.



Highlights

Claims

\$30,219,966,096

WORKERS' COMPENSATION CLAIMS & MEDICAL PAYMENTS SINCE 1914. (Estimate as of 3/31/2014 includes initial value entered in first NYSIF computer in 1960.)

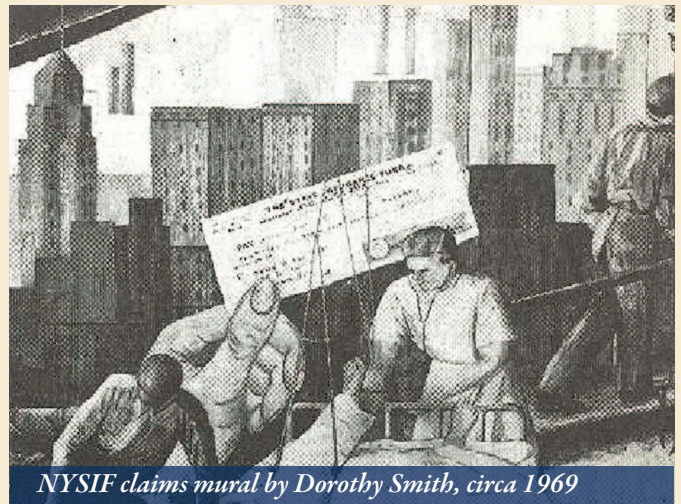
Possibly the State Insurance Fund's most enduring image overlooks a NYC side street from an exterior wall of NYSIF's home office in lower Manhattan. The marble likeness of mother, father and child, profiled in a 1977 volume of *National Sculpture Review*, is the allegorical sculpture *Unity of the Family* by Oronzio Maldarelli.



Unity of the Family

NYSIF was created in response to the type of workplace accident that could leave families destitute and tear them apart. More than a century ago, the Triangle Shirtwaist fire demonstrated that harsh reality and led to NYSIF's creation. Making timely and appropriate claims payments, as well as offering benefits for dependent survivors, is a vital part of NYSIF's core mission. As NYSIF observes the century mark, it has made workers' compensation and medical payments of more than \$30.2 billion since its inception. Those payments have helped countless families weather the sometimes-crippling aftermath of workplace injury and illness over the years.

- NYSIF received 71,563 claims in 2013 and retired 80,158 existing claims. As of December 31, 2013, NYSIF had 136,118 active claims.
- Claims staff settled 3,864 cases through Section 32 of the New York Workers' Compensation Law, which resulted in \$158,478,442 in savings on reserves.
- Medical bills reviewed by NYSIF's medical provider network administrator resulted in net savings of \$20,542,003.



NYSIF claims mural by Dorothy Smith, circa 1969

- NYSIF eFROI® (electronic first report of injury) completed updates on 4/28/14 in compliance with the International Association of Industrial Accident Boards and Commissions (IAIABC) national standard for electronic claims filing mandated by the New York Workers' Compensation Board.

Customer Service

2,232,348

CALLS ANSWERED BY THE CUSTOMER SERVICE CALL CENTER SINCE 2006 (As of 8/1/13)

- NYSIF's Customer Call Center processed calls, voicemails, e-mails and faxes for 289,077 inquiries, a response rate of 79.4%.
- On average, customer service representatives resolved inquiries within six minutes and handled seven calls per hour.
- NYSIF installed improved software to review calls for quality assurance.



Field Services

\$3,776,050,759

*DIVIDENDS PAID TO WORKERS' COMPENSATION
SAFETY GROUP MEMBERS SINCE 1923. (Estimate)*

With 100 years in the workers' compensation industry, NYSIF's experience, knowledge and longevity distinguishes it among all competitors. NYSIF is committed to a healthy and accident-free work environment for each of its policyholders and their employees.

NYSIF Field Services provided the following safety services for workers' compensation policyholders in 2013:

- 17,128 safety surveys;
- 3,768 safety action plans;
- 2,542 safety training sessions;
- 1,964 safety presentations.

■ NYSIF paid \$126,842,407 to safety group policyholders in 2013 – an average dividend of 18.12%. Since our safety group program's inception in 1923, with the Launderers and Cleaners Group 34, NYSIF has paid more than \$3.7 billion in dividends to safety group members – an average group dividend of 25% over 80 years.

■ Quarterly training was held with Field Services employees in each business office in 2013. All Field Services reps also attended a 30-hour Occupational Safety and Health Administration General Industry safety seminar.



Disability Benefits

■ NYSIF disability benefits premium had a \$1.82 million increase in 2013 to \$15.54 million, or 13.23%. Disability benefits claims increased 17.36%, with \$13.79 million paid on 9,462 claims. Of 61,540 disability benefits policyholders, 61% received a total of \$3.4 million in NYSIF premium credits in 2013.

Photo, above: NYSIF logo circa 1972



**Nobody Does
More to Fight
Fraud**

Nobody



Keep New York Open For Business
Report workers' compensation fraud
1-877-WCNYSIF
nysif.com

NYSIF 2013 anti-fraud campaign ads appeared statewide

DCI

\$230,000,000

RECOVERIES AND ESTIMATED SAVINGS SINCE 1995.

NYSIF DCI (Division of Confidential Investigations) has accounted for \$230 million in total restitution, additional billed premium and estimated savings since 1995 as a result of more than 10,000 fraud investigations and 1,780 arrests.

- In 2013, DCI tallied 83 arrests, \$1,526,325 in restitution and \$9,400,390 in additional premium and estimated savings.
- Notable cases in 2013 ended in five years' probation and a \$5 million premium fraud judgment against the owner of an employee-leasing firm, and a 54-month prison sentence for a medical provider in a billing scheme.
- In its first year, the New York State Police-DCI Drug Diversion Task Force made several arrests for illegal sales of workers' compensation prescription medications.

ITS

■ NYSIF Information Technology Services replaced legacy mainframe processes with several web-based applications in 2013 to improve automation and accuracy for medical bill review and audit, policy rating, renewal and administration, and predictive and comparative analysis for underwriting.

New York State Insurance Fund Statutory Basis Financial Statements

Workers' Compensation Fund - Statements of Admitted Assets, Liabilities and Surplus

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Admitted Assets		
Cash and invested assets		
Bonds—at NAIC carrying value	\$ 10,835,875	\$ 11,499,280
Preferred stocks	8,496	8,400
Common stocks	1,336,884	1,405,036
Real estate	17,272	16,998
Cash and short-term investments	1,884,157	197,054
Other invested assets	-	-
Receivables for securities	56,719	112,723
Security lending reinvested collateral assets	<u>391,746</u>	<u>102,492</u>
Total cash and invested assets	14,531,149	13,341,983
Premiums receivables	241,353	175,044
Reinsurance recoverable	12,267	158
Accrued investment income	77,521	79,319
Due from affiliates	53,521	47,039
Other admitted assets	9,300	18,713
Contingent receivable from New York State	<u>1,295,000</u>	<u>1,295,000</u>
Total admitted assets	<u>\$ 16,220,111</u>	<u>\$ 14,957,256</u>
Liabilities and Surplus		
Liabilities		
Reserve for losses	\$ 7,713,235	\$ 8,732,897
Reserve for loss adjustment expenses	979,286	855,925
Unearned premiums	477,968	417,748
Contingent policyholder dividends	979,701	931,268
Payables for securities	122	31,234
Payables for securities lending	402,496	114,700
Accrued expenses and other liabilities	325,900	296,702
Due to affiliates	<u>1,750,692</u>	<u>448,786</u>
Total liabilities	<u>12,629,400</u>	<u>11,829,260</u>
Surplus		
Security fluctuation surplus	400,000	400,000
Catastrophe surplus	167,055	225,968
Special surplus from retroactive reinsurance assumed	-	-
Foreign terrorism catastrophe surplus	364,366	315,465
Domestic terrorism catastrophe surplus	68,579	58,567
Unassigned surplus	<u>2,590,711</u>	<u>2,127,996</u>
Total surplus	<u>3,590,711</u>	<u>3,127,996</u>
Total liabilities and surplus	<u>\$ 16,220,111</u>	<u>\$ 14,957,256</u>

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Workers' Compensation Fund - Statements of Income

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Underwriting income		
Net written premium	<u>\$ 2,283,287</u>	<u>\$ 1,943,838</u>
Net earned premium	<u>\$ 2,265,141</u>	<u>\$ 1,878,020</u>
Underwriting expenses		
Losses incurred	176,559	1,833,108
Loss adjustment expenses incurred	284,064	62,254
Other underwriting (income) expenses incurred	<u>(253,284)</u>	<u>241,241</u>
Total underwriting expenses	<u>207,339</u>	<u>2,136,603</u>
Net underwriting profit (loss)	<u>2,057,802</u>	<u>(258,583)</u>
Investment income earned		
Investment income	433,396	468,120
Investment expenses	(25,586)	(25,455)
Net realized investment gains	<u>358,591</u>	<u>277,392</u>
Net investment income earned	<u>766,401</u>	<u>720,057</u>
Other income (expenses)		
Bad debt expense	(59,101)	(20,959)
Finance and service charges	10,341	9,595
Miscellaneous income	5,137	51,956
Special assessment New York State (Note 15)	(2,301,102)	-
Dividends to policyholders	<u>(175,276)</u>	<u>(190,535)</u>
Total other expenses	<u>(2,520,001)</u>	<u>(149,943)</u>
Net income	<u>\$ 304,202</u>	<u>\$ 311,531</u>

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Workers' Compensation Fund - Statements of Surplus

Years ended December 31, 2013 and 2012 (in thousands)

	Security Fluctuation Surplus	Catastrophe Surplus	Surplus From Retroactive Reinsurance Assumed	Foreign Terrorism Catastrophe Surplus
BALANCE—January 1, 2012	\$ 400,000	\$ 220,438	\$ -	\$ 270,238
Net income	-	-	-	-
Net unrealized capital gains - investments	-	-	-	-
Increase in nonadmitted assets	-	-	-	-
Appropriation of assigned to unassigned surplus	-	5,530	-	-
Appropriation of unassigned to assigned surplus	-	-	-	45,227
BALANCE—December 31, 2012	400,000	225,968	-	315,465
Net income	-	-	-	-
Net unrealized capital gains - investments	-	-	-	-
Increase in nonadmitted assets	-	-	-	-
Appropriation of assigned to unassigned surplus	-	(58,913)	-	-
Appropriation of unassigned to assigned surplus	-	-	-	48,901
BALANCE—December 31, 2013	\$ 400,000	\$ 167,055	\$ -	\$ 364,366

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Workers' Compensation Fund - Statements of Cash Flows

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 2,259,078	\$ 1,868,349
Net investment income	362,308	397,522
Miscellaneous (expense) income	(560,222)	60,366
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,208,330)	(1,331,537)
Expenses paid	(345,710)	(378,990)
Dividends paid to policyholders	<u>(126,843)</u>	<u>(139,707)</u>
Net cash provided by operations	<u>380,281</u>	<u>476,003</u>
Cash flows from investments		
Proceeds from investments sold, matured or repaid	25,642,212	28,004,873
Cost of investments acquired	<u>(24,320,829)</u>	<u>(28,593,576)</u>
Net cash provided by (used in) investments	<u>1,321,383</u>	<u>(588,703)</u>
Cash flows from other sources		
Other cash (used) provided	<u>(14,561)</u>	<u>14,650</u>
Net cash (used in) provided by other sources	<u>(14,561)</u>	<u>14,650</u>
Net change in cash and short-term investments	1,687,103	(98,050)
Cash and short-term investments beginning of year	<u>197,054</u>	<u>295,104</u>
Cash and short-term investments end of year	<u>\$ 1,884,157</u>	<u>\$ 197,054</u>

See accompanying notes to statutory basis financial statements.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (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

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Workers' Compensation Fund are presented in conformity with accounting practices prescribed by the New York State Department of Financial Services (the "DFS"). The DFS 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 DFS has the right to permit other specific practices that may deviate from prescribed practices. The Workers' Compensation Fund, as prescribed by the DFS or as mandated by New York State Workers' Compensation Law, discounts all loss and loss adjustment expense reserves and the assessment liability related to

Workers' Compensation Board ("WCB") at 5%, is not required to calculate Risk Based Capital calculations and records the contingent receivable from the State as an admitted asset.

The Workers' Compensation Fund discounts reserves for loss and loss adjustment expenses at 5%, resulting in an increase to statutory surplus of \$6,517,257 and \$7,096,061 as of December 31, 2013 and 2012, 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, 2013 and 2012, respectively.

The cumulative effect of prescribed practices by the DFS or as mandated by New York State Workers' Compensation Law on the Workers' Compensation Fund's total surplus and net income as of and for the years then ended December 31, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Surplus		
Total surplus as shown on statutory statements - NY SAP	\$ 3,590,711	\$ 3,127,996
Discounting loss and loss adjustment expense reserves at 5% *	(6,517,257)	(7,096,061)
WCB Assessment discount	-	(337,505)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Total cumulative effect	(7,812,257)	(8,728,566)
Total adjusted surplus to deficit - NAIC SAP	<u>\$ (4,221,546)</u>	<u>\$ (5,600,570)</u>
Net Income		
Total net income as shown on statutory statements - NY SAP	\$ 304,202	\$ 311,531
Discounting loss and loss adjustment expense reserves at 5% *	(578,805)	(922,721)
Effect of discounting loss reserves at 5% liability for WCB assessment	(337,505)	(32,401)
Total cumulative effect	(916,310)	(955,122)
Total net income adjusted	<u>\$ (612,108)</u>	<u>\$ (643,591)</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, 2013 and 2012, respectively, is \$3,164,596 and \$3,877,842.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than generally accepted accounting principles 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 discounted 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. 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.
- 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 capitalized 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, 10% of earned but unbilled premium 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, all EDP and related equipment, would be recorded as assets, less accumulated depreciation over its useful lives.
- 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 and administrative assessments to the New York State Workers' Compensation Board are discounted to their present value using an annual effective interest rate of 5% during 2013. 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 DFS allows 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 net amount of all cash accounts is reported jointly. Cash accounts with positive balances are not reported separately from cash accounts with negative balances. If in the aggregate, the reporting entity has a net negative cash balance, it is reported as a negative asset. Under U.S. GAAP, positive cash balances are reported as assets while net negative cash balances are reported as liabilities.
- o. 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.
- p. 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.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

B. Investments:

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

Bonds are valued in accordance with the requirements of the NAIC's 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. Market value is based on market prices obtained from the SVO, and SS&C Technologies, Inc., primarily.

For mortgage-backed fixed maturity securities, the Workers' Compensation Fund recognizes income using constant effective yield based on anticipated prepayments over the economic life of the security. Mortgage-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 gain or loss for common stocks is the change in fair value from the prior year-end. 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. Unrealized gain or loss for preferred stocks are presented in the unassigned surplus in the statutory basis statements of surplus includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

Receivable and payable for securities represent sales and purchases of securities that are unsettled at year-end.

Realized gains and losses on the sale of investments are calculated based on the difference between the carrying value and the consideration received at the time of sale and are included in results of income.

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 specific lot 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 recorded through the statutory basis statements of income in 2013 and 2012 for realized losses related to Workers' Compensation Fund for impairment losses was \$6,749 and \$17,112, respectively.

C. 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 the statutory basis statements of income in 2013 and 2012 was \$9,477 and \$ 9,192, respectively.

Maintenance and repairs are charged to expense as incurred.

D. 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, 2013 and 2012, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for the Workers' Compensation Fund was \$241,353 and \$175,044. To reduce credit risk, the Workers' Compensation Fund

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 uncollectable and the potential loss is not material to the Workers' Compensation Fund's financial condition. The Workers' Compensation Fund performs an analysis of uncollectable premiums receivable and realized write offs of \$59,101 and \$20,959, for the year-ended December 31, 2013 and 2012, respectively, in the statutory basis statements of income.

Super Storm Sandy struck on October 29, 2012, causing extensive power outages, loss of life and property, most seriously impacting the counties of New York, Bronx, Kings, Richmond, Queens, Nassau, Suffolk, Westchester, Rockland, and Orange.

The Superintendent of Insurance found that in the wake of Super Storm Sandy, certain modifications to the Insurance Law were necessary to protect storm-affected policyholders. Therefore, effective October 26, 2012, for New York, Bronx, Kings, Richmond, Queens, Nassau, Suffolk, Westchester, Rockland, and Orange counties, the Superintendent ordered a 30-day moratorium on the termination, cancellation, or non-renewal of any covered policy. This moratorium was extended seven times; each time reducing the counties and/or zip codes impacted.

The moratorium was lifted on February 28, 2013 and the Superintendent issued expectations for the Post-Moratorium treatment of policyholders. The expectations state that insurers are expected to work with impacted policyholders by providing adequate notice of premium due and should allow repayment plans or further extensions. At the end of the moratorium NYSIF had approximately 20,000 policies with \$90 million in impacted premium. NYSIF resumed customary billing practices on March 2, 2013 and policyholders in the affected area who were unable to make full payment and contacted us were provided up to an additional 90 days to pay their bill.

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.

The estimate for earned but unbilled premium ("EBUB") is recognized through the statutory basis statements of income 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. Ten percent of EBUB, in excess of collateral specifically held as identifiable on a policy basis, is nonadmitted.

E. Expenses of Workers' Compensation Board:

The Workers' Compensation Fund, together with other insurance carriers, is required to contribute toward the expenses of the WCB. The Workers' Compensation Fund contributes a proportion respective to indemnity payments processed through the Board. A liability for unpaid amounts had 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 at December 31, 2012. The liability as of December 31, 2012 was \$448,786, and recorded through the statutory basis statements of admitted assets, liabilities and surplus. In 2013, the amount incurred of (\$424,066) included the release of the liability due to the WCB related to administrative expenses in the amount of approximately \$450 million which was no longer required to be held as a result of the changes in the law disclosed in Note 8 and Note 15. The amounts incurred in 2013 and 2012 to the WCB to contribute toward their expenses were (\$424,066) and \$79,667, respectively, recording in other underwriting expenses in the statutory basis statements of income.

F. 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 \$6,517,257 and \$7,096,061 as of December 31, 2013 and 2012, respectively, as a result of the discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law.

At December 31, 2012, these liabilities also include assessments for Sections 15.8 and 25A of \$1,648,986 under the New York State Workers' Compensation Law, and expenses for investigating and settling claims. As a result of the changes noted in the Workers' Compensation Reform disclosed in Note 15, all assessments are now borne by the policyholders.

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 15.

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.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

G. 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 DFS. Security fluctuation surplus remained unchanged at \$400,000 as of December 31, 2013 and 2012.

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 \$58,913 and increasing the catastrophe surplus \$5,530 as of December 31, 2013 and 2012, 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 through 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 the 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 preceding the applicable deductible year. The Terrorism Program also 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 \$375,604 and \$294,187 for December 31, 2013 and 2012, respectively. The Workers' Compensation Fund assigned \$364,366 and \$315,465 of surplus which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2013 and 2012, respectively. Beginning on October 1, 2005, the Workers' Compensation Fund began assigning a portion of premium to domestic terrorism, which totaled \$68,579 and \$58,567 as of December 31, 2013 and 2012, respectively.

H. 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 income.

Activity in contingent policyholder dividends is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance - January 1	\$ 931,268	\$ 880,440
Dividends to policyholders	175,276	190,535
Dividends paid to policyholders	<u>(126,843)</u>	<u>(139,707)</u>
Balance - December 31	<u>\$ 979,701</u>	<u>\$ 931,268</u>

I. Fringe Benefits:

Based on actual costs billed by various State agencies, the Workers' Compensation Fund incurred \$72,017 and \$65,737 of fringe benefits and indirect costs in 2013 and 2012, respectively, recorded through other underwriting expenses.

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 \$31,264 and \$27,034 in 2013 and 2012, respectively.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

J. 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 1,386 and 1,379 retirees participating in the plan for the years ended December 31, 2013 and 2012, respectively. The Workers' Compensation Fund is billed by the Department of Civil Service monthly. Expenses are recognized when paid and totaled \$12,532 and \$10,791 for the Workers' Compensation Fund for the years ended December 31, 2013 and 2012, respectively, and recorded as a component of other underwriting expenses.

K. 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 \$43,069 and \$35,999 in 2013 and 2012, respectively, and recorded through the statutory basis statements of income.

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 2013 and 2012 was \$5,376 and \$4,413, respectively, and recorded through the statutory basis statements of income.

L. 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, 2013 and 2012, cash and short-term investments in the Worker's Compensation Fund's custodian bank account were \$16,607 and \$17,007, respectively, and were not insured by the FDIC.

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

N. 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. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and earned but unbilled premiums.

O. Reclassification:

Reclassifications from the miscellaneous income into finance and service charges were made in the prior year's statutory basis statements of income to conform to the current year's presentation.

P. Changes in Accounting Principles:

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 DFS. 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, 2013 and 2012, 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 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, 2013 and 2012 are as follows:

	<u>2013</u>			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 6,086,612	\$ 99,177	\$ (341,727)	\$ 5,844,062
Foreign government	478,973	4,717	(14,892)	468,798
States, territories, possessions and political subdivisions	369,966	13,268	(21,072)	362,162
Corporate bonds and public utilities	3,595,147	249,800	(72,465)	3,772,482
Mortgage-backed securities	232,467	11,204	(3,505)	240,166
Hybrid securities	72,710	37,044	-	109,754
Total bonds	10,835,875	- 415,210	- (453,661)	10,797,424
Preferred stocks	8,280	1,511	(752)	9,039
Common stocks	945,700	392,715	(1,531)	1,336,884
Total stocks	953,980	394,226	(2,283)	1,345,923
Total investments	\$ 11,789,855	\$ 809,436	\$ (455,944)	\$ 12,143,347
	<u>2012</u>			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 6,369,583	\$ 462,830	\$ (23,557)	\$ 6,808,856
Foreign government	673,963	18,507	(72)	692,398
States, territories, possessions and political subdivisions	279,659	36,879	(2,628)	313,910
Corporate bonds and public utilities	3,720,017	526,227	(2,540)	4,243,704
Mortgage-backed securities	381,108	66,008	(201)	446,915
Hybrid securities	74,950	31,122	-	106,072
Total bonds	11,499,280	- 1,141,573	- (28,998)	12,611,855
Preferred stocks	6,810	1,590	-	8,400
Common stocks	1,176,957	238,758	(10,679)	1,405,036
Total stocks	1,183,767	240,348	(10,679)	1,413,436
Total investments	\$ 12,683,047	\$ 1,381,921	\$ (39,677)	\$ 14,025,291

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The amortized cost and market value of bonds at December 31, 2013 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 <u>Cost</u>	Market <u>Value</u>
Due in one year or less	\$ 243,211	\$ 245,297
Due after one year through five years	2,922,293	3,032,739
Due after five years through ten years	1,388,361	1,380,293
Due after ten years	<u>6,282,010</u>	<u>6,139,095</u>
Total bonds	<u>\$ 10,835,875</u>	<u>\$ 10,797,424</u>

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

	<u>2013</u>	<u>2012</u>
Bonds	\$ 395,420	\$ 426,455
Stocks	26,271	31,720
Cash, and short-term investments	343	354
Other	<u>11,362</u>	<u>9,591</u>
Investment income earned	433,396	468,120
Investment expenses	(25,586)	(25,455)
Net realized investment gains	<u>358,591</u>	<u>277,392</u>
Net investment income earned	<u>\$ 766,401</u>	<u>\$ 720,057</u>

Net realized investment gains (losses) on investments, determined on the specific lot method in 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Bonds	\$ 126,142	\$ 187,140
Stocks	230,452	90,359
Real estate	1,963	-
Cash and short term investments	<u>34</u>	<u>(107)</u>
Net realized investment gains	<u>\$ 358,591</u>	<u>\$ 277,392</u>

For the Workers' Compensation Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2013 and 2012 were \$25,642,212 and \$28,004,832, respectively. These sales resulted in gross realized gains of \$463,531 and \$350,093, and gross realized losses of \$100,154 and \$55,589 in 2013 and 2012, respectively.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

During 2013, the Workers' Compensation Fund sold a property formerly occupied by the Fund's employees for \$2,260, resulting in a net realized gain of \$1,963.

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 unrealized loss position as of December 31, 2013 and 2012, respectively.

Gross unrealized losses represented 4.2% and 0.3% of cost or amortized cost for the Workers' Compensation Fund as of December 31, 2013 and 2012, respectively. Fixed maturities represented 99% and 73% of the Workers' Compensation Fund's unrealized losses as of December 31, 2013 and 2012, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 318 and 196 securities for the Workers' Compensation Fund as of December 31, 2013 and 2012, respectively. The group of securities depressed for twelve months or more were comprised of 47 and 3 securities, for the Workers' Compensation Fund as of December 31, 2013 and 2012, respectively.

	Less Than 12 Months			2013 12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	\$ 3,115,432	\$ 2,925,388	\$ 190,044	\$ 1,227,930	\$ 1,055,176	\$ 172,754	\$ 4,343,362	\$ 3,980,564	\$ 362,798
Foreign government	269,226	254,334	14,892	-	-	-	269,226	254,334	14,892
Corporate bonds and public utilities	1,237,531	1,181,872	55,659	160,546	143,739	16,807	1,398,077	1,325,611	72,466
Mortgage-backed securities	75,492	73,249	2,243	15,322	14,060	1,262	90,814	87,309	3,505
Hybrid securities	-	-	-	-	-	-	-	-	-
Total fixed maturities	4,697,681	4,434,843	262,838	1,403,798	1,212,975	190,823	6,101,479	5,647,818	453,661
Common and preferred stocks	36,072	33,838	2,234	728	679	49	36,800	34,517	2,283
Total stocks	36,072	33,838	2,234	728	679	49	36,800	34,517	2,283
Total temporarily impaired investments	\$ 4,733,753	\$ 4,468,681	\$ 265,072	\$ 1,404,526	\$ 1,213,654	\$ 190,872	\$ 6,138,279	\$ 5,682,335	\$ 455,944

	Less Than 12 Months			2012 12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	\$ 1,137,623	\$ 1,111,438	\$ 26,185	\$ -	\$ -	\$ -	\$ 1,137,623	\$ 1,111,438	\$ 26,185
Foreign government	67,438	67,366	72	-	-	-	67,438	67,366	72
Corporate bonds and public utilities	285,872	283,332	2,540	-	-	-	285,872	283,332	2,540
Mortgage-backed securities	22,023	21,827	196	1,108	1,103	5	23,131	22,930	201
Hybrid securities	-	-	-	-	-	-	-	-	-
Total fixed maturities	1,512,956	1,483,963	28,993	1,108	1,103	5	1,514,064	1,485,066	28,998
Common and preferred stocks	132,165	121,489	10,676	321	318	3	132,486	121,807	10,679
Total stocks	132,165	121,489	10,676	321	318	3	132,486	121,807	10,679
Total temporarily impaired investments	\$ 1,645,121	\$ 1,605,452	\$ 39,669	\$ 1,429	\$ 1,421	\$ 8	\$ 1,646,550	\$ 1,606,873	\$ 39,677

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, 2013 and 2012. 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 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.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The OTTI recorded during 2013 and 2012 was \$6,749 and \$17,112, respectively, as a component of net realized investment gains through the statutory basis statements of income.

Statement of Statutory Accounting Principles No. 43 - *Revised Loan-backed and Structured Securities* ("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 2013 and 2012 for realized losses related to the Workers' Compensation Fund for impairment losses related to SSAP No. 43R investments was \$152 and \$221, respectively. There were no additional impairments recorded in 2013 and 2012 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.

	<u>2013</u>		
	1	2	3
	Amortized	Other-than-	Fair Value
	Cost	Temporary	1-2
	Basis Before	Impairment	
	Other-than-	Recognized in	
	Temporary	Loss	
	Impairment		
OTTI recognized 1st Quarter			
a. Intent to sell	\$ 277	\$ 109	\$ 168
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>277</u>	<u>109</u>	<u>168</u>
OTTI recognized 2nd Quarter			
d. Intent to sell	-	-	-
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>-</u>	<u>-</u>	<u>-</u>
OTTI recognized 3rd Quarter			
g. Intent to sell	4,745	43	4,702
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>4,745</u>	<u>43</u>	<u>4,702</u>
OTTI recognized 4th Quarter			
j. Intent to sell	-	-	-
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>-</u>	<u>-</u>	<u>-</u>
m. Annual Aggregate Total	<u>\$ 5,022</u>	<u>\$ 152</u>	<u>\$ 4,870</u>

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

	<u>2012</u>		
	1	2	3
	Amortized Cost Basis Before Other-than- Temporary Impairment	Other-than- Temporary Impairment Recognized in Loss	Fair Value 1-2
OTTI recognized 1st Quarter			
a. Intent to sell	\$ 8,384	\$ 177	\$ 8,207
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>8,384</u>	<u>177</u>	<u>8,207</u>
OTTI recognized 2nd Quarter			
d. Intent to sell	975	25	950
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>975</u>	<u>25</u>	<u>950</u>
OTTI recognized 3rd Quarter			
g. Intent to sell	307	14	293
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>307</u>	<u>14</u>	<u>293</u>
OTTI recognized 4th Quarter			
j. Intent to sell	287	5	282
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>287</u>	<u>5</u>	<u>282</u>
m. Annual Aggregate Total	<u>\$ 9,953</u>	<u>\$ 221</u>	<u>\$ 9,732</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 \$391,746 and \$102,492 as of December 31, 2013 and 2012, respectively. For the years ended December 31, 2013 and 2012, the Workers' Compensation Fund received fees of \$798 and \$376, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of income. During 2013 and 2012, the Workers' Compensation Fund recorded OTTI in the amount of \$109 and \$148, in the statutory basis statement of income, respectively.

A. Fair Value of Financial Instruments:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The Workers' Compensation Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total investment portfolio.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The statement value and estimated fair value of financial instruments at December 31, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>	
	Statement	Estimated	Statement	Estimated
	<u>Value</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
Financial assets:				
Bonds	\$ 10,835,875	\$ 10,797,424	\$ 11,499,280	\$ 12,611,855
Preferred stocks	8,496	8,496	8,400	8,400
Common stocks	1,336,884	1,336,884	1,405,036	1,405,036
Cash and short-term investments	1,884,157	1,884,157	197,054	197,054

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'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.

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 and preferred stocks when NAIC designations fall below a 2 and, therefore, are carried at the lower of cost or market.

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, as well as where fair value is disclosed, 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 Fund'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, 2013 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:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Hybrids- Issuer Obligations	\$ -	\$ 201	\$ -	\$ 201
Perpetual Preferred stocks	8,471	-	-	8,471
Common stocks	<u>1,336,884</u>	<u>-</u>	<u>-</u>	<u>1,336,884</u>
Total assets at fair value	<u>\$ 1,345,355</u>	<u>\$ 201</u>	<u>\$ -</u>	<u>\$ 1,345,556</u>

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The following table provides information as of December 31, 2012 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	Level 3	Total
Bonds - Residential Mortgage-Backed Securities	\$ -	\$ 283	\$ -	\$ 283
Hybrids- Issuer Obligations	-	212	-	212
Perpetual Preferred stocks	8,375	-	-	8,375
Common stocks	1,405,036	-	-	1,405,036
Total assets at fair value	\$ 1,413,411	\$ 495	\$ -	\$ 1,413,906

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. There were no changes in valuation techniques during 2013 and 2012.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

The Workers' Compensation Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets available for plan benefits.

There were no significant transfers into or out of level 2 or 3 during 2013 and 2012. There were no changes in valuation techniques during 2013 and 2012.

The Fund's policy is to recognize transfers in and out of Level 3 as of the end of the reporting period. The amounts transferred out of Level 3 represent securities where amortized cost is lower than fair value and the securities are being reported at amortized cost.

	Balance at beginning of period	Transfers into Level 3	Transfers out of Level 3	Total gain/(loss) included in net income	Total gain/(loss) included in surplus	Purchases	Sales	Balance at end of period
Assets at fair value:								
Bonds - Residential MBS	\$ 5,644	\$ -	\$ -	\$ -	\$ (156)	\$ -	\$ -	\$ 5,488
Total assets at fair value	\$ 5,644	\$ -	\$ -	\$ -	\$ (156)	\$ -	\$ -	\$ 5,488

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

The following table provides information as of December 31, 2013 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate	Admitted	Level 1	Level 2	Level 3
	Fair Value	Assets			
Bonds	\$ 10,687,670	\$ 10,763,165	\$ -	\$ 10,687,670	\$ -
Hybrids	109,754	72,710	-	109,754	-
Short-term investments	279,259	279,259	-	279,259	-
Preferred stocks	9,039	8,496	9,039	-	-
Common stocks	1,336,884	1,336,884	1,336,884	-	-
Money market mutual funds	1,618,920	1,618,920	1,618,920	-	-
Security lending collateral assets	394,722	391,746	384,255	4,979	5,488
Total	<u>\$ 14,436,248</u>	<u>\$ 14,471,180</u>	<u>\$ 3,349,098</u>	<u>\$ 11,081,662</u>	<u>\$ 5,488</u>

The following table provides information as of December 31, 2012 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate	Admitted	Level 1	Level 2	Level 3
	Fair Value	Assets			
Bonds	\$ 12,505,784	\$ 11,424,330	\$ -	\$ 12,505,784	\$ -
Hybrids	106,071	74,950	-	106,071	-
Short-term investments	183,212	183,212	-	183,212	-
Preferred stocks	8,491	8,400	8,491	-	-
Common stocks	1,405,036	1,405,036	1,405,036	-	-
Money market mutual funds	21,010	21,010	21,010	-	-
Security lending collateral assets	104,139	102,492	93,529	4,966	5,644
Total	<u>\$ 14,333,743</u>	<u>\$ 13,219,430</u>	<u>\$ 1,528,066</u>	<u>\$ 12,800,033</u>	<u>\$ 5,644</u>

Securities classified into level 1 included primarily common stocks, preferred stocks and money market mutual funds 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. Quoted prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Securities classified in Level 3 for 2013 and 2012 represents a structured investment vehicle that is measured based on analysis performed by the Fund's investment manager which analyzes the underlying collateral in addition to bid / ask pricing received from brokers to estimate a price. The valuation methodology has been applied consistently from 2012 to 2013.

There were no significant transfers into or out of Level 2 or 3 during 2013 and 2012. There were no changes in valuation techniques during 2013 and 2012.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

B. 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 indirect 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, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
<u>Exposure</u>		
Book value	\$ 4,702	\$ 7,832
Fair value	\$ 4,702	\$ 9,035
Actual cost	\$ 4,702	\$ 7,832
Total bond portfolio	\$ 10,835,875	\$ 11,499,280
Book value as a % of bond portfolio	0.04%	0.07%

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.

C. Wash Sales:

In the course of the Workers' Compensation Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Workers' Compensation Fund's yield on its investment portfolio. The Workers' Compensation Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years-ended December 31, 2013 and 2012 that were reacquired within 30 days of the sale date.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

4 - REAL ESTATE

The investment in real estate includes various locations in New York State occupied by the Fund's employees. Depreciation expense recorded in the statutory basis statements of income during 2013 and 2012 was \$1,359 and \$1,154, respectively.

The Workers' Compensation Fund owned real estate at December 31, 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Office buildings and improvements, at cost	\$ 33,924	\$ 35,081
Accumulated depreciation	<u>(21,415)</u>	<u>(22,948)</u>
Office buildings and improvements—net of accumulated depreciation	<u>12,509</u>	<u>12,133</u>
Land	2,735	2,991
Land improvement	<u>2,028</u>	<u>1,874</u>
Total real estate	<u>\$ 17,272</u>	<u>\$ 16,998</u>

5 - NON-ADMITTED ASSETS

The non-admitted assets of the Workers' Compensation Fund at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Premium in course of collection outstanding over 90 days	\$ 137,530	\$ 134,680
Electronic Data Equipment/Software	1,720	2,409
Furniture and equipment, net of accumulated depreciation	1,600	1,799
Other	<u>8,179</u>	<u>7,095</u>
Total non-admitted assets	<u>\$ 149,029</u>	<u>\$ 145,983</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 accompanying statutory basis statements 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.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

7 - 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 2013 and 2012. 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 income in 2013 and 2012.

The reserves for losses and loss adjustment expenses have been reduced by \$1,184 and \$17,050 for losses recoverable under reinsurance contracts as of December 31, 2013 and 2012, respectively.

A. Unsecured Reinsurance Recoverables in Excess of 3% of 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 surplus at December 31, 2013 and 2012.

B. Retroactive Reinsurance:

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

	<u>2013</u>	<u>2012</u>
	<u>Assumed</u>	<u>Assumed</u>
Reserves transferred:		
Initial reserves	\$ 9,919	\$ 9,919
Adjustments—prior year(s)	(7,507)	(7,413)
Adjustments—current year	(183)	(94)
Total	<u>\$ 2,229</u>	<u>\$ 2,412</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)	\$ 8,528	\$ 7,953
Current year	571	575
Total	<u>\$ 9,099</u>	<u>\$ 8,528</u>
Special surplus from retroactive reinsurance:		
Initial surplus gain or loss		
Adjustments—prior year(s)	\$ -	\$ -
Adjustments—current year	-	-
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.

8 - 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 in 2013 and 2012, respectively. The amount owed to the Workers' Compensation Fund from the DBF is \$292 and \$214 as of December 31, 2013 and 2012, respectively.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 2013 and 2012, were \$838 and \$734, respectively. The amount owed to the Workers' Compensation Fund from the ATF is \$80 and \$72 as of December 31, 2013 and 2012, 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 2013 and 2012, the State reimbursed the Workers' Compensation Fund \$458,234 and \$428,480, respectively, for such costs and are recorded through underwriting expenses in the statutory basis statements of income. The amount owed to the Workers' Compensation Fund from the State is \$53,149 and \$46,753 as of December 31, 2013 and December 31, 2012, respectively.

The Workers' Compensation Fund makes payments to the WCB for various assessments and administrative expenses. The Workers' Compensation Fund incurred administrative expenses in 2013 and 2012, related to the WCB of \$21,182, and \$79,667, respectively. A liability for unpaid amounts had 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 at December 31, 2012. As a result of the changes noted in the Workers' Compensation Reform disclosed in Note 15, administrative assessments are now borne by policyholders.

During 2013, as a result of the changes in the Workers' Compensation Reform disclosed in Note 15, the Workers' Compensation Fund established a liability to the WCB in the amount of \$2,301,102 which comprised of assessments no longer required to be held for Section 15.8 and 25A of \$1,855,854 and administrative expenses of \$445,248. On April 8, 2013 and June 11, 2013, the Workers' Compensation Fund paid a total of \$550,410 to the WCB. An expense was recorded through other expense of \$2,301,102 on the statutory basis statements of income at December 31, 2013. The unpaid liability due to the WCB at December 31, 2013 of \$1,750,692 is reflected in these statutory basis statements of admitted assets, liabilities and surplus as due to the affiliates. Subsequent to year-end, the Workers' Compensation Fund paid \$1,500,692 to the WCB on January 14, 2014.

	<u>2013</u>	<u>2012</u>
Due from affiliates		
Aggregate Trust Fund	\$ 80	\$ 72
Disability Benefits Fund	292	214
New York State	53,149	46,753
Total due from affiliates	<u>\$ 53,521</u>	<u>\$ 47,039</u>
Due to affiliates		
Workers' Compensation Board	<u>\$ 1,750,692</u>	<u>\$ 448,786</u>

9 - 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 noncancelable operating leases at December 31, 2013, are as follows:

2014	\$ 4,708
2015	4,265
2016	4,301
2017	3,750
2018	2,791
Thereafter	<u>2,875</u>
Net minimum commitments	<u>\$ 22,690</u>

Rental expense, which includes the imputed rental expense for the Workers' Compensation Fund occupied buildings, was \$14,674 and \$14,084 in 2013 and 2012, respectively, and recorded through investment income earned.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

10 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	<u>2013</u>	<u>2012</u>
Balance—January 1 (net of reinsurance recoveries)	\$ 9,588,822	\$ 9,240,702
Incurring claims related to:		
Current year	1,738,233	1,555,438
Prior years	<u>(1,277,610)</u>	<u>339,924</u>
Total incurred	<u>460,623</u>	<u>1,895,362</u>
Paid claims related to:		
Current year	215,077	189,549
Prior years	<u>1,141,847</u>	<u>1,357,693</u>
Total paid	<u>1,356,924</u>	<u>1,547,242</u>
Balance—December reinsurance recoveries)	31	(net
	<u>\$ 8,692,521</u>	<u>\$ 9,588,822</u>

These amounts reflect prescribed practices that depart from NAIC SAP. See Note 2, Summary of Significant Accounting Policies for additional information.

The incurred claims relating to prior years have changed in 2013 and 2012 as a result of changes in estimates of events insured in prior years. The incurred claims related to current year and prior years also reflects changes to the amortization of the discount on reserves.

The incurred claims related to the prior years change of approximately \$1.3 billion in 2013 includes a \$1.85 billion release of the loss-based assessments related to Section 15.8 and 25A that were no longer required to be held as a result of the changes in the Chapter 57 of the Laws of 2013 disclosed in Note 15.

11 - 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, 2012 to December 31, 2013, are due to appropriations to the catastrophe, foreign terrorism reserves, and domestic terrorism reserves, as discussed in Note 2 (G).

Unassigned surplus reflects the accumulated balance for the items listed below:

	<u>2013</u>	<u>2012</u>
Unrealized gains	\$ 389,725	\$ 228,166
Nonadmitted assets	<u>149,029</u>	<u>145,983</u>
Total	<u>\$ 538,754</u>	<u>\$ 374,149</u>

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

12 - OTHER UNDERWRITING EXPENSES

The components of other underwriting (income) expenses are as follows:

	<u>2013</u>	<u>2012</u>
Advertising	\$ 48	\$ 119
Boards, bureaus and associations	12,447	9,155
Audit of assured's records	209	154
Salaries and payroll taxes	76,051	77,232
Employee relations and welfare	31,351	29,041
Insurance	122	117
Travel and travel items	1,039	1,002
Rent and rent items	6,457	6,197
Equipment	225	190
Cost or depreciation of EDP equipment and software	5,004	4,737
Printing and stationery	475	444
Postage and telephone	2,613	3,554
Legal and auditing	1,659	2,078
Taxes, licenses and fees:		
Franchise taxes and other fees	49,197	41,364
Expenses to WCB (Note 8)	(424,066)	79,667
Reimbursements by uninsured plans	(21,284)	(19,061)
Miscellaneous expenses	<u>5,169</u>	<u>5,251</u>
Total	<u>\$ (253,284)</u>	<u>\$ 241,241</u>

13 - 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 are considered as part of the estimation of loss and loss adjustment expenses. 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.

14 - 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 discernible at this time.

15 - WORKERS' COMPENSATION REFORM (THE "REFORM")

On March 29, 2013 (Chapter 57 of the Laws of 2013), significantly changes and simplified the assessment calculation and billing process going forward as of January 1, 2014. It creates one unified assessment rate determined by the WCB for which all employers, including Workers' Compensation Fund policyholders, will be liable. Workers' compensation insurers, including the Workers' Compensation Fund, will be required to pass the assessment amount, based on premiums, charged to policyholders as it is collected and remit these payments to the WCB on a prospective basis. Previously, assessments incurred by the Workers' Compensation Fund were based on indemnity payments and the assessments for private insurers were based on premiums. Included in this change, assessment reserves held by the Workers' Compensation Fund for the payment of future assessments were no longer required (including loss and administrative). At March 31, 2013, the Workers' Compensation Fund estimated that the liability for assessments is no longer due to the WCB is approximately \$2.3 billion, which comprised \$1.85 billion of loss-based assessments related to Section 15.8 and 25A and \$450 million of assessments related to the administrative expenses of the Workers' Compensation Board.

Notes to NYSIF Statutory Basis Financial Statements

Workers' Compensation Fund - Years ended December 31, 2013 and 2012 (in thousands)

On March 13, 2007, former governor Eliot Spitzer signed into law comprehensive legislation reforming the workers' compensation system. The legislation included provisions to increase the maximum weekly benefit level, and then index it to two-thirds of the average weekly wage; provide a cap for non-scheduled permanent partial disability awards by applying a 525-week durational limit; promote return to work rates by creating a Return to Work program and incentives; close the Second Injury Fund and create the Waiver Agreement Management Organization to help settle second injury cases; require the promulgation of regulations instituting pharmaceutical fee schedules and authorize pharmaceutical and diagnostic networks; and mandate private insurance carriers to pay the present value of benefits to the ATF.

The significant aspects of the Reform pertain to the estimate of loss and loss adjustment expense reserves and the Workers' Compensation Fund is the durational limits on PPD awards, the increase in the minimum and maximum benefit levels and the elimination of the Second Injury Fund. As of December 31, 2013 and 2012, the classification of the claims between pension and non-pension has been developing very slowly which has made it difficult to estimate the impact of the provision of the Reforms. As a result, Management of the Workers' Compensation Fund has been utilizing pre-reform levels of the classification between pension and non-pension to develop the estimate for loss and loss adjustment expenses which results in a significant uncertainty in the reserve for loss and loss adjustment expenses.

16 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9, *Subsequent Events*, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 28, 2014 when the annual statement was originally filed, which is the date when the annual statements was issued and filed with the NAIC and the DFS. After that date, subsequent events have been reviewed through May 29, 2014, 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 statement of admitted assets, liabilities and surplus and affected estimated estimates 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 statement of admitted assets, liabilities and surplus, but arose subsequent to December 31, 2013.



Independent Auditors' Report



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

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Workers' Compensation Fund (a New York state nonprofit agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2013 and 2012, and the related statutory basis statements of income, surplus, and cash flows for each of the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the Statutory Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the statutory basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the statutory basis financial statements are prepared by the State Insurance Fund Workers' Compensation Fund in conformity with the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the State Insurance Fund Workers' Compensation Fund as of December 31, 2013 and 2012, or the results of its operations or its cash flows for each of the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities and surplus of the State Insurance Fund Workers' Compensation Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended on the basis of accounting described in Note 2.

Emphasis of Matter

As described in Note 2A, the State Insurance Fund Workers' Compensation Fund has significant prescribed accounting practices that are mandated by New York State Workers' Compensation Law in accordance with the financial reporting provisions of the New York State Department of Financial Services.

As discussed in Note 2A and Note 2F, the State Insurance Fund 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 or with the expected rate on investments potentially could have a material impact on surplus.

As described in Note 15, there is insufficient data for the development of the reserve for loss and loss adjustment expenses due to recent changes in the provision of the Workers' Compensation Reform.

Our opinion is not modified with respect to these matters.

EisnerAmper LLP

New York, New York
May 29, 2014

New York State Insurance Fund Statutory Basis Financial Statements

Disability Benefits Fund - Statements of Admitted Assets, Liabilities and Surplus

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	\$ 158,974	\$ 157,215
Preferred stocks	101	113
Common stocks, at market value	31	-
Receivable for securities	22,543	3,509
Cash	<u>(514)</u>	<u>(457)</u>
Total cash and invested assets	181,135	160,380
Premiums receivables	2,749	1,960
Accrued investment income	829	957
Due from affiliates	-	109
Other assets	<u>-</u>	<u>157</u>
Total admitted assets	<u>\$ 184,713</u>	<u>\$ 163,563</u>
Liabilities and surplus		
Liabilities		
Reserve for losses	\$ 2,581	\$ 4,503
Reserve for loss adjustment expenses	190	172
Unearned premiums	26,894	26,673
Due to affiliate	500	214
Payable for securities	14,307	1,709
Accrued expenses and other liabilities	<u>1,686</u>	<u>1,666</u>
Total liabilities	<u>46,158</u>	<u>34,937</u>
Surplus		
Security fluctuation surplus	4,000	4,000
Catastrophe surplus	4,000	4,000
Unassigned surplus	<u>130,555</u>	<u>120,626</u>
Total surplus	<u>138,555</u>	<u>128,626</u>
Total liabilities and surplus	<u>\$ 184,713</u>	<u>\$ 163,563</u>

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Disability Benefits Fund - Statements of Income

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Underwriting income		
Net written premium	<u>\$ 15,763</u>	<u>\$ 12,688</u>
Net earned premium	<u>\$ 15,541</u>	<u>\$ 13,725</u>
Underwriting expenses		
Losses incurred	11,866	11,819
Loss adjustment expenses incurred	1,007	844
Other underwriting expenses incurred	<u>2,769</u>	<u>2,758</u>
Total underwriting expenses	<u>15,642</u>	<u>15,421</u>
Net underwriting loss	<u>(101)</u>	<u>(1,696)</u>
Investment income earned		
Investment income	4,567	4,792
Investment expenses	(157)	(151)
Net realized investment gains	<u>5,966</u>	<u>5,207</u>
Net investment income earned	<u>10,376</u>	<u>9,848</u>
Other income (expenses)		
Bad debt expense	(411)	(210)
Miscellaneous income	<u>150</u>	<u>177</u>
Total other expenses	<u>(261)</u>	<u>(33)</u>
Net income	<u>\$ 10,014</u>	<u>\$ 8,119</u>

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Disability Benefits Fund - Statements of Surplus

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Balance - January 1	<u>\$ 128,626</u>	<u>\$ 120,638</u>
Net income	10,014	8,119
Net unrealized capital losses - investments	(12)	(40)
Change in nonadmitted assets	<u>(73)</u>	<u>(91)</u>
Net increase in surplus	<u>9,929</u>	<u>7,988</u>
Balance - December 31	<u><u>\$ 138,555</u></u>	<u><u>\$ 128,626</u></u>

See accompanying notes to statutory basis financial statements.

New York State Insurance Fund Statutory Basis Financial Statements

Disability Benefits Fund - Statements of Cash Flows

Years ended December 31, 2013 and 2012 (in thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operations		
Premiums collected, net of reinsurance	\$ 14,846	\$ 12,576
Net investment income	4,550	4,850
Miscellaneous expenses	(260)	(34)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(13,788)	(11,748)
Expenses paid	<u>(3,509)</u>	<u>(3,591)</u>
Net cash provided by operations	<u>1,839</u>	<u>2,053</u>
Cash flows from investments		
Proceeds from investments sold, matured or repaid	2,457,864	1,505,819
Cost of investments acquired	<u>(2,460,134)</u>	<u>(1,507,878)</u>
Net cash used in investments	<u>(2,270)</u>	<u>(2,059)</u>
Cash flows from other sources		
Other applications	<u>374</u>	<u>(20)</u>
Net cash provided by (used in) other sources	<u>374</u>	<u>(20)</u>
Net change in cash and short-term investments	(57)	(26)
Cash		
Beginning of year	<u>(457)</u>	<u>(431)</u>
Cash		
End of year	<u>\$ (514)</u>	<u>\$ (457)</u>

See accompanying notes to statutory basis financial statements.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 non-profit 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 benefit insurance covers off-the-job injury and sickness but not medical care payments.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Disability Benefits Fund are presented in conformity with accounting practices prescribed by the New York Department of Financial Services (the "DFS"). The DFS 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 DFS has the right to permit other specific practices that may deviate from prescribed practices. The Disability Benefits Fund, as prescribed by the DFS or as mandated by New York State Workers Compensation Law, is not required to calculate Risk Based Capital calculations.

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.

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 discounted 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. 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.
- c. 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.
- d. Policy acquisition costs (principally underwriting and marketing related costs) are expensed as incurred, whereas under U.S. GAAP these costs are capitalized and amortized to income on the same basis as premium income is recognized.
- e. 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, all non-admitted EDP and related equipment would be included in total assets, less valuation allowances.
- f. 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, all non-admitted EDP and related equipment would be recorded as assets, less accumulated depreciation over their useful lives.
- g. 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. NY SAP specifically permits the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such reserves are established.
- h. Comprehensive income and its components are not presented in the statutory basis financial statements.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

- i. The net amount of all cash accounts is reported jointly. Cash accounts with positive balances are not reported separately from cash accounts with negative balances. If in the aggregate, the reporting entity has a net negative cash balance, it is reported as a negative asset. Under U.S. GAAP, positive cash balances are reported as assets while net negative cash balances are reported as liabilities.
- j. 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.

B. Investments:

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

Bonds are valued in accordance with the requirements of the NAIC's 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. Market value is based on market prices obtained from the SVO and SS&C Technologies, Inc. primarily.

For mortgage-backed fixed maturity securities, the Disability Benefits Fund recognizes income using constant effective yield based on anticipated prepayments over the economic life of the security. Mortgage-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 or losses for common stocks are the change in fair value from the prior year end. 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 income.

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 Disability Benefits Fund using discounted cash flow models using discount rates of securities of similar maturity and credit characteristics. Unrealized gain or loss for preferred stocks presented in the unassigned surplus in the statutory basis statements of surplus includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

Receivable and payable for securities represent sales and purchases of securities that are unsettled at year-end.

Realized gains and losses on the sale of investments are calculated based on the difference between the carrying value and the consideration received at the time of sale and are included in results of income.

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 specific lot method in 2013 and 2012 respectively.

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 2013 and 2012 for realized losses related to Disability Benefits Fund for impairment losses was \$0 and \$13, respectively and recorded through the statutory basis statements of income.

C. Premium 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.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

The outstanding premium receivable net admitted balance in the Disability Benefits Fund was \$2,749 and \$1,960 at December 31, 2013 and 2012, 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 uncollectable and the potential loss is not material to the Disability Benefits Fund's financial condition. The Disability Benefits Fund performs an analysis of uncollectable premium receivable and realized write offs of \$411 and \$210 for the year-ended December 31, 2013 and 2012, respectively, through the statutory basis statements of income.

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.

Also included in the reserve for unearned premiums are estimates for Return of Premium Program and the Premium Adjustment Plan. The Return of Premium Program is a program whereby policyholders with 49 or fewer employees become members of a group of policyholders and a premium credit is estimated based on the groups' loss ratio that is not in excess of the industry standard as established by DFS. The Premium Adjustment Plan is a program whereby policyholders with annual premium greater than \$1,000 may qualify for an annual credit based on policyholder's individual claim performance. If the total annual premium is greater than the total claims paid, after all claims are closed for that same period, multiplied by a factor of 1.2, a Premium Adjustment Plan credit is awarded. Other qualifications for both the Return of Premium Program and the Premium Adjustment Plan are that the policyholder must maintain an active status with the Disability Benefits Fund throughout the policy year and have payroll report(s) submitted 30 days from the end of the policy period.

D. 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 ("WCB"). The amounts incurred in 2013 and 2012 to the WCB to contribute to their expenses were \$318 and \$490, respectively. See Note 5 for the change in the estimate of these expenses.

E. 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 liabilities 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.

F. Security Fluctuation and Catastrophic Surplus:

As prescribed above, the Board may designate a portion of unassigned surplus for security fluctuation and catastrophes as specifically prescribed by the DFS. 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, 2013 and 2012. 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, 2013 and 2012.

G. Fringe Benefits:

Based on actual costs billed by various State agencies, the Disability Benefits Fund incurred \$510 and \$477 of fringe benefits and indirect costs in 2013 and 2012, 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 \$221 and \$191 in 2013 and 2012, respectively.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

H. 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 \$88 and \$76 for the Disability Benefits Fund for the years ended December 31, 2013 and 2012, respectively.

I. 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 \$276 and \$222 in 2013 and 2012, respectively and recorded through the statutory basis statements of income.

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 2013 and 2012 was \$36 and \$28, respectively, for the Disability Benefits Fund and recorded through the statutory basis statements of income.

J. 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, 2013 and 2012, cash in the Disability Benefits Fund's custodian bank account was \$750 and \$756 and were not insured by the FDIC.

K. 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 those changes could materially affect the amounts reported in the statutory basis financial statements.

L. 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. The significant estimates included in these statutory basis financial statements are the liability for loss and loss adjustment expenses and the return of premium and premium adjustment plan estimates in unearned premiums.

M. Reclassification:

There were no reclassifications made to the prior year's statutory basis financial statements amounts to conform to the current year's presentation.

N. Changes in Accounting Principles:

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. Generally, the cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 the DFS. 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. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2013 and 2012, 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, 2013 and 2012 are as follows:

		<u>2013</u>		
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 77,320	\$ 2,604	\$ (107)	\$ 79,817
Foreign governments	24,900	426	(841)	24,485
Corporate bonds and public utilities	55,381	1,672	(780)	56,273
Hybrid securities	<u>1,373</u>	<u>528</u>	<u>-</u>	<u>1,901</u>
Total bonds	<u>158,974</u>	<u>5,230</u>	<u>(1,728)</u>	<u>162,476</u>
Preferred stocks	72	29	-	101
Common stocks	<u>31</u>	<u>-</u>	<u>-</u>	<u>31</u>
Total stocks	<u>103</u>	<u>29</u>	<u>-</u>	<u>132</u>
Total investments	<u>\$ 159,077</u>	<u>\$ 5,259</u>	<u>\$ (1,728)</u>	<u>\$ 162,608</u>

		<u>2012</u>		
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 97,530	\$ 6,238	\$ (25)	\$ 103,743
Foreign governments	19,897	1,161	-	21,058
Corporate bonds and public utilities	37,262	4,594	-	41,856
Hybrid securities	<u>2,526</u>	<u>785</u>	<u>(1)</u>	<u>3,310</u>
Total bonds	<u>157,215</u>	<u>12,778</u>	<u>(26)</u>	<u>169,967</u>
Preferred stocks	74	39	-	113
Common stocks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total stocks	<u>74</u>	<u>39</u>	<u>-</u>	<u>113</u>
Total investments	<u>\$ 157,289</u>	<u>\$ 12,817</u>	<u>\$ (26)</u>	<u>\$ 170,080</u>

The amortized cost and market value of bonds at December 31, 2013 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	\$ 14,497	\$ 14,595
Due after one year through five years	88,892	91,494
Due after five years through ten years	37,028	36,974
Due after ten years	<u>18,557</u>	<u>19,413</u>
Total bonds	<u>\$ 158,974</u>	<u>\$ 162,476</u>

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

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

	<u>2013</u>	<u>2012</u>
Bonds	\$ 4,554	\$ 4,773
Stocks	2	18
Cash and short-term investments	1	1
Other	<u>10</u>	<u>-</u>
Investment income	4,567	4,792
Investment expenses	(157)	(151)
Net realized capital gains	<u>5,966</u>	<u>5,207</u>
Net investment income earned	<u>\$ 10,376</u>	<u>\$ 9,848</u>

Net realized investment gains (losses) on investments, determined on the specific lot method in 2013 and 2012.

	<u>2013</u>	<u>2012</u>
Bonds	\$ 5,966	\$ 5,119
Stocks	<u>-</u>	<u>88</u>
Net realized investment gains	<u>\$ 5,966</u>	<u>\$ 5,207</u>

For the Disability Benefits Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2013 and 2012 were \$2,457,864 and \$1,505,819 respectively. These sales resulted in gross realized gains of \$7,167 and \$5,220 and gross realized losses of \$1,201 and \$0 in 2013 and 2012, respectively.

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, 2013 and 2012, respectively.

	<u>2013</u>								
	<u>Less Than 12 Months</u>			<u>12 Months or More</u>			<u>Total</u>		
	Estimated			Estimated			Estimated		
	<u>Amortized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Amortized</u>	<u>Fair</u>	<u>Unrealize</u>	<u>Amortized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Cost</u>	<u>Value</u>	<u>Losses</u>	<u>Cost</u>	<u>Value</u>	<u>Losses</u>	<u>Cost</u>	<u>Value</u>	<u>Losses</u>
U.S. Government and government agency obligations	\$ 16,028	\$ 15,921	\$ 107	\$ -	\$ -	\$ -	\$ 16,028	\$ 15,921	\$ 107
Foreign Government utilities	17,468	16,627	841	-	-	-	17,468	16,627	841
	<u>30,029</u>	<u>29,249</u>	<u>780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,029</u>	<u>29,249</u>	<u>780</u>
Total temporarily impaired investments	<u>\$ 63,525</u>	<u>\$ 61,797</u>	<u>\$ 1,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,525</u>	<u>\$ 61,797</u>	<u>\$ 1,728</u>

	<u>2012</u>								
	<u>Less Than 12 Months</u>			<u>12 Months or More</u>			<u>Total</u>		
	Estimated			Estimated			Estimated		
	<u>Amortized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Amortized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Amortized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Cost</u>	<u>Value</u>	<u>Losses</u>	<u>Cost</u>	<u>Value</u>	<u>Losses</u>	<u>Cost</u>	<u>Value</u>	<u>Losses</u>
U.S. Government and government agency obligations	\$ 4,893	\$ 4,869	\$ 25	\$ -	\$ -	\$ -	\$ 4,893	\$ 4,869	\$ 25
Hybrid securities	<u>501</u>	<u>500</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>501</u>	<u>500</u>	<u>1</u>
Total temporarily impaired investments	<u>\$ 5,394</u>	<u>\$ 5,369</u>	<u>\$ 26</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,394</u>	<u>\$ 5,369</u>	<u>\$ 26</u>

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

Gross unrealized losses represented 2.7% and 0.5% of cost or amortized cost for the Disability Benefits Fund as of December 31, 2013 and 2012, respectively. Fixed maturities represented 100% of the Disability Benefits Fund's unrealized losses as of December 31, 2013 and 2012, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 25 and 2 securities for the Disability Benefits Fund as of December 31, 2013 and 2012, respectively. There were no securities which were depressed for twelve months or more for the Disability Benefits Fund as of December 31, 2013 and 2012, 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, 2013 and 2012. 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 OTTI recorded during 2013 and 2012 was \$0 and \$13, respectively, as a component of net realized investment gains through the statutory basis statements of income.

Statement of Statutory Accounting Principles, No. 43R - Revised Loan-backed and Structured Securities ("SSAP No. 43") 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 2013 and 2012 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.

A. Fair Value of Financial Instruments:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

The Disability Benefits Fund evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to the total investment portfolio.

The statement value and estimated fair value of financial instruments at December 31, 2013 and 2012 are as follows:

	<u>2013</u>		<u>2012</u>	
	Statement	Estimated	Statement	Estimated
	Value	Fair Value	Value	Fair Value
Financial assets:				
Bonds	\$ 158,974	\$ 162,476	\$ 157,215	\$ 169,967
Preferred stocks	101	101	113	113
Common stocks	31	31	-	-
Cash and short-term investments	(514)	(514)	(457)	(457)

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

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

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.

SSAP No. 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

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, as well as where fair value is disclosed, 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 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, 2013 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	\$ 101	\$ -	\$ -	\$ 101
Common stocks	31	-	-	31
Total assets at fair value	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132</u>

The following table provides information as of December 31, 2012 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	\$ 113	\$ -	\$ -	\$ 113
Common stocks	-	-	-	-
Total assets at fair value	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113</u>

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 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. Quoted 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 that were carried at fair value. There were no changes in valuation techniques during 2013 and 2012.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

The following table provides information as of December 31, 2013 about the Disability Benefits Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	<u>Aggregate</u>	<u>Admitted</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Fair Value</u>	<u>Assets</u>			
Bonds	\$ 160,575	\$ 157,601	\$ -	\$ 160,575	\$ -
Hybrids	1,901	1,373	-	1,901	-
Preferred stocks	101	101	101	-	-
Common stocks	31	31	31	-	-
Total	<u>\$ 162,608</u>	<u>\$ 159,106</u>	<u>\$ 132</u>	<u>\$ 162,476</u>	<u>\$ -</u>

The following table provides information as of December 31, 2012 about the Disability Benefits Fund's financial instruments at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	<u>Aggregate</u>	<u>Admitted</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>Fair Value</u>	<u>Assets</u>			
Bonds	\$ 166,657	\$ 154,689	\$ -	\$ 166,657	\$ -
Hybrids	3,310	2,526	-	3,310	-
Preferred stocks	113	113	113	-	-
Common stocks	-	-	-	-	-
Total	<u>\$ 170,080</u>	<u>\$ 157,328</u>	<u>\$ 113</u>	<u>\$ 169,967</u>	<u>\$ -</u>

Securities classified into level 1 included primarily common and preferred 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. Quoted prices for these securities are provided to the Disability Benefits Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. The Disability Benefits Fund does not have any Level 3 securities.

There were no significant transfers into or out of Level 2 or 3 during 2013 and 2012. There were no changes in valuation techniques during 2013 and 2012.

B. Subprime Mortgage Exposure:

The Disability Benefits Fund had no exposures to subprime mortgage loans at December 31, 2013 and 2012.

C. Wash Sales:

In the course of the Disability Benefits Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Disability Benefits Fund's yield on its investment portfolio. The Disability Benefits Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2013 and 2012 that were reacquired within 30 days of the sale date.

4 - NON-ADMITTED ASSETS

The non-admitted assets of the Disability Benefits Fund at December 31, 2013 and 2012 were as follows:

	<u>2013</u>	<u>2012</u>
Premium in course of collection outstanding over 90 days	\$ 170	\$ 104
Electronic Data Equipment/Software		
Furniture and equipment, net of accumulated depreciation	-	-
Other	57	50
Total non-admitted assets	<u>\$ 227</u>	<u>\$ 154</u>

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (in thousands)

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 in 2013 and 2012, respectively and recorded through other underwriting expenses on the statutory basis statement of income. The amounts of unpaid allocated expenses owed to the Workers' Compensation Fund is \$292 and \$214 at December 31, 2013 and 2012, 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 incurred in 2013 and 2012 to the Workers' Compensation Board to contribute to their expenses were \$318 and \$490, respectively. At December 31, 2013 and 2012, the Disability Benefits Fund recorded a liability due to the WCB for \$208 and \$0, respectively.

As a result of the changes noted in the Chapter 57 of the Laws of 2013 dated March 29, 2013, assessments and administrative expenses related to the Workers' Compensation Board are now borne by the policyholders. The law instructs the Disability Benefits Fund to remit to the Workers' Compensation Board any funds accrued for these assessments, which represents the liability due to the WCB of \$208 at December 31, 2013.

The following schedule summarizes all affiliate balances as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Due from affiliates - Workers' Compensation Board	<u>\$ -</u>	<u>\$ 109</u>
Due to affiliates		
Workers' Compensation Fund	\$ 292	\$ 214
Workers' Compensation Board	<u>208</u>	<u>-</u>
Due to affiliate	<u>\$ 500</u>	<u>\$ 214</u>

6 - RESERVES FOR LOSSES AND LOSS ADJUSTMENTS EXPENSES

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

	<u>2013</u>	<u>2012</u>
Balance—January 1	<u>\$ 4,675</u>	<u>\$ 4,637</u>
Incurred claims related to:		
Current year	14,646	14,811
Prior years	<u>(1,773)</u>	<u>(2,148)</u>
Total incurred	<u>12,873</u>	<u>12,663</u>
Paid claims related to:		
Current year	11,945	10,195
Prior years	<u>2,832</u>	<u>2,430</u>
Total paid	<u>14,777</u>	<u>12,625</u>
Balance—December 31	<u>\$ 2,771</u>	<u>\$ 4,675</u>

The incurred claims relating to prior years have changed in 2013 and 2012 as a result of changes in estimates of events incurred in prior years. As a result of the changes noted in Note 5, the Disability Benefits Fund released in 2013 a reserved for the Disabled Unemployed Fund in the amount of \$2.5 million.

Notes to NYSIF Statutory Basis Financial Statements

Disability Benefits Fund - Years ended December 31, 2013 and 2012 (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, 2013 and December 31, 2012. Unassigned surplus reflects the accumulated balances for the items listed below:

	<u>2013</u>	<u>2012</u>
Unrealized gains	\$ 29	\$ 41
Nonadmitted assets	<u>(227)</u>	<u>(154)</u>
Total	<u>\$ (198)</u>	<u>\$ (113)</u>

8 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	<u>2013</u>	<u>2012</u>
Salaries and payroll taxes	\$ 595	\$ 515
Employee relations and welfare	224	210
Travel and travel items	1	3
Postage and telephone	6	1
Taxes, licenses and fees:		
Franchise taxes and other fees	370	283
Expenses to WCB	318	490
Allocation from WCF	1,240	1,238
Miscellaneous expense	<u>15</u>	<u>18</u>
Total	<u>\$ 2,769</u>	<u>\$ 2,758</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 and are considered as part of the estimation of loss and loss adjustment expenses. 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 March 3, 2014 for annual statement reporting, which is the date when the annual statement was issued and filed with the NAIC and the DFS. After this date, subsequent events have been reviewed through May 29, 2014, 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 estimates in the process of preparing the statutory basis financial statements.

Type II

The Disability Benefits Fund did 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, 2013.

Independent Auditors' Report



INDEPENDENT AUDITORS' REPORT

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

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Disability Benefits Fund (a New York state nonprofit agency), which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2013 and 2012, and the related statutory basis statements of income, surplus, and cash flows for each of the years then ended, and the related notes to the statutory basis financial statements.

Management's Responsibility for the Statutory Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory basis financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of statutory basis financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the statutory basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statutory basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the statutory basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2, the statutory basis financial statements are prepared by the State Insurance Fund Disability Benefits Fund in conformity with the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significant of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the State Insurance Fund Disability Benefits Fund as of December 31, 2013 and 2012, or the results of its operations or its cash flows for each of the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the admitted assets, liabilities and surplus of the State Insurance Fund Disability Benefits Fund as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended on the basis of accounting described in Note 2.

A handwritten signature in black ink that reads "EisnerAmper LLP". The signature is written in a cursive, flowing style.

New York, New York
May 29, 2014

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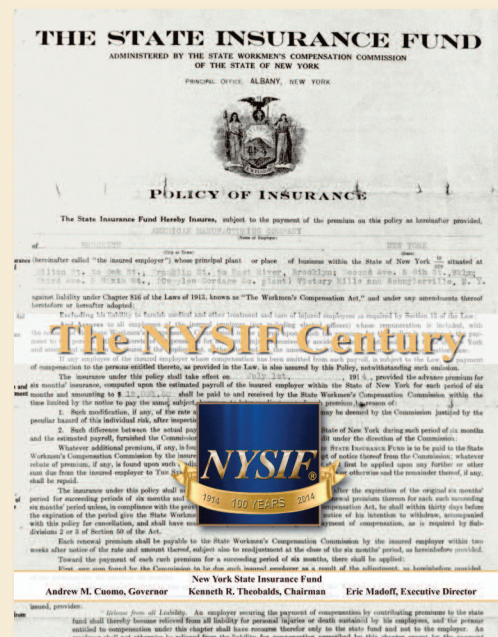
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NYSIF Business Offices

Albany

1 Watervliet Avenue Ext.
Albany, NY 12206-1649
(518) 437-6400
Augusto Bortoloni/Business Manager

Binghamton

Glendale Technology Park, Bldg. 16
2001 Perimeter Road East
Endicott, NY 13760
(607) 741-5000
Thomas Racko/Acting Business Manager

Buffalo

225 Oak Street
Buffalo, NY 14203
(716) 851-2000
Ronald Reed/Business Manager

Nassau

8 Corporate Center Drive, 2nd Floor
Melville, NY 11747-3166
(631) 756-4000
Cliff Meister/Business Manager

New York City

199 Church Street
New York, NY 10007

Bronx/Queens

(212) 587-7390
Michael Rachek/Business Manager
policies prefixed with "Q" and "X"

Brooklyn/Staten Island

(212) 587-5558
Lorna Morris/Business Manager
policies prefixed with "K" and "V"

Lower Manhattan

(212) 587-5435
Leslie Javorsky/Business Manager
policies prefixed with "L"

Upper Manhattan

(212) 312-0070
John Zenkewich/Business Manager
policies prefixed with "M"

Safety Group Office

(212) 587-7358
policies prefixed with "G" and "Z"

Rochester

100 Chestnut Street, Suite 1000
Rochester, NY 14604
(585) 258-2000
Lisa Ellsworth/Business Manager

Suffolk

8 Corporate Center Drive, 3rd Floor
Melville, NY 11747-3129
(631) 756-4330
Catherin Carillo/Business Manager

Syracuse

1045 7th North Street
Liverpool, NY 13088
(315) 453-6500
Patricia Albert/Business Manager

White Plains

105 Corporate Park Drive, Suite 200
White Plains, NY 10604-3814
(914) 701-2120
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