



RESILIENT TOGETHER
2020 ANNUAL REPORT





RESILIENT TOGETHER

In good times and tough times, New Yorkers have proven their strength and resiliency. Perhaps never was this more evident than during the past year. As New Yorkers navigated new and unforeseen challenges, NYSIF was there – as we always have been. We remained committed to offering quality workers' compensation insurance to all New York employers at the lowest possible cost, as well as affordable disability and paid family leave coverage. We continue to embrace these and other key tenets of our mission: to maintain a solvent fund and foster healthy outcomes with timely, appropriate indemnity and medical payments to injured workers. In short, we are committed to being resilient – and being here for you, no matter what.

After all, at NYSIF, we're New Yorkers, too.





2020 ANNUAL REPORT

Financial Highlights

WORKERS' COMPENSATION FUND

(in thousands)

	2020	2019
Net Written Premium	\$ 1,610,727	\$ 1,996,372
Net Earned Premium	\$ 1,583,243	\$ 2,057,856
Net Investment Income	\$ 1,074,687	\$ 744,878
Net Income	\$ 567,906	\$ 741,976
Total Admitted Assets	\$ 21,265,289	\$ 20,648,032
Total Surplus	\$ 8,953,538	\$ 8,205,020

DISABILITY BENEFITS FUND

(in thousands)

	2020	2019
Net Written Premium	\$ 75,438	\$ 58,069
Net Earned Premium	\$ 58,636	\$ 55,820
Net Investment Income	\$ 2,330	\$ 5,347
Net Income	\$ 3,591	\$ 9,495
Total Admitted Assets	\$ 280,085	\$ 256,125
Total Surplus	\$ 198,945	\$ 194,482



MESSAGE FROM THE CHAIRMAN

Kenneth R. Theobalds

In a challenging year, NYSIF remained focused on initiatives to improve operations and enhance products and services to increase customer service for our policyholders and the injured workers we serve.

While transitioning our staff to working from home and then progressing to a transition back into agency offices for some of our employees, NYSIF developed innovative, industry-leading programs to help policyholders sustain their businesses and safeguard employees.

It has not been an easy task to balance work and family life during a global health pandemic. I commend the NYSIF senior leadership team and the entire staff for their steadfast commitment and success in continuing to meet the needs of our stakeholders throughout the crisis.

NYSIF will continue to advance its mission to ensure a fair workers' compensation insurance marketplace and provide timely benefit payments to injured workers, as well as promote a diverse and inclusive workplace and support economic opportunity.

NEW LEADERSHIP

As NYSIF continues to move forward, we welcome Mary Beth Woods as our Acting Executive Director and CEO. Ms. Woods joins NYSIF from the New York State Workers' Compensation Board, where she served as Executive Director for the past five years. We are confident that her extensive industry knowledge and financial services experience will be assets to NYSIF and its customers.

On behalf of the Board of Commissioners, I would also like to thank Governor Kathy Hochul for her support of NYSIF and its initiatives.

Kenneth R. Theobalds
Chairman
NYSIF Board of Commissioners

NYSIF BOARD OF COMMISSIONERS



Chairman
KENNETH R. THEOBALDS

Vice President, Government and
Regulatory Affairs, Entergy



Vice Chairman
BARRY SWIDLER

President
American Fire Restoration, LLC



RYAN DELGADO

New York State AFL-CIO



SEAN A. GRAHAM

Senior Investment Officer
Cornell University



DR. NAVNEET KATHURIA, M.D.

Chief Medical Officer
Community Health Network



DR. DENNIS KESSLER, S.J.D.

Co-Owner, Kessler Restaurants
Clinical Professor of Entrepreneurship
University of Rochester
Simon School of Business



CHARLES B. MACLEOD

Principal/Owner
SMM Advertising



SCOTT B. MELVIN*

Acting Executive Deputy Commissioner
New York State Department of Labor



BHAKTI MIRCHANDANI

Director, Responsible Investing
Trinity Church Wall Street



LOUIS J. ROBERTI JR.

Owner
Arroway Ford/Arroway Tractor



ALEXIS E. THOMAS

CEO and Founder
Preston Hollow Consultants

*ex officio; New York State Department of Labor representative



MESSAGE FROM THE ACTING EXECUTIVE DIRECTOR AND CEO

Mary Beth Woods

The past year has been a difficult one in ways we could not have imagined. NYSIF's commitment to meeting the needs of our stakeholders is unwavering. NYSIF is resilient. We have been in the workers' compensation insurance business for more than 100 years. We were here then; we know we'll be here tomorrow and in all the days after that.

During the early stages of the coronavirus (COVID-19) pandemic, NYSIF quickly mobilized to ensure the safety of our staff, develop programs to assist our customers and deliver benefits to injured workers without interruption. We embraced the challenge of demonstrating our resiliency by helping our policyholders weather uncertainty. NYSIF was also able to move forward throughout the year with strategic initiatives to improve operations and make it easier for stakeholders to do business with us, while providing excellent customer service.

FINANCIAL MANAGEMENT

Our policyholders faced extraordinary challenges as a result of COVID-19. The pandemic's impact on the local, national and global economy was reflected in their financial performance and ours. Amid the turmoil wrought by COVID-19, a key focus was on implementing programs and services to help our policyholders retain their businesses and return to safe operations. Being there for our policyholders and the injured workers who rely on us was the top priority.

As an insurance company, NYSIF pays close attention to the quality of our investments to assure that we will always have funds available to guarantee benefits to injured workers and keep policyholders' premiums low. NYSIF's goal is to maintain a stable Fund. Our conservative investment practices and the quality of the assets helped our portfolio retain its value while helping to ensure the longevity of the Fund.

BUSINESS INITIATIVES

POLICYHOLDERS

Despite sweeping changes to our business environment, we continued to focus on improving operations to better serve our customers. We were thrilled to roll out a new automatic bill payment service that policyholders had been asking for. More than 11,000 NYSIF customers have signed up for this service, which allows both our workers' comp and disability benefits policyholders to automatically pay their premium bills.

Enhancements to our virtual payroll verification process made our audit requirements easier and more convenient for customers and helped protect NYSIF staff. Customers have the option to securely upload the information we need to verify their payroll to make sure we are charging the correct premium. We can also perform the entire audit process virtually and review their documents online.

NYSIF also continued to make improvements to our new business system that quickly enables prospective customers to purchase NYSIF insurance policies.

“ **This is great how easy the State Fund has made it now to bind coverage and to get certificates. Excellent.** ”

— Broker

In another great example of our commitment to customer service, one supervisor, while attending to his reopening duties, helped a NYSIF policyholder obtain a certificate of insurance — from the parking lot. The supervisor reached out to an underwriter and after they gathered the necessary information, they were able to send the policyholder a new certificate within minutes.



RISK CONTROL

The current environment has helped to reinforce the critical importance of keeping employees safe. To highlight our increased emphasis on helping policyholders with loss prevention, we reorganized our Field Services group into our Risk Control department. NYSIF risk control consultants work with policyholders to reduce losses by providing free, virtual safety training and consultation services that help policyholders implement or enhance their safety programs. At no additional cost, we also provided OSHA 10-hour and 30-hour general industry and construction safety training certificate courses as a value-added service to our policyholders.

We believe this new focus on improving business- and industry-specific working conditions will reduce claims, help our policyholders achieve safer workplaces and lower workers' comp insurance costs.

“ Thank you for sharing your wisdom with our team. No doubt together we will create a safer environment. ”

— Policyholder, Educational Center



CONTACT CENTER

Making sure our customers have everything they need from us to run their businesses safely and effectively is important. We continue to make improvements to ensure someone always answers the phone when you call. This means NYSIF policyholders can quickly get the answers they need from us and get back to business.

“ It's crystal clear to us that NYSIF has made great strides in the customer service area. Over the past several years we've seen much better responsiveness to all our questions and claim inquiries. ”

— Broker

INJURED WORKERS

Throughout the disruption caused by COVID-19, NYSIF has adapted to provide greater assistance to our customers and injured workers. We proactively reached out to injured workers to make sure they were well. We consolidated our processing of COVID-19-related claims to ensure consistent intake, investigation and case management, and embraced telemedicine to offer injured workers safe access to the health services they need.

NYSIF realizes how important it is for injured workers to receive their benefit payments as soon as possible. Through our continued focus on this area, we delivered timely initial payments to injured workers in 97.9% of cases to support their recoveries and return to the businesses they work for. On the disability benefits side, NYSIF deftly pivoted to respond to COVID-19 claims. We expedited handling this new type of claim to ensure they were processed quickly so workers received needed benefits. In addition, we reduced the average time to process a claim from 27 days to just four. We also offered to convert paper checks to electronic deposits to ensure quick and safe delivery of payments to all injured workers. Additional efforts in this area include reminding policyholders of the importance of filing injury reports as soon as they learn an employee injury has occurred. According to our data, employee injuries or illnesses that are reported sooner result in less expensive claims, better health outcomes and a quicker return to work.

“ I just felt compelled to offer a little praise for my case manager. He filled out all my paperwork promptly and communicated everything back to me. All my emails were answered promptly. My doctors even mentioned that I had a good case manager. And even through the digital communication, his ‘niceness’ shines through. ”

— Injured Worker

NYSIF claims studies have shown that reporting an injury more than one month after it occurred can double the cost of the claim, compared to reporting the injury one week after an accident.

REPRESENTATIVES

Our relationships with the Safety Group managers and producers who do business with us on behalf of their clients are important. We have been grateful for our partnerships with these Group managers and brokers while we navigated the extremely trying circumstances that COVID-19 created. We have also seen positive results from our dedicated efforts to work with brokers through our Producers' Advisory Council. NYSIF will continue our collaboration with all of these professionals to strengthen our working relationships.

“ We now feel that we, the broker, are a real ‘business partner’ with NYSIF. The best thing is that we can now have complete comfort in placing business with NYSIF, which is the best compliment that I can pay. ”

— Broker

COVID-19 RELIEF

NYSIF moved quickly to respond to the needs of our policyholders during the coronavirus pandemic. We distinguished ourselves by developing new programs to assist our policyholders that went beyond state-mandated requirements and focused on meeting the needs of our customers to help them get their businesses up and running safely as soon as possible.

A cornerstone of this effort was our Personal Protective Equipment (PPE) Credit Program. NYSIF provided premium credits to more than 9,500 policyholders who responded to our initiative. The program offered a premium credit for the purchase of PPE to help our workers' comp policyholders offset costs associated with keeping their workplaces safe from the spread of COVID-19. We also suspended cancellations and extended payment terms. NYSIF worked with policyholders to adjust their payrolls and reclassify risks to reflect their current workforces and business activities.

We also provided industry-specific safety information, virtual training and return-to-office information for employers that needed it.

HERE'S WHAT SOME OF OUR POLICYHOLDERS HAD TO SAY ABOUT OUR COVID-19 RELIEF EFFORTS:



"Thank you so much for the credit. We have incurred many expenses with COVID, especially with PPE. We appreciate NYSIF's support during this difficult time. It is these efforts that bring a community together."

– Policyholder, Not-for-Profit

"NYSIF's compassionate initiatives during COVID enhanced your brand and made us all proud to be affiliated with NYSIF."

– Safety Group manager

"Just wanted to take a minute to tell how much I appreciate your patience on top of the problems COVID caused in my life. My wife in the hospital, my son and myself with the virus at home and, when I was ready to start the third week after coming back to the office, the fire totaling my office. Thanks so much for your understanding."

– Policyholder, Financial Services Industry



LOOKING AHEAD

While the past year has contained unprecedented challenges, we will continue our work to make it easier for policyholders, injured workers, brokers and Safety Group managers to do business with NYSIF. I am proud of my colleagues and excited to work alongside such a talented group of employees who are committed to meeting our customers' needs. We will advance the strong progress that NYSIF has made during the pandemic and build upon our success. NYSIF will always prioritize the safety of our staff, the viability of our customers and the well-being of the injured workers we serve.

Thank you, Chairman Theobalds and the Board of Commissioners, for this opportunity to serve.

Mary Beth Woods
Acting Executive Director and CEO

“ NYSIF will always prioritize the safety of our staff, the viability of our customers and the well-being of the injured workers we serve. ”

— Mary Beth Woods



NYSIF EXECUTIVE STAFF



MARY BETH WOODS

Acting Executive Director and CEO



PATRICIA CARROLL

Director, Administration



PETER CUSICK

Deputy Counsel and Acting Director,
Confidential Investigations



TANISHA EDWARDS

General Attorney



GREGORY FRANCIS

Chief Investment Officer



WILLIAM GRATRIX

Chief Financial Officer



CHARLOTTE GRIFFIN

Acting Chief Information Officer



RICHARD HONG

Chief Marketing Officer



MELISSA JENSEN

Director, Executive Project
Management Office



LAWRENCE C. MONTLE

Chief Information Security and
Privacy Officer



JOSEPH MULLEN

Deputy Executive Director and
Director, Policyholder Services



MELISSA SAREN

Chief Compliance and Ethics Officer



MICHAEL TOTARO

Acting Secretary to the
Board of Commissioners

NYSIF EMPLOYEES

For more than 100 years, NYSIF has provided fair and honest pricing to more New Yorkers than any other workers' compensation insurance carrier. Our customers and the injured workers who rely on us know that NYSIF and our staff will always be here to meet their workers' comp insurance and disability benefits needs. Thanks to the dedicated efforts of our team under the most trying circumstances, that reliability continued uninterrupted in 2020. A decades-long relationship with policyholders is a testament to our commitment and resiliency.

“ If someone's treating you properly and fairly, there's no reason to change. ”
— 88-Year NYSIF Policyholder —



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
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, which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2020, and 2019, and the related statutory basis statements of income, surplus, and cash flows for 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.

AUDITOR'S 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 entity'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 entity'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 opinion.

BASIS FOR ADVERSE OPINION ON U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As described in Note 2A, the statutory basis financial statements are prepared by the State Insurance Fund Workers' Compensation Fund using 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. The effects on the statutory basis financial statements of the variances between these statutory accounting policies 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, 2020, and 2019, or the results of its operations or its cash flows for 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, 2020, and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of financial reporting provisions of the New York State Department of Financial Services as described in Note 2A.

EMPHASIS OF MATTER

As discussed 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.

Our opinion is not modified with respect to this matter.



EISNERAMPER LLP
New York, New York
May 21, 2021

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Admitted assets		
Cash and invested assets:		
Bonds—at NAIC carrying value	\$ 17,269,891	\$ 16,292,127
Common stocks	1,842,300	1,849,910
Real estate	104,824	104,832
Cash, cash equivalents and short-term investments	447,659	528,784
Receivables for securities and security lending reinvested collateral assets	117,871	241,384
Total cash and invested assets	<u>19,782,545</u>	<u>19,017,037</u>
Premium receivables	48,113	207,903
Accrued investment income	110,812	114,504
Due from affiliates	20,933	7,643
Other admitted assets	7,886	5,945
Contingent receivable from New York State	1,295,000	1,295,000
Total admitted assets	<u>\$ 21,265,289</u>	<u>\$ 20,648,032</u>
Liabilities and surplus		
Liabilities:		
Reserve for losses	\$ 9,128,040	\$ 9,098,559
Reserve for loss adjustment expenses	904,117	905,088
Unearned premiums	314,841	361,812
Contingent policyholder dividends	1,622,546	1,636,681
Payables for securities and securities lending	124,806	254,636
Accrued expenses and other liabilities	217,401	186,236
Total liabilities	<u>12,311,751</u>	<u>12,443,012</u>
Surplus:		
Appropriated surplus funds:		
Security fluctuation surplus	1,980,000	1,600,000
Catastrophe surplus	399,561	399,561
Foreign terrorism catastrophe surplus	689,833	648,973
Domestic terrorism catastrophe surplus	129,466	122,275
Postemployment benefits surplus	918,665	696,843
Unassigned surplus	4,836,013	4,737,368
Total surplus	<u>8,953,538</u>	<u>8,205,020</u>
Total liabilities and surplus	<u>\$ 21,265,289</u>	<u>\$ 20,648,032</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Statutory Basis Statements of Income
As of December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Underwriting income:		
Net written premium	<u>\$ 1,610,727</u>	<u>\$ 1,996,372</u>
Net earned premium	<u>\$ 1,583,243</u>	<u>\$ 2,057,856</u>
Underwriting expenses:		
Losses incurred	1,234,455	1,284,072
Loss adjustment expenses incurred	175,224	135,081
Other underwriting expenses incurred	<u>171,537</u>	<u>170,255</u>
Total underwriting expenses	<u>1,581,216</u>	<u>1,589,408</u>
Net underwriting profit	<u>2,027</u>	<u>468,448</u>
Investment income earned:		
Investment income	550,091	579,417
Investment expenses	(36,698)	(31,504)
Net realized capital gains	<u>561,294</u>	<u>196,965</u>
Net investment income earned	<u>1,074,687</u>	<u>744,878</u>
Other income (expenses):		
Bad debt expense	(339,767)	(129,545)
Finance and service charges	8,139	20,451
Miscellaneous income	3,242	4,041
Dividend expense to policyholders	<u>(180,422)</u>	<u>(366,297)</u>
Total other expenses	<u>(508,808)</u>	<u>(471,350)</u>
Net income	<u>\$ 567,906</u>	<u>\$ 741,976</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Statutory Basis Statements of Surplus
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Appropriated Surplus Funds						Total Surplus
	Security Fluctuation Surplus	Catastrophe Surplus	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Postemployment Fringe Benefits	Unassigned Surplus	
Balance—January 1, 2019	\$ 1,350,000	\$ 399,561	\$ 605,339	\$ 114,596	\$ 680,428	\$ 3,946,142	\$ 7,096,066
Net income	-	-	-	-	-	741,976	741,976
Change in net unrealized capital gain - investments	-	-	-	-	-	356,136	356,136
Increase in nonadmitted assets	-	-	-	-	-	10,842	10,842
Appropriation of unassigned to (from) appropriated surplus	250,000	-	43,634	7,679	16,415	(317,728)	-
Balance—December 31, 2019	1,600,000	399,561	648,973	122,275	696,843	4,737,368	8,205,020
Net income	-	-	-	-	-	567,906	567,906
Change in net unrealized capital gain - investments	-	-	-	-	-	52,098	52,098
Increase in nonadmitted assets	-	-	-	-	-	128,514	128,514
Appropriation of unassigned to (from) appropriated surplus	380,000	-	40,860	7,191	221,822	(649,873)	-
Balance—December 31, 2020	<u>\$ 1,980,000</u>	<u>\$ 399,561</u>	<u>\$ 689,833</u>	<u>\$ 129,466</u>	<u>\$ 918,665</u>	<u>\$ 4,836,013</u>	<u>\$ 8,953,538</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Statutory Basis Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operations:		
Premiums collected, net of reinsurance	\$ 1,748,864	\$ 2,043,665
Net investment income	539,830	522,519
Miscellaneous expense	(328,469)	(102,821)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,204,974)	(1,230,216)
Expenses paid	(325,444)	(356,263)
Dividends paid to policyholders	(194,558)	(234,091)
	<u>235,249</u>	<u>642,793</u>
Net cash provided by operations		
Cash flows from investments:		
Proceeds from investments sold, matured or repaid	6,606,699	6,826,580
Cost of investments acquired	(6,861,774)	(7,079,379)
Other applications	(6,293)	(56,168)
	<u>(261,368)</u>	<u>(308,967)</u>
Net cash used in investments		
Net cash flows from other sources	<u>(55,006)</u>	<u>34,476</u>
Net cash (used in) provided by other sources	<u>(55,006)</u>	<u>34,476</u>
Net change in cash, cash equivalents and short-term investments	(81,125)	368,302
Cash, cash equivalents and short-term investments:		
Beginning of year	<u>528,784</u>	<u>160,482</u>
Cash, cash equivalents and short-term investments:		
End of year	<u>\$ 447,659</u>	<u>\$ 528,784</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 1 – ORGANIZATION AND PURPOSE

The New York State Insurance Fund (“NYSIF”), which includes the operations of the Workers’ Compensation Fund (“WCF”) and the Disability Benefits Fund (“DBF”), is a nonprofit agency of the State of New York (the “State”). NYSIF also administers the Aggregate Trust Fund (“ATF”). By statute, NYSIF maintains separate records for each fund.

In *Methodist Hospital of Brooklyn v. State Insurance Fund (1985)*, The New York State Court of Appeals held that NYSIF is “a State agency for all of whose liabilities the State is responsible”.

The home office properties are occupied jointly by all three funds. Because of this relationship, WCF incurs joint operating expenses subject to allocation based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. WCF allocates the cost of services rendered to DBF based on a percentage of DBF employees, salaries and square footage occupied. There is no direct allocation charged to ATF. A flat fee of either 3% or 6% of losses paid is charged by WCF dependent upon the date of the award (refer to Note 8).

Workers’ compensation insurance covers job-related disabilities and includes the cost of medical treatment. WCF also administers the Workers’ Compensation Program for the State, which self-insures.

WCF 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 WCF’s results of operations and financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of WCF are presented in conformity with accounting practices prescribed by the New York State Department of Financial Services (“DFS”). 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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NAIC SAP and NY SAP:

The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Such differences are identified herein as NY SAP where applicable. Specifically, Electronic Data Processing (“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 DFS has the right to permit other specific practices that may deviate from prescribed practices. WCF, as mandated by New York State Workers' Compensation Law, discounts all loss and loss adjustment expense reserves at 5%, is not required to calculate Risk Based Capital and records the contingent receivable from the State as an admitted asset.

WCF discounts all reserves, including pension and non-pension reserves, for loss and loss adjustment expenses at 5%. If no discounting was used, statutory surplus would decrease by \$6,599,003 and \$6,668,739 as of December 31, 2020 and 2019. If the contingent receivable from the State was not prescribed as an admitted asset, total statutory surplus would decrease by \$1,295,000 as of both December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NAIC SAP and NY SAP: (continued)

The cumulative effect of prescribed practices by NY SAP or as mandated by New York State Workers' Compensation Law on WCF's total surplus and net income for the years ended December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Surplus		
Total surplus as shown on statutory statements - NY SAP	<u>\$ 8,953,538</u>	<u>\$ 8,205,020</u>
Discounting of loss and loss adjustment expense reserves at 5%	<u>(6,599,003)</u>	<u>(6,668,739)</u>
Add back tabular discount at 3.5% on pension reserves	<u>2,133,038</u>	<u>2,214,854</u>
Contingent receivable from State of New York	<u>(1,295,000)</u>	<u>(1,295,000)</u>
Total cumulative effect	<u>(5,760,965)</u>	<u>(5,748,885)</u>
Total adjusted surplus (deficit) - NAIC SAP	<u>\$ 3,192,573</u>	<u>\$ 2,456,135</u>
Net Income		
Total net income as shown on statutory statements - NY SAP	<u>\$ 567,906</u>	<u>\$ 741,976</u>
Discounting of loss and loss adjustment expense reserves at 5%	<u>69,736</u>	<u>130,792</u>
Tabular discount at 3.5% on pension reserves	<u>(81,816)</u>	<u>(124,444)</u>
Total cumulative effect	<u>(12,080)</u>	<u>6,348</u>
Total adjusted net income - NAIC SAP	<u>\$ 555,826</u>	<u>\$ 748,324</u>

Differences between NY SAP and U.S. GAAP:

The accounting practices and procedures of NY SAP and NAIC SAP (collectively referred to as "SAP") comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States ("U.S. GAAP"). The more significant differences between SAP and U.S. GAAP, which are applicable to WCF, are set forth below:

- 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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NY SAP and U.S. GAAP: (continued)

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 reported at fair value with unrealized gains and losses included in earnings.
- 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. WCF 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, prepaid expenses, 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 their useful lives.

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Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NY SAP and U.S. GAAP: (continued)

- h. WCF'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 excluded from the balance sheet.
- i. As mandated by New York State Workers' Compensation Law, the reserves for losses and loss adjustment expenses are discounted to their present value using an annual effective interest rate of 5% during 2020 and 2019. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.
- j. An appropriation of surplus for security fluctuations has been established for the difference between the amortized cost of securities and their fair value. Such an appropriation is established for future contingencies, rather than allocated to specific investments. In addition, a reasonable portion of unassigned surplus has been established as an appropriation for catastrophes and for postemployment benefits.
- k. For real estate owned and occupied by NYSIF, rental income and corresponding rental expense is recorded. Under U.S. GAAP, no such income or expense is recorded.
- l. The balance sheet under SAP is reported net of reinsurance, while under U.S. GAAP, the balance sheet reports reinsurance recoverables, including amounts related to ceded 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 aggregate effect of the foregoing differences between NY SAP and U.S. GAAP on the accompanying statutory basis financial statements has not been determined, however, it is presumed to be material.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 primarily based on market prices obtained from the SVO and JPMorgan Chase.

For mortgage-backed fixed maturity securities, WCF 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 JPMorgan Chase and other pricing sources. Unrealized gain or loss for common stocks is the change in fair value from the prior year-end and is reflected as a separate component of unassigned surplus. Realized gains and losses are calculated based on the difference between cost and the consideration received at the time of sale and are included in the statutory basis statements of income.

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 the statutory basis statements 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 first-in, first-out method.

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Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Investments: (continued)

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 WCF'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 WCF will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that WCF 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 in the statutory basis statements of income in 2020 and 2019 for realized impaired losses was \$110,010 and \$45,272.

C. Real Estate:

WCF records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by NYSIF is used primarily for its own operations. In accordance with statutory accounting practices, WCF records both rental income and rental expense for office space occupied in buildings owned by NYSIF. The amount of related rental income and expense recorded in the statutory basis statements of income in 2020 and 2019 was \$14,204 and \$13,123.

Maintenance and repairs are charged to expense as incurred.

D. Premium Revenue and Related Accounts:

WCF records written premiums when billed to policyholders and earns the related income over the life of the policy.

WCF 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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Premium Revenue and Related Accounts: (continued)

At December 31, 2020 and 2019, the outstanding premium receivable balance is net of \$24,554 and \$153,162 of non-admitted amounts. WCF routinely assesses the collectability of receivables and establishes an appropriate allowance at each year end. Based on WCF's analysis, \$339,767 and \$129,545 are recorded as bad debt expense in the statutory basis statements of income for the years ended December 31, 2020 and 2019.

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

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 non-admitted.

E. Expenses of Workers' Compensation Board ("WCB"):

WCF carried a liability of \$6,645 and \$3,172 related to assessment payments due to the Workers' Compensation Board as of December 31, 2020 and 2019, included in accrued expenses and other liabilities on the statutory basis statement of admitted assets, liabilities and surplus.

F. Reserves for Losses and Loss Adjustment Expenses:

The reserves for losses and loss adjustment expenses ("LAE") for WCF 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 WCF are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of WCF has been reduced by \$6,599,003 and \$6,668,739 as of December 31, 2020 and 2019, as a result of the 5% discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Reserves for Losses and Loss Adjustment Expenses: (continued)

Loss and loss adjustment expense reserves are significant in relation to surplus and there are a number of factors that contribute to uncertainties in the timing and amount of future payments including: the long-tailed nature of workers compensation claims, the rate of inflation on medical costs, the impact of changes in New York State Workers' Compensation law made in 2007, discounting of reserves, and the impact of the COVID-19 pandemic.

WCF's reserves for losses and loss adjustment expenses are estimated by using generally accepted actuarial procedures and include consideration for the impact of the factors outlined above. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. WCF'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.

WCF's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary materially from the amounts included in the statutory basis financial statements.

Amounts relating to New York State losses and defense and cost containment expenses have been excluded from the financial statements. New York State reimburses NYSIF for losses, defense and cost containment and a portion of adjusting and other expenses paid. There are no underwriting expenses incurred by NYSIF related to New York State claims (see Note 8).

G. Postemployment Fringe Benefits - Pension:

All employees of WCF are eligible to be 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 2015, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire term of employment.

WCF has determined it is not directly liable for this obligation and as such, in accordance with SSAP No. 102, *Pensions*, WCF records its obligation based on amounts billed by the State. WCF records the difference between amounts billed by the State and amounts paid to the State as a liability or prepaid asset. WCF has a prepaid asset for pension benefits in the amount of \$5,636 and \$5,887 as of December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Postemployment Fringe Benefits - Pension: (continued)

Based on actual costs billed by various State agencies, WCF incurred \$71,372 and \$47,294 of fringe benefits and indirect costs in 2020 and 2019, recorded in other underwriting expenses in the statutory basis statements of income.

WCF also estimates a contingent liability for the net pension obligation as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

During the years ended December 31, 2020 and 2019, WCF appropriated surplus to provide for the net pension obligation costs as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as WCF's ultimate allocated share of the obligation, investment earning and actuarial projections. WCF updates the estimate each year-end.

At December 31, 2020 and 2019, WCF's pro-rata portion of its New York State Employees' net pension obligation was \$131,375 and \$37,163. The pension obligation was measured by the State as of March 31, 2020 and 2019 with WCF's portion of the obligation based on a ratio of its employees to State employees. At March 31, 2020 and 2019, WCF's approximate proportionate share was 0.497% and 0.522%.

The activity in the appropriated surplus for pension benefits during 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 37,163	\$ 18,132
Current year appropriation	<u>94,212</u>	<u>19,031</u>
Balance, end of year	<u>\$ 131,375</u>	<u>\$ 37,163</u>

In 2020 and 2019, WCF recorded pension expense of \$22,524 and \$23,423.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Postemployment Fringe Benefits – Other Postemployment Benefits:

WCF's employees are employees of the State. New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of WCF including their spouses and dependent children ("The State Plan"). 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 ("NYSHIP") 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.

The State's Actuarial Valuation Reports are prepared as of March 31 (the State's fiscal year end) and segregate balances relating to the various state agencies, including NYSIF, under GASB 75.

NYSIF, in the course of business, reimburses the State for certain Other Postemployment Benefits ("OPEB") related charges under the State's Plan. Under SSAP No. 92, *Postretirement Benefits Other Than Pensions*, WCF estimates its Normal Cost as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

WCF carries its net OPEB obligation (i.e., the Normal Cost less the amount WCF has funded to the State for retirees) as a liability. WCF recognizes in the statement of income only its annual Normal Cost, as this is WCF's current year expense for the plan for the period, in accordance with statutory accounting principles.

Projected benefits for financial reporting purposes are based on the State's actuarial calculations and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. WCF maintains an appropriated surplus account to provide for the portion of the contingency for OPEB costs that have not already been recognized as a net OPEB obligation, as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as WCF's ultimate allocated share of the liability, discount rate used to develop the present value of future benefits, healthcare inflation, projected healthcare claims, and the likelihood an employee retires, elects healthcare coverage, and survives after retirement. WCF updates the estimate each year-end.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Postemployment Fringe Benefits – Other Postemployment Benefits: (continued)

The activity in the appropriated surplus for postemployment benefits during 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 659,680	\$ 662,296
Current year appropriation	<u>127,610</u>	<u>(2,616)</u>
Balance, end of year	<u>\$ 787,290</u>	<u>\$ 659,680</u>

The following table shows the components of WCF's assigned values relating to OPEB expense (normal cost) under the State's plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net OPEB obligation, beginning of year	\$ 60,346	\$ 56,829
Annual OPEB expense (Normal Cost)	22,646	23,860
Estimated contribution credit (retiree premiums paid)	<u>(21,428)</u>	<u>(20,343)</u>
Increase in net OPEB obligation	<u>1,218</u>	<u>3,517</u>
Net OPEB obligation, end of year	<u>\$ 61,564</u>	<u>\$ 60,346</u>

WCF has an accrued liability for employee' compensation for future absences in the amount of \$21,251 and \$16,052 as of December 31, 2020 and 2019

I. Appropriated Surplus Funds:

As described above, WCF may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SAP.

Security fluctuation surplus

WCF increased security fluctuation surplus to \$1,980,000 as of December 31, 2020 from \$1,600,000 at December 31, 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Appropriated Surplus Funds: (continued)

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of WCF's exposures resulted in WCF maintaining the catastrophe surplus at \$399,651 as of December 31, 2020 and 2019.

Foreign terrorism and domestic terrorism catastrophe surplus

WCF 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. In December 2019, the President signed into law an extension which expires December 31, 2027. 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.

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. WCF is responsible for a deductible of \$411,571 and \$445,282 for December 31, 2020 and 2019. WCF assigned \$689,833 and \$648,973 of surplus which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2020 and 2019. Beginning on October 1, 2005, WCF began assigning a portion of premium to domestic terrorism catastrophe surplus, which totaled \$129,466 and \$122,275 as of December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Appropriated Surplus Funds: (continued)

Pension and Postemployment benefits surplus

WCF records pension and postemployment benefit expenses and estimates a contingent liability for the net obligation as of December 31 of each calendar year based on the State's latest available actuarial valuation reports (see Notes 2G and 2H).

Appropriated pension surplus increased to \$131,375 at December 31, 2020 from \$37,163 at December 31, 2019.

Other postemployment benefits ("OPEB") appropriated surplus increased to \$787,290 as of December 31, 2020 from \$659,680 at December 31, 2019.

J. Contingent Policyholder Dividends:

Section 90 of the New York State Workers' Compensation Law provides in substance that dividends may be paid at the discretion of WCF to safety groups. The estimated dividends that may be payable recorded by WCF are based on the contingent balances of the safety groups 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 balances during the year are reflected in the statutory basis statements of income.

Activity in contingent policyholder dividends is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 1,636,681	\$ 1,504,475
Calendar year accrued Safety Group dividend liability	180,422	366,297
Dividends paid to policyholders	<u>(194,558)</u>	<u>(234,091)</u>
Balance, end of year	<u>\$ 1,622,545</u>	<u>\$ 1,636,681</u>

NEW YORK STATE INSURANCE FUND

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NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Income Tax:

WCF is exempt from federal and state income taxes. WCF is, however, subject to a New York State franchise tax. WCF's franchise tax is based on written premiums. The New York State franchise tax expense was \$30,007 and \$35,711 in 2020 and 2019.

WCF 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. The MTA surcharge was \$2,053 and \$4,247 in 2020 and 2019.

The franchise and MTA tax expenses are recorded through the statutory basis statements of income.

L. Concentrations of Credit Risk:

Financial instruments that potentially subject WCF 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 demand deposit accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, ("FDIC") up to \$250. The term 'demand deposits' means both interest-bearing and noninterest bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal.

Cash and cash equivalents are held with high-credit quality financial institutions in the United States and from time to time may have balances that exceed the amount of insurance provided by the FDIC on such deposits.

M. Risks and Uncertainties:

WCF 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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Risks and Uncertainties: (continued)

In early 2020, the World Health Organization declared the COVID-19 (coronavirus) outbreak to be a pandemic. The ultimate extent of the impact and effects on the operations and financial performance of NYSIF are unknown. However, during the year ended December 31, 2020, NYSIF has experienced a decrease in premiums and has instituted changes in premium payment plans including deferral of premium due dates and forbearance on cancellation of policies for non-payment and on charging certain fees. The extent of the impact of the COVID-19 outbreak on NYSIF's financial results will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions and the impact on the financial markets and overall economy, all of which are highly uncertain and cannot be predicted. Future changes in laws and regulations regarding eligibility of workers' compensation benefits for COVID-19 claims are also unknown, which could have a material impact on financial results. If the financial markets and/or the overall economy are impacted for an extended period, NYSIF's business, results of operations, cash flows, and investment results may be materially affected.

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, earned but unbilled premiums and WCF's portion of the pension and OPEB costs estimated by WCF based on the current actuarial valuation prepared for the State, which includes WCF's employees.

O. Reclassifications:

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

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 3 – INVESTMENTS

Section 85 of the New York State Workers' Compensation Law states that the Commissioner of Taxation and Finance is the custodian of WCF. By order of the Commissioner and approval of DFS, Section 87 allows JPMorgan Chase to serve as WCF's custodian for investments. The type of securities authorized for investment by WCF are mandated by Section 87. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2020 and 2019, in accordance with Section 105 of the New York State Finance Law.

The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2020 and 2019 are as follows:

	2020			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 5,766,771	\$ 813,810	\$ (38,435)	\$ 6,542,146
States, territories, possessions and political subdivisions	1,160,441	79,192	(691)	1,238,942
Corporate bonds and public utilities	8,776,814	1,005,142	(383)	9,781,573
Mortgage-backed securities	1,565,865	30,078	(117)	1,595,826
Total bonds	<u>17,269,891</u>	<u>1,928,222</u>	<u>(39,626)</u>	<u>19,158,487</u>
Common stocks	<u>1,206,141</u>	<u>641,224</u>	<u>(5,065)</u>	<u>1,842,300</u>
Total stocks	<u>1,206,141</u>	<u>641,224</u>	<u>(5,065)</u>	<u>1,842,300</u>
Total investments	<u>\$ 18,476,032</u>	<u>\$ 2,569,446</u>	<u>\$ (44,691)</u>	<u>\$ 21,000,787</u>
	2019			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	\$ 4,919,947	\$ 460,367	\$ (7,831)	\$ 5,372,483
Foreign government	15,005	139	-	15,144
States, territories, possessions and political subdivisions	906,011	6,871	(8,242)	904,640
Corporate bonds and public utilities	8,558,201	583,840	(4,380)	9,137,661
Mortgage-backed securities	1,892,963	21,592	(1,071)	1,913,484
Total bonds	<u>16,292,127</u>	<u>1,072,809</u>	<u>(21,524)</u>	<u>17,343,412</u>
Common stocks	<u>1,265,849</u>	<u>591,074</u>	<u>(7,013)</u>	<u>1,849,910</u>
Total stocks	<u>1,265,849</u>	<u>591,074</u>	<u>(7,013)</u>	<u>1,849,910</u>
Total investments	<u>\$ 17,557,976</u>	<u>\$ 1,663,883</u>	<u>\$ (28,537)</u>	<u>\$ 19,193,322</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

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

	Amortized Cost	Market Value
Due in one year or less	\$ 1,146,697	\$ 1,153,302
Due after one year through five years	5,826,214	6,104,241
Due after five years through ten years	2,591,126	2,862,761
Due after ten years	7,705,854	9,038,183
	<u> </u>	<u> </u>
Total bonds	<u>\$ 17,269,891</u>	<u>\$ 19,158,487</u>

WCF participates in securities lending programs whereby certain securities from WCF's portfolio are loaned to other institutions for short periods of time. Under the terms of the lending agreements, WCF receives a fee from the borrower and requires collateral with a market value of at least 102% of the market value of securities loaned. WCF maintains ownership rights to securities loaned and has the ability to sell securities while they are on loan. WCF has an indemnification agreement with lending agents in the event a borrower becomes insolvent or fails to return securities. As of December 31, 2020 and 2019, \$379,083 and \$418,042 of WCF investments were on loan, supported by collateral of \$387,364 and \$427,676.

WCF has reinvested collateral assets in the amount of \$115,708 and \$239,999 as of December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019, WCF received fees of \$1,467 and \$3,562. Fees have been included in investment income earned in the statutory basis statements of income.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

The amortized cost and market value of the reinvested collateral assets at December 31, 2020 by contractual maturity are shown below:

	<u>Amortized Cost</u>	<u>Fair Value</u>
30 days or less	\$ 115,483	\$ 115,483
31 to 180 days	<u>226</u>	<u>356</u>
Total collateral received	<u>\$ 115,709</u>	<u>\$ 115,839</u>

The amortized cost and market value of the reinvested collateral assets at December 31, 2019 by contractual maturity are shown below:

	<u>Amortized Cost</u>	<u>Fair Value</u>
30 days or less	\$ 239,766	\$ 239,766
31 to 180 days	<u>233</u>	<u>363</u>
Total collateral received	<u>\$ 239,999</u>	<u>\$ 240,129</u>

WCF has sufficient tradable securities that could be sold to pay for the collateral calls that could come due under a worst-case scenario.

WCF security lending agreement is with JPMorgan Chase. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2020 and 2019, in accordance with Section 105 of the New York State Finance Law.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

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

	<u>2020</u>	<u>2019</u>
Bonds	\$ 497,038	\$ 520,734
Stocks	32,169	32,900
Cash, cash equivalents and short-term investments	2,860	8,380
Real estate - home office	17,252	16,237
Securities lending	1,181	3,543
Other	(409)	(2,377)
Investment income earned	<u>550,091</u>	<u>579,417</u>
Investment expenses	(28,289)	(23,956)
Depreciation on real estate and other invested assets	(8,409)	(7,548)
Net realized capital gains	<u>561,294</u>	<u>196,965</u>
Net investment income	<u>\$ 1,074,687</u>	<u>\$ 744,878</u>

Net realized capital gains on investments, determined on the first-in, first-out method in 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Bonds	\$ 253,656	\$ 154,223
Stocks	307,690	42,797
Cash and short-term investments	(75)	(70)
Securities lending	23	15
Net realized capital gains	<u>\$ 561,294</u>	<u>\$ 196,965</u>

Proceeds from investments sold, matured or repaid during the years ended December 31, 2020 and 2019 are \$6,606,699 and \$6,826,580. These sales resulted in gross realized capital gains of \$717,375 and \$285,573, and gross realized capital losses of \$46,019 and \$43,282 in 2020 and 2019, respectively.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

The following table represents WCF's unrealized losses, 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, 2020 and 2019.

	2020					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government/agency	\$ 820,350	\$ (39,126)	\$ -	\$ -	\$ 820,350	\$ (39,126)
Corporate and Public Utilities	127,084	(383)	-	-	127,084	(383)
Mortgage Backed Securities	32,485	(117)	616	-	33,101	(117)
Total Fixed Maturities	979,919	(39,626)	616	-	980,535	(39,626)
Common Stock	77,051	(4,897)	1,583	(168)	78,634	(5,065)
Total Stock	77,051	(4,897)	1,583	(168)	78,634	(5,065)
Total Temporarily Impaired	<u>\$ 1,056,970</u>	<u>\$ (44,523)</u>	<u>\$ 2,199</u>	<u>\$ (168)</u>	<u>\$ 1,059,169</u>	<u>\$ (44,691)</u>
	2019					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government/agency	\$ 983,473	\$ (14,440)	\$ 86,288	\$ (1,633)	\$ 1,069,761	\$ (16,073)
Corporate and Public Utilities	261,843	(2,670)	95,830	(1,710)	357,673	(4,380)
Mortgage Backed Securities	406,313	(771)	122,839	(300)	529,152	(1,071)
Total Fixed Maturities	1,651,629	(17,881)	304,957	(3,643)	1,956,586	(21,524)
Common Stock	88,932	(7,013)	-	-	88,932	(7,013)
Total Stock	88,932	(7,013)	-	-	88,932	(7,013)
Total Temporarily Impaired	<u>\$ 1,740,561</u>	<u>\$ (24,894)</u>	<u>\$ 304,957</u>	<u>\$ (3,643)</u>	<u>\$ 2,045,518</u>	<u>\$ (28,537)</u>

Gross unrealized losses represented 0.2% of cost or amortized cost of total investments for WCF as of December 31, 2020 and 2019, respectively. Fixed maturities represented 88.7% and 75.4% of WCF's unrealized losses as of December 31, 2020 and 2019. The group of securities in an unrealized loss position for less than twelve months was comprised of 388 and 810 securities for WCF as of December 31, 2020 and 2019. The group of securities depressed for twelve months or more are comprised of 5 and 55 securities for WCF as of December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been primarily impacted by a change in interest rates after the purchase date. As part of WCF's ongoing security monitoring process by a committee of investment and accounting professionals, WCF has reviewed its investment portfolio and concluded that there are no additional other-than-temporary impairments as of December 31, 2020 and 2019. 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, WCF believes that the securities identified above are 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.

SSAP No. 43R - *Loan-backed and Structured Securities* ("SSAP No. 43R") requires that OTTI be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security's amortized cost and its fair value either (i) WCF intends to sell the security; or (ii) WCF 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 WCF 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 are no amounts included in 2020 and 2019 for realized impairment losses related to SSAP No. 43R investments. There are no additional impairments recorded in 2020 and 2019 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses are identified on the basis that WCF was unable to retain the security until recovery of amortized cost.

During 2020 and 2019, WCF recorded OTTI related to bonds in the amount of \$8,593 and \$1,247 in the statutory basis statements of income. WCF recorded total OTTI of \$101,417 and \$44,025 related to common stock as of December 31, 2020 and 2019, as a component of net realized investment gains through the statutory basis statements of income.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

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.

WCF 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 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 analysis, 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, WCF 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. 100R, *Fair Value*, 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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

When available, WCF 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 WCF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

WCF'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. 100R 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 WCF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset and liability at the reporting date.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

The following table provides information as of December 31, 2020 about WCF'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>
Common stocks	<u>\$ 1,842,299</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,842,300</u>
Total assets at fair value	<u><u>\$ 1,842,299</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 1,842,300</u></u>

The following table provides information as of December 31, 2019 about WCF'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>
Common stocks	<u>\$ 1,849,906</u>	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ 1,849,910</u>
Total assets at fair value	<u><u>\$ 1,849,906</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 4</u></u>	<u><u>\$ 1,849,910</u></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 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 WCF by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quoted prices for these securities are provided to WCF using independent pricing services. There are no changes in valuation techniques during 2020 and 2019.

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.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

WCF 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.

WCF's policy is to recognize transfers in and out of Levels 2 and 3 as of the end of the reporting period. There are no significant transfers in or out of Level 2 or 3 during 2020 and 2019.

The following table provides information as of December 31, 2020 about WCF's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of asset.

Type of Financial Instrument	Aggregate	Admitted	Level 1	Level 2	Level 3
	Fair Value	Assets			
Bonds	\$ 19,158,487	\$ 17,269,891	\$ -	\$ 19,158,487	\$ -
Short-term investments	82,317	82,314	-	82,317	-
Common stocks	1,842,300	1,842,300	1,842,299	-	1
Security lending collateral assets	115,839	115,709	115,483	356	-
Total	<u>\$ 21,198,943</u>	<u>\$ 19,310,214</u>	<u>\$ 1,957,782</u>	<u>\$ 19,241,160</u>	<u>\$ 1</u>

The following table provides information as of December 31, 2019 about WCF'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	\$ 17,343,412	\$ 16,292,127	\$ -	\$ 17,343,412	\$ -
Cash Equivalents and short-term investments	447,605	447,595	363,729	83,876	-
Common stocks	1,849,910	1,849,910	1,849,906	-	4
Security lending collateral assets	240,129	239,999	239,766	363	-
Total	<u>\$ 19,881,056</u>	<u>\$ 18,829,631</u>	<u>\$ 2,453,401</u>	<u>\$ 17,427,651</u>	<u>\$ 4</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

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 WCF by independent pricing services. Quoted prices for these securities are provided to WCF 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 WCF by independent pricing services. Securities classified in Level 3 for 2020 represent a structured investment vehicle that is measured based on analysis performed by WCF'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.

There are no significant transfers into or out of Level 2 or 3 during 2020 and 2019. There are no changes in valuation techniques during 2020 and 2019.

B. Subprime Mortgage Exposure:

WCF has no direct subprime exposure through investments in subprime mortgage loans.

WCF has indirect subprime exposure in 2 mortgage-backed securities in the reinvested collateral assets in the amount of \$864 and \$895 in 2020 and 2019. None of these securities are deemed to have any issues that would lead management to believe that they are other-than-temporarily impaired.

WCF has no underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.

C. Wash Sales:

In the course of WCF's management of its investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance WCF's yield on its investment portfolio. WCF did not sell any securities at a loss or in a loss position with an NAIC designation from 3 to 6 for the years ended December 31, 2020 and 2019 that were reacquired within 30 days of the sale date.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 4 – REAL ESTATE

Investment in real estate includes various locations in New York State occupied by the NYSIF's employees. Depreciation expense recorded in the statutory basis statements of income during 2020 and 2019 was \$8,409 and \$7,549.

NYSIF-owned real estate recorded by WCF at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Office buildings and improvements, at cost	\$ 149,497	\$ 141,096
Accumulated depreciation	<u>(49,657)</u>	<u>(41,248)</u>
Office buildings and improvements—net of accumulated depreciation	<u>99,840</u>	<u>99,848</u>
Land	2,735	2,735
Land improvements	<u>2,249</u>	<u>2,249</u>
Total real estate	<u>\$ 104,824</u>	<u>\$ 104,832</u>

NOTE 5 – NON-ADMITTED ASSETS

Non-admitted assets at December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Premium in course of collection		
outstanding over 90 days, net	\$ 22,769	\$ 143,932
Earned but unbilled premiums	927	8,278
Accrued retrospective premiums	858	952
Electronic data equipment/software	3,537	2,260
Furniture and equipment, net of		
accumulated depreciation	6,427	7,353
Prepaid expenses and other	<u>5,636</u>	<u>5,892</u>
Total non-admitted assets	<u>\$ 40,154</u>	<u>\$ 168,667</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 6 – TRANSACTIONS WITH NEW YORK STATE

Over the course of several years, WCF was required to transfer to the State an 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 WCF 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 WCF to transfer an additional \$325,000 to the general fund of the State. Chapter 47 of the New York State Laws of 1987 required WCF 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 WCF 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, WCF 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 if, in substance, WCF has no assets in excess of its reserves available to pay claims under its Workers' Compensation policies. These statutes specifically require the contingent receivable to be carried as an admitted asset.

NOTE 7 – REINSURANCE

As part of a prior reinsurance program, WCF reinsured certain risks with other companies. Such arrangements served to limit WCF'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, WCF would be liable for its respective participation in such defaulted amounts. The reserves for losses and loss adjustment expenses are \$2,639 and \$1,133 for losses recoverable under reinsurance contracts as of December 31, 2020 and 2019. WCF purchased no reinsurance in 2020 and 2019.

See Note 2[l] on reinsurance afforded through the Terrorism Risk Insurance Act of 2002.

Unsecured Reinsurance Recoverables in Excess of 3% of Surplus:

WCF 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 WCF's surplus at December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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NOTE 8 – RELATED PARTY TRANSACTIONS

Expenses allocated to DBF are \$4,124 in 2020 and \$3,992 in 2019. The amount owed to WCF from DBF is \$799 and \$588 as of December 31, 2020 and 2019.

NYSIF acts as the administrator of ATF by paying losses on behalf of the ATF. 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 WCF. NYSIF charges ATF an administrative fee based on paid losses for such services at a rate of 3% for awards adjudicated prior to July 1, 2018 and 6% for awards adjudicated on or after July 1, 2018. The total administration fees charged to ATF during 2020 and 2019 are \$2,066 and \$1,774. The amount owed to NYSIF, recorded in WCF from ATF is \$177 and \$170 as of December 31, 2020 and 2019.

WCF administers workers' compensation claims for the State, which self-insures its liability. WCF is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2020 and 2019, the State reimbursed WCF \$466,533 and \$483,841 for such costs. Amounts relating to New York State losses, loss adjustment expenses and underwriting expenses have been excluded from these financial statements. The amount owed to WCF from the State is \$19,957 and \$6,885 as of December 31, 2020 and 2019.

Assessments administered to the WCB are estimated based on premium written in the prior quarter, as well as assessment adjustments to policies previously reported. WCF is reimbursed for assessments administered to WCF through premium billing. Policyholders were assessed in the amount of \$191,500 and \$242,173, and estimated payments made to the Workers' Compensation Board were \$187,205 and \$243,630 for the years ended December 31, 2020 and 2019. WCF recorded a liability of \$6,645 and \$3,172 as of December 31, 2020 and 2019 for payments to the Workers' Compensation Board, which is recorded through premium receivable in the statutory basis statements of admitted assets, liabilities and surplus.

Amounts due to/from affiliates are as follows as of December 31:

	<u>2020</u>	<u>2019</u>
Due from affiliates		
Aggregate Trust Fund	\$ 177	\$ 170
DBF	799	588
New York State	<u>19,957</u>	<u>6,885</u>
Total due from affiliates	<u>\$ 20,933</u>	<u>\$ 7,643</u>

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 9 – COMMITMENTS

NYSIF leases offices, warehouse space and vehicles under non-cancelable operating leases, generally varying from one to fifteen years. WCF's aggregate minimum commitments under non-cancelable operating leases at December 31, 2020, are as follows:

2021	\$ 2,986
2022	3,044
2023	3,091
2024	3,139
2025	3,044
Thereafter	<u>20,468</u>
Net minimum commitments	<u>\$ 35,772</u>

Rental expense (which includes an imputed amount of rent expense attributed to its owned building for WCF of \$14,204 and \$13,123) was \$18,054 and \$17,211 in 2020 and 2019 and is recorded as an offset to investment income earned.

NYSIF leases office space at its 199 Church St. location in New York City to the New York State Division of State Police ("State Police") and the New York State Department of Labor ("DOL"). The termination date of the State Police lease is December 31, 2032. The termination date of the DOL lease is December 31, 2035. NYSIF recognized lease income of \$3,048 in 2020 and 2019 recorded through investment income earned.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 10 – RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserves for losses and loss adjustment expenses, net of reinsurance recoveries of \$2,639 and \$1,133 for 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance—January 1 (net of reinsurance recoveries)	<u>\$ 10,003,647</u>	<u>\$ 9,995,215</u>
Incurred claims related to:		
Current year	1,935,488	2,062,558
Prior years	<u>(525,809)</u>	<u>(643,405)</u>
Total incurred	<u>1,409,679</u>	<u>1,419,153</u>
Paid claims related to:		
Current year	168,336	200,263
Prior years	<u>1,212,833</u>	<u>1,210,458</u>
Total paid	<u>1,381,169</u>	<u>1,410,721</u>
Balance—December 31 (net of reinsurance recoveries)	<u>\$ 10,032,157</u>	<u>\$ 10,003,647</u>

These amounts reflect discounting pursuant to prescribed practices that depart from NAIC SAP. See Note 2A, Summary of Significant Accounting Policies.

The incurred claims relating to prior years have changed in 2020 and 2019 as a result of changes in estimates of events insured in prior years.

NOTE 11 – SURPLUS

There are no restrictions placed on WCF's surplus.

Changes in balances of appropriated surplus funds from December 31, 2019 to December 31, 2020 are discussed in Note 2G.

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

	<u>2020</u>	<u>2019</u>
Unrealized gains	\$ 636,159	\$ 584,061
Nonadmitted assets	\$ (40,154)	\$ (168,667)

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 12 – OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	<u>2020</u>	<u>2019</u>
Advertising	\$ 91	\$ 186
Boards, bureaus and associations	5,825	5,568
Audit of assured's records	90	392
Salaries and payroll taxes	73,950	73,886
Employee relations and welfare	31,741	21,141
Insurance	129	149
Travel and travel items	192	668
Rent and rent items	8,010	7,619
Equipment	578	539
Cost or depreciation of EDP equipment and software	8,513	7,048
Printing and stationery	650	816
Postage and telephone	2,474	2,678
Legal and auditing	1,287	2,087
Taxes, licenses and fees: Franchise taxes and other fees	31,850	41,652
Miscellaneous expenses	<u>6,157</u>	<u>5,826</u>
Total	<u>\$ 171,537</u>	<u>\$ 170,255</u>

NOTE 13 – CONTINGENCIES

From time to time, WCF 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 a material effect on the results of operations, liquidity, or financial position of WCF.

NEW YORK STATE INSURANCE FUND

Workers' Compensation Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 14 – RETROSPECTIVELY RATED CONTRACTS

For certain policies, WCF offers experience-rated insurance contracts whereby the ultimate premium is dependent upon claims incurred. WCF estimates accrued retrospective premium adjustments through the review of each individual retrospectively rated risk, comparing case basis loss development with that anticipated in the policy contract to arrive at the best estimate of return or additional retrospective premium.

The amount of net premiums written subject to retrospective rating feature is \$8,090 and \$7,237 at December 31, 2020 and 2019, respectively, or 0.5% and 0.4% of total net written premiums written for the year ended December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, respectively, premiums receivable included accrued retrospective and unbilled audit premiums of \$7,718 and \$8,572. In accordance with SSAP No. 66, Retrospectively Rated Contracts, 10% of the amount of accrued retrospective premiums not offset by retrospective return premiums has been non-admitted as referenced below.

	<u>2020</u>	<u>2019</u>
Accrued retrospective premium receivable	\$ 8,575	\$ 9,524
Less: non-admitted amount (10%)	<u>(857)</u>	<u>(952)</u>
Admitted retrospective premium receivable	<u>\$ 7,718</u>	<u>\$ 8,572</u>

NOTE 15 – 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 26, 2021, when the annual statement was filed with the NAIC and DFS. After that date, subsequent events have been reviewed through May 21, 2021, the date which these audited statements were available to be issued.

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
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, which comprise the statutory basis statements of admitted assets, liabilities and surplus as of December 31, 2020 and 2019, and the related statutory basis statements of income, surplus, and cash flows for 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.

AUDITOR'S 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 entity'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 entity'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 opinion.

BASIS FOR ADVERSE OPINION ON U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As described in Note 2A, the statutory basis financial statements are prepared by the State Insurance Fund Disability Benefits Fund using 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. The effects on the statutory basis financial statements of the variances between these statutory accounting policies 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, 2020 and 2019, or the results of its operations or its cash flows for 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, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of financial reporting provisions of the New York State Department of Financial Services as described in Note 2A.

The logo for EisnerAmper LLP, featuring the company name in a stylized, cursive script font.

EISNERAMPER LLP
New York, New York
May 21, 2021

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Admitted assets		
Cash and invested assets:		
Bonds—at NAIC carrying value	\$ 13,328	\$ 83,458
Cash, cash equivalents and short-term investments	252,170	159,654
Securities lending reinvested collateral	-	75
Total cash and invested assets	<u>265,498</u>	<u>243,187</u>
Premium receivables	14,514	12,033
Accrued investment income	73	681
Other assets	-	224
Total admitted assets	<u>\$ 280,085</u>	<u>\$ 256,125</u>
Liabilities and surplus		
Liabilities:		
Reserve for losses	\$ 14,957	\$ 14,409
Reserve for loss adjustment expenses	2,333	1,959
Unearned premiums	49,235	32,211
Advance premium	2,552	1,956
Due to affiliate	799	588
Payables for securities and securities lending	-	2,135
Accrued expenses and other liabilities	<u>11,264</u>	<u>8,385</u>
Total liabilities	<u>81,140</u>	<u>61,643</u>
Surplus:		
Appropriated surplus funds		
Security fluctuation surplus	800	1,260
Catastrophe surplus	4,000	4,000
Postemployment benefits surplus	13,835	7,949
Unassigned surplus	<u>180,310</u>	<u>181,273</u>
Total surplus	<u>198,945</u>	<u>194,482</u>
Total liabilities and surplus	<u>\$ 280,085</u>	<u>\$ 256,125</u>

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Statutory Basis Statements of Income
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Underwriting income:		
Net written premium	<u>\$ 75,438</u>	<u>\$ 58,069</u>
Net earned premium	<u>\$ 58,636</u>	<u>\$ 55,820</u>
Underwriting expenses:		
Losses incurred	42,220	43,197
Loss adjustment expenses incurred	4,569	3,415
Other underwriting expenses incurred	5,472	4,557
Total underwriting expenses	<u>52,261</u>	<u>51,169</u>
Net underwriting profit	<u>6,375</u>	<u>4,651</u>
Investment income earned:		
Investment income	2,641	5,626
Investment expenses	(304)	(294)
Net realized capital (losses) gains	(7)	15
Net investment income earned	<u>2,330</u>	<u>5,347</u>
Other (expenses) income:		
Bad debt expense	(5,830)	(1,324)
Miscellaneous income	716	821
Total other expense	<u>(5,114)</u>	<u>(503)</u>
Net income	<u>\$ 3,591</u>	<u>\$ 9,495</u>

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Statutory Basis Statements of Surplus
For the Years Ended December 31, 2020 and 2019
(in thousands)

	Appropriated Surplus Funds				Total Surplus
	Security Fluctuation Surplus	Catastrophe Surplus	Postemployment Fringe Benefits	Unassigned Surplus	
Balance—January 1, 2019	\$ 1,890	\$ 4,000	\$ 7,374	\$ 172,144	\$ 185,408
Net income	-	-	-	9,495	9,495
Decrease in nonadmitted assets	-	-	-	(421)	(421)
Appropriation of unassigned to (from) appropriated surplus	(630)	-	575	55	-
Balance—December 31, 2019	1,260	4,000	7,949	181,273	194,482
Net income	-	-	-	3,591	3,591
Decrease in nonadmitted assets	-	-	-	872	872
Appropriation of unassigned to (from) appropriated surplus	(460)	-	5,886	(5,426)	-
Balance—December 31, 2020	\$ 800	\$ 4,000	\$ 13,835	\$ 180,310	\$ 198,945

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Statutory Basis Statements of Cash Flows
For the Years Ended December 31, 2020 and 2019
(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operations:		
Premiums collected	\$ 76,662	\$ 59,240
Net investment income	2,926	5,374
Miscellaneous expense	(5,114)	(502)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(41,672)	(46,426)
Expenses paid	(8,703)	(8,667)
Net cash provided by operations	<u>24,099</u>	<u>9,019</u>
Cash flows from investments:		
Proceeds from investments sold, matured or repaid	70,231	90,697
Cost of investments acquired	(2,060)	(513)
Net cash provided by investments	<u>68,171</u>	<u>90,184</u>
Cash flows from other sources	<u>246</u>	<u>(10,795)</u>
Net change in cash and short-term investments	92,516	88,408
Cash and short-term investments Beginning of year	<u>159,654</u>	<u>71,246</u>
Cash and short-term investments End of year	<u>\$ 252,170</u>	<u>\$ 159,654</u>

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 1 – ORGANIZATION AND PURPOSE

The State Insurance Fund (“NYSIF”), which includes the operations of Disability Benefits Fund (“DBF”) and Workers’ Compensation Fund (“WCF”), is a nonprofit agency of the State of New York (“the State”). NYSIF also administers the Aggregate Trust Fund (“ATF”). By statute, NYSIF maintains separate records for each fund.

In *Methodist Hospital of Brooklyn v. State Insurance Fund (1985)*, The New York State Court of Appeals held that NYSIF is “a State agency for all of whose liabilities the State is responsible”.

DBF offers statutory disability benefits insurance that satisfies an employer’s requirement to provide partial wage replacement benefits to their employees for off-the-job injuries or illnesses and disabilities arising from pregnancies. Statutory disability benefits are equal to one-half the average weekly wage of the employee, up to a maximum benefit of \$170 for 26 weeks, if necessary, within a 52-week period. Medical care is the responsibility of the claimant.

Effective January 1, 2018, DBF added an endorsement to policies to cover employees for mandatory New York State Paid Family Leave (“PFL”), which is funded through employee payroll deductions. PFL provides workers with job-protected, paid leave to bond with a new child, care for a loved one with a serious condition or help relieve family pressures when someone is deployed abroad on active military service.

The home office properties are occupied jointly by all three funds. Because of this relationship, DBF incurs operating expenses allocated to DBF by WCF based on the level of services provided. Management believes the method of allocating such expenses is fair and reasonable. WCF allocates the cost of services rendered to DBF based on a percentage of DBF employees, salaries and square footage occupied.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of DBF are presented in conformity with accounting practices prescribed by the New York Department of Financial Services (“DFS”). 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.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NAIC SAP and NY SAP:

The State has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Such differences are identified herein as NY SAP where applicable. Specifically, Electronic Data Processing (“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 DFS has the right to permit other specific practices that may deviate from prescribed practices. DBF, as mandated by New York State Workers’ Compensation Law, is not required to calculate Risk Based Capital.

Differences between NY SAP and U.S. GAAP:

The accounting practices and procedures of NY SAP and NAIC SAP (collectively referred to as “SAP”) comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States (“U.S. GAAP”). The more significant differences between SAP and U.S. GAAP, which are applicable to DBF, 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.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation: (continued)

Differences between NAIC SAP and NY SAP: (continued)

- b. Cash and short-term investments in the statutory basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.
- c. Policy acquisition costs (principally underwriting and marketing-related costs) are expensed as incurred, whereas under U.S. GAAP these costs are capitalized and amortized to income on the same basis as premium income is recognized.
- d. Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days, 10% of earned but unbilled premium and prepaid expenses) are charged directly against surplus. Under U.S. GAAP, all premiums in course of collection and prepaid expenses would be included in total assets, less valuation allowances.
- e. EDP and related equipment with a cost of \$2 and greater are depreciated over an estimated useful life up to 3 years. Under U.S. GAAP, all EDP and related equipment would be recorded as assets, less accumulated depreciation over their useful lives.
- f. An appropriation of surplus for security fluctuations has been established for the difference between the amortized cost of securities and their fair value. Such an appropriation is established for future contingencies, rather than allocated to specific investments. In addition, a reasonable portion of unassigned surplus has been established as an appropriation for catastrophes and postemployment benefits.
- g. Comprehensive income and its components are not presented in the statutory basis financial statements.
- h. 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.
- i. The aggregate effect of the foregoing differences between NY SAP and U.S. GAAP on the accompanying statutory basis financial statements has not been determined, however, it is presumed to be material.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 primarily based on market prices obtained from the SVO and JPMorgan Chase.

For mortgage-backed fixed maturity securities, DBF 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.

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 the statutory basis statements of income.

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

An investment in a debt 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 DBF'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 DBF will not be able to collect all the amounts due under the security contractual terms. Other-than-temporary declines in fair value of investments are included in realized losses. There are no realized losses related to impairment losses during 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Premium Revenue and Related Accounts:

DBF records written premiums on the effective date of the policy and earns premium over the life of the policy.

DBF 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, 2020 and 2019, the outstanding premium receivable balance is net of \$451 and \$1,386 of non-admitted amounts. DBF routinely assesses the collectability of receivables and establishes an appropriate allowance at each year end. Based on DBF's analysis, \$5,830 and \$1,324 are recorded as bad debt expense in the statutory basis statements of income for the years ended December 31, 2020 and 2019.

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

Also included in the reserve for unearned premiums are estimates for Return of Premium Program ("ROP") in the amount of \$2,071 and \$1,965 at December 31, 2020 and 2019 and the Premium Adjustment Plan ("PAP") in the amount of \$1,947 and \$2,441 at December 31, 2020 and 2019 (See Note 2K). ROP 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 group's loss ratio that is not in excess of the industry standard as established by DFS.

PAP is a program whereby policyholders with annual premium greater than \$1 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 PAP credit is awarded. Other qualifications for both ROP and the PAP are that the policyholder must maintain an active status with DBF throughout the policy year and have payroll reports submitted after the end of the policy period.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Reserves for Losses and Loss Adjustment Expenses:

Total DBF reserves for losses and loss adjustment expenses (“LAE”), which include case and incurred but not reported (“IBNR”) reserves, are estimated using generally accepted actuarial methods. 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. DBF’s management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents the best estimate of the ultimate cost of investigating, defending and settling claims.

Case reserves for losses and LAE of DBF are based on individual case estimates for claims incurred on or before December 31, 2020. These liabilities also include expenses for investigating and settling claims.

DBF’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.

The New York State Department of Financial Services has imposed a risk adjustment mechanism on insurers writing PFL coverage. Each year, those carriers with PFL loss ratios lower than the average industry loss ratio make a risk adjustment payment and those carriers with loss ratios higher than the average industry loss ratio receive a risk adjustment payment. The payment and receipt of risk adjustments is intended to ensure all carriers have an equivalent loss ratio within specific employer size groupings. DBF records a reserve for PFL coverage including an estimate of future risk adjustments. The reserve carries a high degree of uncertainty as the information regarding industry results, necessary to calculate the risk adjustment, are largely unknown. Differences between risk adjustment reserve amounts and actual payments made or received, are recorded in income in the period in which the estimates are changed or payments are made in accordance with SAP guidance. During 2020 and 2019, NYSIF made a risk adjustment payment of \$8,797 and \$13,828

DBF does not cede or assume any reinsurance. DBF does not participate in any voluntary or involuntary pools. The reserves for loss and LAE of DBF are not discounted.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Postemployment Fringe Benefits - Pension:

All employees of DBF are eligible to be 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 2015, the plan is partially contributory in the first 10 years of employment and noncontributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire term of employment.

DBF has determined that they are not directly liable for this obligation and as such, in accordance with SSAP No. 102, *Pensions*, DBF records its obligation based on amounts billed by the State. DBF records the difference between amounts billed by the State and amounts paid to the State as a liability or prepaid asset. DBF has a prepaid asset for pension benefits in the amount of \$146 and \$84 as of December 31, 2020 and 2019.

Based on actual costs billed by various State agencies, DBF incurred \$2,262 and \$1,490 of fringe benefits and indirect costs in 2020 and 2019 recorded through other underwriting expenses in the statutory basis statements of income.

DBF also estimates a contingent liability for the net pension liability as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

During the years ended December 31, 2020 and 2019, DBF appropriated surplus to provide for the net pension obligation costs as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as DBF's ultimate allocated share of the obligation, investment earning and actuarial projections. DBF updates the estimate each year-end.

At December 31, 2020 and 2019, DBF's pro-rata portion of its New York State Employees' net pension obligation was \$3,410 and \$836. The pension obligation was measured by the State as of March 31, 2020 and 2019 with DBF's portion of the obligation based on a ratio of its employees to State employees. At March 31, 2020, and 2019, DBF's approximate proportionate share was 0.01%.

The activity in the appropriated surplus for pension benefits during 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 836	\$ 202
Current year appropriation	<u>2,574</u>	<u>634</u>
Balance, end of year	<u>\$ 3,410</u>	<u>\$ 836</u>

In 2020 and 2019, DBF recorded pension expense of \$589 and \$529.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Postemployment Fringe Benefits – Other Postemployment Benefits:

DBF's employees are employees of the State. New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of DBF including their spouses and dependent children ("The State Plan"). 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 ("NYSHIP") 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.

The State's Actuarial Valuation Reports are prepared as of March 31 (the State's fiscal year end) and segregate balances relating to the various state agencies, including NYSIF, under GASB 75.

NYSIF, in the course of business, reimburses the State for certain Other Postemployment Benefits ("OPEB") related charges under the State's Plan. Under SSAP No. 92, *Postretirement Benefits Other Than Pensions*, DBF estimates its Normal Cost as of December 31 of each calendar year based on the State's latest available Actuarial Valuation Report, which is as of March 31 of the same calendar year.

DBF carries its net OPEB obligation (i.e., the Normal Cost less the amount DBF has funded to the State for retirees) as a liability. DBF recognizes in the statement of income only its annual Normal Cost, as this is DBF's current year expense for the plan for the period, in accordance with statutory accounting principles.

Projected benefits for financial reporting purposes are based on the State's actuarial calculations and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between employer and plan members to that point. The actuarial calculations reflect a long-term perspective. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. DBF maintains an appropriated surplus account to provide for the portion of the contingency for OPEB costs that have not already been recognized as a net OPEB obligation, as permitted by SSAP No. 72, *Surplus and Quasi-Reorganizations*. Future obligations may vary significantly due to potential future changes in various key assumptions, such as DBF's ultimate allocated share of the liability, discount rate used to develop the present value of future benefits, healthcare inflation, projected healthcare claims, and the likelihood an employee retires, elects healthcare coverage, and survives after retirement. DBF updates the estimate each year-end.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Postemployment Fringe Benefits – Other Postemployment Benefits: (continued)

The activity in the appropriated surplus for postemployment benefits during 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 7,113	\$ 7,172
Current year appropriation	<u>3,312</u>	<u>(59)</u>
Balance, end of year	<u>\$ 10,425</u>	<u>\$ 7,113</u>

The following table shows the components of DBF's assigned values relating to OPEB expense (normal cost) under the State's plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Net OPEB obligation, beginning of year	\$ 945	\$ 634
Annual OPEB expense (Normal Cost)	588	537
Estimated contribution credit (retiree premiums paid)	<u>(556)</u>	<u>(226)</u>
Increase in net OPEB obligation	<u>32</u>	<u>311</u>
Net OPEB obligation, end of year	<u>\$ 977</u>	<u>\$ 945</u>

DBF has an accrued liability for employees' compensation for future absences in the amount of \$490 and \$321 as of December 31, 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Appropriated Surplus Funds:

As described above, DBF may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SAP.

Security fluctuation surplus

DBF decreased security fluctuation surplus to \$800 at December 31, 2020 from \$1,260 at December 31, 2019.

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of DBF's exposures resulted in DBF maintaining the catastrophe surplus at \$4,000 as of December 31, 2020 and 2019.

Pension and Postemployment fringe benefits surplus

DBF records pension and postemployment benefits expenses and estimates a contingent liability for the net obligation as of December 31 of each calendar year based on the State's latest available actuarial valuation reports (see notes 2E and 2F).

Appropriated pension surplus increased to \$3,410 as of December 31, 2020 from \$836 at December 31, 2019.

Other postemployment benefits ("OPEB") surplus increased to \$10,425 as of December 31, 2020 from \$7,113 at December 31, 2019.

H. Income Tax:

DBF is exempt from federal and state income taxes. DBF is, however, subject to a New York State franchise tax. DBF's franchise tax is based on written premiums. The New York State franchise tax expense was \$1,320 and \$1,016 in 2020 and 2019.

DBF 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. The MTA surcharge was \$188 and \$143 in 2020 and 2019.

The franchise and MTA tax expenses are recorded through the statutory basis statements of income.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Concentrations of Credit Risk:

Financial instruments that potentially subject DBF to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in money market securities and securities backed by the U.S. Government. Balances maintained in demand deposit accounts in the United States are fully insured by the Federal Deposit Insurance Corporation, (“FDIC”) up to \$250. The term demand deposit means both interest and non-interest-bearing deposits that are payable on demand and for which the depository institution does not reserve the right to require advance notice of an intended withdrawal.

Cash and cash equivalents are held with high-credit quality financial institutions in the United States and from time to time may have balances that exceed the amount of insurance provided by the FDIC on such deposits.

J. Risks and Uncertainties:

DBF 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.

In early 2020, the World Health Organization declared the COVID-19 (coronavirus) outbreak to be a pandemic. The ultimate extent of the impact and effects on the operations and financial performance of NYSIF are unknown. However, during the year ended December 31, 2020, NYSIF has experienced a decrease in premiums and has instituted changes in premium payment plans including deferral of premium due dates and forbearance on cancellation of policies for non-payment and on charging certain fees. The extent of the impact of the COVID-19 outbreak on NYSIF's financial results will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions and the impact on the financial markets and overall economy, all of which are highly uncertain and cannot be predicted. Future changes in laws and regulations regarding eligibility of short-term disability benefits and PFL for COVID-19 claims are also unknown which could have a material impact on financial results. If the financial markets and/or the overall economy are impacted for an extended period, NYSIF's business, results of operations, cash flows, and investment results may be materially affected.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Risks and Uncertainties: (continued)

While loss payments attributable to COVID-19 claims have not been material as of December 31, 2020, the future impact of such claims may be material. Both NY State and the Federal Government passed legislation expanding wage loss benefits, essentially sick leave paid by the employer, to qualifying persons impacted by COVID-19. The State law also provides that DB and PFL benefits be paid to qualifying employees when sick leave benefits have been exhausted. It is NYSIF's conclusion that the federally mandated benefits are primary and paid directly by the employer to the employee. Under the State law, however, DB and PFL expanded benefits will also be paid by the DBF for coterminous periods with federally mandated sick leave where the benefit under the State law is greater than the benefit available under the federal law, but only to the extent of the difference between the two. Accordingly, the passage of the federal law significantly reduced the DBF's exposure to COVID-19 losses as it is expected to be either a partial or complete offset to otherwise mandated State benefits for most claims. As the federal law expired as of December 31, 2020, it is possible that this will lead to an increase in COVID-19 claims filed with NYSIF. It is not possible at this time to reliably estimate the impact of the additional exposure posed by the new laws as the number of claims that may be filed is presently unknown and the administration of the separate laws still remains to be determined. At this time, existing surplus in the DBF is expected to be adequate to cover the net impact of the benefits required to be paid to claimants asserting disability due to COVID-19.

K. 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 LAE, ROP and PAP estimates in unearned premiums, and DBF's portion of the pension and OPEB costs estimated by DBF based on the current actuarial valuation prepared for New York State, which includes DBF's employees.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS

Section 87 of the New York State Workers' Compensation Law states that the Commissioner of Taxation and Finance is the sole custodian of DBF. By order of the Commissioner and approval of DFS, Section 87 allows JPMorgan Chase to serve as DBF's custodian for investments. The types of securities authorized for investment by DBF are mandated by Section 87. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2020 and 2019, in accordance with Section 105 of the New York State Finance Law.

The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds, at December 31, 2020 and 2019 are as follows:

	<u>2020</u>			
	<u>Cost or Book Adjusted Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Government and government agency obligations	\$ 2,500	\$ 11	\$ -	\$ 2,511
Corporate bonds and public utilities	3,502	6	-	3,508
Mortgage/loan backed securities	7,326	68	-	7,394
Total investments	<u>\$ 13,328</u>	<u>\$ 85</u>	<u>\$ -</u>	<u>\$ 13,413</u>
	<u>2019</u>			
	<u>Cost or Book Adjusted Value</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Government and government agency obligations	\$ 8,209	\$ 127	\$ -	\$ 8,336
All other governments	2,000	1	-	2,001
Corporate bonds and public utilities	55,283	86	(2)	55,367
Mortgage/loan backed securities	17,966	22	(12)	17,976
Total investments	<u>\$ 83,458</u>	<u>\$ 236</u>	<u>\$ (14)</u>	<u>\$ 83,680</u>

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

The amortized cost and market value of bonds at December 31, 2020 by contractual maturity is 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	\$ 6,002	\$ 6,019
Due after one year through five years	97	97
Due after five years through ten years	409	411
Due after ten years	6,820	6,886
	<u>13,328</u>	<u>13,413</u>
Total bonds	<u>\$ 13,328</u>	<u>\$ 13,413</u>

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

As of December 31, 2020, and 2019, \$10,803 and \$8,411 of DBF investments were on loan, supported by collateral of \$11,019 and \$8,582.

DBF had reinvested collateral assets in the amount of \$0 and \$75 as of December 31, 2020 and 2019. The fair value and amortized cost as of December 31, 2019 is \$75 and matures within 30 days or less. For the years ended December 31, 2020 and 2019, DBF received fees of \$9 and \$65. Fees have been included in investment income earned in the statutory basis statements of income.

DBF has sufficient tradable securities that could be sold and used to pay for the collateral calls that could come due under a worst-case scenario.

DBF has security lending agreements with JPMorgan Chase. All bank deposits are entirely insured or collateralized with securities held by JPMorgan Chase at December 31, 2020, in accordance with Section 105 of the New York State Finance Law.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

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

	Year Ended December 31,	
	2020	2019
Bonds	\$ 1,214	\$ 3,276
Cash and cash equivalents	1,420	2,331
Security lending	7	19
Investment income	<u>2,641</u>	<u>5,626</u>
Investment expenses	(304)	(294)
Net realized capital (losses) gains	<u>(7)</u>	<u>15</u>
Net investment income earned	<u>\$ 2,330</u>	<u>\$ 5,347</u>

Net realized capital (losses) gains on investments, determined on the first-in, first-out method in 2020 and 2019.

	Year Ended December 31,	
	2020	2019
Bonds	\$ -	\$ 13
Cash and short-term investments	(7)	2
Net realized capital (losses) gains	<u>\$ (7)</u>	<u>\$ 15</u>

Proceeds from investments sold, matured or repaid during the years ended December 31, 2020 and 2019 were \$70,231 and \$90,697. These sales resulted in gross realized capital gains of \$0 and \$16 and gross realized capital losses of \$0 and \$3 in 2020 and 2019.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

The following table represents DBF's unrealized losses, fair value and amortized cost for bonds aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2019. There are no bonds in an unrealized loss position as of December 31, 2020.

	Less Than 12 Months		2019 12 Months or More		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Corporate bonds and public utilities	\$ 1,000	\$ -	\$ 4,748	\$ (2)	\$ 5,748	\$ (2)
Mortgaged backed securities	3,807	(2)	7,642	(10)	11,449	(12)
Total fixed maturities	4,807	(2)	12,390	(12)	17,197	(14)
Total temporarily impaired investments	\$ 4,807	\$ (2)	\$ 12,390	\$ (12)	\$ 17,197	\$ (14)

Gross unrealized losses represented 0% and 0.02% of the total cost or amortized cost of total investments for DBF as of December 31, 2020 and 2019. Fixed maturities represented 100% of DBF's unrealized losses as of December 31, 2020 and 2019. The group of securities in an unrealized loss position for less than twelve months was comprised of 0 and 6 securities for DBF as of December 31, 2020 and 2019. The group of securities depressed for twelve months or more were comprised of 0 and 17 securities for DBF as of December 31, 2020 and 2019.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been primarily impacted by a change in interest rates after the purchase date. As part of DBF's ongoing security monitoring process by a committee of investment and accounting professionals, DBF has reviewed its investment portfolio and concluded that there are no additional other-than-temporary impairments as of December 31, 2020 and 2019. 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 fundamentals of the issuers' financial condition and other objective evidence, DBF believes that the securities identified above are temporarily impaired.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
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NOTE 3 – INVESTMENTS (CONTINUED)

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.

SSAP No. 43R - *Loan-backed and Structured Securities* (“SSAP No. 43R”) requires that OTTI be recognized in earnings for a loan-backed or structured security in an unrealized loss position when it is anticipated that the amortized basis will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the security’s amortized cost and its fair value if either (i) DBF intends to sell the security; or (ii) DBF 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 DBF 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 are no amounts included in 2020 and 2019 for realized losses related to DBF for impairment losses related to SSAP No. 43R investments. There are no additional impairments recorded in 2020 and 2019 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses are identified on the basis that DBF was unable to retain the security until recovery of amortized cost.

DBF recorded no impairments during 2020 or 2019 as a component of net realized investment gains through the statutory basis statements of income.

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.

DBF 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 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.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
For the Years Ended December 31, 2020 and 2019
(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

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 analysis, 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, DBF 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. 100R defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value.

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

When available, DBF 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 are no investments with unobservable inputs held by DBF as of December 31, 2020 and 2019. Unobservable inputs reflect DBF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

DBF'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. 100R 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).

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

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 DBF's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Low-grade fixed maturity investments where fair value is lower than cost are recorded at fair value. Securities classified into Level 1 included primarily cash equivalents 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 DBF by independent pricing services. Level 2 securities include corporate bonds where pricing is based on bid evaluations. Quoted prices for these securities are provided to DBF using independent pricing services. DBF does not have any securities that are carried at fair value. There are no changes in valuation techniques during 2020 and 2019.

The following table provides information as of December 31, 2020 about DBF's assets disclosed at aggregate fair value along with a brief description of the valuation technique for each type of asset.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	\$ 13,413	\$ 13,328	\$ -	\$ 13,413	\$ -
Short-term investments	240,973	240,966	-	240,973	-
Total	<u>\$ 254,386</u>	<u>\$ 254,294</u>	<u>\$ -</u>	<u>\$ 254,386</u>	<u>\$ -</u>

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
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NOTE 3 – INVESTMENTS (CONTINUED)

A. Fair Value of Financial Instruments: (continued)

The following table provides information as of December 31, 2019 about DBF's assets disclosed at aggregate fair value along with a brief description of the valuation technique for each type of asset.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	\$ 83,680	\$ 83,458	\$ -	83,680	\$ -
Cash equivalent	10,973	10,973	10,973		-
Short-term investments	148,801	148,805	-	148,801	-
Security lending collateral assets	75	75	75		-
Total	\$ 243,529	\$ 243,311	\$ 11,048	\$ 232,481	\$ -

Securities classified into Level 1 included primarily cash equivalents and treasury notes (collateral assets) 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 DBF by 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 DBF by independent pricing services. DBF does not have any Level 3 securities. The valuation methodology has been applied consistently.

There were no significant transfers into or out of Level 3 during 2020 and 2019. There are no changes in valuation techniques during 2020 and 2019.

B. Subprime Mortgage Exposure:

DBF had no exposures to subprime mortgage loans at December 31, 2020 and 2019.

C. Wash Sales:

In the course of DBF's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance DBF's yield on its investment portfolio. DBF 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, 2020 and 2019 that were reacquired within 30 days of the sale date.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
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NOTE 4 – NON-ADMITTED ASSETS

The non-admitted assets of DBF at December 31, 2020 and 2019 are as follows:

	2020	2019
Premium in course of collection outstanding over 90 days, net	\$ 451	\$ 1,386
Other	146	83
Total non-admitted assets	<u>\$ 597</u>	<u>\$ 1,469</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

Expenses allocated to DBF from WCF were \$4,124 in 2020 and \$3,992 in 2019. The amount owed to WCF at December 31, 2020 and 2019 from DBF is \$799 and \$588.

NOTE 6 – RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2020	2019
Balance - January 1	<u>\$ 16,368</u>	<u>\$ 20,081</u>
Incurred claims related to:		
Current year	47,584	47,798
Prior years	<u>(795)</u>	<u>(1,186)</u>
Total incurred	<u>46,789</u>	<u>46,612</u>
Paid claims related to:		
Current year	31,399	32,156
Prior years	<u>14,468</u>	<u>18,169</u>
Total paid:	<u>45,867</u>	<u>50,325</u>
Balance - December 31	<u>\$ 17,290</u>	<u>\$ 16,368</u>

The incurred claims related to prior years have changed in 2020 and 2019 as a result of changes in estimate of events insured in prior years.

NEW YORK STATE INSURANCE FUND

Disability Benefits Fund

Notes to Statutory Basis Financial Statements
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(in thousands)

NOTE 7 – SURPLUS

There are no restrictions placed on DBF's surplus.

Changes in balances of appropriated surplus funds from December 31, 2019 to December 31, 2020 are discussed in Note 2E.

Unassigned surplus reflects the accumulated balance of Non-Admitted Assets of (\$597) and (\$1,469) as of December 31, 2020 and 2019.

NOTE 8 – OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2020	2019
Salaries and payroll taxes	\$ 2,133	\$ 1,693
Employee relations and welfare	1,003	659
Insurance	5	15
Travel and travel Items	1	-
Rent and rent items	148	158
Equipment	4	1
Taxes, licenses and fees	1,625	1,191
Cost or depreciation of EDP equipment and software	132	424
Printing and stationery	27	21
Postage, telephone and telegraph	80	83
Legal and auditing	185	72
Miscellaneous expense	129	240
Total	<u>\$ 5,472</u>	<u>\$ 4,557</u>

NOTE 9 – CONTINGENCIES

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

NOTE 10 – 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 26, 2021, when the annual statement was filed with the NAIC and DFS. After that date, subsequent events have been reviewed through May 21, 2021, the date which these audited statements were available to be issued.



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