Standing by Our Customers

NYSIF®

Our Commitment to You

NYSIF Annual Report 2017

NYSIF®

2017 Annual Report
Financial Highlights

Workers' Compensation Fund
(in thousands)

	2017	2016
Net Written Premium	**$ 2,277,778**	$ 2,437,552
Net Earned Premium	**$ 2,295,572**	$ 2,479,933
Net Investment Income	**$ 645,346**	$ 645,864
Net Income	**$ 843,431**	$ 810,979
Total Admitted Assets	**$ 18,629,825**	$ 17,657,313
Total Surplus	**$ 5,943,619**	$ 4,497,416

Disability Benefits Fund
(in thousands)

	2017	2016
Net Written Premium	**$ 21,226**	$ 19,240
Net Earned Premium	**$ 19,655**	$ 18,722
Net Investment Income	**$ 7,712**	$ 6,163
Net Income	**$ 7,320**	$ 4,366
Total Admitted Assets	**$ 206,356**	$ 186,591
Total Surplus	**$ 174,512**	$ 146,563

Message from the Chairman

The Board of Commissioners and the management of the New York State Insurance Fund (NYSIF) are pleased to present the 2017 Annual Report.

A trusted insurance provider in New York State since 1914, NYSIF remains dedicated to serving more than 200,000 policyholders of workers' compensation and disability benefits insurance. We provide coverage at the lowest possible cost as well as offer value-added loss-control programs for policyholders, producers and safety group managers.

NYSIF's achievements in 2017 are the result of ongoing efforts to continue the implementation of our strategic plan. They demonstrate significant progress in customer service, business processes, financial discipline, and the use of data analytics to help guide the business.

NYSIF is proud of its commitment to our stakeholders, to increasing efficiency, to improving service for the thousands of policyholders and injured workers who look to us for support. We are grateful for the opportunity to continue to serve them.

We also wish to thank NYSIF staff led by Executive Director Eric Madoff and Deputy Executive Director Shirley Stark, for their commitment to excellence and for their work with senior managers and departmental leaders to provide our policyholders with timely and efficient service.

On behalf of the Board of Commissioners, I thank Governor Andrew Cuomo and the State Legislature, NYSIF management and staff for their dedication to our shared mission.

Kenneth R. Theobalds
Chairman
NYSIF Board of Commissioners

NYSIF Board of Commissioners

Seated (l.-r.): Vice Chairman **Barry Swidler** CEO, Long Island Carpet Cleaners Inc., Chairman **Kenneth R. Theobalds** Vice President Government & Regulatory Affairs, Entergy, **Alexis E. Thomas** Principal, The Williams Capital Group LP. Standing (l.-r.): **Ryan Delgado** New York State AFL-CIO, **Louis J. Roberti** President/Principal, Arroway Chevrolet/Chrysler Dodge Jeep, **Navneet Kathuria MD** Senior Vice President Population Health Management, Hackensack Meridian Health, **Eileen A. Frank** President, J.P. West Inc., **Sheila A. Stamps** Former Executive Vice President, Dreambuilder Investments LLC, **Mario Musolino** Executive Deputy Commissioner, New York State Department of Labor*, **Charles B. MacLeod** Principal/Owner, SMM Advertising, **David E. Ourlicht** Managing Director, GAMCO Asset Management. Inset: **Roberta Reardon** Commissioner, New York State Department of Labor (ex-officio).

*State Department of Labor representative

Message from the Executive Director

As the workers' compensation and disability insurance carrier of choice for more than 200,000 policyholders, NYSIF remains committed to standing by our customers. In 2017, we upheld our promise to expand electronic processing capabilities, to provide more intuitive self-service options and to increase efficiency.

Last year, we were able to make doing business with us faster, simpler, and better. We explored the role of technology in advancing those efforts, focusing on four strategic principles: providing excellent customer service, improving business processes, exercising financial discipline, and using data to make smarter decisions.

We upheld our promise to provide more intuitive self-service options and to increase efficiency.

Here's a more detailed look at some of our 2017 accomplishments:

- Launching our new, fully electronic quote and application for workers' compensation insurance enabled us to expedite coverage issuance and to make great strides in automation. Building on the success of our redesigned website, we expanded straight-through processing capabilities to give policyholders more flexibility for online self-service.
- Implementing electronic signature processing for our most commonly used forms allowed us to issue policies more quickly.
- Augmenting electronic access for brokers increased efficiency, offering them more tools to handle policy and claim information for policyholders.
- Increasing our audit success rate to 83% was a major achievement. This ensured a reduction in estimated audits, which typically impact premium.
- Preparing for the launch of the Paid Family Leave program as a component of our disability benefits product helped create a relatively seamless onboarding process for policyholders.

NYSIF's vision for 2018 includes the following:

- Enhancing our online audit services by enabling policyholders to securely transmit financial documents via **nysif.com**;
- Providing a redesigned, intuitive bill based on specific features our policyholders requested, including simplified calculations and a clear, succinct explanation of charges;
- Exploring our expanding capabilities for online payment, including automatic payment options.

At its core, NYSIF's story begins with our commitment to our customers – with our promise to stand by them. The foundation of our 100-year-plus history is built on that commitment – on the dedication of our experienced staff, as well as on our efforts to understand the concerns of our customers and to respond with supportive solutions. The business relationships that we maintain are the result of our knowledge of the industry, our expertise in workers' compensation and disability products, the value-added policies that we provide, and the safety and loss-control programs that we offer at no cost.

NYSIF measures success by our ability to meet the needs of our stakeholders. As we look ahead, we remain focused on what matters most to you and on how we partner with you, now and in the future.

In 2017, NYSIF continued to explore the best methods for providing our policyholders with an exceptional customer experience. As we did in 2016, we focused on four strategic principles: business process improvement, customer service, financial discipline, as well as data and metrics.

I am pleased to share our progress with you.

NYSIF's Workers' Compensation Fund generated $2.3 billion in earned premium, representing approximately 155,000 policyholders who selected NYSIF as their carrier of choice for workers' compensation insurance.

Our Disability Benefits Fund generated $19.6 million in earned premium, representing roughly 61,000 policyholders of NYSIF disability benefits insurance.

Process Improvements

In keeping with our commitment to standing by our customers, NYSIF offered increased efficiency: better and faster service. After introducing our redesigned website in 2016, we directed our 2017 efforts toward maximizing the capabilities of **nysif.com**, increasing electronic access, streamlining processes and making them more intuitive.

Launch of Fully Electronic Application

We launched our new fully electronic eQuote and eApplication system on **nysif.com**. The straight-through processing eliminated policyholder challenges of mailing application components to NYSIF. We also streamlined our eight-page application, decreasing the number of questions from 26 to 10 and making them more intuitive. Overall, we reduced the application process from several weeks to approximately one day.

The new application system, when coupled with 2016 enhancements in electronic signature processing, now allows potential policyholders to complete the quote and application in one seamless process, sign documents, and make the premium payment in one convenient transaction.

Faster Policy Issuance

NYSIF's new fully electronic quote and application system has enabled us to process applications more efficiently, generate quotes more quickly, and issue coverage to businesses more expeditiously. In 2017, we were able to reduce the time period required to issue a new policy by almost 50%. The end result is that every customer is now more quickly able to take advantage of the value and the coverage that a NYSIF policy provides.

Decrease in Estimated Audits

The audit process has been a pain point for policyholders. When policyholders are unable to keep their audit appointments, NYSIF provides estimated audits, which impacts their premiums. To better serve our policyholders, we sought to increase the number of completed audits and to decrease the number of estimated ones.

Last year, we informed you of our online Premium Audit Scheduling System (PASS), which allows policyholders to conveniently schedule and reschedule NYSIF audit appointments on **nysif.com**. In 2017, considering the impact of PASS, we implemented several initiatives to further reduce the number of estimated audits. These efforts focused on ensuring that policyholders were more informed about, and were given more opportunities to comply with, their contractual audit requirements.

Our direct approach yielded concrete results. We learned that when a NYSIF auditor initiates an audit appointment, the success rate is only 53%. However, when the policyholder uses PASS to initiate the audit, the success rate is 90%.

Overall, we decreased estimated audits by nearly 54%: a win-win situation for us and for our policyholders.

Expansion of NYSIF Product Offerings

NYSIF worked hard to facilitate the launch of the Paid Family Leave (PFL) program as a component of our enhanced disability benefits product. We hired new staff, upgraded our underwriting systems, revised policy documentation and statements to include PFL coverage details and premium billing, and implemented a system for handling PFL claims. One of our many goals was to ensure that our disability policyholders understood the PFL benefits available to their employees who are caring for loved ones. Another was to let them know that we are there to help them each step of the way. We are proud to say that we accomplished those goals.

In 2016, there were 12,099 estimated audits, which accounted for nearly 11 percent of all billed audits. In 2017, estimated audits decreased to 5,599, representing only 6.2 percent of all billed audits.

"I cannot even begin to express how impressed I was with the welcome we received at your Melville office. In all my years as a client of various insurance companies, I have never experienced the care and concern for our account that we did that day. We felt part of a team, instead of feeling like just a number. With the State Insurance Fund being as large as it is, I commend you on the personal approach you presented to Kleet Lumber.

- Kleet Lumber Company, Inc.

Customer Service

In 2017, we continued our commitment to providing excellent service to our policyholders. Our customer-centered approach focused on providing clear and timely communication about NYSIF products and offerings, soliciting direct feedback from stakeholders, and developing initiatives based on stated needs.

Outreach and Collaboration

We continued to collaborate with our Producers' Advisory Council to determine ways to facilitate the seamless flow of information between our policyholders and their representatives. As a result, we introduced new features on NYSIF online customer accounts. These offerings enabled policyholders and brokers to securely establish authorized users, expanded broker access to claims data, and allowed brokers to view policy changes, renewals, premium history and more. These changes, which allowed us to better serve our policyholders, allowed brokers to serve their clients more effectively as well.

We increased customer outreach by conducting more in-person and web-based presentations for our policyholders and their brokers. By doing so, we improved communication with our stakeholders concerning process improvements and the launch of our new features on **nysif.com**.

As a follow-up to our 2016 Safe Patient Handling (SPH) efforts, NYSIF Field Services staff conducted compliance visits with our policyholders at healthcare facilities to ensure their successful SPH program and safety committee implementation. We continue to offer our policyholders complimentary workplace safety and loss-control programs that enhance the value of their NYSIF policies. In 2017, we conducted 2,109 safety training and presentations, 17,103 safety surveys, and 505 Industry Code Rule 59 compliance calls. With these efforts, our customers know that we are supporting them, and that we are making their safety our priority.

NYSIF continues to reward policyholders who promote safety by offering them lower premiums. The added benefit for those with outstanding safety performance is their eligibility to lower their premiums or, for safety groups who pool their insurance premiums, their eligibility to receive dividends.

Financial Discipline

Cost-Saving Measures

In 2017, NYSIF achieved the lowest loss cost multiplier (LCM) in our history, due to disciplined pricing and cost containment. To exercise financial discipline, we conducted more detailed risk analyses of policies. Consequently, we priced our policies to more closely reflect risk, resulting in lower prices for many of our customers.

We also worked to further develop electronic payroll report processing. Having the majority of payroll reports handled electronically allows for data checks that promote accuracy, ensure faster processing, reduce operational and postage costs, and save time for policyholders undergoing audits.

In alignment with current industry trends, NYSIF witnessed an overall decrease in our claims inventory, closing more claims last year than we opened.

In accordance with the fulfillment of our mission, we also increased the timeliness of payments to claimants by 23%.

NYSIF continues to monitor claim performance to secure positive outcomes. We know that our policyholders have the potential to save on claim costs when injuries are addressed in a timely fashion.

In 2017, our Contact Center processed more than 254,000 transactions and responded to approximately 4,800 Paid Family Leave inquiries. We delivered over 50,000 PFL welcome packets to our disability benefits policyholders.

Increased Efficiency

NYSIF continued to use the LEAN model to streamline business processes, increase efficiency and preserve resources. Following recognition for effective LEAN deployment in 2016, NYSIF spearheaded more than 20 LEAN projects in 2017, bringing our project total to 50. Many of our aforementioned process improvements were the end result of LEAN projects, which saved significant time and resources. The process improvement assessments conducted helped us to advance our 2017 LEAN projects and to prepare for 2018.

Data and Metrics

Last year, we were able to further take advantage of what our data tells us. Among other uses, we have used data and analytics to assess customer needs and online usage, which has guided many of our decisions, including those that shape our advances in process improvements. We can use this information to eliminate manual processes and to replace them with automated ones, to play a role in policy review and assessment, to reflect trends that reveal what our stakeholders need most, to build our risk management capabilities by adding state-of-the-art quantitative tools, and so much more. Our data has become the cornerstone for our future action steps – a gateway to increasing efficiency and innovation, delivering better customer service and enhancing customer satisfaction.

Looking Ahead

In 2017, we advanced our goals across four strategic pillars. We worked hard to provide the best and most efficient service to our stakeholders. So much of what we accomplished would not have been possible without the efforts of our dedicated staff – from those on the frontline, who answer calls, to those behind the scenes, who play a part in underwriting policies, conducting audits, resolving claims and rolling out new features that enhance the NYSIF experience of our stakeholders.

As we look toward 2018, we are proud to offer you expanded opportunities as a result of the new features we have launched and the process improvements that make doing business with us swifter and easier. At NYSIF, we are continuously striving for excellence – listening to our customers and doing all that we can to meet your needs. We are committed to standing by you, and grateful for the opportunity to serve you. Thank you for choosing NYSIF.

"Since it is so rare these days, the extraordinarily great level of service provided by NYSIF is worthy of repeat commendation. In the 10 years we have been working with the Fund, we have had occasion to call or write regarding several matters (often resulting from our own neglect!). In every case, we received prompt, knowledgeable and efficient service without blame, hassle or 'attitude.' It makes me proud to be a New York State taxpayer!"

- Gotham Early Music Scene, Inc.

ERIC MADOFF
EXECUTIVE DIRECTOR & CEO

In 2017, NYSIF maintained our commitment to providing excellent service to our policyholders. Our customer-centered approach focused on understanding and meeting their needs.

NYSIF Executive Staff

(L.-r.) Chief Investments Officer **Gregory Francis**, Chief Fiscal Officer **Nancy Reuss**, Assistant Deputy Director **Robert Sammons**, Director of Policyholder Services and Business Operations **John Massetti**, Executive Director/CEO **Eric Madoff**, Deputy Executive Director and Chief of Staff **Shirley Stark**, General Attorney **William O'Brien**, Secretary to the Board of Commissioners **Francine James**, Director of Administration **Joseph Mullen**, Director of Strategic Finance **William Gratrix**

NYSIF Profile

Meet Our Policyholder: Medco Enterprises, Inc.

With NYSIF as its carrier of choice for over five decades, Medco Enterprises, Inc. provides a range of health care services to patients in the Bronx, New York.

NYSIF has a long history with Medco Enterprises, beginning in 1966, with its predecessor, the Mosholu Parkway Nursing and Rehabilitation Center. Medco was established six years later and currently operates a number of centers, which include the Bainbridge Nursing and Rehabilitation Center, the East Haven Nursing and Rehabilitation Center and the Wayne Center.

Through its many facilities, Medco Enterprises provides a wide range of skilled nursing and health care services. Its nursing homes not only offer long-term geriatric care, but also short-term care for occupational, physical and speech rehabilitative services. Its adult day health programs are based on a medical model which provides patients with essential health care while enabling them to remain at home, a critical goal of many residents.

Medco's goal is to offer a high-quality continuum of health care to the communities it serves.

Below, Medco Enterprises Chief Financial Officer Isaac Goldbrenner describes the benefits of workers' compensation coverage provided by NYSIF.

Q. *What made you choose NYSIF initially?*

A. We were looking for a partner that had a vested interest in our company. Working with NYSIF over the years, we have grown to have a strong partnership. We know that we are receiving optimal service both in pricing and in customer service.

Q. *What makes you continue to choose NYSIF?*

A. NYSIF offers a unique premium discount, which our organization has benefited from significantly over the years. The competitive premium pricing that NYSIF offers is unbeatable by any other carriers. Additionally, we value NYSIF's customer service. The claims supervisors are readily available when needed and the underwriters are very knowledgeable and a pleasure to work with. We also appreciate the convenience of NYSIF's online self-service options. We are able to utilize our nysif.com online account for loss runs, billing, policy and endorsements information.

Q. *How has NYSIF met a critical need or responded to a stated concern?*

A. Recently Medco underwent some structural changes and NYSIF worked together with our broker to ensure that the process went very smoothly. Additionally, regardless of the change, NYSIF maintained a significant discount on both policies. We value our relationship with NYSIF, and we look forward to our continued partnership.

INDEPENDENT AUDITORS' REPORT

New York State Insurance Fund Workers' Compensation Fund

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

EISNERAMPER

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Workers' Compensation Fund (a New York state disbursing agency), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2017 and 2016, and the related statutory 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 financial reporting provisions of 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 on the basis of the financial reporting provisions of the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2A 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, 2017 and 2016, 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 policyholders' surplus of the State Insurance Fund Workers' Compensation Fund as of December 31, 2017 and 2016, 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 described in Note 2A, the State Insurance Fund Workers' Compensation Fund has significant prescribed accounting practices that are mandated by New York State Workers' Compensation Law in accordance with the financial reporting provisions of the New York State Department of Financial Services.

Our opinion is not modified with respect to this matter.

EisnerAmper LLP

EisnerAmperLLP
New York, NY
May 24, 2018

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2017 and 2016 (in thousands)

	2017	2016
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 14,666,409	$ 13,951,451
Preferred stocks	4,951	6,795
Common stocks	2,048,548	1,679,915
Real estate	61,112	17,460
Cash, cash equivalents and short-term investments	215,370	245,701
Receivables for securities and security lending reinvested collateral assets	41,229	92,196
Total cash and invested assets	17,037,619	15,993,518
Premium receivables	97,208	180,420
Reinsurance recoverable	-	150
Accrued investment income	95,515	92,674
Advance Workers' Compensation Board assessments	78,642	72,805
Due from affiliates	16,740	9,594
Other admitted assets	9,101	13,152
Contingent receivable from New York State	1,295,000	1,295,000
Total admitted assets	$ 18,629,825	$ 17,657,313
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 9,041,083	$ 9,093,942
Reserve for loss adjustment expenses	1,028,786	910,205
Unearned premiums	407,471	450,826
Contingent policyholder dividends	1,670,983	1,570,057
Payables for securities and securities lending	42,308	91,931
Accrued expenses and other liabilities	245,575	658,537
Due to affiliates	250,000	384,399
Total liabilities	12,686,206	13,159,897
Surplus		
Appropriated surplus funds:		
Security fluctuation surplus	1,050,000	1,050,000
Catastrophe surplus	399,561	399,561
Foreign terrorism catastrophe surplus	559,561	512,493
Domestic terrorism catastrophe surplus	106,535	97,946
Post-employment benefits surplus	506,624	-
Unassigned surplus	3,321,338	2,437,416
Total surplus	5,943,619	4,497,416
Total liabilities and surplus	$ 18,629,825	$ 17,657,313

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Income
for the Years Ended December 31, 2017 and 2016 (in thousands)

	2017	2016
Underwriting income		
Net written premium	$ 2,277,778	$ 2,437,552
Net earned premium	$ 2,295,572	$ 2,479,933
Underwriting expenses		
Losses incurred	1,316,484	1,456,920
Loss adjustment expenses incurred	191,673	202,695
Other underwriting expenses incurred	213,476	251,222
Total underwriting expenses	1,721,633	1,910,837
Net underwriting profit	573,939	569,096
Investment income earned:		
Investment income	517,201	483,330
Investment expenses	(32,099)	(30,567)
Net realized capital gains	160,244	193,101
Net investment income earned	645,346	645,864
Other income (expenses):		
Bad debt expense	(70,389)	(111,352)
Finance and service charges	12,652	12,983
Miscellaneous income	5,156	6,691
Dividend expense to policyholders	(323,273)	(312,303)
Total other expenses	(375,854)	(403,981)
Net income	$ 843,431	$ 810,979

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Surplus
for the Years Ended December 31, 2017 and 2016 (in thousands)

	Appropriated Surplus Funds						
	Security Fluctuation Surplus	Catastrophe Surplus	Foreign Terrorism Catastrophe Surplus	Domestic Terrorism Catastrophe Surplus	Postemployment Benefits Surplus	Unassigned Surplus	Total Surplus
Balance—Janauary 1, 2016	$ 400,000	$ 189,998	$ 461,493	$ 88,509	$ -	$ 2,483,998	$ 3,623,998
Net income	-	-	-	-	-	810,979	810,979
Net unrealized capital gain - investments	-	-	-	-	-	65,555	65,555
Increase in non-admitted assets	-	-	-	-	-	(3,116)	(3,116)
Appropriation of unassigned to (from) appropriated surplus	650,000	209,563	51,000	9,437	-	(920,000)	-
Balance—December 31, 2016	1,050,000	399,561	512,493	97,946	-	2,437,416	4,497,416
Net income	-	-	-	-	-	843,431	843,431
Net unrealized capital gain- investments	-	-	-	-	-	258,766	258,766
Increase in non-admitted assets	-	-	-	-	-	(10,722)	(10,722)
Appropriated surplus adjustment - Postemployment benefits	-	-	-	-	354,728	-	354,728
Appropriation of unassigned to (from) appropriated surplus	-	-	47,068	8,589	151,896	(207,553)	-
Balance—December 31, 2017	$ 1,050,000	$ 399,561	$ 559,561	$ 106,535	$ 506,624	$ 3,321,338	$ 5,943,619

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
WORKERS' COMPENSATION FUND

Statutory Basis Statements of Cash Flows
for the Years Ended December 31, 2017 and 2016 (in thousands)

	2017	2016
Cash flows from operations		
Premiums collected, net of reinsurance	$ 2,342,531	$ 2,476,701
Net investment income	436,428	431,288
Miscellaneous expense	(184,336)	(93,570)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(1,369,193)	(1,315,906)
Expenses paid	(356,878)	(398,346)
Dividends paid to policyholders	(222,347)	(214,700)
Net cash provided by operations	646,205	885,467
Cash flows from investments		
Proceeds from investments sold, matured or repaid	2,949,259	4,472,117
Cost of investments acquired	(3,608,027)	(5,577,210)
Other proceeds	51,115	84,116
Net cash used in investments	(607,653)	(1,020,977)
Cash flows from other sources	(68,883)	(85,289)
Net change in cash and short-term investments	(30,331)	(220,799)
Cash and short-term investments Beginning of year	245,701	466,500
Cash and short-term investments End of year	$ 215,370	$ 245,701

See accompanying notes to statutory basis financial statements.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

1 - ORGANIZATION AND PURPOSE

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

The Workers' Compensation Fund (the Fund) was established by law in 1914 to provide workers' compensation insurance for employers in the State of New York. In Methodist Hospital of Brooklyn v. State Insurance Fund (1985), The New York State Court of Appeals held the Fund is "a State agency for all of whose liabilities the State is responsible..."

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

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

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

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Workers' Compensation Fund, an agency of the State, are presented in conformity with accounting practices prescribed by the New York State Department of Financial Services (DFS). The DFS recognizes only New York Statutory Accounting Practices (NY SAP) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 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 the DFS has the right to permit other specific practices that may deviate from prescribed practices. The Workers' Compensation Fund, 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.

The Workers' Compensation Fund 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 $6,839,331 and $6,964,542 as of December 31, 2017 and 2016, respectively. If the contingent receivable from the State was not prescribed as an admitted asset, total statutory surplus would be decreased by $1,295,000 as of December 31, 2017 and 2016, respectively.

The cumulative effect of prescribed practices by the NY SAP or as mandated by New York State Workers' Compensation Law on the Workers' Compensation Fund's total surplus and net income for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Surplus		
Total surplus as shown on statutory statements - NY SAP	$ 5,943,619	$ 4,497,416
Discounting of loss and loss adjustment expense reserves at 5% *	(6,839,331)	(6,964,542)
Contingent receivable from State of New York	(1,295,000)	(1,295,000)
Total cumulative effect	(8,134,331)	(8,259,542)
Total adjusted deficit - NAIC SAP	$ (2,190,712)	$ (3,762,126)
Net Income		
Total net income as shown on statutory statements - NY SAP	$ 843,431	$ 810,979
Discounting of loss and loss adjustment expense reserves at 5% *	125,211	8,819
Total cumulative effect	125,211	8,819
Total adjusted net income - NAIC SAP	$ 968,642	$ 819,798

* Under NAIC SAP, certain case reserves, pension case reserves (tabular reserves), would be discounted at an appropriate interest rate. The amount of tabular discount at 3.5% as of December 31, 2017 and 2016, would be $2,493,374 and $2,607,088, respectively.

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than generally accepted accounting principles in the United States (U.S. GAAP). The more significant differences between NY SAP and U.S. GAAP which are applicable to the Workers' Compensation Fund are set forth below:

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

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

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

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

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

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

f. Certain assets designated as non-admitted assets (principally premiums in the course of collection outstanding over 90 days, 10% of earned but unbilled premium and office furniture and equipment) are charged directly against surplus. Under U.S. GAAP, such non-admitted assets would be included in total assets, less valuation allowances.

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

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

i. The reserves for losses and loss adjustment expenses are discounted to their present value using an annual effective interest rate of 5% during 2017 and 2016. Under U.S. GAAP, the interest rate would be based on market rates and earnings expectations.

j. An appropriation 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 post-employment benefits.

NY SAP allows the appropriation of unassigned surplus for these purposes. Under U.S. GAAP, no such appropriations are established.

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

l. The balance sheet under NAIC SAP is reported net of reinsurance, while under U.S. GAAP, the balance sheet reports reinsurance recoverables, including amounts related to 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 statutory basis financial statements do not include certain disclosures about and/or the consolidation of certain variable interest entities as required by U.S. GAAP under Financial Accounting Standards Board Interpretation ASC Topic 810, Consolidation of Variable Interest Entities.

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

B. Investments:

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

Bonds are valued in accordance with the requirements of the NAIC's SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Market value is based on market prices obtained from the SVO, and SS&C Technologies, Inc. primarily.

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

Common stocks are carried at fair value, which is obtained from the SVO and other pricing sources. Unrealized gain or loss for common stocks is the change in fair value from the prior year-end. Unrealized gains and losses resulting from fair value fluctuations are reflected as a separate component of unassigned surplus. Realized gains and losses are calculated based on the difference between cost and the consideration received at the time of sale and are included in the statutory basis statements of income.

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. Unrealized gain or loss for preferred stocks are presented in the unassigned surplus in the statutory basis statements of surplus. Unrealized gain or loss includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

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

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

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Workers' Compensation Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Workers' Compensation Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Workers' Compensation Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. The amount recorded through the statutory basis statements of income in 2017 and 2016 for realized losses related to Workers' Compensation Fund for impairment losses was $31,378 and $26,334, respectively.

C. Real Estate:

The Workers' Compensation Fund records buildings at cost less accumulated depreciation calculated over estimated useful life of 25 years, using the straight-line method. All property owned by the Workers' Compensation Fund is used primarily for its own operations. In accordance with statutory accounting practices, the Workers' Compensation Fund records both rental income and rental expense representing the imputed rent for office space occupied in buildings owned by the Workers' Compensation Fund. The amount of rental income and expense recorded in the statutory basis statements of income in 2017 and 2016 was $10,635 and $9,809, respectively.

Maintenance and repairs are charged to expense as incurred.

D. Premium Revenue and Related Accounts:

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

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

At December 31, 2017 and 2016, the outstanding premium receivable net admitted balance recorded in the statutory basis statements of admitted assets, liabilities and surplus for the Workers' Compensation Fund was $97,208 and $180,420. To reduce credit risk, the Workers' Compensation Fund performs ongoing evaluations of its customers' financial condition, but does not generally require collateral. The Workers' Compensation Fund routinely assesses the collectability of these receivables. Based upon Workers' Compensation Fund experience, less than 5% of net written premium may become uncollectable and the potential loss is not material to the Workers' Compensation Fund's financial condition. The Workers' Compensation Fund performs an analysis of uncollectable premiums receivable and realized write offs of $70,389 and $111,352, for the years ended December 31, 2017 and 2016, respectively, as bad debt expense in the statutory basis statements of income.

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

The estimate for earned but unbilled premium (EBUB) is recognized through the statutory basis statements of income as an adjustment to premium earned. EBUB premium represents in-force and auditable policies on which premium has been earned but not yet been billed to the insured. Ten percent of EBUB, in excess of collateral specifically held as identifiable on a policy basis, is non-admitted.

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

Prior to January 1, 2014, WCB assessments charged by the Fund to policyholders were a component of written premium. The amounts the Fund paid to the WCB were recorded as losses incurred and other underwriting expenses on the income statements.

During calendar year 2013, legislation was written that, beginning January 1, 2014, changed the Workers' Compensation Board ("WCB") assessments charged to policyholders from being a component of premium to an employer surcharge. This change in classification requires the Workers' Compensation Fund to bill and collect assessments from policyholders on behalf of the WCB. The Workers' Compensation Fund is required to remit to the WCB on a quarterly prospective basis, the estimated annual assessments for all policies written in the prior quarter as well as assessment adjustments to policies previously reported. Accordingly, beginning January 1, 2014, the amounts charged to policyholders for WCB assessments as well as the amounts paid to the WCB are no longer components of net income. The amounts paid on behalf of policyholders by the Fund to the WCB in excess of the amounts collected from policyholders, or the amounts collected by the Fund in excess of the amounts paid to the WCB on behalf of policyholders are carried on the balance sheet as an asset or liability, respectively.

The Fund carried a liability of $519 and $4,529 related to assessment payments due to the Workers' Compensation Board as of December 31, 2017 and 2016.

The amount of assessments due from policyholders billed as of December 31, 2017 and 2016 was $79,161 and $77,334, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Assessments billed for the years ended December 31, 2017 and 2016 were $285,359 and $313,618, respectively, and the estimated payments made to the Workers' Compensation Board were $289,368 and $319,419, respectively. These assessments billed and estimated payments to the Workers' Compensation Board were recorded as a reduction in premium written in the statutory basis statements of income.

The Workers' Compensation Fund granted $(307) and $13,974 in additional discounts to policyholders during 2017 and 2016, respectively, to help subsidize the cost during the transition of charging assessments directly to the policyholders, which is recorded as a reduction in premium written in the statutory basis statements of income.

F. Reserves for Losses and Loss Adjustment Expenses:

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

The reserves for losses and loss adjustment expenses of the Workers' Compensation Fund are discounted to present value using an annual effective rate of interest of 5%. The liability for losses and loss adjustment expenses of the Workers' Compensation Fund has been reduced by $6,839,331 and $6,964,542 as of December 31, 2017 and 2016, respectively, as a result of the 5% discounting. This accounting practice is mandated by Section 86 of the New York State Workers' Compensation Law.

Loss and loss adjustment expense reserves are significant in relation to surplus and a change in the timing of future payments could have a material impact on surplus. A change of 1% of discount reserves, would decrease surplus by 2%.

The Workers' Compensation Fund's reserves for losses and loss adjustment expenses are estimated by using recognized actuarial techniques. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined. An independent actuarial consulting firm reviews the estimated liability. The Workers' Compensation Fund's management believes that the assumptions used in determining this liability are reasonable and that the amount recorded represents its best estimate of the ultimate cost of investigating, defending and settling claims.

However, the Workers' Compensation Fund's actual future experience may not conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement value may vary significantly from the amounts included in the statutory basis financial statements and the difference may be material.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

G. Appropriated Surplus Funds:

As described above, the Fund may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SSAP No. 72, Surplus and Quasi Reorganizations:

Security fluctuation surplus

Security fluctuation remained unchanged at $1,050,000 as of December 31, 2017 and 2016.

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of the Workers' Compensation Fund's exposures resulted in the Fund maintaining the catastrophe surplus at $399,561 as of December 31, 2017 and 2016, respectively.

Foreign terrorism and domestic terrorism catastrophe surplus

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

In order for a loss to be covered under TRIA, the loss must result from an event that is certified as an act of terrorism by the U.S. Secretary of the Treasury. If Congress has declared war, then only workers' compensation losses would be covered by TRIA. The Terrorism Insurance Program ("Terrorism Program") generally requires that all property casualty insurers licensed in the United States participate in the Terrorism Program. The Terrorism Program became effective upon enactment and in December 2005 was extended through December 31, 2007. In December 2007, the President signed into law the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), extending TRIA for another seven years through December 31, 2014. In January 2015, the President signed into law an extension which expires December 31, 2020, with certain changes. 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. The Workers' Compensation Fund is responsible for a deductible of $495,987 and $497,350 for December 31, 2017 and 2016, respectively. The Workers' Compensation Fund assigned $559,561 and $512,493 of surplus which represents the estimated premium attributable to the foreign terrorism premium charge at December 31, 2017 and 2016, respectively. Beginning on October 1, 2005, the Workers' Compensation Fund began assigning a portion of premium to domestic terrorism catastrophe surplus, which totaled $106,535 and $97,946 as of December 31, 2017 and 2016, respectively.

Post-employment benefits surplus

During the year ended December 31, 2017 the Fund established an appropriation of surplus for a portion of the contingency for other post-employment benefits (OPEB) that has not been recognized as an OPEB obligation. During 2017, the Fund transferred $354,728 of the obligation previously recorded as a liability to the special surplus fund for post-employment benefits. During 2017 the Fund segregated an additional $151,896 from its unassigned surplus to its special surplus for post-employment benefits. See Note 2[J].

H. Contingent Policyholder Dividends:

Section 90 of the New York State Workers' Compensation Law provides in substance that dividends may be paid in the discretion of the Fund to safety groups. The estimated dividend liability recorded by the Workers' Compensation Fund is 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:

	2017	2016
Balance - January 1	$ 1,570,057	$ 1,472,454
Incurred contingent policyholder earnings to latest anniversary date	415,150	429,779
Change in estimated contingent policyholder earnings from latest anniversary date to Dec 31	(91,877)	(117,476)
Dividends paid to policyholders	(222,347)	(214,700)
Balance - December 31	$ 1,670,983	$ 1,570,057

I. Fringe Benefits:

Based on actual costs billed by various State agencies, the Workers' Compensation Fund incurred $120,304 and $74,648 of fringe benefits and indirect costs in 2017 and 2016, respectively, recorded through other underwriting expenses in the statutory basis statements of income.

All employees of the Workers' Compensation Fund are covered under a retirement plan administered by the New York State Employees Retirement System. For employees hired prior to July 27, 1976, the plan is non-contributory. 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 non-contributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire length of employment.

Prior to January 1, 2016, the Fund recorded defined benefit plan expenses based on amounts actually billed by the various state agencies. During 2016, the Fund was allocated an amount approximating its share of the liability related to the defined benefit plan as determined by the State. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the opening balance liability of $18,943.

At December 31, 2017 and 2016, the Fund's allocated portion of its New York State Employees' pension liability was $110,172 and $91,926, respectively. The pension liability was measured by the State as of March 31, 2017 and 2016 with the Fund's portion of the liability based on a ratio of its employees to a ratio of New York State employees. At March 31, 2017, and 2016, the Fund's approximate proportionate share was 0.56%.

J. Post-employment Benefits:

The Workers' Compensation Fund's employees are employees of New York State. New York State Civil Service Law, Section 163.2, provides for health insurance coverage for retired employees of the Workers' Compensation Fund including their spouses and dependent children (The New York 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.

Accounting Methodology Followed by New York State

New York State calculates its annual OPEB cost based on the annual required contribution (ARC), an amount actuarially determined by the State in accordance with the parameters of the Governmental Accounting Standards Board, (GASB), No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year (Normal Cost) and amortize any unfunded actuarial accrued liabilities (or funding excess) (UAAL) over a period not to exceed 30 years. GASB No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pension, is effective for public employers' fiscal years beginning after June 15, 2017. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State's Comprehensive Annual Financial Report (CAFR). The State's Actuarial Valuation Reports are prepared as of March 31 (New York State's fiscal year end) and segregate balances relating to the various state agencies, including the Fund, under GASB 45 and GASB 75. These reports were provided to the Fund.

Accounting Methodology Followed by the Fund

The Worker's Compensation Fund, in the course of business, reimburses New York State for certain OPEB related charges under the New York State Plan. Under SSAP No. 92 Post-retirement Benefits Other Than Pensions, the Fund 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.

The Fund carries its net OPEB obligation (i.e., the Normal Cost less the amount The Fund has funded to the State for retirees) as a liability. The Fund recognizes in the statement of income only its annual Normal Cost, as this is the Fund'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 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. During the year ended December 31, 2017, The Fund established 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 will vary significantly due to potential future changes in various key assumptions, such as The Fund'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. The Fund updates the estimate each year-end.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The activity in the appropriated surplus for post-employment benefits during 2017 is as follows:

	2017
Appropriated post-employment benefits surplus beginning of year	$ -
Appropriated surplus adjustment for post-employment benefits	354,728
Current year appropriation of unassigned to assigned surplus	151,896
Appropriated post-employment benefits surplus end of year	$ 506,624

The Fund paid New York State retiree OPEB charges of $17,128 and $15,317 for the years ended December 31, 2017 and 2016, respectively. The following table shows the components of The Fund's assigned values relating to OPEB expense (normal cost) under the New York State Plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2017:

	2017
Net OPEB obligation beginning of year	$ 381,170
Annual OPEB expense (Normal Cost)	40,653
Estimated contribution credit (retiree premiums paid)	(17,128)
Increase in net OPEB obligation	23,525
OPEB obligation end of year	404,695
Surplus appropriation	(354,728)
Net OPEB obligation end of year	$ 49,967

In 2016, the Fund recorded OPEB expenses of $46,906.

Prior to January 1, 2016, the Fund paid amounts charged by the State of New York which were expensed as paid. During 2016, the Fund estimated an amount to approximate its share of the obligation related to Post-employment Benefits and Compensated Absences under the New York State Plan. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect an estimated obligation of $334,264, that was subsequently transferred to appropriated surplus during January 2017.

The Fund has an accrued liability for employee' compensation for future absences in the amount of $17,996 and $17,826 as of December 31, 2017 and 2016, respectively.

K. Income Tax:

The Workers' Compensation Fund is exempt from federal income taxes. However, the Workers' Compensation Fund is subject to a New York State franchise tax. The Workers' Compensation Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses. The New York State franchise tax expense was $42,676 and $44,416 in 2017 and 2016, respectively, and recorded through the statutory basis statements of income.

As the Workers' Compensation Fund maintains an office and does business in the metropolitan New York area, it is also subject to the Metropolitan Transit Authority (MTA) surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2017 and 2016 was $5,495 and $5,871, respectively, and recorded through the statutory basis statements of income.

L. Concentrations of Credit Risk:

Financial instruments that potentially subject the Workers' Compensation Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in commercial paper of companies with high credit ratings, investments in money market securities and securities backed by the U.S. Government. Balances maintained in 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 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.

M. Risks and Uncertainties:

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

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

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 the Fund's portion of the pension and other post-employment benefit (OPEB) costs estimated by the Fund based on the current actuarial valuation prepared for New York State which includes the Fund'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.

3 - INVESTMENTS

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Workers' Compensation Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Workers' Compensation Fund. J.P. Morgan Chase serves as the Workers' Compensation Fund's custodian for investments.

Chapter 473 of the Laws of 2000 and Chapter 6 of the Laws of 2007 broadened the Workers' Compensation Fund's investment authority to include certain common and preferred stocks and expanded the range of fixed income issues in which the Workers' Compensation Fund may invest. The amortized cost, gross unrealized gains, gross unrealized losses and estimated market value of investments in bonds and stocks at December 31, 2017 and 2016 are as follows:

	2017			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 4,220,516	$ 322,566	$ (25,476)	$ 4,517,606
Foreign government	274,917	1,962	(1,323)	275,556
States, territories, possessions and political subdivisions	401,502	30,269	(1,899)	429,872
Corporate bonds and public utilities	8,275,294	361,305	(37,932)	8,598,667
Mortgaged-backed securities	1,460,657	5,565	(9,567)	1,456,655
Hybrid securities	33,523	28,541	-	62,064
Total bonds	14,666,409	750,208	(76,197)	15,340,420
Preferred stocks	4,951	517	-	5,468
Common stock	1,515,916	544,170	(11,538)	2,048,548
Total stocks	1,520,867	544,687	(11,538)	2,054,016
Total investments	$ 16,187,276	$ 1,294,895	$ (87,735)	$ 17,394,436

	2016			
	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 4,407,110	$ 193,909	$ (40,277)	$ 4,560,742
Foreign government	374,553	3,854	(1,560)	376,847
States, territories, possessions and political subdivisions	367,262	24,040	(5,181)	386,121
Corporate bonds and public utilities	7,809,311	249,035	(121,935)	7,936,411
Mortgage-backed securities	959,692	9,026	(9,266)	959,452
Hybrid securities	33,523	21,913	-	55,436
Total bonds	13,951,451	501,777	(178,219)	14,275,009
Preferred stocks	6,795	546	(56)	7,285
Common stocks	1,405,661	294,735	(20,481)	1,679,915
Total stocks	1,412,456	295,281	(20,537)	1,687,200
Total investments	$ 15,363,907	$ 797,058	$ (198,756)	$ 15,962,209

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The amortized cost and market value of bonds at December 31, 2017 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

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

	Amortized Cost	Market Value
Due after one year through five years	$ 1,872,824	$ 1,902,406
Due after five years through ten years	3,744,025	3,750,986
Due after ten years	9,049,560	9,687,028
Total bonds	$ 14,666,409	$ 15,340,420

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

The Workers' Compensation Fund had reinvested collateral assets in the amount of $40,645 and $90,366 as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the Workers' Compensation Fund received fees of $457 and $660, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of income.

The amortized cost and market value of the reinvested collateral assets at December 31, 2017 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 40,393	$ 40,394
31 to 180 days	252	418
Total collateral received	$ 40,645	$ 40,812

The amortized cost and market value of the reinvested collateral assets at December 31, 2017 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 90,105	$ 90,105
Greater than 3 years	261	427
Total collateral received	$ 90,366	$ 90,532

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The Fund 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.

The Workers' Compensation Fund has security lending agreements with J.P. Morgan Chase and Key Bank. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2017 and 2016, in accordance with Section 105 of the New York State Finance Law.

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

	2017	2016
Bonds	$ 468,595	$ 438,256
Stocks	35,647	33,797
Cash, cash equivalents and short-term investments	1,475	740
Real estate - home office	10,772	9,809
Securities lending	457	660
Other	255	68
Investment income earned	517,201	483,330
Investment expenses	(29,346)	(29,286)
Depreciation on real estate and other invested assets	(2,753)	(1,281)
Net realized capital gains	160,244	193,101
Net investment income	$ 645,346	$ 645,864

Net realized capital gains on investments, determined on the first-in, first-out method in 2017 and 2016, consist of the following:

	2017	2016
Bonds	$ 90,316	$ 87,211
Stocks	69,903	104,549
Securities lending	25	1,341
Net realized capital gains	$ 160,244	$ 193,101

For the Workers' Compensation Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2017 and 2016 were $2,949,259 and $4,472,117, respectively. These sales resulted in gross realized capital gains of $209,514 and $244,761, and gross realized capital losses of $17,893 and $25,326 in 2017 and 2016, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The following table represents the Workers' Compensation Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2017 and 2016, respectively.

2017	Less than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 584,613	$ 579,614	$ (4,999)	$ 645,350	$ 622,974	$ (22,376)	$ 1,229,963	$ 1,202,588	$ (27,375)
Foreign Government	44,879	44,125	(754)	110,009	109,440	(569)	154,888	153,565	(1,323)
Corporate and Public Utilities	2,121,586	2,109,740	(11,846)	1,293,907	1,267,821	(26,086)	3,415,493	3,377,561	(37,932)
Mortgage Backed Securities	791,860	787,275	(4,585)	330,530	325,548	(4,982)	1,122,390	1,112,823	(9,567)
Total Fixed Maturities	3,542,938	3,520,754	(22,184)	2,379,796	2,325,783	(54,013)	5,922,734	5,846,537	(76,197)
Common Stock	140,318	128,987	(11,331)	358	151	(207)	140,676	129,138	(11,538)
Total Equity	140,318	128,987	(11,331)	358	151	(207)	140,676	129,138	(11,538)
Total Temporarily Impaired investments	$ 3,683,256	$ 3,649,741	$ (33,515)	$ 2,380,154	$ 2,325,934	$ (54,220)	$ 6,063,410	$ 5,975,675	$ (87,735)

2016	Less than 12 Months			12 Months or More			Total		
	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses	Amortized Cost	Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 1,795,955	$ 1,753,924	$ (42,031)	$ 78,402	$ 74,975	$ (3,427)	$ 1,874,357	$ 1,828,899	$ (45,458)
Foreign Government	184,859	183,299	(1,560)	-	-	-	184,859	183,299	(1,560)
Corporate and Public Utilities	3,971,452	3,852,453	(118,999)	37,085	34,149	(2,936)	4,008,537	3,886,602	(121,935)
Mortgage Backed Securities	575,784	566,535	(9,249)	3,324	3,307	(17)	579,108	569,842	(9,266)
Total Fixed Maturities	6,528,050	6,356,211	(171,839)	118,811	112,431	(6,380)	6,646,861	6,468,642	(178,219)
Preferred Stock	-	-	-	3,292	3,236	(56)	3,292	3,236	(56)
Common Stock	98,562	88,882	(9,680)	159,312	148,511	(10,801)	257,874	237,393	(20,481)
Total Equity	98,562	88,882	(9,680)	162,604	151,747	(10,857)	261,166	240,629	(20,537)
Total Temporarily Impaired investments	$ 6,626,612	$ 6,445,093	$ (181,519)	$ 281,415	$ 264,178	$ (17,237)	$ 6,908,027	$ 6,709,271	$ (198,756)

Gross unrealized losses represented 0.6% and 1.4% of cost or amortized cost of total investments for the Workers' Compensation Fund as of December 31, 2017 and 2016, respectively. Fixed maturities represented 86.8% and 89.7% of the Workers' Compensation Fund's unrealized losses as of December 31, 2017 and 2016, respectively. The group of securities in an unrealized loss position for less than twelve months was comprised of 304 and 1,236 securities for the Workers' Compensation Fund as of December 31, 2017 and 2016, respectively. The group of securities depressed for twelve months or more were comprised of 186 and 206 securities, for the Workers' Compensation Fund as of December 31, 2017 and 2016, respectively.

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Workers' Compensation Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Workers' Compensation Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2017 and 2016. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuer's financial condition and other objective evidence, the Workers' Compensation Fund believes that the securities identified above were temporarily impaired.

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

Statement of Statutory Accounting Principles No. 43 - Revised 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) the Workers' Compensation Fund intends to sell the security; or (ii) the Workers' Compensation Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Workers' Compensation Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

There were no amounts included in 2017 and 2016 for realized losses related to the Workers' Compensation Fund for impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2017 and 2016 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Workers' Compensation Fund was unable to retain the security until recovery of amortized cost.

During 2017 and 2016, the Workers' Compensation Fund recorded OTTI, related to bonds, in the amount of $0 and $3,400, in the statutory basis statements of income, respectively. The Workers' Compensation Fund recorded total OTTI of $31,377 and $22,934, related to common stock, as of December 31, 2017 and 2016, respectively, 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.

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

The statement value and estimated fair value of financial instruments at December 31, 2017 and 2016 are as follows:

	2017		2016	
	Statement Value	Estimated Fair Value	Statement Value	Estimated Fair Value
Financial assets:				
Bonds	$ 14,666,409	$ 15,340,420	$ 13,951,451	$ 14,275,009
Preferred stocks	4,951	5,468	6,795	7,285
Common stocks	2,048,548	2,048,548	1,679,915	1,679,915
Cash equivalents and short-term investments	169,243	169,243	87,588	87,588
Security lending collateral assets	40,645	40,812	90,366	90,531

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, the Workers' Compensation Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

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

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

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

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

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

The levels of the fair value hierarchy are as follows:

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

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

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

The following table provides information as of December 31, 2017 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Perpetual preferred stocks	$ 4,869	$ -	$ -	$ 4,869
Common stocks	2,048,526	-	22	2,048,548
Total assets at fair value	$ 2,053,395	$ -	$ 22	$ 2,053,417

The following table provides information as of December 31, 2016 about the Workers' Compensation Fund's assets measured at fair value along with a brief description of the valuation technique for each type of asset.

Assets at fair value:	Level 1	Level 2	Level 3	Total
Perpetual preferred stocks	$ 6,714	$ -	$ -	$ 6,714
Common stocks	1,679,893	-	22	1,679,915
Total assets at fair value	$ 1,686,607	$ -	$ 22	$ 1,686,629

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into Level 1 included primarily corporate bonds and common stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Level 2 securities include corporate bonds and other common stock securities where pricing is based on bid evaluations. Quote prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. There were no changes in valuation techniques during 2017 and 2016.

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

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

The Workers' Compensation Fund's policy is to recognize transfers in and out of Levels 2 and 3 as of the end of the reporting period. There were no significant transfers in or out of Level 2 or 3 during 2017 and 2016. There were no changes in the valuation techniques during 2017 and 2016.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The following table provides information as of December 31, 2017 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 15,278,355	$ 14,632,886	$ -	$ 15,278,355	$ -
Hybrids	62,065	33,523	-	62,065	-
Cash Equivalents and short-term investments	169,222	169,243	169,222	-	-
Preferred stocks	5,468	4,951	5,468	-	-
Common stocks	2,048,548	2,048,548	2,048,526	-	22
Security lending collateral assets	40,812	40,645	40,394	418	-
Total	$ 17,604,470	$ 16,929,796	$ 2,263,610	$ 15,340,838	$ 22

The following table provides information as of December 31, 2016 about the Workers' Compensation Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 14,219,573	$ 13,917,928	$ -	$ 14,219,573	$ -
Hybrids	55,436	33,523	-	55,436	-
Cash Equivalents and short-term investments	87,588	87,588	87,588	-	-
Preferred stocks	7,285	6,795	7,285	-	-
Common stocks	1,679,915	1,679,915	1,679,893	-	22
Security lending collateral assets	90,531	90,366	90,104	427	-
Total	$ 16,140,328	$ 15,816,115	$ 1,864,870	$ 14,275,436	$ 22

Securities classified into level 1 included primarily common stocks, preferred stocks and money market mutual funds where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Quoted prices for these securities are provided to the Workers' Compensation Fund using independent pricing services. Level 2 securities include all bonds, mortgage-backed securities including hybrid securities with pricing using bid evaluations or matrix pricing. Matrix pricing takes quoted prices of bonds with similar features and applies analytic methods to determine the fair value of bonds held. Features that are inputs into the analysis include duration, credit quality, tax status and call and sinking fund features. Quoted prices for these securities are provided to the Workers' Compensation Fund by independent pricing services. Securities classified in Level 3 for 2017 represent a structured investment vehicle that is measured based on analysis performed by the Workers' Compensation Fund's investment manager which analyzes the underlying collateral in addition to bid/ask pricing received from brokers to estimate a price. The valuation methodology has been applied consistently.

There were no significant transfers into or out of Level 2 or 3 during 2017 and 2016. There were no changes in valuation techniques during 2017 and 2016.

B. Subprime Mortgage Exposure:

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

The Workers' Compensation Fund has indirect subprime exposure in 2 mortgage-backed securities in the reinvested collateral assets in the amount of $965 and $999 in 2017 and 2016, respectively. None of these securities were deemed to have any issues that would lead management to believe that they were other than temporarily impaired.

The Workers' Compensation Fund has no underwriting exposure to subprime mortgage risk through Mortgage Guaranty or Financial Guaranty insurance coverage.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

C. Wash Sales:

In the course of the Workers' Compensation Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Workers' Compensation Fund's yield on its investment portfolio. The Workers' Compensation Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2017 and 2016 that were reacquired within 30 days of the sale date.

4 - REAL ESTATE

The investment in real estate includes various locations in New York State occupied by the Workers' Compensation Fund's employees. Depreciation expense recorded in the statutory basis statements of income during 2017 and 2016 was $2,735 and $1,281, respectively.

During 2017, the Fund began renovations of its New York City location. The costs associated with these renovations, which amounted to $41,139 as of December 31, 2017, have been recorded within office buildings and improvements. The anticipated completion of the renovations is expected to occur in November 2018.

The Workers' Compensation Fund owned real estate at December 31, 2017 and 2016 as follows:

	2017	2016
Office buildings and improvements, at cost	$ 84,249	$ 38,034
Accumulated depreciation	(28,089)	(25,336)
Office buildings and improvements—net of accumulated depreciation	56,160	12,698
Land	2,735	2,735
Land improvement	2,217	2,027
Total real estate	$ 61,112	$ 17,460

5 - NON-ADMITTED ASSETS

The non-admitted assets of the Workers' Compensation Fund at December 31, 2017 and 2016 were as follows:

	2017	2016
Premium in course of collection outstanding over 90 days	$ 228,215	$ 215,297
EBUB	10,620	13,177
Electronic data equipment/software	3,213	2,746
Furniture and equipment, net of accumulated depreciation	2,954	2,993
Other	6,428	6,495
Total non-admitted assets	$ 251,430	$ 240,708

6 - TRANSACTIONS WITH NEW YORK STATE

Over the course of several years, the Workers' Compensation Fund was required to transfer to the State an aggregate of $1,295,000, which is non-interest bearing and is included in the accompanying statutory basis statements of admitted assets, liabilities and surplus as a contingent receivable due to the repayment conditions. Chapter 55 of the New York State Laws of 1982 required the Workers' Compensation Fund to transfer $190,000 out of its surplus to the general fund of the State. Chapter 28 of the New York State Laws of 1986 authorized and directed the Workers' Compensation Fund to transfer an additional $325,000 to the general fund of the State. Chapter 47 of the New York State Laws of 1987 required the Workers' Compensation Fund to pay an additional $300,000 ($150,000 to the general fund of the State and $150,000 to the State's capital fund). Chapter 7 of the New York State Laws of 1989 required the Workers' Compensation Fund to pay an additional $250,000 to the general fund of the State. As required by Chapter 41 of the New York State Laws of 1990, the Workers'

Compensation Fund transferred $230,000 to the State's general fund. The statutes require the State to appropriate $1,295,000 annually for the potential repayment of any portion of the aggregate contingent receivable. Such repayment by the State is required only if, in substance, the Workers' Compensation Fund has no assets in excess of its reserves available to pay claims under its Workers' Compensation policies. These statutes specifically direct the contingent receivable to be an admitted asset.

7 - REINSURANCE

As part of a prior reinsurance program, the Workers' Compensation Fund reinsures certain risks with other companies. Such arrangements serve to limit the Workers' Compensation Fund's maximum loss from catastrophes, large risks and unusually hazardous risks. To the extent that any reinsuring company might be unable to meet its obligations, the Workers' Compensation Fund would be liable for its respective participation in such defaulted amounts. The reserves for losses and loss adjustment expenses have remained the same at $1,034 for losses recoverable under reinsurance contracts as of December 31, 2017 and 2016. The Workers' Compensation Fund purchased no reinsurance for 2017 and 2016.

See Note 2G on reinsurance afforded through the Terrorism Risk Insurance Act of 2002.

A. Unsecured Reinsurance Recoverables in Excess of 3% of Surplus:

The Workers' Compensation Fund does not have an unsecured aggregate recoverable for losses, paid and unpaid including IBNR, loss adjustment expenses and unearned premium with any individual reinsurers, authorized or unauthorized, that exceeds 3% of the Workers' Compensation Fund's surplus at December 31, 2017 and 2016.

B. Retroactive Reinsurance:

The Workers' Compensation Fund entered into an assumption retroactive reinsurance transaction from the Liquidation Bureau of the NY SAP. The total amount of reinsurance reserves transferred and consideration paid to the Workers' Compensation Fund, as of the date of the transaction was $9,919. The estimates for total unpaid losses related to retroactive reinsurance contracts as of December 31, 2017 and 2016 were $2,044 and $2,426, respectively, and are recorded in accrued expenses and other liabilities in the statutory basis statements of admitted assets, liabilities and surplus. The total expense incurred related to retroactive reinsurance contracts for the years ended December 31, 2017 and 2016 was $(83) and $1,012, respectively, and is recorded in miscellaneous income in the statutory basis statements of income. All contracts of reinsurance covering losses that have occurred prior to the inception of the contract have been accounted for in conformity with the instructions contained in the NAIC SAP.

8 - RELATED PARTY TRANSACTIONS

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

The expenses allocated to the Disability Benefits Fund were $1,707 and $1,339 in 2017 and 2016 respectively. The amount owed to the Workers' Compensation Fund from the DBF is $356, and $288 as of December 31, 2017 and 2016, respectively.

The Workers' Compensation Fund acts as the administrator of the Aggregate Trust Fund (ATF) by paying losses on behalf of the ATF. The ATF was created under New York State Worker's Compensation Law and is the disbursing agency for certain death and permanent disability claims exclusive of claims applicable to the Workers' Compensation Fund. The Workers' Compensation Fund charges the ATF an administrative fee based on paid losses for such services at a rate of 3% for awards adjudicated prior to July 1, 2017 and 6% for awards adjudicated on or after July 1, 2017. The total administration fees charged to the ATF during 2017 and 2016, were $1,348 and $1,113, respectively. The amount owed to the Workers' Compensation Fund from the ATF is $127 and $99 as of December 31, 2017 and 2016, respectively.

The Workers' Compensation Fund administers the claims for the State, which self-insures its liability for workers' compensation claims. The Workers' Compensation Fund is reimbursed for losses, allocated loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. During 2017 and 2016, the State reimbursed the Workers' Compensation Fund $474,833 and $483,117, respectively, for such costs and are recorded through underwriting expenses in the statutory basis statements of income. The amount owed to the Workers' Compensation Fund from the State is $16,257 and $9,207 as of December 31, 2017 and 2016, respectively. The amount due to New York State, for billed assessments collected on behalf of the State, is $0 and $134,399 at December 31, 2017 and 2016. This balance was paid in full in 2017 by agreement with New York State to offset certain payments due from the State.

Beginning January 1, 2014, in accordance with the 2013 reforms, the Workers' Compensation Fund administers payments to the Workers' Compensation Board on behalf of policyholders. Assessments administered to the Workers' Compensation Board (WCB) are estimated based on premium written in the prior quarter, as well as assessment adjustments to policies previously reported. The Workers' Compensation Fund is reimbursed for assessments administered to the fund through premium billing. Policyholders reimbursed the Workers' Compensation Fund $285,359 and $313,618, and estimated payments made to the Workers' Compensation Board were $289,368 and $319,419 for the years ended December 31, 2017 and 2016 respectively. The Workers' Compensation Fund recorded a liability of $(519) and $4,529 as of December 31, 2017 and 2016 for payments to the Workers' Compensation Board, which is recorded through the statutory basis statements of admitted assets, liabilities and surplus. The amount of assessments due from policyholders billed as of December 31, 2017 and 2016 was $79,161 and $77,334, respectively, and recorded through the statutory basis statements of admitted assets, liabilities and surplus.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The 2013 reforms required the Workers' Compensation Fund to transfer to the WCB all funds held in reserve for payment of future assessments, as discussed in Note 14. At December 31, 2017 and 2016, and as of the date of this report, NYSIF has transferred all but $250 million of the sums required to be transferred by the 2013 reforms.

	2017	2016
Due from affiliates		
Aggregate Trust Fund	$ 127	$ 99
Disability Benefits Fund	356	288
New York State	16,257	9,207
Total due from affiliates	$ 16,740	$ 9,594
Due to affiliates		
New York State:		
Billed assessments collected on behalf of New York State	$ -	$ 134,399
Funds held for payment of future assessments	250,000	250,000
Total due to affiliates	$ 250,000	$ 384,399

9 - COMMITMENTS

The Workers' Compensation Fund leases offices, warehouse space and vehicles under non-cancellable operating leases generally varying from one to fifteen years. The Workers' Compensation Fund's aggregate minimum commitments under non-cancellable operating leases at December 31, 2017, are as follows:

2018	$ 4,987
2019	4,510
2020	1,664
2021	1,677
2022	1,708
Thereafter	11,745
Net minimum commitments	$ 26,291

Rental expense (including the imputed rental income and expense for the Workers' Compensation Fund occupied buildings of $10,772 and $9,809) was $21,064 and $16,573 in 2017 and 2016, respectively, and recorded through investment income earned.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

10 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

Activity in the reserves for losses and loss adjustment expenses, net of reinsurance recoveries of $1,034 and $1,034 for 2017 and 2016, respectively, is summarized as follows:

	2017	2016
Balance—January 1 (net of reinsurance recoveries)	$ 10,004,147	$ 9,896,102
Incurred claims related to:		
Current year	1,947,753	2,125,769
Prior years	(439,596)	(466,154)
Total incurred	1,508,157	1,659,615
Paid claims related to:		
Current year	207,270	240,370
Prior years	1,235,165	1,311,200
Total paid	1,442,435	1,551,570
Balance—December 31 (net of reinsurance recoveries)	$ 10,069,869	$ 10,004,147

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

The incurred claims relating to prior years have changed in 2017 and 2016 as a result of changes in estimates of events insured in prior years.

11 - SURPLUS

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

Changes in balances of appropriated surplus funds from December 31, 2016 to December 31, 2017, are due to appropriations to the catastrophe, foreign terrorism appropriations, domestic terrorism appropriations, and post-employment benefits as discussed in Note 2 (G).

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

	2017	2016
Unrealized gains	$ 533,621	$ 274,854
Non-admitted assets	$ 251,430	$ 240,708

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

12 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2017	2016
Advertising	$ 126	$ 167
Boards, bureaus and associations	5,366	5,562
Audit of assured's records	330	374
Salaries and payroll taxes	79,752	78,597
Employee relations and welfare	53,024	85,720
Insurance	148	110
Travel and travel items	702	781
Rent and rent items	9,285	7,303
Equipment	450	287
Cost or depreciation of EDP equipment and software	5,931	6,410
Printing and stationery	585	393
Postage and telephone	2,902	3,214
Legal and auditing	2,033	2,335
Taxes, licenses and fees:		
Franchise taxes and other fees	48,250	54,435
Miscellaneous expenses	4,592	5,534
Total	$ 213,476	$ 251,222

13 - CONTINGENCIES

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

14 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through February 28, 2018 when the annual statement was originally filed, which is the date when the annual statements was issued and filed with the NAIC and the DFS. After that date, subsequent events have been reviewed through May 24, 2018, the date which these audited statements were available to be issued.

In January 2018, the Fund entered into a 15 year non-cancellable agreement to lease space within their New York City location to the New York Office of General Services (OGS).

During 2018, the Fund settled its funds held for payment of future assessments balance, as of December 31, 2017, of $250,000 with New York State.

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

EISNERAMPER

Report on the Statutory Basis Financial Statements

We have audited the accompanying statutory basis financial statements of the State Insurance Fund Disability Benefits Fund (a New York state nonprofit agency), which comprise the statutory statements of admitted assets, liabilities and surplus as of December 31, 2017 and 2016, and the related statutory 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 financial reporting provisions of 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 on the basis of the financial reporting provisions of the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the New York State Department of Financial Services. The effects on the statutory basis financial statements of the variances between the regulatory basis of accounting described in Note 2A 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 Disability Benefits Fund as of December 31, 2017 and 2016, 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 policyholders' surplus of the State Insurance Fund Disability Benefits Fund as of December 31, 2017 and 2016, 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.

EisnerAmper LLP

EisnerAmper LLP
New York, New York
May 24, 2018

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Admitted Assets, Liabilities and Surplus
As of December 31, 2017 and 2016 (in thousands)

	2017	2016
Admitted assets		
Cash and invested assets		
Bonds—at NAIC carrying value	$ 169,093	$ 154,082
Cash, cash equivalents and short-term investments	28,685	27,836
Securities lending reinvested collateral	2,688	-
Total cash and invested assets	200,466	181,918
Premium receivables	5,307	3,654
Accrued investment income	522	966
Other assets	61	53
Total admitted assets	$ 206,356	$ 186,591
Liabilities and surplus		
Liabilities		
Reserve for losses	$ 3,652	$ 3,882
Reserve for loss adjustment expenses	1,607	206
Unearned premiums	11,480	26,548
Advance premium	8,025	450
Due to affiliate	356	288
Payable for securities lending	2,688	-
Accrued expenses and other liabilities	4,036	8,654
Total liabilities	31,844	40,028
Surplus		
Appropriated surplus funds:		
Security fluctuation surplus	6,570	6,570
Catastrophe surplus	4,000	4,000
Post-employment benefits surplus	5,441	-
Unassigned surplus	158,501	135,993
Total surplus	174,512	146,563
Total liabilities and surplus	$ 206,356	$ 186,591

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Income
for the Years Ended December 31, 2017 and 2016 (in thousands)

	2017	2016
Underwriting income		
Net written premium	$ 21,226	$ 19,240
Net earned premium	$ 19,655	$ 18,722
Underwriting expenses		
Losses incurred	14,223	15,345
Loss adjustment expenses incurred	2,127	1,828
Other underwriting expenses incurred	3,716	3,219
Total underwriting expenses	20,066	20,392
Net underwriting loss	(411)	(1,670)
Investment income earned		
Investment income	4,608	5,261
Investment expenses	(245)	(205)
Net realized capital gains	3,349	1,107
Net investment income earned	7,712	6,163
Other income (expenses)		
Bad debt expense	(308)	(277)
Miscellaneous income	327	150
Total other income (expenses)	19	(127)
Net income	$ 7,320	$ 4,366

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Surplus
for the Years Ended December 31, 2017 and 2016 (in thousands)

	Appropriated Surplus				
	Security Fluctuation Surplus	Catastrophe Surplus	Postemployment Benefit Surplus	Unassigned Surplus	Total Surplus
Balance - January 1, 2016	$ 4,000	$ 4,000	$ -	$ 134,256	$ 142,256
Net income	-	-	-	4,366	4,366
Net unrealized capital losses - investments	-	-	-	(48)	(48)
Increase in non-admitted assets	-	-	-	(11)	(11)
Appropriation to (from) unassigned surplus	2,570	-	-	(2,570)	-
Balance - December 31, 2016	6,570	4,000	-	135,993	146,563
Prior period adjustment - correction of error	-	-	-	17,088	17,088
Net income	-	-	-	7,320	7,320
Increase in non-admitted assets	-	-	-	(15)	(15)
Appropriated surplus adjustment - Postemployment benefits	-	-	3,556	-	3,556
Appropriation to (from) unassigned surplus	-	-	1,885	(1,885)	-
Balance - December 31, 2017	$ 6,570	$ 4,000	$ 5,441	$ 158,501	$ 174,512

See accompanying notes to statutory basis financial statements.

NEW YORK STATE INSURANCE FUND
DISABILITY BENEFITS FUND

Statutory Basis Statements of Cash Flows
for the Years Ended December 31, 2017 and 2016 (in thousands)

	2017	2016
Cash flows from operations		
Premiums collected	$ 27,316	$ 19,119
Net investment income	4,773	5,337
Miscellaneous income (expense)	19	(127)
Losses and loss adjustment expenses paid, net of salvage and subrogation	(14,453)	(15,422)
Expenses paid	(5,174)	(4,047)
Net cash provided by operations	12,481	4,860
Cash flows from investments		
Proceeds from investments sold, matured or repaid	109,299	36,747
Cost of investments acquired	(120,908)	(15,651)
Other uses	(2,688)	-
Net cash (used in) provided by investments	(14,297)	21,096
Cash flows from other sources	2,665	(430)
Net change in cash and short-term investments	849	25,526
Cash and short-term investments Beginning of year	27,836	2,310
Cash and short-term investments End of year	$ 28,685	$ 27,836

See accompanying notes to statutory basis financial statements.

1 - ORGANIZATION AND PURPOSE

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

The Disability Benefits Fund (the Fund) received authority to write disability benefits insurance in 1950. In Methodist Hospital of Brooklyn v. State Insurance Fund (1985), the New York State Court of Appeals held the Fund is "a State agency for all of whose liabilities the State is responsible…."

The Fund provides mandatory disability benefit insurance in New York. Disability benefit insurance covers off-the-job injury, sickness, and disability arising from pregnancy, but not medical care payments. Effective January 1, 2018, the Disability Benefits Fund added an endorsement to policies to provide paid family leave coverage (PFL).

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying statutory basis financial statements of the Disability Benefits Fund, an agency of the State, are presented in conformity with accounting practices prescribed by the New York Department of Financial Services (DFS). The DFS recognizes only New York Statutory Accounting Practices (NY SAP) for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under New York State Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures Manual (NAIC SAP), effective January 1, 2001 and subsequent revisions, have been adopted as a component of NY SAP. The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. Specifically, 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 the DFS has the right to permit other specific practices that may deviate from prescribed practices. The Disability Benefits Fund, as prescribed by the NY SAP or as mandated by New York State Workers' Compensation Law, is not required to calculate Risk Based Capital.

The accounting practices and procedures of NY SAP comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States (U.S. GAAP). The more significant differences between NY SAP and U.S. GAAP which are applicable to the Disability Benefits Fund are set forth below:

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

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

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

c. Cash and short-term investments in the statutory basis statements of admitted assets, liabilities and surplus represent cash balances and investments with initial maturities of one year or less. Under U.S. GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less.

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

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

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

g. 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 of surplus 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 of surplus for catastrophes and post-employment benefits.

NY SAP allows the appropriation of surplus for these purposes. Under U.S. GAAP, no such appropriations of surplus are established.

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

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

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

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

B. Investments:

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

Bonds are valued in accordance with the requirements of the NAIC's SVO. Bonds are principally carried at amortized cost. Discount or premium on bonds is amortized using the scientific method, which is a variation of the effective interest method. Short-term investments consist of bonds purchased within a year of the maturity date, which are stated at amortized cost. Market value is based on market prices obtained from the SVO and SS&C Technologies, Inc. primarily.

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

Preferred stocks are stated at cost, lower of cost or amortized cost or NAIC fair values depending on the assigned credit rating and the underlying characteristics of the security. The fair values for preferred stocks are based on quoted market prices where available. Perpetual preferred stocks are valued at estimated market value. If unavailable, the fair value was determined by the Disability Benefits Fund using discounted cash flow models using discount rates of securities of similar maturity and credit characteristics. Unrealized gain or loss presented in unassigned surplus for preferred stocks includes the change in fair value from the prior year-end for those preferred stocks carried at fair value; the difference between the current year amortized cost and current year fair value for redeemable preferred stocks that were carried at amortized cost in the prior year and fair value in the current year; and the reversal of previous cumulative unrealized losses for redeemable preferred stocks that were carried at fair value in the prior year and at amortized cost in the current year.

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

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 in 2017 and 2016, respectively.

An investment in a debt or equity security is impaired if its fair value falls below book value and the decline is considered other than temporary. Factors considered in determining whether a loss is other than temporary include the length of time and extent to which fair value has been below cost; the financial condition and near term prospects of the issuer; and the Disability Benefits Fund's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. A debt security is impaired if it is probable that the Disability Benefits Fund will not be able to collect all the amounts due under the security contractual terms. Equity investments are impaired when it becomes apparent that the Disability Benefits Fund will not recover its cost over the expected holding period. Other-than-temporary declines in fair value of investments are included in realized losses. There were no realized losses related to impairment losses during 2017 and 2016.

C. Premium Revenue and Related Accounts:

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

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

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

PFL installments collected in 2017 (prior to the January 1, 2018 effective date) are included in advance premium and amount to $7,222,823.

Also included in the reserve for unearned premiums are estimates for Return of Premium Program (ROP) in the amount of $107 and $17,088 at December 31, 2017 and 2016, respectively, and the Premium Adjustment Plan in the amount of $1,762 and $1,364 at December 31, 2017 and 2016, respectively (See Note 2L). The ROP Program is a program whereby policyholders with 49 or fewer employees become members of a group of policyholders and a premium credit is estimated based on the groups' loss ratio that is not in excess of the industry standard as established by DFS. The Premium Adjustment Plan is a program whereby policyholders with annual premium greater than $1 may qualify for an annual credit based on policyholder's individual claim performance. If the total annual premium is greater than the total claims paid, after all claims are closed for that same period, multiplied by a factor of 1.2, a Premium Adjustment Plan credit is awarded. Other qualifications for both the ROP Program and the Premium Adjustment Plan are that the policyholder must maintain an active status with the Disability Benefits Fund throughout the policy year and have payroll reports submitted after the end of the policy period.

The Disability Benefits Fund performs an analysis of uncollectable premium receivable and realized write offs of $308 and $277 for the years ended December 31, 2017 and 2016, respectively, as bad debt expense in the statutory basis statements of income.

D. Reserves for Losses and Loss Adjustment Expenses:

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

The Disability Benefits Fund does not cede or assume any reinsurance. The Fund does not participate in any voluntary or involuntary pools.

The reserves for loss and loss adjustment expenses of the Disability Benefits Fund are not discounted.

E. Appropriated Surplus Funds:

As described above, the Fund may designate a portion of unassigned surplus to provide for contingencies as permitted under NAIC SSAP No. 72, Surplus and Quasi Reorganizations:

Security fluctuation surplus

Security fluctuation remained unchanged at $6,570 as of December 31, 2017 and 2016.

Catastrophe surplus

The review of the catastrophe surplus in conjunction with a risk assessment of the Disability Benefits Fund's exposures resulted in the Fund maintaining the catastrophe surplus at $4,000 as of December 31, 2017 and 2016.

Post-employment benefits surplus

During the year ended December 31, 2017 the Fund established an appropriation of surplus for a portion of the contingency for other post-employment benefits (OPEB) that has not already been recognized as an OPEB obligation. During 2017, the Fund transferred $3,556 of the obligation previously recorded as a liability, to an appropriation of surplus for post-employment benefits. During 2017 the Fund segregated an additional $1,885 from its unassigned surplus to an appropriation of surplus for post-employment benefits. See Note 2[G].

F. Fringe Benefits:

Based on actual costs billed by various State agencies, the Disability Benefits Fund incurred $1,348 and $1,871 of fringe benefits and indirect costs in 2017 and 2016, respectively, recorded through other underwriting expenses in the statutory basis statements of income.

All employees of the Fund are covered under a defined benefit retirement plan administered by the New York State Employees Retirement System. For employees hired prior to 1976 the plan is non-contributory. For employees hired after 1976 and before January 1, 2015, the plan is partially contributory in the first 10 years of employment and non-contributory thereafter. For employees hired on and after January 1, 2015, the plan is partially contributory for the entire length of employment.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

Prior to January 1, 2016, the Fund recorded defined benefit plan expenses based on amounts actually billed by the various state agencies. During 2016, the Fund was allocated an amount approximating its share of the liability related to the defined benefit plan as determined by the State. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the opening balance liability of $191.

At December 31, 2017 and 2016, the Fund's allocated portion of its New York State Employee pension liability was $1,100 and $918. The pension liability was measured by the State as of March 31, 2016, with the Fund's portion of the liability based on a ratio of its employees to a ratio of New York State employees. At March 31, 2017, and 2016, the Fund's approximate proportionate share was 0.01%.

G. Post-employment Benefits:

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

Accounting Methodology Followed by New York State

New York State calculates its annual OPEB cost based on the annual required contribution (ARC), an amount actuarially determined by the State in accordance with the parameters of GASB No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (GASB 45). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year (Normal Cost) and amortize any unfunded actuarial accrued liabilities (or funding excess) (UAAL) over a period not to exceed 30 years. GASB No. 75, Accounting and Financial Reporting for Post-employment Benefits Other than Pension, is effective for public employers' fiscal years beginning after June 15, 2017. For more details about the actuarial methods and assumptions used by the State as well as the statewide plans funding progress and status, refer to the State's Comprehensive Annual Financial Report (CAFR). The State's Actuarial Valuation Reports are prepared as of March 31 (New York States' fiscal year end) and segregate balances relating to the various state agencies, including the Fund, under GASB 45 and GASB 75. These reports were provided to the Fund.

Accounting Methodology Followed by the Fund

The Disability Benefits Fund, in the course of business, reimburses New York State for certain OPEB related charges under the New York State Plan. Under SSAP No. 92 Post-retirement Benefits Other Than Pensions, the Fund 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.

The Fund carries its net OPEB obligation (i.e., the Normal Cost less the amount the Fund has funded to the State for retirees) as a liability. The Fund recognizes in the statement of income only its annual Normal Cost, as this is the Fund'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 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. During the year ended December 31, 2017, the Fund established 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 will vary significantly due to potential future changes in various key assumptions, such as the Fund'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. The Fund updates the estimate each year-end.

The activity in the appropriated surplus for post-employment benefits during 2017 is as follows:

		2017
Appropriated post-employment benefits surplus beginning of year	$	-
Appropriated surplus adjustment for post-employment benefits		3,556
Current year appropriation of unassigned surplus		1,885
Appropriated post-employment benefits surplus end of year	$	5,441

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

In 2017, the Fund segregated an additional $1,885 from its surplus to its appropriated surplus for UAAL OPEB in anticipation of future implementation of GASB 75 by New York State. The Fund paid New York State retiree OPEB charges of $191 and $474 for the years ended December 31, 2017 and 2016, respectively. The following table shows the components of the Fund's assigned values relating to OPEB cost (normal cost) under the New York State Plan, the amount credited to the plan, and changes in the net OPEB obligation as of December 31, 2017:

	2017
Net OPEB obligation beginning of year	$ 3,850
Annual OPEB expense (Normal Cost)	452
Estimated contribution credit (retiree premiums paid)	(191)
Increase in net OPEB obligation	261
OPEB obligation end of year	4,111
Surplus appropriation	(3,556)
Net OPEB obligation end of year	$ 555

In 2016, the Fund recorded OPEB expenses of $474.

Prior to January 1, 2016, the Fund paid amounts charged by the State of New York which were expensed as paid. During 2016, the Fund estimated an amount to approximate its share of the obligation related to Post-employment Benefits and Compensated Absences under the New York State Plan. As such, the Fund recorded an adjustment to opening surplus (change in accounting principle) as of January 1, 2016 to reflect the estimated obligation of $3,376, which was subsequently transferred to appropriated surplus in January 2017.

The Fund has an accrued liability for employee compensation for future absences in the amount of $295 and $226 as of December 31, 2017 and 2016, respectively.

H. Income Tax:

The Disability Benefits Fund is exempt from federal income taxes. However, the Disability Benefits Fund is subject to a New York State franchise tax. The Disability Benefits Fund's franchise tax is calculated using a written premium-based method and is a component of other underwriting expenses.

The New York State franchise tax expense was $371 and $337 in 2017 and 2016, respectively, and recorded through the other underwriting expenses incurred on the statutory basis statements of income.

The Disability Benefits Fund maintains an office and does business in the metropolitan New York area and is subject to the Metropolitan Transit Authority (MTA) surcharge. The MTA surcharge is based on premiums written on businesses in the metropolitan area and wages paid to employees in the metropolitan area and is a component of other underwriting expenses. The MTA surcharge in 2017 and 2016 was $49 and $45, respectively, for the Disability Benefits Fund and recorded through the other underwriting expenses incurred on the statutory basis statements of income.

I. Concentrations of Credit Risk:

Financial instruments that potentially subject the Disability Benefits Fund to concentrations of credit risk are primarily cash and cash equivalents. Cash equivalents include investments in 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:

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

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 loss adjustment expenses, the return of premium and premium adjustment plan estimates in unearned premiums, and the Fund's portion of the pension and other post-employment benefits (OPEB) costs estimated by the Fund based on the current actuarial valuation prepared for New York State which includes the Fund's employees.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

L. Prior Period Adjustment, Correction of Error:

During the preparation of the 2017 Financial Statements for the Disability Benefits Fund, it was determined that a calculation error resulted in an overstatement of the ROP program unearned premium reserves.

The reserve overstatement, amounting to approximately $17,088 at January 1, 2017 has been corrected by means of a prior period adjustment to unassigned surplus as provided by Statement of Statutory Accounting Principles number 3, Accounting Changes and Correction of Errors. The Fund's total assets, liabilities and unassigned surplus and results of operations as of and for the year ended December 31, 2016 have not been adjusted as a result of the error.

Below is a summary of the effect of the correction on the Fund's total assets, liabilities and surplus as of December 31, 2016:

	December 31, 2016 As Reported	January 1, 2017 After Correction	Increase (Decrease)
Total Assets	$ 186,591	$ 186,591	$ -
Total Liabilities	$ 40,028	$ 22,940	$ (17,088)
Total Surplus	$ 146,563	$ 163,651	$ 17,088

Section 87 of the New York State Workers' Compensation Law specifically states the type of securities authorized for investment by the Disability Benefits Fund. Section 87 further provides that the Commissioner of Taxation and Finance is the sole custodian of the Disability Benefits Fund. J.P. Morgan Chase serves as the Disability Benefits Fund's custodian for investments. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2017 and 2016, in accordance with Section 105 of the New York State Finance Law.

2017	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 19,878	$ 371	$ (8)	$ 20,241
All other governments	9,494	106	(5)	9,595
State, territory, and possession general obligations	500	-	-	500
Corporate bonds and public utilities	82,317	134	(178)	82,273
Mortgage-backed securities	56,077	8	(207)	55,878
Hybrid securities	827	452	-	1,279
Total investments	$ 169,093	$ 1,071	$ (398)	$ 169,766

2016	Cost or Book Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government and government agency obligations	$ 50,576	$ 906	$ -	$ 51,482
All other governments	12,958	301	(71)	13,188
Corporate bonds and public utilities	88,638	2,384	(1,209)	89,813
Mortgage-backed securities	1,083	-	(20)	1,063
Hybrid securities	827	390	-	1,217
Total investments	$ 154,082	$ 3,981	$ (1,300)	$ 156,763

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The amortized cost and market value of bonds at December 31, 2016 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because certain issuers may have the right to call or prepay obligations with or without penalties.

	Amortized Cost	Market Value
Due in one year or less	$ 32,211	$ 32,292
Due after one year through five years	117,529	117,829
Due after five years through ten years	4,800	4,780
Due after ten years	14,553	14,865
Total bonds	$ 169,093	$ 169,766

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

The Disability Benefits Fund had reinvested collateral assets in the amount of $2,688 and $0 as of December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, the Disability Benefits Fund received fees of $42 and $0, respectively. The fees for the current year have been included in investment income earned in the statutory basis statements of income.

The amortized cost and market value of the reinvested collateral assets at December 31, 2017 by contractual maturity are shown below:

	Amortized Cost	Fair Value
30 days or less	$ 2,688	$ 2,688
Total collateral received	$ 2,688	$ 2,688

The Fund did not participate in securities lending in 2016.

The Fund 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.

The Disability Benefits Fund has security lending agreements with J.P. Morgan Chase. All bank deposits are entirely insured or collateralized with securities held by J.P. Morgan Chase at December 31, 2017, in accordance with Section 105 of the New York State Finance Law.

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

	Year Ended December 31,	
	2017	2016
Bonds	$ 4,090	$ 5,205
Stocks	-	2
Cash and cash equivalents	476	52
Other	42	2
Investment income	4,608	5,261
Investment expenses	(245)	(205)
Net realized capital gains	3,349	1,107
Net investment income earned	$ 7,712	$ 6,163

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

Net realized capital gains on investments, determined on the first-in, first-out method in 2017 and 2016.

	Year Ended December 31, 2017	Year Ended December 31, 2016
Bonds	$ 3,349	$ 1,055
Stocks	-	52
Net realized capital gains	$ 3,349	$ 1,107

For the Disability Benefits Fund, proceeds from investments sold, matured or repaid during the years ended December 31, 2017 and 2016 were $109,299 and $36,747, respectively. These sales resulted in gross realized capital gains of $4,003 and $1,436 and gross realized capital losses of $654 and $329 in 2017 and 2016, respectively.

The following table represents the Disability Benefits Fund's unrealized loss, fair value and amortized cost for bonds and stocks aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position as of December 31, 2017 and 2016, respectively.

2017	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 7,994	$ 7,986	$ (8)	$ -	$ -	$ -	$ 7,994	$ 7,986	$ (8)
All other governments	2,000	2,000	-	2,000	1,995	(5)	4,000	3,995	(5)
Corporate bonds and public utilities	49,924	49,749	(175)	2,500	2,497	(3)	52,424	52,246	(178)
Mortgaged-backed securities	53,118	52,911	(207)	-	-	-	53,118	52,911	(207)
Total fixed maturities	113,036	112,646	(390)	4,500	4,492	(8)	117,536	117,138	(398)
Total temporarily impaired investments	$ 113,036	$ 112,646	$ (390)	$ 4,500	$ 4,492	$ (8)	$ 117,536	$ 117,138	$ (398)

2016	Less Than 12 Months			12 Months or More			Total		
	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses	Amortized Cost	Estimated Fair Value	Unrealized Losses
U.S. Government and government agency obligations	$ 2,498	$ 2,498	$ -	$ -	$ -	$ -	$ 2,498	$ 2,498	$ -
All other governments	7,488	7,417	(71)	-	-	-	7,488	7,417	(71)
Corporate bonds and public utilities	44,689	43,558	(1,131)	1,538	1,460	(78)	46,227	45,018	(1,209)
Mortgaged-backed securities	1,083	1,063	(20)	-	-	-	1,083	1,063	(20)
Total fixed maturities	55,758	54,536	(1,222)	1,538	1,460	(78)	57,296	55,996	(1,300)
Total temporarily impaired investments	$ 55,758	$ 54,536	$ (1,222)	$ 1,538	$ 1,460	$ (78)	$ 57,296	$ 55,996	$ (1,300)

Gross unrealized losses represented 0.2% and 0.8% of the total cost or amortized cost of total investments for the Disability Benefits Fund as of December 31, 2017 and 2016, respectively. Fixed maturities represented 100% of the Disability Benefits Fund's unrealized losses as of December 31, 2017 and 2016. The group of securities in an unrealized loss position for less than twelve months was comprised of 80 and 25 securities for the Disability Benefits Fund as of December 31, 2017 and 2016, respectively. The group of securities depressed for twelve months or more were comprised of 2 and 1 securities for the Disability Benefits Fund as of December 31, 2017 and 2016, respectively.

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

The fixed income securities in an unrealized loss position are primarily investment grade securities with extended maturity dates, which have been adversely impacted by an increase in interest rates after the purchase date. As part of the Disability Benefits Fund's ongoing security monitoring process by a committee of investment and accounting professionals, the Disability Benefits Fund has reviewed its investment portfolio and concluded that there were no additional other-than-temporary impairments as of December 31, 2017 and 2016. Due to the issuers' continued satisfaction of the securities' obligations in accordance with their contractual terms and the expectation that they will continue to do so, management's ability and intent to hold these securities, as well as the evaluation of the fundamentals of the issuers' financial condition and other objective evidence, the Disability Benefits Fund believes that the securities in the sectors identified above were temporarily impaired.

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

Statement of Statutory Accounting Principles, No. 43R - *Revised 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) the Disability Benefits Fund intends to sell the security; or (ii) the Disability Benefits Fund does not have the intent and ability to retain the security for the time sufficient to recover the amortized cost basis. If neither of these two conditions exists, and the Disability Benefits Fund has the intent and ability to hold the security but does not expect to recover the entire amortized cost, the difference between the amortized cost basis of the security and the present value of projected future cash flows expected to be collected is recognized as an OTTI in earnings.

There were no amounts included in 2017 and 2016 for realized losses related to the Disability Benefits Fund for impairment losses related to SSAP No. 43R investments. There were no additional impairments recorded in 2017 and 2016 on the basis that the present value of future expected cash flows is less than the amortized cost basis of the security as losses were identified on the basis that the Disability Benefits Fund was unable to retain the security until recovery of amortized cost.

The Disability Benefits Fund recorded no impairments during 2017 or 2016 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.

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

The statement value and estimated fair value of financial instruments at December 31, 2017 and 2016 are as follows:

	Statement Value	Fair Value	Statement Value	Fair Value
Financial assets:				
Bonds	$ 169,093	$ 169,766	$ 154,082	$ 156,763
Short-term investments	$ 4,979	$ 4,979	$ -	$ -

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, the Disability Benefits Fund estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management's estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

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

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

When available, the Disability Benefits Fund used quoted market prices to determine the fair values of aforementioned investment securities. When quoted market prices are not readily available or representative of fair value, pricing determinations are made based on the results of valuation models using observable market data such as recently reported trades, bid and offer information and benchmark securities. There were no investments with unobservable inputs held by the Disability Benefits Fund as of December 31, 2017 and 2016. Unobservable inputs reflect the Disability Benefits Fund's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

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

The levels of the fair value hierarchy are as follows:

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

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

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

The Disability Benefits Fund had no assets measured at fair value as of December 31, 2017 or 2016.

Low grade fixed maturity investments where fair value is lower than cost and common stocks are recorded at fair value. Securities classified into Level 1 included primarily stocks where there are quoted prices in active markets for identical securities and the source of the pricing. Unadjusted quoted prices for these securities are provided to the Disability Benefits Fund by independent pricing services. Quoted prices for these securities are provided to the Disability Benefits Fund using independent pricing services. The Disability Benefits Fund did not have any Level 2 and Level 3 securities that were carried at fair value. There were no changes in valuation techniques during 2017 and 2016.

The following table provides information as of December 31, 2017 about the Disability Benefits Fund's financial instruments disclosed at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 168,487	$ 168,266	$ -	$ 168,487	$ -
Hybrids	1,279	827	-	1,279	-
Cash equivalent	22,722	22,722	22,722	-	-
Short-term investments	4,979	4,979	-	4,979	-
Security lending collateral assets	2,688	2,688	2,688	-	-
Total	$ 200,155	$ 199,482	$ 25,410	$ 174,745	$ -

The following table provides information as of December 31, 2016 about the Disability Benefits Fund's financial instruments at fair value along with a brief description of the valuation technique for each type of assets.

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3
Bonds	$ 155,546	$ 153,255	$ -	$ 155,546	$ -
Hybrids	1,217	827	-	1,217	-
Cash equivalent	27,069	27,069	27,069	-	-
Total	$ 183,832	$ 181,151	$ 27,069	$ 156,763	$ -

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

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

There were no significant transfers into or out of Level 2 or 3 during 2017 and 2016. There were no changes in valuation techniques during 2017 and 2016.

B. Subprime Mortgage Exposure:

The Disability Benefits Fund had no exposures to subprime mortgage loans at December 31, 2017 and 2016.

C. Wash Sales:

In the course of the Disability Benefits Fund's management of investment portfolio, securities may be sold at a loss and repurchased within 30 days of the sale date to enhance the Disability Benefits Fund's yield on its investment portfolio. The Disability Benefits Fund did not sell any securities at a loss or in a loss position with a NAIC designation from 3 to 6 for the years ended December 31, 2017 and 2016 that were reacquired within 30 days of the sale date.

4 - NON-ADMITTED ASSETS

The non-admitted assets of the Disability Benefits Fund at December 31, 2017 and 2016 were as follows:

	2017	2016
Premium in course of collection outstanding over 90 days	$ 195	$ 193
Other	70	57
Total non-admitted assets	$ 265	$ 250

5 - RELATED PARTY TRANSACTIONS

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

The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense. The expenses allocated to the Disability Benefits Fund were $1,707 and $1,339, respectively, in 2017 and 2016. For the years December 31, 2017 and 2016, $1,578 and $1,238, respectively, is recorded through other underwriting expenses and $129 and $101, respectively, is allocated to investment expense on the statutory basis statements of income. The amount owed to the Workers' Compensation Fund at December 31, 2017 and 2016 from the Disability Benefits Fund is $356 and $288.

As a result of the changes noted in the Chapter 57 of the Laws of 2013 dated March 29, 2013, assessments and administrative expenses related to the Workers' Compensation Board are now borne by the policyholders. The law instructs the Disability Benefits Fund to remit to the Workers' Compensation Board any funds accrued for these assessments, which was settled during 2013 with no remaining liability due as a result of this change.

The following schedule summarizes all affiliate balances as of December 31, 2017 and 2016:

	2017	2016
Due to affiliate		
Workers' Compensation Fund	$ 356	$ 288
Due to affiliate	$ 356	$ 288

Notes to Statutory Basis Financial Statements for the Years Ended December 31, 2017 and 2016 (in thousands)

6 - RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES

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

	2017	2016
Balance—January 1	$ 4,088	$ 4,178
Incurred claims related to		
Current year	17,617	17,671
Prior years	(1,267)	(498)
Total incurred	16,350	17,173
Paid claims related to		
Current year	13,140	13,808
Prior years	2,039	3,455
Total paid	15,179	17,263
Balance—December 31	$ 5,259	$ 4,088

In 2017 and 2016, the Disability Benefits Fund incurred claims decreased due to favorable development from prior years.

7 - SURPLUS

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

Changes in balances of appropriated surplus funds from December 31, 2016 to December 31, 2017, are due to appropriations to the catastrophe, security fluctuation, and post-employment benefits as discussed in Note 2 (E).

Unassigned surplus reflects the accumulated balances for the item listed below:

	2017	2016
Non-admitted assets	$ (265)	$ (250)

8 - OTHER UNDERWRITING EXPENSES

The components of other underwriting expenses are as follows:

	2017	2016
Salaries and payroll taxes	$ 882	$ 697
Employee relations and welfare	593	823
Taxes, licenses and fees	407	429
Allocation from WCF	1,578	1,238
Cost of depreciation of EDP equipment and software	211	-
Miscellaneous expense	45	32
Total	$ 3,716	$ 3,219

9 - CONTINGENCIES

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

10 - SUBSEQUENT EVENTS

Subsequent events have been reviewed in accordance with SSAP No. 9R, Subsequent Events, for both annual statement reporting and through issuance of these audited statutory basis financial statements. Subsequent events were initially reviewed through April 24, 2018 for annual statement reporting, which is the date when the annual statement was issued and filed with the NAIC and the DFS. After this date, subsequent events have been reviewed through May 24, 2018, the date which these audited statements were available to be issued.

Contacting NYSIF

Customer Service 24/7

Workers' Compensation Claims & Service
1-888-875-5790

Disability Benefits Claims & Service
1-866-NYSIFDB (697-4332)

Report Fraud (Confidential)
1-877-WCNYSIF (926-9743)

NYSIF Business Offices

Albany [Policy prefix: A]
1 Watervliet Avenue Ext.
Albany, NY 12206-1629
Business Manager Augusto Bortoloni
Email: box101Albany@nysif.com
Phone: 518-437-6400

Counties: Albany, Clinton, Columbia, Dutchess, Essex, Franklin, Fulton, Greene, Hamilton, Montgomery, Rensselaer, Saratoga, Schenectady, Schoharie, Ulster, Warren, Washington

Binghamton [Policy prefix: E]
2001 Perimeter Road East
Building 16, 4th Floor
Endicott, NY 13760-7390
Business Manager Tina Christiano
Email: box102Binghamton@nysif.com
Phone: 607-741-5000

Counties: Broome, Chemung, Chenango, Cortland, Delaware, Otsego, Schuyler, Sullivan, Tioga, Tompkins

Buffalo [Policy prefix: B]
225 Oak Street
Buffalo, NY 14203-1609
Business Manager Ronald Reed
Email: box103Buffalo@nysif.com
Phone: 716-851-2000

Counties: Cattaraugus, Chautauqua, Erie, Niagara

Nassau [Policy prefix: H]
8 Corporate Center Drive, 2nd Floor
Melville, NY 11747-3166
Business Manager Cliff Meister
Email: box105Nassau@nysif.com
Phone: 631-756-4000

County: Nassau

New York City [Policy prefix: K, L, M, Q, V, X]
199 Church Street
New York, NY 10007-1100

1301 6th Avenue, 5th Floor
New York, NY 10019

Email NYC Policyholder Services: box113LM@nysif.com
Email NYC Claims: box199@nysif.com
Phone: 212-587-5435

Counties: Bronx, Kings, New York, Queens, Richmond

Rochester [Policy prefix: R]
100 Chestnut Street, Suite 400
Rochester, NY 14604-2421
Business Manager Thomas Racko
Email: box108Rochester@nysif.com
Phone: 585-258-2000

Counties: Allegany, Genesee, Livingston, Monroe, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming, Yates

Safety Group Office [Policy prefix: G, Z]
199 Church Street
New York, NY 10007-1100
Email: box115SafetyOffice@nysif.com
Phone: 212-587-7358

Suffolk [Policy prefix: I]
8 Corporate Center Drive, 3rd Floor
Melville, NY 11747-3129
Business Manager Catherin Carillo
Email: box106Suffolk@nysif.com
Phone: 631-756-4300

County: Suffolk

Syracuse [Policy prefix: S]
1045 7th North Street
Liverpool, NY 13088-3100
Business Manager Patti Albert
Email: box107Syracuse@nysif.com
Phone: 315-453-6500

Counties: Cayuga, Herkimer, Jefferson, Lewis, Madison, Oneida, Onondaga, Oswego, St. Lawrence

White Plains [Policy prefix: W]
Westchester One
44 South Broadway, 10th Floor
White Plains, NY 10601-4411
Business Manager Carl Heitner
Email: box109WhitePlains@nysif.com
Phone: 914-701-2120

Counties: Orange, Putnam, Rockland, Westchester

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New York State Insurance Fund

Workers' compensation and disability benefits specialist since 1914

A New York State agency

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Chairman
Kenneth R. Theobalds

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Eric Madoff