FINANCIAL AUDIT

Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

Department of Labor and Industry
State Workers' Insurance Fund

For the Years Ended December 31, 2023
and December 31, 2022

December 2024

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

TABLE OF CONTENTS

BACKGROUND

The State Workers' Insurance Fund (SWIF) is a self-sustaining fund operating within the Pennsylvania Department of Labor and Industry for the purpose of providing workers' compensation insurance to employers, including those refused policies by private insurance firms. SWIF is subject to underwriting rules, classifications, and rates promulgated by rating bureaus authorized by the State Insurance Commissioner. A board consisting of the Secretary of Labor and Industry, the State Treasurer, and the Insurance Commissioner oversees operations of the fund.

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TIMOTHY L. DEFOOR
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Statements of Admitted Assets, Liabilities and Surplus-statutory basis of the State Workers' Insurance Fund (SWIF) as of December 31, 2023, and December 31, 2022, and the related Statements of Operations and Changes in Surplus-statutory basis and the Statements of Cash Flows-statutory basis for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and surplus of SWIF as of December 31, 2023, and December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with statutory accounting practices as prescribed or permitted by the Insurance Department of Pennsylvania as described in Note A.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SWIF and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note A of the financial statements, which describes the basis of accounting. As described in Note A to the financial statements, the financial statements are prepared by SWIF in accordance with statutory accounting practices as prescribed or permitted by the Insurance Department of Pennsylvania, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Insurance Department of Pennsylvania. The effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Insurance Loss Liability

As discussed in Note E, the insurance loss liability of SWIF is based on actuarial analysis of historical experience adjusted to estimate the impact of Act 44 of 1993 and Act 57 of 1996 and changes in claims management practices adopted by SWIF management. Because of the length of time required for the actual insurance loss liability to be determined and the uncertainty regarding whether the adjusted data will be supported by future claim payments, the actual liability may vary significantly from the estimated amount provided for in the Statements of Admitted Assets, Liabilities and Surplus-statutory basis. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SWIF's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the statutory financial statements that collectively comprise SWIF's financial statements. The management's discussion and analysis is presented for purposes of additional analysis and is not a required part of the statutory financial statements. Such information is the responsibility of management. Our opinion on the statutory financial statements does not cover the supplementary information, and we do not express an opinion or any form of assurance thereon.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the background section but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued separately, our report dated December 20, 2024, on our consideration of SWIF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of SWIF's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SWIF's internal control over financial reporting and compliance.

Restriction on Use

Our report is intended solely for the information and use of the board of directors and management of SWIF, others within the entity, and for filing with the Insurance Department of Pennsylvania, and is not intended to be and should not be used by anyone other than these specified parties.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
December 20, 2024

SWIF MANAGEMENT'S DISCUSSION AND ANALYSIS

Assets and Liabilities

The State Workers' Insurance Fund (SWIF) disclosed total admitted assets of $1.293 billion as of December 31, 2023. This was a decrease of $38 million from the $1.331 billion reported in 2022. Total investments decreased from $1.285 billion in 2022 to $1.252 billion in 2023 or a $33 million decrease. This decrease was due to a downturn of global asset prices.

SWIF's total liabilities stayed the same at $1.274 billion in 2022 and 2023. Net unpaid losses increased as of year-end 2023 to $928 million from $927 million in the prior year, an increase of $1 million or 0.1%. Unpaid loss adjustment expenses increased by $3 million. These increases are due to actuarial adjustments to SWIF's reserves that occurred in 2023. All other liabilities decreased $4 million.

Surplus

Surplus as regards policyholders was $19 million, a decrease of $38 million or 66.6% for 2023 as compared to the reported surplus of $57 million in 2022. SWIF's net loss before other changes in surplus for 2023 was $63 million versus a net loss in 2022 of $174 million. The net unrealized capital gain of $28 million offset the change in non-admitted assets of ($3 million) reducing the negative impact of the loss to SWIF's surplus in 2023.

SWIF continues to discount its loss reserves at a discount rate of 2%.

SWIF has a surplus due to a change in an actuarial estimate. We have implemented several initiatives to keep the surplus positive, as outlined below in the section titled Future Initiatives.

Operational Results

SWIF recorded a net loss before other changes in surplus of $63 million for 2023. This is an increase of $111 million as compared to the 2022 net loss of $174 million. Earned premiums decreased by $11 million or 11% to $90 million in 2023 from $101 million in 2022. Additionally, underwriting expenses decreased by $108 million, to $154 million, from $262 million in 2022. This led to an underwriting loss in 2023 of $64 million. Net investment income of $9 million and other expenses of $8 million contributed to the results.

SWIF recorded net investment income of $8.8 million in 2023. During 2023, SWIF had an increase in its investment portfolio performance as total yield increased to 9.5% from -14.0% in 2022. The 2023 yield of SWIF's fixed income portfolio was 6.8%, and equity yield was 24.5%.

During 2023, SWIF also had a $8.8 million net loss in charged off premium that reduced SWIF's overall net income. This premium was ruled uncollectible and charged off through the Pennsylvania Attorney General's Office.

Future Initiatives

SWIF'S Compromise and Release Initiative continues to produce savings in future reserves. During 2023, 120 claims were settled.

SWIF continues to closely monitor staffing levels as a means of controlling personnel expenses. SWIF's staffing level decreased from 172 employees at year end 2022 to 168 employees at year end 2023.

SWIF contracted with Hoover Rehabilitation Inc. in May 2013 for the Medical Bill Repricing, Preferred Provider Organization, Pharmacy Benefit Management, and Durable Medical Equipment. During 2023, SWIF realized net savings below medical bill fee schedule of 11.38% for medical bill payment savings of $5.8 million.

During 2023, SWIF's Customer Service Unit handled 33,070 of the 37,579 calls received or 88% of all calls. This unit eliminates the need to transfer calls to the Underwriting, Claims, Auditing, and Accounting Divisions. This unit also handled 1,981 first report of injury calls.

SWIF is currently engaged in a project to update its information technology platform. The current operating system, Power Comp, is being replaced by Guidewire, an industry leading property casualty tool. This installation is being performed by Deloitte in conjunction with the Employment, Banking, and Revenue Delivery Center in the Pennsylvania Office of Administration, Office for Information Technology, and the SWIF staff. The new platform, along with an organizational transformation effort, will bring SWIF more in line with the best practices of the workers' compensation insurance market. As part of this upgrade, SWIF will offer an interactive customer portal that will allow for enhanced customer services to both claimants and policyholders.

Effective April 1, 2023, SWIF chose to maintain its Commercial Loss Cost Multiplier (LCM) of 3.716 and its Coal LCM of 1.944.

SWIF is the third-party administrator for the Commonwealth's Uninsured Employers Guarantee Fund and the Self-Insurance Guarantee Fund which resulted in annual revenue of $546,523 for 2023.

SWIF MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

SWIF's minimum premium remained at $612 for 2023.

SWIF collected $7.4 million in past due premium during 2023 through its credit card program.

STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS (statutory basis)

(Expressed in Thousands)

ADMITTED ASSETS		2023		2022
Investments				
Bonds	$	1,050,083	$	1,076,105
Stocks		185,368		174,832
Short-term investments		16,995		33,745
Total Investments – Note B	$	1,252,446	$	1,284,682
Cash				
On deposit in Treasury Department	$	2,099	$	2,484
Receivables				
Uncollected premiums in course of collection	$	1,083	$	6,345
Premiums, agents’ balances, and installments booked but deferred and not yet due		21,831		23,930
Reinsurance recoverable on loss payments		1,036		772
Interest due and accrued on investments		10,028		8,596
Funds held by or deposited with reinsurance companies		14		14
Other amounts receivable under reinsurance contracts		4,472		4,475
Accrued retrospective premiums		(14)		(14)
Total receivables	$	38,450	$	44,118
Total Admitted Assets	$	1,292,995	$	1,331,284
LIABILITIES AND SURPLUS				
Liabilities				
Net unpaid losses – Notes C and E	$	927,940	$	927,387
Unpaid loss adjustment expenses		294,740		291,439
Reinsurance payable		9		12
Premium deficiency reserve		0		211
Accrued administrative expenses		4,670		5,749
Unearned premiums		28,994		31,456
Ceded reinsurance premiums payable		208		46
Policyholders’ premium credit balances		7,983		9,328
Restricted account – Commonwealth Self Insurance		2,402		2,607
Policyholder deposits		635		864
Net payable for securities		2,234		3,547
Other liabilities		4,169		1,374
Total liabilities	$	1,273,984	$	1,274,020
Surplus				
Unassigned surplus – Note F	$	19,011	$	57,264
Total surplus as regards policyholders	$	19,011	$	57,264
Total Liabilities and Surplus	$	1,292,995	$	1,331,284

~ The notes to the financial statements are an integral part of these statements. ~

STATEMENTS OF OPERATIONS AND CHANGES IN SURPLUS (statutory basis)

(Expressed in Thousands)

	2023	2022
Underwriting Income		
Premiums earned	$ 89,737	$ 101,105
Underwriting Expenses		
Losses incurred	$ 80,623	$ 135,239
Loss adjustment expenses	51,437	102,085
Other	21,954	26,148
Change in premium deficiency reserve	(211)	(980)
Total underwriting expenses	$ 153,803	$ 262,492
Net Underwriting Gain (Loss)	$ (64,066)	$ (161,387)
Investment Income		
Investment income earned	$ 46,303	$ 26,643
Net realized capital gains (losses)	(36,156)	(35,924)
Total investment income (loss)	$ 10,147	$ (9,281)
Investment Expenses	$ 1,386	$ 1,516
Net Investment Income (Loss)	$ 8,761	$ (10,797)
Other Income/Expenses		
Other income (expenses)	$ 1,210	$ 498
Net loss from premium balances charged off	(8,826)	(1,988)
Total other income/expenses	$ (7,616)	$ (1,490)
Net Income (Loss) Before Other Changes in Surplus	$ (62,921)	$ (173,674)
Other Changes in Surplus		
Change in net unrealized capital gain (loss)	$ 27,754	$ (40,210)
Change in nonadmitted assets	(3,086)	(3,344)
Total other changes in surplus	$ 24,668	$ (43,554)
Net change in surplus during the year	$ (38,253)	$ (217,228)
Surplus at beginning of year	$ 57,264	$ 274,492
Surplus at end of year	$ 19,011	$ 57,264

~ The notes to the financial statements are an integral part of these statements. ~

STATEMENTS OF CASH FLOWS (statutory basis)

	(Expressed in Thousands) 2023	2022
Cash flows from operating activities:		
Premiums collected net of reinsurance	$ 91,709	$ 94,186
Benefit and loss related payments	(80,337)	(88,875)
Commissions, expenses paid, and aggregate write-ins	(70,814)	(78,656)
Investment income (net of investment expenses)	39,304	36,021
Miscellaneous income (uses)	(7,616)	(1,490)
Net cash from operating activities	$ (27,754)	$ (38,814)
Cash flows from investing activities:		
Proceeds from sale of bonds	$ 777,835	$ 736,551
Proceeds from sale of stocks	30,000	0
Payments for purchase of bonds	(793,613)	(694,094)
Payments for purchase of stocks	(3,099)	(28,887)
Miscellaneous proceeds (applications)	(1,312)	(981)
Net cash from investing activities	$ 9,811	$ 12,589
Cash flows from miscellaneous sources:		
Other cash provided (applied)	$ 808	$ (1,216)
Net change in cash and short-term investments	$ (17,135)	$ (27,441)
Cash and short-term investments at beginning of year	$ 36,229	$ 63,670
Cash and short-term investments at end of year	$ 19,094	$ 36,229

~ The notes to the financial statements are an integral part of these statements. ~

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State Workers' Insurance Fund (SWIF) prepares its statutory financial statements in accordance with statutory accounting practices as prescribed or permitted by rules and regulations promulgated by the Insurance Department of Pennsylvania. These statutory practices are primarily designed to demonstrate solvency and differ from generally accepted accounting principles (GAAP) in certain significant areas:

- Certain assets, designated as nonadmitted, are not permitted to be reported in the statutory financial statements and are charged directly to surplus. Major nonadmitted assets include premiums due in excess of statutory limitations (three months); expenses for furniture, fixtures, and supplies; and unrealized gains or losses on investments. Under GAAP, these items would be treated as assets net of the related contra accounts of allowance for doubtful accounts, depreciation, and valuation allowances for investments.

- Certain disclosures required under GAAP are not required under SWIF's statutory accounting practices as follows:

    - Securities lending transactions involving the receipt of cash collateral (or securities that may be pledged or sold without default) with an asset and a liability related to the receipt of the collateral reported on SWIF's Balance Sheet.

    - A Statement of Cash Flows which includes a reconciliation of operating income to net cash provided by (used for) operating activities and which excludes short-term investments.

    - Reporting certain investments at fair value in the Balance Sheet with the current year change in fair value recognized as an element of investment income in the Operating Statement.

    - Reporting the net pension liability and related deferred outflows of resources and deferred inflows of resources.

    - Reporting the net other postemployment benefits liability and related deferred outflows of resources and deferred inflows of resources.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are stated on the basis adopted by the National Association of Insurance Commissioners (NAIC) and are recorded based on trade date. The book/adjusted carrying value of bonds is stated at amortized cost. The book/adjusted carrying value of common stock is reported at market value with market value rates taken from the custodian statement. Preferred stock is reported at cost/amortized cost. Realized investment gains or losses are included in the Statement of Operations and Changes in Surplus-statutory basis. Unrealized investment gains or losses from revaluation of investments (i.e., stocks) are charged directly to surplus. Short-term investments are recorded at cost which approximates fair value.

Premium and Revenue Recognition

Premiums earned and assessments billed to policyholders are recorded as income. Unearned premiums and assessments are recorded as a liability and earned as the policy term expires. Premiums and assessments are booked as written on the effective date of the policy. Assessments paid are classified as expenses.

Loss and Loss Adjustment Expense Reserves

The liability for unpaid losses is based upon individual case estimates adjusted for incurred but not reported losses based on past experience, a probable loss reserve, and statutory minimum requirements as determined by SWIF's Actuarial Committee and independent review by outside actuaries. Loss reserves ceded by the National Workers' Compensation Reinsurance Pool and the Pennsylvania Workers' Compensation Reinsurance Pool and assumed by SWIF are included in loss reserves. The liability for loss adjustment expense is determined by SWIF's Actuarial Committee as a percentage of loss reserves based on past experience.

Use of Estimates

The preparation of the accompanying Statements of Admitted Assets, Liabilities and Surplus-statutory basis requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, surplus, and disclosure of contingent liabilities at the date of this statutory financial statement. Actual results could differ from those estimates.

NOTE B – INVESTMENTS

GAAP (per Governmental Accounting Standards Board Statement No. 40) requires certain disclosures regarding policies and practices with respect to investments and the risks associated with them. Although these disclosures are not required for the statutory financial statements of SWIF, similar informative disclosures have been provided as follows:

SWIF categorizes investments according to the level of investment risk assumed by the Commonwealth. SWIF has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments consider custodial credit risk, concentration of credit risk, credit risk, interest rate risk, and foreign currency risk. The identified risks are discussed in detail below.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SWIF would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with a contractual relationship between SWIF and its custodial agents, substantially all investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. These investments are defined as insured or registered investments for which the securities are held by SWIF or its agent.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. SWIF's investment policy does not place a limit on the concentration of investments in any one issuer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Services (Moody's). SWIF requires fund assets to be invested in investment grade bonds rated BBB-/Baa3 (or equivalent) or better except that investment managers may invest up to 10 percent of the total fixed income portfolio in non-investment grade bonds. The investments rated NR (Not Rated) and WR (Withdrawn Rating) are approximately 2.6 percent of the fixed income portfolio on December 31, 2023. This excludes share balances of $ 17.0 million in the Treasury Department's unrated short-term investment pools.

NOTE B – INVESTMENTS (Continued)

The following tables disclose aggregate fair value, by major Moody's credit quality rating category at December 31, 2023 and 2022 (amounts in thousands):

December 31, 2023 Investment Type		Amount	Moody's Rating	% Portfolio
US Agency	$	740	A1	0.06%
US Agency		1,930	A2	0.16%
US Agency		376	A3	0.03%
US Agency		37	Aa1	0.00%
US Agency		1,821	Aa2	0.16%
US Agency		898	Aa3	0.07%
US Agency		4,301	Aaa	0.36%
US Agency		746	Baa1	0.06%
US Agency		582	Baa2	0.05%
Total US Agency Securities	**$**	**11,431**		
US Government Securities	$	360,193	Aaa	30.02%
Total US Government Securities	**$**	**360,193**		
Mortgage-Backed Securities	$	68,407	Aaa	5.70%
Mortgage-Backed Securities		381	Baa2	0.03%
Mortgage-Backed Securities		5,052	NR	0.42%
Total Mortgage-Backed Securities	**$**	**$73,840**		
Asset Backed Securities	$	912	A3	0.08%
Asset Backed Securities		2,039	Aa1	0.17%
Asset Backed Securities		425	Aa2	0.04%
Asset Backed Securities		372	Aa3	0.03%
Asset Backed Securities		5,637	Aaa	0.47%
Asset Backed Securities		91	Ba3	0.01%
Asset Backed Securities		377	Baa1	0.03%
Asset Backed Securities		256	Baa3	0.02%
Asset Backed Securities		8,424	NR	0.70%
Total Asset Backed Securities	**$**	**$18,533**		
Corporate Obligations	$	61,727	A1	5.14%
Corporate Obligations		63,809	A2	5.32%
Corporate Obligations		73,666	A3	6.14%
Corporate Obligations		119	Aa1	0.01%
Corporate Obligations		11,565	Aa2	0.96%
Corporate Obligations		19,084	Aa3	1.59%

NOTE B – INVESTMENTS (Continued)

December 31, 2023 Investment Type		Amount	Moody's Rating	% Portfolio
Corporate Obligations		14,966	Aaa	1.25%
Corporate Obligations		15,143	B1	1.26%
Corporate Obligations		1,470	B2	0.12%
Corporate Obligations		24,667	Ba1	2.06%
Corporate Obligations		24,063	Ba2	2.01%
Corporate Obligations		25,670	Ba3	2.14%
Corporate Obligations		59,294	Baa1	4.94%
Corporate Obligations		80,767	Baa2	6.73%
Corporate Obligations		45,420	Baa3	3.79%
Corporate Obligations		10,884	NR	0.91%
Corporate Obligations		1,088	WR	0.09%
Total Corporate Obligations	**$**	**533,402**		
Treasury Investment Program	**$**	**16,995**	NR	1.42%
Total Fixed Income Securities	**$**	**1,014,394**		
Equity Securities	**$**	**185,368**	NR	15.45%
Total Portfolio at December 31, 2023	**$**	**1,199,762**		100.00%

NOTE B – INVESTMENTS (Continued)

December 31, 2022 Investment Type	Amount	Moody's Rating	% Portfolio
US Agency	$ 606	A1	0.05%
US Agency	1,089	A2	0.09%
US Agency	170	A3	0.01%
US Agency	986	Aa2	0.07%
US Agency	1,923	Aaa	0.17%
US Agency	197	Baa1	0.02%
US Agency	534	Baa2	0.05%
Total US Agency Securities	**$ 5,505**		
US Government Securities	$ 217,807	Aaa	18.74%
Total US Government Securities	**$ 217,807**		
Mortgage-Backed Securities	$ 211	A2	0.02%
Mortgage-Backed Securities	260	Aa3	0.02%
Mortgage-Backed Securities	142,564	Aaa	12.27%
Mortgage-Backed Securities	366	Baa2	0.03%
Mortgage-Backed Securities	3,553	NR	0.31%
Total Mortgage-Backed Securities	**$ 146,954**		
Asset Backed Securities	$ 452	A1	0.04%
Asset Backed Securities	882	A3	0.08%
Asset Backed Securities	678	Aa1	0.06%
Asset Backed Securities	1,730	Aa2	0.15%
Asset Backed Securities	409	Aa3	0.04%
Asset Backed Securities	5,090	Aaa	0.44%
Asset Backed Securities	228	Ba1	0.02%
Asset Backed Securities	8,456	NR	0.73%
Total Asset Backed Securities	**$ 17,925**		
Corporate Obligations	$ 72,087	A1	6.20%
Corporate Obligations	61,157	A2	5.26%
Corporate Obligations	80,048	A3	6.89%
Corporate Obligations	11,464	Aa2	0.99%
Corporate Obligations	13,546	Aa3	1.17%
Corporate Obligations	11,933	Aaa	1.03%
Corporate Obligations	10,788	B1	0.93%
Corporate Obligations	439	B2	0.04%
Corporate Obligations	23,179	Ba1	1.99%

NOTE B – INVESTMENTS (Continued)

December 31, 2022 Investment Type	Amount	Moody's Rating	% Portfolio
Corporate Obligations	21,919	Ba2	1.89%
Corporate Obligations	23,255	Ba3	2.00%
Corporate Obligations	74,905	Baa1	6.45%
Corporate Obligations	79,879	Baa2	6.87%
Corporate Obligations	68,462	Baa3	5.89%
Corporate Obligations	12,124	NR	1.04%
Corporate Obligations	10	WR	0.00%
Total Corporate Obligations	**$ 565,195**		
Treasury Investment Program	**$ 33,745**	NR	2.90%
Total Fixed Income Securities	**$ 987,131**		
Equity Securities	**$ 174,832**	NR	15.05%
Total Portfolio at December 31, 2022	**$ 1,161,963**		100.00%

NOTE B – INVESTMENTS (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SWIF measures interest rate risk using duration. As means for limiting SWIF's exposure to fair value losses arising from rising interest rates, SWIF requires investments to have maturities consistent with SWIF's liabilities. SWIF's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. For reporting purposes, SWIF elects to use option-adjusted duration, which takes into account embedded options affecting cash flows. At December 31, 2023 and 2022, SWIF's fixed income portfolio had the following option-adjusted durations by fixed income sector:

December 31, 2023 Investment Type	Amount	Duration (in years)
US Agency Securities	$ 11,431	8.624
US Government Securities	360,193	8.794
Mortgage-Backed Securities	73,840	4.429
Asset Backed Securities	18,533	3.441
Corporate Obligations	533,402	6.055
Treasury Investment Program	16,995	N/A
Total Fixed Income Securities	**$ 1,014,394**	
Equity Securities	185,368	N/A
Total Portfolio Securities	**$ 1,199,762**	

N/A – Indicates duration is not applicable to investment.

NOTE B – INVESTMENTS (Continued)

December 31, 2022 Investment Type	Amount	Duration (in years)
US Agency Securities	$ 5,505	7.446
US Government Securities	217,807	9.423
Mortgage-Backed Securities	146,954	5.108
Asset Backed Securities	17,925	4.076
Corporate Obligations	565,195	5.082
Treasury Investment Program	33,745	N/A
Total Fixed Income Securities	**$ 987,131**	
Equity Securities	174,832	N/A
Total Portfolio Securities	**$ 1,161,963**	

N/A – Indicates duration is not applicable to investment.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. All SWIF investments are denominated in US dollars, issued under US laws and regulations, designed for US investors, and traded in US markets.

Securities Lending Program

The Fiscal Code provides the Treasury Department with numerous custodial responsibilities; the securities lending program (SLP) is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as lending agent, provides that the custodian lends securities owned by SWIF to independent brokers, dealers, and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receives collateral from the borrowers in exchange for the securities lent. For collateral received which is not denominated in United States dollars or whose primary trading market is located outside the United States, the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. The fair value of all other collateral received must be at least 102 percent of the fair value of the securities lent. Securities lent consist of both domestic and foreign equity securities and United States Treasury and foreign debt obligations. Almost all collateral received consists of cash; a very small portion of collateral received consists of letters of credit, United States Treasury, corporate, and/or foreign debt obligations. Collateral is priced to market daily.

NOTE B – INVESTMENTS (Continued)

Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agency may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration, usually overnight. Therefore, the duration of lending agreements does not generally match the maturities of the investments made with cash collateral. The resulting interest rate risk is mitigated by the lending agent's ability to reallocate lending agreements among SLP participants.

The SLP requires that the lending agent indemnify the Treasury Department for all claims, liabilities, and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended December 31, 2023, there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default, and there were no Treasury Department restrictions on the amount of loans that could be made.

At December 31, 2023 and 2022 there was no credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The carrying amount and fair value (in thousands) of the securities lent was $36,193 and $21,336, respectively.

NOTE B – INVESTMENTS (Continued)

SWIF's investment securities owned at December 31, 2023 and 2022, were as follows (amounts in thousands):

December 31, 2023	Book/Adjusted Carrying Value	Market Value
Bonds		
Government	$ 420,412	$ 393,322
States, Territories, and Possessions	6,321	6,268
Political Subdivisions of States, Territories, and Possessions	2,875	2,780
Residential Mortgage-Backed Securities	39,976	37,020
Commercial Mortgage-Backed Securities	1,980	1,860
Industrial and Miscellaneous	578,519	556,149
Total Bonds	$ 1,050,083	$ 997,399
Common Stocks	$ 185,368	$ 185,368
Short-Term Investments	$ 16,995	$ 16,995

December 31, 2022	Book/Adjusted Carrying Value	Market Value
Bonds		
Government	$ 327,112	$ 278,764
States, Territories, and Possessions	3,336	3,001
Political Subdivisions of States, Territories, and Possessions	2,547	2,377
Residential Mortgage-Backed Securities	84,782	75,271
Commercial Mortgage-Backed Securities	5,007	4,546
Industrial and Miscellaneous	653,321	589,427
Total Bonds	$ 1,076,105	$ 953,386
Common Stocks	$ 174,832	$ 174,832
Short-Term Investments	$ 33,745	$ 33,745

NOTE B – INVESTMENTS (Continued)

In accordance with the Fiscal Code, cash balances of most Commonwealth funds, including SWIF, are pooled by the Treasury Department. SWIF's short-term investments were also pooled for the calendar years ended December 31, 2023 and 2022. Pertaining to marketable equity securities, a net unrealized capital gain of $58,387 (in thousands) was reported for December 31, 2023, and a net unrealized capital gain of $30,632 (in thousands) was reported for December 31, 2022.

NOTE C – COMPOSITION OF LOSS RESERVES AND INCURRED BUT NOT REPORTED (IBNR) LOSSES

December 31, 2023
(Amounts in Thousands)

	Coal	Commercial	Total
Loss Reserves			
Indemnity	$ 13,995	$ 151,926	$ 165,921
Medical	4,734	226,514	231,248
Bulk	14,930	769,715	784,645
Total Loss Reserves	$ 33,659	$ 1,148,155	$ 1,181,814
IBNR Loss Reserves	$ 268	$ 26,588	$ 26,856
Net Losses			$ 1,208,670
Add:			
Assumed Outstanding Loss Reserves (Including IBNR)			305
Less:			
Discount of Reserves			(277,808)
Recoverable Reinsurance (Including IBNR)			(3,227)
Net Unpaid Losses			$ 927,940

NOTE C – COMPOSITION OF LOSS RESERVES AND INCURRED BUT NOT REPORTED (IBNR) LOSSES (Continued)

December 31, 2022
(Amounts in Thousands)

	Coal	Commercial	Total
Loss Reserves			
Indemnity	$ 16,426	$ 177,154	$ 193,580
Medical	3,852	158,102	161,954
Bulk	12,866	771,511	784,377
Total Loss Reserves	$ 33,144	$ 1,106,767	$ 1,139,911
IBNR Loss Reserves	$ 322	$ 28,265	$ 28,587
Net Losses			$ 1,168,498
Add:			
Assumed Outstanding Loss Reserves (Including IBNR)			429
Less:			
Discount of Reserves			(238,159)
Recoverable Reinsurance (Including IBNR)			(3,381)
Net Unpaid Losses			$ 927,387

NOTE D – PENSION AND OTHER POSTEMPLOYMENT BENEFITS

Pension

Plan Description: To provide pension benefits for employees of state government and certain other organizations, the State Employees' Retirement System (SERS) administers a cost-sharing multiple-employer defined benefit retirement plan.

Retirement Benefits: Under the plan, for most employees hired prior to January 1, 2011, retirement benefits vest after 5 years of credited service. Generally, employees who retire at age 60 with three years of service, or with 35 years of service if under the age of 60, are entitled to a normal (unreduced) annual retirement benefit. The general annual benefit is 2 percent of a Class A member's highest three-year average salary multiplied by years of service. This annual benefit is 2.5 percent for Class AA members.

NOTE D – PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Act 2010-120 (Act 120), which preserved all benefits in place for members, mandated a number of benefit reductions for new members effective January 1, 2011. The benefit reduction included a new class of membership that accrues benefits at 2 percent of their final average salary instead of the previous 2.5 percent. The new vesting period changed from five to ten years of credited service, and the option to withdraw lump sum accumulated employee contributions was eliminated. The new normal retirement age is 65 for most employees. Act 120 created a new A-3 class of service and an optional A-4 class for most employees that entered SERS membership for the first time on or after January 1, 2011. The general annual benefit for Class A-3 members is 2 percent of the member's highest three-year average salary times years of service while the Class A-4 benefit accrual rate is 2.5 percent.

Contribution Requirements: All member contribution rates are determined by Commonwealth law. The active plan member contribution rate is 6.25 percent of covered payroll for employees in Class AA; for Class A members, the contribution rate is 5 percent. The general membership contribution rate under Act 120 for A-3 and A-4 members is 6.25 percent and 9.3 percent of salary, respectively. The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll.

Act 120 imposed annual rate increase collars on employer contributions until no longer needed. The fiscal year ended June 30, 2018, marked the first year the actuarially required employer contribution increase was lower than the collar established for the year of 4.5 percent. As a result, the rate caps are no longer in effect.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which contributions are due, and the employer has a legal requirement to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

SERS issues stand-alone financial statements which are available at www.sers.pa.gov. Written requests for financial statements should be directed to the following address:

State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

NOTE D – PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

The SWIF's contributions (in thousands) for the fiscal years ended December 31, 2023 and 2022 in relation to the contractually required contributions are as follows:

Year Ended December 31	Contractually Required Contributions	Actual Contributions
2023	$4,133	$4,133
2022	$3,953	$3,953

Additional pertinent information regarding SERS, outside the scope of SWIF reporting, is published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in the Annual Comprehensive Financial Report.

Other Postemployment Benefits

Plan Description: The Commonwealth established and sponsors a Retired Employees Health Program (REHP) plan which provides postemployment benefits other than pensions (OPEB). This plan is administered by the Pennsylvania Employee Benefits Trust Fund (PEBTF), which acts as a third-party administrator and administers the REHP under an administrative agreement with the Commonwealth. The plan is a single employer defined benefit OPEB plan. The SWIF participates in the REHP, which provides a variety of healthcare benefits to eligible retirees. The REHP is provided as part of collective bargaining agreements with most Commonwealth labor unions. All policy decisions and types and levels of benefits for the REHP fall under the purview of the Commonwealth's Executive Board and Secretary of Administration. REHP does not have a governing board. The REHP plan does not issue a stand-alone financial report, nor is it included in the financial statements of a public employee retirement system.

Benefits Provided: Benefit provisions included in the REHP plans are established and may be amended by the establishing sponsor. The REHP plan provides postemployment healthcare benefits to eligible employees. Employees who retire from the Commonwealth and meet one of the following eligibility criteria are eligible to receive REHP benefits:

- 25 or more years of service;
- 20 or more years of service and superannuation age – age 50 for Park Rangers, Capitol Police, and certain enforcement officers, or age 60 for all other employees (age 55 or 65 for employees subject to Act 120 of 2010);
- Disability retirement – requires five years of service (no service requirements for enforcement officers).

NOTE D – PENSION AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Contribution Requirements: REHP contribution requirements are contractually required and established by the Commonwealth's Office of Administration and the Office of the Budget. The contribution rates are established as a set amount per current active REHP eligible employee per biweekly pay in order to fund the REHP plan. During the period of January 2023 to mid-June 2023, SWIF contributed $115 biweekly, during the period mid-June 2023 to early October 2023, SWIF contributed $300 biweekly, during mid-October 2023, SWIF contributed $75 biweekly, and during the period of mid-October 2023 to December 2023, SWIF contributed $275 for each active employee paid and reported as part of biweekly payroll expenses for its employees. During the period of January 2022 to June 2022, SWIF contributed $120 biweekly, and during the period of July 2022 to December 2022, SWIF contributed $115 for each active employee paid and reported as part of biweekly payroll expenses for its employees.

The SWIF's contributions (in thousands) for the fiscal years ended December 31, 2023, and 2022 in relation to the contractually required contributions are as follows:

Year Ended December 31	Contractually Required Contributions	Actual Contributions
2023	$930	$930
2022	$650	$650

Additional pertinent information on the REHP, outside the scope of SWIF reporting, including overall actuarial liabilities and assumptions related to the Commonwealth, is published each year as part of the Commonwealth of Pennsylvania's Basic Financial Statements included in the Annual Comprehensive Financial Report.

NOTE E – INSURANCE LOSS LIABILITY

The reported insurance loss liability is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 2.00 percent at December 31, 2023 and December 31, 2022. There is uncertainty as to whether the reported liability will be supported by future claims experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability. Like other private insurance carriers authorized to transact and provide workers' compensation insurance in the Commonwealth, SWIF is required to pay assessments into the Pennsylvania Workers' Compensation Security Fund, a separate special revenue fund established by the Pennsylvania Department of Insurance to authorize and account for the payment of workers' compensation claims to individuals who are insured by insurance carriers that become insolvent.

NOTE E – INSURANCE LOSS LIABILITY (Continued)

For the two calendar years ended December 31, 2023, and 2022, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

Year Ended December 31	Prior Year Liability	Incurred Claims		Payments		Current Year Liability
		Current	Prior	Current	Prior	
2023	$1,218,838	$95,652	$36,405	$31,886	$96,320	$1,222,689
2022	$1,122,382	$108,414	$128,909	$35,179	$105,688	$1,218,838

NOTE F – SURPLUS AS REGARDS POLICYHOLDERS

By statute, the State Workers' Insurance Board is required to set aside a percentage of premiums to sufficiently maintain the surplus to cover the catastrophe hazard of all the subscribers in the fund and to guarantee the solvency of the fund. The statute also provides that the board shall have the power to reinsure any risk which they may deem necessary. Accordingly, with the assistance of JLT Re Inc., SWIF entered into contracts with several reinsurers to provide catastrophe coverage to its policyholders. The reinsurance is intended to protect and enhance SWIF's capital base.

As a result of this reinsurance program, SWIF's catastrophe reserve is not required as a set aside of the fund's unassigned surplus.

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF LABOR AND INDUSTRY
STATE WORKERS' INSURANCE FUND
DISTRIBUTION LIST
DECEMBER 31, 2023 AND 2022

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