



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**STATE ACCIDENT INSURANCE FUND CORPORATION
SALEM, OREGON**

NAIC COMPANY CODE 36196

AS OF

DECEMBER 31, 2010

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SALUTATION

November 22, 2011

Honorable Patrick M. Allen, Acting Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

STATE ACCIDENT INSURANCE FUND CORPORATION
400 High Street SE
Salem, Oregon 97312

NAIC Company Code 36196

hereinafter referred to as "SAIF" or the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

Our financial examination of the State Accident Insurance Fund Corporation as of December 31, 2010, covers the three year period then ended. The last examination was completed as of December 31, 2007. This examination covers the period of January 1, 2008, through December 31, 2010. Material transactions or events occurring subsequent to the examination cut-off date were reviewed and noted during the examination.

We considered the provisions of ORS 731.300 and the NAIC procedures and guidelines during our examination. We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions. Corrective actions taken by the Company in response to comments and recommendations in the December 31, 2007, report of examination were reviewed.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

COMPANY HISTORY

The State Accident Insurance Fund Corporation was created as an independent public corporation by passage of Senate Bill 255 in 1979. By this enactment, SAIF is the successor to the State Accident Insurance Fund (the Fund), which was created for the purpose of transacting workers' compensation business formerly transacted by the State Industrial Accident Commission. The latter operated as the exclusive state workers' compensation agency from 1914 through 1965.

Passage of ORS 731.028 made SAIF a domestic insurer subject to limited provisions of the Oregon Insurance Code covering rate filings, accounting methods, annual statement filings and examinations.

Passage of Senate Bill 255 in 1979 converted the Fund to its present structure as an independent public corporation. This bill exempted SAIF from a number of statutes that control the administration and fiscal activities of state agencies, and made SAIF subject to limited Insurance Code provisions.

REGULATION OF SAIF

The provisions of ORS 731.028 exempt the Company from many of the Insurance Code requirements. SAIF is not subject to several of the provisions which limit insurer investments, such as the limitations ordinarily imposed on investments in mortgage loans (ORS 733.600), real property (ORS 733.610), stocks of corporations (ORS 733.620), stocks or obligations of subsidiaries (ORS 733.630), noninvestment grade securities (733.695), and many other such items. SAIF is exempt from the "prudent investor" and prohibited investment standards. See ORS 733.670 and 733.780. SAIF is not legally empowered to control its own investments or investment decisions. SAIF's investments are subject to the control of the Oregon State Treasurer. See ORS 293.701 through 293.820.

SAIF is not subject to the statutory requirements of minimum required capital or surplus. See ORS 731.554. Additionally, in the event of insolvency, SAIF is not subject to supervision, rehabilitation or liquidation. See ORS 734.043; 734.150; 734.170. Ordinarily, the claims of an insolvent workers' compensation insurer are protected by the Oregon Insurance Guaranty Association. See ORS 734.550. These provisions are not applicable to SAIF. See ORS 731.028.

While SAIF is exempt from many of the Insurance Code sections, it is subject to regulatory requirements that are not applicable to other insurers. Some of these special regulatory requirements include: SAIF's Board of Directors is appointed by the Governor, SAIF's investment officer is the Oregon State Treasurer, SAIF's auditor is the Secretary of State, SAIF's legal firm is the Oregon

Department of Justice, and SAIF must insure state agencies. In addition, SAIF's records are subject to public record laws.

MANAGEMENT AND CONTROL

Board of Directors

SAIF is governed by a five member Board of Directors appointed by the Governor, subject to confirmation by the Oregon Senate. Directors are appointed to four-year terms, but serve at the pleasure of the Governor. Two members of the Board are chosen to represent the public and one of the remaining three members must be an insured or an employee of a SAIF insured.

The Board of Directors met all the requirements of ORS 656.751.

Board of Directors members appointed and serving as of December 31, 2010, were:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Last Appointed</u>
James M. Ford Medford, OR	President & CEO Premier West Bank	July 2010
Robb E. Van Cleave The Dalles, OR	Chief Talent & Strategy Officer Columbia Gorge Community College	May 2009
John M. Endicott Gresham, OR	Business Manager Plumbers & Steamfitters #290	February 2011
Rafael (Ralph) Martinez** Portland, OR	CEO of Town & Country Auto dealerships	January 2006
Catherine Sue Travis* Portland, OR	Retired Attorney	May 2009

*Chairman of the Board of Directors

**Effective November 2008 he submitted a letter of resignation from the Board to the SAIF CEO and President, but continues to serve, since a replacement has not been appointed.

Officers

SAIF's operating management as of December 31, 2010, was:

<u>Name</u>	<u>Office</u>
Brenda JP Rocklin	President and Chief Executive Officer
Gerald L. Dykes	Chief Financial Officer
Gina M. Manley	Financial Reporting Manager
Shawn Wright	Chief Actuarial Officer
Christopher J.T. Davie	Vice President - Corporate Policy & External Affairs
Garry R. Robinson	Vice President - Information Services
Theresa R. McHugh	Vice President - Financial Services
Michelle J. Graham	Vice President - Claims
John D. Gilkey	Vice President - Policyholder Services
Michael A. Mueller	Sr. Vice President Claims & Legal Services
Colleen C. Sealock	Vice President - Operations & Human Resources
Michael E. Hartman	Vice President – Underwriting Services

See Subsequent events section for changes.

CONFLICT OF INTEREST

The Company has an established policy for disclosure of any material interest or affiliation on the part of any of its directors, officers and key employees which is in, or is likely to, conflict with official duties. Officers and key employees are required to sign a conflict of interest declaration annually. However, each director is only required to sign a conflict of interest statement upon appointment by the Governor. From a review of the Company maintained conflict of interest questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. Most conflicts of interest were not material. The one material conflict of interest was disclosed and dealt with appropriately.

CORPORATE RECORDS

Board of Director Minutes

The provisions of ORS 656.751(6) and the Company's Bylaws, section 5, require the Company's Board to meet at least once every three months. The Company's Board held meetings during the period examined in accordance with the provisions of ORS 656.751(6) and Bylaws of the Company.

The provisions of ORS 656.751(5) define a quorum as a majority of the members of the Board of Directors. A quorum met at all meetings held during the period examined.

The Company is not subject to the provisions of ORS 733.730 (Approval of Investments) or ORS 733.740 (Records of Investments). The Company's Board does not have the authority to approve investments. The Company's investments are held by the State Treasurer in accordance with the provisions of ORS 656.632.

Articles of Incorporation

The Company has no Articles of Incorporation. Board of Director requirements, the Company's purpose and function are defined by ORS 656.751 and ORS 656.752.

Bylaws

The Bylaws conformed to Oregon statutes.

Holding Company Registration Statement

The Company is not part of a holding company system and is not subject to the provisions of ORS 732.551.

Statutory Deposit

The Company is not required to maintain a deposit with the Oregon Insurance Division, Department of Consumer and Business Services.

FIDELITY BONDS AND OTHER INSURANCE

A fidelity bond written by The Fidelity & Deposit Company of Maryland insures the State of Oregon (including SAIF Corporation) against losses caused by their employees and officers dishonesty. This fidelity bond coverage exceeded the NAIC recommended minimum coverage. All other insurance coverages, provided by the State of Oregon's Risk Management Division, are as follows:

Property and extra expense	Commercial general liability
Boiler and machinery	Automobile liability

The Company insures its own employees for workers' compensation.

Although the Company does not have directors and officers coverage, directors and officers of the Company are afforded protection under the State of Oregon's tort laws. Oregon tort laws limit the damages against employees performing services on behalf of the Company.

The above coverages were found to be adequate as of December 31, 2010.

PENSION PLANS AND OTHER POST RETIREMENT BENEFITS

Pension Funds

The majority of the Company's employees participate in the Oregon Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan. The PERS Board of Trustees under the guidelines of ORS Chapter 238 administers PERS. Beginning January 1, 2004, all covered employees are required by state statute to contribute 6.0 percent of their salary to the Individual Account Program (a defined contribution plan). Current law permits employers to pay employees' contributions to PERS, which the Company has elected to do. SAIF currently contributes 2.06 percent of each covered employee's salary to fund the PERS program. Rates are subject to change as a result of subsequent actuarial valuations.

Company employees hired after August 29, 2003, participate in the Oregon Public Service Retirement Plan (OPSRP) after completing six months of service. OPSRP is a hybrid pension plan administered by the PERS Board of Trustees with two components: the Pension Program (defined benefit) and the Individual Account Program (defined contribution). Currently the Company contributes 2.84 percent of each covered employee's salary to the Pension Program (defined benefit) and 6 percent to the Individual Account Program (defined contribution). Rates are subject to change as a result of subsequent actuarial valuations.

Along with other State of Oregon agencies, the Company participates in paying debt service for PERS bonds issued in October 2003 to reduce the unfunded PERS liability. The bonds are due to mature 25 years after the date of issuance. Currently the repayment rate is 5.95 percent of payroll each month. The payment rate is recalculated each state fiscal biennium.

Amounts contributed by the Company for all plans for the years ended December 31, 2010 and 2009 were \$7,985,480 and \$9,260,549, respectively.

Deferred Compensation

A deferred compensation program is allowed under Internal Revenue Code section 457 and ORS 243.400 to 243.495. Deposits are made through payroll deductions on a tax deferred basis into a variety of long range investment options. Deferred compensation contributions are not subject to federal or state payroll taxes. Taxes are due on the deferred income and accumulated investment earnings only when the funds are disbursed at some future date.

Post Employment Benefits and Compensated Absences

The Company has accrued obligations to former employees for benefits after their employment but before their retirement. A liability for earned but untaken vacation pay for current employees has been accrued.

DIVIDENDS TO POLICYHOLDERS

The Company's Board of Directors approved payment of policyholder dividends during the three-year period under examination as follows:

2008	\$0
2009	\$0
2010	\$200,540,997

TERRITORY AND PLAN OF OPERATION

The Company is a direct writer of workers' compensation insurance in the State of Oregon. The Company is not required to hold a Certificate of Authority. Effective November 20, 2010, SAIF entered into an agreement to assume workers' compensation insurance written by Zurich American Insurance Company and American Zurich Insurance Company under a 100% quota share fronting agreement. This agreement covers workers' compensation insurance for workers based outside Oregon whose employers are based in Oregon and insured by SAIF.

The Company offers workers' compensation coverage under distinct rate tiers based on an employer's loss experience. These rate classes are select, preferred, standard, and two nonstandard classes. Rates are composed of a base rate, determined by the National Council on Compensation Insurance (NCCI) and approved by the Department of Consumer and Business Services, and then multiplied by a loss cost multiplier determined by SAIF. If an employer is unable to obtain coverage from SAIF or another insurer, then the employer must obtain coverage through the State of Oregon's Workers' Compensation Insurance Plan (WCIP). The Company participates as a servicing carrier of the WCIP residual market and pays its proportionate share of pool losses in excess of pooled premiums.

In addition to different rate classes, the Company offers various forms of premium payment plans under premium calculation methods such as the standard and retrospective plans. Under the standard plan, coverage is provided for a fixed premium paid on a monthly, quarterly, or yearly basis.

SAIF's retrospective premium plans (Retro) are generally offered to larger employers. Retro premiums are based on the employer's actual loss experience. Retro premiums are subject to maximum and minimum amounts. An employer's losses are evaluated at fixed periods following the end of a policy period.

SAIF markets its business directly and through independent agents. The Company has local offices throughout the state that offer loss control, marketing, premium audit, investigation and return-to-work services to policyholders. Local offices providing these policyholder services are in Baker City, Bend, Eugene, Medford, North Bend, Pendleton, Portland, Roseburg and Salem.

GROWTH OF THE COMPANY

Growth of the Company since the last financial examination is reflected in the following schedule. Amounts were derived from the Company's filed annual statements, except in those years where the Oregon Insurance Division prepared an examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2007*	\$4,012,104,420	\$3,135,564,478	\$876,539,942	\$45,586,604
2008	3,908,483,550	3,229,268,475	679,215,075	55,855,337
2009	4,194,897,586	3,239,538,409	955,359,177	52,738,456
2010*	4,473,823,313	3,515,250,963	958,572,350	94,672,820

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 2007. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Losses Incurred</u>	<u>(3) LAE & Other Underwriting Expenses</u>	<u>(2)+(3)/(1) Ratio</u>
2007*	\$459,388,650	\$395,116,449	\$113,466,826	110.71%
2008	416,373,338	358,423,928	141,253,143	120.01%
2009	340,390,911	309,972,930	131,615,402	129.73%
2010*	332,965,896	334,071,145	101,123,592	130.70%

*Per examination

A ratio of losses incurred, LAE, and other underwriting expenses to premium earned of more than 100 percent typically indicates an underwriting loss. An underwriting loss occurred in all years covered by this examination, however, the Company's investment income offset underwriting losses to produce net income during 2007 to 2010.

INVESTMENTS

The Company's investments are held by the Oregon State Treasurer under the provisions of ORS 656.632. The Oregon Investment Council (OIC) sets the investment goals and determines the asset allocations. At year-end 2010, the Company's total investment components were 82 percent fixed income securities and 11 percent equities. During 2010 the Company earned \$397,278,975 on its investments, including realized capital gains of \$223,756,941.

Bonds

The Company's bond portfolio is primarily comprised of high quality investments in special revenue bonds, public utilities, and government bonds with maturities between one to ten years. As of December 31, 2010, it was noted that approximately 5.7 percent of the Company's bonds are considered medium and low quality bonds as defined by the NAIC Securities Valuation Office (SVO) and Oregon Administrative Rule (OAR) 836-033-0130. A quality distribution of bonds is presented below:

<u>Year</u>	(1) <u>Book Value/ Carrying Securities</u>	(2) <u>Fair Value Securities</u>	(3) <u>Medium and Low Grade Securities*</u>	(3/1) <u>Percent of Portfolio</u>
2007**	\$2,975,262,626	\$2,996,316,354	\$110,819,564	3.72%
2008	3,060,934,651	2,985,656,952	72,692,279	2.37%
2009	3,160,263,403	3,229,390,802	74,250,273	2.35%
2010**	3,390,137,970	3,571,160,662	193,512,134	5.71%

*Medium grade is defined by the NAIC as those securities with a NAIC Securities Valuation Office rating of "3." SVO designations of "4" to "6" are considered low investment grade.

** Per examination

Security Lending

The Oregon Investment Council directed the Company's participation in securities lending. For the Company's securities lending arrangements, borrowers are required to deliver collateral for each loan equal to not less than 102 percent. Securities loaned as of year-end 2010 had a fair market value of \$228,043,278 or 5.5 percent of total invested assets. Net income earned from security lending during 2010 was \$605,582.

REINSURANCE

Ceded Reinsurance

Effective November 20, 2010, the Company has reinsurance coverage through a First and Second Layer Workers' Compensation Catastrophic Excess of Loss Reinsurance Agreement obtained through reinsurance broker, AON Benfield. The first layer of reinsurance covers up to \$30 million ultimate net loss in excess of \$35 million retention each loss. The second reinsurance layer covers \$30 million

ultimate net loss in excess of \$65 million retention each loss. Together the two layers of this reinsurance agreement establish an aggregate limit of \$95,000,000 for all occurrences. Workers' compensation policies written by the Company with maximum policy limits up to \$10 million on any one life are covered by this reinsurance agreement.

Risk Retention

The provisions of ORS 731.504 generally prohibit an insurer from retaining risk on any one subject of insurance in excess of 10 percent of its surplus to policyholders. The Company, however, is not subject to this statute pursuant to ORS 731.028. Given the Company's year-end 2010 surplus as regards policyholders of \$958,572,350, a single risk being greater than 10 percent of surplus is unlikely.

Insolvency Clauses

The reinsurance agreement's insolvency clause specified payments would be made to a statutory successor without diminution in the event of insolvency.

Assigned Risk Pool

The Company operates as a Servicing Carrier for NCCI in Oregon. Under the terms of the Servicing agreement the Company writes the Assigned Risk business and cedes it 100 percent to NCCI Assigned Risk Pool (\$9,367,000). NCCI retrocedes all the assigned risk pool premiums and policies out to workers' compensation carriers writing in Oregon based on their percentage of the total workers' compensation net written premium for Oregon. This results in the Company assuming approximately \$12 million in premium from the assigned risk pool.

Assumed Reinsurance

As of December 31, 2010, the Company only assumed business from the NCCI Assigned Risk Pool. Assumed business comprised 3.66 percent of net written premiums.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2010, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. From a review of the internal controls and the Company's disaster recovery plan, it was determined that the current information system possesses most of the physical and internal controls as prescribed by the NAIC.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The previous report of examination published at the completion of the financial examination of the Company as of December 31, 2007, included a recommendation that the Custody Agreement between the State of Oregon Treasury and State Street Bank and Trust Company be changed to incorporate the requirements of OAR 836-027-0200(4)(b) and (f).

The Company forwarded this recommendation to the Oregon State Treasurer's office for consideration. The Treasury Department determined that the Custody Agreement between the State of Oregon Treasury and State Street Bank was acceptable and no amendments were necessary.

STATE ACCIDENT INSURANCE FUND CORPORATION
BALANCE SHEET
As of December 31, 2010

<u>ASSETS</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Bonds (Note 1)	\$3,371,358,577	\$ 0	\$3,371,358,577
Preferred stock	4,765,234		4,765,234
Common stock (Note 1)	467,987,935		467,987,935
Real estate – Company occupied	14,923,222		14,923,222
Real Estate - held for income	758,867		758,867
Cash	41,741,731		41,741,731
Other invested assets	11,856,651		11,856,651
Receivable for securities	162,095		162,095
Securities lending reinvested collateral assets	228,043,278		228,043,278
Interest income due & accrued	40,058,024		40,058,024
Uncollected premiums and agents balances	2,981,407		2,981,407
Deferred premiums booked, but deferred and not yet due	221,619,192		221,619,192
Accrued retrospective premiums	40,716,838		40,716,838
Reinsurance recoverable	138,360		138,360
EDP equipment	539,569		539,569
Aggregate write-ins for other than invested assets	<u>26,172,333</u>	<u>0</u>	<u>26,172,333</u>
Total Assets	<u>\$4,473,823,313</u>	<u>\$ 0</u>	<u>\$4,473,823,313</u>
 <u>LIABILITIES</u>			
Losses (Note 2)	\$2,703,377,204	\$	\$2,703,377,204
Loss adjustment expenses (Note 2)	316,042,710		316,042,710
Commissions payable	8,023,346		8,023,346
Other expenses (excluding taxes, licenses & fees)	13,121,073		13,121,073
Taxes licenses and fees	17,079,331		17,079,331
Unearned premium	164,122,400		164,122,400
Advance premium	3,947,415		3,947,415
Ceded reinsurance premiums payable	5,663,868		5,663,868
Amounts withheld for the accounts of others	21,590,653		21,590,653
Remittances & items not allocated	424,997		424,997
Provision for reinsurance	3,415,930		3,415,930
Payable for securities lending	228,042,198		228,042,198
Aggregate write-ins for liabilities	<u>30,399,838</u>	<u>0</u>	<u>30,399,838</u>
Total Liabilities	<u>3,515,250,963</u>	<u>0</u>	<u>3,515,250,963</u>
 <u>SURPLUS AND OTHER FUNDS</u>			
Unassigned funds	<u>958,572,350</u>	<u>0</u>	<u>958,572,350</u>
Total Surplus And Other Funds	<u>958,572,350</u>	<u>0</u>	<u>958,572,350</u>
Total Liabilities, Surplus, and Other Funds	<u>\$4,473,823,313</u>	<u>\$ 0</u>	<u>\$4,473,823,313</u>

STATE ACCIDENT INSURANCE FUND CORPORATION
INCOME STATEMENT
As of December 31, 2010

<u>UNDERWRITING INCOME</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Premiums earned	\$332,965,896	\$ 0	\$332,965,896
Losses incurred	334,071,145		334,071,145
Loss adjustment expenses incurred	36,335,610		36,335,610
Other underwriting expenses incurred	<u>64,787,982</u>	<u>0</u>	<u>64,787,982</u>
Total Underwriting Deductions	<u>435,194,737</u>	<u>0</u>	<u>435,194,737</u>
Net Underwriting Loss	<u>(102,228,841)</u>	<u>0</u>	<u>(102,228,841)</u>
 <u>INVESTMENT INCOME</u>			
Net investment income earned	173,522,034		173,522,034
Net realized capital gains (losses)	<u>223,756,941</u>	<u>0</u>	<u>223,756,941</u>
Net Investment Gain	<u>397,278,975</u>	<u>0</u>	<u>397,278,975</u>
 <u>OTHER INCOME</u>			
Net loss from agents or premium balances charged off	(1,009,713)		(1,009,713)
Aggregate write-ins for miscellaneous income	<u>1,173,396</u>	<u>0</u>	<u>1,173,396</u>
Total other income	<u>163,683</u>	<u>0</u>	<u>163,683</u>
Net income before Federal taxes and dividends to policyholders	295,213,817		295,213,817
Dividends to policyholders	<u>200,540,997</u>	<u>0</u>	<u>200,540,997</u>
Net income after dividends to policyholders but before Federal taxes	94,672,820		94,672,820
Federal income taxes incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>\$ 94,672,820</u>	<u>\$ 0</u>	<u>\$ 94,672,820</u>
 <u>CAPITAL AND SURPLUS</u>			
Surplus as regards policyholders, previous year	<u>\$ 955,359,177</u>	<u>\$ 0</u>	<u>\$ 955,359,177</u>
Net income	94,672,820		94,672,820
Change in net unrealized capital (loss)	(89,377,762)		(89,377,762)
Change in nonadmitted assets	419,094	0	419,094
Change in provision for reinsurance	<u>(2,500,979)</u>	<u>0</u>	<u>(2,500,979)</u>
Change in surplus as regards policyholders for the year	<u>3,213,173</u>	<u>0</u>	<u>3,213,173</u>
Surplus as regards policyholders, current year	<u>\$ 958,572,350</u>	<u>\$ 0</u>	<u>\$ 958,572,350</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - Investments

Most of the SAIF's long-term bond investments were in Industrial & Miscellaneous Corporate Issues, FNMA, FHLMC, GNMA, US Treasury, US Special Revenue and Hybrid issues. Many of the securities were mortgage-backed and asset-backed securities. Most of the securities were investment grade. Mutual funds comprised about 10% of total invested assets. A comparison of the investments over the past four years is as follows:

Year	A Bonds	B Common & Preferred Stock	Ratio A/ Total Assets	Ratio B/ Total Assets
2007	\$2,961,975,379	\$611,394,981	73.83%	15.24%
2008	3,005,752,663	430,704,433	76.90%	11.02%
2009	3,118,004,707	643,966,276	74.33%	15.35%
2010	3,371,358,577	472,753,169	75.36%	10.57%

Note 2 – Losses and Loss Adjustment Expenses

Robert Ingco, FCAS, MAAA, actuary with AMI Risk Consultants Inc., conducted an actuarial review of SAIF's loss liabilities as of December 31, 2010. He concluded the losses and loss adjustment expenses (LAE) as stated by SAIF were reasonable. Though AMI's estimate of loss and LAE reserves was lower than SAIF's estimate, no change was recommended.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

No recommendations were made as a result of this examination.

CONCLUSION

This examination made no adjustments to the Company's policyholders' surplus. During the three year period covered by this financial examination, the Company's surplus increased from \$876,539,942, as presented in the December 31, 2007, financial report of examination, to \$958,572,350, as shown in this report of financial examination. Below are the comparative assets and liabilities:

	<u>2010</u>	<u>December 31, 2007</u>	<u>Change</u>
Assets	\$4,473,823,313	\$4,012,104,420	\$461,718,893
Liabilities	<u>3,515,250,963</u>	<u>3,135,564,478</u>	<u>379,686,485</u>
Surplus	<u>\$ 958,572,350</u>	<u>\$ 876,539,942</u>	<u>\$ 82,032,408</u>

SUBSEQUENT EVENTS

Reinsurance - As referred to above, effective November 20, 2010, SAIF entered into a 100% Quota Share reinsurance agreement with Zurich American and American Zurich Insurance Companies (Zurich). Under this treaty SAIF assumes 100% of the workers' compensation business written by Zurich covering workers based in other states whose Oregon based employers are insured directly by SAIF. SAIF started writing business under this agreement on February 1, 2011. As of October 31, 2011, SAIF had assumed over \$3 million of premium under the agreement.

Personnel - During this examination certain senior management changes occurred subsequent to the examination date. Ken Collins replaced Gary R. Robinson as Vice President of Information Services. John D. Gilkey was promoted to Senior Vice President Policyholder Services and Programs. Michelle J. Graham changed positions to Vice President of Policyholder Services from Vice President of Claims. Bruce Hoffman replaced Michael Hartman as Vice President of Underwriting Services. Michael Hartman was appointed Vice President of Policyholder Programs. Michael A. Mueller was assigned Senior Vice President of Claims. Shannon Rickard assumed the duties of Legal Services Director. Kathy Gehring and Pam Woods were each appointed Vice Presidents of Claims.

As a result of the above changes, SAIF's operating management as of July 5, 2011, was:

<u>Name</u>	<u>Office</u>
Brenda JP Rocklin	President and Chief Executive Officer
Gerald L. Dykes	Chief Financial Officer
Gina M. Manley	Financial Reporting Manager
Shawn Wright	Chief Actuarial Officer
Ken Collins	Interim Vice President - Information Services
Christopher J.T. Davie	Vice President - Corp Policy & External Affairs
John D. Gilkey	Sr. Vice President - Policyholder Services and Programs
Michelle Graham	Vice President - Policyholder Services
Michael Hartman	Vice President - Policyholder Programs
Bruce Hoffman	Vice President - Underwriting Services
Theresa R. McHugh	Vice President - Financial Services
Michael Mueller	Sr. Vice President - Claims
Kathy Gehring	Vice President - Claims
Pam Woods	Vice President - Claims
Shannon Rickard	Legal Services Director
Colleen C. Sealock	Vice President - Operations & Human Resources

Policyholder dividends - At its June 15, 2011, Board meeting, SAIF declared a \$150,000,000 dividend payable to eligible policyholders with policy end dates during 2009 and/or 2010. On July 11, 2011, SAIF paid \$150,043,173 in policyholder dividends.

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and contact employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Mark A. Giffin CFE, Timothy R. Hurley, CFE, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, and Robert Ingco, FCAS, MAAA, consulting actuary, with AMI Risk Consultants Inc., participated in the examination.

Respectfully submitted,

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Mike P. Phillips, CFE, CPA, AES, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of SAIF Corporation.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of SAIF Corporation was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Mike P. Phillips, CFE, CPA, AES
Supervising Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this _____ day of _____, 2011.

NOTARY PUBLIC for the State of Oregon

My Commission Expires: _____