IWIF Workers' Compensation Insurance

Maryland's First Choice

For Workers' Compensation Insurance

Report on the Financial Condition

of the

Injured Worker's Insurance Fund

as of December 31, 2009

8722 Loch Raven Boulevard, Towson, MD 21286 – 410-494-2000

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September 29, 2010

The Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21404

Dear Governor O'Malley:

Pursuant to Title 10, Section 10-126 of the Labor and Employment Article of the Annotated Code of Maryland, please find the Statutory Financial Statements of the Injured Workers' Insurance Fund (IWIF) with Independent Auditors' Report thereon for the Calendar Year ended December 31, 2009.

The Financial Statements were prepared in conformity with accounting practices prescribed or permitted by the Maryland Insurance Administration (Statutory Basis) and the Independent Auditor, Johnson Lambert & Co.,LLP, expressed an unqualified opinion that the financial statements fairly represent the Injured Workers' Insurance Fund's financial position. The Injured Workers' Insurance Fund's Reserves have been certified by Deloitte Consulting, LLP, one of the largest and most respected independent accounting and consulting firms. This provides another high degree of assurance that the Injured Workers' Insurance Fund is solvent, able to meet future claims costs and carry all policies to maturity. Also included in this report is a section containing ratios on industry standards developed by the National Association of Insurance Commissioners (NAIC).

Since 1914, IWIF has operated without any state financial support. All expenses are paid from premium and investment income (no tax dollars or citizen assessments). IWIF remains the single largest workers' compensation insurer in Maryland, insuring over 22,000 Maryland employers as of December 31, 2009.

As the single largest writer of workers' compensation insurance in Maryland, IWIF has the ability to implement solutions that improve the overall workers' compensation system. The Injured Workers' Insurance Fund remains a competitive force for workers' compensation insurance, while offering a high level of service commitment to Maryland employers and prompt accurate benefits to their injured workers. Additionally, the Injured Workers' Insurance Fund's market presence enhances Maryland's business environment.

On behalf of our Board Members, IWIF pledges to support all participants of Maryland's Workers' Compensation System, by continuing to offer competitively priced workers' compensation insurance to Maryland employers, and prompt, equitable benefits to injured workers. If I can provide additional information, please contact me directly at (410) 494-2216.

Respectfully submitted,

PAIGE BECK, CPA

Executive Vice-President & CFO

Enclosure

I. Financial Highlights

The Injured Workers' Insurance Fund's (IWIF) results deteriorated in CY 2009, but were better than originally forecasted. Excluding gains and losses from the sale of investments, IWIF earned $3.1 million on premium income of $182.6 million. In CY 2008, IWIF earned $31.1 million on premium income of $244.3 million.

The State of Maryland is self-insured for workers' compensation insurance. IWIF acts as the claims administrator for job related accidents incurred by State employees. IWIF's statement of operations does not include premiums and costs from the contract with the State of Maryland.

IWIF's increased its policyholder surplus by 6.7% in CY 2009. IWIF continues to concentrate on operating profitability, along with closely monitoring financial market conditions and portfolio allocation in CY 2010, to ensure continued financial strength for its policyholders.

Maryland adheres to NAIC risk-based capital (RBC) requirements. RBC is a method of measuring the minimum amount of capitalization appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. IWIF's RBC is calculated by applying factors to various asset, premium and reserve items. The factor is higher for those items with greater underlying risk and is correspondingly lower as risk levels decrease. The adequacy of an insurance company's actual capital can then be measured by a comparison to its risk-based capital as determined by the formula. At December 31, 2009 and 2008, respectively, IWIF's RBC ratio exceeds all of the regulatory action levels as defined by the NAIC and MIA.

II. Industry Financial Ratios

This section contains eight industry standards, developed by the National Association of Insurance Commissioners (NAIC) and used as an "early warning system" to detect insurers who may be experiencing financial difficulty. These reflect the financial strength of a carrier. Overall, IWIF is well within these ratios and continues to improve financially while performing its function as a guaranteed market for workers' compensation in Maryland. IWIF's statutory surplus at December 31, 2009 was $287.5 million.

1. Premium to Surplus

This is a key ratio used throughout the insurance industry. This ratio compares a company's premiums and potential loss exposure to its surplus. It indicates the company's underwriting capacity to take on additional business and its ability to absorb losses on existing business. IWIF's premium to policyholder surplus ratio in 2009 was 58%, compared to the industry standard of not more than 300%. This indicates that IWIF is within its underwriting capacity based on current surplus. This is an improvement over IWIF's 2008 ratio of 84%. IWIF worked hard in 2009 to improve its surplus and maintain its premium to surplus ratio at a lower level. Various operating and investment initiatives, mentioned below, raised surplus to its current level at year-end 2009. IWIF, unlike private carriers, does not exit the market when conditions change.

2. Change in Writing

This ratio shows fluctuations in written premiums. While IWIF is a competitive force, it also is the guaranteed market. As such, IWIF is subject to the ebb and flow of premium market share due to the hardening and softening of the workers' compensation market in Maryland. As the market softens private insurance carriers try to write more business and conversely, during a hardening market, private insurance companies find that their business is less profitable and therefore begin vacating the market. During the 2009 calendar year, the market for workers' compensation remained soft, which resulted in decreased business for IWIF. IWIF's change in written premium ratio in CY 2009 was -26%. This is within industry standards of + or - 33%.

3. Two-Year Overall Operating Ratio

This ratio combines results from continuing operations for two years and relates those results (excluding capital gains) to premium revenue. An overall ratio of less than 100%, the industry standard, indicates an operating profit. IWIF's two-year overall operating ratio in CY 2009 was 94%, bettering the industry standard. This is a deterioration of 7 points compared to CY 2008. This is reflective of the economy in Maryland, as unemployment continues to be a problem, particularly in the construction industry. However, pricing, underwriting, claims handling, loss control and other initiatives allow IWIF to maintain its core operating results during the soft market.

4. Investment Yield

This calculation expresses net investment income as a percentage of average invested assets. Investment yield plays a significant role in overall profitability given the size of the reserves carried by a workers' compensation company. Additionally, investment yield is an indicator of the general quality of the company's investment portfolio. The industry standard is between 3% and 6.5%. IWIF's 3.9% ratio in CY 2009 is within the standard. IWIF invests heavily in bonds. However, with bond yields being at near all-time lows, IWIF maintain a significant amount of cash on its balance sheet. IWIF will be in a good position when yields improve. In CY 2009, asset allocation ranged between 0 and 5% domestic equity; 80% and 95% investment grade fixed income and 0 and 10% cash equivalents.

5. Change in Surplus

This ratio measures the change in surplus from year to year. The standard is -10% to +50% change from year to year. A deterioration or improvement beyond these levels can mean the company's financial condition has changed significantly. IWIF's Change in Surplus Ratio for CY 2009 was +7% on a statutory basis. This is reflective of the improvements in IWIF's core operations and the reallocation of IWIF's investments (as covered in item 4 above).

6. Liabilities to Liquid Assets

Comparing liabilities to liquid assets measures a company's ability to meet short-term financial demands, and provides a rough approximation of assets available in the event of liquidation. The industry standard indicates that this ratio should be less than 100%. IWIF's ratio of 84% is within the acceptable range, and indicates IWIF has the capacity to take advantage of investment opportunities without the need for raising capital through the sale of other assets.

The following loss reserve development tests (7 and 8), measure the relationship of loss and loss adjustment expense reserves deficiency or redundancy to an insurer's surplus for a one and two year period.

7. One-Year Reserve Development to Surplus

This ratio measures the extent by which the previous year's fund equity was under-or-over stated through inaccurate reserve estimation, given the benefit of one year's retrospective vision. The one-year reserve development provides some measure of the accuracy with which loss reserves are being established, the adequacy of loss reserves, and the accuracy of the company's loss reserve projections. The industry standard is less than 20%. IWIF's ratio for CY2009 was 2%.

8. Two-Year Reserve Development to Fund Equity

Same as ratio number 7, except for two years. For two years IWIF's ratio was 1%, well within industry standards.

IWIF's loss reserves increased by $11 million in 2009 as IWIF's payroll exposure decreased slightly from 2008. The increase in reserves reflects IWIF's conservative management and provides additional reserve strengthening to protect IWIF's policyholders.

In summary, individually and collectively, these industry benchmarks indicate a strong, healthy Fund. IWIF is financially sound and able to meet both its long and short-term commitments.

III. Changes and Trends

Title 10, Section 10-126 of the Labor and Employment Article of the Annotated Code of Maryland also requires this report to include information on five specific areas. Our information and comments include both the results of CY 2009 and CY 2008, as well as trends expected in the future. Net claims paid & loss expense is shown on a statutory basis.

The following chart depicts trends in several key areas and data in responding to Title 10, Section 10-126:

		CY 2010 Estimated	CY 2009	CY 2008
A.	Policies	22,300	22,814	25,032
B.	Net Premiums Earned	$168,000,000	$182,624,617	$244,314,656
C.	Net claims & loss expenses incurred	$182,000,000	$202,751,866	$234,549,453
	Loss Ratio *(C) divided by (B)*	108.3%	111.0%	96.0%
	Combined Ratio	133.4%	134.2%	118.3%
	Premiums per Policyholder	$7,534	$8,005	$9,760

A. **Changes in Earned Premiums of IWIF:**

Net premiums declined in CY 2009 as the Maryland workers' compensation market contracted by 19% to $703 million in direct premiums written, compared to $868 million in CY 2008. IWIF's earned premium decreased by 25% from the 2008 level, as the market continued to soften. IWIF retained approximately 92% of its policyholders in 2009 and wrote $21.9 million of new business. Payroll exposure decreased by $350 million to $7.31 billion in 2009 compared to the 2008 level of $7.66 billion.

Increased competition benefits all businesses in Maryland. IWIF continues to retain its lead in market share by maintaining very competitive rates and improving its service levels to all policyholders.

B. Changes in the Number of Policyholders of IWIF

The number of policies insured by IWIF fell by 8.9% in CY 2009. This decrease was expected due to the market conditions described above. IWIF has historically retained the large majority of the smaller (premium size) policyholders. The smaller policyholders continue to be IWIF's primary accounts. IWIF is proud to provide full-service, low-cost insurance to small policyholders.

C. Trends in the Premium to Expense Ratio

The premium to expense ratio, and the loss ratio, are primary indicators of an insurers operating trend. Simply put, if the claims and underwriting expense exceeds the premium income, then there is an underwriting loss; this is generally unfavorable in the private sector, and becoming less favorable for State Funds.

For State Funds, the loss ratio fails to disclose the effect of investment income on operations. In the private sector a portion of investment income is often remitted to a parent company or paid as dividends to corporate shareholders. IWIF is different. IWIF retains all investment income and includes it in the ratemaking process. As a result, IWIF can successfully operate with a loss ratio greater than the private sector and still remain financially sound. Compared to the 1990's, IWIF's loss ratio has decreased as the organization has moved toward less reliance on investment gains and more reliance on underwriting results.

D. Trends in the Overall Market Share

Market share is calculated based upon direct written premiums, although counting the number of employers and the amount of insured payroll are also used. Insured payroll is sometimes used because it is the only way to include self-insured employers. But the most accurate market share method, whether it is workers compensation or some other product, is basing the calculation on direct written premium.

	Year	Direct Written Premium	Market Share
IWIF	2009	$159,515,000	22.7%
Private Carriers	2009	$543,404,000	77.3%
Totals	2009	$702,919,000	100.0%

The above schedule excludes both the State of Maryland self-insured payment made to IWIF and all employers self-insured for workers compensation. Self-insured companies are excluded from the competitive market. IWIF is the claims administrator for the State of Maryland, and in terms of workers compensation transactions (e.g. awards, managed care system, etc.), IWIF provides these services in addition to those provided to its private businesses. As a result, this recap measures IWIF's private book of business compared to the available market.

E. <u>The General Growth of IWIF and the Degree of Personnel Flexibility.</u>

IWIF positioned itself to handle the growth it experienced in its book of business from 2002 to 2006. The company is currently managing through the soft market cycle and will be prepared to handle new growth when the market hardens. Factors that will support market retention include being a service leader in the workers compensation market, investment returns (without sacrificing the quality of investments) and controlling costs through cost containment initiatives, which will enhance the overall service levels while at the same time emphasizing reduced costs. Market share will also be maintained by striving for service quality and competitive rates relative to private carriers. IWIF provides additional benefits designed to reduce workers compensation costs in comparison to the private sector by: (1) a lower minimum premium; (2) experience modification plan on a lower premium amount, and; (3) a premium discount plan with a lower threshold (paid dollar amount) than is provided by the private carriers. As a result, IWIF is particularly attractive for the smaller policyholders.

IWIF is focused on the strategy of improving operating efficiencies, which will improve profitability and ultimately policyholder surplus. Pro-active programs, such as workflow assessments/ changes, continue to be developed. The greatest strides in realizing efficiencies have been through investments in software and technology hardware. The Company's expense ratio is expected to remain relatively stable over the projection period, as the current expense structure continues to be very competitive with private industry data as presented by A.M. Best.

IV. Summary

In summary, the financial statements and related information indicate a strong, healthy IWIF, which is well positioned for both its long and short-term commitments.

Looking ahead to 2010, IWIF will continue with procedures that have been in place for the past several years, including aligning price with risk, sound execution of "best practices" claims handling procedures, as well as performing extensive loss control and remaining vigilant on fraud. It will also be necessary to remain focused on continuous improvement. This will require management to continue to focus on new and innovative ways to deliver a top quality product at the lowest possible cost. IWIF will continue to stress data mining in 2010. Since 2006 IWIF has been using data mining software developed by an independent consultant to price new policies under $10,000. Above $10,000, the underwriter will have the option of using the data mining model to price a policy. IWIF began implementation of the model on renewal business during 2007. IWIF also continues to improve its web based services. E-services for policyholders and agents facilitate quick, efficient commercial interchange. The deployment of electronic data interchange (EDI) with agents and vendors supports quality customer service, and encourages stronger allegiance. Significant attention has been dedicated to rolling-out an externally-developed interface to appointed agents so as to create a virtual extranet. This allows the interchange of information between IWIF and its agent partners to be seamless and effortless.

IWIF's beliefs have been confirmed through audit scrutiny and attestation from independent sources. IWIF is also confident that it will remain in a strong financial position in the future. In 2010, the Injured Workers' Insurance Fund will again successfully achieve its goal of maintaining financial integrity while still providing competitively priced workers compensation insurance to Maryland employers.

JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Injured Workers' Insurance Fund

Audited Statutory-Basis Financial Statements and Other Financial Information

Years ended December 31, 2009 and 2008
with Report of Independent Auditors

Injured Workers' Insurance Fund

Audited Statutory-Basis Financial Statements and Other Financial Information

Years ended December 31, 2009 and 2008

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JOHNSON LAMBERT & CO. LLP
CPAs AND CONSULTANTS

Report of Independent Auditors

To the Board of Directors
Injured Workers' Insurance Fund

We have audited the accompanying statutory-basis balance sheets of the Injured Workers' Insurance Fund (IWIF) as of December 31, 2009 and 2008 and the related statutory-basis statements of income, changes in surplus and cash flows for the years then ended. These financial statements are the responsibility of IWIF's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes the consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IWIF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, IWIF prepared these financial statements in conformity with accounting practices prescribed or permitted by the Maryland Insurance Administration (Statutory Basis), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States (GAAP). The effects on the financial statements of the variances between the statutory-basis and GAAP, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory-basis financial statements referred to above do not present fairly, in conformity with GAAP, the financial position of IWIF as of December 31, 2009 and 2008, or the results of its operations or its cash flows for the years then ended.

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of IWIF at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Johnson Lambert & Co LLP

Falls Church, Virginia
May 25, 2010

Injured Workers' Insurance Fund

Balance Sheets Statutory-Basis

	As of December 31, 2009	2008
Admitted Assets		
Bonds	$ 1,255,372,817	$ 1,364,289,011
Preferred stock	1,291,000	40,000
Common stock	48,595,547	20,968,113
Real estate occupied by IWIF	10,363,239	9,481,223
Cash and short-term investments	286,977,558	188,164,285
Receivable for securities	2,915,617	289,460
Total cash and invested assets	1,605,515,778	1,583,232,092
Accrued interest on investments	11,897,312	12,344,274
Uncollected premiums and agents' balances in the course of collection	11,892,459	16,359,530
Deferred premiums	43,614,947	57,826,405
Other amounts receivable under reinsurance contracts	1,924,245	3,566,804
Electronic data processing equipment, net	1,808,387	1,091,727
Amounts receivable from third party administrative services	6,407,159	5,436,853
Total admitted assets	$ 1,683,060,287	$ 1,679,857,685
Liabilities and Surplus		
Liabilities:		
Reserves for losses and loss adjustment expenses	$ 1,298,070,000	$ 1,286,820,000
Accounts payable and accrued expenses	8,945,029	12,962,467
Unearned premiums	82,209,728	97,600,802
Policyholder dividends payable	2,740,019	3,800,000
Ceded premium balances (receivable) payable	(14,574)	1,293
Funds held by company under reinsurance treaties	14,000	-
Advance payments from policyholders	3,063,181	6,128,752
Provision for reinsurance	-	168,000
Payable for securities	483,229	2,845,540
Total liabilities	1,395,510,612	1,410,326,854
Surplus:		
Appropriated for:		
Catastrophes	30,000,000	30,000,000
Employers liability insurance	2,000,000	2,000,000
Unappropriated	255,549,675	237,530,831
Total surplus	287,549,675	269,530,831
Total liabilities and surplus	$ 1,683,060,287	$ 1,679,857,685

The accompanying notes are an integral part of these financial statements.

Injured Workers' Insurance Fund

Statements of Income Statutory-Basis

	Years ended December 31, 2009	2008
Underwriting income:		
Net premiums earned	$ 182,624,617	$ 244,314,656
Losses incurred	178,285,665	208,478,126
Loss adjustment expenses incurred	24,466,201	26,071,327
Commissions	15,643,908	20,288,720
Other underwriting expenses, net	19,482,609	22,312,527
Provision for bad debt	1,828,068	5,473,677
Underwriting loss	(57,081,834)	(38,309,721)
Net investment income	61,394,381	71,389,913
Net realized gain (loss) on investments	8,941,400	(8,908,192)
Net investment gain	70,335,781	62,481,721
Other income	869,381	601,237
Dividends to policyholders	(2,037,107)	(2,555,733)
Net income	$ 12,086,221	$ 22,217,504

The accompanying notes are an integral part of these financial statements.

Injured Workers' Insurance Fund

Statements of Changes in Surplus Statutory-Basis

	Years ended December 31, 2009	2008
Surplus at beginning of year	$ 269,530,831	$ 250,301,507
Net income	12,086,221	22,217,504
Increase (decrease) in net unrealized investment gains	9,246,232	(8,755,148)
(Increase) decrease in nonadmitted assets	(3,481,609)	2,365,397
Decrease (increase) in provision for reinsurance	168,000	(168,000)
Correction of error adjustment in 2008	-	3,569,571
Surplus at end of year	$ 287,549,675	$ 269,530,831

The accompanying notes are an integral part of these financial statements.

Injured Workers' Insurance Fund

Statements of Cash Flows Statutory- Basis

	Years ended December 31, 2009	2008
Cash from operations		
Premiums collected	$ 181,684,336	$ 223,299,060
Loss and loss adjustment expenses paid, net of subrogation received	(191,501,866)	(189,543,142)
Policyholder dividends paid	(3,097,088)	(3,655,733)
Underwriting expenses paid	(40,373,020)	(45,768,410)
Other income	869,381	601,237
Investment income received, net of investment expenses paid	63,448,701	73,604,865
Net cash provided by operations	11,030,444	58,537,877
Cash from investing activities		
Cost of investments acquired:		
Purchases of investments	(247,678,375)	(411,267,027)
Payable for securities	(2,362,311)	(1,621,100)
Purchases of real estate	(1,119,138)	(310,507)
Total investments acquired	(251,159,824)	(413,198,634)
Proceeds from investments sold or matured	344,664,004	351,040,621
Receivable for securities	(2,626,157)	(289,460)
Net cash provided by (used in) investing activities	90,878,023	(62,447,473)
Cash from financing and miscellaneous activities		
Miscellaneous (applications) proceeds	(3,095,194)	5,198,934
Net cash (used in) provided by financing and miscellaneous activities	(3,095,194)	5,198,934
Net increase in cash and short-term investments	98,813,273	1,289,338
Cash and short-term investments at beginning of year	188,164,285	186,874,947
Cash and short-term investments at end of year	$ 286,977,558	$ 188,164,285

The accompanying notes are an integral part of these financial statements.

Injured Workers' Insurance Fund

Notes to Statutory-Basis Financial Statements

Years ended December 31, 2009 and 2008

1. Organization and Purpose

The Injured Workers' Insurance Fund ("IWIF") was established to insure Maryland employers against liability under the Workers' Compensation Law. IWIF was created in 1914, and currently operates under the provisions of Title 10 of the Labor and Employment Article, Annotated Code of Maryland. IWIF is an independent agency that is a related organization to the State of Maryland. The Board of Directors is appointed by the governor of the State of Maryland and is comprised of nine members who appoint a Chief Executive Officer to assist them in operating and administering IWIF. IWIF is exempt from federal and state income taxes under Section 501(c)(27)(B) of the Internal Revenue Code ("the Code").

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying statutory-basis financial statements have been prepared on the basis of accounting prescribed or permitted by the Maryland Insurance Administration ("MIA"). The MIA requires that insurance companies domiciled in the State of Maryland prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners ("NAIC") Statements of Statutory Accounting Principles ("SAP"), subject to any deviations prescribed or permitted by the MIA.

The preparation of financial statements in conformity with SAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

SAP varies from generally accepted accounting principles ("GAAP"). The more significant variances from GAAP are as follows:

- Investments are carried in accordance with valuation criteria established by the NAIC. Bonds are generally carried at amortized cost. Under GAAP, bonds are carried at either amortized cost or fair value based on their designation as held-to-maturity or available-for-sale.

- Agent commissions and other acquisition costs are expensed as incurred under statutory accounting practices instead of being deferred and amortized over the terms of the related policy contracts proportionally to the premiums earned, as required under GAAP.

2. Summary of Significant Accounting Policies (Continued)

Basis of Presentation (continued)

- Reserves for losses and loss adjustment expenses ceded to reinsurers have been reported as reductions to the related reserves rather than as assets, as would be required under GAAP.

- Nonadmitted assets, principally receivables over 90 days past due, furniture and equipment and prepaid expenses, are excluded from the statutory-basis balance sheets. Changes in nonadmitted asset balances are charged directly to surplus.

- Investments in convertible bonds are carried at amortized cost in accordance with valuation criteria established by the NAIC. Under GAAP, convertible bonds are carried as investments available for sale and in accordance with accounting standards for accounting for derivative instruments and hedging activities, the conversion feature is bifurcated from the debt host security and recorded at fair value. Under GAAP, the changes in the fair value of the conversion feature are included in the statement of operations.

The effect of the differences between SAP and GAAP on the accompanying financial statements has not been determined but is presumed to be material.

Subsequent Events

IWIF has performed an evaluation of subsequent events through May 25, 2010, which is the date the financial statements were available to be issued and has considered any relevant matters in the preparation of the financial statements and footnotes.

Investments

Bonds are generally carried at amortized cost using the interest method to amortize purchase discounts or premiums. Prepayment assumptions for asset-backed or loan-backed bonds are obtained from dealer surveys and are based on the current interest rate and economic environment. The prospective yield method is used to account for significant changes in estimated cash flows from the original purchase assumptions.

Preferred stock investments are stated at amortized cost except where designated otherwise by the NAIC Securities Valuation Office. Common stock is reported at fair value.

2. Summary of Significant Accounting Policies (Continued)

Investments (continued)
Management periodically evaluates whether any declines in the fair value of investments are other-than-temporary. This evaluation considers several factors, including but not limited to length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near-term prospects for recovery of the fair value of a security; and the intent and ability of IWIF to hold the security until the market value recovers. Declines in fair value below cost that are deemed to be other-than-temporary are recorded as realized losses and are included in investment income as realized losses in the statements of income. Based on management's evaluation, IWIF has recognized other-than-temporary impairment of investments of $0 and $7,967,692 for the year ended December 31, 2009 and 2008, respectively.

Statutory accounting practices define fair value, establish a framework and hierarchy for measuring fair value, and expand disclosures about fair value measurements. The statutory accounting practices establish a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and market-corroborated inputs.

Level 3 – Inputs to the valuation methodology are unobservable for the asset or liability and are significant to the fair value measurement.

2. Summary of Significant Accounting Policies (Continued)

Investments (continued)
Fair values are based on quoted market prices when available (Level 1). When market prices are not available, fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). In instances where there is little or no market activity for the same or similar instruments, IWIF estimates fair value using methods, models and assumptions that management believes are relevant to the particular asset or liability. This process may include the use of unobservable inputs in discounted cash flow analysis or other income based approaches (Level 3). These valuation techniques involve some level of management estimation and judgment. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used and are reflective of the assumptions that market participants would use in valuing assets or liabilities.

Premiums Receivable
Premiums receivable represent amounts currently due from insureds, with provision made for accounts considered uncollectible. IWIF routinely assesses the collectibility of premiums receivable, and any uncollectible receivable is written off in the period the determination is made.

Cash and Short-Term Investments
Cash consists of bank deposits, commercial paper and money market funds. Short-term investments include fixed maturity securities with maturity dates of one year or less from the date of purchase. As of December 31, 2009 and 2008, cash and short-term investments include short-term investments in the amounts of $279,522,351 and $182,631,749, respectively. Effective October 3, 2008, the FDIC increased the deposit insurance coverage limit from $100,000 to $250,000. The increase is effective through December 31, 2013. Management monitors balances in excess of federally insured amounts and does not consider this to be a significant credit risk to IWIF.

2. Summary of Significant Accounting Policies (Continued)

Loss and Loss Adjustment Expenses
The liability for unpaid losses and loss adjustment expenses ("LAE") include case basis estimates of reported losses, plus supplemental reserves for incurred but not reported losses ("IBNR") calculated based upon loss projections utilizing certain actuarial assumptions and studies of historical loss experience and industry statistics. IWIF discounts future lifetime compensation indemnity claims using a 3.25% interest rate in both 2009 and 2008. Management believes that its aggregate liability for unpaid losses and LAE at December 31, 2009 represents its best estimate of the amount necessary to cover the ultimate cost of losses based upon an actuarial analysis prepared by a consulting actuary. However, because of future events beyond the control of management, such as changes in approved benefit rates, changes in law, judicial interpretations of law and medical inflation, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Equipment
Equipment consists of electronic data processing ("EDP") equipment. EDP equipment is stated at cost net of accumulated depreciation and is depreciated on a straight-line basis over thee years.

Real Estate
IWIF has recorded its real estate at the lower of fair value or depreciated cost. IWIF's real estate is depreciated on a straight-line basis over a period of 40 years.

Premiums and Unearned Premiums
Premiums are recognized as revenue ratably over the contract period. Unearned premiums represent the portion of premium that is applicable to the unexpired terms on policies in force. Unbilled premiums represent installment premiums not yet due.

Premium Deficiency Reserves
IWIF establishes premium deficiency reserves, when required, for the amount by which anticipated future benefit costs and contract maintenance costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries on those contracts. Such reserves are continually monitored and renewed, and any changes in estimates are reflected in current operations. IWIF anticipates investment income as a factor in its premium deficiency reserve calculation. For the years ended December 31, 2009 and 2008, respectively, IWIF determined that a premium deficiency reserve was not required.

2. Summary of Significant Accounting Policies (Continued)

Reinsurance Premiums
IWIF limits the maximum net loss that can arise from large or catastrophic losses by reinsuring certain levels of risks with other insurers or reinsurers. Prospective reinsurance premiums and ceded reserves are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Certain reinsurance contracts contain premium refund provisions that are recorded based on loss experience under the contracts. IWIF records such adjustable features using assumptions consistent with those used in estimating the liability for losses and loss adjustment expenses.

Advertising Costs
Advertising costs are expensed as incurred. Advertising costs incurred and included in other underwriting expenses were $1,002,045 and $1,032,024 for the years ended December 31, 2009 and 2008, respectively.

Dividends to Policyholders
Policyholder dividends are recorded based on the underlying policy's anticipated loss experience, as calculated 18 months from the policy's inception. Participating policies represent 14.0% and 11.1% of IWIF business at December 31, 2009 and 2008, respectively.

3. Regulatory Matters

IWIF is subject to regulation by the MIA. The MIA, under statute, mandates the maintenance of minimum surplus. IWIF was in compliance with these requirements at December 31, 2009 and 2008.

In addition to the surplus requirement, the MIA has adopted the NAIC Risk-based Capital ("RBC") requirements. The NAIC's RBC calculation is a method of measuring the minimum amount of capitalization appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. IWIF's RBC is calculated by applying factors to various asset, premium and reserve items. The capital requirements are higher for those items with greater underlying risk, and correspondingly lower as risk level decreases. The adequacy of an insurance company's statutory-basis surplus can then be measured by a comparison to its RBC as determined by the formula.

At December 31, 2009 and 2008, IWIF's RBC regulatory ratio exceeds all of the action levels as defined by the NAIC and MIA.

4. Investments

IWIF is authorized to invest its excess cash in those investments that are permitted for insurance companies domiciled in the State of Maryland as authorized in Title 5, Subtitle 6, of the Insurance Article, Annotated Code of Maryland. The Board has adopted an investment policy and reviews all investment transactions for compliance with the investment policy. The fair value of these securities is determined using market prices published by the Interactive Data Corporation ("IDC") and from independent quotations.

Proceeds from the sale and maturities of investments were $344,664,004 and $350,943,520 for 2009 and 2008, respectively. Gross realized gains of $12,016,613 and $8,110,665 and gross realized losses of $3,075,194 and $17,018,857 were realized on those sales in 2009 and 2008, respectively. The gross realized losses include $0 and $7,967,692 recognized for other-than-temporary impairment of investments for the year ended December 31, 2009 and 2008.

The carrying value, gross unrealized gains and losses and fair values of bonds consist of the following as of December 31, 2009:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	$ 54,708,515	$ 1,310,965	$ (708,323)	$ 55,311,157
U.S. government agency bonds	46,023,819	318,013	(262,547)	46,079,285
Corporate bonds	813,409,395	41,064,202	(8,844,233)	845,629,364
Mortgage-backed securities				
Government sponsored	307,847,695	14,946,477	(140,590)	322,653,582
Residential	33,383,393	23,815	(4,356,502)	29,050,706
Totals	$1,255,372,817	$ 57,663,472	$(14,312,195)	$1,298,724,094

The carrying value, gross unrealized gains and losses, and fair values of bonds consist of the following at December 31, 2008:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	$ 29,664,370	$ 3,833,217	$ -	$ 33,497,587
U.S. government agency bonds	124,037,024	1,596,410	(530,228)	125,103,206
Corporate bonds	791,760,946	10,640,831	(39,340,297)	763,061,480
Mortgage-backed securities				
Government sponsored	363,035,400	8,953,461	(439,805)	371,549,056
Residential	55,791,271	-	(6,711,938)	49,079,333
Totals	$1,364,289,011	$ 25,023,919	$(47,022,268)	$1,342,290,662

4. Investments (Continued)

The cost, gross unrealized gains and losses and fair values of preferred stock and common stock consist of the following as of December 31, 2009:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Perpetual preferred stock	$ 1,210,585	$ 80,415	$ -	$ 1,291,000
Common stock	46,463,496	6,302,387	(4,170,336)	48,595,547

The cost, gross unrealized gains and losses and fair values of preferred stock and common stock consist of the following as of December 31, 2008:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Perpetual preferred stock	$ 385,055	$ -	$ (345,055)	$ 40,000
Common stock	$ 29,213,657	$ 395,033	$ (8,640,577)	$ 20,968,113

All common stocks are categorized as industrial and miscellaneous industries.

The carrying value and fair value of bonds at December 31, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Estimated Fair Value
Due in one year or less	$ 14,108,908	$ 14,377,303
Due after one year through five years	205,253,466	219,778,782
Due after five years through ten years	380,629,038	396,127,419
Due after ten years	314,150,317	316,736,302
Mortgage-backed securities		
Government sponsored	307,847,695	322,653,582
Residential	33,383,393	29,050,706
Total	$ 1,255,372,817	$ 1,298,724,094

4. Investments (Continued)

There were 146 bonds and 27 common stocks with unrealized losses as of December 31, 2009. At December 31, 2009, there were 93 bonds with aggregate unrealized losses of $9,441,033 and 14 common stocks with aggregate unrealized losses of $3,810,111 in a loss position for more than 12 months.

	Less than twelve months		Twelve months or greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S.Treasury Obligations	$ 26,681,909	$ (708,323)	$ -	$ -	$ 26,681,909	$ (708,323)
U.S. government agency bonds	24,222,841	(262,547)	-	-	24,222,841	(262,547)
Corporate bonds	75,478,658	(3,900,045)	117,820,889	(4,944,188)	193,299,547	(8,844,233)
Mortgage-backed securities						
Governmental	1,416,839	(247)	7,893,620	(140,343)	9,310,459	(140,590)
Residential	-	-	24,951,426	(4,356,502)	24,951,426	(4,356,502)
Common stocks	4,131,700	(526,119)	16,422,547	(3,644,217)	20,554,247	(4,170,336)
Total	$131,931,947	$ (5,397,281)	$167,088,482	$(13,085,250)	$299,020,429	$(18,482,531)

All bonds in unrealized loss positions are of investment grade and IWIF has the ability to hold such securities until recovery of cost.

As of December 31, 2009 and 2008, major categories of IWIF's net investment income are summarized as follows:

	2009	2008
Bonds	$ 61,668,504	$ 67,000,855
Equity securities	226,498	86,960
Real estate	1,807,720	1,807,720
Cash and other invested assets	1,331,589	5,696,085
Gross investment income	65,034,311	74,591,620
Investment expense	(3,639,930)	(3,201,707)
Net investment income	$ 61,394,381	$ 71,389,913

4. Investments (Continued)

IWIF participates in a securities lending program, whereby securities are transferred to an independent broker or dealer in exchange for collateral equal to at least 102% of the fair value of securities on loan. Securities under loan are maintained on IWIF's financial records and are included in the preceding investment summary. Since IWIF's collateral received in the securities lending program is restricted as to its use, such collateral is not considered an asset of IWIF and a corresponding liability is not required on the balance sheet. At December 31, 2009 and 2008, IWIF has securities with a fair value of $67,735,120 and $102,401,496, respectively, that were loaned to others. Income from the lending program totaled $254,174 and $573,356 in December 31, 2009 and 2008, respectively.

For the years ended December 31, 2009 and 2008, there are no nonadmitted investment income due and accrued amounts excluded from the financial statements.

The following table provides information about how IWIF's financial assets measured at fair value on a recurring basis as of December 31, 2009:

Class of Security	Level 1	Level 2	Level 3	Total
Common stock	$ 48,595,547	$ -	$ -	$ 48,595,547
Perpetual preferred stock	1,291,000	-	-	1,291,000
Total	$ 49,886,547	$ -	$ -	$ 49,886,547

The following table provides information about how IWIF's financial assets measured at fair value on a recurring basis as of December 31, 2008:

Class of Security	Level 1	Level 2	Level 3	Total
Common stock	$ 20,968,113	$ -	$ -	$ 20,968,113
Perpetual preferred stock	40,000	-	-	40,000
Total	$ 21,008,113	$ -	$ -	$ 21,008,113

Certain financial assets are measured at fair value on a non-recurring basis, such as certain fixed maturity securities valued at the lower of cost or fair value, or that are impaired during the reporting period and recorded at fair value on the balance sheet at December 31, 2009 and 2008. The Company's assets measured at fair value on a non-recurring basis include level 2 bonds of $3,244,750 and $1,566,101 as of December 31, 2009 and 2008, respectively.

5. Land, Building and Equipment

Real estate is stated at cost less accumulated depreciation. The building is depreciated on a straight-line basis over its estimated useful life of 40 years. Depreciation expense was $237,122 and $214,861 for the years ended December 31, 2009 and 2008, respectively. In 2009, IWIF purchased a parcel of land directly adjacent to the current real estate holdings for $1,119,138.

As of December 31, 2009 and 2008, real estate occupied by IWIF consisted of the following:

	2009	2008
Land	$ 1,332,851	$ 213,714
Buildings and improvements	14,206,862	14,206,862
	15,539,713	14,420,576
Accumulated depreciation	(5,176,474)	(4,939,353)
	$ 10,363,239	$ 9,481,223

EDP equipment is stated at cost less accumulated depreciation. EDP equipment is depreciated on a straight line basis over its estimated useful life of 3 years. Depreciation expense was $723,905 and $908,748 for the years ended December 31, 2009 and 2008, respectively, related to EDP equipment and software. As of December 31, 2009 and 2008, EDP equipment consisted of the following:

	2009	2008
EDP equipment and software	$ 10,080,601	$ 8,769,018
Accumulated depreciation	(8,272,214)	(7,677,291)
	$ 1,808,387	$ 1,091,727

6. Insurance Activity

Premium revenue includes premiums written directly by IWIF and assumed reinsurance, and is reported net of reinsurance ceded. Ceded reinsurance does not relieve IWIF from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in additional losses to IWIF. Management monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. The effect of reinsurance assumed and ceded on net premium earned for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Direct premiums	$ 174,158,857	$ 234,878,948
Reinsurance assumed	10,788,757	10,975,926
Reinsurance ceded	(2,322,997)	(1,540,218)
Net premiums earned	$ 182,624,617	$ 244,314,656

Injured Workers' Insurance Fund

Notes to Financial Statements (Continued)

6. Insurance Activity (Continued)

The effect of reinsurance assumed and ceded on net premiums written for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Direct premiums	$ 159,514,527	$ 216,458,519
Reinsurance assumed	10,042,013	10,997,081
Reinsurance ceded	(2,322,997)	(1,540,218)
Net premiums written	$ 167,233,543	$ 225,915,382

IWIF's ceded reinsurance arrangements resulted in a net increase and (decrease) in losses and LAE incurred as of December 31, 2009 and 2008, respectively, as a result of a change in ceded IBNR reserves in the accompanying financial statements as follows:

	2009	2008
Loss and loss expenses (incurred) ceded	$ 3,938,467	$ (2,029,400)
Loss and loss expense reserves	$ 22,260,000	$ 19,019,000

IWIF has unsecured aggregate reinsurance recoverable for losses unpaid including IBNR and loss adjustment expenses that exceeds 3% of IWIF's policyholder surplus with National Union Fire Insurance Company of Pittsburgh in the amount of approximately $10,789,000.

IWIF participates in a reinsurance agreement that includes a no paid loss bonus after two years but no later than three years from the expirations of the agreement. The bonus is paid simultaneously with commutation releasing both parties from any and all losses covered under the agreement. IWIF recognized a receivable of $1,924,245 and $3,566,804 related to the no paid loss bonus as of December 31, 2009 and 2008, respectively.

7. Loss and Loss Adjustment Expenses

The liability for loss and loss adjustment expenses is computed in accordance with generally accepted actuarial practices and is based upon historical claims payment experience, loss development and other current factors, which in management's judgment require recognition in the calculation. During the actuarial analysis, a range of expected ultimate losses and related expenses is developed for IWIF to use in determining its recorded liability for unpaid losses and LAE.

7. Loss and Loss Adjustment Expenses (Continued)

Activity in the liability for loss and LAE expenses for the years ended December 31, 2009 and 2008, is summarized as follows:

	2009	2008
Balance as of January 1	$ 1,286,820,000	$ 1,241,820,000
Incurred losses and loss expenses related to:		
Current year	188,836,355	230,771,091
Prior years	13,915,511	3,778,362
Total incurred	202,751,866	234,549,453
Paid losses and loss expenses related to:		
Current year	28,549,094	28,820,907
Prior years	162,952,772	160,728,546
Total paid	191,501,866	189,549,453
Balance at December 31	$ 1,298,070,000	$ 1,286,820,000

The estimated liability related to prior years was increased during 2009 by approximately $14 million and was largely due to the change in discounting of lifetime cases and to the expected reduction in the number of settlements of prior year claims. First, the amortization of the discount of future lifetime compensation indemnity claims adversely affected prior year reserves by approximately $8,000,000. Second, at December 31, 2009, regulatory complications were expected to reduce the number of settlements of prior accident year claims. The reduction of settlements will negatively impact IWIF's more recent favorable historical trends and is expected to adversely affect prior accident year reserves by approximately $5,000,000.

The reserve for losses and LAE have been discounted on a tabular basis using actuarial tables constructed from the United States Life Tables, 2004, as published by the CDC, National Vital Statistics Reports, Volume 56, Number 9, at a discount rate of 3.25%. The 2009 and 2008 reserves for loss and LAE include $223,847,667 and $228,391,413, respectively, that are eligible for discounting. The amount of discount for case and IBNR reserves at 2009 and 2008 is $83,672,064 and $85,824,704, respectively.

The estimated salvage and subrogation amounts deducted from the reserve for losses and LAE are $12,378,000 and $13,370,000 at December 31, 2009 and 2008, respectively.

8. Third-Party Advance for Claims Processing

Under a contract effective July 1, 1990, IWIF acts as administrator for certain State of Maryland workers' compensation claims. Monthly billings to the State of Maryland are based on actual claims paid on behalf of the state and a proportionate amount of administrative expenses. Administrative fees charged to the state and the Uninsured Employees' Fund are recorded as a reduction of operating expenses, amounting to $10,201,913 and $10,437,286 for the years ended December 31, 2009 and 2008, respectively. The 2009 and 2008 receivable from the State of Maryland represents the net of claims paid and operating expenses applicable to the administration of State claims in excess of payments received. This receivable is settled on a monthly basis. The receivable balance included in amounts receivable from third party administrative services at December 31, 2009 and 2008 was $6,158,067 and $5,208,702, respectively.

Effective May 28, 2003, IWIF acts as the administrator for all Bethlehem Steel Corporation workers' compensation claims for injuries that occurred prior to May 7, 2003 and that are compensable under the Maryland workers' compensation laws. Since the Bethlehem Steel Corporation filed for bankruptcy protection and ceased operations, the Uninsured Employers' Fund has assumed financial responsibility for their claims and reimburses IWIF for claims paid and administrative expenses on a monthly basis. The receivable balance included in amounts receivable from third party administrative services at December 31, 2009 and 2008 was $249,092 and $228,151, respectively.

9. Retirement and Pension Benefits

IWIF contributes to the State Retirement and Pension System of Maryland ("the System"), established by the State of Maryland to provide pension benefits for state employees and employees of various other participating entities within the State, including IWIF. The System is an agent, multi-employer public employee retirement system, and IWIF accounts for the plan as such. A separate valuation is not performed for IWIF, and IWIF's only obligation to the plan is its required annual contributions.

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans that are managed by the Board of Trustees for the System. All State employees and employees of the participating entities are covered by the System.

IWIF made its required contribution during the fiscal years ended December 31, 2009 and 2008, of $2,072,814 and $2,013,336, respectively, which represented approximately 8.6% and 8.0% of the covered payroll for each period.

9. Retirement and Pension Benefits (Continued)

IWIF funds a 401(k) matching program for employees that matches dollar for dollar contributions of up to 3% of an employee's compensation with a maximum match of $3,000 per employee. Also, when an employee's salary is less than $33,333 but the employee contributes $1,000 or more to the plan, IWIF will contribute a maximum of $1,000. The employee vests in IWIF's match immediately. The 401(k) plan is administered by the State of Maryland through a supplemental retirement program. During the years ended December 31, 2009 and 2008, IWIF contributed $573,177 and $544,422, respectively, as part of the 401(k) matching program.

10. Employee Postretirement Benefits

In addition to the pension benefits described in Note 9, the State of Maryland provides postretirement health care benefits, in accordance with state statutes, to all employees who are disabled or retire from IWIF with at least five years of creditable service. The healthcare benefits are part of a multi-employer plan and IWIF accounts for the plan as such. A separate valuation is not performed for IWIF and IWIF's only obligation to the plan is its required annual contributions.

The State allows such retirees to continue coverage in the group health plan, and IWIF contributes premiums based on 35% of the healthcare costs for current employees. Expenses for postretirement health care benefits are recognized based on an allocation from the State of Maryland. During the years ended December 31, 2009 and 2008, expenses of $550,821 and $586,568, respectively, were recognized for such benefits. Approximately 129 and 115 IWIF participants received such benefits during the years ended December 31, 2009 and 2008, respectively.

11. Appropriated Surplus

IWIF has reserved a portion of its surplus, as required by the Labor and Employment Article, Title 10-121, of the Annotated Code of Maryland, for catastrophic claims. Also, in accordance with Title 10-117 of the same article, IWIF has reserved a portion of its surplus for employers' liability insurance.

12. Disclosures about Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of financial instruments as of December 31, 2009 and 2008 are described below:

Cash and Short-term Investments: The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

12. Disclosures about Fair Value of Financial Instruments (Continued)

Investment Securities: The fair value of IWIF's investments in bonds is based on market values provided by the IDC. These values generally represent quoted market prices for securities traded in the public marketplace or analytically determined values for securities not traded in the public marketplace. However, for certain investments, the IDC does not provide a value and IWIF uses the fair value of those securities as obtained from IWIF's custodian bank. Additional data with respect to the fair values of IWIF's investments is disclosed in Note 4.

Premium Receivable: The carrying amounts reported in the accompanying balance sheets approximate their fair value, given the short-term nature.

13. Commitments and Contingencies

IWIF is subject to various claims and litigation in the ordinary course of business. In the opinion of management, the ultimate outcome of these claims and litigation will not have material adverse effect on the financial position or operating results of IWIF.

IWIF has purchased annuities to facilitate structured settlements of claims for which the claimant is payee. IWIF may be contingently liable to the payee if the annuity issuer fails to fulfill its obligations. These annuities are for the settlement of indemnity claims and have durations of various lengths. The amount of such contingent liability at December 31, 2009 and 2008, is $13,330,022 and $13,783,784, respectively. The amount of reserves for loss and loss adjustment expenses removed from IWIF as a result of the purchased annuities is $47,265,202 and $49,488,374 at December 31, 2009 and 2008, respectively.

14. Guaranty Fund Assessments

The Maryland Guaranty Fund provides protection to claimants and policyholders for the payment of monies when an insurance carrier becomes insolvent. The Guaranty Fund can assess an insurance carrier up to 2% of their premiums in any particular year to provide money to the Guaranty Fund. During 2008, state of Maryland regulators performed an examination of IWIF under Chapter 567, Section 2 of laws of Maryland (Chapter 567 of the Acts of 2000) and concluded that IWIF qualified for membership in the Guaranty Fund on the basis of meeting solvency requirements. As of December 31, 2009 and 2008, IWIF recorded a liability of $1,100,000 and $1,554,000 for 2009 and 2008 contributions, respectively.

15. Other Underwriting Expenses

The significant components of net other underwriting expenses incurred during 2009 and 2008 were as follows:

	2009	2008
Salaries and related items	$ 9,771,820	$ 10,797,405
Employee relations and welfare	2,906,019	2,937,568
Taxes, licenses and fees	1,069,225	2,437,130
Advertising	949,899	999,031
Postage and telephone	824,014	892,335
Rent and rent items	729,301	730,059
Printing and stationery	655,869	676,873
Equipment	552,374	528,621
Cost of depreciation of EDP equipment and software	399,027	465,160
Legal and auditing	334,240	415,712
Travel and travel related items	320,956	395,048
Other	304,980	254,521
Insurance	212,323	214,094
Audit of assured's records	183,600	190,818
Directors' fees	155,252	170,724
Board, bureaus and associations	113,710	207,428
Other underwriting expenses incurred	$ 19,482,609	$ 22,312,527

16. Correction of an Error

During 2008, IWIF completed a review of its premiums receivable subledger. As a result of this review and analysis, IWIF discovered premium revenue and outstanding receivables from prior years that should have been recorded in the general ledger. In accordance with SSAP No. 3, *Accounting Changes and Corrections of Errors,* corrections of an error in previously issued financial statements shall be reported as adjustments to the opening balance of unassigned funds (surplus) in the period an error is detected. Accordingly, the 2008 financial statements reflected adjustments to correct the premiums receivable and surplus balances.

The effects of this correction on the balance sheet as of January 1, 2008 were as follows:

January 1, 2008	Balance before adjustment	Adjustment	As reported
Unbilled premiums	$ 54,256,834	$ 3,569,571	$ 57,826,405
Unappropriated surplus	233,961,260	3,569,571	237,530,831

There was no effect on the statement of operations for the year ended December 31, 2008.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Directors
Injured Workers' Insurance Fund

The report on our audit of the statutory-basis financial statements of Injured Workers' Insurance Fund ("IWIF") as of December 31, 2009 and for the year then ended is presented on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The accompanying Supplemental Investment Risk Interrogatories, Summary Investment Schedule, Reinsurance Summary Supplemental Filing of IWIF, Schedule of Administrative and General Expenses, and Schedule of Claims Administration Activity for the State of Maryland as of December 31, 2009 and for the year then ended are presented for purposes of additional analysis and are not a required part of the statutory-basis financial statements. Such information has been subjected to the auditing procedures applied in the audit of the December 31, 2009 statutory-basis financial statements and, in our opinion, is fairly stated in all material respects in relation to the December 31, 2009 statutory-basis financial statements taken as a whole.

Johnson Lambert & Co LLP

Falls Church, Virginia
May 25, 2010

(To Be Filed by April 1)

Of The Injured Workers' Insurance Fund

Address (City, State and Zip Code) Towson, MD 21286-2235

NAIC Group Code 0000 NAIC Company Code 11039 Employer's ID Number 52-2127565

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 1,683,060,287

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	General Electric	Unaffiliated Bonds	$ 25,584,676	1.5 %
2.02	State of Pennsylvania	Unaffiliated Bonds	$ 20,000,000	1.2 %
2.03	Goldman Sachs	Unaffiliated Bonds	$ 18,394,004	1.1 %
2.04	Merrill Lynch	Unaffiliated Bonds	$ 18,361,460	1.1 %
2.05	State of Connecticut	Unaffiliated Bonds	$ 17,510,000	1.0 %
2.06	Morgan Stanley	Unaffiliated Bonds	$ 17,343,371	1.0 %
2.07	State of Tennessee	Unaffiliated Bonds	$ 15,000,000	0.9 %
2.08	State of Indiana	Unaffiliated Bonds	$ 15,000,000	0.9 %
2.09	State of Utah	Unaffiliated Bonds	$ 15,000,000	0.9 %
2.10	State of Texas - Brazos County	Unaffiliated Bonds	$ 14,996,730	0.9 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$ 1,371,219,566	81.5 %	3.07	P/RP-1	$	%
3.02	NAIC-2	$ 158,944,692	9.4 %	3.08	P/RP-2	$ 1,291,000	0.1 %
3.03	NAIC-3	$ 3,757,940	0.2 %	3.09	P/RP-3	$	%
3.04	NAIC-4	$	%	3.10	P/RP-4	$	%
3.05	NAIC-5	$	%	3.11	P/RP-5	$	%
3.06	NAIC-6	$ 972,970	0.1 %	3.12	P/RP-6	$	%

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10

4.02	Total admitted assets held in foreign investments	$ 26,072,556	1.5 %
4.03	Foreign-currency-denominated investments	$	%
4.04	Insurance liabilities denominated in that same foreign currency	$	%

		1	2
7.	Aggregate unhedged foreign currency exposure	$	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes [ ] No [X]

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	1 Issuer	2	3
13.02	Neogen Corp	$ 2,211,124	0.1 %
13.03	Cerner Corp	$ 1,995,872	0.1 %
13.04	Quality Systems Inc	$ 1,938,510	0.1 %
13.05	Abaxis Inc.	$ 1,835,257	0.1 %
13.06	Techne Corp	$ 1,727,712	0.1 %
13.07	Dionex Corp	$ 1,711,061	0.1 %
13.08	Meridian Bioscience Inc	$ 1,629,051	0.1 %
13.09	Bruker Biosciences Corp	$ 1,432,246	0.1 %
13.10	Human Genome Sciences Inc.	$ 1,429,921	0.1 %
13.11	Immucor Inc.	$ 1,424,795	0.1 %

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? .... Yes [X] No [ ]

If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? .... Yes [X] No [ ]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

		Loans	
16.12	Construction Loans	$	%
16.13	Mortgage loans over 90 days past due	$	%
16.14	Mortgage loans in the process of foreclosure	$	%
16.15	Mortgage loans foreclosed	$	%
16.16	Restructured mortgage loans	$	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential 1	Residential 2	Commercial 3	Commercial 4	Agricultural 5	Agricultural 6
17.01 above 95%	$	%	$	%	$	%
17.02 91% to 95%	$	%	$	%	$	%
17.03 81% to 90%	$	%	$	%	$	%
17.04 71% to 80%	$	%	$	%	$	%
17.05 below 70%	$	%	$	%	$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	Description 1	2	3
18.02		$	%
18.03		$	%
18.04		$	%
18.05		$	%
18.06		$	%

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	$	%

Largest three investments held in mezzanine real estate loans:

19.03		$	%
19.04		$	%
19.05		$	%

20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	$ 67,735,120	4.0 %	$ 64,530,598	$ 66,211,849	$ 78,816,955
20.02 Repurchase agreements	$	%	$	$	$
20.03 Reverse repurchase agreements	$	%	$	$	$
20.04 Dollar repurchase agreements	$	%	$	$	$
20.05 Dollar reverse repurchase agreements	$	%	$	$	$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	1	2	3	4
21.01 Hedging	$	%	$	%
21.02 Income generation	$	%	$	%
21.03 Other	$	%	$	%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-end		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	$	%	$	$	$
22.02 Income generation	$	%	$	$	$
22.03 Replications	$	%	$	$	$
22.04 Other	$	%	$	$	$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-end		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
23.01 Hedging	$	%	$	$	$
23.02 Income generation	$	%	$	$	$
23.03 Replications	$	%	$	$	$
23.04 Other	$	%	$	$	$

Investment Categories	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	54,708,515	3.408	54,708,515	3.408
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	46,023,819	2.867	46,023,819	2.867
1.22 Issued by U.S. government sponsored agencies				
1.3 Non-U.S.government (including Canada, excluding mortgaged-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations	10,695,837	0.666	10,695,837	0.666
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	17,603,844	1.096	17,603,844	1.096
1.43 Revenue and assessment obligations	200,524,680	12.490	200,524,680	12.490
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	16,293,494	1.015	16,293,494	1.015
1.512 Issued or guaranteed by FNMA and FHLMC	83,215,012	5.183	83,215,012	5.183
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	208,339,188	12.976	208,339,188	12.976
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521	33,383,393	2.079	33,383,393	2.079
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	559,502,236	34.849	559,502,236	34.849
2.2 Unaffiliated non-U.S. securities (including Canada)	25,082,798	1.562	25,082,798	1.562
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	1,291,000	0.080	1,291,000	0.080
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	48,595,548	3.027	48,595,548	3.027
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by the company	10,363,239	0.645	10,363,239	0.645
5.2 Property held for the production of income (including $ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including $ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities	2,915,617	0.182	2,915,617	0.182
8. Cash, cash equivalents and short-term investments	286,977,558	17.874	286,977,558	17.874
9. Other invested assets				
10. Total invested assets	1,605,515,778	100.000	1,605,515,778	100.000

Injured Workers' Insurance Fund

Reinsurance Summary Supplemental Filing

As of December 31, 2009, IWIF's reinsurance program does not include any contracts with risk limiting features identified in paragraphs 76 through 81 of Statement of Statutory Accounting Principles No. 62, *Property and Casualty Reinsurance*.

Injured Workers' Insurance Fund

Schedule of Administrative and General Expenses

	Year ended December 31 2009	2008
Salaries and benefits	$ 31,826,196	$ 32,974,915
Contractual services	2,854,876	3,526,138
Other operating costs	1,992,186	2,026,266
Advertising/promotion	1,002,044	1,032,024
Office supplies	749,187	724,741
Facility management costs	824,129	795,286
Travel and training	516,969	597,787
Staff costs	264,554	281,760
Automobiles	180,041	215,066
Guaranty fund	535,746	1,554,000
Reimbursement for third party administrative services	(9,701,913)	(10,437,286)
Total administrative and general expenses	$ 31,044,015	$ 33,290,697

Injured Workers' Insurance Fund

Schedule of Claims Administration Activity for the State of Maryland

	Year ended December 31	
	2009	2008
Sources		
Receipts and credits from the State of Maryland	$ 67,188,189	$ 66,964,910
Total sources	67,188,189	66,964,910
Uses		
Claims paid	58,612,641	56,502,270
Less reimbursements and recoveries	(1,816,539)	(2,796,290)
Net claims paid	56,796,102	53,705,980
Operating expense allocation	11,362,393	11,548,890
Total State uses	68,158,495	65,254,870
Net activity for the year	(970,306)	1,710,040
Receivable for State claims processing at beginning of year	(5,436,853)	(7,146,893)
Receivable for State claims processing at end of year	$ 6,407,159	$ 5,436,853