PINNACOL
ASSURANCE

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pinnacol.com

Dec. 16, 2021

The Honorable Jared Polis, Governor
Members of the Colorado General Assembly
200 E. Colfax Ave.
Denver, CO 80203

Dear Gov. Polis and Members of the Colorado General Assembly:

Pursuant to C.R.S. Section 8-45-122, attached please find Pinnacol Assurance's Report to Colorado Policymakers on 2020 Data. Per the statute, the report contains the following information*:

(a) Number of policies held by Pinnacol.
(b) Total assets of Pinnacol.
(c) Amount of reserves.
(d) Amount of surplus.
(e) Number of claims filed.
(f) Number of claims admitted or contested within the 20-day period pursuant to Section 8-43-203, specifying the number of contested claims that are medical only and those that are indemnity claims.
(g) Number of medical procedures denied.
(h) Amount of total compensation each executive officer or staff member receives, including bonuses and deferred compensation.
(i) Amount spent on commissions.
(j) Amount paid to trade associations for marketing fees.
(k) All information relating to bonus programs.
(l) Any other information the CEO deems relevant to the report.
** All data is as of year-end 2020.*

The introduction to the report also highlights Pinnacol's focus on and commitment to policyholders, injured workers and the Colorado community. We also detail the actions we took to support Colorado businesses, our policyholders and workers through the unprecedented COVID-19 pandemic.

Additional financial information may be found in the appendices to this document.

If you have any questions concerning the information in this report, please contact me at 303.361.4891.

Sincerely,

Philip B. Kalin
President and CEO

cc:
Sen. Leroy Garcia, Senate President
Sen. Chris Holbert, Senate Minority Leader
Rep. Alec Garnett Speaker of the House
Rep. Hugh McKean, House Minority Leader
Sen. Robert Rodriguez, Chair, Senate Business, Labor and Technology Committee
Sen. Rhonda Fields, Chair, Senate Health and Human Services Committee
Rep. Dylan Roberts, Chair, House Business Affairs and Labor Committee
Rep. Susan Lontine, Chair, House Health and Insurance Committee
Colorado Legislative Council Library

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REPORT TO COLORADO POLICYMAKERS ON 2020 DATA BY PINNACOL ASSURANCE

Dec. 16, 2021

pinnacol.com

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Other Information the CEO deems relevant to the report:

- Annual Financial Statement Audit Report
- Rule 16 of the Colorado Division of Workers' Compensation Rules of Procedure

INTRODUCTION

“Caring protection” is Pinnacol’s mission. And 2020, even as it posed unprecedented challenges, gave us ample opportunities to live that mission.

We think it’s helpful to remind you of what Pinnacol did to support Colorado workers and their employers in the worst of the pandemic, as well as of some other notable accomplishments from 2020 and a few highlights from 2021. At the same time, we would be remiss if we did not point out challenges that are only becoming starker as we move forward.

2020: OUR RESPONSE TO COVID-19

As we watched the impact of COVID-19 on Colorado workers and businesses in 2020, we knew we had to meet their needs, and those of our employees and our community at large, in new and different ways.

- We created a first-in-the-nation fund to cover wage replacement costs for first responders and health care workers unable to work while they awaited COVID-19 test results and to pay for workers’ COVID-19 testing.
- We forgave premiums for policyholders whose revenues evaporated.
- We gave more than $2.25 million to local and statewide relief efforts targeting small businesses.
- We offered free, virtual COVID-19 safety consultations to all Colorado businesses, whether or not they were Pinnacol policyholders.
- We voluntarily added a new class code for employees that were being paid, but not doing any work through the end of 2020 to ensure our customers’ premiums did not reflect an inaccurate assessment of risk. This class code was later adopted nationwide by the National Council on Compensation Insurance (NCCI), a national trade organization for workers’ compensation carriers.
- We transitioned to fully remote work for all but a handful of our employees (mailroom, facilities) who must be on-site.

In addition, Pinnacol decreased rates by an average of 6% in 2020 and issued a general dividend for the fifth consecutive year.

Like most workers’ comp carriers, we had a lower claims volume in 2020, as many employers laid off workers and others allowed employees to work from home, lessening their risk exposure. At the same time, though, we saw a significant volume of COVID-19 claims, with the majority coming from long-term care facilities, health care workers and first responders.

As both an employer and a corporate citizen, we took action in response to the calls for social and racial justice in 2020. We retained The Equity Project to survey our employees about their view of our internal practices and help us think about how to act on what we learned. As part of that, we created a Diversity, Equity and Inclusion Advisory Committee of employees who have crafted and implemented a robust strategy of employee education, leadership training, recruitment and retention practices, and supplier diversity. As charter members of Colorado Inclusive Economy and Prosper Colorado, we helped craft policies and best practices for all employers to follow.

A SNAPSHOT OF 2021

Although this report provides details for 2020, it is of course being distributed at the end of 2021. Accordingly, we believe it's appropriate to highlight a few compelling facts from this calendar year:

- Our injured worker satisfaction continues to be high. The injured workers we serve rate us at an average 4.16 on a 5-point scale on the official survey from the Division of Workers' Compensation, and those whose COVID-19 claims we handled rate us even higher, at an average 4.38. No other carrier comes close to this level of injured worker satisfaction.
- Our policyholder Net Promoter Score (a measure of satisfaction) grew steadily over the past year from an already strong base, to 61 so far in 2021, compared to an industry benchmark in the mid-30s.
- We reduced rates by an average of 7% in 2021 and issued a general dividend of $50 million. That trend continued with our Board approving a further 11% rate decrease for 2022 in Nov, 2021, making for six consecutive years for a total decrease of (40%) over that time. Likewise, a dividend of $40M was declared, also six years running for dividends back to policyholders.
- COVID-19 claims have, of course, continued in 2021. While the rate of new claims has declined as more people have become vaccinated, we have seen an uptick in recent months as case counts statewide have increased.
- Our premium level declined due to pandemic-induced layoffs.
- Our Diversity Equity, and Inclusion work has gained steam. We surpassed our goal of 35% of new recruits coming from racially underrepresented groups, with 47% so far in 2021. We have added five Black, Indigenous and People of Color individuals to our leadership team (directors and AVPs) and one to our executive team (VPs). The diversity of our board has increased with new appointments, bringing us to four out of nine board members being people of color. And we are publicly reporting data on recruitment, retention and compensation among underrepresented communities through Colorado Inclusive Economy and Prosper Colorado.

CHALLENGES AHEAD

2021 has posed new challenges. Colorado's workers' comp market is more competitive than ever before. Companies with multi-state operations and multiple lines are aggressively pursuing Pinnacol's business, often offering rates we can't match because they can offset workers' comp losses here with gains in those other states and lines. Despite some of the best financial and customer satisfaction results in the industry, we have seen a steady decline in our market share over the past several years, to less than 55% today — and our projections show that, absent a change in our statute that will enable us to evolve to meet the changing needs of Colorado businesses, our market share could shrink to as little as 25% by 2030. Pinnacol remains trapped by an outmoded statute that limits our ability to shift along with our customers. That should be a matter of concern for policymakers, as it means that fewer Colorado workers have access to Pinnacol's superior claims service worker advocates have said they value. We will continue to work toward loosening those statutory constraints.

A PERSONAL NOTE ABOUT THE FUTURE

Pinnacol's CEO, Phil Kalin, announced in October that he will be retiring in March 2022. The Board of Directors has launched a national search for his successor. Mr. Kalin has righted the Pinnacol ship, both financially and reputationally. We have been fortunate to have him as a leader, and we look forward to welcoming a successor who will continue the evolution initiated under Kalin's tenure.

REQUIRED REPORTING PER C.R.S. §8-45-122

All data as of Dec. 31, 2020

A. Policy Count: 53,926

Pinnacol's policies-in-force (active) as of Dec. 31, 2020, were slightly lower from 2019 (decrease of 1,545 policies), while premiums decreased by $34.8M due to a 7% rate decrease. Both policy count and premium were impacted by market share declines and COVID-related reductions in policyholder payrolls.

B. Total (Admitted) Assets: $3,035,857,928

Pinnacol's total assets decreased by 2.27% over year-end 2019. The change was driven primarily by lower premiums as a result of COVID-19.

C. Reserves: $909,949,158

Our reserves represent the financial obligations of Pinnacol to pay injured workers' expected future benefits and related claims expenses, as determined by a contracted third-party actuarial firm (Milliman). Pinnacol's total reserves increased by 0.87% over year-end 2019, primarily due to an increase in indemnity claims, as workers were unable to be on modified duty or return to work as a result of COVID-19.

D. Surplus: $1,557,810,006

Our surplus is equity to cover unexpected claims/losses and economic fluctuations as well as other risks. It is, essentially, our rainy day fund. It is important to recognize that, because Pinnacol is not allowed to participate in the state's insurance guaranty fund, our surplus serves as our own guaranty fund. Every year, the board sets a surplus target range based on A.M. Best Capital Adequacy Ratio.

Pinnacol's attention to its operating performance helped drive positive net income, which is consistently the biggest driver of surplus growth for Pinnacol. Our surplus also reflects our share of PERA's unfunded liability.

E. Claims filed in 2020: 37,088

F. Certain complex claims are required to either be admitted or contested within 20 days (with notice provided to the DOWC). The significant increase in COVID claims, which by nature are more complex led to an increase in "contested" claims that couldn't be determined within the 20 day window: 6,081

Contested claims that are medical-only: 1,727

Contested claims that are indemnity claims: 130

The number of claims Pinnacol admitted or contested within 20 days increased by 27% in 2020 compared to 2019. Of these, 61% were COVID-19 claims.

The total number of claims Pinnacol contested and reported to the DOWC increased in 2020 from 2019 by 65%. The number of contested indemnity claims increased by 52 claims and the number of contested medical-only claims increased by 677 claims. Pinnacol's most common basis for contesting claims in 2020 was an injury not being work related or the need for further investigation.

Here is a more complete picture of key data elements for 2020 with explanations to follow.

1.	Claims processed with no filing required with DOWC	**31,007**	(-22%)
2.	Claims admitted within 20 days with DOWC	4,224	(15%)
3.	Claims contested within 20 days with DOWC	1,857	(65%)
	Subtotal of items 2 and 3	**6,081**	
	Total claims in fiscal year 2020	**37,088**	(100%)

Item 1: No Filing Required: Claims that are minor in nature; the injured worker has not sustained a permanent disability or disfigurement, or lost time from work in excess of three calendar days/shifts. These claims are processed by Pinnacol and do not require a filing of admission or contest with the DOWC. These claims represent 84% of all claims received by Pinnacol in 2020.

Items 2 and 3: Admitted or Contested within 20 days: Claims that are more complex in nature require a formal filing with the DOWC of "contested" or "admitted." It should be noted that not all contested claims are ultimately contested; many may initially be contested based on the need for more information within the 20-day window, the time in which compensability must be determined.

Claims where the injured worker has sustained one of the following require a formal filing of "contested" or "admitted" with the DOWC:

- The injured employee contracted an occupational disease
- The injured employee was found to have a permanent disability due to the injury.
- The injury or occupational disease resulted in lost time from work for the injured employee in excess of three shifts or calendar days.

As noted above, the number of claims that fall into these two categories (16%) was slightly higher than the range of 12%-14% of total claims filed in each of the past few years.

Item 3: Contested Claims: The 1,857 contested claims (5% of total claims in 2020) stemmed from one or more of the following reasons:

- Injury or illness was not work-related — 1,171 (63%)
- Pending further investigation or information — 380 (20%)
- Other — Multiple reasons — 124 (7%). This category includes such things as no insurance policy or the injured worker is covered by another carrier. Note: this category includes more than one reason, such as injury/illness not work-related, no insurance coverage, third-party involvement or independent contractor — no coverage.

Pinnacol contested 5% of claims in 2020.

G. Medical procedures denied: 2,871

Pinnacol's percentage of medical procedures contested compared to total bills received was 0.58 for 2020.

Medical procedures contested are in accordance with Rule 16 of the Colorado Division of Workers' Compensation's Rules of Procedure. Some medical procedures require prior approval from the insurance company. Once a request for prior authorization is received, Pinnacol has seven business days to inform the medical provider and the injured worker that we will pay or deny payment for the procedure.

H. Amount of total compensation each executive officer or staff member receives, including bonuses or deferred compensation

Title	2020 Total Compensation
President and CEO	$1,016,725
Chief Customer Officer	$543,409
Vice President, General Counsel and Corporate Secretary	$507,271
Vice President, Chief Investment Officer	$400,374
Vice President, Human Resources	$380,471
Chief Financial Officer	$391,727
Vice President, Chief Information Officer	$380,570
Vice President, Communications and Public Affairs	$332,555
Vice President, Chief Marketing Officer	$346,316
Vice President, Operations	$318,166
Vice President, Agency Relations and Safety	$299,838
Average total compensation for 9 Associate Vice Presidents	$255,226

I. Amount spent on commissions: $71,072,526

J. Amount paid to trade associations for marketing fees: $85,137

K. Information related to bonus programs

See Appendix A

L. Other information the CEO deems relevant to the report

See Appendix B

Note: Sources for all items except H and the Appendices are the 2020 Pinnacol Annual Statement, the Pinnacol Assurance Key Factor Report, the General Ledger Account (60511-100 — Advertising Expenses — Association Marketing) and other internal reports.

APPENDIX A

Information related to bonus programs

PINNACOL ASSURANCE

EXECUTIVE PERFORMANCE PLAN
(As Amended and Restated January 1, 2020)

SUMMARY

The Executive Performance Plan ("Performance Plan") is hereby amended and restated effective for Plan Years commencing on or after January 1, 2020. The Performance Plan is intended to recognize the achievement of major company objectives and individual objectives, measured on an annual basis.

This Performance Plan appropriately emphasizes individual and group accountability for making specific contributions to Pinnacol Assurance's overall business results. Based on Board of Directors of Pinnacol Assurance ("Board") approval, the Performance Plan will be finalized and communicated to Executive Staff. A relatively short decision-result cycle should be attainable (first quarter of the following year) to determine award payout following Board approval.

PLAN DESCRIPTION

Plan Year – The Plan Year shall be a calendar year.

Performance Measures – Awards are paid under this Performance Plan for meeting or exceeding annual performance objectives for pre-established company metrics for the Plan Year, as set forth by the Board.

Eligibility – This Performance Plan will only apply to the following positions, each of which will be considered an Eligible Employee: CEO, Vice Presidents, and Associate Vice Presidents. An Eligible Employee who is hired on or after October 1 of a Plan Year is not eligible to participate in the Performance Plan for the year of hire.

Incentive Award Plans – Eligible Employees will have incentive award plans based on meeting major company objectives and individual objectives related to Pinnacol Assurance's annual business plan. For Vice Presidents and Associate Vice Presidents, the amount of an award under this Performance Plan, if any, is subject to the approval of the CEO and then ultimately the Board. For the CEO, the amount of an award under this Performance Plan, if any, is subject to the approval of the Board.

Determination of Payment

1. Eligible Employees Other Than the CEO

   The CEO shall make a determination as soon as practicable after the end of the Plan Year as to whether each Eligible Employee (other than the CEO) has met his or her individual objectives and whether the company objectives have been met. The CEO shall make an initial determination as to the award that each such Eligible Employee is eligible for under this Performance Plan for the Plan Year. The Board shall then approve the amount of all awards (the date of such approval being the "Initial Determination Date" with respect to such Eligible Employee). The "Determination" of an award by the Board, as well as the decision as to whether to make any such award, and the amount, if any, of such award, shall be in the sole discretion of the Board. Determination means the Board has passed a resolution approving or denying a bonus award as well as the amount of any such award.

2. CEO

The Compensation Committee of the Board (the "Committee") shall make a determination as soon as practicable after the end of the Plan Year as to whether the CEO has met his individual objectives and whether the company objectives have been met. The Committee shall make an initial determination as to the award that the CEO is eligible for under this Performance Plan for the Plan Year. The Board shall then approve the amount of the final award (the date of such approval being the "Initial Determination Date" with respect to the CEO). The Determination of an award by the Board, as well as the decision as to whether to make any such award, and the amount, if any, of such award, shall be in the sole discretion of the Board. Determination means the Board has passed a resolution approving or denying a bonus award as well as the amount of any such award.

3. Subsequent Adjustment Due to Error

The Board may increase or decrease the amount of an award subsequent to an Initial Determination Date (a "Subsequent Adjustment Due to Error"), provided, however, that a Subsequent Adjustment Due to Error shall only be made because of a mathematical error, an adjustment to results as described below under "Company Objectives," or upon the determination of the Board that a metric or criterion used to compute an award had been determined in error. The date on which the Board approves a Subsequent Adjustment Due to Error shall be a Subsequent Determination Date with respect to such adjustment.

4. Determination Dates

The Initial Determination Date with respect to a Plan Year shall be on or after January 1 of the calendar year immediately following the Plan Year but no later than the May 31 of the calendar year immediately following such Plan Year. Any Subsequent Determination Date with respect to a Plan Year shall be no later than the September 30 of the calendar year immediately following such Plan Year.

Payment – Payment of an award, or of a Subsequent Adjustment Due to Error that increases an award, shall be made within 2-1/2 months of the Initial Determination Date (with respect to the award) or within 2-1/2 months of the Subsequent Determination Date (with respect to the Subsequent Adjustment Due to Error). In the event that a Subsequent Adjustment Due to Error reduces an award that has already been paid, Pinnacol Assurance may recoup such Subsequent Adjustment Due to Error from the recipient of an award by reducing the compensation otherwise payable to such recipient within sixty (60) days of the Subsequent Determination Date (including, but not limited to, regular compensation, bonuses, commissions, or severance pay and any amount of such Subsequent Adjustment Due to Error that Pinnacol Assurance has not recouped from such compensation shall be paid by the recipient to Pinnacol Assurance on the sixtieth (60th) day following the Subsequent Determination Date. This paragraph applies whether or not such recipient has remained an Eligible Employee.

Vesting – An Eligible Employee who is not employed by Pinnacol Assurance on a Determination Date (whether an Initial or Subsequent Determination Date) forfeits all rights to an award (or an increase in an award in the case of a Subsequent Adjustment Due to Error) for the Plan Year to which such Determination Date relates. An Eligible Employee who is employed by Pinnacol Assurance on an Initial or Subsequent Determination Date is fully vested in the award (or an increase in an award, in the case of a Subsequent Adjustment Due to Error) granted on such Initial or Subsequent Determination Date.

Allocation of Award Under Each Plan – Incentive awards will be earned as follows once the Board has determined that an Eligible Employee has met the criteria for an individual award, which for all Performance Plan participants shall be based 80% on achievement of company objectives and 20% on Individual Strategic Goals.

Eligible Employee's Performance Plan Award Range (% of Base Salary)

	Threshold	Commendable	Maximum
Associate Vice Presidents	20.0%	32.5%	45.0%
Senior Vice President and Vice Presidents	22.5%	37.5%	52.5%
CEO	32.24%	45.67%	63.94%

Award Payout Calculation

Individual worksheets will be prepared for each Eligible Employee. Pinnacol Assurance will use the following factors in determining the amount of the award once the threshold criteria are met:

1. Company Objectives

   Annual targets for Combined Ratio Before General Dividends, New Business, Active Policy Count, Original Premium Retention, Policyholder Net Promoter Score, Injured Worker Satisfaction, Business Transformation Goals, and Individual Strategic Goals (each as defined or described below) will be established by the Board. Projected as well as past performance will be factored into the formula for establishing company objectives.

   A. "Combined Ratio Before General Dividends" is the combined ratio results for insurance operations, excluding other income/expense, as determined by the company's financial statements. The numerator of the ratio is total expenses (all losses incurred, loss adjustment expenses, underwriting expenses and safety group dividends). The denominator of the ratio is net underwriting premiums earned (underwriting premiums earned minus program dividends (but not minus general dividends).

   B. "New Business" will be based upon the premium generated by policies that are new business to Pinnacol Assurance during the Plan Year.

   C. "Active Policy Count" will be based upon the active number of policies on December 31st of the Plan Year.

   D. "Original Premium Retention" will be based on the average percentage of premium Pinnacol Assurance retains during the Plan Year.

   E. "Policyholder Net Promoter Score" will be based on the score of the "how likely are you to recommend Pinnacol" question contained in the service quality surveys of customers (policyholders) sent during the Plan Year. The new promoter score is calculated by taking the number of promoters (responses of 9 & 10) and subtracting the number of detractors (0 – 6).

   F. "Injured Worker Satisfaction" will be based on the average score of the overall satisfaction question contained in the statutory surveys of injured workers for surveys sent during the Plan Year.

G. "Business Transformation Goals" will be established by the Board from time to time.

H. "Individual Strategic Goals" will be based on the total score of the leadership competencies established by the Board. The Board will evaluate the CEO's performance, the CEO will evaluate the Vice Presidents performance and the Vice Presidents will evaluate the Associate Vice Presidents for this measure.

The weighting of the objectives shall be:

• Combined Ratio	50%
• New Business	4%
• Active Policy Count	3%
• Original Premium Retention	4%
• Policyholder Net Promoter Score	4%
• Injured Worker Satisfaction	5%
• Business Transformation Goals	10%
• Individual Strategic Goals	20%

2. <u>Discretionary Adjustment</u>

The CEO may review additional issues or concerns regarding any award with the Committee prior to final award approval by the full Board.

The final results pertaining to any objective may be adjusted at the discretion of the Board, based on the recommendation of the Committee, to account for unforeseen or uncontrollable events. Such adjustments will be made to assure that the results of this Performance Plan are a fair reflection of the business performance of Pinnacol Assurance. Unforeseen or uncontrollable events may include, without limitation, adverse court rulings, imposed regulatory costs and/or revenue reductions, significantly better than expected performance results, and Board-approved budget adjustments.

3. <u>Calculation of the Award Amount</u>

A. If the actual result is between two measurements (i.e., threshold and commendable or commendable and maximum) then the award will be linearly interpolated to match the actual result, but not to exceed the maximum award for that performance measure.

B. If an Eligible Employee has been employed in an eligible position for less than the full twelve calendar months of the Plan Year and was hired prior to October 1 of the Plan Year, the award will be calculated based on the Eligible Employee's base salary on December 31 of the Plan Year or if the Eligible Employee moves from an Eligible Position to a non-eligible position, on the Eligible Employee's base salary on the last day in the eligible position in the Plan Year, in either case prorated based on the number of months in the eligible position.

C. If an Eligible Employee has been employed in more than one classification eligible for an award under this Performance Plan (e.g., as both an Associate Vice President and a Vice President) during a Plan Year, the award will be calculated based on the Eligible Employee's base salary in each eligible classification, using the base salary on the day prior to any eligible classification change during the year and the base salary on December 31 of the Plan Year in the additional eligible classification, in each case prorated based on the number of months in the eligible classification and multiplied by the Eligible Employee's Performance Plan Award Range for each eligible classification.

D. The principles of B. and C. above are illustrated by the following examples.

Dakota is hired (or promoted) on July 1 into an AVP position with a base salary of $100,000 per year. He performs at a commendable level for the Plan Year.

Dakota's award = $50,000 x 32.5% = $16,250

Montana is an AVP on January 1 with a base salary of $100,000 per year. She is promoted to a VP with a base salary of $150,000 on July 1. She performs at a commendable level for the Plan Year.

Montana's award = ($50,000 x 32.5%) + ($75,000 x 37.5%) = $44,375

Section 409A

All payments contemplated by this Plan are intended to qualify as "short-term deferrals" as such term is defined in Treasury Regulation Section 1.409A-1(b)(4) and this Performance Plan shall be administered and construed accordingly. To the extent that any such payment is not a short-term deferral, this Performance Plan is intended to otherwise comply with Section 409A of the Internal Revenue Code of 1986, as amended, the Treasury Regulations promulgated thereunder, and any administrative guidance or judicial decisions with respect thereto ("Section 409A") and shall be administered and construed accordingly. It is the intention of Pinnacol Assurance that payments under this Performance Plan not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, Pinnacol Assurance may amend this Performance Plan with the goal of giving Eligible Employees the economic benefits described herein in a manner that does not result in such additional tax or interest being imposed. It is the intention of Pinnacol Assurance that no person shall be considered to have a legally binding right to any award under this Performance Plan at any time prior to an Initial Determination Date that relates to an award, or, in the case of a Subsequent Adjustment Due to Error that provides for an increase to an award, prior to such Subsequent Determination Date. Each payment described in this Performance Plan shall be a separate payment and a separately identifiable payment to the maximum extent permitted by Section 409A.

Pinnacol Assurance reserves the right to add to, change, end, or suspend this Performance Plan at any time, with or without notice. This document shall not be construed as a contract of employment, nor does it restrict the right of Pinnacol Assurance to discharge the employee or the right of the employee to terminate his or her employment at any time.

Pinnacol Assurance has evidenced its adoption of the Pinnacol Assurance Executive Performance Plan (As Amended and Restated January 1, 2020) effective January 1, 2020, by the signature of its

duly authorized officers.

PINNACOL ASSURANCE	PINNACOL ASSURANCE
By:	By:
Name: Barbara Brannen	Name: Philip B. Kalin
Title: Vice President, Human Resources	Title: President and Chief Executive Officer
Date: 12/4/19	Date: 12/4/19

APPENDIX B.1

Other information the CEO deems relevant to the report:

Annual financial statement audit report

PINNACOL ASSURANCE

PINNACOL ASSURANCE

Statutory-Basis Financial Statements and
Supplemental Schedules of Investment and Reinsurance Information

December 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

LIMITATIONS ON DISCLOSURE OF INFORMATION CONTAINED IN THIS DOCUMENT

The attached document is confidential pursuant to the following state statutes:

Section 2-3-103(2), C.R.S., states in part:

All reports shall be open to public inspection except for that portion of any report containing recommendations, comments, and any narrative statements, which is released **only upon the approval of a majority vote of the legislative audit committee.** (Emphasis supplied.)

Section 2-3-103.7(1), C.R.S., states in part:

Any state employee or other individual acting in an oversight role as a member of a committee, board, or commission, or any employee or other individual acting in an oversight role with respect to any audit conducted pursuant to Sections 2-3-120, 2-3-123, 10-22-105(4)(c), and 25.5-10-209(4), **who willfully and knowingly discloses the contents of any report** prepared by or at the direction of the Office of the State Auditor **prior to the release of such report by a majority vote of the legislative audit committee** as provided in Section 2-3-103(2), C.R.S., **is guilty of a misdemeanor** and, upon conviction thereof, shall be punished by a fine of not more than five hundred dollars. (Emphasis supplied.).

COSA – Updated August 2, 2019

LEGISLATIVE AUDIT COMMITTEE
2021 MEMBERS

Representative Dafna Michaelson Jenet
Chair

Senator Jim Smallwood
Vice Chair

Representative Rod Bockenfeld
Senator Julie Gonzales
Representative Colin Larson
Representative Dylan Roberts
Senator Robert Rodriguez
Senator Rob Woodward

Office of the State Auditor Staff

Dianne E. Ray
State Auditor

Kerri Hunter
Deputy State Auditor

Crystal Dorsey
Contract Monitor

KPMG LLP
Contract Auditors

An electronic version of this report is available at
www.Colorado.gov/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to report number 2010F
when requesting this report

PINNACOL ASSURANCE
2021 BOARD OF DIRECTORS

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Chair

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Brad R. Busse
Howard L. Carver
Barbara M. Davis
Ellen J. Golombek
Mark D. Goodman
Mowa Haile
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PINNACOL ASSURANCE
2020 BOARD OF DIRECTORS

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PINNACOL ASSURANCE

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PINNACOL ASSURANCE

Report Summary

Authority and Purpose/Scope of the Audit

This audit is conducted under the authority of Section 8-45-121(2) of the Colorado Revised Statutes (C.R.S.), which authorizes the State Auditor to conduct an annual financial audit of Pinnacol Assurance (Pinnacol or the Company) and contract with an auditor or firm of auditors, having the specialized knowledge and experience. The primary purpose of our engagement is to audit the statutory-basis financial statements of Pinnacol as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and to express an opinion on those statutory-basis financial statements and the supplemental schedules of investment information. The objective of an audit conducted in accordance with such standards is to obtain reasonable, but not absolute, assurance about whether the statutory-basis financial statements are free of material misstatement.

The financial statements of Pinnacol are prepared in accordance with statutory accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado (hereinafter referred to as statutory-basis financial statements, or financial statements in accordance with statutory accounting principles). Accordingly, they are not designed to present, and do not present, the financial position or results of operations in accordance with U.S. generally accepted accounting principles.

In the course of our audit, we examined, on a test basis, evidence supporting the amounts and disclosures in Pinnacol's statutory-basis financial statements as of and for the year ended December 31, 2020.

Audit Opinion and Report

As we are issuing an opinion on the statutory-basis financial statements in conformity with accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, we have modified our financial statement opinion to include an adverse opinion on accounting principles generally accepted in the United States of America (GAAP).

We issued a report on Pinnacol's compliance and internal control over financial reporting based on an audit of the financial statements performed in accordance with *Government Auditing Standards*. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Summary of Current Year Findings and Recommendations

There were no reported findings and recommendations resulting from the audit for fiscal year 2020.

Summary of Prior Year Findings and Recommendations

There were no reported findings and recommendations resulting from the audit for fiscal year 2019.

PINNACOL ASSURANCE

Description of Pinnacol Assurance

December 31, 2020

Pinnacol Assurance (Pinnacol or the Company) was established as a political subdivision of the State of Colorado (the State) under provisions of the Workers' Compensation Act of Colorado (Title 8, Article 45 of the Colorado Revised Statutes, as amended) to operate as a domestic mutual insurance company for the benefit of injured employees and dependents of deceased employees in Colorado. As required under state law, Pinnacol provides an assured source of workers' compensation insurance to Colorado employers. Pinnacol shall not refuse to insure any Colorado employer or cancel any insurance policy due to the risk of loss or amount of premium, except as otherwise provided in Title 8, Article 45, C.R.S., as amended.

Pinnacol is controlled by a nine-member board of directors, which is appointed by the Governor with the consent of the Colorado Senate. The board of directors has control over all monies of Pinnacol and is restricted to use such monies only for the purposes provided in Title 8, Article 45, C.R.S., as amended. The board of directors appoints a chief executive officer who is vested with full power and jurisdiction over the administration of Pinnacol. Pinnacol is not an agency of state government. The State retains no liability on the part of Pinnacol and no State monies are used for Pinnacol operations. All revenue, monies, and assets of Pinnacol belong solely to Pinnacol. The State of Colorado has no claim to, nor any interest in, such revenue, monies, and assets and shall not borrow, appropriate, or direct payments from such revenue, monies, and assets for any purpose.

Cake Insure, Inc. (Cake) was incorporated on September 20, 2017. Cake is a wholly owned subsidiary of Pinnacol and helps small businesses quote and purchase a workers' compensation insurance policy from Pinnacol. Cake is a digital platform designed to market, underwrite, and service small policyholders that are not considered high risk. With the launch of Cake, Pinnacol became subject to Title 10, Article 3, Part 8 of the C.R.S., Insurance Holding Company Systems, which requires additional report filings with the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Pinnacol holds 100% of the voting shares ownership in Cake. An "Insurance Holding Company System" is two or more affiliated persons, one or more of which is an insurer.

Policyholders' Surplus

Pinnacol had policyholders' surplus of $1,557,810,000 and $1,461,595,000 as of December 31, 2020 and 2019, respectively. The increase in surplus is primarily related to current year net income.

Independent Auditors' Report

The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Pinnacol Assurance, which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2020 and 2019, and the related statutory-basis statements of operations and changes in policyholders' surplus, and cash flow for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States .Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 to the financial statements, the financial statements are prepared by Pinnacol Assurance using statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than U.S. generally accepted accounting principles. Accordingly, the financial statements are not intended to be presented in accordance with U.S. generally accepted accounting principles.

The effects on the financial statements of the variances between the statutory accounting practices described in Note 1 and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the variances between statutory accounting practices and U.S. generally accepted accounting principles discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with U.S. generally accepted accounting principles, the financial position of Pinnacol Assurance as of December 31, 2020 and 2019, or the results of its operations or its cash flow for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of Pinnacol Assurance as of December 31, 2020 and 2019, and the results of its operations and its cash flow for the years then ended, in accordance with statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado described in Note 1.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included in the supplemental schedule of investment risks interrogatories, supplemental summary investment schedule, and reinsurance interrogatories is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2021 on our consideration of Pinnacol Assurance's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pinnacol Assurance's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pinnacol Assurance's internal control over financial reporting compliance.

KPMG LLP

Denver, Colorado
May 19, 2021

PINNACOL ASSURANCE

Statutory-Basis Statements of Admitted Assets, Liabilities, and Policyholders' Surplus

December 31, 2020 and 2019

(In thousands)

Admitted Assets		2020	2019
Cash and invested assets:			
Bonds at adjusted carrying value, fair value of $2,471,087 in 2020 and $2,223,810 in 2019 (note 4)	$	2,251,470	2,116,729
Preferred stock at adjusted carrying value, fair value of $713 in 2020 and $681 in 2019 (note 4)		660	609
Common stock at fair value, actual cost of $368,440 in 2020 and $321,291 in 2019 (note 4)		473,148	440,042
Mortgage loans on real estate (note 4)		45,066	23,814
Real estate at cost – net of accumulated depreciation of $19,865 in 2020 and $18,541 in 2019		14,024	15,057
Cash, cash equivalents, and short-term investments		70,331	215,630
Other invested assets (notes 4 and 9)		128,262	105,232
Receivables for securities sold		69	12,271
Securities lending reinvested collateral assets		—	92,085
Total cash and invested assets		2,983,030	3,021,469
Uncollected premiums		28,822	33,049
Earned but unbilled premiums		—	27,590
Funds held by or deposited with reinsurers		4,582	4,583
Electronic data processing equipment – at cost – net of accumulated depreciation of $3,182 in 2020 and $9,157 in 2019		790	1,139
Receivables from subsidiaries and affiliates		168	283
Accrued investment income		18,466	18,134
Total admitted assets	$	3,035,858	3,106,247
Liabilities and Policyholders' Surplus			
Reserve for unpaid losses and loss adjustment expenses:			
Reserve for unpaid losses (note 2)	$	805,576	795,911
Reserve for unpaid loss adjustment expenses (note 2)		104,373	106,211
Total reserve for unpaid losses and loss adjustment expenses		909,949	902,122
Unearned premiums		70,501	78,384
Advance premiums		10,501	11,056
Dividends payable to policyholders		31,660	92,830
Commissions payable		29,258	33,955
Structured settlement liability (note 3)		383,881	387,750
Payable to subsidiaries and affiliates		75	92
Credit balances due policyholders		8,699	8,718
Payable for securities purchased		4,549	6,912
Payable for securities lending		—	92,085
Other liabilities		28,975	30,748
Total liabilities		1,478,048	1,644,652
Surplus notes (note 7)		100,000	100,000
Special surplus fund for unfunded pension benefits (notes 1 and 7)		181,930	217,289
Unassigned policyholders' surplus (note 7)		1,275,880	1,144,306
Total liabilities and policyholders' surplus	$	3,035,858	3,106,247

See accompanying notes to the statutory-basis financial statements.

PINNACOL ASSURANCE

Statutory-Basis Statements of Operations and Changes in
Policyholders' Surplus

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Underwriting income:			
Premiums earned	$	528,291	601,779
Deductions:			
Losses incurred (note 2)		309,363	301,192
Loss adjustment expenses incurred (note 2)		77,513	77,956
Other underwriting expenses incurred		150,180	154,033
Total underwriting deductions		537,056	533,181
Net underwriting gain (loss)		(8,765)	68,598
Investment income:			
Net investment income earned (note 4)		82,512	85,349
Net realized capital gain (note 4)		58,218	21,069
Total investment income		140,730	106,418
Other income (loss):			
Provision for uncollectible premiums		(3,639)	(3,376)
Structured settlement expense (note 3)		(3,042)	(8,135)
Other income		652	1,013
Dividends to policyholders		(12,188)	(61,484)
Net income		113,748	103,034
Change in net unrealized gains on investments		(12,650)	68,253
Change in nonadmitted assets		(4,883)	(690)
Policyholders' surplus – beginning of year		1,461,595	1,290,998
Policyholders' surplus – end of year	$	1,557,810	1,461,595

See accompanying notes to the statutory-basis financial statements.

PINNACOL ASSURANCE

Statutory-Basis Statements of Cash Flow

Years ended December 31, 2020 and 2019

(In thousands)

		2020	2019
Cash flow from operations:			
Premiums collected – net of reinsurance	$	547,439	602,342
Losses and loss adjustment expenses paid – net of reinsurance and deductibles		(379,049)	(397,594)
Other underwriting expenses paid		(157,616)	(157,223)
Dividends paid to policyholders		(73,358)	(72,133)
Investment income received, net of investment expenses paid		88,480	88,785
Miscellaneous proceeds		652	1,013
Net cash provided by operations		26,548	65,190
Cash flow from investments:			
Proceeds from sale, maturity, or redemption of investments:			
Bonds		473,168	517,540
Stocks		250,576	157,314
Mortgage loans on real estate		4,455	7,109
Other invested assets		7,723	8,703
Miscellaneous proceeds		104,310	2,472
Total proceeds from sale or redemption of investments		840,232	693,138
Cost of investments acquired:			
Bonds		(610,263)	(499,005)
Stocks		(240,896)	(56,769)
Mortgage loans on real estate		(25,707)	(15,898)
Other invested assets		(29,819)	(25,525)
Miscellaneous proceeds (applications)		(2,655)	(103,458)
Total investments acquired		(909,340)	(700,655)
Net cash used in investments		(69,108)	(7,517)
Cash flow provided by (used in) financing and miscellaneous sources:			
Cash provided by (used in) other miscellaneous sources		(102,739)	84,465
Net cash provided by (used in) financing and miscellaneous sources		(102,739)	84,465
Net (decrease) increase in cash, cash equivalents, and short-term investments		(145,299)	142,138
Cash, cash equivalents, and short-term investments – beginning of year		215,630	73,492
Cash, cash equivalents, and short-term investments – end of year	$	70,331	215,630

See accompanying notes to the statutory-basis financial statements.

(1) Nature of Operations and Significant Accounting Policies

(a) Organization

Pinnacol Assurance (Pinnacol or the Company) was established under provisions of the Workers' Compensation Act of Colorado (Title 8, Article 45 of the C.R.S., as amended), as a political subdivision of the State of Colorado (the State), to operate as a domestic mutual insurance company for the benefit of injured employees and dependents of deceased employees. Pinnacol offers insurance to employers operating within the State.

Pinnacol is controlled by a nine-member board of directors, which is appointed by the Governor with the consent of the Senate. In accordance with the applicable statutes of the State, the administration of Pinnacol is under the direction of a chief executive officer, appointed by the board of directors. Pinnacol is not an agency of the State and the State retains no liability on behalf of Pinnacol and no State monies are used for Pinnacol operations.

Cake Insure, Inc. (Cake) was incorporated on September 20, 2017. Cake is a wholly owned subsidiary of Pinnacol and helps small businesses obtain quotes and purchase a workers' compensation insurance policy from Pinnacol.

(b) Basis of Presentation

The accompanying statutory-basis financial statements of Pinnacol have been prepared in accordance with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado (the Division). Prescribed statutory accounting practices (SAP) are those practices that are incorporated directly or by reference to state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Colorado has adopted the National Association of Insurance Commissioners' (NAIC) SAP, which are codified in the NAIC's *Accounting Practices and Procedures Manual* (the Manual). Therefore, compliance with the Manual is a prescribed accounting practice. In the preparation of the accompanying statutory-basis financial statements, the Company has followed NAIC guidelines and has not utilized any practices considered to be permitted practices.

Statutory accounting practices contained in the Manual vary in some respects from accounting principles generally accepted in the United States of America (GAAP). The more significant differences between NAIC SAP and GAAP are as follows:

- Policy acquisition costs, such as commissions, premium surcharges, and other expenses directly related to the cost of acquiring new business are expensed as incurred, while under GAAP, they are deferred and amortized over the policy term to provide for proper matching of revenue and expense.
- Investments in debt securities are generally carried at amortized value, while under GAAP, they would be carried at fair value. For GAAP, changes in fair value in bonds go through net investment income.
- Pinnacol's investment in preferred stock of Cake, a subsidiary, is reported at the lower of cost or fair value. Under GAAP, it would be included in the consolidated financial statements and all significant intercompany balances and transactions would be eliminated in consolidation.

(Continued)

- Short-term investments, which include investments with maturities at the time of acquisition of one year or less, are included with cash and cash equivalents in the accompanying statutory-basis financial statements, while under GAAP, only investments with maturities at the time of acquisition of three months or less are included with cash and cash equivalents.
- Assets are reported under NAIC SAP at “admitted asset” value and “nonadmitted” assets, or those items not meeting the definition of an asset, are excluded through a charge against policyholders’ surplus, while under GAAP, all assets are reported on the balance sheet, net of any required valuation allowance. Nonadmitted assets at December 31, 2020 and 2019 comprised the following (in thousands):

		2020	2019
Receivables	$	16,098	15,446
Fixed assets		5,978	2,709
Prepaids		3,201	2,239
Total nonadmitted assets	$	25,277	20,394

- The reserve for losses and loss adjustment expenses (LAE) is reported net of reinsurance, while under GAAP, the balance sheet reports reinsurance recoverable, including amounts related to losses incurred but not reported, as assets.
- The surplus note is reported as a component of surplus, increasing policyholders’ surplus under NAIC SAP. Under GAAP, the surplus note is recorded as long-term debt. The related interest expense may not be accrued under NAIC SAP until approved for payment by the commissioner of the state of domicile while under GAAP, the interest expense is recorded as incurred.
- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* requires employers that are part of a cost-sharing multiple employer pension fund to record their portion of the unfunded liability, while under NAIC SAP, the employer must only record the cost of the contribution and any liability for any contributions due and unpaid.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* requires employers that are part of a cost-sharing multiple employer Other Postemployment Benefit (OPEB) plan to record their portion of the net OPEB liability, while under NAIC SAP, the employer must only record the cost of the contribution and any liability for any contributions due and unpaid.

The effect of the differences between statutory-basis of accounting and generally accepted accounting principles, although not reasonably determinable, is presumed to be material. Pinnacol is a political subdivision of the State and as such would follow all applicable GASB pronouncements.

(c) Use of Estimates

The preparation of statutory-basis financial statements in accordance with accounting practices prescribed by the Division requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date

of the statutory-basis financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates include the internal structured settlement liability, the reserves for unpaid losses and loss adjustment expenses, the earned but unbilled premiums asset, as well as the contingency for uncollectible premiums, among others. Actual results could differ from those estimates and such differences could be significant. Due to the extraordinary impacts of COVID-19, there is increased uncertainty associated with these estimates in the current year. See note 1(y).

(d) Investments

Investments are recorded on the trade date. Bonds and preferred stocks are stated at amortized value or fair value, based on their NAIC designation, and are adjusted for other than temporary declines in fair value. Mortgage loans on real estate are carried at the outstanding principal balance, less any allowances for credit losses. Common stocks, mutual funds, and common trust funds are carried at fair value. Other invested assets, including partnerships, are recorded at the underlying audited equity value. For those investments in which the audited financial statements are not available in a timely manner, the unaudited equity value is used. Unrealized capital gains on common stocks, preferred stocks, mutual funds, and common trust funds are reported as a direct adjustment to policyholders' surplus. Common stocks and preferred stocks in an unrealized loss position for both years are recorded as other-than-temporary impairments (OTTI) and are recorded as a realized loss in the statutory-basis statement of operations in the period in which they occur.

Bond premium or discount is recognized using the effective interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions are amortized to the call or maturity value or date that produces the lowest asset value.

Gains and losses on investments sold are realized in operations and are computed using the specific identification method.

Prepayment assumptions for purposes of recognition of income and valuing of loan-backed bonds and structured securities were obtained from widely accepted models with inputs from major third-party data providers. Model assumptions are specific to asset class and collateral type and are regularly evaluated and adjusted where appropriate. The prospective adjustment method is used to value all loan-backed securities.

Real estate includes land, the building on the land, and capitalized building improvements used in conducting the Company's business. Land is carried at cost. Building and capitalized building improvements are carried at cost less accumulated depreciation. The cost of the building and capitalized improvements is depreciated over an estimated useful life of 30 years using the straight-line method. Depreciation expense was approximately $1,324,000 and $1,345,000 for the years ended December 31, 2020 and 2019, respectively, and is included in net investment income earned in the statutory-basis statements of operations and changes in policyholders' surplus.

(e) Investment in Subsidiary

Cake was incorporated on September 20, 2017 as a subsidiary of Pinnacol. Pinnacol purchased 2,000,000 voting shares of preferred stock in Cake on September 28, 2017. Pinnacol's ownership percentage in Cake is 100%.

As disclosed in note 1(b), Pinnacol does not consolidate its financial results with Cake. Pinnacol and Cake issue stand-alone financial statements.

Perpetual preferred stock of Cake is reported at the lower of book value or fair value. Cake preferred shares are not publicly priced. As of December 31, 2020, Pinnacol recorded $0 for the carrying value of its investment, which was confirmed by the NAIC's Securities Valuation Office (SVO). Pinnacol recorded an other-than-temporary impairment on the full value of its investment as of December 31, 2019.

(f) Cash, Cash Equivalents, and Short-Term Investments

For purposes of the statement of cash flow, cash, cash equivalents, and short-term investments include cash on deposit, money market funds, and other investments with maturities of one year or less at the date of acquisition.

As of December 31, 2020, cash, cash equivalents, and short-term investments of approximately $70,331,000 include ($4,791,000) of book overdrafts, $74,819,000 of cash equivalents, and $303,000 of short-term investments. As of December 31, 2019, cash, cash equivalents, and short-term investments of approximately $215,630,000 include ($2,018,000) of book overdrafts, $216,899,000 of cash equivalents, and $749,000 of short-term investments.

(g) Receivables for Securities Sold

As of December 31, 2020, and 2019, receivables for securities sold were approximately $69,000 and $12,271,000, respectively. Receivables for securities arise when sales of securities are recorded as of the trade date. A receivable due from the custodian is established when a security has been sold, but the proceeds from the sale have not yet been received. Receivables for securities not received within 15 days from the stated settlement date are nonadmitted. There were no nonadmitted receivables for securities sold in 2020 or 2019.

(h) Uncollected Premiums

Uncollected premiums are reported net of loss contingencies for uncollectible and nonadmitted balances. Certain receivables are not admissible for statutory accounting purposes.

All receivables for canceled policies and billed receivables that relate to balances outstanding for a period exceeding 90 days are not admissible according to the Manual.

Pinnacol independently estimates the realizable amounts of premiums receivable and records a loss contingency for any uncollectible balances that were not already nonadmitted. During 2020 and 2019, Pinnacol recorded a provision of approximately $3,639,000 and $3,376,000, respectively, for premiums receivable due to the unlikelihood of ultimate collection thereof. These amounts are reflected as provision for uncollectible premiums in the accompanying statutory-basis statements of operations and changes in policyholders' surplus.

A significant portion of Pinnacol's premium receivable balances at December 31, 2020 and 2019 were from companies operating in the construction and services industries in Colorado. The construction industry represents approximately 38% of premiums earned as of December 31, 2020 and 39% as of December 31, 2019. The services industry represents approximately 37% of premiums earned as of

December 31, 2020 and December 31, 2019, with all other individual industries constituting the remainder of premiums receivable balances.

(i) Earned but Unbilled Premiums

Earned but unbilled premiums represent a receivable or liability for changes in earned premium and audit premiums, which are amounts due from or to policyholders after the respective policy period has expired based on payroll audits performed by Pinnacol. Such amounts are estimated by Pinnacol based upon internal calculations using historical premium data, however current and future market conditions have deteriorated as compared with the economic conditions included in the historical information due to the impacts of COVID-19. See note 1(y). Pinnacol recorded a net estimated earned but unbilled premium receivable in 2020 and 2019 of approximately $0 and $27,590,000, respectively.

(j) Credit Balances Due Policyholders

Credit balances due policyholders represent excess premiums or are amounts due to policyholders. Generally, credit balances due policyholders are applied to future premium obligations of policyholders. For 2020 and 2019, such amounts are approximately $8,699,000 and $8,718,000, respectively.

(k) Electronic Data Processing Equipment and Software

Electronic data processing (EDP) equipment is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of three years. Net book value of electronic data processing equipment at December 31, 2020 and 2019 was approximately $790,000 and $1,139,000, respectively. Operating software is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of three years. Nonoperating software is recorded at cost, less accumulated depreciation, and depreciated on a straight-line basis over an estimated useful life of five years and nonadmitted. Net book value of EDP and software at December 31, 2020 and 2019 was approximately $5,773,000 and $2,458,000, respectively. Related depreciation expense of approximately $499,000 and $320,000 was incurred during 2020 and 2019, respectively, and is included in LAE and other underwriting expenses incurred in the statutory-basis statements of operations and changes in policyholders' surplus.

(l) Office Equipment, Furniture, Art, and Leasehold Improvements

Office equipment, furniture, art, and leasehold improvements are recorded at cost and depreciated on a straight-line basis. Office equipment, furniture, art, and automobiles are depreciated over an estimated useful life of five years. Leasehold improvements are depreciated over the shorter of the term of the lease or the useful life. In accordance with the Manual, these are nonadmitted assets. The net book value of these assets at December 31, 2020 and 2019 was approximately $205,000 and $251,000, respectively. Related depreciation expense of approximately $99,000 and $209,000 was incurred in 2020 and 2019, respectively, and is included in LAE and other underwriting expenses incurred in the statutory-basis statements of operations and changes in policyholders' surplus.

(m) Safety Group Dividend Program

Pinnacol has a safety group program whereby policyholders who are members of the program are entitled to a dividend based on established criteria. Pinnacol paid out safety group dividends of $2,296,000 in 2020 and $1,897,000 in 2019. As of December 31, 2020, and 2019, safety group dividends payable of $2,613,000 and $2,703,000, respectively, are included in dividends payable to

policyholders. These dividends are not declared from surplus nor are they recorded as a direct reduction to policyholders' surplus. The dividends are recorded as dividends to policyholders in the statutory-basis statements of operations and changes in policyholders' surplus.

(n) Individual Loss Control Dividend Program

Pinnacol has an individual loss control dividend (ILCD) program that is designed for policyholders who are committed to effective loss control in their business operations. If the policyholder meets the minimum premium requirements and pays an additional 5% premium charge as a buy in to the plan, the policyholder may receive a reduction of premium based on the policy premium and the loss ratio. Pinnacol paid out ILCDs of $21,382,000 in 2020 and $21,040,000 in 2019. As of December 31, 2020 and 2019, ILCDs payable of $28,709,000, and $29,944,000, respectively, are included as dividends payable to policyholders in the statutory-basis statements of operations and changes in policyholders' surplus.

(o) General Policyholder Dividends

The board of directors, at its discretion, determines the amount of general policyholder dividends to be declared, based on Pinnacol's overall experience and financial condition. Pinnacol has incurred general policyholder dividends to its policyholders in good standing of approximately $10,009,000 in 2020 and $60,174,000 in 2019. The board of directors chose not to declare a general policyholder dividend in November 2020, delaying the consideration of and, if applicable, the declaration of a general dividend until year-end 2020 financial results were available. On February 24, 2021, the board of directors declared a general policyholder dividend to be paid in March 2021 of $50,000,000.

(p) Reserve for Unpaid Losses and Loss Adjustment Expenses and Structured Settlement Liability

The reserve for unpaid losses and loss adjustment expenses represents management's best estimate of ultimate net cost of all reported and unreported losses incurred through December 31, 2020 and 2019. The reserve for unpaid losses and loss adjustment expenses is estimated by management, which uses an independent third-party actuary to provide estimates based on individual case basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes the reserve for unpaid losses and loss adjustment expenses is adequate. These estimates are continually reviewed and adjusted, as necessary, as experience develops, or new information becomes known. Such adjustments are included in losses incurred or loss adjustment expenses incurred within the statutory-basis statements of operations and changes in policyholders' surplus in the period such information becomes known. Subrogation claims (claims against third parties) are recognized as a reduction of losses incurred when collections are received.

Internal structured settlement liabilities represent obligations to claimants and dependents on cases that have been closed by contract. The discounted reserve for internal structured settlements is estimated by management, which uses an independent third-party actuary to provide estimates based on these obligations.

(q) Revenue Recognition and Unearned Premiums

For certain policies, earned premium is recorded on an installment basis to match the billing frequency stated in the policyholder contract with a provision for amounts earned but unbilled. Earned premium

for all other contracts is recognized using the daily pro rata method over the period the policy is effective.

Unearned premiums represent amounts either collected or billed and due from policyholders at December 31, 2020 and 2019 but unearned at that date as they pertain to subsequent policy periods. Unearned premiums billed, which relate to policy effective dates subsequent to December 31, 2020 are not included in the unearned premiums balance but are included as advance premium if the related cash is collected. Unearned premiums are computed on a daily pro rata basis over the effective period of the policies.

(r) Premium Deficiency Reserve

A premium deficiency reserve is recognized by recording an additional liability for the deficiency, which results when anticipated future loss, loss adjustment expense, commissions, other acquisition costs and maintenance costs exceed the recorded unearned premium reserve, any future installment premiums on existing policies, and anticipated investment income. The change in this reserve is recorded as a component of other underwriting deductions.

Pinnacol recorded a premium deficiency reserve of $0 at December 31, 2020 and 2019.

(s) Multiemployer Pension Plans and Other Postretirement Benefits

Pinnacol participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension and healthcare trust fund plan administered by the Public Employees' Retirement Association (PERA). SDTF provides retirement, disability, and survivor benefits. All employees of Pinnacol are members of the SDTF.

Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA. The HCTF provides a healthcare premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA healthcare plans, however, the subsidy is not available if only enrolled in the dental and/or vision plan(s).

As a participant in a multiple-employer pension plan and HCTF, Pinnacol recognizes as net pension cost and net postretirement benefit cost the required contribution for the period and as a liability any contributions due and unpaid.

(t) Reinsurance

Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Losses incurred, loss adjustment expenses incurred, and the reserve for loss adjustment expenses are reported net of reinsured amounts in accordance with the Manual. Premiums earned are reported net of reinsurance (note 5).

(u) Taxes

As a political subdivision of the State of Colorado, Pinnacol is generally not subject to federal or state income taxes under a specific exemption granted under Section 501(c) of the Internal Revenue Code; nor is Pinnacol subject to property tax or sales and use taxes. However, Pinnacol is subject to income taxes on any net income that is derived from a trade or business regularly carried on and not in

(Continued)

furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the financial statements taken as a whole. Pinnacol is not aware of any uncertain tax positions.

Pinnacol is not subject to a premium tax pursuant to Section 845117(3), C.R.S. However, Pinnacol is subject to a surcharge on premiums pursuant to Section 844112(1)(a), C.R.S. The surcharge is based on a rate established by the Colorado Department of Labor and Employment Division of Workers' Compensation annually, approximately 1.45% at December 31, 2020 and 2019. Such amounts are included in other underwriting expenses incurred.

(v) Surplus Note

Pinnacol issued a $100,000,000 surplus note on June 25, 2014. Before issuing this debt, the Company obtained approval from the Commissioner of the Division for the transaction and approval to classify the debt as a component of policyholders' surplus.

(w) Special Surplus Fund for Unfunded Pension Benefits

Pinnacol participates in a cost-sharing multiple employer defined benefit pension plan administered by PERA. PERA has a net pension liability, which represents the unfunded pension benefits. Statutory accounting does not allow Pinnacol's portion of the net pension liability to be recorded as a liability but allows a company to establish a special surplus fund to provide for contingencies. GASB No. 68 is effective for fiscal years beginning after June 15, 2014. PERA provides Pinnacol with the audited schedule of employers' allocations and net pension liability. The total pension liability used to calculate the net pension liability is determined by an actuarial valuation as of December 31, 2018. PERA uses standard update procedures to roll forward the total pension liability to December 31, 2019. A discount rate of 7.25% is being used. PERA also provides the employer allocation percentage for purposes of calculating Pinnacol's proportionate share of the collective net pension liability.

Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiemployer defined benefit Other Postemployment Benefit (OPEB) plan administered by PERA. GASB Statement No. 75 became effective in 2018. Although not required under statutory accounting to record its share of the liability, the Company has identified its portion of the HCTF liability in a special surplus fund in the same manner as the PERA net pension liability obligation.

(x) Application of Recent Statutory Accounting Pronouncements

During 2020, there were no substantive revisions to statutory accounting that were applicable to Pinnacol, and therefore, there were no substantive revisions adopted by the Company.

(y) Coronavirus (COVID-19) Impacts

On March 10, 2020, Colorado declared a state of emergency in response to the spread of the COVID-19 pandemic. Due to the pandemic, unemployment and the temporary and/or permanent closures of businesses have increased as of December 31, 2020.

Pinnacol has been adversely affected by the COVID-19 pandemic primarily due to a reduction in payroll by policyholders that reduced premiums. Management currently expects that premiums will

remain suppressed, as compared to those earned in recent years, until such time as Pinnacol's policyholders can resume their operations at a more normalized rate and increase payrolls accordingly. COVID-19 claims have typically shown higher frequency but lower severity. Until more time passes, the full extent of the impact of COVID-19 is uncertain.

(2) Unpaid Losses and Loss Adjustment Expenses

Unpaid losses and loss adjustment expenses (both allocated and unallocated) represent management's best estimate of the ultimate medical and indemnity net cost of all losses and loss adjustment expenses that are incurred but unpaid at year-end. Such estimates are based on individual case estimates for reported claims and actuarial estimates for losses that have been incurred but not reported. Any change in probable ultimate liabilities is reflected in losses incurred or loss adjustment expenses incurred within the statutory-basis statements of operations and changes in policyholders' surplus in the period such determination is made.

The estimated ultimate cost of losses is based on historical patterns and the expected impact of current socioeconomic trends. The ultimate settlement of claims will not be known in many cases for years after the time a policy expires. Court decisions and federal and state legislation between the time a policy is written, and the time associated claims are ultimately settled, among other factors, may dramatically impact the ultimate cost. Due to these factors, among others, the process to estimate loss and loss adjustment reserves at a point in time cannot provide an exact forecast of future payments. Rather, it produces a best estimate of liability as of a certain date. Management believes the currently estimated reserves to be adequate. While the ultimate liability may differ from the current estimate, management does not believe the difference will have a material effect, either adverse or favorable, on Pinnacol's financial position or results of operations.

Unpaid Losses and Loss Adjustment Expenses

Activity in the liability for unpaid losses and loss adjustment expenses in 2020 and 2019 is summarized as follows (in thousands):

		Unpaid losses and loss adjustment expenses	
		2020	**2019**
Balance at January 1	$	902,122	920,568
Additional amounts incurred related to:			
Current year		420,721	436,336
Prior years		(33,845)	(57,188)
Total incurred		386,876	379,148
Reductions relating to payments for:			
Current year		130,227	144,130
Prior years		248,822	253,464
Total paid		379,049	397,594
Balance at December 31	$	909,949	902,122

During the year ended December 31, 2020, the provision for unpaid losses and loss adjustment expenses for insured events of prior years was reduced by $282,667,000 to $619,455,000. This reduction includes payments for unpaid losses and loss adjustment expenses of approximately $248,822,000 and a $33,485,000 reduction in reserves for prior year unpaid losses and loss adjustment expense. This decrease is generally the result of ongoing analysis of recent loss development trends and better than expected development. Pinnacol's claims continue the trend of favorable development that has been evident for a number of calendar years. When the actual selected ultimate cost of an accident year's claims is less than the original estimate, favorable development is recorded. This favorable development resulted from initiatives to improve claims handling practices and reduce claims handling expenses when prudent and a reduction of ultimate claim frequency in Colorado. Pinnacol management continually evaluates the estimated ultimate cost of all accident years and on a calendar year basis adjusts to the best estimate available, favorable or unfavorable, in the current period. At the end of the current year, the amount of reserve credit recorded for high deductibles on unpaid losses was $4,867,000. Such reduction is collateralized generally with letters of credit for the benefit of Pinnacol. Pinnacol received $8,765,000 and $5,887,000 in subrogation as of December 31, 2020 and 2019, respectively. There were no significant changes in methodologies or assumptions used in calculating the reserves.

(3) Internal Structured Settlements

Pinnacol has an internal structured settlement program in which it retains the liability for settlements to claimants rather than purchasing annuities from third parties. This liability has mortality risk and is discounted using a market rate. The internal structured settlement liability is actuarially valued. The internal structured settlement liability is reported as a financing liability separate from unpaid losses and loss adjustment expenses on the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus.

Activity in the liability for internal structured settlements in 2020 and 2019 is summarized as follows (in thousands):

		2020	2019
Beginning balance	$	387,750	386,352
Amounts incurred:			
Change in valuation		3,042	8,135
Amounts paid		(27,451)	(26,849)
New internal structured settlements		20,540	20,112
Ending balance	$	383,881	387,750

Pinnacol uses an annuity quote that is based upon an estimated discount rate as a basis for the paid claim amount. As such, the liability should be discounted at a market rate. The discount rate applied to internal structured settlement liabilities is 2.5% at December 31, 2020 and 2019.

The amount of the discount for unpaid internal structured settlements as of December 31, 2020 and 2019 is approximately $141,279,000 and $145,889,000, respectively. The discount amounts for internal structured settlement reserves at December 31, 2020 and 2019 are distributed over the years in which the losses were incurred as follows (in thousands):

2020			2019		
Loss year		Discount	Loss year		Discount
Prior	$	102,728	Prior	$	100,004
2010		4,433	2009		9,260
2011		5,547	2010		4,793
2012		3,502	2011		6,277
2013		5,440	2012		3,795
2014		6,257	2013		5,451
2015		5,308	2014		6,196
2016		2,979	2015		4,964
2017		2,770	2016		2,025
2018		1,435	2017		2,012
2019		834	2018		718
2020		46	2019		394
Total	$	141,279	Total	$	145,889

(4) Investments

Estimated fair value of investments in bonds and equities is based on quotations provided by widely accepted third-party data providers. In 2020 and 2019, Interactive Data Corporation (IDC), Reuters (Refinitiv), and Markit Partners were used to obtain fair market values. Additionally, in 2020 and 2019, the fair value of certain common trust funds were primarily determined by net asset value and common stock warrants were primarily determined by a widely accepted third-party vendor, followed by a hierarchy using broker/dealer quotes, Bloomberg, Yield Book analytic model, and a benchmark to index model. Prior month price is used only when information is limited or unavailable.

(a) Bonds

The NAIC's Securities Valuation Office (SVO) assigns designations of bonds from 1 to 6. Bonds with designations of 1–2 are stated at amortized value using the interest method. Bonds with designations of 3–6 require the bond to be carried at the lower of amortized value or fair value, with any related unrealized loss reported in policyholders' surplus.

During 2020 and 2019, Pinnacol had investments in long-term bonds, which the NAIC's SVO assigned a 3 or higher designation. Carrying values are equal to the lower of amortized value or fair value for these bonds.

The carrying value and the fair value of investments in long-term bonds in 2020 and 2019 are summarized as follows (in thousands). The carrying value includes investment grade bonds that are reported at amortized value and low rated bonds that are reported at the lower of cost or fair value:

	2020			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Government obligations:				
Nonloan-backed bonds	$ 200,731	18,972	—	219,703
Loan-backed bonds	1,565	217	—	1,782
U.S. political subdivisions:				
Nonloan-backed bonds	14,705	1,874	—	16,579
Loan-backed bonds	—	—	—	—
U.S. special revenue:				
Nonloan-backed bonds	67,594	8,658	(59)	76,193
Loan-backed bonds	381,346	13,492	(183)	394,655
Industrial and miscellaneous:				
Nonloan-backed bonds	1,277,052	167,895	(742)	1,444,205
Loan-backed bonds	300,981	10,083	(1,502)	309,562
Hybrid securities:				
Nonloan-backed bonds	7,496	915	(3)	8,408
Loan-backed bonds	—	—	—	—
	$ 2,251,470	222,106	(2,489)	2,471,087

	2019			
	Carrying value	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Government obligations:				
Nonloan-backed bonds	$ 235,838	7,960	(505)	243,293
Loan-backed bonds	2,340	231	—	2,571
U.S. political subdivisions:				
Nonloan-backed bonds	11,226	848	—	12,074
Loan-backed bonds	—	—	—	—
U.S. special revenue:				
Nonloan-backed bonds	50,707	5,319	(4)	56,022
Loan-backed bonds	364,926	6,742	(292)	371,376
Industrial and miscellaneous:				
Nonloan-backed bonds	1,227,310	83,199	(31)	1,310,478
Loan-backed bonds	216,423	4,128	(1,003)	219,548
Hybrid securities:				
Nonloan-backed bonds	7,840	489	—	8,329
Loan-backed bonds	—	—	—	—
Bank loans:				
Nonloan-backed bonds	119	—	—	119
Loan-backed bonds	—	—	—	—
	$ 2,116,729	108,916	(1,835)	2,223,810

The book/adjusted carrying value and estimated fair value of investments in long-term bonds at December 31, 2020, by contractual maturity, are shown in the following table (in thousands). Investments such as mortgage-backed securities have been allocated based on the original maturity date at issuance. Contractual maturities may differ from actual maturities because the borrower may have the right to call or prepay obligations with or without call or prepayment penalties.

	2020	
	Book/adjusted carrying value	**Fair value**
Due in one year or less	$ 46,816	47,176
Due after one year through five years	476,136	513,569
Due after five years through ten years	756,186	834,438
Due after ten years	972,332	1,075,904
	$ 2,251,470	2,471,087

Proceeds from sales of investments in long-term bonds during 2020 and 2019 were approximately $233,171,000 and $294,913,000, respectively. Realized gains on long-term bonds of approximately $13,884,000 and $6,089,000 and realized losses of approximately ($2,253,000) and ($4,500,000) were recognized during 2020 and 2019, respectively.

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2020 (in thousands):

Description of securities	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government	$ —	—	—	—	—	—
U.S. political subdivisions	—	—	—	—	—	—
U.S. special revenue	34,479	(241)	—	—	34,479	(241)
Industrial and miscellaneous	122,654	(1,924)	32,627	(587)	155,281	(2,511)
Hybrid securities	388	(12)	—	—	388	(12)
Total	$ 157,521	(2,177)	32,627	(587)	190,148	(2,764)

The following table provides the length of impairment for those investments in long-term bonds with an unrealized loss as of December 31, 2019 (in thousands):

Description of securities	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. government	$ 46,574	(503)	4,995	(2)	51,569	(505)
U.S. political subdivisions	—	—	—	—	—	—
U.S. special revenue	20,438	(24)	37,486	(272)	57,924	(296)
Industrial and miscellaneous	58,155	(732)	62,297	(985)	120,452	(1,717)
Hybrid securities	215	—	385	(15)	600	(15)
Bank loans	29	(25)	64	(2)	93	(27)
Total	$ 125,411	(1,284)	105,227	(1,276)	230,638	(2,560)

(b) Loan-Backed and Structured Securities

Loan-backed securities are stated at amortized value or fair value based on their NAIC designation. The prospective method is used to value mortgage-backed securities. Prepayment assumptions for single class and multiclass mortgage-backed/asset-backed securities were obtained from widely accepted models with inputs from major third-party data providers. Any loan-backed and structured securities in an unrealized loss position were reviewed to determine whether an other-than-temporary impairment (OTTI) should be recognized at year-end. At December 31, 2020 and 2019, Pinnacol recognized $3,073,000 and $0 in OTTI on loan-backed securities. Loan-backed and structured securities in an unrealized loss position as of year-end, stratified based on length of time continuously in these unrealized loss positions, are as follows (in thousands):

		2020	
		Aggregate amount of unrealized loss	**Aggregate fair value of securities with unrealized loss**
Less than 12 months	$	(1,116)	107,330
12 months or longer		(570)	32,409
	$	(1,686)	139,739

(c) Equities

Unrealized gains on investments in common stocks, mutual funds, and common trust funds are reported as a component of policyholders' surplus. For any decline in the fair value of equities, which is determined to be other than temporary, the resulting OTTI loss is recognized in the statement of operations. OTTI of common stocks, mutual funds, and common trust funds result in the establishment of a new, adjusted cost basis for such investments. The original cost, adjusted cost, net unrealized gains (measured against adjusted cost), and fair value of common stocks, mutual funds, and common trust funds are summarized as follows (in thousands):

		Original cost	**Adjusted cost**	**Net unrealized gains**	**Fair value**
December 31, 2020	$	378,175	368,440	104,708	473,148
December 31, 2019		347,042	321,291	118,751	440,042

The Company is a member of the Federal Home Loan Bank (FHLB) of Topeka. Through its membership, the Company may borrow an amount, which is dependent on the market value and risk related to investments that are held at FHLB. The Company has not conducted any borrowings with the FHLB as of December 31, 2020. As a requirement of the membership, Pinnacol owns FHLB Class A and Class B Capital Stock. In 2020, these assets totaled $500,000 and $27,900, respectively.

(d) Mortgage Loans on Real Estate

The Company held $45,066,223 and $23,814,095 of commercial mortgage loans at December 31, 2020, and December 31, 2019, respectively. Mortgage loans on real estate consist entirely of domestic commercial collateralized loans and are carried at their unpaid principal balances adjusted for any unamortized premiums or discounts, origination fees, provision allowances, and foreign currency translations. Interest income is accrued on the unpaid principal balance for all loans, except for loans on nonaccrual status. Premiums, discounts, and origination fees are amortized to net investment income using the effective interest method.

A third-party manager actively manages the Company's mortgage loan portfolio by completing ongoing comprehensive analysis of factors, such as debt service coverage ratios, loan-to-value ratios, payment status, default or legal status, collateral property evaluations, and general market conditions. On a quarterly basis, the Company reviews any provided credit quality risk indicators in its internal assessment of loan impairment and credit loss.

Management's periodic evaluation and assessment for mortgage impairments is based on delinquency status, internally derived fair value, as well as credit concern status based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the fair value of the underlying collateral, composition of the loan portfolio, current economic conditions, loss experience, and other relevant factors. Risk is mitigated primarily through first lien collateralization, guarantees, loan covenants, and borrower reporting requirements. Since the Company does not hold uncollateralized mortgages, loans are generally deemed to be collectible. Any remaining unrecoverable amounts are written off during the final stage of the foreclosure process.

Loan balances are considered delinquent when payment has not been received based on contractually agreed upon terms. The accrual of interest is discontinued when concerns exist regarding the realization of loan principal or interest. The Company resumes interest accrual on loans when a loan returns to current status or under new terms when loans are restructured or modified.

At December 31, 2020, the Company did not have any troubled, impaired, or delinquent mortgage loans, or any reason to believe payments would be uncollectible on any existing loans.

(e) Securities Lending Transactions

The Company participated in a securities lending program whereby the Company lent securities, which were included in bonds and common stocks, to financial institutions (counterparties) in short-term arrangements as of December 31, 2019. The Company received cash collateral equal to a minimum of 102% of the fair value of the loaned securities and monitored the fair value of loaned securities with additional collateral obtained, as necessary. The Company recorded a corresponding liability in payable for securities lending as shown in liabilities and policyholders' surplus. The borrowers of loaned securities were permitted to sell or repledge those securities.

On March 13, 2020, the Company directed its agent bank to suspend securities lending activity in light of uncertain market conditions. Accordingly, all loaned securities were returned, and all repurchase agreements were terminated as of March 25, 2020. On November 12, 2020, the agreement with the agent bank was terminated, along with the third-party securities lending agreement on November 13, 2020.

(Continued)

Upon default of the borrower, the Company had the right to purchase replacement securities using the cash collateral held. Similarly, upon default of the Company, the borrower had the right to sell the loaned securities and apply the proceeds from such sale to the Company's obligation to return the cash collateral held.

The Company invested cash collateral received from its securities lending arrangements primarily into repurchase agreements. To manage the mismatch of maturity dates between the security lending transactions and the related reinvestment portfolio, the Company reinvested in highly liquid assets maturing within 95 days. All repurchase agreements were collateralized by U.S. Treasury Securities, U.S. Agency Securities, or U.S. Corporate bonds with fair value equals to 102% of the repurchase agreements. Additionally, all repurchase agreements were indemnified by the Company's securities lending agent against counterparty default. When counterparty default and price movements of the collateral received presented the primary risks for repurchase agreements, the Company mitigated such risks by mandating short maturities, applying proper haircuts, monitoring fair values daily, and securing indemnification from financial institutions with strong financial credit ratings.

The following table presents the Company's security loans outstanding, reinvested collateral, and the corresponding liability (in thousands):

	2020	2019
Security loans outstanding, fair value	$ —	88,973
Reinvested collateral, fair value	—	92,085
Cash collateral liability	—	92,085

(f) *Other Invested Assets*

Investments in partnerships are stated at the underlying audited equity value. For those investments in which the audited financial statements were not available by the March 1, 2020 statutory annual statement filing deadline, the unaudited equity value was used. Other invested assets total $128,262,000 and $105,232,000 in 2020 and 2019, respectively, with $128,239,000 and $105,208,000 relating to investments in partnerships. The Company has contributed $122,823,000 in net capital (capital contributions less capital distributions) since investing in partnerships and is responsible for up to an additional $80,485,000.

(g) *Impairment of Investments*

The Company writes securities down to fair value that it deems to be OTTI in the period the securities are deemed to be so impaired. The Company records write-downs as realized capital losses and adjusts the cost basis of the securities, accordingly. The Company does not adjust the revised cost basis for subsequent recoveries in value.

The assessment of whether an OTTI occurred is based upon management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors, as described below, regarding the security issuer and uses its best judgment in evaluating the cause of the decline in its estimated fair value and in assessing the prospects for near term recovery. Inherent in

management's evaluation of the security are assumptions and estimates about the operations and future earnings potential of the issuer.

Considerations used by the Company in the impairment evaluation process include, but are not limited to, the following:

- Fair value is significantly below cost.
- The decline in fair value is attributable to specific adverse conditions affecting a particular instrument, its issuer, an industry, or geographic area.
- The decline in fair value has existed for an extended period of time.
- A debt security has been downgraded by a credit rating agency.
- The financial condition of the issuer has deteriorated.
- A change in future expected cash flow has occurred.
- Dividends have been reduced or eliminated or scheduled interest payments have not been made.
- The ability and intent to hold investments until recovery, including consideration of the investment manager's discretion to sell securities.
- The present value of projected cash flows expected to be collected is less than amortized value of loan-backed and structured securities.

While all available information is taken into account, it is difficult to predict the ultimate recoverable amount from a distressed or impaired security.

At December 31, 2020 and 2019, 5.11% and 4.63% of long-term bonds held by the Company were rated noninvestment grade, respectively. At December 31, 2020 and 2019, the Company had approximately $2,765,000 and $2,560,000, respectively, of unrealized losses related to its long-term bonds. The unrealized losses on securities are primarily attributable to fluctuations in market interest rates and changes in credit spreads since the securities were acquired.

(h) Other-Than-Temporary Impairment

During 2020 and 2019, the Company recognized $10,244,000 and $3,306,000, respectively, in OTTI on long-term bonds, $0 and $12,000, respectively, in OTTI on unaffiliated preferred stock, and $8,517,000 and $1,844,000, respectively, in OTTI on common stocks, mutual funds, and common trust funds. During 2019, the Cake affiliated preferred stock of $7,571,000 was recognized as OTTI and written down to zero after confirmation by the NAIC's SVO that the preferred stock investment in Cake is zero, based on Cake's negative equity value at December 31, 2019. Additionally, the Cake loan of $4,000,000 was recognized as OTTI and written down in 2019 due to Cake's expected inability to repay the loan.

(i) Fair Value Measurements

The Company has categorized its assets and liabilities that are reported on the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus at fair value into the three-level fair

value hierarchy. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows.

- Level 1 – Quoted prices in active markets for identical assets and liabilities: This category, for items measured at fair value on a recurring basis includes common stocks, preferred stocks, and money market mutual funds. The estimated fair value of the equity securities within this category are based on quoted prices in active markets and are thus classified as Level 1.
- Level 2 – Significant other observable inputs: This category for items measured at fair value on a recurring basis includes bonds and common stocks, which are not exchange traded. The estimated fair values of some of these items were determined by independent pricing services using observable inputs. Others were based on quotes from markets, which were not considered actively traded.
- Level 3 – Significant unobservable inputs: This category for items measured at fair value includes common stocks, common stock warrants, preferred stocks, and bonds. The estimated fair value of common stock warrants and bonds was determined by internal ratings in the absence of observable inputs.

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2020.

	Fair value measurements – Level 3 December 31, 2020						
Assets	Beginning balance January 1, 2020	Amortization accretion	Current realized net income (loss)	Change in unrealized surplus	Purchases/ transfers into Level 3	Sales/ settlements/ transfers out of Level 3	Ending balance December 31, 2020
Bonds – bank loans	$ 94	1	(49)	7	19	(72)	—
All other bonds	—	—	75	605	11,978	(11,441)	1,217
Common stocks – industrial and miscellaneous	132	—	58	29	538	(107)	650
Total assets	$ 226	1	84	641	12,535	(11,620)	1,867

The following table represents (in thousands) information about the Company's financial assets measured at fair value in Level 3 as of December 31, 2019.

	Fair value measurements – Level 3 December 31, 2019						
Assets	Beginning balance January 1, 2019	Amortization accretion	Current realized net income (loss)	Change in unrealized surplus	Purchases/ transfers into Level 3	Sales/ settlements/ transfers out of Level 3	Ending balance December 31, 2019
Bonds – bank loans	$ 15,552	68	3,380	535	29,456	(48,897)	94
Perpetual preferred stocks	11	—	(11)	—	—	—	—
Common stocks – industrial and miscellaneous	644	—	122	(148)	18	(504)	132
Total assets	$ 16,207	68	3,491	387	29,474	(49,401)	226

The following tables present (in thousands) information about the Company's financial assets measured at fair value on a recurring basis for accounting purposes as of December 31, 2020 and 2019, respectively, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Fair value measurements – recurring basis December 31, 2020			
Assets	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Common stocks:				
Industrial and miscellaneous	$ 363	—	650	1,013
Common trust funds	—	127,968	—	127,968
Mutual funds	276,731	67,436	—	344,167
Total common stocks	277,094	195,404	650	473,148
Perpetual preferred stocks	187	—	—	187
Redeemable preferred stocks	—	—	—	—
Money market mutual funds	30,849	—	—	30,849
Total assets	$ 308,130	195,404	650	504,184

Assets	Fair value measurements – recurring basis December 31, 2019 Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Common stocks:				
Industrial and miscellaneous	$ 124,721	—	131	124,852
Common trust funds	—	59,738	—	59,738
Mutual funds	255,452	—	—	255,452
Total common stocks	380,173	59,738	131	440,042
Perpetual preferred stocks	579	—	—	579
Redeemable preferred stocks	—	7	—	7
Money market mutual funds	128,506	—	—	128,506
Total assets	$ 509,258	59,745	131	569,134

Certain assets are measured at fair value on a nonrecurring basis quarterly or more frequently if events dictate that the carrying value of the asset may not be recovered. These assets include bonds held at fair value with an NAIC designation of 3–6 and redeemable preferred stocks held at fair value with an NAIC designation of RP3–RP6. There were bonds with these designations where the fair value was less than amortized value, which resulted in an unrealized loss of $277,000 at December 31, 2020 and $725,000 at December 31, 2019.

The following tables reflect (in thousands) the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method as

of December 31, 2020 and 2019, respectively. The fair values are also categorized into the three-level fair value hierarchy as described above.

December 31, 2020						
Type of financial instrument		**Fair value**	**Admitted value**	**Level 1**	**Level 2**	**Level 3**
Financial instruments – assets:						
Long-term bonds:						
CDOs/CBOs/CLOs	$	192,519	190,268	—	192,519	—
Private placements		101,549	93,790	—	—	101,549
All other bonds		2,177,019	1,967,412	—	2,122,357	54,662
Total long-term bonds		2,471,087	2,251,470	—	2,314,876	156,211
Preferred stocks:						
Perpetual preferred		709	657	709	—	—
Redeemable preferred		4	3	4	—	—
Total preferred stocks		713	660	713	—	—
Common stocks:						
Industrial and miscellaneous		1,013	1,013	363	—	650
Common trust funds		127,968	127,968	—	127,968	—
Mutual funds		344,167	344,167	276,731	67,436	—
Total common stocks		473,148	473,148	277,094	195,404	650
Mortgage loans		44,922	45,066	—	—	44,922
Cash, cash equivalents, and short-term investments		70,334	70,331	70,027	307	—
Total assets	$	3,060,204	2,840,675	347,834	2,510,587	201,783

	December 31, 2019				
Type of financial instrument	**Fair value**	**Admitted value**	**Level 1**	**Level 2**	**Level 3**
Financial instruments – assets:					
Long-term bonds:					
Bank loans	$ 119	119	—	—	119
CDOs/CBOs/CLOs	84,348	85,264	—	80,098	4,250
Private placements	73,576	69,544	—	—	73,576
All other bonds	2,065,767	1,961,802	—	2,034,411	31,356
Total long-term bonds	2,223,810	2,116,729	—	2,114,509	109,301
Preferred stocks:					
Perpetual preferred	647	579	647	—	—
Redeemable preferred	34	30	—	34	—
Total preferred stocks	681	609	647	34	—
Common stocks:					
Industrial and miscellaneous	124,852	124,852	124,721	—	131
Common trust funds	59,738	59,738	—	59,738	—
Mutual funds	255,452	255,452	255,452	—	—
Total common stocks	440,042	440,042	380,173	59,738	131
Securities lending reinvested Collateral assets	92,085	92,085	7,085	85,000	—
Mortgage loans	23,814	23,814	—	—	23,814
Cash, cash equivalents, and short-term investments	215,630	215,630	167,975	47,655	—
Total assets	$ 2,996,062	2,888,909	555,880	2,306,936	133,246

(j) Investment Income

Major categories of net investment income (expense) for the years ended December 31, 2020 and 2019 are summarized as follows (in thousands):

	2020	2019
Investment income (expense):		
Corporate and miscellaneous bonds	$ 71,888	77,837
U.S. government bonds	4,578	3,679
Cash and other investments	882	1,740
Real estate	5,656	5,695
Other invested assets	5,556	3,202
Mortgage loans	1,753	1,101
Equity securities	9,094	9,779
Securities lending income	49	171
Surplus note interest expense	(8,625)	(8,625)
Investment expenses	(8,319)	(9,230)
Net investment income earned	82,512	85,349
Net realized capital gain (loss):		
Corporate and miscellaneous bonds	1,261	(1,648)
U.S. government bonds	126	(22)
Equity securities	56,810	26,752
Cash and other investments	21	(4,013)
Net realized capital gains	58,218	21,069
Net investment income	$ 140,730	106,418

(5) Reinsurance

Ceded Reinsurance – Pinnacol purchases excess of loss reinsurance with two layers and terrorism coverage. The reinsurance coverage for individual workers' compensation accidents was as follows:

- Layer 1 – Limit of $20,000,000 in excess of retention of $20,000,000 per occurrence
- Layer 2 – Limit of $40,000,000 in excess of retention of $40,000,000 per occurrence
- Terrorism Only – Limit of $50,000,000 in excess of retention of $80,000,000 per occurrence

Management is not aware of any loss nor did the Company record any loss great enough to attach to these layers during any of the prior policy periods.

Reinsurance contracts do not relieve Pinnacol of its obligations, and a failure of the reinsurer to honor its obligations could result in losses unreimbursed to Pinnacol. Pinnacol evaluates and monitors the financial

condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. Management of Pinnacol believes its reinsurers are financially sound and will continue to meet their contractual obligations.

Pinnacol uses Lloyd's Syndicates as part of its ceded reinsurer program. The Syndicates are generally not rated by AM Best. The remaining reinsurers had the following AM Best ratings at December 31, 2020:

Reinsurer	AM Best rating
Allied World Assurance Company, Limited	A
Arch Reinsurance Company	A+
Endurance Specialty Insurance Limited	A+
Convex Insurance UK Limited	A-
Lloyd's Syndicate 3000 (Markel Syndicate Management Limited)	A

Assumed Reinsurance – Pinnacol has entered into assumed reinsurance contracts that allow the Company to provide insurance coverage under the workers' compensation provisions of other states for the employees of Colorado companies who work outside of Colorado (Other States Coverage). Effective March 1, 2004, Pinnacol executed a reinsurance contract with Argonaut Insurance Company (a California corporation) for Other States Coverage. The contract was canceled in 2010; however, Pinnacol will continue to pay existing claims in accordance with this reinsurance agreement until these claims are closed or these risks are transferred. As the Company entered into a reinsurance agreement in 2010 with Zurich American Insurance Company, there were no gaps in coverage. This agreement was still in effect as of December 31, 2020. The Other States Coverage contracts are designed as 100% quota share arrangements with Pinnacol acting as the assuming company. Premium revenue is recognized pro rata over the period the policy is effective.

Funds have been placed on deposit as collateral with Argonaut Insurance Company and Zurich American Insurance Company in the amount of $4,582,000 and $4,582,000 in 2020 and 2019, respectively.

A Letter of Credit has been posted to Argonaut Insurance Company in the amount of $5,368,000 and $6,017,000 in 2020 and 2019, respectively.

Assets have been pledged in a trust to Zurich American Insurance Company in the amount of $20,898,000 and $41,062,000 in 2020 and 2019, respectively.

Pinnacol held unearned premium reserves related to assumed business of $762,000 and $1,080,000 for the years ended December 31, 2020 and 2019, respectively. Pinnacol had loss and loss adjustment expense reserves related to assumed business of $17,970,000 and $18,687,000 for the years ended December 31, 2020 and 2019, respectively.

(Continued)

The following reinsurance activity has been recorded in the accompanying statutory-basis financial statements (in thousands):

		2020	2019
Direct premiums written	$	512,025	588,500
Premiums ceded		(1,256)	(1,257)
Premiums assumed		9,639	9,806
Net premiums written	$	520,408	597,049
Direct premiums earned	$	519,589	593,391
Premiums ceded		(1,256)	(1,257)
Premiums assumed		9,957	9,645
Net premiums earned	$	528,291	601,779
Direct losses incurred	$	305,396	305,126
Losses ceded		—	—
Losses assumed		3,967	(3,934)
Net losses incurred	$	309,363	301,192
Direct loss adjustment expenses incurred	$	76,354	76,689
Loss adjustment expenses ceded		—	—
Loss adjustment expenses assumed		1,160	1,267
Net loss adjustment expenses incurred	$	77,513	77,956

(6) Employee Benefits

(a) Defined Benefit Pension Plan through the State of Colorado

Pensions – Pinnacol participates in the State Division Trust Fund (SDTF), a cost-sharing multiple-employer defined benefit pension fund administered by the Public Employees' Retirement Association of Colorado (PERA). The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position of the SDTF have been determined using the economic resources measurement focus and the accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The Colorado General Assembly passed significant pension reform through Senate Bill (SB) 18-200: *Concerning Modifications to the Public Employees' Retirement Association Hybrid Defined Benefit Plan Necessary to Eliminate with a High Probability the Unfunded Liability of the Plan Within the Next Thirty Years.* The bill was signed into law by Governor Hickenlooper on June 4, 2018. SB 18-200 makes changes to certain benefit provisions. Some, but not all, of these changes were in effect as of December 31, 2020.

(Continued)

Plan description – All Pinnacol employees are provided with pensions through the SDTF-a cost-sharing multiple-employer defined benefit pension plan administered by PERA. Plan benefits are specified in Title 24, Article 51 of the C.R.S., administrative rules set forth at 8 C.C.R. 1502 1, and applicable provisions of the federal Internal Revenue Code. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *https://www.copera.org/investments/pera-financial-reports.*

Benefits provided – PERA provides retirement, disability, and survivor benefits. Retirement benefits are determined by the amount of service credit earned and/or purchased, highest average salary, the benefit structure(s) under which the member retires, the benefit option selected at retirement, and age at retirement. Retirement eligibility is specified in tables set forth at C.R.S. § 24-51-602, 604, 1713, and 1714.

The lifetime retirement benefit for all eligible retiring employees under the PERA benefit structure is the greater of the:

- Highest average salary multiplied by 2.5% and then multiplied by years of service credit.
- The value of the retiring employee's member contribution account plus a 100% match on eligible amounts as of the retirement date. This amount is then annuitized into a monthly benefit based on life expectancy and other actuarial factors.

In all cases, the service retirement benefit is limited to 100% of highest average salary and also cannot exceed the maximum benefit allowed by federal Internal Revenue Code.

Members may elect to withdraw their member contribution accounts upon termination of employment with all PERA employers; waiving rights to any lifetime retirement benefits earned. If eligible, the member may receive a match of either 50% or 100% on eligible amounts depending on when contributions were remitted to PERA, the date employment was terminated, whether five years of service credit has been obtained and the benefit structure under which contributions were made.

Benefit recipients who elect to receive a lifetime retirement benefit are generally eligible to receive postretirement cost-of-living adjustments (COLAs) in certain years, referred to as annual increases in the C.R.S. Pursuant to SB 18-200, the annual increases (AI) for 2019 and 2020 is 0% for all benefit recipients. Thereafter, benefit recipients under the PERA benefit structure who began eligible employment before January 1, 2007 will receive an annual increase of 1.25% unless adjusted by the automatic adjustment provision (AAP) pursuant to C.R.S. § 24-51-413. Benefit recipients under the PERA benefit structure who began eligible employment after January 1, 2007 will receive the lesser of an annual increase of 1.25% or the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the prior calendar year, not to exceed 10% of PERA's Annual Increase Reserve (AIR) for the SDTF. The AAP may raise or lower the aforementioned AI by up to 0.25% based on the parameters specified in C.R.S. § 24-51-413.

Disability benefits are available for eligible employees once they reach five or more years of earned service credit and are determined to meet the definition of disability. The disability benefit amount is based on the retirement benefit formula(s) shown above considering a minimum 20 years of service credit, if deemed disabled.

Survivor benefits are determined by several factors, which include the amount of earned service credit, highest average salary of the deceased, the benefit structure(s) under which service credit was obtained, and the qualified survivor(s) who will receive the benefits.

Contributions – Eligible employees, Pinnacol and the State are required to contribute to the SDTF at a rate set by Colorado statute. The contribution requirements are established under C.R.S. § 24-51-401, *et seq* and C.R.S. § 24-51-413. Eligible employees were required to contribute 8.75% of their PERA -includable salary until June 30, 2020; thereafter, the contribution increased to 10.00% of PERA -includable salary. The employer contribution requirements for Pinnacol are summarized in the table below:

	For the year ended December 31		
	2020	**2019**	**2018**
Employer contribution rate (includes 1.02% allocation to the Health Care Trust Fund – see note 6c) [1]	10.90 %	10.40 %	10.15 %
Amortization equalization Disbursement (AED) as specified in C.R.S. §24-51-411 [1]	5.00	5.00	5.00
Supplemental amortization Equalization disbursement (SAED) as specified in C.R.S., §24-51-411 [1]	5.00	5.00	5.00
Total employer contribution rate [1]	20.90 %	20.40 %	20.15 %

[1] Contribution rates are expressed as a percentage of salary as defined in C.R.S. § 24-51-101(42).

As specified in C.R.S. § 2451414, the State is required to contribute $225,000,000 each year to PERA starting on July 1, 2018. A portion of the direct distribution payment is allocated to the SDTF based on the proportionate amount of annual payroll of the SDTF to the total annual payroll of the SDTF, School Division Trust Fund, Judicial Division Trust Fund, and Denver Public Schools (DPS) Division Trust Fund. A portion of the direct distribution allocated to the SDTF is considered a nonemployer contribution for financial reporting purposes.

Subsequent to the SDTF's December 31, 2019, measurement date, HB 20-1379 *Suspend Direct Distribution to PERA Public Employees Retirement Association for 2020-21 Fiscal Year*, was passed into law during 2020 legislative session and signed by Governor Polis on June 29, 2020. This bill suspends the July 1, 2020 $225,000,000 direct distribution allocated to the State, School, Judicial, and DPS Divisions, as required under Senate Bill 18-200.

(Continued)

Employer contributions are recognized by the SDTF in the period in which the compensation becomes payable to the member and Pinnacol is statutorily committed to pay the contributions to the SDTF. Employer contributions recognized by the SDTF from Pinnacol were $13,249,000 and $12,954,000, for the years ended December 31, 2020 and December 31, 2019, respectively. These contributions met the contribution requirement for each year.

(b) Voluntary Tax Deferred Retirement Plans

Plan description – Employees of Pinnacol that are also members of the SDTF may voluntarily contribute to the Voluntary Investment Program, an Internal Revenue Code Section 401(k) defined contribution plan administered by PERA. Title 24, Article 51, Part 14 of the C.R.S., as amended, assigns the authority to establish the Plan provisions to the PERA Board of Trustees. PERA issues a publicly available comprehensive annual financial report for the Program. That report can be obtained at *https://www.copera.org/investments/pera-financial-reports*.

Funding policy – The Voluntary Investment Program is funded by voluntary member contributions up to the maximum limits set by the Internal Revenue Service, as established under Title 24, Article 51, Section 1402 of the C.R.S., as amended. In addition, Pinnacol has agreed to match employee's elective contributions into the PERA 401(k) Plan at 50% up to the first 6% of employees' elected deferrals. Employees are immediately vested in their own contributions, employer contributions, and investment earnings. For the years ended December 31, 2020 and 2019, Pinnacol contributed approximately $1,569,000 and $1,586,000, respectively, in matching contributions to the PERA 401(k) Plan. Pinnacol also offers a 457 deferred compensation plan.

(c) Defined Benefit Other Postemployment Benefit (OPEB) Plan

OPEB plan – Pinnacol participates in the Health Care Trust Fund (HCTF), a cost-sharing multiple-employer defined benefit OPEB plan administered by PERA.

Plan description – The HCTF is established under Title 24, Article 51, Part 12 of the C.R.S., as amended. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. Title 24, Article 51, Part 12 of the C.R.S., as amended, sets forth a framework that grants authority to the PERA Board to contract, self-insure, and authorize disbursements necessary in order to carry out the purposes of the PERACare program, including the administration of the premium subsidies. Colorado State law provisions may be amended from time to time by the Colorado General Assembly. PERA issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *https://www.copera.org/investments/pera-financial-reports*.

Benefits provided – The HCTF provides a healthcare premium subsidy to eligible participating PERA benefit recipients and retirees who choose to enroll in one of the PERA healthcare plans; however, the subsidy is not available if only enrolled in the dental and/or vision plan(s). The healthcare premium subsidy is based upon the benefit structure under which the member retires and the member's years of service credit. The basis for the amount of the premium subsidy funded by each trust fund is the percentage of the member contribution account balance from each division as it relates to the total member contribution account balance from which the retirement benefit is paid.

C.R.S. § 24-51-1202 *et seq*. specifies the eligibility for enrollment in the healthcare plans offered by PERA and the amount of the premium subsidy. The law governing a benefit recipient's eligibility for the

subsidy and the amount of the subsidy differs slightly depending under which benefit structure the benefits are calculated. All benefit recipients under the PERA benefit structure are eligible for a premium subsidy, if enrolled in a healthcare plan under PERACare.

Enrollment in the PERACare is voluntary and is available to benefit recipients and their eligible dependents, certain surviving spouses, and divorced spouses and guardians, among others. Eligible benefit recipients may enroll into the program upon retirement, upon the occurrence of certain life events, or on an annual basis during an open enrollment period.

PERA benefit structure – The maximum service-based premium subsidy is $230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; the maximum service-based subsidy is $115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The basis for the maximum service-based subsidy, in each case, is for benefit recipients with retirement benefits based on 20 or more years of service credit. There is a 5% reduction in the subsidy for each year less than 20. The benefit recipient pays the remaining portion of the premium to the extent the subsidy does not cover the entire amount.

For benefit recipients who have not participated in Social Security and who are not otherwise eligible for premium-free Medicare Part A for hospital-related services, C.R.S. § 24-51-1206(4) provides an additional subsidy. According to the statute, PERA cannot charge premiums to benefit recipients without Medicare Part A that are greater than premiums charged to benefit recipients with Part A for the same plan option, coverage level, and service credit. Currently, for each individual PERACare enrollee, the total premium for Medicare coverage is determined assuming plan participants have both Medicare Part A and Part B and the difference in premium cost is paid by the HCTF on behalf of benefit recipients not covered by Medicare Part A.

Contributions – Pursuant to Title 24, Article 51, Section 208(1) (f) of the C.R.S., as amended, certain contributions are apportioned to the HCTF. PERA-affiliated employers are required to contribute at a rate of 1.02% of PERA-includable salary into the HCTF. Pinnacol’s contribution is included in the contribution rate of 20.90% in note 6(a). No member contributions are required to the HCTF. The contribution requirements for Pinnacol are established under Title 24, Article 51, Part 4 of the C.R.S., as amended. For the years ending December 31, 2020 and 2019, Pinnacol contributions to the HCTF were approximately $655,000 and $652,000, respectively, equal to the required contributions for each year.

(d) Other

Health and Welfare Trust – Effective January 1, 2010, Pinnacol entered into certain self-funded benefit programs with its vendors for healthcare, dental care, and vision care and established a separate legal trust for administrative purposes. In 2019, Pinnacol also entered into a guaranteed cost program with one of its two healthcare vendors. Pinnacol withholds monthly premium from its employee participants’ payroll checks and uses these premiums and the employer contribution amounts to fund the trust account. These premiums are used to reimburse medical claims paid by the third-party vendors for the self-funded programs or pay premiums to the healthcare vendor for the guaranteed cost program. Employer contributions in 2020 and 2019 were $7,019,000 and $6,944,000, respectively.

Accrued Paid Leave – Pinnacol employees may accrue paid time off based on their length of service subject to certain limitations on the amount that will be paid upon termination or taken in future periods.

Paid time off is recorded as an expense and a liability at the time the paid time off is earned. The estimated liability for cumulative accrued paid time off of approximately $4,391,000 and $3,161,000 at December 31, 2020 and 2019, respectively, is included in other liabilities in the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus.

(7) Policyholders' Surplus

The board of directors chose not to declare a general policyholder dividend in November 2020, delaying the consideration of and, if applicable, the declaration of a general dividend until year-end 2020 financial results were available. On February 24, 2021, the board of directors declared a general policyholder dividend to be paid in March 2021 of $50,000,000. The board of directors declared general policyholder dividends in 2019 of $60,000,000 and approved an increase of $10,000,000 on February 26, 2020, for a total of $70,000,000 based upon 2019 results. The 2020 and 2019 dividends were paid to policyholders in March 2021 and March 2020, respectively. General policyholder dividends are a component of other income.

The Division monitors a company's "risk-based capital" in assessing the financial strength of an insurance company. Pinnacol's level of surplus exceeds the "company action level" of risk-based capital, which is approximately $194,294,000 for 2020.

A surplus note in the amount of $100,000,000 was issued on June 25, 2014, to an unaffiliated third party in exchange for cash. Each payment of principal and interest on the surplus note may be made only with the prior approval of the Division and only to the extent Pinnacol has sufficient policyholders' surplus to make such payment. The interest on the unpaid principal amount of this note will be paid in semiannual installments at the rate of 8.625% per annum. In 2020, $8,625,000 of interest was paid on the note and recorded as investment expense. The note, which is subordinate to the prior payment of all other liabilities of the Company, will be due and payable twenty years from the issuance date, with an optional prepayment date in whole or part in fifteen years with no penalty. The surplus note was issued to partially cover Pinnacol's estimated proportionate share of PERA's unfunded liability for vested service of Pinnacol employees and retirees. This liability is not required to be recorded in the statutory-basis financial statements as of December 31, 2020, but it reduces the capital adequacy assessments of outside rating agencies, such as A.M. Best. In accordance with the note agreement, Pinnacol may apply the proceeds for general corporate purposes.

The surplus note agreement contains customary affirmative and negative covenants and requires that Pinnacol maintain certain specified ratios and thresholds. Among others, these covenants include maintaining a maximum writing ratio, debt to capitalization ratio and interest coverage ratio. Management believes that at December 31, 2020 Pinnacol is in compliance with such covenants, ratios, and thresholds.

As discussed in note 1(w), the Company participates in a cost-sharing multiple-employer defined benefit pension plan administered by PERA. The funded portion of PERA's total pension liability as of December 31, 2019 is 58.0%. The Company has a special surplus fund to identify its portion of the unfunded pension benefits. The discount rate is 7.25%. Based on information provided by PERA as of July 2020, the Company's special surplus fund for the unfunded pension benefits has decreased by $33,258,000 from $207,199,000 in 2019 to a new balance of $173,941,000 for 2020. There are no limitations for using the special surplus fund for policyholders, injured workers, or other creditors.

(Continued)

As discussed in note 1(w), the Company participates in the Health Care Trust Fund (HCTF) administered by PERA. The Company has identified its portion of the HCTF liability in a special surplus fund in the same manner as the PERA net pension liability obligation. The HCTF liability has decreased by $2,100,000 from $10,089,000 in 2019 to a new balance of $7,989,000 for 2020.

(8) Commitments and Contingencies

The Company has made total commitments of $80,485,000 to provide additional funds as needed to the following partnerships:

Partnership Name		2020
NB Pinnacol Assurance Fund LP	$	62,000,000
GCM Grosvenor Opportunistic Credit Fund IV Ltd		6,318,000
Blackstone Tactical Opportunities Fund II LP		5,457,000
North Haven Credit Partners LP		2,828,000
Deerpath Capital Management LP		1,656,000
NB Strategic Co-Investment Partners III LP		1,020,000
Kayne Credit Opportunities Fund LP		1,002,000
Warburg Pincus Private Equity XII LP		113,000
Lending Ark Asia Secured Private Debt Feeder Fund I		91,000
Total	$	80,485,000

The Company has also committed to fund an additional $7,013,000 for mortgage loan investments and $21,115,000 for rated note investments held at December 31, 2020.

Lawsuits arise against the Company in the normal course of business. Contingent liabilities arising from litigation and other matters are not considered material in relation to the financial position of the Company.

At December 31, 2020 and 2019, Pinnacol had a letter of credit for the benefit of Argonaut Insurance Company under an assumed reinsurance agreement for approximately $5,368,000 and $6,017,000, respectively. This reinsurance agreement allows Argonaut Insurance Company to draw upon the letter of credit, which is 100% collateralized, at any time to secure any of Pinnacol’s obligations under the agreement. Included in long-term bonds and money market securities are amounts held as collateral for the letter of credit of approximately $10,096,000 and $10,106,000, compared to a requirement of $5,368,000 and $6,017,000, as of December 31, 2020 and 2019, respectively.

At December 31, 2020 and 2019, Pinnacol had a trust for the benefit of Zurich American Insurance Company under an assumed reinsurance agreement. This reinsurance agreement allows Zurich American Insurance Company, the beneficiary, to claim the trust assets at any time to secure any of Pinnacol’s obligations under the agreement. Included in long-term bonds are amounts held in the trust of approximately $20,898,000 and $41,062,000, compared to a requirement of $23,286,000 and $34,176,000 as of December 31, 2020 and 2019.

(Continued)

Pinnacol is contingently liable for approximately $36,208,000 of claims closed by the purchase of annuities from life insurers for structured settlements. Pinnacol has not purchased annuities from life insurers under which the Company is payee, and therefore, no balances are due from such annuity insurers.

Pinnacol is aware of an unfunded net pension liability. If Pinnacol were to partially or fully leave the PERA program, the unfunded net pension liability for the vested service of Pinnacol employees and retirees would become immediately due to PERA. Title 24, Article 51, Section 316 of the C.R.S. requires a company to calculate the reserve transfer necessary when an employer disaffiliates from PERA. The formula to calculate the termination liability differs significantly from the formula used to calculate Pinnacol's share of the unfunded pension obligation under GASB 68. Therefore, the amount of a possible future termination liability is unknown but is expected to exceed $100,000,000. Currently, the possibility of the Company partially or fully leaving the PERA program is remote and would require legislative action.

(9) Related-Party Transactions

Effective April 30, 2018, there was a loan agreement between Pinnacol and Cake. Cake borrowed $4,000,000 at an interest rate of LIBOR plus 3.00%. This loan amount was fully funded as of December 31, 2018 and subsequently recognized as OTTI, as the loan was deemed uncollectible. The full balance of the loan was accordingly reported as a realized loss as of December 31, 2019. Due to the uncollectibility of the loan and accrued interest, the loan agreement was terminated in 2020.

On December 31, 2019, Pinnacol recognized OTTI on the full balance of its investment in Cake's preferred stock and recorded a realized loss of $7,571,000. Losses reported by Cake do not have an impact on Pinnacol's other investments. The losses are summarized in the table below:

Entity	Pinnacol's share of net income (loss)	Accumulated share of net income (losses)	Pinnacol's share of equity, including negative equity	Guaranteed obligation commitment for financial support (yes/no)	Reported value
Cake Insure, Inc.	$ (10,162,000)	(10,162,000)	1,733,000	No	—

Under a program administrator agreement approved by the Division, Cake writes policies for Pinnacol through its digital platform that potential policyholders can utilize to receive a quote and bind a policy. Pinnacol pays Cake program administration fees on premium that Cake generates organically or through a referral program with Pinnacol and makes payments to Cake monthly as policies are generated. During 2020, Pinnacol incurred $942,000 in program administrator fees.

Pinnacol is currently leveraging Cake's research and software development to transform Pinnacol's business and reimagine enterprise-wide systems. The use of this technology will allow Pinnacol to operate a digital platform for multiple distribution channels while continuing to build digital capabilities for all policies.

Under a management service agreement approved by the Division, Pinnacol provides certain personnel services to its subsidiary for a variable monthly fee and receives reimbursement for costs Cake incurred. During 2020, Pinnacol received $1,192,000 in management fees and reimbursed costs from its subsidiary. The management fees offset various expenses in the income statement.

At December 31, 2020, Pinnacol reported $75,000 due to subsidiary for commissions due to Cake as an agent. Pinnacol also reported $168,000 due from subsidiary for management fees and reimbursable expenses under the management service agreement.

There were no transactions with affiliates in amounts that exceeded 0.5% of the total admitted assets of Pinnacol.

(10) Subsequent Events

The board of directors chose not to declare a general policyholder dividend in November 2020, delaying the consideration of and, if applicable, the declaration of a general dividend until year-end 2020 financial results were available. On February 24, 2021, the board of directors declared a general policyholder dividend to be paid in March 2021 of $50,000,000.

As of March 2021, Colorado continues to experience impacts from the COVID-19 pandemic. Public health orders restrict some economic activities and payroll of policyholders remain suppressed. While COVID-19-related claims continue, they are significantly off the peaks experienced in late 2020. Pinnacol is unable to project if and when these effects will fully subside.

Subsequent events have been evaluated through May 19, 2021, the date these statutory-basis financial statements were available to be issued.

SUPPLEMENTAL SCHEDULES OF INVESTMENT AND REINSURANCE INFORMATION

(See Independent Auditors' Report)

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Investment Risks Interrogatories

Year ended December 31, 2020

(In thousands)

1. Pinnacol's total admitted assets as reported on page 2 of its annual statement are: $ 3,035,858
2. The following are the ten largest exposures to a single issuer/borrower/investment by investment category, excluding: (i) U.S. government securities, U.S. government agency securities, and those U.S. government money market funds listed in the Appendix to the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* as exempt, (ii) property occupied by Pinnacol, (iii) policy loans, and (iv) all SEC and foreign registered funds (open-end, closed-end, UIT and ETFs) and common trust funds that are diversified within the meaning of the Investment Company Act of 1940 (Section 5(b) (1)).

	Issuer	Description of exposure		Amount	Percentage of total admitted assets
2.01	FEDERAL NATIONAL MORTGAGE ASSOCIATION	MBS	$	268,616	8.848%
2.02	FREDDIE MAC	MBS,CMO		112,730	3.713
2.03	NB PINNACOL ASSURANCE FUND LP	OTHER LONG-TERM ASSETS		42,575	1.402
2.04	LENDING ARK ASIA SECURED PRIVATE DEBT FUND I, LP	OTHER LONG-TERM ASSETS, LONG-TERM BONDS		24,468	0.806
2.05	GUGGENHEIM PRIVATE DEBT FUND NOTE ISSUER 2.0, LLC	OTHER LONG-TERM ASSETS, LONG-TERM BONDS		19,060	0.628
2.06	BLUE OCEAN INCOME FUND LP	OTHER LONG-TERM ASSETS, LONG-TERM BONDS		13,763	0.453
2.07	MICROSOFT CORP	BONDS, EQUITY		13,722	0.452
2.08	APPLE INC	BONDS, EQUITY		13,449	0.443
2.09	JP MORGAN CHASE & CO.	BONDS, PREFERRED STOCK, EQUITY		12,347	0.407
2.10	ALPHABET INC	BONDS, EQUITY		11,850	0.390

3. Pinnacol's total admitted assets held in bonds and preferred stocks by NAIC designation are:

NAIC Designation		Amount	Percentage of total admitted assets
Bonds:			
NAIC-1	$	1,569,469	51.698%
NAIC-2		566,831	18.671
NAIC-3		49,372	1.626
NAIC-4		42,864	1.412
NAIC-5		20,771	0.684
NAIC-6		2,468	0.081
Preferred stocks:			
P/RP-1			—
P/RP-2		187	0.006
P/RP-3		469	0.015
P/RP-4		3	—
P/RP-5			—
P/RP-6			—
	$	2,252,434	

4. Assets held in foreign investments are $348,953 and assets held in foreign-currency-denominated investments are $0, which is approximately 11.49% and 0% of Pinnacol's total admitted assets, respectively.

5. The following represents aggregate foreign investment exposure categorized by NAIC sovereign designation:

Foreign investment assets

NAIC Designation		Amount	Percentage of total admitted assets
Countries designated NAIC-1	$	308,529	10.163%
Countries designated NAIC-2		33,930	1.118
Countries designated NAIC-3 or below		6,493	0.214
	$	348,952	

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Investment Risks Interrogatories

Year ended December 31, 2020

(In thousands)

6. The following represents the largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

Foreign investment assets

NAIC Designation	Country		Amount	Percentage of total admitted assets
Countries designated NAIC-1:				
Country 1:	Cayman Islands	$	152,459	5.022%
Country 2:	Australia		35,609	1.173
Countries designated NAIC-2:				
Country 1:	Mexico		19,835	0.653
Country 2:	Panama		6,031	0.199
Countries designated NAIC-3 or below:				
Country 1:	Virgin Islands, British		4,480	0.148
Country 2:	Aruba		1,800	0.059
		$	220,214	

7. Aggregate unhedged foreign currency exposure is $0, which is approximately 0% of Pinnacol's total admitted assets.

8. The following represents aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

Foreign-currency-denominated investment assets

NAIC Designation		Amount	Percentage of total admitted assets
Countries designated NAIC-1	$	0	—%
Countries designated NAIC-2		0	—
Countries designated NAIC-3 or below		0	—
	$	0	

9. The following represents the largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

Foreign-currency-denominated investment assets

NAIC Designation	Country		Amount	Percentage of total admitted assets
Countries designated NAIC-1:				
Country 1:		$	0	—%
Country 2:			0	—
Countries designated NAIC-2:				
Country 1:			0	—
Country 2:			0	—
Countries designated NAIC-3 or below:				
Country 1:			0	—
Country 2:			0	—
		$	0	

10. The following represents the ten largest nonsovereign (i.e. nongovernmental) foreign issues:

	Issuer	NAIC Designation		Amount	Percentage of total admitted assets
10	LENDING ARK ASIA SECURED PRIVATE DEBT FUND I, LP	1	$	24,468	0.806%
10	MACQUARIE GROUP LIMITED	1		8,500	0.280
10	CREDIT SUISSE GROUP AG	2,3		8,221	0.271
10	HSBC HOLDINGS PLC	1		7,009	0.231
10.1	SCENTRE GROUP TRUST 1	1		6,994	0.230
10.1	PETRONAS ELECTRONICS GROUP S.A.	1		6,972	0.230
10.1	TYCO ELECTRONICS GROUP S.A.	2		6,501	0.214
10.1	APTIV PLC	2		5,263	0.173
10.1	FOMENTO ECONOMICO MEXICANO, S.A.B. de C.V.	1		5,152	0.170
10.10	SHELL INTERNATIONAL FINANCE B.V.	1		5,094	0.168

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Investment Risks Interrogatories

Year ended December 31, 2020

(In thousands)

11. Assets held in Canadian investments are less than 2.5% of Pinnacol's total admitted assets.
12. Amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12	Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?		Yes [ ]	No [X]
12	Aggregate statement value of investments held in investments with contractual sales restrictions	$	128,739	4.241%
	Largest three investments held in investments with contractual sales restrictions:			
12	NB PINNACOL ASSURANCE FUND LP	$	42,575	1.402%
12	GCM GROSVENOR SPECIAL OPPORTUNITIES FUND, LTD		10,244	0.337
12.1	WARBURG PINCUS PRIVATE EQUITY XII, L.P.		9,713	0.320

13. The following are the ten largest equity interests (including investments in the shares of mutual funds, preferred stocks, publicly traded equity securities, and other equity securities and excluding money market and bond mutual funds listed in the *Purposes and Procedures Manual of the NAIC Investment Analysis Office* as exempt or NAIC Class 1):

	Issuer		Amount	Percentage of total admitted assets
13	BLACKROCK EQUITY INDEX FUND B	$	127,968	4.215%
13	T. ROWE PRICE U.S. EQUITY RESEARCH FUND		76,532	2.521
13	VANGUARD TOTAL INTERNATIONAL STOCK ETF		49,611	1.634
13.1	GQG PARTNERS INTERNATIONAL EQUITY FUND		44,170	1.455
13.1	T. ROWE PRICE INSTITUTIONAL SMALL CAP STOCK		43,719	1.440
13.1	NB PINNACOL ASSURANCE FUND LP		42,575	1.402
13.1	DODGE & COX INTERNATIONAL STOCK FUND		31,208	1.028
13.1	FIRST EAGLE OVERSEAS FUND		28,191	0.929
13.10	FRANKLIN INTERNATIONAL GROWTH FUND		26,280	0.866
13.1	GQG PARTNERS EMERGING MARKETS EQUITY FUND		23,266	0.766

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14	Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?	Yes [ ]	No [X]
14	Aggregate statement value of investments held in nonaffiliated, privately placed equities	195,403	6.436%
	Largest three investments held in nonaffiliated, privately placed equities:		
14	BLACKROCK EQUITY INDEX FUND B	127,968	4.215%
14	GQG PARTNERS INTERNATIONAL EQUITY FUND	44,170	1.455
14.1	GQG PARTNERS EMERGING MARKETS EQUITY FUND	23,266	0.766

	Ten Largest Fund Managers	Total Invested	Diversified	Non-Diversified
14.1	BLACKROCK EQUITY INDEX FUND B	127,968	—	127,968
14.1	T. ROWE PRICE FUNDS	120,251	120,251	—
14.1	GQG PARTNERS FUNDS	67,436	—	67,436
14.1	VANGUARD FUNDS	55,853	55,853	—
14.10	DODGE & COX INTERNATIONAL STOCK FUND	31,208	31,208	—
14.1	STATE STREET INSTITUTIONAL INVESTMENT TRUST- INTERNATIONAL TREASURY PLUS MONEY MARKET FUND	30,436	30,436	—
14.1	FIRST EAGLE OVERSEAS FUND	28,191	28,191	—
14.1	FRANKLIN INTERNATIONAL GROWTH FUND	26,280	26,280	—
14.1	MORGAN STANLEY INSTITUTIONAL FUND, INC.	14,948	14,948	—
14.2	—	—	—	—

Items 15 through 19 are not applicable.

See accompanying independent auditors' report.

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Summary Investment Schedule

December 31, 2020

(In thousands)

Investment categories	Gross investment holdings* Amount	Gross investment holdings* Percentage of gross investment holdings	Admitted assets as reported in the annual statement Amount	Admitted assets as reported in the annual statement Percentage of total admitted assets
Long-Term Bonds:				
U.S. Governments	$ 180,284	6.0 %	$ 180,284	6.0 %
All Other Governments	22,012	0.7	22,012	0.7
U.S. States, Territories and Possessions	1,001	—	1,001	—
U.S. Political Subdivisions of States, Territories, and Possessions	13,704	0.5	13,704	0.5
U.S. Special Revenue and Special Assessment Obligations	448,940	15.0	448,940	15.0
Industrial and Miscellaneous	1,578,033	52.9	1,578,033	52.9
Hybrid Securities	7,496	0.3	7,496	0.3
Parent, Subsidiaries, and Affiliates	—	—	—	—
SVO Identified Funds	—	—	—	—
Unaffiliated Bank Loans	—	—	—	—
Preferred Stocks:				
Industrial and Miscellaneous (Unaffiliated)	660	—	660	—
Parent, Subsidiaries, and Affiliates	—	—	—	—
Common Stocks:				
Industrial and Miscellaneous Publicly Traded (Unaffiliated)	481	—	481	—
Industrial and Miscellaneous Other (Unaffiliated)	532	—	532	—
Parent, Subsidiaries, and Affiliates Publicly Traded	—	—	—	—
Parent, Subsidiaries, and Affiliates Other	—	—	—	—
Mutual Funds	472,135	15.8	472,135	15.8
Unit Investment Trusts	—	—	—	—
Closed-End Funds	—	—	—	—

PINNACOL ASSURANCE

Supplemental Schedule of Investment Information
Summary Investment Schedule

December 31, 2020

(In thousands)

Investment categories	Gross investment holdings*		Admitted assets as reported in the annual statement	
	Amount	Percentage of gross investment holdings	Amount	Percentage of total admitted assets
Mortgage Loans:				
Farm Mortgages	$ —	— %	$ —	— %
Residential Mortgages	—	—	—	—
Commercial Mortgages	45,066	1.5	45,066	1.5
Mezzanine Real Estate Loans	—	—	—	—
Real Estate:				
Property occupied by Company	14,024	0.5	14,024	0.5
Property held for production of income	—	—	—	—
Property held for sale	—	—	—	—
Cash, Cash Equivalents, and Short-Term Investments:				
Cash	-4,791	(0.2)	-4,791	(0.2)
Cash Equivalents	74,818	2.5	74,818	2.5
Short-Term Investments	304	—	304	—
Contract Loans	—	—		—
Derivatives	—	—		—
Other Invested Assets (Schedule BA)	128,262	4.3	128,262	4.3
Receivables for Securities	69	—	69	—
Securities Lending	—	—	—	—
Other Invested Assets	—	—	—	—
Total invested assets	$ 2,983,030	100 %	$ 2,983,030	100 %

* Gross investment holdings as valued in compliance with NAIC *Accounting Practices and Procedures Manual*.

Note: Reinsurance Interrogatories are excluded as they are not applicable.

See accompanying independent auditors' report.

PINNACOL ASSURANCE

Reinsurance Interrogatories

December 31, 2020

1.	Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results: (a) A contract term longer than two years and the contract is noncancelable by the reporting entity during the contract term; (b) A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer; (c) Aggregate stoploss reinsurance coverage; (d) A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions, which are only triggered by a decline in the credit status of the other party; (e) A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or (f) Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity?	Yes [ ] No [X]
2.	Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders. This disclosure is limited to reinsurance contracts with written premium cessions or loss and loss expense reserve cessions described in paragraph 116 of SSAP No. 62R, *Property and Casualty Reinsurance.* This disclosure excludes cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member. (a) The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or (b) Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract?	Yes [ ] No [X]
3.	If yes to 1 or 2, please provide the following information in the Reinsurance Summary Supplemental Filing: (a) The aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income; (b) A summary of the reinsurance contract terms and indicate whether it applies to the contracts meeting the criteria in 1 or 2; and (c) A brief discussion of management's principle objectives in entering into the reinsurance contract, including the economic purpose to be achieved.	Yes [ ] No [ ] N/A [X]
4.	Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance,* has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either: (a) Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or (b) Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?	Yes [ ] No [X]
5.	If yes to 4, explain in the Reinsurance Summary Supplemental Filing why the contract(s) is treated differently for GAAP and SAP.	Yes [ ] No [ ] N/A [X]
6.	Does the reporting entity have any risks reinsured under a quota share reinsurance contract with any other entity that includes a provision that would limit the reinsurer's losses below the stated quota share percentage?	Yes [ ] No [X]

See accompanying independent auditors' report.

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Members of the Legislative Audit Committee and
Pinnacol Assurance Board of Directors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Pinnacol Assurance, which comprise the statutory-basis statements of admitted assets, liabilities, and policyholders' surplus as of December 31, 2020, and the related statutory-basis statements of operations and changes in policyholders' surplus, and cash flow for the year then ended, and the related notes to the statutory-basis financial statements, and have issued our report thereon dated May 19, 2021. Our report on the financial statements includes an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared using statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than U.S. generally accepted accounting principles. Our report on the financial statements also includes an unmodified opinion on the financial statements in accordance with statutory accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pinnacol Assurance's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pinnacol Assurance's internal control. Accordingly, we do not express an opinion on the effectiveness of Pinnacol Assurance's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pinnacol Assurance's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations,

contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pinnacol Assurance's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pinnacol Assurance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Denver, Colorado
May 19, 2021

The Members of the Legislative Audit Committee and
Risk and Audit Committee of the Board of Directors
Pinnacol Assurance
Denver, Colorado

Ladies and Gentlemen:

We have audited the financial statements prepared in accordance with statutory accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado of Pinnacol Assurance (the Company) as of December 31, 2020 and 2019 and for each of the years then ended, and expect to issue our report thereon under date of May 19, 2021. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of the Pinnacol Assurance Risk and Audit Committee of the Board of Directors (Pinnacol Risk and Audit Committee), are presented fairly, in all material respects, in conformity with statutory accounting principles prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which practices differ from the U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (AICPA) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audits do not relieve management or the Pinnacol Risk and Audit Committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Pinnacol Risk and Audit Committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Significant Unusual Transactions

In connection with our audit of the Company's financial statements, no significant unusual transactions were identified.

Uncorrected and Corrected Misstatements

Uncorrected Misstatements and Financial Statement Presentation and Disclosure Omissions

In connection with our audit of the Company's financial statements, no uncorrected financial statement misstatements in the Company's books and records or significant financial statement presentation and disclosure omissions were identified as of and for the year ended December 31, 2020. We have communicated that finding to management.

Significant Accounting Policies and Practices

In connection with our audit of the Company's financial statements, no new, or changes in, significant accounting policies and practices were identified.

Qualitative Aspects of Accounting Practices

We have discussed with the Pinnacol Assurance Risk and Audit Committee and management our judgments about the quality, not just the acceptability, of the Company's accounting policies as applied in its financial reporting. The discussions generally included such matters as the consistency of the Company's accounting policies and their application, and the understandability and completeness of the Company's financial statements, which include related disclosures.

Significant Accounting Estimates and Significant Financial Statement Disclosures

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant accounting estimates reflected in the Company's 2020 statutory-basis financials statement included the following:

Reserve for Unpaid Losses and Loss Adjustment Expenses is based on an analysis of historical paid and incurred claims. To assist management in estimating the liability for unpaid losses and loss adjustment expenses, the Company retains the assistance of an actuarial consulting firm. We evaluated the key factors and assumptions used to develop the reserve for unpaid losses and loss adjustment expenses, including possible management bias in developing the estimate, in determining that the reserve for unpaid losses and loss adjustment expenses is reasonable in relation to the financial statements as a whole.

Internal Structured Settlement Liability is based on mortality risk and discounted using a market rate. The Company discounts internal structured settlement liabilities on a tabular basis using a discount rate of 2.5% for 2020. The discount rate is based on an estimate of expected investment yield and considers the risk of adverse deviation in the future from such yield. To assist management in estimating the internal structured settlement liability, the Company retains the assistance of an actuarial consulting firm. We evaluated key factors and assumptions used to develop the structured settlement liability, including possible management bias in developing the estimate, in determining that the structured settlement liability is reasonable in relation to the financial statements as a whole.

Earned but Unbilled Premiums is based on an analysis of internal calculations using historical premium data, including audit premium data. We evaluated key factors and assumptions used to develop the earned but unbilled premiums, including possible management bias in developing the estimate, in determining that the earned but unbilled premiums is reasonable in relation to the financial statements as a whole.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Company's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Significant Issues Discussed, or Subject to Correspondence, with Management

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with the Pinnacol Risk and Audit Committee and management each year prior to our retention by the Legislative Audit Committee as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with other accountants during the year ended December 31, 2020.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that individually or in the aggregate could be significant to the Company's financial statements, or our report.

Written Communications

The following written communications between management and us have been provided:

Internal legal letter

Management representation letter.

Independence

We are not aware of any additional relationships between our firm and the Company and persons in a financial reporting oversight role at the Company that may reasonably be thought to bear on independence.

Affirmation of Independence

We hereby affirm that as of May 19, 2021, we are independent accountants with respect to the Company under all relevant professional and regulatory standards.

* * * * * * *

This letter to the Legislative Audit Committee and Pinnacol Risk and Audit Committee is intended solely for the information and use of the Legislative Audit Committee and the Pinnacol Assurance Risk and Audit Committee of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee, the report is a public document.

Very truly yours,

KPMG LLP

APPENDIX B.2

Other information the CEO deems relevant to the report:

Rule 16 of the Colorado Division of Workers' Compensation Rules of Procedure

DEPARTMENT OF LABOR AND EMPLOYMENT

Division of Workers' Compensation

7 CCR 1101-3

WORKERS' COMPENSATION RULES OF PROCEDURE

Rule 16 UTILIZATION STANDARDS

16-1 STATEMENT OF PURPOSE

In an effort to comply with its legislative charge to assure appropriate and timely medical care at a reasonable cost, the Director (Director) of the Division of Workers' Compensation (Division) has promulgated these utilization standards, effective January 1, 2017. This Rule defines the standard terminology, administrative procedures and dispute resolution procedures required to implement the Division's Medical Treatment Guidelines and Medical Fee Schedule. With respect to any matter arising under the Colorado Workers' Compensation Act and/or the Workers' Compensation Rules of Procedure and to the extent not otherwise precluded by the laws of this state, all providers and payers shall use and comply with the provisions of the "Medical Treatment Guidelines," Rule 17, and the "Medical Fee Schedule," Rule 18, as incorporated and defined in the Workers' Compensation Rules of Procedure, 7 CCR 1101-3.

16-2 STANDARD TERMINOLOGY FOR RULES 16 AND 18

(A) Ambulatory Surgical Center (ASC) – licensed as an ambulatory surgery center by the Colorado Department of Public Health and Environment.

(B) Authorized Treating Provider (ATP) – may be any of the following:

(1) The treating physician designated by the employer and selected by the injured worker;

(2) A health care provider to whom an authorized treating physician refers the injured worker for treatment, consultation, or impairment rating;

(3) A physician selected by the injured worker when the injured worker has the right to select a provider;

(4) A physician authorized by the employer when the employer has the right or obligation to make such an authorization;

(5) A health care provider determined by the Director or an administrative law judge to be an ATP;

(6) A provider who is designated by the agreement of the injured worker and the payer.

(C) Billed Service(s) – any billed service, procedure, equipment or supply provided to an injured worker by a provider.

(D) Billing Party – a service provider or an injured worker who has incurred authorized medical costs.

(E) Certificate of Mailing – a signed and dated statement containing the names and mailing addresses of all persons receiving copies of attached or referenced document(s),

certifying the documents were placed in the U.S. Mail, postage pre-paid, to those persons.

(F) Children's Hospital – identified and Medicare-certified by the Colorado Department of Public Health and Environment.

(G) Convalescent Center – licensed by the Colorado Department of Public Health and Environment.

(H) Critical Access Hospital (CAH) – Medicare-certified by the Colorado Department of Public Health and Environment.

(I) Day – defined as a calendar day unless otherwise noted.

(J) Free-Standing Facility – an entity that furnishes healthcare services and is not integrated with any other entity as a main provider, a department of a provider, remote location of a hospital, satellite facility, or provider –based entity.

(K) Hospital – licensed by the Colorado Department of Public Health and Environment.

(L) Long-Term Care Facility –licensed and Medicare-certified by the Colorado Department of Public Health and Environment.

(M) Medical Fee Schedule – Division's Rule 18, its exhibits, and the documents incorporated by reference in that Rule.

(N) Medical Treatment Guidelines – the medical treatment guidelines as incorporated into Rule 17, "Medical Treatment Guidelines."

(O) Over-the-Counter Drugs – Drugs that are safe and effective for use by the general public without a prescription.

(P) Payer – an insurer, employer, or their designated agent(s) who is responsible for payment of medical expenses.

(Q) Prior Authorization – assurance that appropriate reimbursement for a specific treatment will be paid in accordance with Rule 18, its exhibits, and the documents incorporated by reference in that Rule.

(R) Provider – a person or entity providing authorized health care service, whether involving treatment or not, to a worker in connection with work-related injury or occupational disease.

(S) Psychiatric Hospital – licensed by the Colorado Department of Public Health and Environment.

(T) Rehabilitation Hospital Facility – licensed as a rehabilitation hospital by the Colorado Department of Public Health and Environment.

(U) Rural Health Clinic Facility – Medicare-certified by the Colorado Department of Public Health and Environment.

(V) Skilled Nursing Facility (SNF) – licensed as a skilled nursing facility by the Colorado Department of Public Health and Environment.

(W) "Supply et al." – any single supply, durable medical equipment (DME), orthotic, prosthesis, biologic item, or single drug dose, for which the billed amount exceeds $500.00 and all implants.

(X) Telehealth – a mode of delivery of health care services through telecommunications systems, including information, electronic, and communication technologies, to facilitate the assessment, diagnosis, consultation, treatment, education, care management, and/or self-management of an injured worker's health care while the injured worker is located at an originating site and the provider is located at a distant site. The term includes synchronous interactions and store-and-forward transfers. The term does not include the delivery of health care services via telephone with audio only function, facsimile machine, or electronic mail systems. .

(Y) Veterans' Administration Medical Facilities – all medical facilities overseen by the United States Department of Veterans' Affairs.

16-3 REQUIRED USE OF THE MEDICAL TREATMENT GUIDELINES AND PAYMENT FOR SERVICE

When an injury or occupational disease falls within the purview of Rule 17, Medical Treatment Guidelines and the date of injury occurs on or after July 1, 1991, providers and payers shall use the medical treatment guidelines, in effect at the time of service, to prepare or review their treatment plan(s) for the injured worker. A payer may not dictate the type or duration of medical treatment or rely on its' own internal guidelines or other standards for medical determination. When treatment exceeds or is outside of the Medical Treatment Guidelines, prior authorization is required. Requesters and reviewers should consider how their decision will affect the overall treatment plan for the individual patient. In all instances of contest appropriate processes to deny are required. Refer to applicable sections of 16-10, 16-11 and/or 16-12.

16-4 REQUIRED USE OF THE MEDICAL FEE SCHEDULE

(A) When services provided to an injured worker fall within the purview of the Medical Fee Schedule, all payers shall use the fee schedule to determine maximum allowable fees.

(B) Providers must accurately report their services using codes and modifiers listed in the National Relative Value File, as published by Medicare in January 2016 Resource Based Relative Value Scale (RBRVS). Providers also must use codes, modifiers, instructions, and parenthetical notes listed in the American Medical Association's Current Procedural Terminology (CPT®) 2016 edition. Finally, providers must use codes, modifiers, and billing instructions listed in Rule 18, Medical Fee Schedule. The Medical Fee Schedule sets the maximum allowable payment but the fee schedule does not limit the billing charges.

(C) The provider may be subject to penalties under the Workers' Compensation Act for inaccurate billing when the provider knew or should have known that the services billed were inaccurate, as determined by the Director or an administrative law judge.

16-5 RECOGNIZED HEALTH CARE PROVIDERS

(A) Physician and Non-Physician Providers

(1) For the purpose of this Rule, recognized health care providers are divided into the major categories of "physician" and "non-physician". Recognized providers are defined as follows:

(a) "Physician providers" are those individuals who are licensed by the State of Colorado through one of the following state boards:

1) Colorado Medical Board;

2) Colorado Board of Chiropractic Examiners;

3) Colorado Podiatry Board; or

4) Colorado Dental Board.

Only physicians licensed by the Colorado Medical Board may be included as individual physicians on the employer's or insurer's designated provider list required under § 8-43-404(5)(a)(I), C.R.S.

(b) "Non-physician providers" are those individuals who are registered, certified, or licensed by the Colorado Department of Regulatory Agencies (DORA), the Colorado Secretary of State, or a national entity recognized by the State of Colorado as follows:

1) Acupuncturist (LAc) – licensed by the Office of Acupuncture Licensure, Colorado Department of Regulatory Agencies;

2) Advanced Practice Nurse (APN) – licensed by the Colorado Board of Nursing; Advanced Practice Nurse Registry;

3) Anesthesiologist Assistant (AA) – licensed by the Colorado Medical Board, Colorado Department of Regulatory Agencies;

4) Athletic Trainers (ATC) –registered by the Office of Athletic Trainer Registration, Colorado Department of Regulatory Agencies;

5) Audiologist (AU.D. CCC-A) – licensed by the Office of Audiology and Hearing Aid Provider Licensure, Colorado Department of Regulatory Agencies;

6) Certified Registered Nurse Anesthetist (CRNA) – licensed by the Colorado Board of Nursing;

7) Clinical Social Worker (LCSW) – licensed by the Board of Social Work Examiners, Colorado Department of Regulatory Agencies;

8) Durable Medical Equipment, Prosthetic, Orthotics and Supplies (DMEPOS) Supplier – licensed by the Colorado Secretary of State;

9) Marriage and Family Therapist (LMFT) – licensed by the Board of Marriage and Family Therapist Examiners, Colorado Department of Regulatory Agencies;

10) Massage Therapist (MT) –licensed as a massage therapist by the Office of Massage Therapy Licensure, Colorado Department of Regulatory Agencies;

11) Nurse Practitioner (NP) – licensed as an APN and authorized by the Colorado Board of Nursing;

12) Occupational Therapist (OTR) – licensed by the Office of Occupational Therapy, Colorado Department of Regulatory Agencies,;

13) Optometrist (OD) – licensed by the Board of Optometry, Colorado Department of Regulatory Agencies;

14) Orthopedic Technologist (OTC) – certified by the National Board for Certification of Orthopedic Technologists;

15) Pharmacist – licensed by the Board of Pharmacy, Colorado Department of Regulatory Agencies;

16) Physical Therapist (PT) – licensed by the Physical Therapy Board, Colorado Department of Regulatory Agencies;

17) Physical Therapist Assistant (PTA) – licensed by the Physical Therapy Board, Colorado Department of Regulatory Agencies;

18) Physician Assistant (PA) – licensed by the Colorado Medical Board;

19) Practical Nurse (LPN) – licensed by the Colorado Board of Nursing;

20) Professional Counselor (LPC) – licensed by the Board of Professional Counselor Examiners, Colorado Department of Regulatory Agencies;

21) Psychologist (PsyD, PhD, EdD) – licensed by the Board of Psychologist Examiners, Colorado Department of Regulatory Agencies;

22) Registered Nurse (RN) – licensed by the Colorado Board of Nursing;

23) Respiratory Therapist (RTL) – certified by the National Board of Respiratory Care and licensed by the Office of Respiratory Therapy Licensure, Colorado Department of Regulatory Agencies;

24) Speech Language Pathologist (CCC-SLP) – certified by the Office of Speech-Language Pathology Certification, Colorado Department of Regulatory Agencies; and

25) Surgical Technologist (CST) – registered by the Office of Surgical Assistant and Surgical Technologist Registration, Colorado Department of Regulatory Agencies.

(2) Upon request, health care providers must provide copies of license, registration, certification or evidence of health care training for billed services.

(3) Any provider not listed in section 16-5(A)(1)(a) or (b) must comply with section 16-10, Prior Authorization when providing all services.

(4) Referrals:

(a) A payer or employer shall not redirect or alter the scope of an authorized treating provider's referral to another provider for treatment or evaluation of a compensable injury. Any party who has concerns regarding a referral or its scope shall advise the other parties and providers involved.

(b) All non-physician providers must have a referral from an authorized treating physician. An authorized treating physician making the referral to any listed or unlisted non-physician provider is required to clarify any questions concerning the scope of the referral, prescription, or the reasonableness or necessity of the care.

(c) Any listed or non-listed non-physician provider is required to clarify any questions concerning the scope of the referral, prescription, or the reasonableness or necessity of the care with the referring authorized treating physician.

(5) Rule 18, Medical Fee Schedule applies to authorized services provided in relation to a specific workers' compensation claim.

(6) Use of PAs and NPs in Colorado Workers' Compensation Claims:

(a) All Colorado Workers' Compensation claims (medical only or lost time claims) shall have an "authorized treating physician" responsible for all services rendered to an injured worker by any PA or NP.

(b) The authorized treating physician provider must be immediately available in person or by telephone to furnish assistance and/or direction to the PA or NP while services are being provided to an injured worker.

(c) The service is within the scope of the PA's or NP's practice and complies with all applicable provisions of the Colorado Medical Practice Act or the Colorado Nurse Practice Act, and all applicable rules promulgated by the Colorado Medical Board or the Colorado Board of Nursing.

(d) For services performed by an NP or a PA, the authorized treating physician must counter sign patient records related to the injured worker's inability to work resulting from the claimed work injury or disease, and the injured worker's ability to return to regular or modified employment. The authorized treating physician also must counter sign Form WC 164. The signature of the physician provider shall serve as a certification that all requirements of this rule have been met.

(e) The authorized treating physician must evaluate the injured worker within the first three visits to the physician's office.

(B) Out-of-State Provider

(1) Injured Worker Relocated

(a) Upon receipt of the "Employer's First Report of Injury" or the "Worker's Claim for Compensation" form, the payer shall notify the injured worker that the procedures for change-of-provider, should s/he relocate out-of-state, can be obtained from the payer.

(b) A change of provider must be made:

1) Through referral by the injured worker's authorized treating physician; or

2) In accordance with § 8-43-404 (5)(a), C.R.S.

(2) Injured Worker Referred

In the event an injured worker has not relocated out-of-state but is referred to an out-of-state provider for treatment or services not available within Colorado, the referring provider shall obtain prior authorization from the payer as set forth in section 16-10, Prior Authorization. The referring provider's written request for out-of-state treatment shall include the following information:

(a) Medical justification prepared by the referring provider;

(b) Written explanation as to why the requested treatment/services cannot be obtained within Colorado;

(c) Name, complete mailing address and telephone number of the out-of-state provider;

(d) Description of the treatment/services requested, including the estimated length of time and frequency of the treatment/service, and all associated medical expenses; and

(e) Out-of-state provider's qualifications to provide the requested treatment or services.

(3) The Colorado fee schedule should govern reimbursement for out-of-state providers.

16-6 HANDLING, PROCESSING AND PAYMENT OF MEDICAL BILLS

(A) Use of agents, including but not limited to Preferred Provider Organizations (PPO) networks, bill review companies, third party administrators (TPAs) and case management companies, shall not relieve the employer or insurer from their legal responsibilities for compliance with these Rules.

(B) Payment for billed services identified in the Medical Fee Schedule shall not exceed those scheduled rates and fees, or the provider's actual billed charges, whichever is less.

(C) Payment for billed services not identified or identified but without established value in the Medical Fee Schedule shall require prior authorization from the payer as set forth in section 16-10, Prior Authorization, except when the billed non-established valued service or procedure is an emergency or a payment mechanism under Rule 18 is identifiable, but not explicit. Examples of the prior authorization request exception(s) include ambulance bills or supply bills that are covered under Rule18-6(H) with an identified payment mechanism.

Similar established code values from the Medical Fee Schedule, recommended by the requesting physician, shall govern the maximum fee value payment.

(D) Any payer contesting a provider’s treatment shall follow the procedures as outlined under section 16-11, Contest of a Request for Prior Authorization, or section 16-12, Payment of Medical Benefits.

(E) International Classification of Diseases (ICD) codes shall not be used to establish the work relatedness of an injury or treatment.

16-7 REQUIRED BILLING FORMS AND ACCOMPANYING DOCUMENTATION

(A) Providers may use electronic reproductions of any required form(s) referenced in this section; however, any such reproduction shall be an exact duplication of such form(s) in content and appearance. With the agreement of the payer, identifying information may be placed in the margin of the form.

(B) Required Billing Forms

All health care providers shall use only the following billing forms or electronically produced formats when billing for services:

(1) CMS (Centers for Medicare & Medicaid Services) -1500 shall be used by all providers billing for professional services, durable medical equipment (DME) and ambulance services, with the exception of those providers billing for dental services or procedures. Health care providers shall provide their name and credentials in the appropriate box of the CMS-1500.

(a) Non-hospital based ASCs may bill on the CMS-1500, however an SG modifier must be appended to the technical component of services to indicate a facility charge and to qualify for reimbursement as a facility claim.

(2) UB-04 - shall be used by all hospitals, hospital-based ambulance/air services, Children’s Hospitals, CAHs, Veterans’ Administration Medical Facilities, home health and facilities meeting the definitions found in section 16-2, when billing for

hospital services or any facility fees billed by any other provider, such as hospital-based ASCs.

(a) Some outpatient hospital therapy services (Physical, Occupational, or Speech) may also be billed on UB-04. For these services, the UB-04 must have Form Locator Type 013x, 074x, 075x, or 085x, and one of the following revenue code(s):

- Revenue Code 042X Physical Therapy
- Revenue Code 043X Occupational Therapy
- Revenue Code 044X Speech/Language Therapy

(b) CAHs designated by Medicare or Exhibit # 3 to Rule 18 may use UB-04 to bill professional services if the professional has reassigned his or her billing rights to the CAH using Medicare's Method II. The CAH shall list bill type 851-854, as well as one of the following revenue code(s) and Health Care Common Procedure Coding System (HCPCS) codes in the HCPCS Rates field number 44:

- 0960 - Professional Fee General
- 0961 - Psychiatric
- 0962 - Ophthalmology
- 0963 - Anesthesiologist (MD)
- 0964 - Anesthetist (CRNA)
- 0971 - Professional Fee For Laboratory
- 0972 - Professional Fee For Radiology Diagnostic
- 0973 – Professional Fee - Radiology - Therapeutic
- 0974 - Professional Fee - Radiology - Nuclear
- 0975 - Professional Fee - Operating Room
- 0981 - Emergency Room Physicians
- 0982 - Outpatient Services
- 0983 - Clinic
- 0985 - EKG Professional
- 0986 - EEG Professional
- 0987 - Hospital Visit professional (MD/DO)
- 0988 - Consultation (Professional (MD/DO)

All professional services billed by a CAH are subject to the same coding and payment rules as professional services billed independently. The following modifiers shall be appended to HCPCS codes to identify the type of provider rendering the professional service:

GF Services rendered in a CAH by a NP, clinical nurse specialist, certified registered nurse, or PA

SB Services rendered in a CAH by a nurse midwife

AH Services rendered in a CAH by a clinical psychologist

AE Services rendered in a CAH by a nutrition professional/registered dietitian

AQ Physician services in a physician-scarcity area

(c) No provider except those listed above shall bill for the professional fees using UB-04.

(3) American Dental Association's Dental Claim Form, Version 2012 shall be used by all providers billing for dental services or procedures.

(4) With the agreement of the payer, the ANSI ASC X12 (American National Standards Institute Accredited Standards Committee) or NCPDP (National Council For Prescription Drug Programs) electronic billing transaction containing the same information as in (1), (2) or (3) in this subsection may be used.

NCPDP Workers' Compensation/Property and Casualty (P&C) universal claim form, version 1.1, for prescription drug billed on paper shall be used by dispensing pharmacies and pharmacy benefit managers (PBM). Physicians may use the CMS-1500 billing form as described in section 16-7(B)(1).

Physicians shall list the "repackaged" and the "original" NDC numbers in field 24 of the CMS-1500. List the "repackaged" NDC number first and the "original" NDC number second, with the prefix 'ORIG' appended.

(C) International Classification of Diseases (ICD) Codes

All provider bills, including outpatient hospital bills, shall list the appropriate diagnosis codes using the current ICD-10-Clinical Modification (CM) code(s). If a seventh character is required by ICD-10-CM, it must be applied in accordance with ICD-10-CM Chapter Guidelines provided by the Centers for Medicare and Medicaid Services (CMS).

(D) Required Billing Codes

All billed services shall be itemized on the appropriate billing form as set forth in sections 16-7(A) and (B), and shall include applicable billing codes and modifiers from the Medical Fee Schedule. National provider identification (NPI) numbers are required for workers' compensation bills; providers who cannot obtain NPI numbers are exempt from this requirement. When billing on a CMS-1500, the NPI should be that of the rendering provider and should include the correct place of service codes at the line level.

(E) Inaccurate Billing Forms or Codes

Payment for any services not billed on the forms identified in this Rule, and/or not itemized as instructed in sections 16-7(B) and (C), may be contested until the provider complies. However, when payment is contested, the payer shall comply with the applicable provisions set forth in section 16-12, Payment of Medical Benefits.

(F) Accompanying Documentation

(1) Authorized treating physicians sign (or countersign) and submit to the payer, with their initial and final visit billings, a completed "Physician's Report of Workers' Compensation Injury" (Form WC 164) specifying:

(a) The report type as "initial" when the injured worker has their initial visit with the authorized treating physician managing the total workers' compensation claim of the patient. Generally, this will be the designated or selected authorized treating physician. When applicable, the emergency room or urgent care authorized treating physician for this

workers' compensation injury may also create a WC 164 initial report. Unless requested or prior authorized by the payer in a specific workers' compensation claim, no other authorized physician should complete and bill for the initial WC 164 form. This form shall include completion of items 1-7 and 10. Note that certain information in item 2 (such as Insurer Claim #) may be omitted if not known by the provider.

(b) The report type as "closing" when the authorized treating physician (generally the designated or selected physician) managing the total workers' compensation claim of the patient determines the injured worker has reached maximum medical improvement (MMI) for all injuries or diseases covered under this workers' compensation claim, with or without a permanent impairment. The form requires the completion of items 1-5, 6.B, C, 7, 8 and 10. If the injured worker has sustained a permanent impairment, then item 9 must also be completed and the following additional information shall be attached to the bill at the time MMI is determined:

1) All necessary permanent impairment rating reports when the authorized treating physician (generally the designated or selected physician) managing the total workers' compensation claim of the patient is Level II Accredited; or

2) Referral to a Level II Accredited physician requested to perform the permanent impairment rating when a rating is necessary and the authorized treating physician (generally the designated or selected physician) managing the total workers' compensation claim of the patient is not determining the permanent impairment rating.

(c) At no charge, the physician shall supply the injured worker with one legible copy of all completed "Physician's Report of Workers' Compensation Injury" (WC 164) forms at the time the form is completed.

(d) The provider shall submit to the payer the completed WC 164 form as specified in section 16-7(F), no later than 14 days from the date of service.

(2) Providers, other than hospitals, shall provide the payer with all supporting documentation at the time of submission of the bill unless other agreements have been made between the payer and provider. This shall include copies of the examination, surgical, and/or treatment records.

(3) Hospital documentation shall be available to the payer upon request. Payers shall specify what portion of a hospital record is being requested. (For example, only the emergency room (ER) chart notes, in-patient physician orders and chart notes, x-rays, pathology reports, etc.)

(4) In accordance with section 16-12, the payer may contest payment for billed services until the provider completes and submits the relevant required accompanying documentation as specified by section16-7(F).

(G) Providers shall submit their bills for services rendered within 120 days of the date of service or the bill may be denied unless extenuating circumstances exist. Extenuating

circumstances may include, but are not limited to, delays in compensability being decided or the provider has not been informed where to send the bill.

(H) All services provided to patients are expected to be documented in the medical record at the time they are rendered. Occasionally, certain entries related to services provided are not properly documented. In this event, the documentation will need to be amended, corrected, or entered after rendering the service. Amendments, corrections and delayed entries must comply with Medicare's widely accepted recordkeeping principles as outlined in the July 2016 Medicare Program Integrity Manual Chapter 3, section 3.3.2.5. (This section does not apply to patients' requests to amend records as permitted by the Health Insurance Portability and Accountability Act (HIPAA)).

16-8 REQUIRED MEDICAL RECORD DOCUMENTATION

(A) A treating provider shall maintain medical records for each injured worker when the provider intends to bill for the provided services.

(B) All medical records shall contain legible documentation substantiating the services billed. The documentation shall itemize each contact with the injured worker and shall detail at least the following information per contact or, at a minimum for cases where contact occurs more than once a week, be summarized once per week:

(1) Patient's name;

(2) Date of contact, office visit or treatment;

(3) Name and professional designation of person providing the billed service;

(4) Assessment or diagnosis of current condition with appropriate objective findings;

(5) Treatment status or patient's functional response to current treatment;

(6) Treatment plan including specific therapy with time limits and measurable goals and detail of referrals;

(7) Pain diagrams, where applicable;

(8) If being completed by an authorized treating physician, all pertinent changes to work and/or activity restrictions which reflect lifting, standing, stooping, kneeling, hot or cold environment, repetitive motion or other appropriate physical considerations; and

(9) All prior authorization(s) for payment received from the payer (i.e., who approved the prior authorization for payment, services authorized, dollar amount, length of time, etc.).

16-9 NOTIFICATION

(A) The Notification process is for treatment consistent with the Medical Treatment Guidelines that has an established value under the Medical Fee Schedule. Providers may, but are not required to, utilize the Notification process to ensure payment for medical treatment that falls within the purview of the Medical Treatment Guidelines. Therefore, lack of response from the payer within the time requirement set forth in section 16-9 (D) shall deem the proposed treatment/service authorized for payment.

(B) Notification may be made by phone, during regular business hours.

(1) Providers can accept verbal confirmation; or

(2) Providers may request written confirmation of an approval, which the payer should provide upon request.

(C) Notification may be submitted using the “Authorized Treating Provider’s Notification to Treat” (Form WC 195).

(1) The completed form shall include:

(a) Provider’s certification that the proposed treatment/service is medically necessary and consistent with the Medical Treatment Guidelines.

(b) Documentation of the specific Medical Treatment Guideline(s) applicable to the proposed treatment/service.

(c) Provider’s email address or fax number to which the payer can respond.

(D) Payers shall respond to a Notification submission within five (5) business days from receipt of the request with an approval or contest of the proposed treatment. Payers may contest the proposed treatment only for the following reasons:

(1) For claims which have been reported to the Division, no admission of liability or final order finding the injury compensable has been issued:

(2) Proposed treatment is not related to the admitted injury;

(3) Provider submitting Notification is not an Authorized Treating Provider (ATP), or is proposing for treatment to be performed by a provider who is not eligible to be an ATP;

(4) Injured worker is not entitled to proposed treatment pursuant to statute or settlement;

(5) Medical records contain conflicting opinions among the ATPs regarding proposed treatment;

(6) Proposed treatment falls outside the Medical Treatment Guidelines (see section 16-9(E).

(E) If the payer contests Notification under sections (16-9(D)(2), (5) or (6) above, the payer shall notify the provider, allow the submission of relevant supporting medical documentation as defined in section 16-10 (F), and review the submission as a prior authorization request, allowing an additional seven (7) business days for review.

(F) Contests for denied Notification by a provider shall be made in accordance with the prior authorization dispute process outlined in 16-11(C).

(G) Any provider or payer who incorrectly applies the Medical Treatment Guidelines in the Notification/prior authorization process may be subject to penalties under the Workers’ Compensation Act.

16-10 PRIOR AUTHORIZATION

(A) Granting of prior authorization is a guarantee of payment when in accordance with Rule 18, RBRVS and CPT® for those services/procedures requested by the provider per section16-10 (F).

(B) Prior authorization for payment shall only be requested by the provider when:

(1) A prescribed service exceeds the recommended limitations set forth in the Medical Treatment Guidelines;

(2) The Medical Treatment Guidelines otherwise require prior authorization for that specific service;

(3) A prescribed service is identified within the Medical Fee Schedule as requiring prior authorization for payment; or

(4) A prescribed service is not identified in the Medical Fee Schedule as referenced in section 16-6(C).

(C) Prior authorization for a prescribed service or procedure may be granted immediately and without medical review. However, the payer shall respond to all providers requesting prior authorization within seven (7) business days from receipt of the provider’s completed request, as defined in section16-10(F). The duty to respond to a provider's written request applies without regard for who transmitted the request.

(D) The payer, upon receipt of the "Employer's First Report of Injury" or a "Worker's Claim for Compensation,” shall give written notice to the injured worker stating that the requirements for obtaining prior authorization for payment are available from the payer.

(E) The payer, unless they have previously notified said provider, shall give notice to the provider of these procedures for obtaining prior authorization for payment upon receipt of the initial bill from that provider.

(F) To complete a prior authorization request, the provider shall concurrently explain the reasonableness and the medical necessity of the services requested, and shall provide relevant supporting medical documentation. Supporting medical documentation is defined as documents used in the provider’s decision-making process to substantiate the need for the requested service or procedure.

(1) When the indications of the Medical Treatment Guidelines are met, no prior authorization is required. When prior authorization for payment is indicated, the following documentation is required:

(a) An adequate definition or description of the nature, extent, and necessity for the procedure;

(b) Identification of the appropriate Medical Treatment Guideline application to the requested service, if applicable; and

(c) Final diagnosis.

(2) When the service/procedure does not fall within the Medical Treatment Guidelines and/or past treatment failed functional goals; or if the requested

procedure is not identified in the Medical Fee Schedule or does not have an established value under the Medical Fee Schedule, such as any unlisted procedure/service with a BR value or an RNE value listed in the RBRVS, authorization requests may be made using the “Authorized Treating Provider’s Request for Prior Authorization” (Form WC 188).

(G) To contest a request for prior authorization, the payer is required to comply with the provisions outlined in section 16-11.

(H) The Division recommends payers confirm in writing, to providers and all parties, when a request for prior authorization is approved.

(I) If, after the service was provided, the payer agrees the service provided was reasonable and necessary, lack of prior authorization for payment does not warrant denial of payment. However, the provider is still required to provide, with the bill, the documentation required by section 16-10(F) for any unlisted valued service or procedure for payment.

(J) All medical records should be signed by the rendering provider. Electronic signatures are accepted.

16-11 CONTEST OF A REQUEST FOR PRIOR AUTHORIZATION

(A) If the payer contests a request for prior authorization for non-medical reasons as defined under section 16-12(B)(1), the payer shall notify the provider and parties, in writing, of the basis for the contest within seven (7) business days from receipt of the provider’s completed request as defined in section 16-10(F). A certificate of mailing of the written contest must be sent to the provider and parties.

If an ATP requests prior authorization and indicates in writing, including their reasoning and relevant documentation, that they believe the requested treatment is related to the admitted workers’ compensation claim, the insurer cannot deny based solely on relatedness without a medical review as required by section 16-11(B).

(B) If the payer is contesting a request for prior authorization for medical reasons, the payer shall, within seven (7) business days of the completed request:

(1) Have all the submitted documentation under section 16-10(F) reviewed by a physician or other health care professional, as defined in section 16-5(A)(1)(a), who holds a license and is in the same or similar specialty as would typically manage the medical condition, procedures, or treatment under review. The physicians or chiropractors performing this review shall be Level I or Level II accredited.

(2) After reviewing all the submitted documentation and other documentation referenced in the prior authorization request and available to the payer, the reviewing provider may call the requesting provider to expedite communication and processing of prior authorization requests. However, the written contest or approval still needs to be completed within the specified seven (7) business days under section 16-11(B).

(3) Furnish the provider and the parties with a written contest that sets forth the following information:

(a) An explanation of the specific medical reasons for the contest, including the name and professional credentials of the person performing the medical review and a copy of the medical reviewer's opinion;

(b) The specific cite from the Medical Treatment Guidelines exhibits to Rule 17, when applicable;

(c) Identification of the information deemed most likely to influence the reconsideration of the contest when applicable; and

(d) A certificate of mailing to the provider and parties.

(C) Prior Authorization Disputes

(1) The requesting party or provider shall have seven (7) business days from the date of the certificate of mailing on the written contest to provide a written response to the payer, including a certificate of mailing. The response is not considered a "special report" when prepared by the provider of the requested service.

(2) The payer shall have seven (7) business days from the date of the certificate of mailing of the response to issue a final decision, including a certificate of mailing to the provider and parties.

(3) In the event of continued disagreement, the parties should follow dispute resolution and adjudication procedures available through the Division or Office of Administrative Courts.

(D) An urgent need for prior authorization of health care services, as recommended in writing by an authorized treating provider, shall be deemed good cause for an expedited hearing.

(E) Failure of the payer to timely comply in full with the requirements of section 16-11(A) or (B), shall be deemed authorization for payment of the requested treatment unless:

(1) A hearing is requested within the time prescribed for responding as set forth in section 16-11(A) or (B) and the requesting provider is notified accordingly. A request for hearing shall not relieve the payer from conducting a medical review of the requested treatment, as set forth in section 16-11(B); or

(2) The payer has scheduled an independent medical examination (IME) within the time prescribed for responding as set forth in section 16-11(B).

(F) Unreasonable delay or denial of prior authorization, as determined by the Director or an administrative law judge, may subject the payer to penalties under the Workers' Compensation Act.

16-12 PAYMENT OF MEDICAL BENEFITS

(A) Payer Requirements for Processing Medical Service Bills

(1) For every medical service bill submitted by a provider, the payer shall reply with a written notice or explanation of benefits. In those instances where the payer reimburses the exact billed amount, identification of the patient's name, the

payer, the paid bill, the amount paid and the dates of service are required. If any adjustments are made then the payer's written notice shall include:

(a) Name of the injured worker or patient;

(b) Specific identifying information coordinating the notice with any payment instrument associated with the bill;

(c) Date(s) of service(s), if date(s) was (were) submitted on the bill;

(d) Payer's claim number and/or Division's workers' compensation claim number, if one has been created;

(e) Reference to the bill and each item of the bill;

(f) Notice that the billing party may submit corrected bill or appeal within 60 days;

(g) For compensable services for a work-related injury or occupational disease the payer shall notify the billing provider that the injured worker shall not be balance-billed for services related to the work-related injury or occupational disease;

(h) Name of insurer with admitted, ordered or contested liability for the workers' compensation claim, when known;

(i) Name, address, e-mail (if any), phone number and fax of a person who has responsibility and authority to discuss and resolve disputes on the bill;

(j) Name and address of the employer, when known; and

(k) Name and address of the Third Party Administrator (TPA) and name and address of the bill reviewer if separate company when known; and

(l) If applicable, a statement that the payment is being held in abeyance because a relevant issue is being brought to hearing.

(2) The payer shall send the billing party written notice that complies with sections 16-12(A)(1) and (B) or (C) if contesting payment for non-medical or medical reasons within 30 days of receipt of the bill. Any notice that fails to include the required information set forth in sections 16-12(A)(1) and (B) or (C) if contesting payment for non-medical or medical reasons is defective and does not satisfy the payer's 30-day notice requirements set forth in this section.

(3) Unless the payer provides timely and proper reasons as set forth by the provisions outlined in sections 16-12(B) - (D), all bills submitted by a provider are due and payable in accordance with the Medical Fee Schedule within 30 days after receipt of the bill by the payer.

(4) If the payer discounts a bill and the provider requests clarification in writing, the payer shall furnish to the requester the specifics of the discount within 30 days including a copy of any contract relied on for the discount. If no response is

forthcoming within 30 days, the payer must pay the maximum Medical Fee Schedule allowance or the billed charges, whichever is less.

(5) Date of receipt of the bill may be established by the payer’s date stamp or electronic acknowledgement date; otherwise, receipt is presumed to occur three (3) business days after the date the bill was mailed to the payer’s correct address.

(6) Unreasonable delay in processing payment or denial of payment of medical service bills, as determined by the Director or an administrative law judge, may subject the payer to penalties under the Workers’ Compensation Act.

(7) If the payer fails to make timely payment of uncontested billed services, the billing party may report the incident to the Division’s Carrier Practices Unit who may use it during an audit.

(B) Process for Contesting Payment of Billed Services Based on Non-Medical Reasons

(1) Non-medical reasons are administrative issues. Examples of non-medical reasons for contesting payment include the following: no claim has been filed with the payer; compensability has not been established; the billed services are not related to the admitted injury; the provider is not authorized to treat; the insurance coverage is at issue; typographic, gender or date errors are in the bill; failure to submit medical documentation; unrecognized CPT® code.

(2) If an ATP bills for medical services and indicates in writing, including their reasoning and relevant documentation that they believe the medical services are related to the admitted WC claim, the payer cannot deny based solely on relatedness without a medical review as required by section 16-12(C).

(3) In all cases where a billed service is contested for non-medical reasons, the payer shall send the billing party written notice of the contest within 30 days of receipt of the bill. The written notice shall include all of the notice requirements set forth in section 16-12(A)(1) and shall also include:

(a) Date(s) of service(s) being contested, if date(s) was(were) submitted on the bill;

(b) If applicable, acknowledgement of specific uncontested and paid items submitted on the same bill as contested services;

(c) Reference to the bill and each item of the bill being contested; and

(d) Clear and persuasive reasons for contesting the payment of any item specific to that bill including the citing of appropriate statutes, rules and/or documents supporting the payer’s reasons for contesting payment.

Any notice that fails to include the required information set forth in this section is defective. Such defective notice shall not satisfy the payer’s 30 day notice requirement set forth in this section.

(4) Prior to modifying a billed code, the payer must contact the billing provider and determine if the modified code is accurate.

(a) If the billing provider agrees with the payer, then the payer shall process the service with the agreed upon code and shall document on their explanation of benefits (EOB) the agreement with the provider. The EOB shall include the name of the person at the provider's office who made the agreement.

(b) If the provider is in disagreement, then the payer shall proceed according to section 16-12(B) or 16-12(C), as appropriate.

(5) Lack of prior authorization for payment does not warrant denial of liability for payment.

(6) When no established fee is given in the Medical Fee Schedule and the payer agrees the service or procedure is reasonable and necessary, the payer shall list on their written notice of contest (see section 16-12(A)(1)) one of the following payment options:

(a) A reasonable value based upon the similar established code value recommended by the requesting provider;

(b) The provider's requested payment based on an established similar code value as required by section 16-10(F); or

(c) The billed charges.

If the payer disagrees with the provider's recommended code value, the payer's notice of contest shall include an explanation of why the requested fee is not reasonable and what their recommendation is, based on the payment options.

If the payer is contesting the medical necessity of any non-valued procedure after a prior authorization was requested, the payer shall follow section 16-12(C).

(C) Process for Contesting Payment of Billed Services Based on Medical Reasons

When contesting payment of billed services based on medical reasons, the payer shall:

(1) Have the bill and all supporting medical documentation under section 16-7(F) reviewed by a physician or other health care professional as defined in section 16-5(A)(1)(a), who holds a license and is in the same or similar specialty as would typically manage the medical condition, procedures, or treatment under review. The physicians or chiropractors performing this review shall be Level I or Level II accredited. After reviewing the supporting medical documentation, the reviewing provider may call the billing provider to expedite communication and timely processing of the contested or paid medical bill.

(2) In all cases where a billed service is contested for medical reasons, the payer shall send the provider and the parties written notice of the contest within 30 days of receipt of the bill. The written notice shall include all of the notice requirements set forth in section 16-12(A)(1) and shall also include:

(a) Date(s) of service(s) being contested, if date(s) was (were) submitted on the bill;

(b) If applicable, acknowledgement of specific uncontested and paid items submitted on the same bill as contested services;

(c) Reference to the bill and each item of the bill being contested;

(d) An explanation of the clear and persuasive medical reasons for the decision, including the name and professional credentials of the person performing the medical review and a copy of the medical reviewer's opinion;

(e) The specific cite from the Medical Treatment Guidelines exhibits to Rule 17, when applicable; and

(f) Identification of the information deemed most likely to influence the reconsideration of the contest, when applicable.

(3) Any notice that fails to include the required information set forth in this section is defective. Such defective notice shall not satisfy the payer's 30-day notice requirement set forth in this section.

(4) If the payer is contesting the medical necessity of any non-valued procedure provided without prior authorization, the payer shall follow the procedures given in sections 16-12(C)(1)and (2).

(D) Process for Ongoing Contest of Billed Services

(1) The billing party shall have 60 days to respond to the payer's written notice under section 16-12(A) – (C). The billing party's timely response must include:

(a) A copy of the original or corrected bill;

(b) A copy of the written notice or EOB received;

(c) A statement of the specific item(s) contested;

(d) Clear and persuasive supporting documentation or clear and persuasive reasons for the appeal; and

(e) Any available additional information requested in the payer's written notice.

(2) If the billing party responds timely and in compliance with section 16-12(D)(1), the payer shall:

(a) When contesting for medical reasons, have the bill and all supporting medical documentation and reasoning under section16-7(F) and, if applicable, section 16-12(D)(1) reviewed by a physician or other health care professional as defined in section 16-5(A)(1)(a), who holds a license and is in the same or similar specialty as would typically manage the medical condition, procedures, or treatment under review. After reviewing the provider's documentation and response, the reviewing provider may call the billing provider to expedite communication and timely processing of the contested or paid medical bill.

(b) When contesting for non-medical reasons, have the bill and all supporting medical documentation and reasoning under section 16-7(F) and, if applicable, section 16-12(D)(1) reviewed by a person who has knowledge of the bill. After reviewing the provider's documentation and response, the reviewing person may call the billing provider to expedite communication and timely processing of the contested or paid medical bill.

(3) If before or after conducting a review pursuant to section 16-12(D)(2), the payer agrees with the billing party's response, the billed service is due and payable in accordance with the Medical Fee Schedule within 30 days after receipt of the billing party's response. Date of receipt may be established by the payer's date stamp or electronic acknowledgement date; otherwise, receipt is presumed to occur three (3) business days after the date the response was mailed to the payer's correct address.

(4) After conducting a review pursuant to section 16-12(D)(2), if there is still a dispute regarding the billed services, the payer shall send the billing party written notice of contest within 30 days of receipt of the response. The written notice shall include all of the notice requirements set forth in section 16-12(A)(1) and shall also include:

(a) Date(s) of service(s) being contested, if date(s) was(were) submitted by the provider;

(b) If applicable, acknowledgement of specific uncontested and paid items submitted on the same bill as contested services;

(c) Reference to the bill and each item of the bill being contested;

(d) An explanation of the clear and persuasive medical or non-medical reasons for the decision, including the name and professional credentials of the person performing the medical or non-medical review and a copy of the medical reviewer's opinion when the contest is over a medical reason; and

(e) The explanation shall include the citing of appropriate statutes, rules and/or documents supporting the payer's reasons for contesting payment.

(5) Any notice that fails to include the required information set forth in this section is defective. Such defective notice shall not satisfy the payer's 30-day notice requirement set forth in this section.

(6) In the event of continued disagreement, and within 12 months of the date the original bill should have been processed in compliance with section 16-12, the parties should follow dispute resolution and adjudication procedures available through the Division or Office of Administrative Courts.

(E) Retroactive review of Medical Bills

(1) All medical bills paid by a payer shall be considered final at 12 months after the date of the original explanation of benefits unless the provider is notified that:

(a) A hearing is requested within the 12 month period, or

(b) A request for utilization review has been filed pursuant to § 8-43-501.

(2) If the payer conducts a retroactive review to recover overpayments from a provider based on medical reasons, the payer shall have the bill and all supporting documentation reviewed by a physician or other health care professional as defined in section 16-5(A)(1)(a), who holds a license and is in the same or similar specialty as would typically manage the medical condition, procedures, or treatment under review. The payer shall send the billing party written notice that shall include all of the notice requirements set forth in section 16-12(A)(1) and shall also include:

(a) Reference to each item of the bill where payer seeks to recover overpayments;

(b) Clear and persuasive medical reason(s) for seeking recovery of overpayment(s). The explanation shall include the citing of appropriate statutes, rules, and/or other documents supporting the payer's reason for seeking to recover overpayment; and

(c) Evidence that these payments were in fact made to the provider.

(3) If the payer conducts a retroactive review to recover overpayments from a provider based on non-medical reasons, the payer shall send the billing party written notice that shall include all of the notice requirements set forth in section 16-12(A)(1) and shall also include:

(a) Reference to each item of the bill where payer seeks to recover overpayments;

(b) Clear and persuasive reason(s) for seeking recovery of overpayment(s). The explanation shall include the citing of appropriate statutes, rules, and/or other documents supporting the payer's reason for seeking to recover overpayment; and

(c) Evidence that these payments were in fact made to the provider.

(4) In the event of continued disagreement, the parties may follow dispute resolution and adjudication procedures available through the Division or Office of Administrative Courts.

(F) An injured worker shall never be required to directly pay for admitted or ordered medical benefits covered under the Workers' Compensation Act. In the event the injured worker has directly paid for medical services that are then admitted or ordered as covered under the Workers' Compensation Act, the payer shall reimburse the injured worker for the amounts actually paid for authorized services within 30 days after receipt of the bill. If the actual costs exceed the maximum fee allowed by the Medical Fee Schedule, the payer may seek a refund from the medical provider for the difference between the amount charged to the injured worker and the maximum fee. Each request for a refund shall indicate the service provided and the date of service(s) involved.

(G) To the extent not otherwise precluded by the laws of this state, contracts between providers, payers and any agents acting on behalf of providers or payers shall comply with section 16-12.

16-13 DISPUTE RESOLUTION PROCESS

When seeking dispute resolution from the Division's Medical Policy Unit (MPU), the requesting party must complete the Division's "Medical Billing Dispute Resolution Intake Form" (Form WC 181) found on the Division's web page. The items listed on the bottom of the form must be provided at the time of submission. If necessary items are missing or if more information is required, the Division will forward a request for additional information and initiation of the process may be delayed.

When the request is properly made and the supporting documentation submitted, the Division will issue a confirmation of receipt. If after reviewing the materials the Division believes the dispute criteria have not been met, the Division will issue an explanation of those reasons. If the Division determines there is cause for facilitating the disputed items, the other party will be sent a request for a written response, allowing the other party ten (10) business days to respond.

The MPU will facilitate the dispute by reviewing the parties' compliance with Rules 16 and 18 within 30 days of receipt of the complete supporting documentation; or as soon thereafter as possible.

Upon review of all submitted documentation, disputes resulting from violation of Rules 16 and/or 18, as determined by the Director, may result in a Director's Order that cites the specific violation.

Evidence of compliance with the order shall be provided to the Director. If the party does not agree with the findings, it shall state with particularity and in writing its reasons for all disagreements by providing a response with all relevant legal authority, and/or other relevant proof upon which it relies in support of its position(s) concerning disagreements with the order.

Failure to respond or cure violations may result in penalties in accordance with § 8-43-304, C.R.S. Daily fines up to $1000/day for each such offence will be assessed until the party complies with the Director's Order.

Resolution of disputes not pertaining to Rule violations will be facilitated by the MPU to the extent possible. In the event both parties cannot reach an agreement, the parties will be provided additional information on pursuing resolution and adjudication procedures available through the Office of Administrative Courts. Use of the dispute resolution process does not extend the 12 month application period for hearing.

16-14 ONSITE REVIEW OF HOSPITAL OR OTHER MEDICAL CHARGES

(A) The payer may conduct a review of billed and non-billed hospital or medical facility charges related to a specific workers' compensation claim.

(B) The payer shall comply with the following procedures:

Within 30 days of receipt of the bill, notify the hospital or other medical facility of its intent to conduct a review. Notification shall be in writing and shall set forth the following information:

(1) Name of the injured worker;

(2) Claim and/or hospital or other medical facility I.D. number associated with the injured worker's bill;

(3) An outline of the items to be reviewed; and

(4) If applicable, the name, address and telephone number of any person who has been designated by the payer to conduct the review (reviewer).

(C) The hospital or other medical facility shall comply with the following procedures:

(1) Allow the review to begin within 30 days of the payer's notification;

(2) Upon receipt of the patient's signed release of information form, allow the reviewer access to all items identified on the injured worker's signed release of information form;

(3) Designate an individual(s) to serve as the primary liaison(s) between the hospital or other medical facility and the reviewer who will acquaint the reviewer with the documentation and charging practices of the hospital or other medical facility;

(4) Provide a written response to each of the preliminary review findings within ten (10) business days of receipt of those findings; and

(5) Participate in the exit conference in an effort to resolve discrepancies.

(D) The reviewer shall comply with the following procedures:

(1) Obtain from the injured worker a signed information release form;

(2) Negotiate the starting date for the review;

(3) Assign staff members who are familiar with medical terminology, general hospital or other medical facility charging and medical records documentation procedures or have a level of knowledge equivalent at least to that of an LPN;

(4) Establish the schedule for the review which shall include, at a minimum, the dates for the delivery of preliminary findings to the hospital or other medical facility, a ten (10) business day response period for the hospital or other medical facility, and the delivery of an itemized listing of discrepancies at an exit conference upon the completion of the review; and

(5) Provide the payer and hospital or other medical facility with a written summary of the review within 20 business days of the exit conference.