Washington State Department of
Labor & Industries

Workers' Compensation Advisory Committee

April 4, 2014

Agenda

Time	Topic	Presenter(s)
9:00am-9:10am	**Welcome** • Introductions • Motion to approve meeting minutes • Safety Message - Logging Fatality Stay in the Clear	Joel Sacks Vickie Kennedy
9:10am-9:20am	**Updates** • Budget • Legislation • Logger Safety Initiative	Vickie Kennedy
9:25am-10:05am	**Financial Update**	Sharon Elias
10:05am-10:15am	**Pension Discount Rate & Mortality Tables**	Randi Warick
10:15am-10:30am	**BREAK**	
10:30am-10:45am	**Insurance Services Performance Metrics Dashboard**	Vickie Kennedy
10:45am-11:00am	**Return to Work Partnerships**	Ryan Guppy
11:00am-11:20pm	**Self-Insurance Changes** • Audit Reform • Performance Metrics	Vickie Kennedy
11:20am-11:30am	**Closing Comments & Adjourn** • Future agenda topics	Joel Sacks Vickie Kennedy
11:40am-12:00pm	**Demonstration of an e-learning module on First Call Training**	

WELCOME & INTRODUCTIONS

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

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SAFETY MESSAGE

Logging Fatality – Stay in the Clear

UPDATES

- ***Legislation***
- ***Budget Requests***

Vickie Kennedy,
Assistant Director for Insurance Services

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Logger Safety Initiative Update

- A total of 89 logging companies have joined the Logger Safety Initiative since December 2013.

- If the full 20% discount had been available to participating logging companies in 2013, employers would have paid an estimated $2 million less in premiums – money that could have been used for improved safety.

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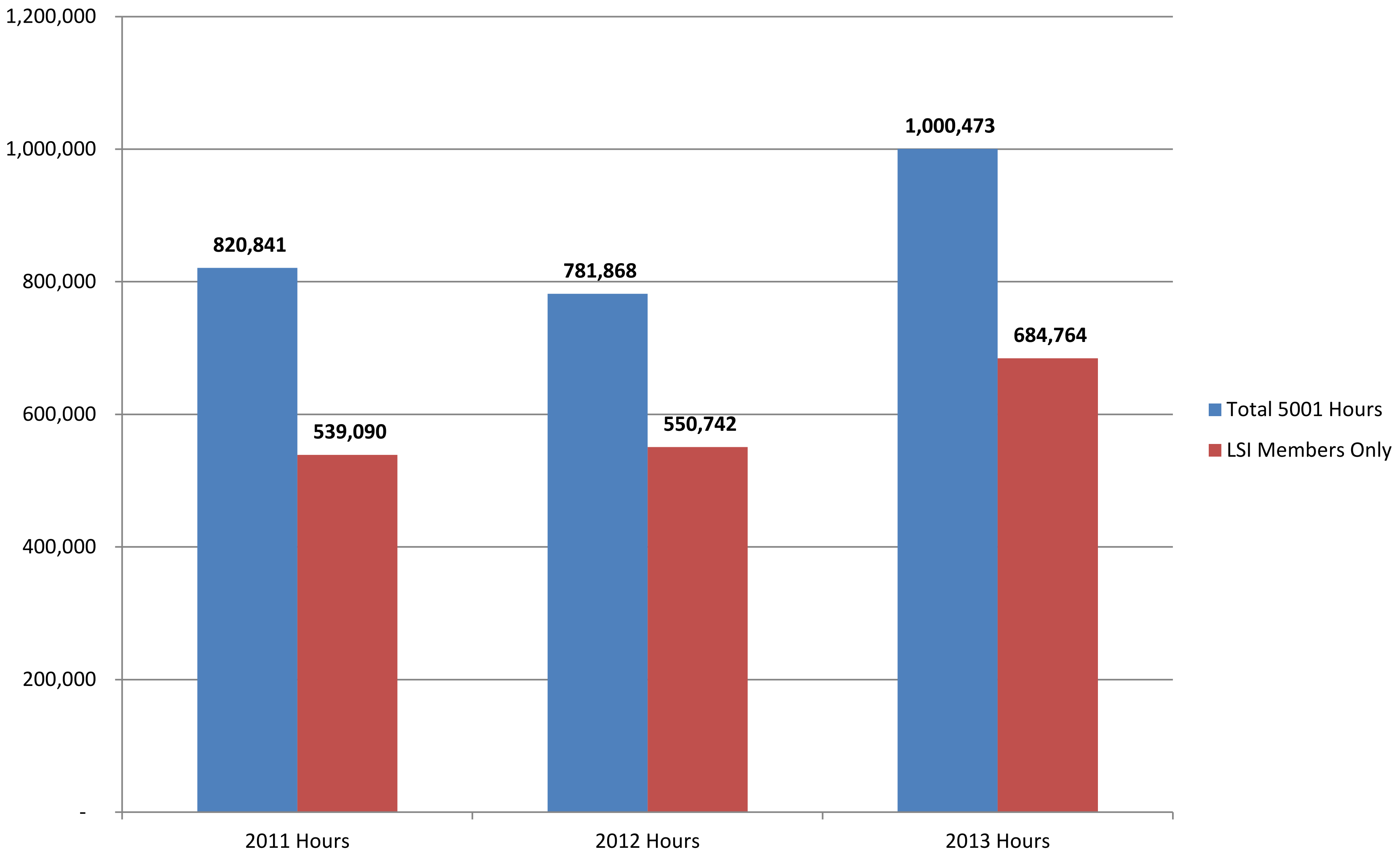
Logger Safety Initiative Update

- Employers in the LSI program commit to:
  - A technical 6-month audit of premiums.
  - Submitting a supplemental monthly report of 5001 premium hours.
  - Reporting job-site location information.
  - A DOSH comprehensive safety consultation.
  - An independent third-party audit to verify employers are meeting LSI program requirements of safety, training and supervision.

- LSI Landowners have committed to reporting risk class 5001 non-LSI employers.

5001 Premium Hours Reported



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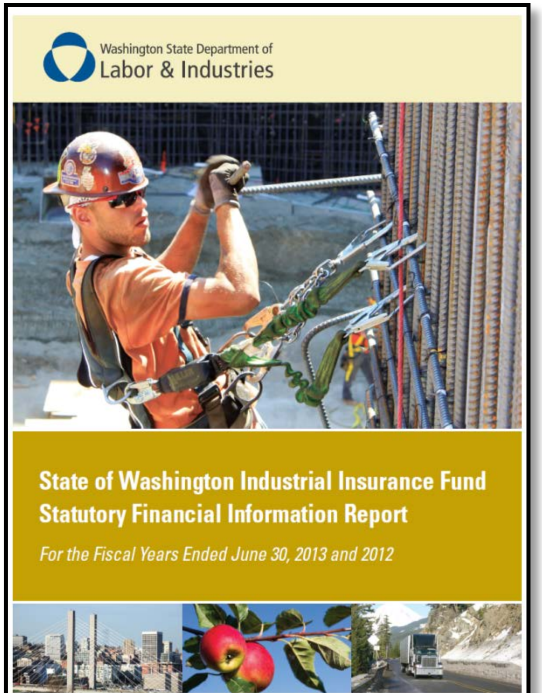
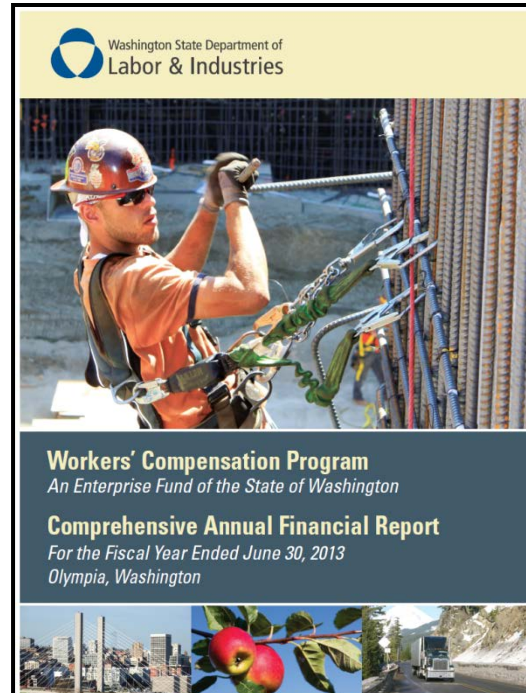
ANNUAL FINANCIAL REPORTS

FISCAL YEAR 2013 - JULY 2012 THROUGH JUNE 2013





Sharon Elias

Chief Accounting Officer

On-time Reporting

In accordance with RCW 51.44.115,

L&I issued the Workers' Compensation Program Comprehensive Annual Financial Report and Industrial Insurance Fund Statutory Financial Information in December 2013.

Unmodified, “Clean” Opinions

Independent Auditors issued unmodified or “clean” opinions on:

- The Workers’ Compensation Program Comprehensive Annual Financial Report (CAFR)
- The Industrial Insurance Fund Annual Statutory Financial Information Report
- Review of actuarial estimates

Updates

Information is available on L&I's website at: http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp

- Updated 10 year summary
- GAAP and SAP annual financial reports

INDUSTRIAL INSURANCE (STATE) FUND

FINANCIAL OVERVIEW

STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2014 – SECOND QUARTER
JULY 2013 THROUGH DECEMBER 2013

Sharon Elias

Chief Accounting Officer

Washington State Department of Labor & Industries

Six Month Financial Highlights

July 2013 through December 2013

From July through December, the contingency reserve increased by $421 million from $620 to $1,041 million. The significant drivers were:

– Investment results were better than expected due to strong stock market.
– Benefit liability decreased due to fewer than expected active pension and time-loss claims.

- From June to September the contingency reserve changed from $620 to $861, an increase of $241 million.
- From September to December the contingency reserve changed from $861 to $1,041, an increase of $180 million.

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State Fund Results

"Net Income"

July 2013 through December 2013

July 2013 through December 2013 revenues exceeded expenses resulting in net income of $191 million.

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income $191 M

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Insurance Operations

July through December
(in millions)

		Six Months Ended December 31, 2013	Six Months Ended December 31, 2012	Fiscal Year Ended June 30, 2013
We took in (Premiums Earned)	+	$ 867	$ 840	$ 1,584
We Spent (Expenses Incurred)				
Benefits Incurred		852	796	2,163*
Claim Administrative Expenses		86	77	150
Other Insurance Expenses		37	36	76
Total Expenses Incurred	-	975	909	2,389
Net Loss from Insurance Operations	=	**$ (108)**	**$ (69)**	**$ (805)**

**Includes changes to the structured settlements savings in benefit liabilities.*

Net loss from insurance operations is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Premiums Earned

July through December

(in millions)

	Six Months Ended		
	December 31, 2013	**December 31, 2012**	**Difference**
Standard Premiums Collected	*$ 916*	*$ 872*	
Less *Retrospective Rating Adjustments*	*(35)*	*(38)*	
Net Premiums Collected	**881**	**834**	
Changes in future Premiums Amounts To Be Collected	**24**	**10**	
Changes in future Retrospective Rating Adjustment Refunds	**(38)**	**(4)**	
Net Premiums Earned	**$ 867**	**$ 840**	**$ 27**

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Benefits Incurred

July through December
(in millions)

	Six Months Ended		
	December 31, 2013	**December 31, 2012**	**Difference**
Benefits Paid	**$ 770**	**$ 783**	
Change in Benefit Liabilities			
Change in Prior Liabilities			
Impact of Discounting ***(Expected)***	*430*	*258*	
Other Development ***(Unexpected)***	*(371)*	*(209)*	
New Liabilities	778	739	
Claim Benefit Payments	(770)	(783)	
Self-insurance Pension Awards	15	8	
Total Change in Benefit Liabilities	**82**	**13**	
Benefits Incurred	**$ 852**	**$ 796**	**$ 56**

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Impact of Discounting

July 2013 through December 2013

$192 million
- **Actual changes in discounting**
  - Includes discounting adjustments from changes to existing liabilities between June 30 and the current quarter.
  - Calculated by comparing the difference between discounted and undiscounted liabilities as of June 30th to the current quarter.

$166 million
- **Changes to the reserving assumptions**
  - Estimated pension reserve amounts were increased for planned gradual reduction in pension discount rate over the next 9 years.

$72 million
- **13 year old TPD (Total Permanent Disability) discount rate change**
  - 13+ year old claims converted from TPD liabilities to time-loss liabilities.
  - Time-loss reserves (discounted at 1.5%) increased $254 million.
  - TPD reserve (discounted at 4.5% to 6.5%) decreased $182 million.
  - Increase in liability is almost entirely due to reduction in discounting of these time-loss payments.

$430 million **Total Impact of Discounting**

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

Unexpected Changes in Previously Estimated Benefit Liabilities

July 2013 through December 2013

($227 million)	• **The total permanent disability pension reserve developed better than expected**	
	o Fewer active time-loss and pension claims than expected.	($91 million)
	o Reduced expected persistency rates for claims less than 6 years old.	($136 million)
$15 million	• **The permanent partial disability, PPD, reserve excluding hearing loss developed unfavorably**	
	o Average cost of PPD awards higher than expected.	
($55 million)	• **Time-loss benefits reserve developed better than expected**	
	o Significantly fewer active time-loss claims than expected.	
	o 500 fewer in first quarter and 800 fewer in second quarter	
($142 million)	• **The Medical Aid excluding vocational rehabilitation and hearing loss reserves developed better than expected**	
	o Annualized increases in average medical costs per active claim per quarter was less than expected.	($78 million)
	o All other changes – primarily fewer anticipated active claims from prior injury quarters.	($64 million)
$17 million	• **The Stay at Work costs net of savings developed unfavorably**	
	o Changed the program maturity reserving assumption from fiscal year end 2013 to fiscal year end 2015.	
	o Costs developed better than expected by $7 million.	
	o Savings developed worse than expected by $24 million.	
$21 million	• **All other unexpected development such as private vocational rehabilitation**	
($371 million)	**Total unexpected changes**	

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

Negative numbers indicate a decrease in the liability

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Investment Income

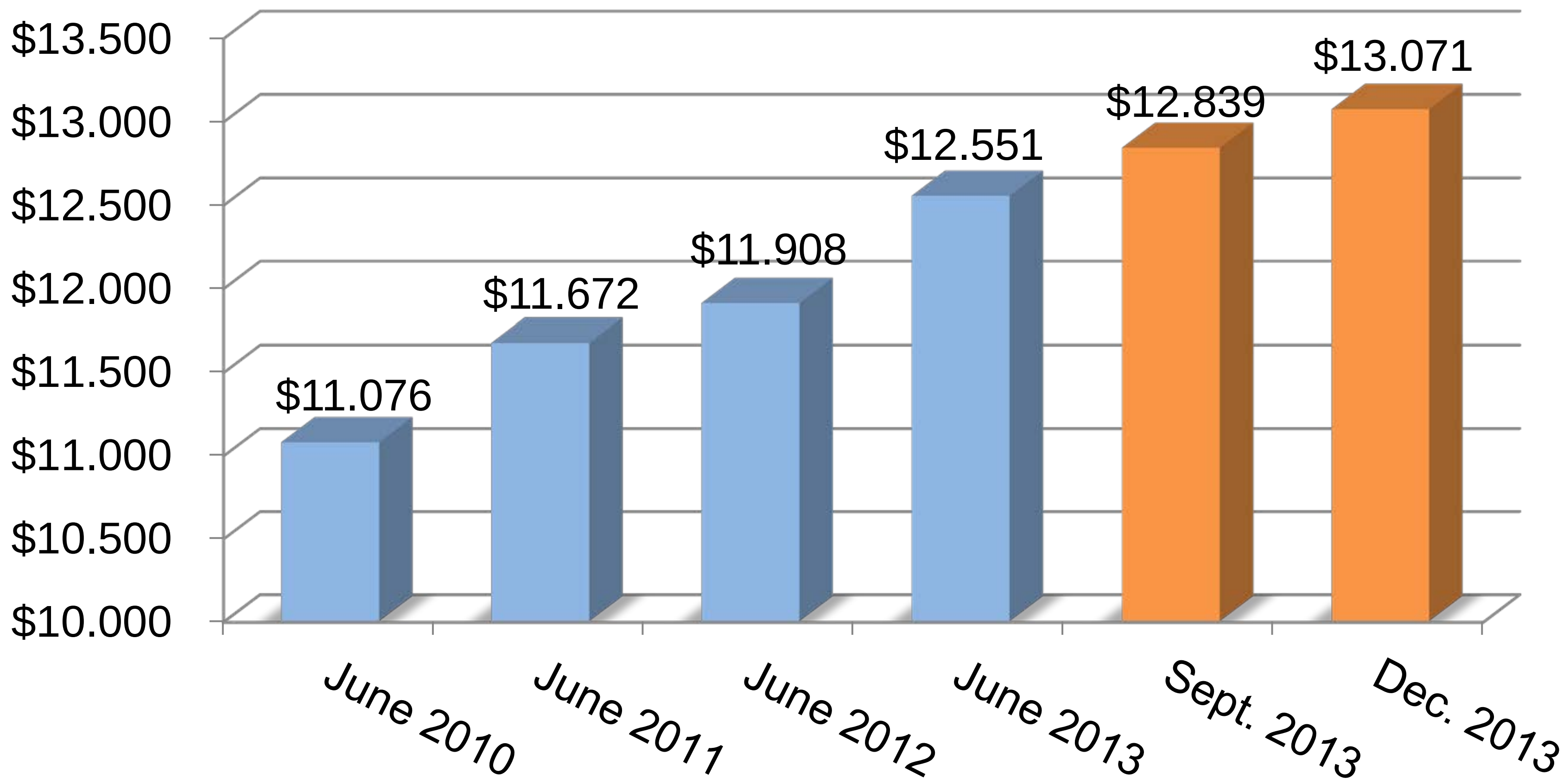
July through December
(in millions)

		Six Months Ended		Fiscal Year Ended
		December 31, 2013	December 31, 2012	June 30, 2013
Investment Income Earned from Dividends and Interest	+	$ 231	$ 234	$ 466
Realized Gains from Bonds (Fixed Income Investments) Sold	+	1	71	74
Realized Gains from Stocks (Equity Investments) Sold	+	41	-	13
Total Investment Income	=	$ 273	$ 305	$ 553

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

Total Investments

(rounded to billions)



Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income

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Other Revenues & Expenses

July through December
(in millions)

		Six Months Ended		Fiscal Year
		December 31, 2013	December 31, 2012	Ended June 30, 2013
Fines, Penalties, Interest, and Other Revenues	+	$ 25	$ 23	$ 49
Net of Self Insurance Reimbursements and Expenses **	+	24	15	44
Non-Insurance Expenses	-	(23)	(24)	(52)
Net of Other Revenues and Expenses	=	$ 26	$ 14	$ 41

Note: For example, non-insurance expenses include DOSH, SHARP, Employment Standards, Apprenticeship, and Department of Health.

** This number does not include SI benefits incurred.

Insurance Operations + Investment Income + Other Revenues and Expenses = Net Income

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Results of Operations

July 2013 through December 2013

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income (Loss)
($108) million	+	$273 million	+	$26 million	=	$191 million

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How Did Contingency Reserve Perform?

July 2013 through December 2013

Change $421 million

Beginning Contingency Reserve as of June 30, 2013	+	Net Income (Loss)	+	Unrealized Capital Gain/Loss	+	Other (Change in nonadmitted assets)	=	New Contingency Reserve as of December 31, 2013
$620 million	**+**	**$191 million**	**+**	**$227 million**	**+**	**$3 million**	**=**	**$1,041 million**

*Note: Unrealized capital gain/loss are not a part of net income because we have not "**cashed in**" our profits or losses.*

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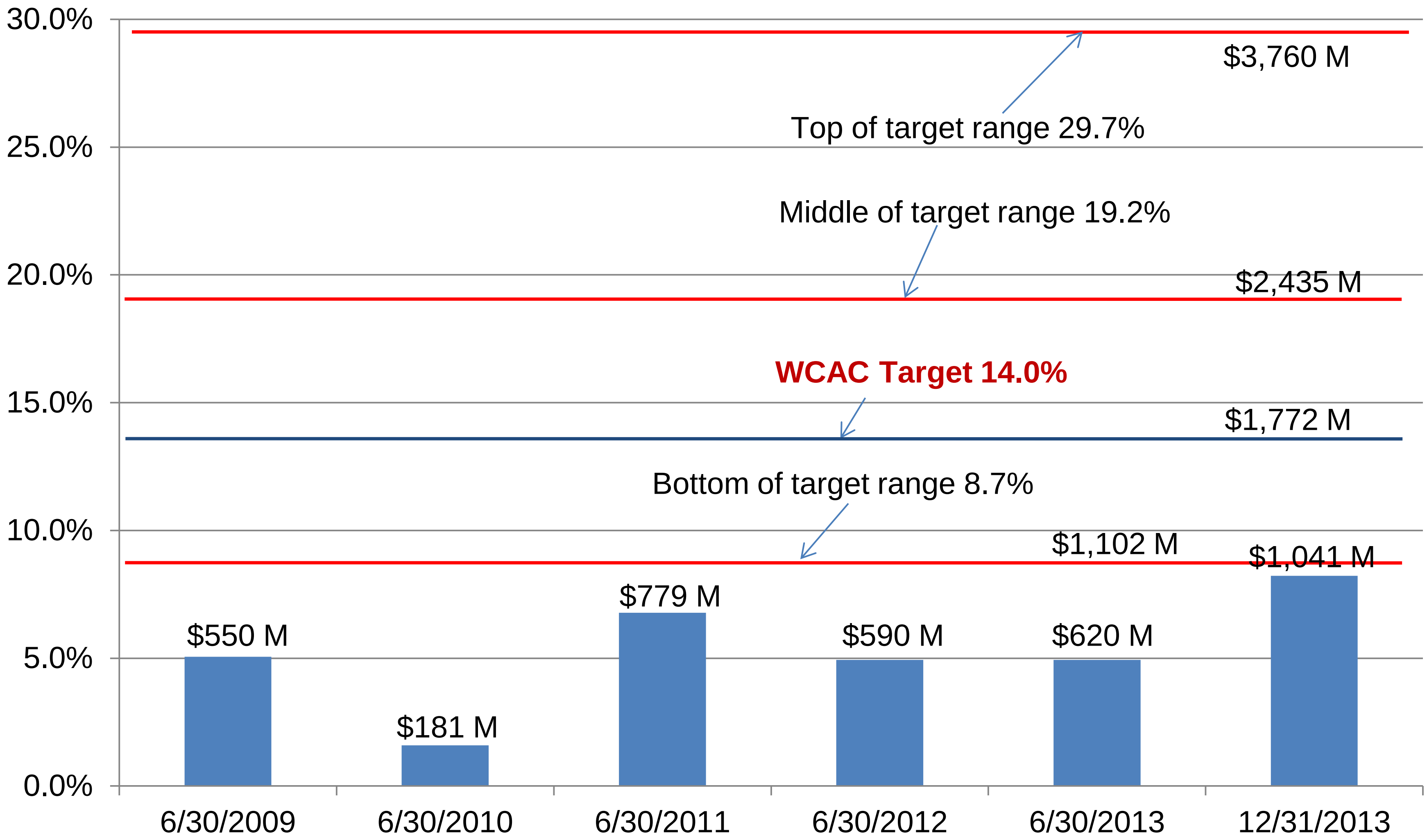
Combined Contingency Reserve vs. Targets



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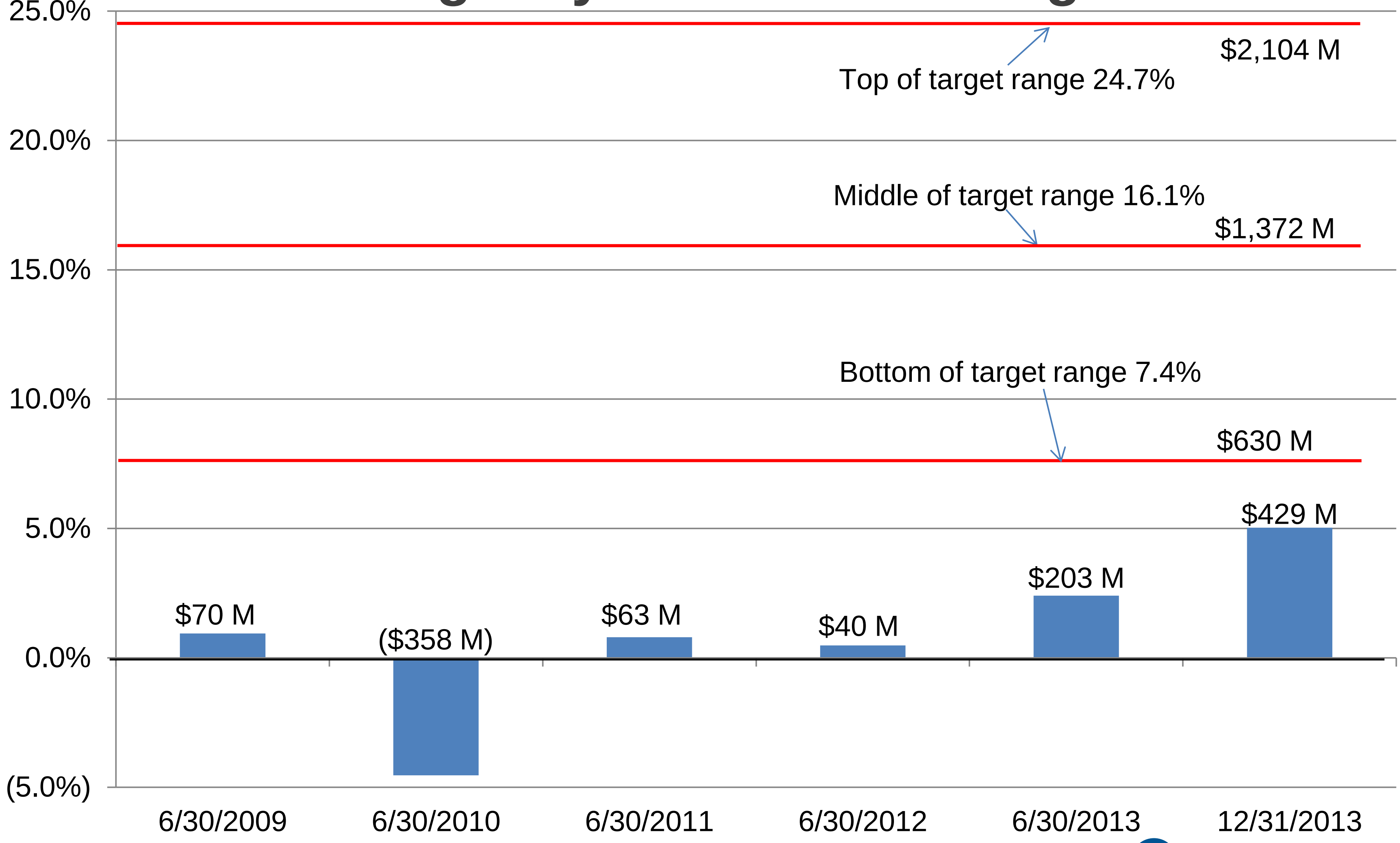
Accident & Pension Contingency Reserve vs. Targets



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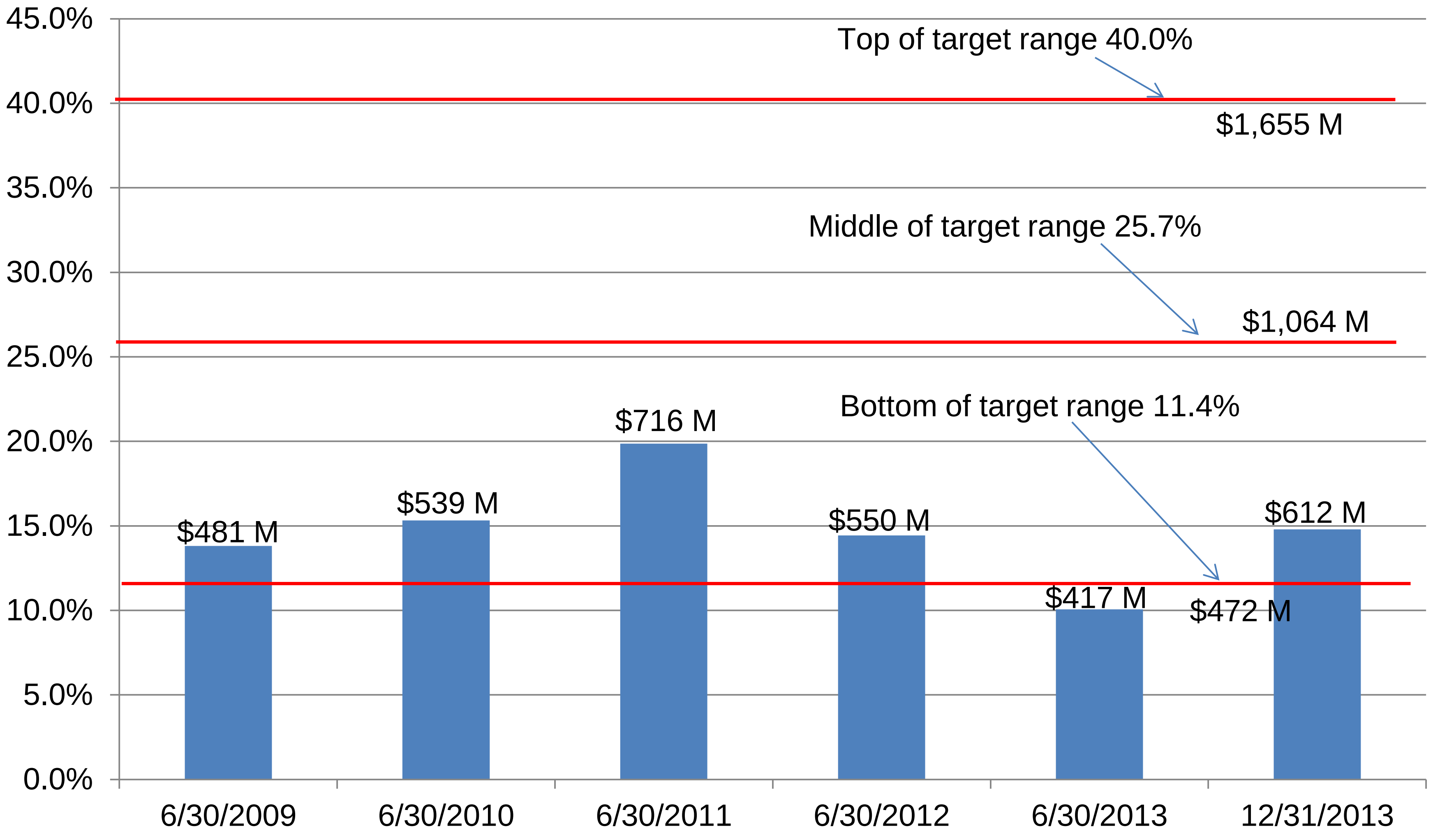
Medical Aid Contingency Reserve vs. Targets



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Key Financial Ratios

as a percentage of premium earned

	Ratios	Quarter Ended Dec 31, 2013 State Fund	Quarter Ended Dec 31, 2013 Industry Forecast	Quarter Ended Dec 31, 2012	Fiscal Year Ended June 30, 2013
A	Benefit (Loss Ratio)	98.2%	63.4%	94.7%	136.5%*
B	Claim Administration Expense (CAE) Ratio	9.9%	14.6%	9.2%	9.5%
	Sub-Total: Benefit and Claim Administration Expense Ratios	108.1%	78.0%	103.9%	146.0%
C	Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.3%	26.0%	4.3%	4.8%
D	**Combined Ratio (A+B+C)**	**112.4%**	**106.5%**	**108.2%**	**150.8%**
E	Investment Income Ratio	26.7%	19.4%	27.9%	29.4%
F	**Operating Ratio (D-E)**	**85.7%**	**87.1%**	**80.3%**	**121.4%**

**Includes structured settlements adjustment. The loss ratio is 121.5% excluding the adjustment*

Note: a ratio of 100% would indicate that costs = premium for the period

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Questions & Comments

Contact Sharon Elias, Chief Accounting Officer, at 360-902-5743 or email at: elia235@lni.wa.gov

Thank You!

Historical Investment Performance

	Six Months Ended		Fiscal Year Ended			
	December 31, 2013	December 31, 2012	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2010
Investment Income	231,185,000	234,113,000	465,868,000	481,892,000	491,654,000	486,996,000
Realized Gain (Loss)	42,000,000	70,863,000	87,405,000	547,771,000	68,768,000	17,725,000
Unrealized Gain (Loss)	226,787,000	137,316,000	266,041,000	(546,428,000)	416,944,000	179,067,000
Total Invested Assets	13,070,650,000	12,305,100,000	12,550,887,000	11,908,149,000	11,671,588,000	11,075,920,000

Unrealized gain (loss) changes are impacted mostly by stock market results.

Note: Unrealized gains and losses are commonly known as "paper" profit or losses which imply that they have not been "cashed in."

Key Factors in the $421 Million Contingency Reserve Increase

from July 1, 2013 to December 31, 2013

Impact	Drivers	Amount
↔	Actual changes in discounting Benefit and claims administrative expense (CAE) liabilities, $192 million plus $4 million, respectively	$196 million
↓	Reserve increase for planned reduction in pension discount rate Benefit and CAE liabilities, $166 million plus $12 million, respectively	$178 million
↓	13 year old total permanent disability discount rate change Benefit and CAE liabilities, $72 million plus $12 million, respectively	$84 million
↓	Retro refund liability increased	$7 million
↑	Unexpected investment gains	$216 million
↑	Benefit and CAE liabilities developed better than expected Benefit and CAE liabilities, $371 million plus $17 million, respectively	$388 million
↑	Premium rates higher than needed to cover new liabilities	$83 million
↑	Unexpected change in non admitted assets	$3 million

Quarterly Change in Benefit Liabilities

(in millions)

	Quarter Ended			
	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013
Beginning Estimated Benefit Liabilities	**$ 11,203**	**$ 11,210**	**$ 11,216**	**$ 11,618**
Change Benefit Liabilities for injuries occurring 6/30/12 and prior				
Impact of Discounting				
Discount accretion	92	89	87	85
Change in non-pension discount rate	-	77	-	(11)
Total Impact of Discounting	92	166	87	73
Other developments:				
Structured Settlement development	14	(34)	262	2
TPD Pension development	(92)	(95)	(16)	(70)
Medical development	(16)	(20)	52	116
Time-loss Benefit Reserve Development	(6)	12	17	2
All other development on prior liabilities	19	9	22	53
Total other development	(81)	(128)	337	102
Total Change in Benefit Liabilities for injuries occurring 6/30/12 and prior	**11**	**38**	**424**	**175**
New benefit liabilities for injuries occurring 7/1/12 and after	**367**	**372**	**341**	**410**
Claim Payments in 3 months	**(375)**	**(409)**	**(370)**	**(406)**
New Self insurance 2nd injury pension awards	**4**	**5**	**7**	**8**
Ending Benefit Liabilities	**$ 11,210**	**$ 11,216**	**$ 11,618**	**$ 11,806**
Change in benefit liability	**$ 7**	**$ 6**	**$ 402**	**$ 188**

$230 million unexpected changes.

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Quarterly Change in Benefit Liabilities

(in millions)

	Quarter Ended	
	Sep 30, 2013	Dec 31, 2013
Beginning Estimated Benefit Liabilities	**$ 11,806**	**$ 11,858**
Change Benefit Liabilities for injuries occurring 6/30/13 and prior		
Impact of discounting		
Actual changes in discounting	78	114
Reserve increase for planned reduction in discount rate	166	
13 year old TPD discount rate change		72
Total impact of discounting	244	186
Other development:		
Fewer active time-loss and pension claims	(92)	1
Reduction of the persistency rates for claims less than 6 years old	(136)	
Total TPD Pension development	(228)	1
Permanent Partial Disability development	10	5
Time-loss benefit reserve development	(25)	(30)
Medical Aid loss reserve development	(26)	(116)
Stay at Work development	15	2
All other development on prior liabilities	13	8
Total other development	(241)	(130)
Total Change in Benefit Liabilities for injuries occurring 6/30/13 and prior	**3**	**56**
New benefit liabilities for injuries occurring 7/1/13 and after	**411**	**367**
Claim Payments	**(372)**	**(398)**
New Self-insurance 2nd injury pension awards	**10**	**5**
Ending Benefit Liabilities	**$ 11,858**	**$ 11,888**
Change in benefit liability	**$ 52**	**$ 30**

($371 million) FYTD favorable unexpected changes

9-Year Reserve Benchmarks

Update: $1,041 million contingency reserve or just above 8% of total liabilities with pension discount rate at 6.5%.

9-Year Interim Targets			
Year	**Contingency Reserve Target (range)**	**Pension Discount Rate (PDR) Target (range)**	**Contingency Reserve (CR) Yearly Goal (displays steady growth)** dollars in millions
Quarter Ending June 2013	4.9%	6.5%	
2014	5 - 7%	6.5 - 6.3%	$ 652 to $902
2015	6 - 8%	6.3 - 6.2%	$ 797 to $1,032
2016	7 - 9%	6.2 - 6.0%	$ 957 to $ 1,167
2017-2018	8 - 11%	5.9 - 5.5%	$ 1,122 to $ 1,452
2019-2020	10 - 13%	5.4 - 4.7%	$ 1,472 to $1,742
2021-2022	13 - 15%	4.7 - 4.5%	$ 1,757 to $2,047
9-Year Contingency Reserve Goal			**$2,047**

Each tenth of a percent the PDR drops, the CR could reduce between $30 to 60 million.

Anticipated Changes to the Contingency Reserve in 2014

Drivers	**Amount (range) dollars in millions**		
Reduce Pension Discount Rate	($33)	to	($88)
2.7% Premium Rate Increase	$75	to	$95
Estimated Cost Savings from Initiatives	$35	to	$70
Investment Results	($XX)	to	$YY

- Estimated cost savings were made when the 2014 rates were determined.
- The actual savings reflected in the financial information vary from quarter to quarter.

PENSION DISCOUNT RATE & MORTALITY TABLES

Randi Warick,

Deputy Director of Financial Management

Washington State Department of Labor & Industries

BREAK

INSURANCE SERVICES PERFORMANCE METRICS DASHBOARD

Vickie Kennedy,
Assistant Director for Insurance Services

Washington State Department of
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Helping Workers Heal and Return to Work Dashboard

Focus Area	Key Indicator	Baseline 2012	2013 Q1	2013 Q2	2013 Q3	2013Q4	Target	Status
Overall indicator	Decrease long-term disability (LTD) claims	436 LTD claims	431 LTD claims	*432 LTD claims*	*428 LTD claims*	416 LTD claims	377 LTD claims By June 2015	
Culture of return to work	Return to work in 6 months	855	831	849	855	840	880 By June 2015	
Reduce preventable disability	time-loss persistence	70.9%	70.0%	69.5%	*69.5%*	70.1%	62%	
Collaborate to Reduce system delays	Decrease days time-loss paid at 3 months	56.1 days	56.5 days	*58.7 days*	*57.2 days*	53.4	*54 days*	
	IW overall experience good or very good	Fall '11 61%	Sept '12 60%	*Sept '13 61%*	Apr '14	*Sept '14*	*68%*	
	Employer overall experience good or very good	Fall '11 60%	Sept '12 61%	*Sept '13 61%*	*Apr '14*	*Sept '14*	*68%*	

Status:
green – making progress towards target
Yellow – not making consistent progress towards target
Red – not making progress towards target

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Return to Work in Six Months

- Identify Critical Intervention points, opportunities, red flags, and countermeasures for all time-loss claims where workers are at risk of not returning to work.

	Baseline: 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	TARGET
Percent of Ability to Work Assessment (AWA) referrals made in 90 days of claim receipt	6.3%	5.8%	5.1%	4.5%	6.3%	10%

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Return to Work in Six Months

- Evaluate worker, provider, and employer incentives and disincentives for RTW – build on the incentives, reduce or eliminate the disincentives.

	Baseline: 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	TARGET
New Washington Stay at Work Claims	370	391	512	374	343	TBD

Reduce the Development of Preventable Disability

- Increase provider adoption of COHE best practices and participation in Top Tier.

	Baseline: 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	TARGET
Percent of initiated claims seeing a COHE provider	37%	35%	35%	41%	43%	50%
Percent of COHE providers who are low adopters of best practices	N/A	N/A	N/A	N/A	N/A	<20%

Collaborate to Reduce System Delays

- Evaluate internal and external processes and eliminate steps that do not create value for our customers. Improve efficiency and ease of use for all processes.

	Baseline: 2012	1Q 2013	2Q 2013	3Q 2013	4Q 2013	TARGET
Median time-loss days to first AWA referral (average monthly)	226	248	255	267	256	N/A

Claims Evolution Update

- Claims Processors
  - Claim processors remove tasks from claim managers so they can focus on actions to assist injured workers and employers.
  - One claim processor per unit has been hired.
  - In February, it is estimated that Claim Processors freed up 18% of time, equivalent to 1.5 FTEs per unit, for claim managers to focus on claim decisions.
  - Continue to identify tasks, ensure standardization across claim units.

RETURN TO WORK PARTNERSHIPS

Ryan Guppy,

Chief of Return to Work Partnerships

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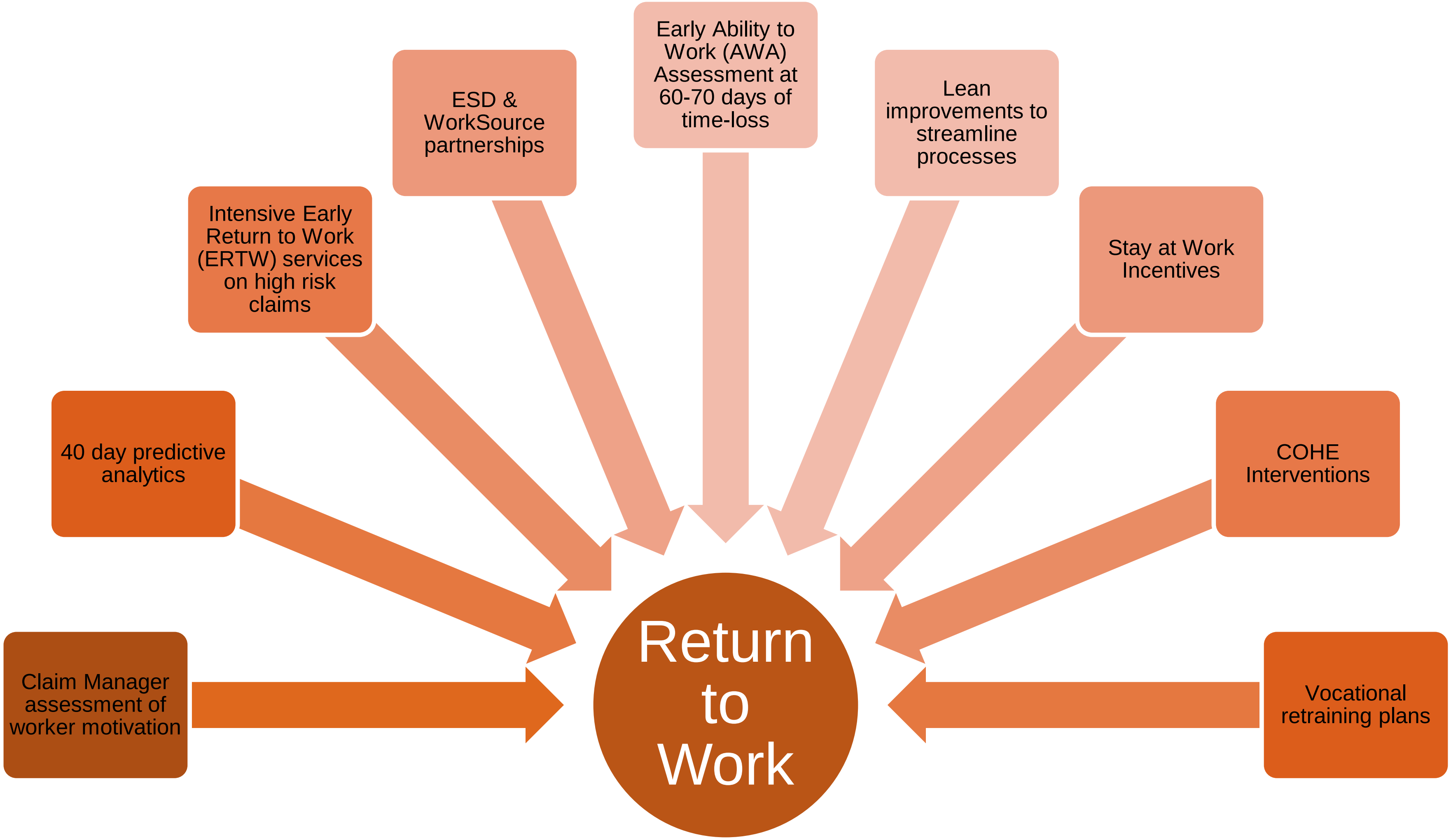
Return to Work Efforts



Return to Work Partnerships

- Exploring New Vocational Services
  - What additional value-added services can VRC's provide to increase the likelihood of returning to work?
  - When should these services be provided?
- Early AWA experiment
  - Make referral after 60-70 days of time-loss
  - Lean Standard Work Measures
  - Physical Therapy/Occupational Therapy Countermeasure
  - Medical Instability

Return to Work Partnerships

- L&I and ESD partnership opportunities
  - How can we utilize ESD work history information to expedite RTW and vocational efforts?
  - How can we more efficiently hand-off cases from time-loss to unemployment benefits.

- Improving VRC Services
  - Resume development for a worker during an Ability to Work Assessment (AWA).

- WorkSource Partnerships

Return to Work Partnerships

- Labor Market Surveys
  – Improved consistency
  – Objectivity
  – More efficient process
- Next steps:
  – Stakeholder input
  – Explore standardization of LMS reports (quality)

Questions

SELF-INSURANCE CHANGES

Vickie Kennedy,
Assistant Director for Insurance Services

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Performance Metrics

Goal	Op. Performance Measure	Current Status
Help Injured workers heal and return to work- Goal 2	90% of Time-loss Compensable (TC) / Non-Compensable (NC) closing orders will be issued within 90 days of request.	N/A
Make it easy to do business with L&I- Goal 3	98% of allowance orders within 30 days.	N/A
	70% of wage orders within 120 days.	N/A
	85% of all protests completed within 90 days.	85%

Self-Insurance Audit Reform

- SI Audit Reform will significantly change the audit process and operations.
- Improvements are from recommendations of an external stakeholder group, made up of self-insured businesses and labor representatives.
- Once complete, the SI Audit program will focus oversight of self-insured employers on issues impacting the appropriate delivery of injured worker benefits.

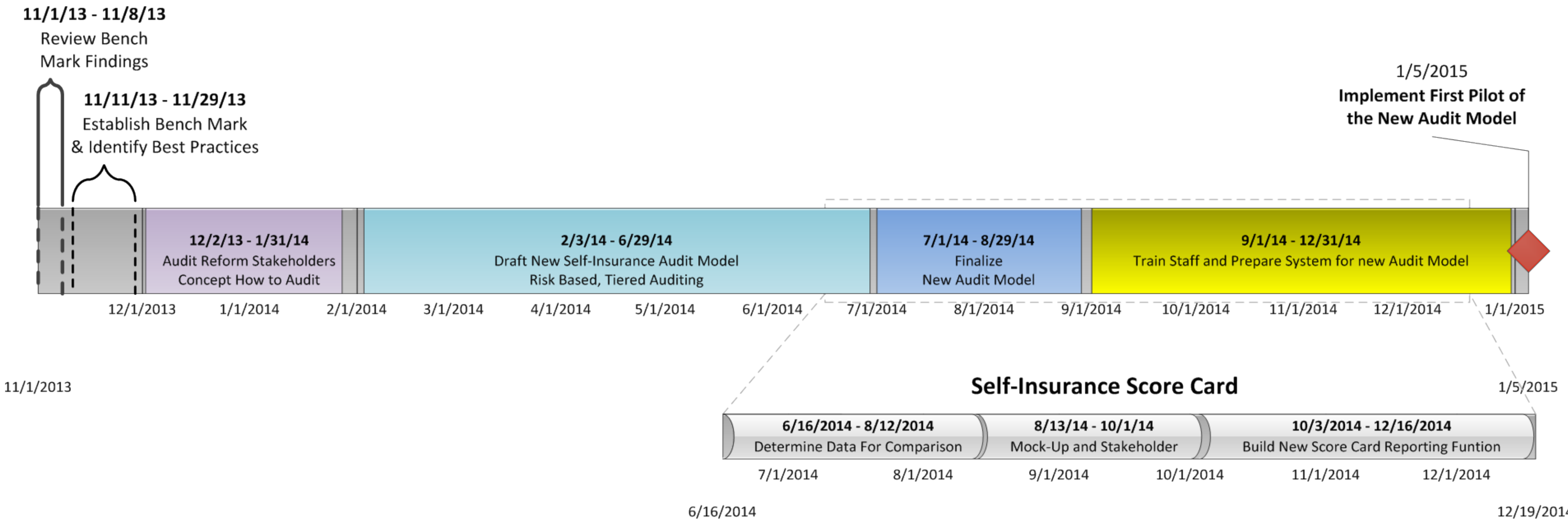
Quick Wins

- eLearning
- SI Report on Occupational Injury or Disease (SIF5 Pilot)
- Desk Audit Process
- Issue Based Audits
- Complaint Based Audits
- States Research Report

A Risk Based Audit – Tiered Auditing

	Annual	Performance-Based	Issue- Based	Complaint-Based
Description	Annual checkpoint: Tier 1 - Audit based on enhanced existing annual reporting, new or modified electronic reporting, or a specified audit category.	Plus: Tier 2 - Audit based on irregularities identified in Tier 1, and Tier 3 - deficiencies in performance from second tier findings.	Plus: Tier 2 - Audit based on priority issues or program concerns, and Tier 3 - deficiencies in performance from second tier findings.	Plus: Tier 2 - Audit based on analytics with triggers above threshold levels, and Tier 3 - deficiencies in performance from second tier findings.
Classification	Scheduled	Tiered	Scheduled and Tiered	Scheduled and Tiered
Reporting	Standards	Performance	Standards and Performance	Standards and Performance

SI Audit Reform Project Timeline



CLOSING COMMENTS

Joel Sacks,
Director

Vickie Kennedy,
Assistant Director for Insurance Services

ADJOURN

Please join us for a demonstration of an e-learning module on First Call training beginning at 11:40am.