Workers' Compensation Advisory Committee (WCAC) Meeting
Labor & Industries Tumwater, WA
Meeting Minutes
August 25, 2008

Business Representatives: Kris Tefft, Association of Washington Business; Rebecca Forrestor, Group Health; Nancy Dicus, TOC Management Services; Jon Warling, Mar-Jon Orchards

Labor Representatives: Karen Gude, United Food & Commercial Workers Union Local 1439; Dave Johnson, Washington State Building & Construction Trades Council; Owen Linch, Joint Council of Teamsters No. 28

Ex Officio Member: Tom Egan, Board of Industrial Insurance Appeals

Labor & Industries: Judy Schurke, Director; Bob Malooly, Assistant Director of Insurance Services; Vickie Kennedy, Special Assistant to the Director

Absent: Jeff Johnson, Washington State Labor Council, AFL-CIO

Recorder: Sharon Avery

Guests: Michael Temple, Naomi Goodman, Chris Ristine, Amy Brackenbury, Art D'Alessandro, Rebecca Johnson, Carolyn Logue, Joan Elgee, Janice Camp, Maria Horde, Tammie Hetrick, Ann Jarvis, Vicky Smith, Chip McKenna, Dan Fazio, Tom Kwieciak

L&I Staff: Joshua Ligosky, Christopher Carlile, Russel Redding, Julie Black, Dan Johnston, Joe Jauquet, Les Hargrave, Cheri Ward, Ron Moore, Mark Mercier, Brenda Heilman, Richard Bredeson, Bill Moomau, Diana Finch, Jeff Miller, Cassandra Smith, Jessica Jeffreys, Diane Doherty, Russell Frank

Opening Comments and safety message:

Mr. Malooly presented a safety message to the committee. The meeting continued with an introduction of the attendees.

The meeting minutes for March 31, 2008 were approved. The meeting minutes for June 17, 2008 were approved with the following changes to page 8; 4th paragraph: *"Another issue for the self-insurance program concerns affirmative decisions on claims. Self-insured employers are not currently able to make some claim decisions such as allowance. SIEs should be able to make these affirmative determinations, rather than depending on the department, and must take other actions already allowed by law. This would allow the department to better utilize staff."*

Pension Study: The Pension Study report is due on August 29, 2008. A hard copy and compact disc of the report will be mailed to the committee members. Feedback to the UpJohn Institute is due on September 19, 2008. The final deliverable will be available in October 2008.

Board of Industrial Insurance Appeals: Tom Egan

Mr. Egan announced that the Board's CLE is scheduled for September 12, 2008. He also reported that there have been 6-7 motions from employers to stay benefits pending appeal. Two of them have been decided, one was denied because it was untimely and the other denied on the merits based on the review of the file. Mr. Tefft expressed interest for updates on the motions in future WCAC meetings.

The BIIA is anticipating one judge to retire this year which may present some issues due to the statewide hiring freeze.

Mr. Egan reported on the following charts:

- **'Appeals Filed and Granted per Quarter'** - BIIA had just under 13,000 appeals this past fiscal year, which was almost identical to last fiscal year.
- **'Department Reassumption Rate by Quarter'** - For the fiscal year, the reassumption rate was 24.6 %, comparable to last fiscal year which was 26.1%.
- **'Average PD&O Lag-Time by Quarter for Hearing Judges'** - The average PD&O lag-time for hearing judges is the time taken for a judge to draft a proposed decision once the record is complete. June 2008 was an outstanding 22 days. This fiscal year was 25 days compared to last fiscal year of 28 days.
- **'D&O Time Lag'** - The D&O time lag has remained steady for the past four years at 66/65/65/67 days. This is the amount of time it takes the board to issue a decision/order once a Petition for Review is granted.
- **'Average Weeks to Completion'** - The average weeks to completion remains at 34 weeks. It was 34.5 weeks for the fiscal year compared to 34.2 weeks last fiscal year.
- **'Pending Appeal Caseload by Quarter'** - Pending cases are down to 4,822 appeals, which is as low as it has been since 1997.
- **'Percentage of Final Orders Appealed to Superior Court--Quarterly'** - 3.2%--this means that 96.8% of potential appeals to Superior Court are not taken to this higher court.

Financial Reports: Christopher Carlile

Copies of the presentation, *Statutory Financial Information Industrial Insurance Fund--Fiscal Year 2008-Preliminary Fourth Quarter Report*, and the *Comparison of Fiscal Year 2007 and 2008* handout were distributed. These financial statements are not finalized until December 2008; these are preliminary statements until the independent actuaries conduct their audit.

Financial highlights for fiscal year 2008 include:

- The rate holiday of approximately $310 million, which affected the medical aid fund.
- To complete the rate holiday, dividend checks were issued to non-retro employers on June 30, 2008 for $36.5 million, which affected the accident fund.
- The department implemented a new asset allocation by purchasing international equities and TIPs to rebalance the portfolio.
- There was a downturn in the stock market during the year and the net equity investment loss was $270 million.
- Investments have remained about $11 billion.
- As of June 30, 2007, the benefit liabilities were about $8.7 billion and as of June 30, 2008, it is about $9.3 billion.
- The retrospective rating adjustment was lower due to the relative performance between retro and non-retro employers, which caused smaller refunds and more assessments.

It was asked whether retro employers perform better than non-retro employers and has this changed dramatically. Mr. Malooly confirmed that retro employers do perform better, and this fluctuates over time and depends on circumstances. Generally, the difference is about 20%, and is the comparison of the loss ratio and benefit costs versus the premiums.

The contingency reserve continues to decrease but stays within range. The general expectation is a slight increase over time. For the accident and pension reserve funds, the contingency reserve policy limits are: upper--24.7%; middle--16.1%; and lower--7.4%. Currently, the contingency reserve is 11.7%. For the medical aid fund, the policy limits are: upper--40%; middle--25.7%; and lower--11.4%. The contingency reserve is 25.1%. Since June 30, 2007, the contingency reserve decreased about $494 million due to the rate holiday and dividends, and the decline in the US equity market.

It was asked when the proposed policy limits were going to be adopted. Mr. Malooly responded that the department will report information to the WCAC using the proposed policy as a template for a period of time. The department worked on the policy limits with business and labor representatives, the State Investment Board (SIB), and Conning, and plan to formally adopt the policies within the next 2-3 years. The SIB has shifted investments to match the department's asset allocation model by selling equities in the medical aid fund and purchasing TIPS to provide inflation protection.

Maximum Value of Claim/"Rule of 1": Bob Malooly

The department met with business and labor separately to discuss proposed changes in the maximum value of a claim and the "Rule of 1". The department needs to decide whether to propose these changes along with the rate rule-making. If the changes are not made with the 2009 rate filing, the department will wait until 2010. Mr. Malooly explained that rulemaking is the only option for making the change because it affects the rates employers and workers pay. The department looked at what other states do for their rating systems and determined that Washington's maximum value of a claim is much higher than any other state. Other states do not have the 25% rule and do not have the "Rule of 1"—both are unique to Washington.

Dave Johnson remarked that he understood last year's experience modification changes would mitigate problems for companies whose experience modification factors were increasing and questioned whether the additional changes being proposed were identified because of the most recent changes. Mr. Malooly explained that prior changes rebalanced the credibility weighting, and that these are unrelated to the maximum claim value and "Rule of 1". From an actuarial perspective, we want to maintain a balance of stable rates and the predictive value of the rating system. The proposed changes produce more stable rates without materially affecting the predictive nature of the system.

Rates Presentation: Bill Vasek

Copies of the *Actuarial Trends in Insurance Operations, 2009 Overall Premium Rate Levels by Fund*, and a draft *Labor and Industry Glossary* were provided to the committee members.

The draft glossary is a comprehensive glossary of rate terms and will be posted on the department's website once finalized.

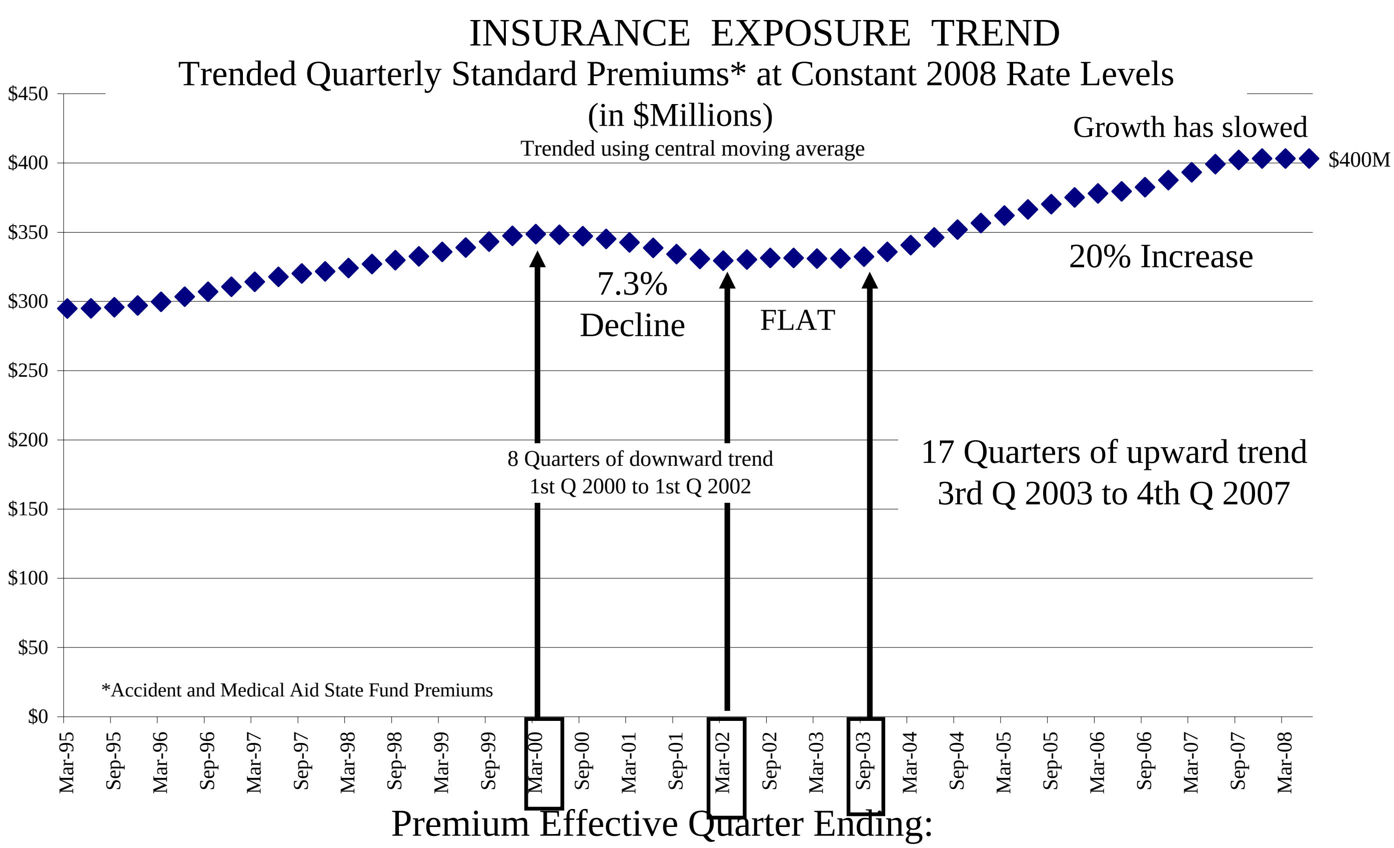
Actuarial Trends in Insurance Operations presentation:
Most of the latest trends are decreasing—the claim trends have been on a long-term decline since 1990 and this is helping decrease the loss ratio. However, there has been an increase in time loss duration and pensions. There is a difference in the decrease in loss ratio for the medical aid fund versus the accident fund. The difference is due to pensions being paid out of the accident fund.

Major State Fund Insurance Operation Trends

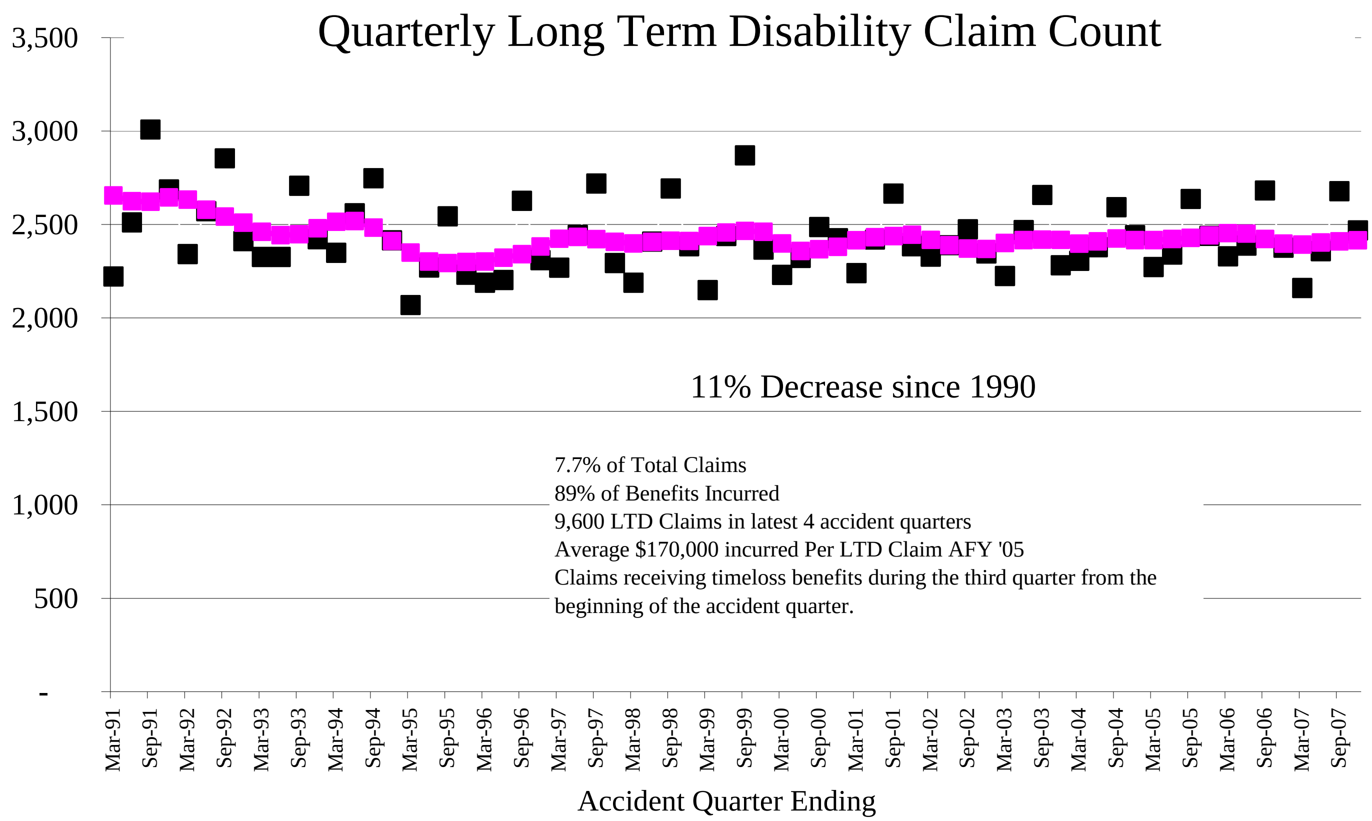
Rank	Trend Measure	June 30, 2008	Latest Trend	Last Turning Point in Trend	Long-Term Trend
1)	Insurance Exposure (Quarterly)	$400 M	Slow Growth	3q 2003	39% increase since 1990
2)	LTD Claim Frequency*	6.0	Decreasing	1q 2002	37% decrease since 1990
8)	Timeloss Claim Frequency*	19	Decreasing	1990	51% decrease since 1990
9)	Overall Claim Frequency*	72	Decreasing	1990	53% decrease since 1990
5)	Pensions per Timeloss Claim	4.25%	Flat	2q 2000	1.9% pre-1996 average
10)	1st PPDs per Timeloss Claim	32%	Flat	1q 2002	26% pre-1996 average
12)	Fatality Loss Ratio	1.6%	Decreasing	before 1978	50% decrease since 1990
7)	Timeloss Duration	235 days	Increasing	1Q 2001	+2.20% annual trend
6)	Annual Medical Growth Rate	6.6%	Cyclical		6.5% 1998-2007 average
13)	Voc Rehab Utilization Growth	-7.0%	Decreasing	1q 2006	currently at 1990 levels
3)	Adjusted Loss Ratio MAF	111%	Decreasing	1q 2002	41% decrease since 1990
3)	Adjusted Loss Ratio AF	92%	Decreasing	1q 2002	20% decrease since 1990
11)	Net Retro Refund Target %	17.5%	Decreasing	3q 2006	21% average since 1981

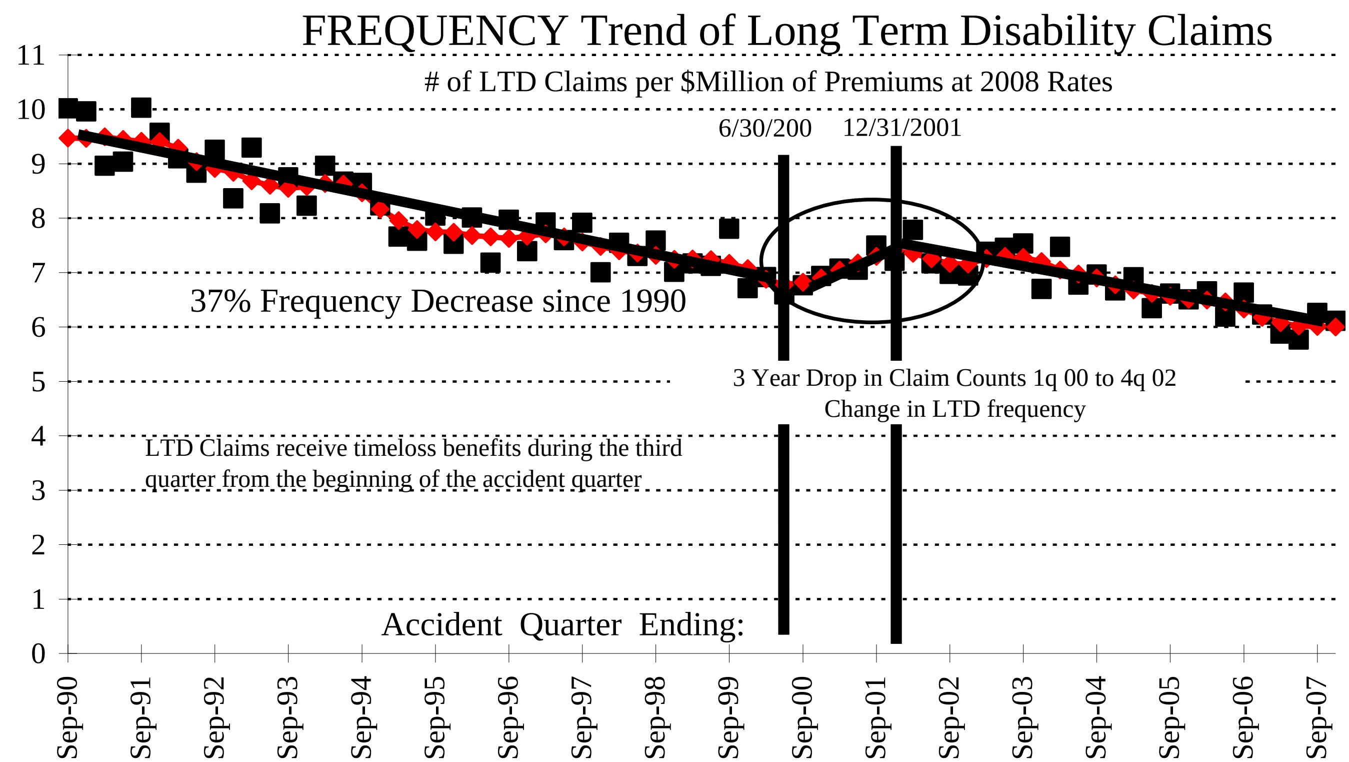
*per $M of premiums at 2008 rate levels

The ranking numbers indicate the significance of the trends for rate discussions.

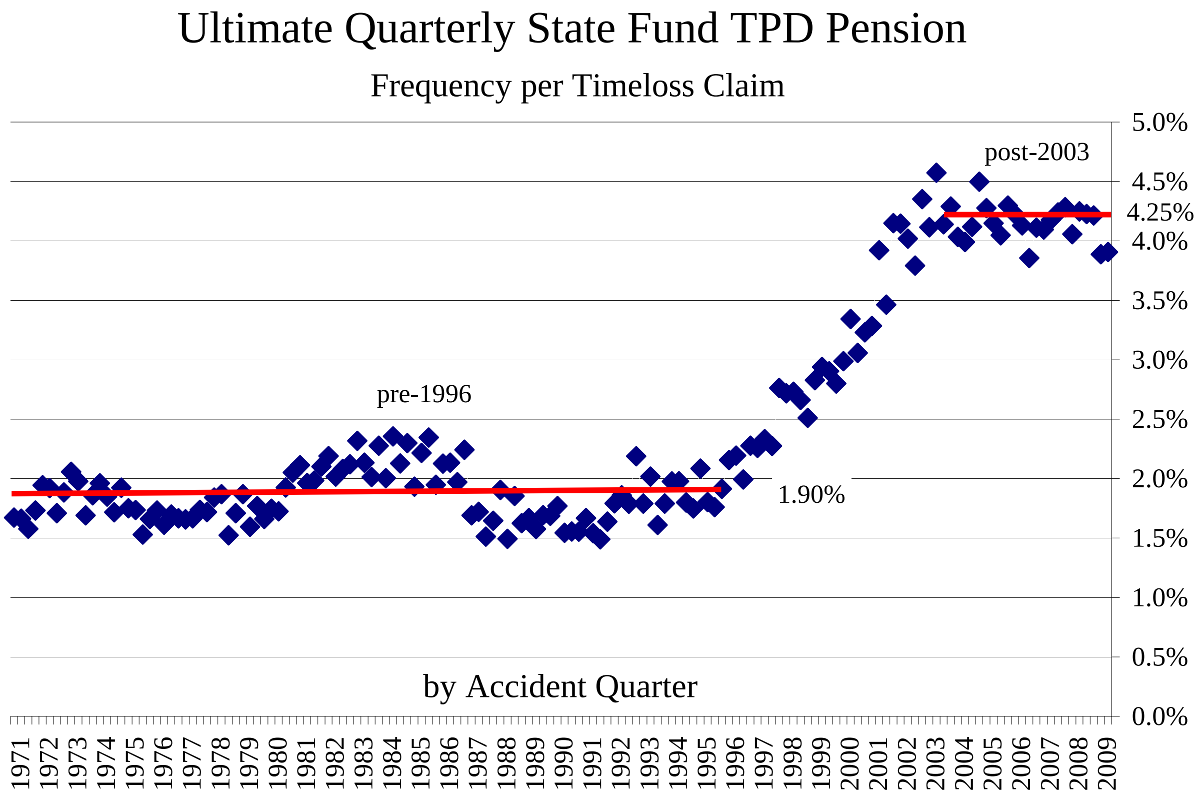


The insurance exposure trend has been increasing; however, there has been slower growth due to the economic slowdown. The trend is forecasted to be flat, then gradually increase in the future.





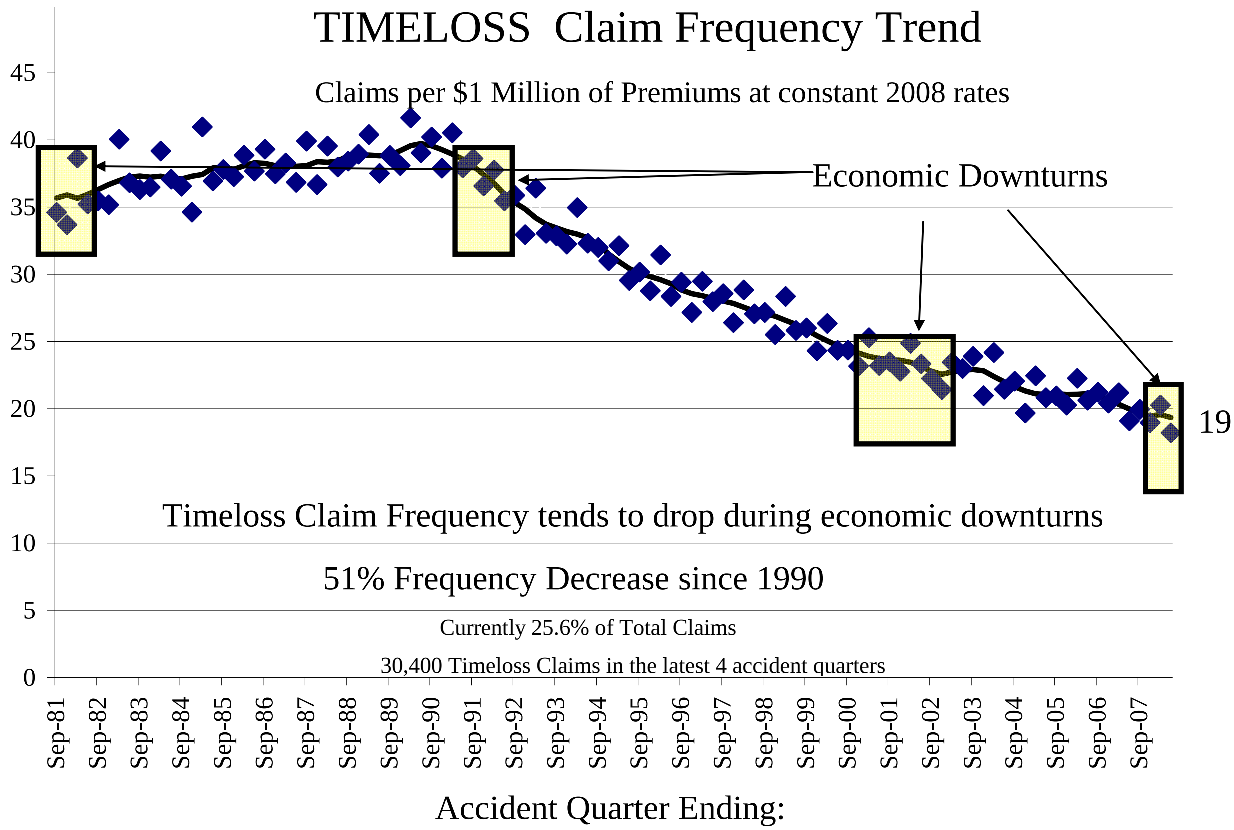
The quarterly long-term disability claim counts are based on claims receiving time-loss benefits during the 3rd quarter from the beginning of the accident quarter. Since 1990, the overall counts have decreased 11%. The actuaries divide these claim counts by the premiums adjusted to 2008 rate levels to get the frequency trend of long-term disability claims. Generally, the frequency decreased except for the time period between mid-2000 to the end of 2001. We are now in a declining trend, which is good from a rating standpoint.



The ultimate quarterly state fund TPD pension frequency per ultimate quarterly time-loss claim prior to 1996 averaged around 1.9%. Since then it has increased and is now at 4.25%.

A question was asked about the ratio of pensions to the number of time-loss cases. If there are fewer time-loss cases, but no change in the number of pensions, the pension frequency per time-loss claim would increase. If there are fewer short-term claims and no change in the number of serious claims, we would see a similar pattern. Mr. Vasek agreed; however, there has been a sizeable increase in the counts of pensions and a steady decline in time-loss claims. Mr. Malooly added that there are a number of competing trends: workplaces are becoming safer, there are fewer fatalities, fewer catastrophic injuries, and dramatically fewer short duration time-loss claims. These positive changes have been overwhelmed by the increase in pensions. Mr. Malooly explained the steepness of the run-up from 1996-2003 was partly due to efforts to catch up. However, the numbers have stayed at the higher level rather than coming back down.

Mr. Linch indicated this was the reason for the pension study. Mr. Johnson stated that an accounting of the differences in the workforce from 1996-2008 (13 years) has not been provided by the Upjohn Institute and that the overall increase in pensions may be partially attributed to the significant increase in people who are working. Mr. Vasek said that he will answer this better in the upcoming chart on loss ratios showing the ratio of the cost of these TPD pensions to premiums assessed by rating period.



TIMELOSS Claim Frequency Trend
Claims per $1 Million of Premiums at constant 2008 rates
Economic Downturns
19
Timeloss Claim Frequency tends to drop during economic downturns
51% Frequency Decrease since 1990
Currently 25.6% of Total Claims
30,400 Timeloss Claims in the latest 4 accident quarters
45
40
35
30
25
20
15
10
5
0
Sep-81
Sep-82
Sep-83
Sep-84
Sep-85
Sep-86
Sep-87
Sep-88
Sep-89
Sep-90
Sep-91
Sep-92
Sep-93
Sep-94
Sep-95
Sep-96
Sep-97
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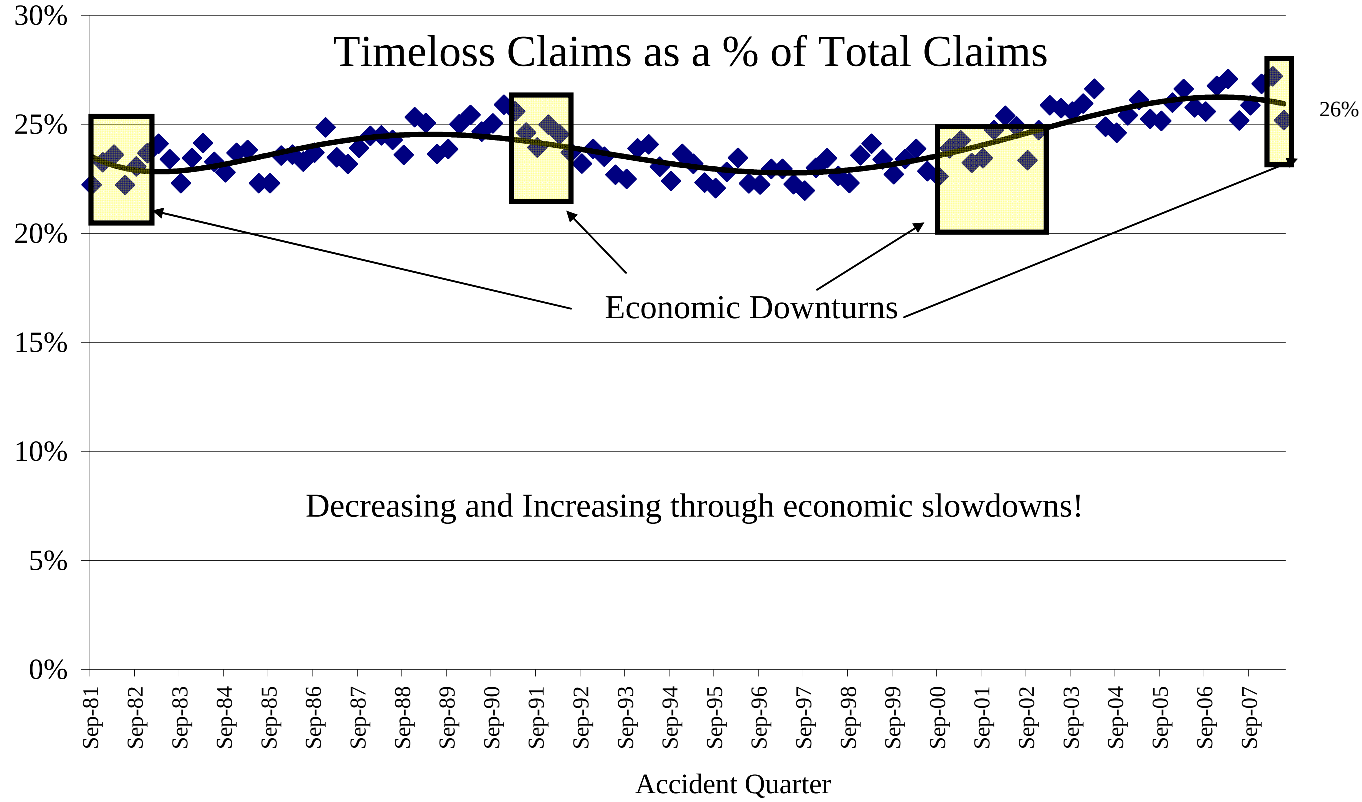
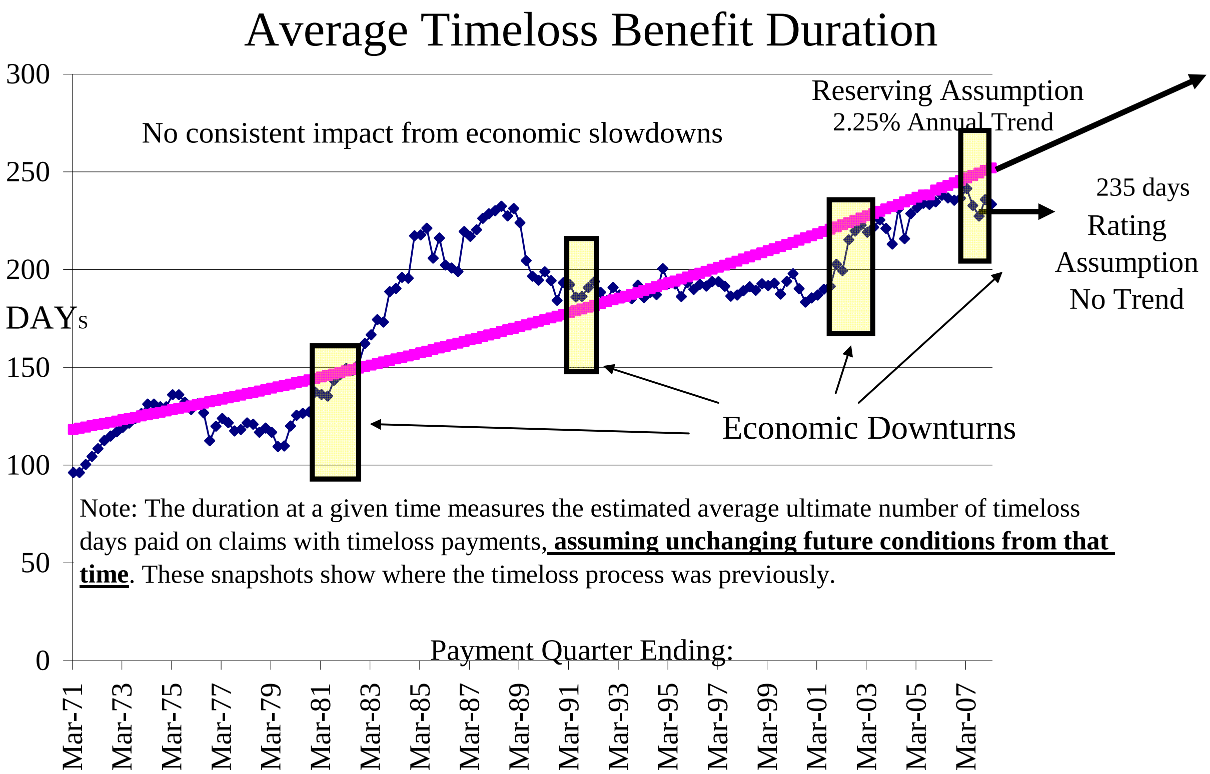
Sep-06
Sep-07
Accident Quarter Ending:



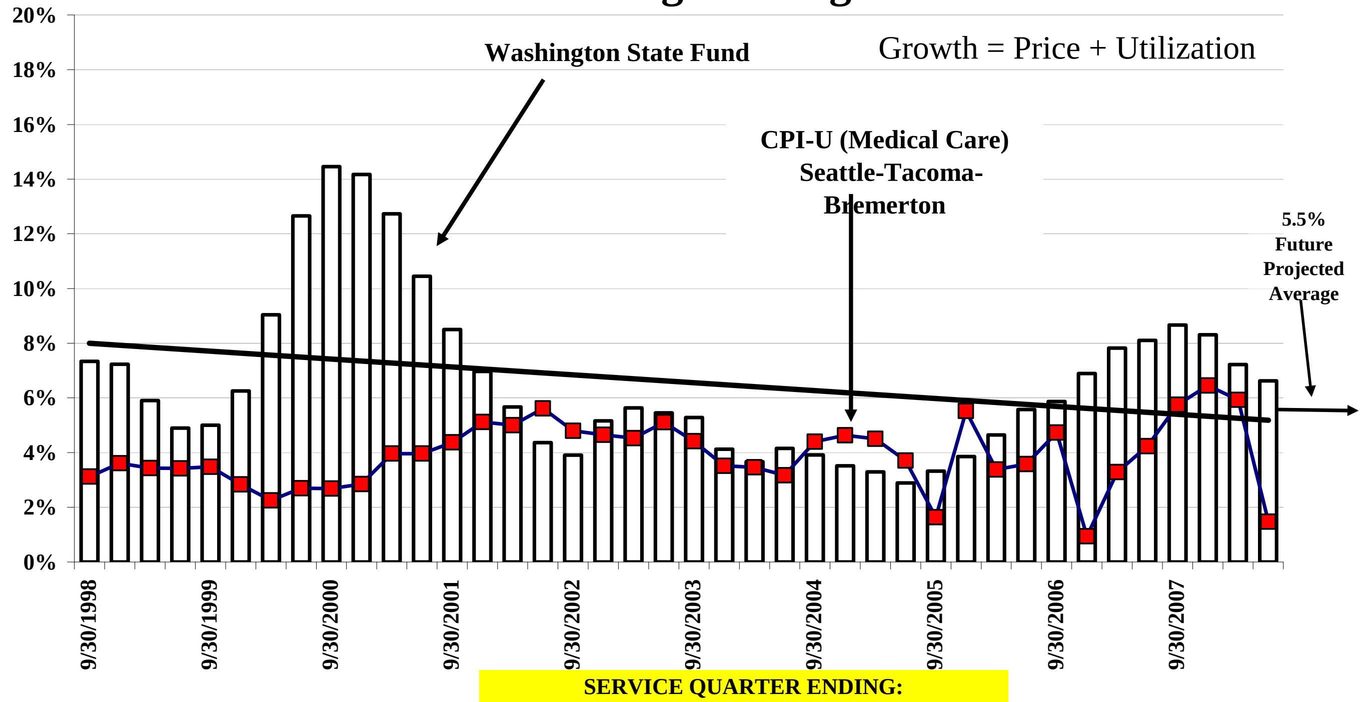
Time-loss claim frequency per $1 million of premium is decreasing, but time-loss claims as the percent of total claims is not. Mr. Vasek remarked that this is because the frequency of total claims was decreasing at a faster rate than the rate of decrease for time loss cases. Time-loss counts include kept-on-salary claims in the statistics.



The long-term time-loss duration has been increasing. For reserving purposes, we assume the increase will continue at 2.25%. For rating purposes, we assume it will remain at the current level of 235 days.

Annalized Medical Growth Rates

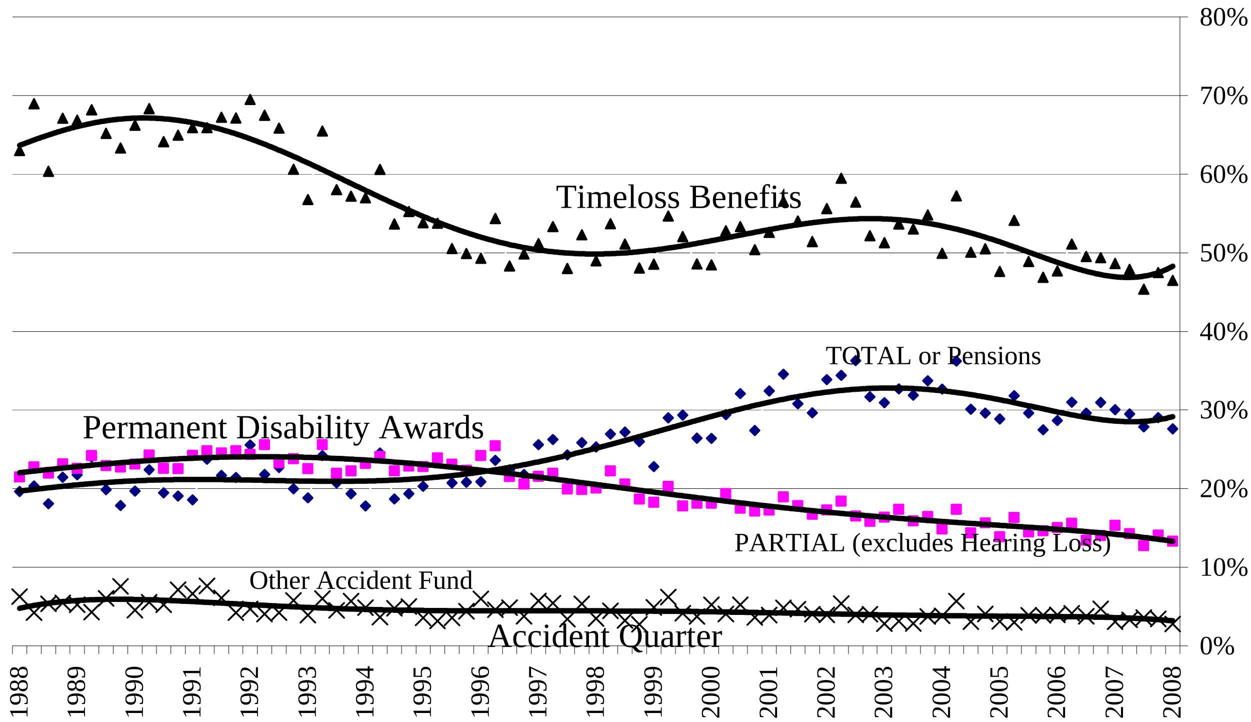
excluding Hearing Loss



For the medical growth rate, in the past we have used the payments in a quarter to monitor trends, but we are now going to measure the medical growth rate by service quarter. This avoids any distortion because of the speed of payments and should provide more stable results. We are using a 5.5% assumption for future medical growth. Medical growth is not broken out separately for price and utilization.

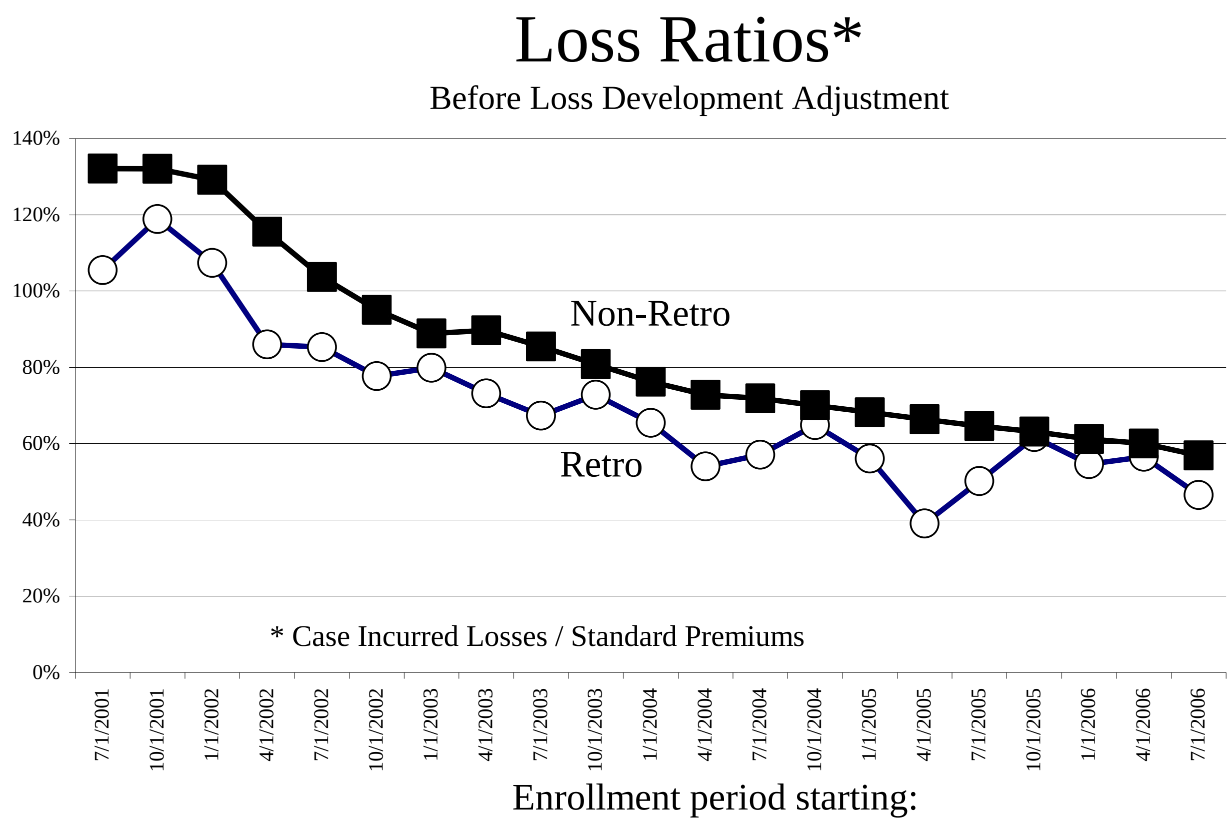
The department has reviewed the details behind the increases and some of it is due to more incentives for providers. The change to monitoring growth by service quarter resulted from distortions in the data when we addressed a backlog of paper bills, caused by a new system and implementation of the National Provider Identification. The department continues to review bill payment speed to ensure payments are made timely, as this is an important consideration in our efforts to recruit more physicians to treat injured workers.

Loss Ratios to Accident Fund Premiums at 2008 Rate Levels

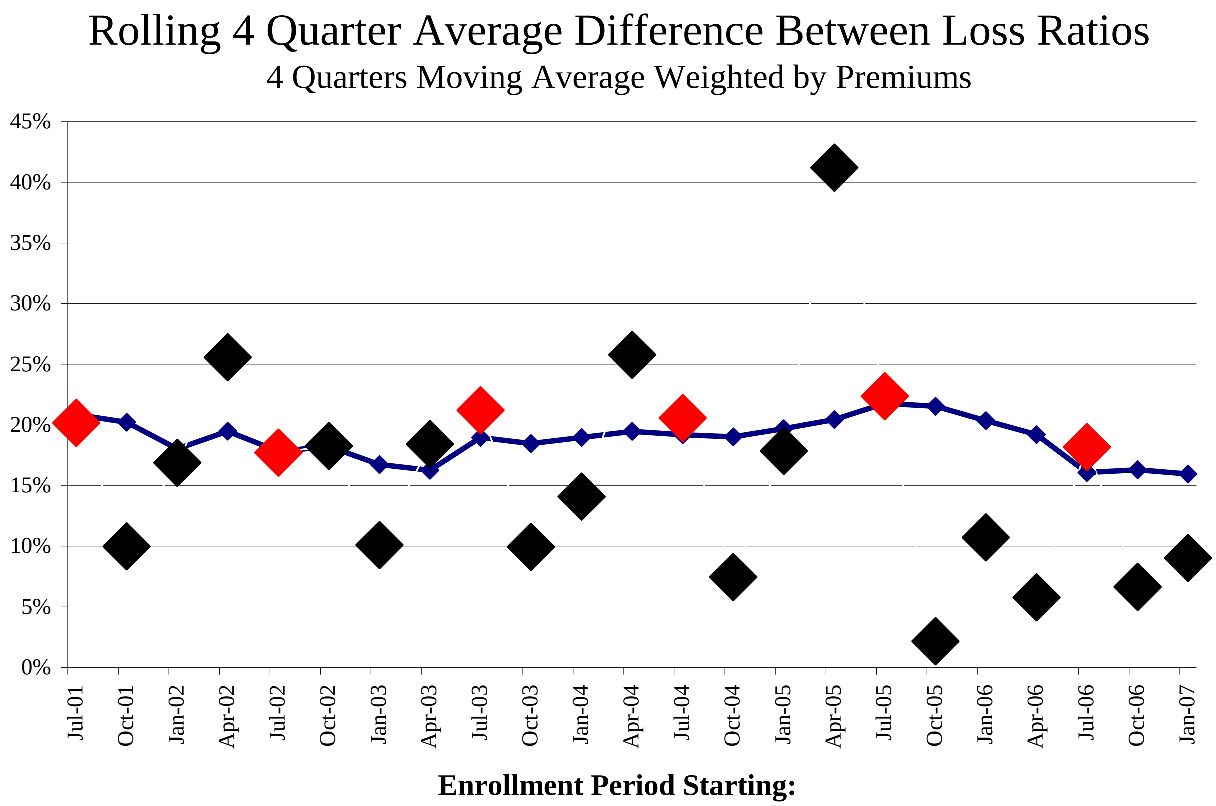


Mr. Vasek continued the presentation with the loss ratio to accident fund premiums at 2008 rate levels. TPD pensions' loss ratio prior to 1996 was close to 20%, now it is close to 30%. This increase is due to the TPD frequency increase.

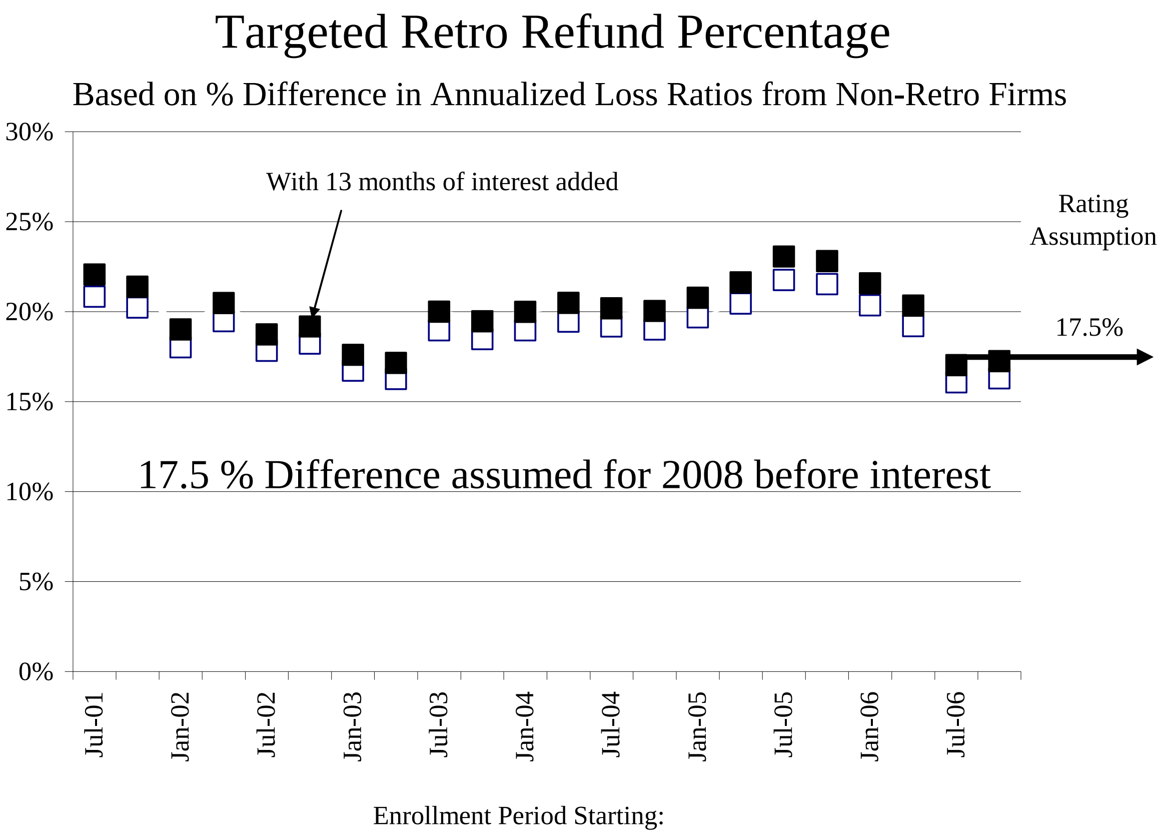
This chart eliminates any effects of agency efforts to address pension backlogs or time-loss duration because the numbers are based on date of injury.



The overall retro refund levels are determined as the percentage difference between the non-retro loss ratio and the retro loss ratio so that retro and non-retro employers fund the same percentage of losses. The retro employers have lower loss ratios than non-retro employers and this leads to a positive refund level.



The chart shows significant volatility between quarters. This is because July includes about two-thirds of the retro enrollment and the numbers are fairly stable from one July to the next. April and December numbers are volatile because the volume for these retro firms is very small. Because of the quarterly volatility, a four-quarter moving average difference is used to obtain stable refund levels. The targeted retro refund percentage, based on the difference in annualized loss ratios is 17.5%.



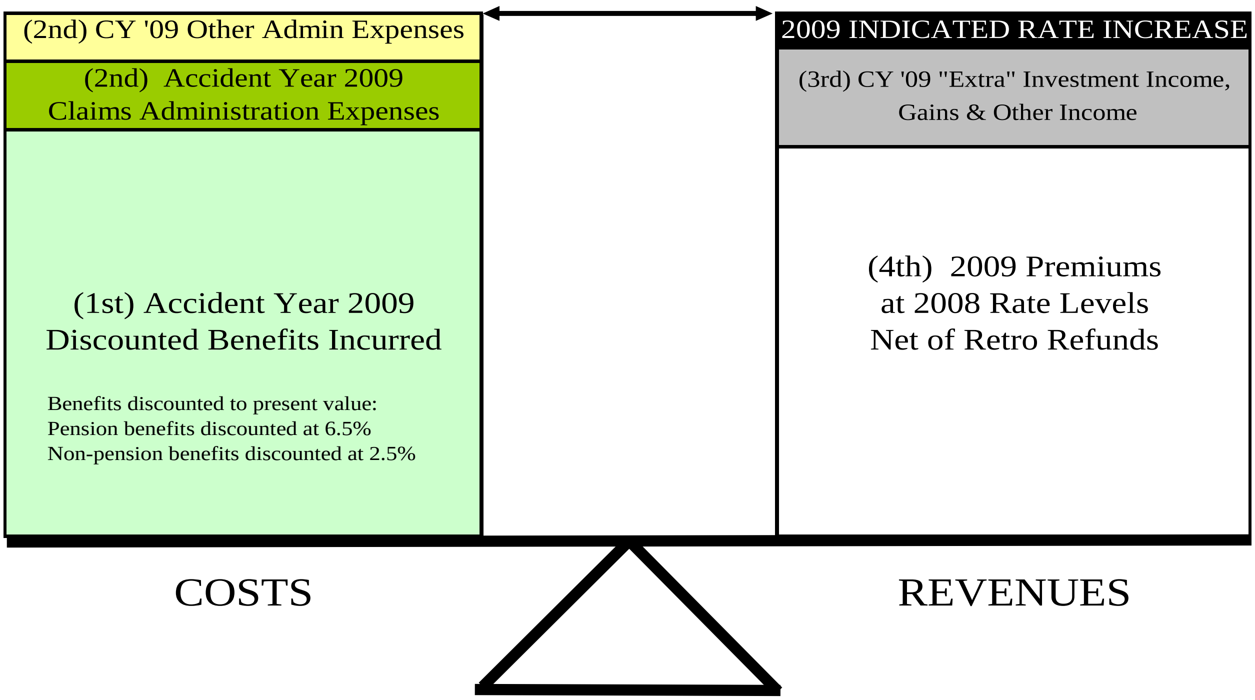
The targeted retro refund percentage also includes 13 months of added interest, shown as the black squares on this chart. However for rate setting, we project the target refund level first, which is based on the percentage difference in annualized loss ratios from non-retro firms and is at 17.5%. We then add the estimate of the 13 months of interest to get the final overall retro refund level.

2009 Overall Premium Rate Levels by Fund presentation:

Accident and Medical Aid Funds:

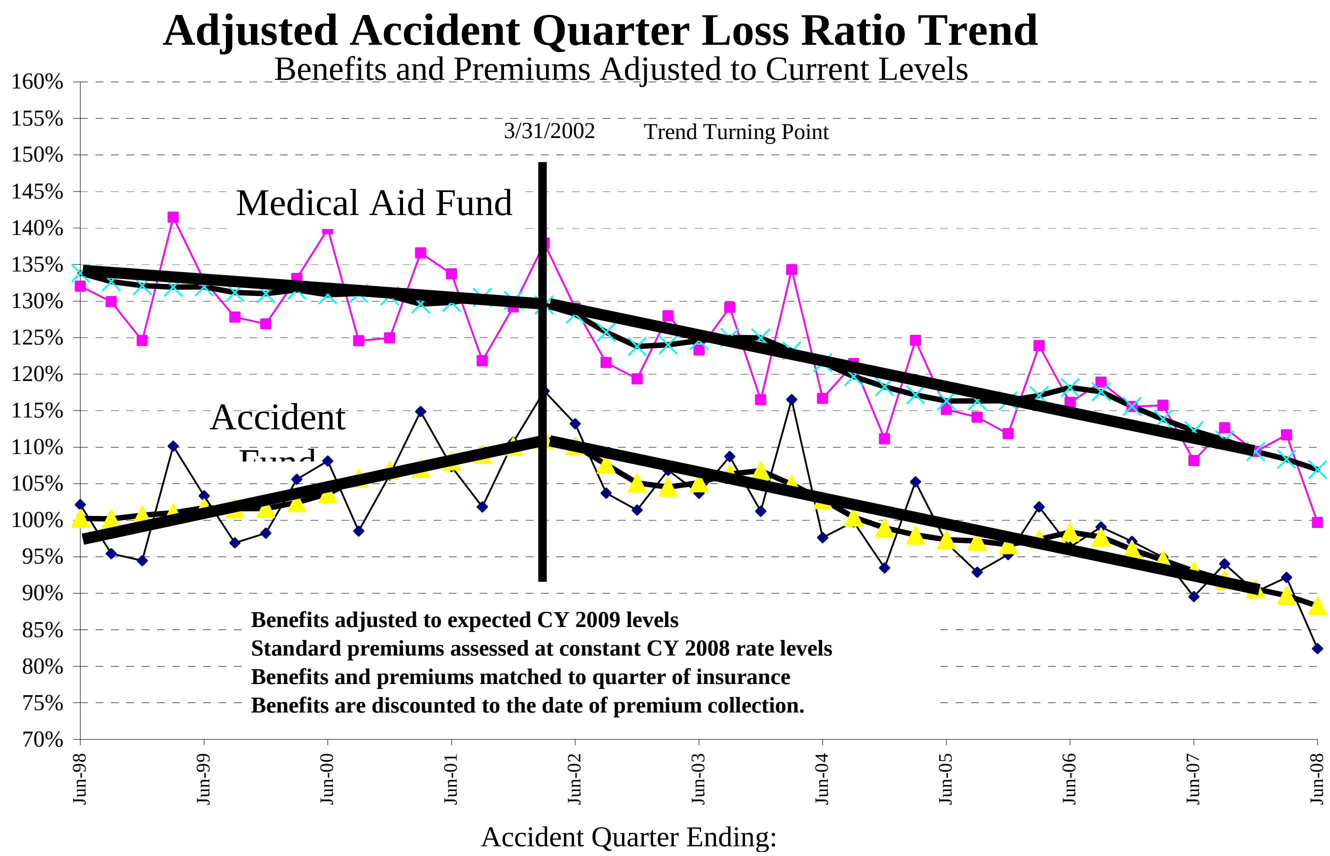
Accident and Medical Aid Funds

2009 Actuarial Indication of Rate Increase in order to Break Even

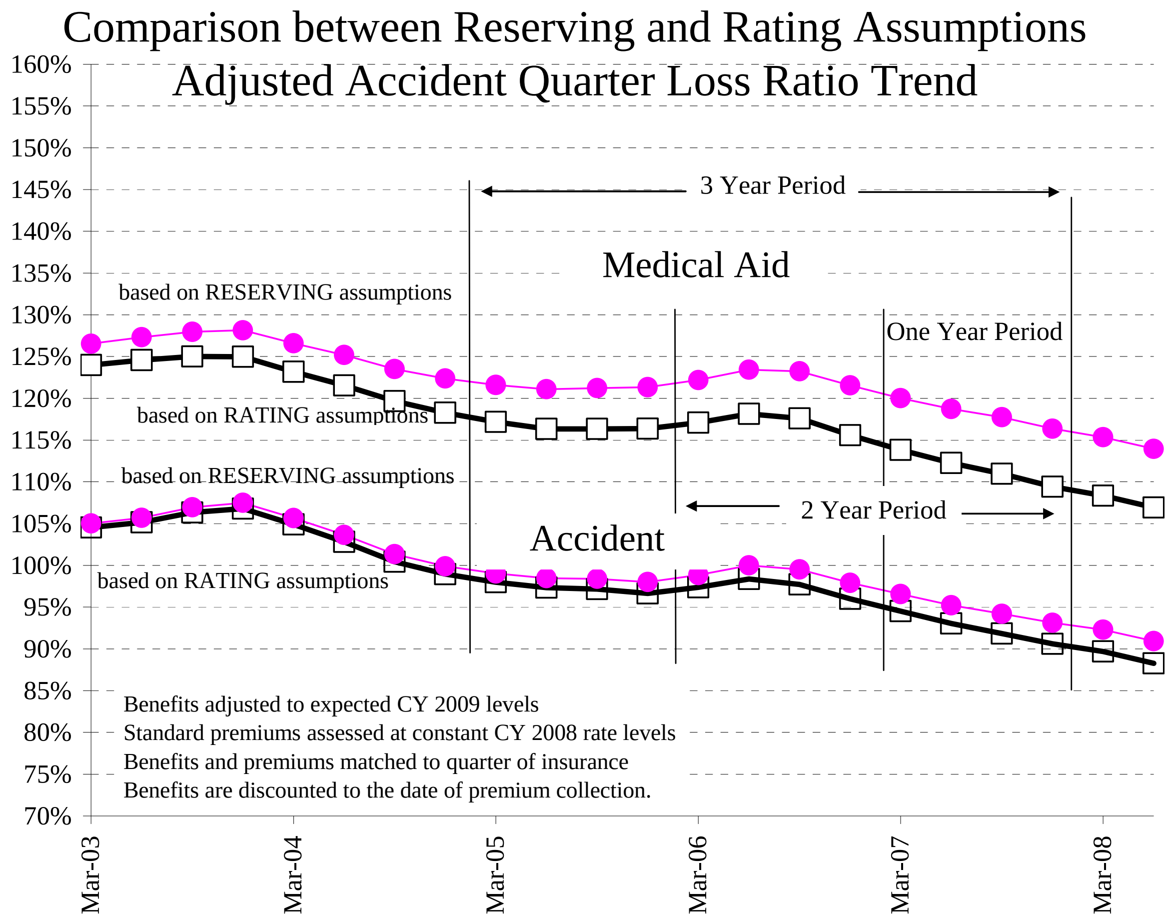


Note: Accident Year 2009 costs incurred on claims with injuries and illnesses that occur in 2009.
The costs on these claims may eventually be paid many years into the future.

After all components are calculated, the indicated rate increases are what is estimated as necessary for costs and revenues to balance. If the premiums and the extra investment income are higher than costs, we need a rate decrease; if they are less than the costs, we need a rate increase.



The actuaries adjust the accident and medical aid losses from past accident quarters so that they are at the benefit levels projected for accidents and illness occurring in 2009. They divide these losses with premiums that have been adjusted to 2008 rate levels. What is shown here are centered annual moving averages to take out the seasonal fluctuation of these loss ratios.



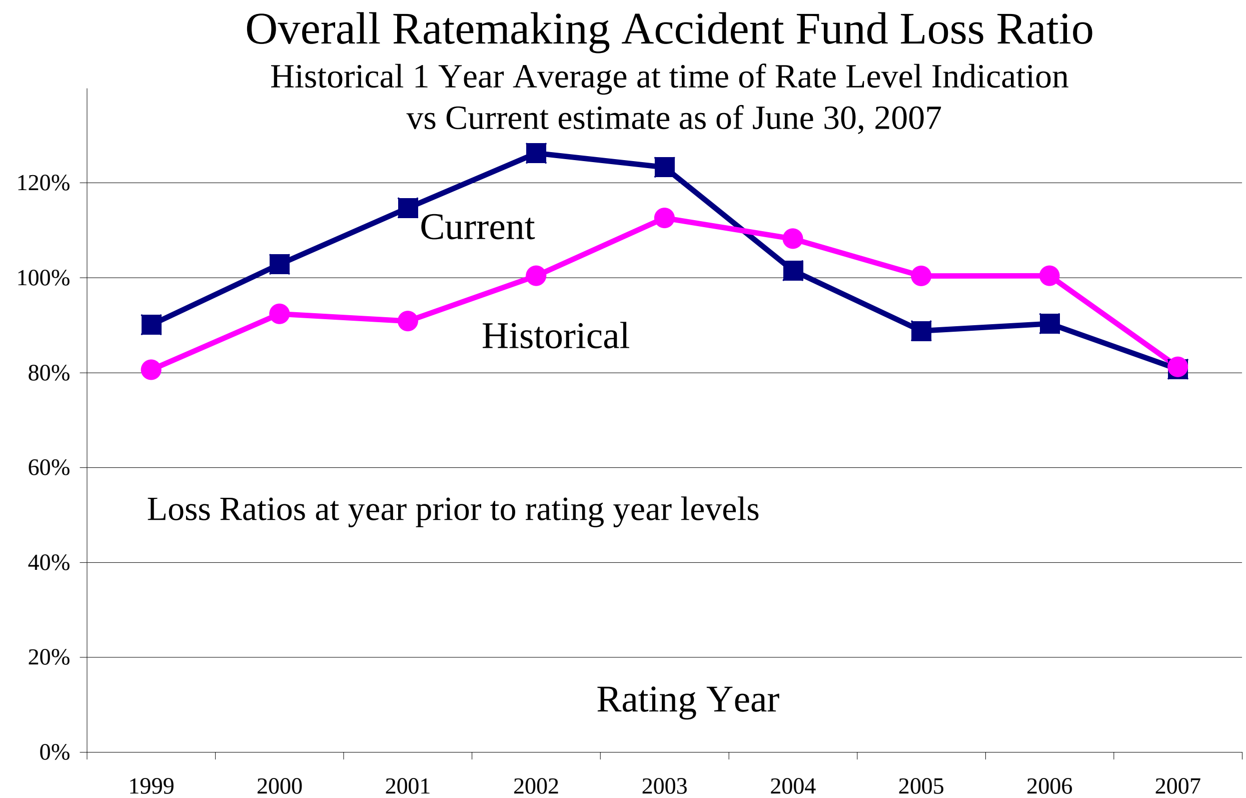
Looking at these past adjusted loss ratios, actuaries project what the loss ratio is estimated to be in 2009. The most recent information is the most credible, ignoring the latest two quarters because the data is too new. Using the moving averages on the chart, the actuaries take several different averages based on one year, two years, and three years, to arrive at several different estimates of the projected 2009 loss ratio. Reserving assumptions also give a forecast for loss ratio for next year. In the accident fund, there is not a big difference between the rating assumptions and reserve assumptions. However, in the medical aid fund, the difference is more significant and the time-loss duration is more important.

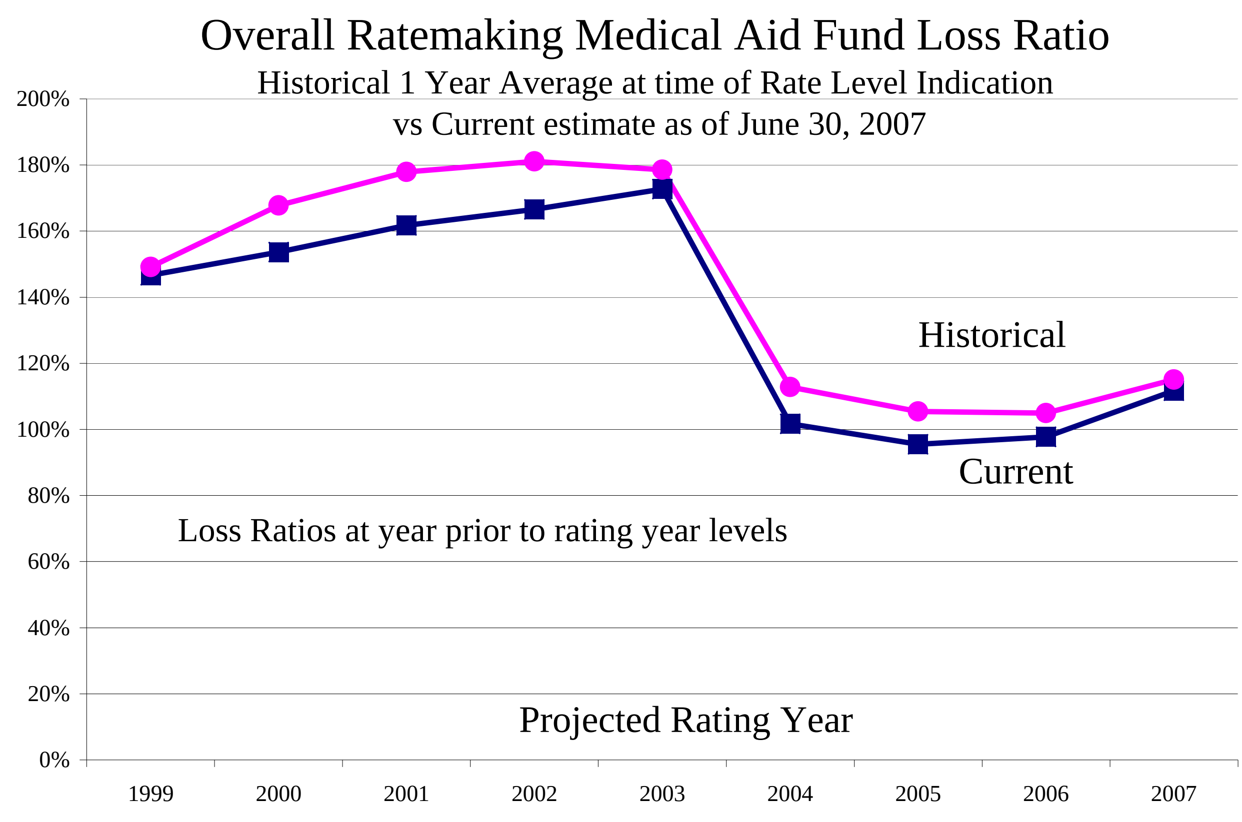
Summary
Projected 2009 Adjusted* Loss Ratios

	1-yr Average	2-yr Average	3-yr Average	Reserve 1-yr Average
Accident	92.1%	95.2%	95.9%	94.4%
Medical Aid	111.3%	114.7%	115.3%	118.0%

*Adjusted to 2009 Cost and 2008 Premium Rate Levels
Excludes the latest two accident quarters

Last year, we used a two-year average. This year we are using a one-year average because of the declining claim frequencies and economic downturn. One year is more responsive to these trends. For the accident fund, the one-year average projected 2009 adjusted loss ratio is 92.1%, while for the medical aid fund is 111.3%.


Overall Ratemaking Accident Fund Loss Ratio
Historical 1 Year Average at time of Rate Level Indication
vs Current estimate as of June 30, 2007
120%
100%
80%
60%
40%
20%
0%
Current
Historical
Loss Ratios at year prior to rating year levels
Rating Year
1999
2000
2001
2002
2003
2004
2005
2006
2007


Overall Ratemaking Medical Aid Fund Loss Ratio
Historical 1 Year Average at time of Rate Level Indication
vs Current estimate as of June 30, 2007
200%
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
Historical
Current
Loss Ratios at year prior to rating year levels
Projected Rating Year
1999
2000
2001
2002
2003
2004
2005
2006
2007

The next two charts show the report card on the estimated loss ratios in previous rating years for these August meetings. They show our latest estimate of what these loss ratios would have been had we known the information we know today using the one year loss ratio average method.

Accident Fund

Appropriated Administrative Expenses Paid

	FIXED	VARIABLE		
	Prem. Related, General, & Other	**Claims**	**Sub-Total**	
FY Yr. 2007	$ 55 M	$ 53 M	$ 107.8 M	Actual
FY Yr. 2008	$ 57 M	$ 52 M	$ 109.3 M	Budgeted
FY Yr. 2009	$ 61 M	$ 58 M	$ 119.3 M	Budgeted
Cal. Yr. 2007	$ 53 M	$ 52 M	$ 105.1 M	Actual
Cal. Yr. 2008	$ 61 M	$ 57 M	$ 118.6 M	Estimated
Cal. Yr. 2009	$ 62 M	$ 59 M	$ 121.3 M	Estimated

2009 Std. Premiums Earned	**$ 939 M**	Estimated at 2008 rate levels	
2009 Fixed Expenses /Std. Premiums	**6.6%**		
2009 Claim Payments		**$ 865 M**	4% annual increase
2009 Claims Admin /Claim Payments		**6.8%**	
2009 Claims Admin/Losses Incurred		**5.3%**	Appropriated

Medical Aid Fund

Appropriated Administrative Expenses Paid

	FIXED	VARIABLE		
	Prem. Related, General, & Other	**Claims**	**Sub-Total**	
FY Yr. 2007	$ 39 M	$ 69 M	$ 107.6 M	Actual
FY Yr. 2008	$ 41 M	$ 72 M	$ 112.3 M	Budgeted
FY Yr. 2009	$ 43 M	$ 77 M	$ 120.3 M	Budgeted
Cal. Yr. 2007	$ 39 M	$ 67 M	$ 106.3 M	Actual
Cal. Yr. 2008	$ 44 M	$ 77 M	$ 121.2 M	Estimated
Cal. Yr. 2009	$ 44 M	$ 79 M	$ 122.7 M	Estimated

2009 Std. Premiums Earned	**$ 686 M**	Estimated at 2008 rate levels	
2009 Fixed Expenses /Std. Premiums	**6.4%**		
2009 Claim Payments		**$ 620 M**	7% increase
2009 Claims Admin /Claim Payments		**12.4%**	
2009 Claims Admin/Losses Incurred		**10.7%**	Appropriated
2009 Claims Admin/Losses Incurred		**0.5%**	Non-appropriated

Based on budgeted administration expenses for fiscal years 2008 and 2009, we project the claims administration expenses to be 5.3% and 11.2% = (10.7% + 0.5%) of losses in the accident and medical aid funds respectively. Also, we project the fixed expenses to be 6.6% and 6.4% of premiums in the accident and medical aid funds respectively.

Expenses FIXED for Year

Premium Administration

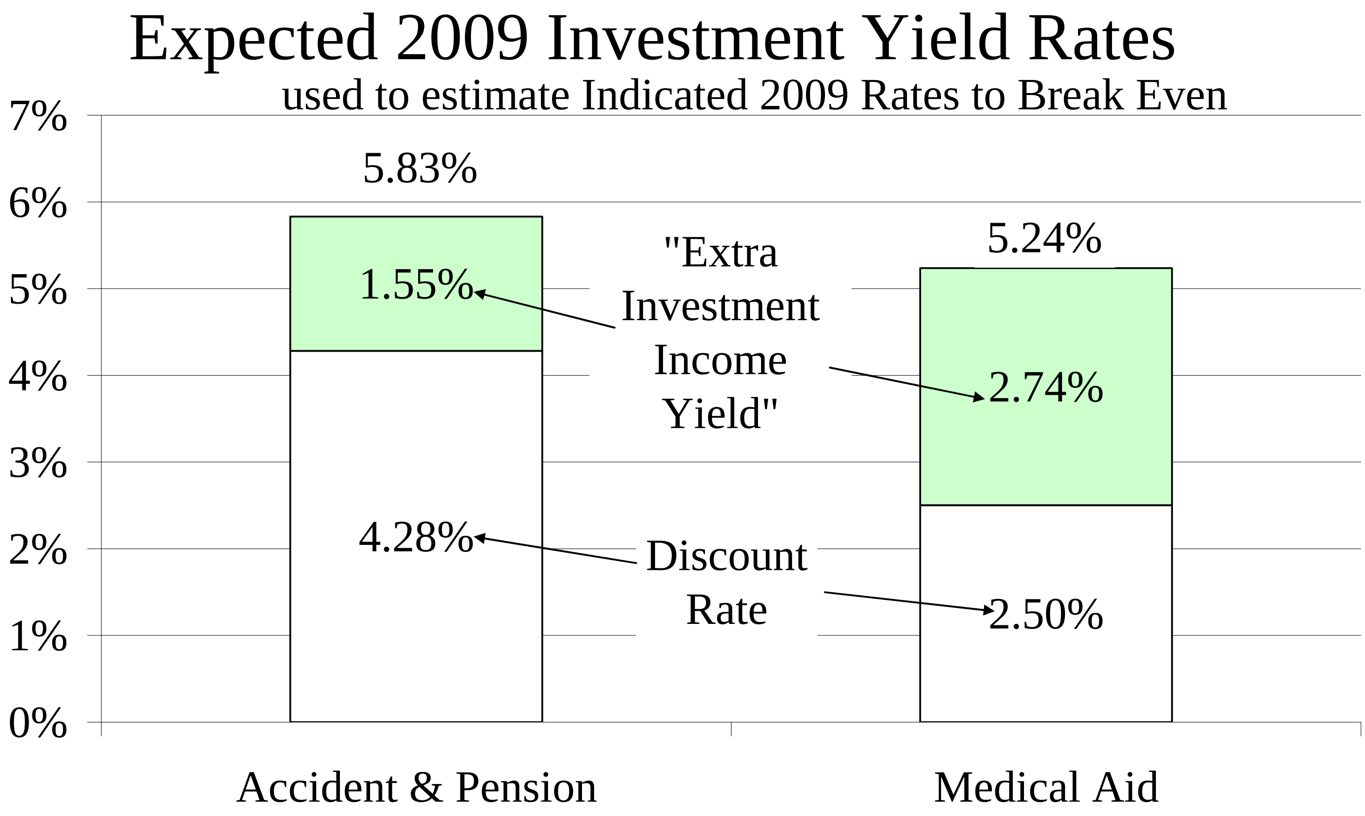
- Employer Services
- Collections
- Field Audit
- Field Services
- Retro
- Legal Services & AAG(Firms)

General Insurance

- Consultation & Compliance
- SHARP
- DOSH consultation
- Risk Management

Non-Insurance

- Board of Industrial Insurance Appeals
- DOSH compliance
- UW Dept of Environ & Occ Health Sciences
- Apprenticeship
- Employment Standards



Extra Investment Income

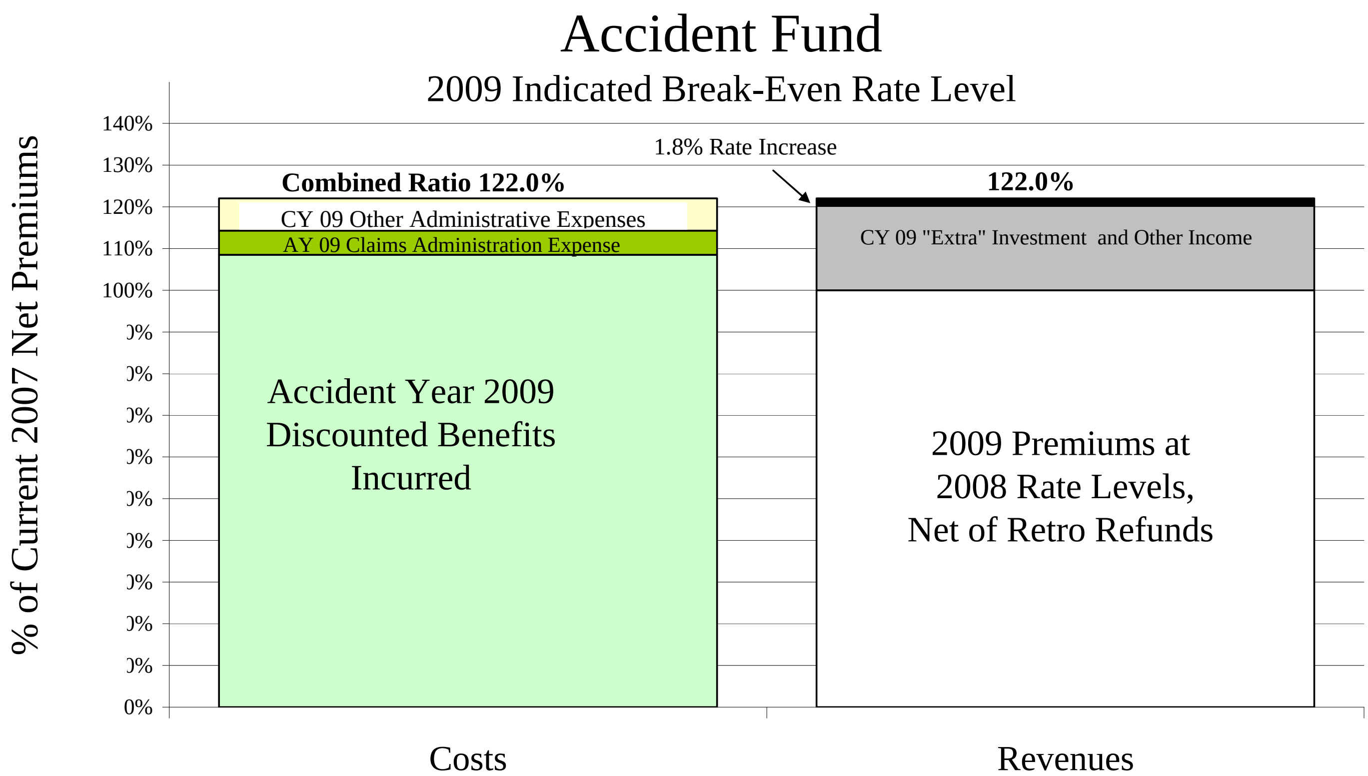
(as a % of Premiums)

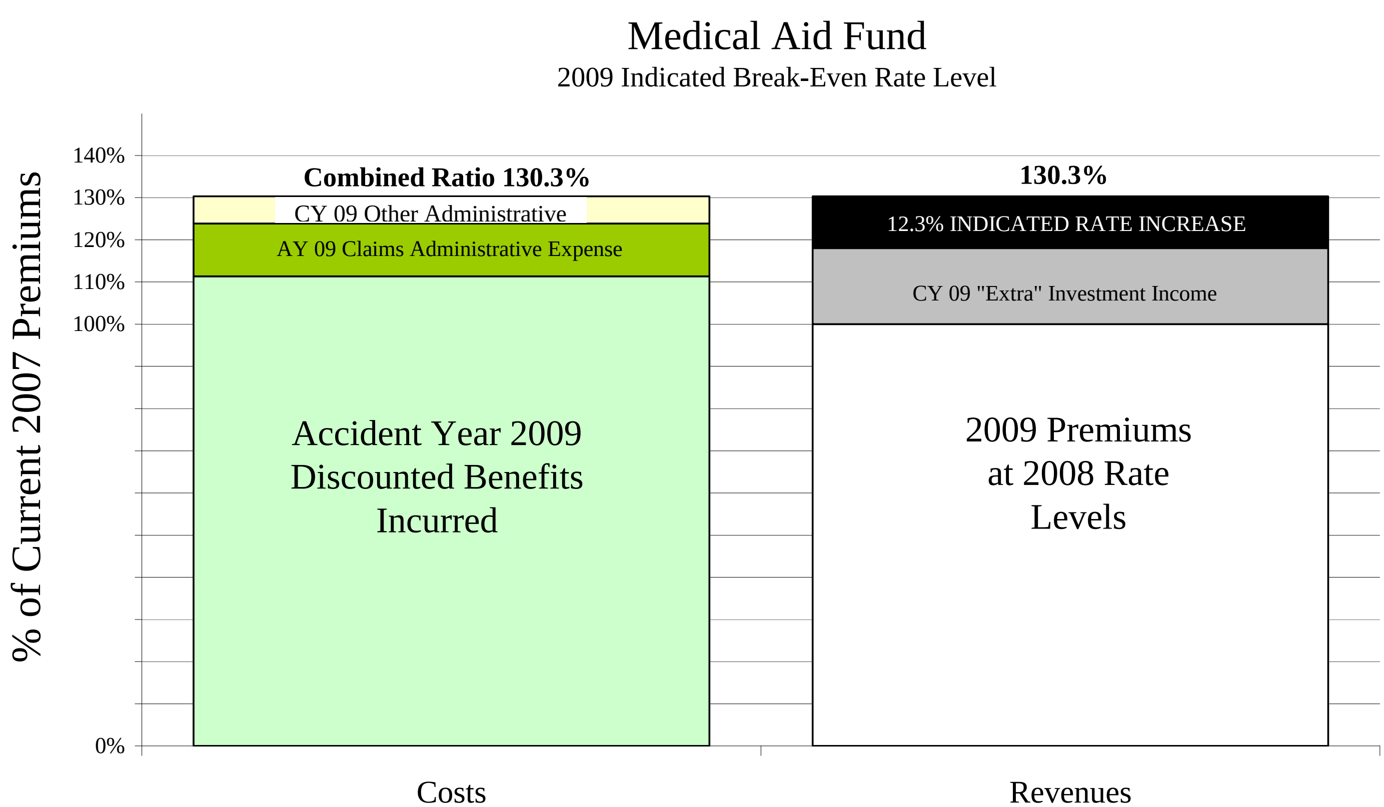
	Accident Fund*	Medical Aid Fund
Extra Investment Income from:		
Invested Assets in excess of Loss Liability	2.9%	2.1%
Yield in excess of Discount**	14.4%	15.9%
TOTAL	**17.2%**	**18.0%**
Three Years Ago (w/same discount rates):	18.3%	19.5%

*includes the Pension Fund

**highly leveraged by ratio of Invested Assets/Premiums	**9.15**	**5.82**

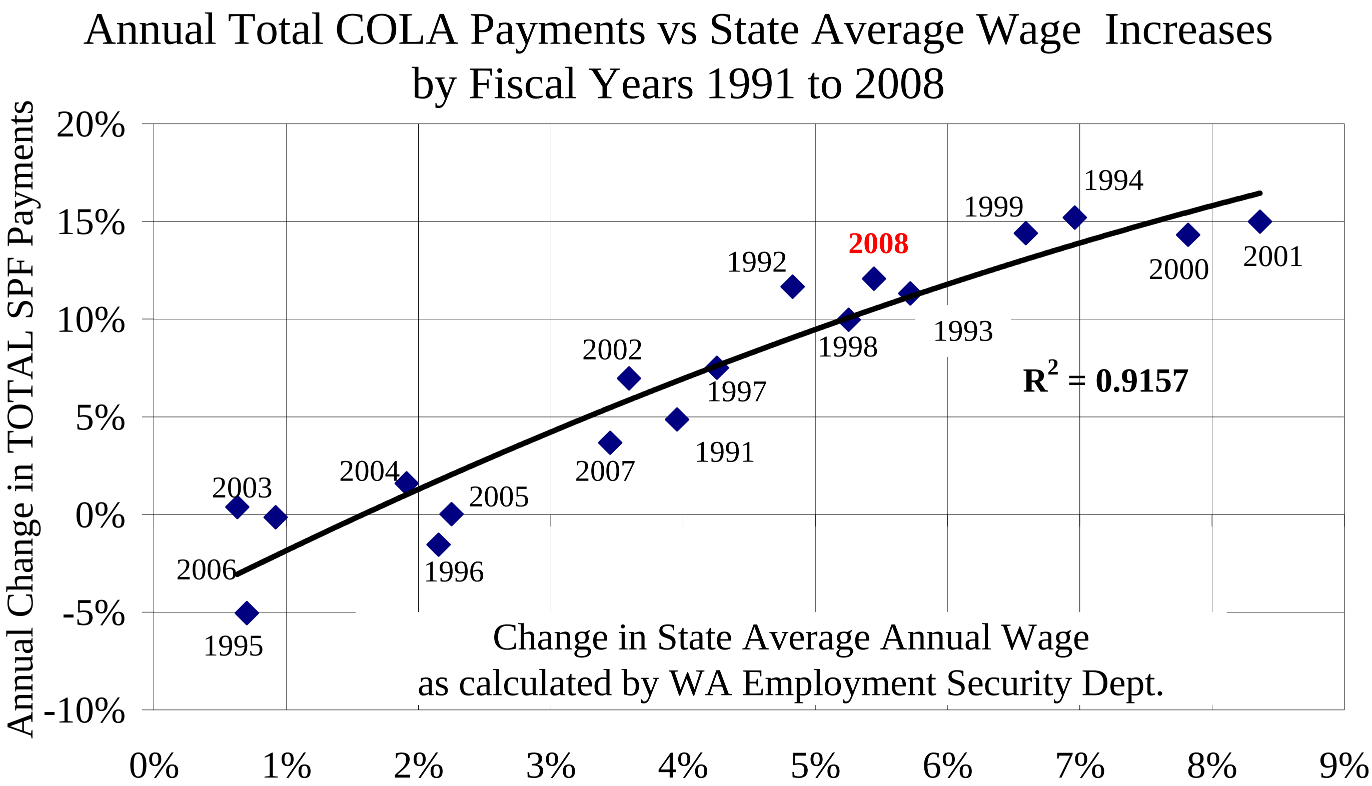
Investment income has been declining due to falling interest rates in the bond markets. For 2009, we project our fixed income yield rates to be 5.83% and 5.24% in the accident and pension funds combined and the medical aid fund respectively. The extra investment income beyond the discount rates are 1.55% and 2.74%. These are leveraged because we want to look at the investment income as a percentage of premiums at 2008 rate levels. The extra investment income as a percentage of premiums is 17.2% and 18.0%. These percentages are lower than the rates used three years ago.

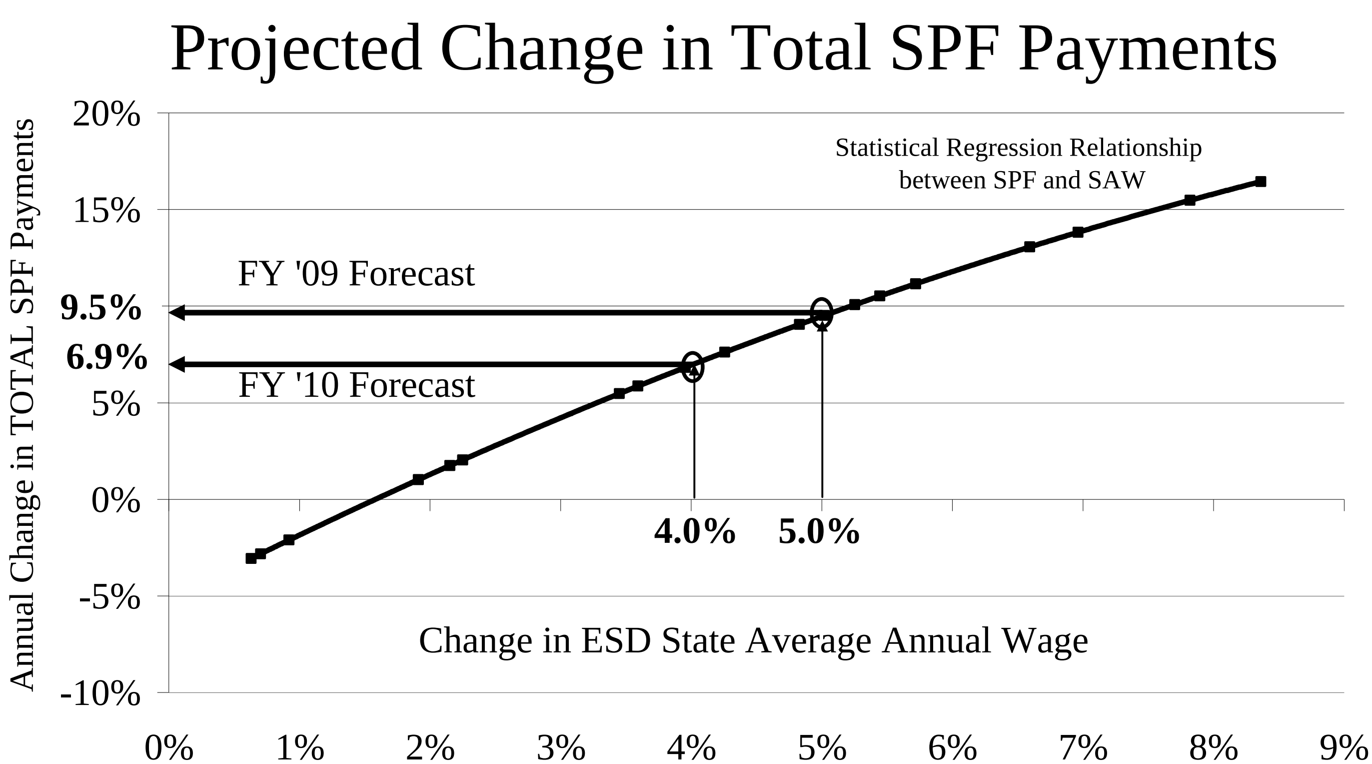




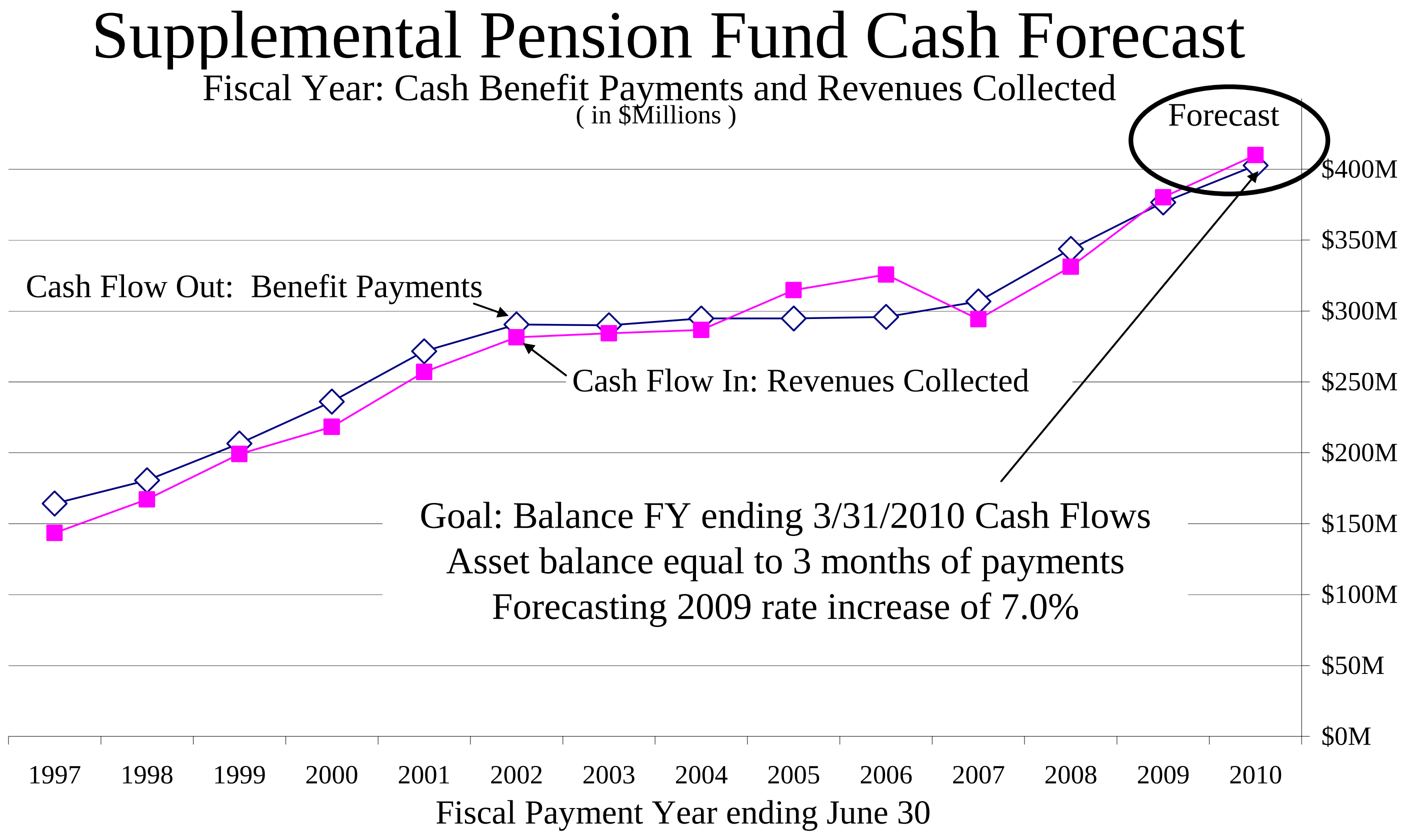
Combining these loss ratios with the administrative expenses and ‘extra’ investment income results in an indicated rate increase of 1.8% in the accident fund and 12.3% in the medical aid fund to break-even in 2009.

Supplemental Pension Fund:





The relationship between past changes in the State's Average Annual Wage and changes in annual Supplemental Pension Fund benefit payments is shown in the first chart. A statistical relationship is shown by the curve in these charts, and this regression curve was used to project the future increases to benefit payments in the second chart, assuming a 4% increase for FY 2010.



The supplemental pension fund premiums are set in order to match the premiums to the projected supplemental pension fund payments. Based on the 9.5% and 6.9% increases to supplemental pension fund annual payments in fiscal years 2009 and 2010 respectively, we are forecasting an indicated 2009 rate increase of 7.0%.

Rate Indication Summary:

AY 2009 Break-Even Premium Rate Change*

as of June 30, 2008

	Average 2008 Rate**	**Selected Indication**	Increase
Accident	$0.281	**1.8%**	
Medical Aid	$0.203	**12.3%**	
Supplemental Pension	$0.078	**7.0%**	
Overall	**$0.562**	**6.3%**	
Before Retro	**$0.562**	**$0.598**	**$0.035**
Net of Retro	**$0.522**	**$0.555**	**$0.033**
Employee Rate	**$0.141**	**$0.156**	**$0.015**
08 Net Premiums	$ 1,752 Million	$ 1,863 Million	$ 111 Million
Employee portion	$ 473 Million	$ 524 Million	$ 51 Million
Employee percentage	27.0%	28.1%	1.1%
Employer portion	$ 1,279 Million	$ 1,339 Million	$ 60 Million

* Balanced Accident Year 2009 for Accident and Medical Aid Funds
Balanced Cash Flow 4/1/09 to 3/31/10 for Supplemental Pension Fund

**Premium rate per hour worked.

Rate Indication Summary:
Accident Fund: 1.8%
Medical Aid Fund: 12.3%
Supplemental Pension Fund: 7.0%
Overall Indicated 2009 Rate Change: 6.3%

<u>The 2009 Dates for Rate-Setting are:</u>

Rating Data Evaluation	5/31/08
Statement of Inquiry Filed (CR-101)	6/17/08
WCAC Meeting discussing Overall Rate Levels	8/25/08
Proposed Rating Rules Filed (CR-102)	9/17/08
“Employer News” mailed out to employers	10/7/08
RATE HEARINGS	10/21/08- 10/24/08
Spokane	
Vancouver	
Mount Vernon	
Tukwila	
Tumwater	
Yakima	
Rating Rules to be Adopted (CR-103)	11/26/08
Begin mailing Annual Rate Notices to Firms	12/7/08

Rating Rules Effective	1/1/09

Meeting adjourned.