Workers' Compensation Advisory Committee (WCAC) Meeting
Labor & Industries Tumwater, WA
Meeting Minutes
June 23, 2010

Business Representatives: *Kris Tefft, Association of Washington Business; Rebecca Forrestor; Group Health*

Absent: Rick Anderson, Sakuma Bros; Nancy Dicus, Vigilant Counsel

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

Labor & Industries: Judy Schurke, Director; Bob Malooly, Assistant Director of Insurance Services

Board of Industrial Appeals: Dave Threedy

Recorder: Sharon Avery

Guests: Greg Kabacy, Vicky Smith, Trish Leimbach, Theo Yu, Joan Elgee, Dennis Kelley-Jones, Scott Dilley, Brad Reckord, Jerry Bonagofsky, Beverly Simmons, Holly Chisa, Christine Swanson, Clif Finch, Janice Camp, Rebecca Johnson, Matt Bridges, Amy Brackenbury, Jan Gee, Michael Bezanson, Cody Arledge and Josh Swanson

L&I Staff: Sharon Elias, Kirsta Glenn, Janet Morris, Bill Vasek, Vickie Kennedy, Les Hargrave, Jason McGill, Cheri Ward, Joe Jauquet, Naomi Goodman, Julie Black, and Mike Ratko

Opening Comments and Safety Message

The safety message was presented by Mr. Malooly. The meeting continued with an introduction of the attendees.

The April 30, 2010 minutes were approved with the correction to Nancy Dicus' contact information from TOC to Vigilant Counsel.

A question was asked if the department has provided information concerning the estimated cost of a change to continue survivor pensions after remarriage for all fatality cases. A copy of a report prepared at the request of Senator Kohl-Welles and Representative Conway was provided in the committee packets.

Updates: Bob Malooly

As discussed at the last WCAC meeting, the department has enlisted Conning to model the likely impact of inflation in the workers' compensation system. The purpose of the modeling is to provide a better understanding of what the consequences of both inflation and deflation might be. There are concerns that we could enter a deflationary period, while there are other concerns that we might see an inflationary period. The modeling would provide information about the consequences. The modeling will help the department

understand the likely consequences of different economic recoveries. The department anticipates having these results in the fall to share with the WCAC committee members.

The Workers Compensation Research Institute (WCRI) project is a limited study to examine prescription patterns and shoulder and knee injuries. The WCRI conducts an extensive medical report for the states included in CompScope—this is a comprehensive comparison limited to the 18 states included in CompScope. The department anticipates having the results from this project in December.

Board of Industrial Insurance Appeals (BIIA) Update: Dave Threedy

The presentation was reviewed. These are monthly charts rather than quarters.

- Appeals Filed and Granted per Month: There were 1019 appeals filed and 558 appeals granted. These have remained steady the last few years.
- Industrial Insurance Appeals Per Month: For May 2010, there were 945 industrial insurance appeals filed. 814 of these appeals for filed by the worker and 131 were filed by the employer. This is consistent numbers to what has been received by the board.
- Caseload by Month: For May 2010, the board had 4,816 appeals pending in the agency. There was a spike in June and July 2009 but the numbers have consistently been going down.

If the committee would like to see specific graphs in future presentations, please contact Mr. Threedy.

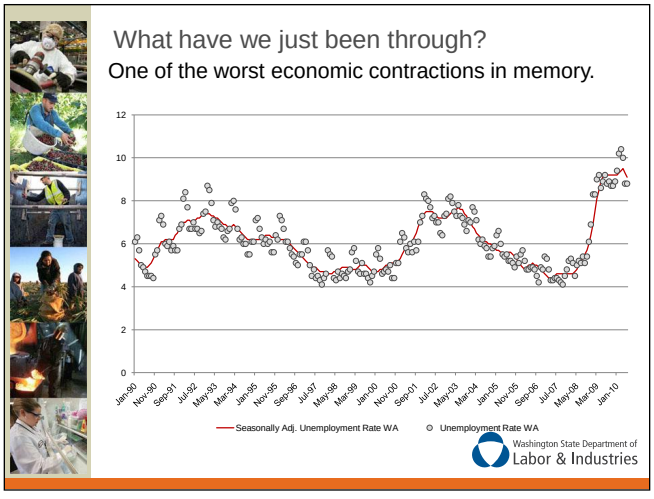
The Board received approval for alternate plans for the upcoming temporary furloughs. The Board will not be closed for the furlough days and will continue to process appeals on those days.

Economic Update: Kirsta Glenn

The presentation *Current State of Economy and Workers' Compensation* was reviewed.

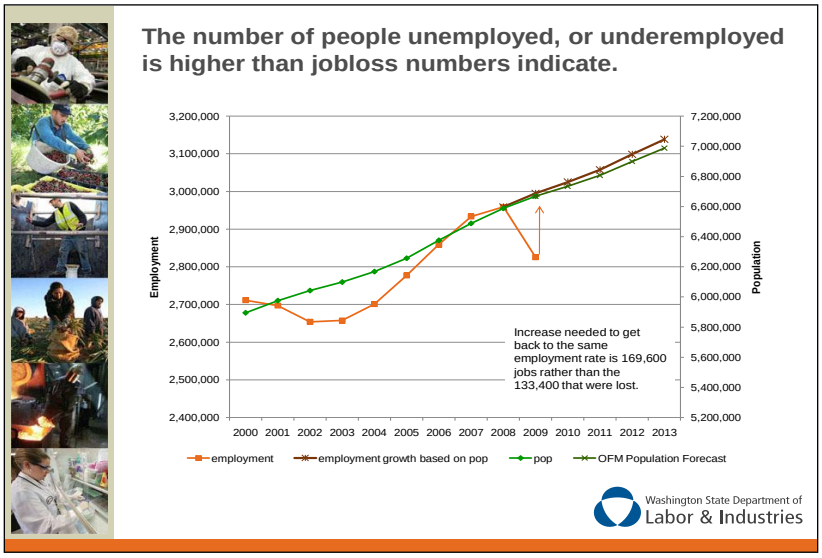
Ms. Glenn, Research and Data Services Program Manager, presented an economic update and how it relates to the workers' compensation system. Topics included:

- The recession has had a huge impact on the labor market.
- The workers' compensation system has experienced many changes since 2007, making it difficult to isolate the impact of the economy.
- Future expectations

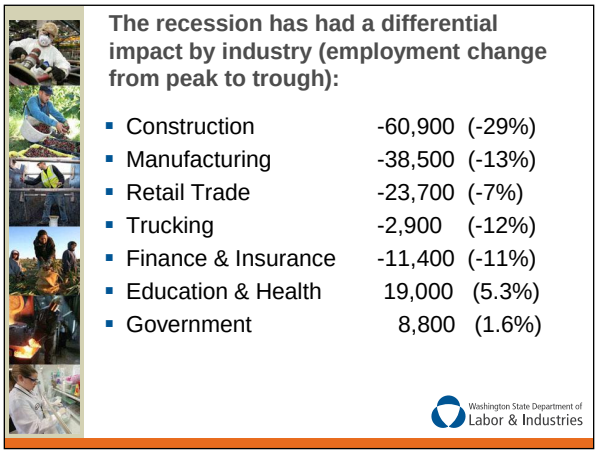


The chart on slide 3 shows that we have been through one of the worst economic contractions in memory since 1990. The chart shows the unemployment rate trend. For the period in late 2007 through early 2009, the rate at which the unemployment rate increased was unprecedented.

Slide 4 shows the job losses during recessions back to 1970. It is believed that June 2009 was the end of the recession—this provide two full years to study the impact of the recession. For Washington State, 186,260 jobs were lost during this time period, a 6.3% change. Washington is ranked in the middle nationally. When comparing the current recession to the recession in 1969, the job loss percentage is similar. In review of past recessions, it was noted that during some recessions, Washington "grew" jobs—for example in the 1973-1975 recession, we gained 4.2% jobs and in 1990-1991 we gained .7% jobs.

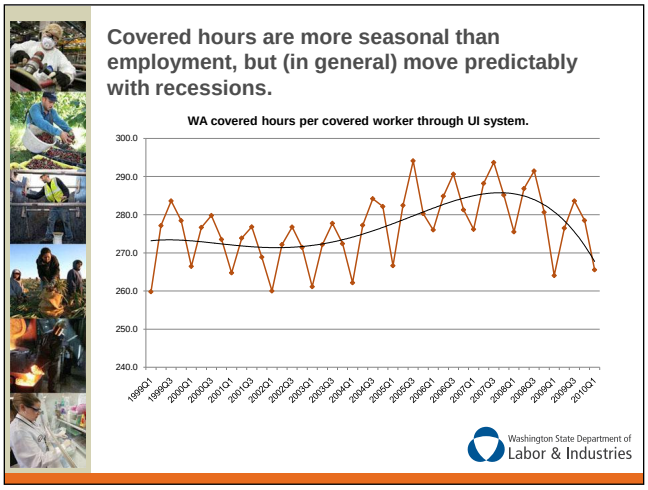


The chart on slide 5 is an employment forecast based on projected population growth in the state (data provided by the Department of Financial Management). When the employment growth is looked at based on population, new jobs would need to be created to remain constant. We now have to make up more jobs that the job loss number indicates. The increase needed to get back to the same employment rate is 169,600 jobs compared to 133,400 that were lost. There are many people unemployed who have become discouraged and left the work force.



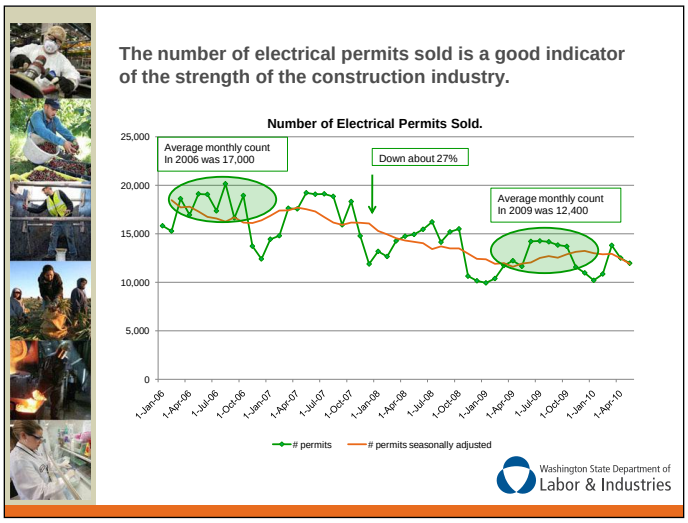
An interesting factor of this recession compared to the one in 2000 is the impact on the construction industry. Slide 6 shoes the employment change for various industries from 2007-2009 based on Employment Security Department (ESD) data. The construction industry has been the hardest hit—this industry lost 60,900 jobs, a decline of 29%. Other industries impacted with losses include manufacturing (-13%), trucking (-12%), and finance & insurance (-11%). Education and health (5.3%) and government (1.6%) had increases. This data will be useful in the future to compare industries that see increases during a recession while other industries see decreases in jobs. When looking at the workers' compensation system by industry, it allows us to attribute changes to the recession versus other changes in the system.

Ms. Glenn continued her presentation by transitioning from the economy to the workers' compensation system.

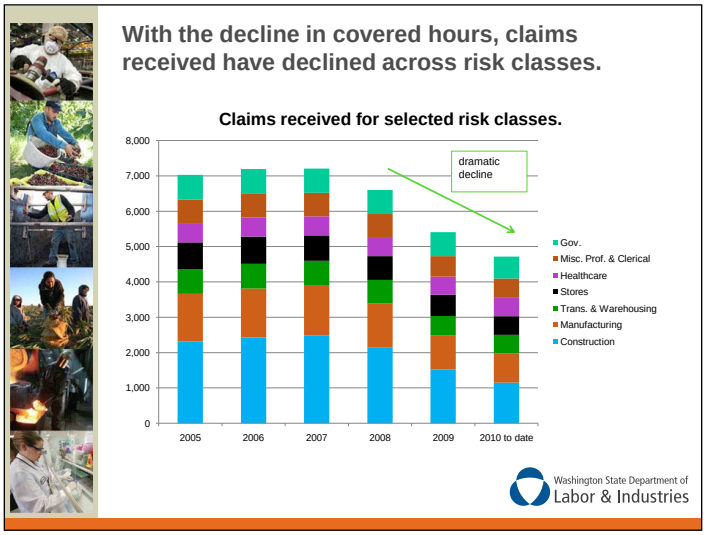


On slide 7, the data shows covered work hours per worker through the UI system. The ESD data does not include the agricultural industry. It also does not include undocumented workers, while the workers' compensation system does. Ms. Glenn explained that hours tend to move predictably over the business cycle. At the beginning of the recession we saw the hours worked fall; when the demand for goods and services began to drop off, employers were hesitant to let workers go, instead they tended to cut down hours worked. Once recessions are well under way, the hours begin to level off. They usually start to rise at the end of the recession because businesses start to see demands for goods and services increase, but are not positive that this will be sustained so they are likely to increase their employees' hours of work.

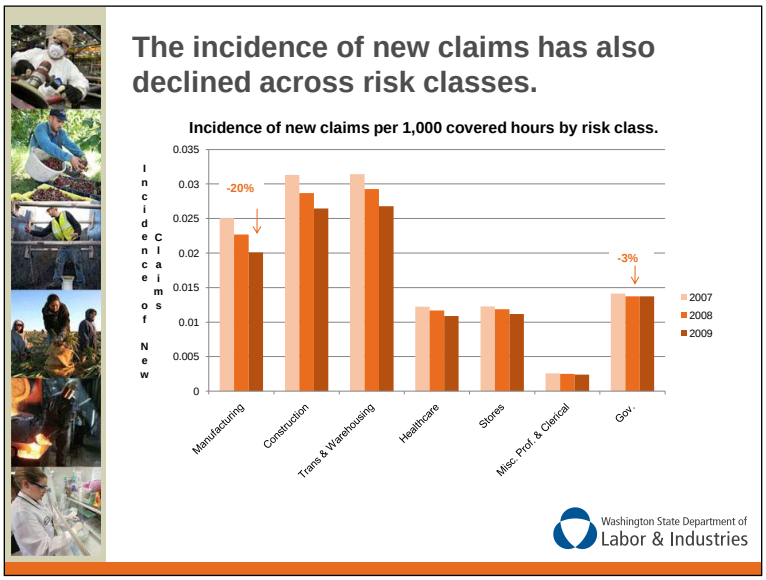
Naturally, we are beginning to see an up-tick of hours worked. Employers are bringing part-time employees up to full time or offering overtime to full time employees. This is a positive sign for the economy.



At the last WCAC meeting, a question was asked regarding electrical permits. The number of electrical permits sold is a good indicator of the strength of the construction industry. On slide 8 it shows there is currently not a turn-around in electrical permits sold—the average monthly count in 2006 was 17,000 while in 2009 the average monthly count was 12,400. This is a drop of 27%, similar to the drop in employment for the construction industry.



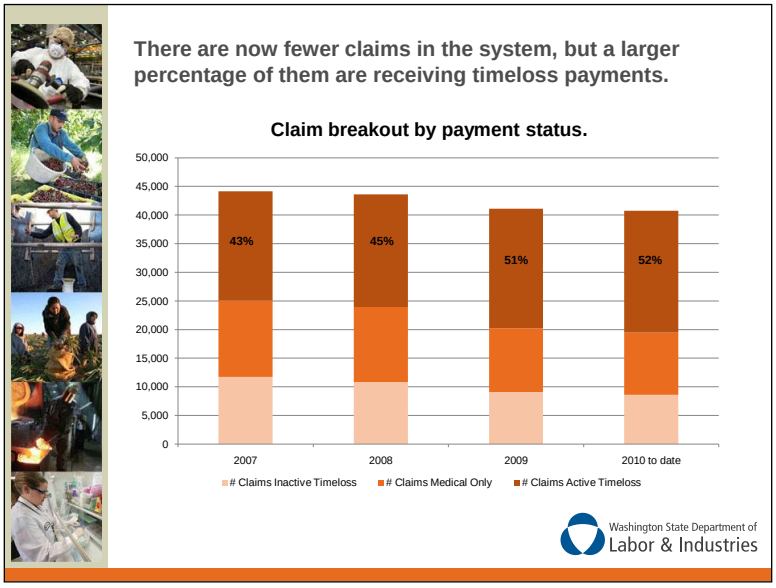
Slide 9 explains that one impact of the recession on the workers' compensation system is the number of new claims going down. As the number of hours worked has fallen, we would expect the number of claims to fall as well. This chart reflects new claims by the industries. Construction has had a larger reduction than some of the other industries. In 2007, a larger percentage of our incoming claims were construction related while in 2010 it is a much smaller percentage; this will have a significant impact on the workers' compensation system.



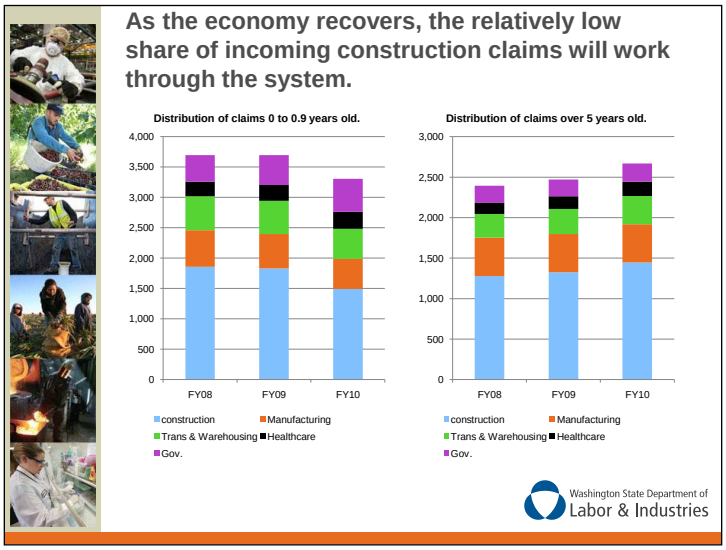
The chart on slide 10 shows new claims have also declined across risk classes. Ms. Glenn came to the conclusion that fewer claims are filed during a recession, including few claims per hours worked. The impact is greater in industries that were hit hardest by the recession such as manufacturing (which has a 20% decline between 2007 and 2009), while government industry had a very small change in the incidence of claims. This analysis is limited, but one cause could be because employers are laying off their least experienced staff first and keeping the more experienced workers who may be less likely to be injured on the job.

The chart on slide 11 shows the duration index broken down by different industries. Across all industries, the average duration index for claims has gone up. Contrary to incidence, the duration has gone up more in those industries that had a large impact compared to those industries with a small impact. This analysis is also limited because it does not go into the reasons this occurring. Economists believe that everyone will react optimally to the situation they are given with current laws. One example is if an employer in the construction industry has an injured worker during the "boom time" they would want them back to work as soon as possible and could

offer them light duty or kept-on-salary (KOS) instead of time-loss benefits. However, during a difficult economy, these employers are less likely to be able to offer KOS or light duty options for injured workers.



On slide 12, Ms. Glenn explored the system impacts of these changes that may be, in part, caused by the current state of the economy. One of the changes the department is seeing is a higher percentage of caseloads being active time-loss.

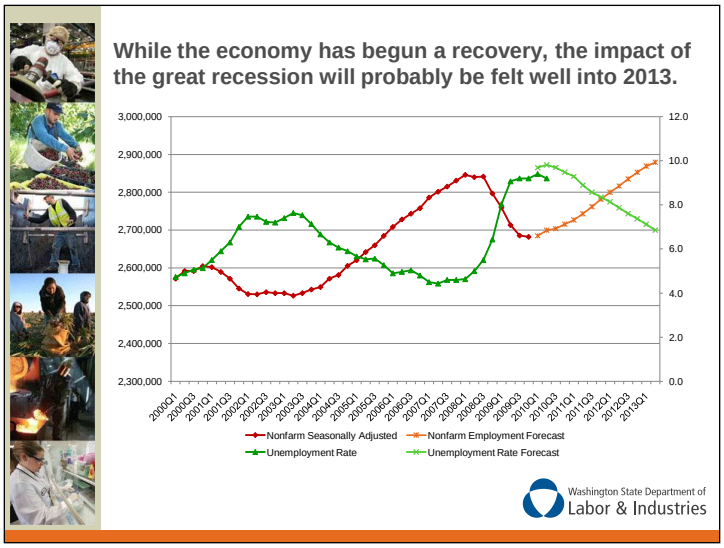


This graph on slide 13 shows what could potentially happen as the economy improves. The first graph represents claims that are less than a year old and the second graph is for claims that are over five years old. When you look at the distribution of the claims, those for the construction industry have gone down remarkably in 2010. We have fewer hours worked and fewer claims in construction. Also, construction claims tend to have higher duration than other claims, this may have a beneficial impact on the system by newer claims, on average, having shorter duration because construction claims tend to last longer and we have fewer of those. When we look at the older claims (claims received in 2005), construction was booming. A large percentage of the overall claims were construction claims. The absolute numbers of older claims are increasing because five years ago, the number of incoming claims was increasing. As the economy recovers, the low share of incoming

construction claims will work through the system. Over time, we will have fewer older claims because they will transition out of the system.

In summary, the recession impacts on the workers' compensation system are:

- Decline in hours worked
- Incidence of new claims have declined
- There was a change in the mix of industries: during the recession, the industries with the highest incidence and duration have been significantly impacted.
- Average duration index has increased in all industry categories.
- Percentage of time-loss claims has increased.



On slide 15, the chart shows the economic recovery—the two lines are going in opposite directions because one is employment and the other is unemployment. Based on the projection from the Economic Forecast Council, the unemployment rate is expected to come down slowly. In 2013, it is projected the unemployment rate will be around 7% which is relatively high. When you look at employment, there is a steady and sustained increase. We will be adding jobs but at the same time we will still see a continued high unemployment rate.

The key aspects of the recovery were reviewed on slide 16.

- We are coming out of the "Great Recession"
  - The recovery is gaining traction
  - Private spending is 'firming'
  - Job growth has finally returned
- What are the risks?
  - Financial markets
    - Credit to small businesses are still very tight
    - Commercial real estate is very weak and is expected to recover more slowly than private real estate
  - Construction is expected to recover slowly and to remain a smaller share of the economy
  - Greek sovereign debt crisis' impact on Washington will be minimal if contagion is avoided
- What in Washington is expected to recover faster than the nation?
  - Exports
  - Stable aerospace and software publishing

Mr. Malooly pointed out that there are articles in the Puget Sound Business Journal about firms having trouble finding software engineers in the Seattle market because that sector of the economy is showing a strong recovery. Nationally, some manufacturers are having difficulties meeting the demand for goods. Both of these examples show we are moving toward a recovery period. This affects the workers' compensation system; for class rates we use a five-year average of the experience and for individual employer experience modifications factors, we use a three year average. When the numerators and denominators in these calculations move in sync, there is not an issue; however, an unbalanced recovery could produce some unanticipated consequences in the system. Like the rest of the nation, we are seeing claims last longer in Washington and cost more, in spite of the decline in the number of claims received. The NCCI is reporting on this and it is a phenomenon that is not yet well understood.

It was asked if Ms. Glenn could provide insight on how the economic recovery might be impacted by the shift in national emphasis from stimulus to deficit reduction and tightening of monetary policies. Ms. Glenn answered that the state would be impacted because of money received from the federal stimulus through FMAP which is Medicaid matching funds. The state is also receiving monies for infrastructure projects, funding for entitlement programs, and programs such as the tax credit for new homes. Ms. Glenn added that the May numbers for new homes sales were the lowest since 1963 because the tax credit just expired. There is currently more fear of deflation than inflation—the Federal Reserve Board is announcing interest rates today and they are expecting to keep them at zero.

Financial Update: Sharon Elias

The presentation *Industrial Insurance (State) Fund Interim Statutory Financial Information Fiscal Year 2010-Third Quarter (as of March 31, 2010)* was reviewed. Copies of the third quarter SAP financial information *Industrial Insurance (State) Fund Interim Statutory Financial Information Fiscal Year 2010-Third Quarter (March 31, 2010)* were distributed.

The financial highlights for the third quarter include cumulative changes since June 30, 2009; there are three quarters reported:

- The contingency reserve balance increased from $545 million at June 30, 2009 to $647 million at March 31, 2010. The overall increase was $96.5 million for the last three quarters due to investment gains. Because of the changes in market conditions, we had a net gain of $359 million.
- Benefit liabilities increased by $319.5 million over the three quarters since June 30, 2009.
- Retrospective rating adjustments increased $52.1 million for the last three quarters. This change was due to unfavorable development, improved retrospective experience and seasonality.
- As a result of high unemployment, employers are reporting less hours. Workers' compensation premiums are based on hours reported and since fewer hours are being reported, we have a decline in the premium collected in 2010 of $135.7 million compared to the same period in fiscal year 2009.

Total Investments:

- Total investments increased by $521 million to $11.330 billion from $10.809 billion.
- For the three quarters of fiscal year 2010, we had realized gains of $6.8 million compared to $41.5 million realized losses fiscal year 2009.
- Total unrealized gains in the first half of fiscal year 2010 was $352.7 million compared to $362.6 million total unrealized losses during the fiscal year 2009.

Benefit liabilities:

- Benefit liabilities increased by $319.5 million to $10.476 billion dollars in the last three quarters.
- The changes to the benefit liabilities was a result of:
    - At June 30, 2009, our total benefit liability was $10.156 billion.

- We had new liabilities of $1.127 billion.
- Unfavorable development of $301.9 million due to reserve discount accretion ($272.2M) and unfavorable development ($29.7M).
- Total claims paid during three quarters were $1.140 billion.
- Net change in liability was $319.5 million and total benefit liability as of March 31, 2010 was $10.476 billion.

Contingency reserve balances:

- The combined contingency reserve is at $647 million as of March 31, 2010 which is below the bottom of the target range. The good news is our contingency reserve increased $97 million since June 30, 2009 because of investment gains.
- The contingency reserve for the Accident and Pension Fund combined is $1 million.
- The Medical Aid Fund contingency reserve is above the bottom of its target range. This fund currently has a contingency reserve of $645 million, an increase of $164 million from the previous fiscal year.
- At June 30, 2009, the contingency reserve was $550.2 million. For the three quarters year-to-date:
  - We had net realized and unrealized gains of $359.5 million.
  - The actuaries estimated an expected investment gain of $73.2 million.
  - So, the net investment gain was $286.3 million beyond what was expected.
  - For insurance operations results, we had unfavorable development for benefit and claims administration liability of $-24.5 million. We also had an operating loss of $-165.3 million.
  - These resulted in an increase in the contingency reserve of $96.5 million. The 3rd quarter contingency reserve balance is $646.3 million.

Follow-up Supplemental Pension Fund Discussion: Bob Malooly

Mr. Malooly provided an update on the Supplemental Pension Fund (SPF) loans (the SPF is statutorily a pay-as-you-go fund and the department cannot accumulate reserves as is done in the other funds). When the fund was created, the legislature anticipated the need for cash flow loans from time to time by allowing funds to be transferred from the Pension Reserve Fund to the SPF when needed. The first loan was required to pay the SPF benefits due in April. We borrowed $15 million, utilized $9 million, and incurred $3,085.15 in interest on that loan. As forecasted, we expect to require quarterly borrowing through the balance of this year. They should stabilize when the SPF has about $30 million, provided no changes in hours worked occur. As a reminder, the revenue for the SPF is closely related to the number of hours worked in the state and employment has not recovered from the recession. The current projections show we would likely borrow $30 million in July.

A question was asked if there are cash-flow issues in any of the other funds. The question was based on negative book balances provided by the Treasurer's Office. These suggest that, at various points throughout the year, funds have been in technical deficits and outstanding warrants have exceeded the amount of cash on hand. The answer was no, there are no cash-flow problems in the Accident, Pension, or Medical Aid Funds. Mr. Malooly explained that from a cash in the bank perspective, the department wants to keep funds fully invested. As a result, there may be times where there is a temporary shortage in the cash account but there is not a problem of overall cash availability to pay expenditures. There are no cash concerns for the Accident, Pension and Medical Aid Funds because there is $11 billion available.

Update on Claims Improvement: Janet Morris

Janet Morris, Chief of Claims, provided an update on claims improvement efforts.

Ms. Morris informed the committee of Claims Administration's success with complex claims staffings. A nurse and a facilitator work with a specific Designated Service Area (DSA) team. They work with staff recognize

indicators of potential long-term disability cases. The focus is on claims 0-6 months old. Staff receive helpful advice from experts including a nurse and a vocational counselor. At the end of six months, 33% of claims reviewed were headed to resolution, 15% were closed, 18% had vocational involvement, and 25% still had medical issues that need resolution. Teams developed plans for these cases. The staff know if they have difficulties, they can access and utilize their resources. This program helps change how claim managers view their job.

As a result of this success, we developed a year-long project called the Collaborative Claims Unit. The project began on April 5, 2010, and includes two claim leads, WCA 3s, a nurse, a vocational specialist, a claims consultant, a pension adjudicator, and training staff. The resources are located in the same area so the claim managers, with their normal caseloads, have resources available for various claim issues within their work group. This has been very successful for a number of reasons. The staff are trained on comprehensive plans and strategies for appropriate claim resolution. Claim managers have learned to utilize resources available to them within the department. The claim managers are assigned to the unit for 90 days. They then return to their units and implement the staffings there. By the end of the year, all claim leads will be trained, and the majority WCA 3 claim managers will have participated. Every claims unit will have claim managers who can help with staffings. The project has seen positive results: in two months, 12% of complex claims that were staffed have been resolved.

Lean Projects:

There are significant reductions in making Ability-to-Work Assessment (AWA) referrals and an approach to work with Vocational Rehabilitation Counselors (VRCs) to get existing referrals completed sooner is being developed. Steps have been eliminated in plan development that will allow us to get injured workers into training as quickly as possible. This is being piloted in two units, Unit E (King County) and Unit O (statewide).

Instead of waiting for the claim manager to determine if an assessment may need to be made, claims are reviewed at 45 days by the claim manager and vocational services specialist and again at 90 days. Once the AWA referral has been sent, Private Sector Rehabilitation Services staff call the VRC to check in and ensure progress is being made. This is also happening with plan development referrals. We are tracking actions, ensuring the claim is moving and appropriate decisions are made.

The next lean projects involve incoming mail and how to prioritize and index it differently so we can move through the volumes of mail more quickly and efficiently. We are also looking at the Medical Only Claims Unit and the auto-adjudication system for ways to streamline so we can best use our resources.

Early Claims Solutions

The goal of the Early Claims Solutions (ECS) Project is to reduce delays at the beginning of the claim process, helping injured workers return to employment soon and safely and avoid long-term disability and, as a result, reduce costs to employers. The ECS Unit works on processes as new claim-filing technology is being developed to get the Report of Accident (ROA) quickly. Doctors working with us are faxing in their ROAs and the department is receiving them in about two days. Generally, the department receives ROAs in 5-7 days. When the ECS Unit receives the ROA, they call the worker, employer, and provider to gather information. The staff reviews the claim information for inconsistencies and tries to resolve them upfront. Staff also gather wage information. There is a systematic approach to how calls are made: who is called first, what questions are asked, etc. This program allows the department to educate the worker on the claim processes and the department's expectations. It provides workers a person to ask questions to directly. The program also benefits employers; staff can educate them about kept-on-salary provisions, claim-free discounts, and the status of their accounts. We collaborate with account managers in Employer Services. The two teams work very closely

together and sit within the same unit. The process has simplified data entry for account managers. They have fewer screens to review, significantly saving time and resources.

Claims are being reviewed holistically, providing informed, appropriate decisions. It allows us to identify claims that may become long term claims and we can bring in the necessary resources early. The staff also talk to the worker, employer, and provider about the statistics—if the ROA is delayed two weeks, it increases costs by 18%. If it is delayed four to five weeks, it increases costs by 45%.

The ECS Unit is in Region 1 (Everett area). Beginning January, 2011, workers will be able to file claims online on a web-based system. Employers already have this access through the Claim and Account Center (CAC). For workers who do not want to file electronically, a call center will be set up to intake claims. Providers will also be able to send in ROAs electronically in January. Focus groups have provided usability feedback from workers and providers.

By getting information quickly and following up with all parties, we can make timely payments, defendable decisions, and issue wage orders earlier. This allows the worker to focus on returning to work.

Second Set of Eyes

There are a variety of key decision points in a claim; for example, claim validity, initial and other related diagnosis, and re-openings. For the new "Second Set of Eyes" approach, the focus is on validity—every new time-loss claim is reviewed by the claim manager assigned to it, they make the decision on whether the claim is valid. However, before they issue an order, the unit supervisor reviews the decision. What we have found is that most decisions are correct, but some claims lack complete information to make the decision defendable; other decisions were incorrect due to the lack of information and needed follow-up. This process is time-consuming, but the supervisors feel it is well worth it. Once claim managers have shown they are able to make correct decisions with all documentation on a routine basis, they are no longer required to submit each claim to their supervisor, and are only spot-checked for accuracy. In the next month, another initiative will be rolled out. Any time a diagnosis is added to an established claim, a review will be done by the unit supervisor or nurse. The nurses will work with providers and claims staff on identifying why a newly contended diagnosis may not be claim-related. This process is an opportunity for supervisors and nurses to teach and mentor claims staff to make better decisions on claims. The initiatives are being rolled out one at a time due to resource constraints and as one is completed, the next key decision will follow. Because of this process, staff are making better decisions and should receive fewer protests.

It was asked if staff turnover has stabilized. Ms. Morris answered that there has been turnover in the apprenticeship program; however, the turnover with senior adjusters has stabilized. Two reasons for the current turnover in the apprenticeship program include recruitment, so we are changing the recruitment process to ensure we hire people with the right skill set for these positions. We are also looking at the training program and the success rate of incoming apprentices.

Another question was asked about Claims Administration's Lean projects; specifically, the AWA project. Has the department seen a decrease in time-loss duration as a result of the Lean projects and is this a pilot? Ms. Morris confirmed that time-loss duration is being measured with the AWA project which began in mid-March. The department is still tweaking the changes until the process can be standardized.

Regarding the Collaborative Claims Unit, an audience member asked how it compares to a 'regular' claims unit. What is the percentage of complex claims resolved in a regular unit compared to the 12% being resolved in the Collaborative Claims Unit? Ms. Morris answered that comparison data is not available at this time, but we can look at getting this data for the next WCAC meeting.

Lastly, it was asked for the department to provide the specific measures, such as the open and close ratios, at a future meeting.

Time-Loss Duration Update and Supplemental Pension Fund Discussion: Bill Vasek

Copies of two presentations were distributed: *The average duration of time-loss benefits amongst lost-time claims and time-loss payment triangles* and *Supplemental Pension Fund pay-as-you-go vs. prefunding*.

Mr. Vasek began with an explanation of the two different time-loss payment triangles used in reserving. The first triangle consists of "time-loss benefits paid-to-date."

- The portion of the triangle on slide 4 shows the most recent accident quarters of the payment triangle (March 31, 2006-March 31, 2010). As of March 31, 2010, we have paid out $72.355 million in time-loss benefits for the accident quarter ending March 31, 2006. (Note: time-loss benefits include time-loss and loss-of-earning power (LEP))
- The portion of the triangle on slide 5 shows the accident quarters from 2002 to 2005. As of March 31, 2010, we have paid out $87.313 million in time-loss benefits for the accident quarter ending March 31, 2002.
- The portion of the triangle on slide 6 showed the accident quarters from 1997 to 2001. As of March 31, 2010, we have paid out $65.629 million in time-loss benefits for the accident quarter ending March 31, 1997.

The second triangle consisted of "time-loss days paid-to-date". He explained that days paid for loss-of-earning power claims are converted to partial days.

- The portion of the triangle on slide 8 shows the most recent accident quarters for time-loss days paid. For the claims from accident quarter ending March 31, 2006, we paid 41,562 days of time-loss benefits in the quarter ending March 31, 2010.
- The portion of the triangle on slide 9 represents the accident quarters from 2002 to 2005. For claims from the accident quarter ending March 31, 2002, we paid 15,036 days of time-loss benefits in the quarter ending March 31, 2010.
- The portion of the triangle on slide 10 showed the accident quarters from 1997 to 2001. For claims from the accident quarter ending March 31, 1997, we paid 3,131 days of time-loss benefits in the quarter ending March 31, 2010.

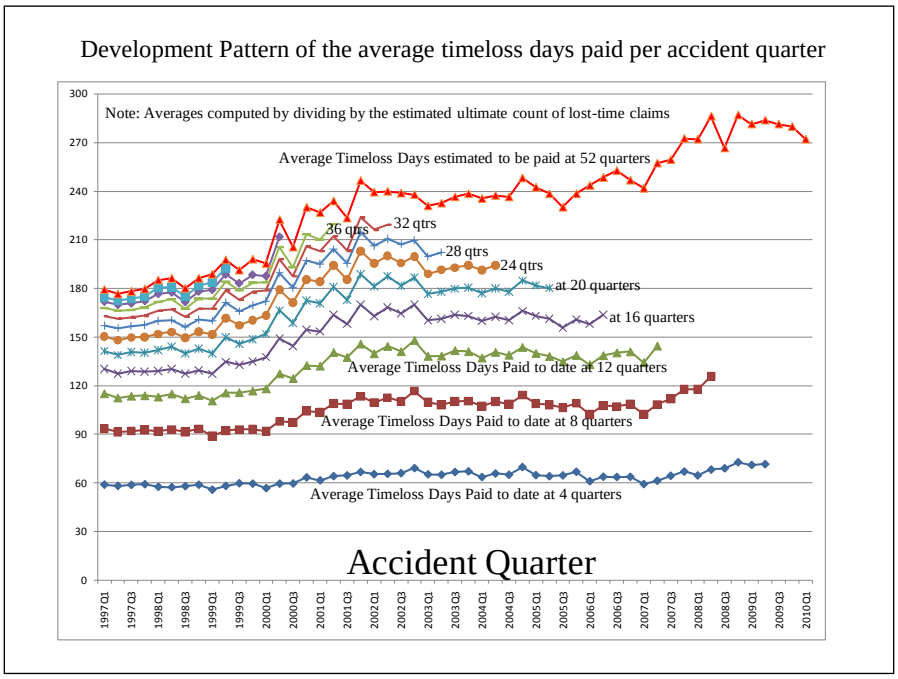
Timeloss Benefit Payments for Accident Quarter
ending March 31, 2006 as of March 31, 2010

Age in Years	$ Timeloss Paid in $1,000s	Timeloss Days Paid	Average Days Paid per lost-time claim
0.25	$ 3,932	69,349	8.9
0.5	$ 9,021	166,745	21.3
0.75	$ 7,469	133,092	17.0
1	$ 6,055	107,700	13.8
1.25	$ 5,509	99,054	12.7
1.5	$ 4,630	81,669	10.4
1.75	$ 4,072	73,635	9.4
2	$ 3,914	69,639	8.9
2.25	$ 3,781	65,151	8.3
2.5	$ 3,573	62,760	8.0
2.75	$ 3,302	57,284	7.3
3	$ 3,047	53,841	6.9
3.25	$ 3,004	50,886	6.5
3.5	$ 2,895	49,185	6.3
3.75	$ 2,868	49,281	6.3
4	$ 2,771	46,550	6.0
4.25	$ 2,512	41,562	5.3
TO DATE	$ 72,355	$ 1,277,383	163.4
Number of lost-time claims (includes KOS + LEP claims)		7,818	

Slide 11 is a drill down of the accident quarter ending March 31, 2006 (through March 31, 2010). During the first quarter, the department paid $3.9 million and 69,349 days of time-loss. Also, there are estimated to be a total of 7,818 time-loss claims from injuries and illnesses that occurred in the quarter ending March 31, 2006, including kept-on-salary (KOS) and loss-of earning-power (LEP) claims. This is called the ultimate number of lost time claims for this accident quarter. The average days paid per time-loss claim in the first quarter was 8.9 days (= 69,349 / 7,818).

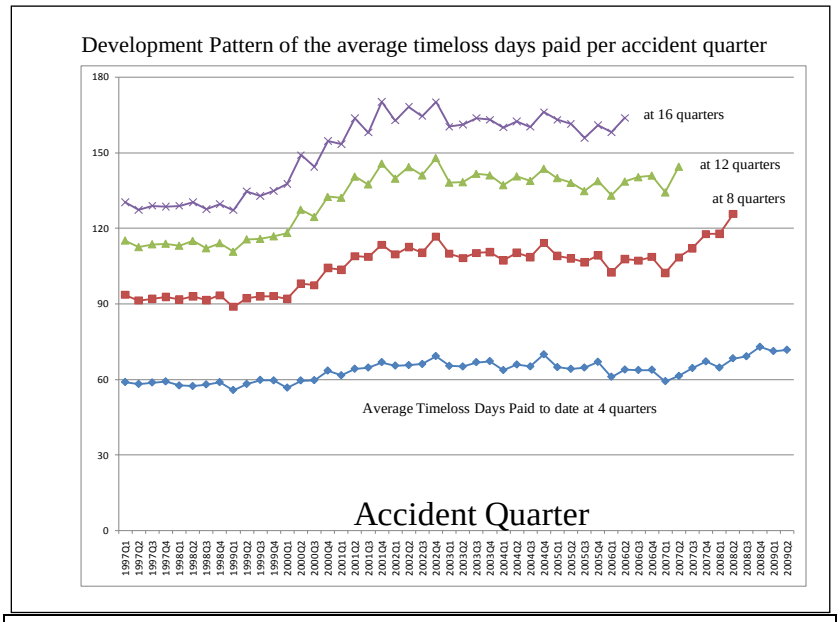
For the second quarter (which is typically the biggest quarter of payments) $9.0 million and 166,475 days were paid, for an average of 21.3 days paid per lost-time claim. In the third quarter, claims closed and there was a decrease in both the time-loss dollars and time-loss days paid. To date, $72.3 million and 1,277,383 time-loss days have been paid. The average days paid per lost-time claim was 163.4 (=1,277,383 / 7,818) as of March 31, 2010.

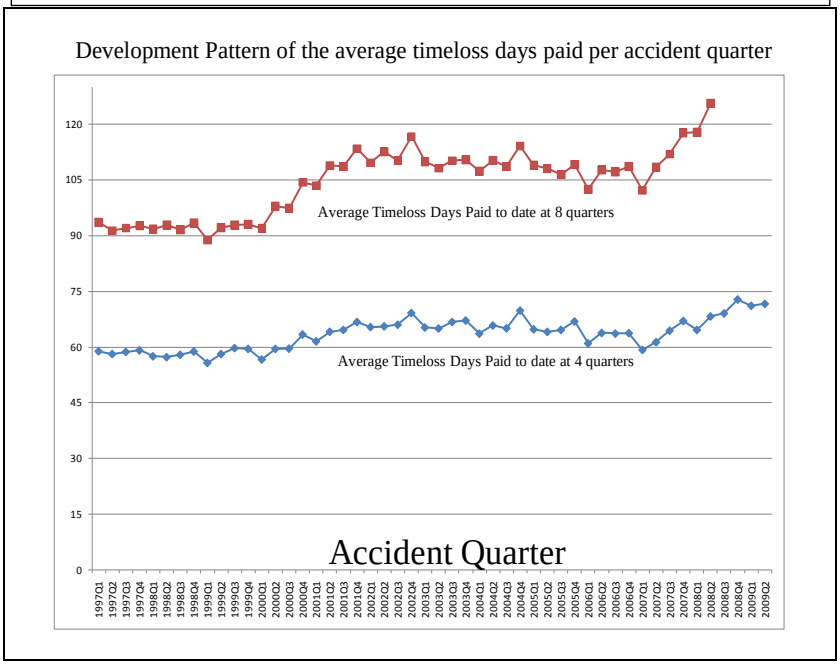
A third payment triangle of average days was created by dividing the time-loss days by the ultimate lost-time claim count. Mr. Vasek presented these as graphs rather than payment triangles.



The lowest charted line on the bottom of slide 13 is the average number of time-loss days paid-to-date after 4 quarters by accident quarter. In 1997 the average was 60 days. This has changed: the latest 4th quarter information available is for the second quarter of 2009 which shows the average time-loss days paid-to-date is about 70 days.

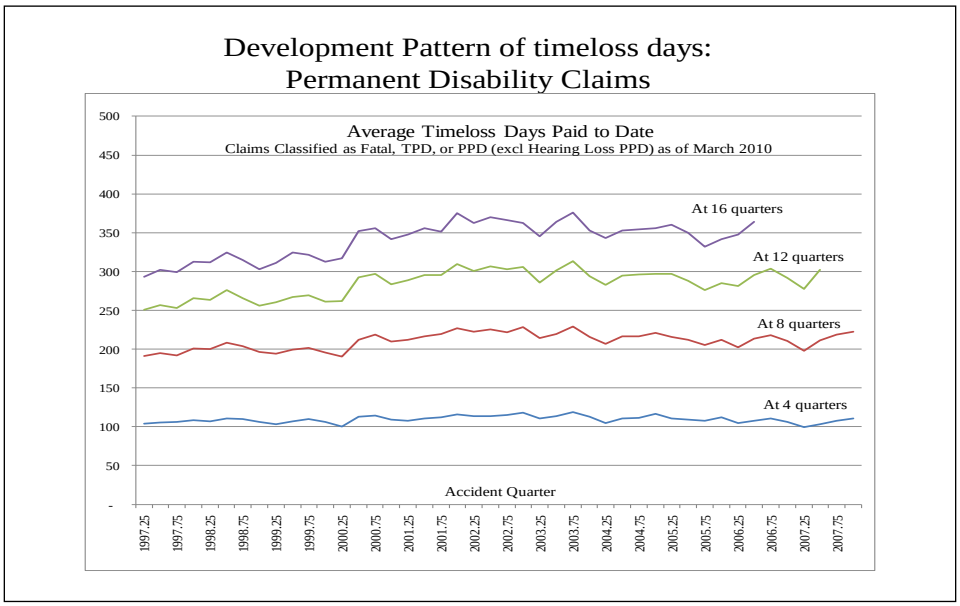
Mr. Vasek further explained that the top line is not part of the payment triangle. It is the actuarial estimate of how many average time-loss days are estimated to be paid at the end of 52 quarters. He noted the shape of the estimated amounts followed closely to the shape of payments that have already been made to date.

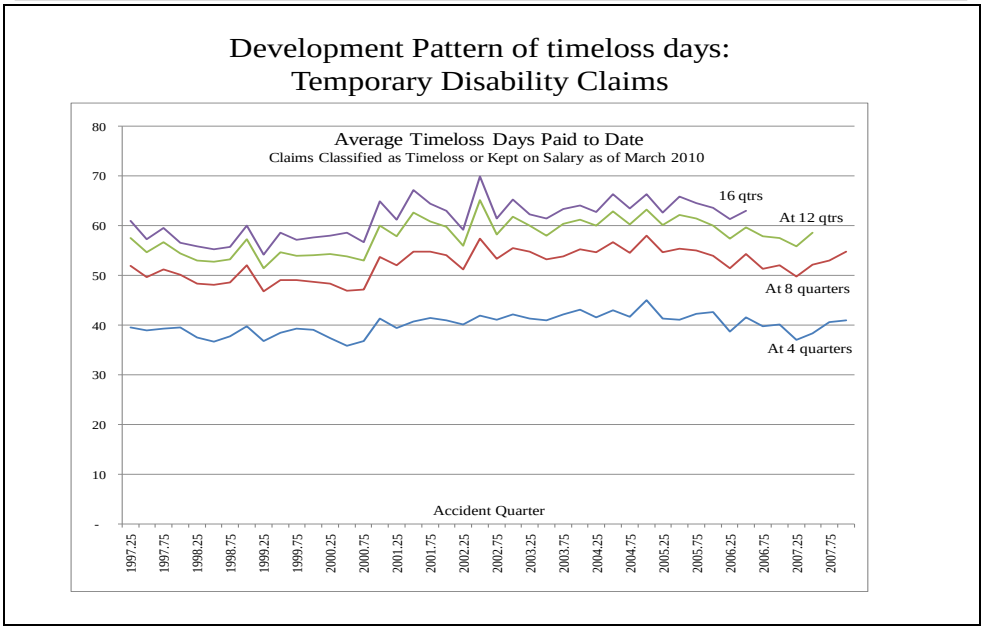




Both of the charts on slides 14 and 15 are drill downs for average time-loss days paid by accident quarters at various ages. Mr. Vasek noted the pattern of development of the days paid is very similar; similar things are happening at similar points in time. When the average days paid to date at four quarters increase by accident quarter, these increased days will eventually show up at eight quarter claims. So the average days paid to date for those same accident quarters are going to be higher later on. There was an increase in the average around 2000 and now we are seeing another increase starting in 2007 and 2008.

Slide 16 explains a recent study of splitting out lost-time claims between the permanent disability claims and the temporary disability claims. Permanent disability claims include fatalities, total permanent disability awarded and partial permanent disability awarded claims. Temporary disability claims include claims with no permanent disability award expected, time-loss benefits awarded, and kept-on-salary claims. The study excluded medical only claims.





Slides 17 and 18 are comparisons of development patterns of paid time-loss days between permanent and temporary total disability claims. There was a similar rise in 2000 and then a leveling off. What is distinctively different between these two types of claims is the magnitude of the increase in the average days paid to date.

On slide 19, Mr. Vasek took two different full accident years (AY), AY 1997 and accident fiscal year (AFY) 2006. At 16 quarters, the average time-loss days paid to date for the temporary claims was 59 days in 1997; in 2006 it has increased 8% to 63 days. The average time-loss days paid to date for the permanent disability claims was 302 days in 1997; in 2006 it has increased to 346 days; this is a 15% increase.

Mr. Vasek added that the NCCI has also conducted a study of average time-loss days for temporary disability and permanent disability claims. We have compared our average for temporary disability claims with other states, and Washington is "in the same ball park." However, for permanent disability claims, Washington is higher than other states because their systems allow the use of compromise and release to close claims before they become pensions.

When both categories are combined and measured at 16 quarters, the average was 129 days in 1997 and 160 days in 2006, a 24% increase. However, 24% is bigger than the increases for solely the temporary claims or solely for the permanent claims.

Change in 10 years: timeloss days

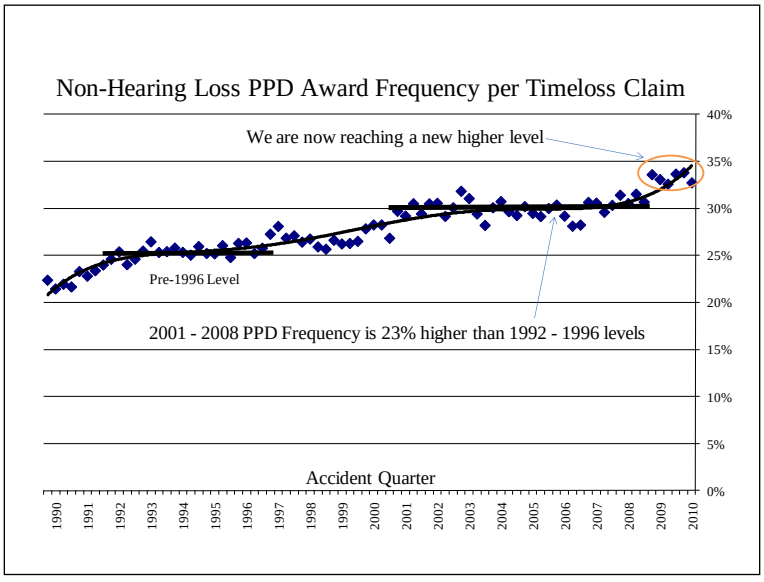
	Average Timeloss Days to date		
type of disability	AY 1997 at 16 qtrs	AFY 2006 at 16 qtrs	% increase
temporary	59	63	8%
permanent	302	346	15%
lost-time	129	160	24%

Bigger increase in timeloss days for
1) permanent disability and
2) lost-time claims

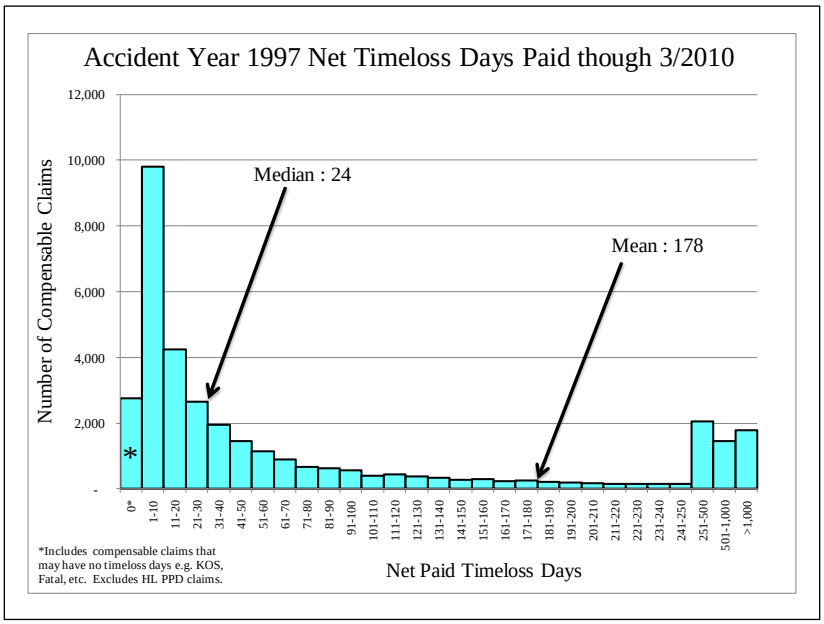
A higher percentage of lost-time claims are being awarded permanent disability awards

	Claim counts by type of disability		
type of disability	AY 1997 at 16 qtrs	AFY 2006 at 16 qtrs	% increase
temporary	25,550	20,940	-18%
permanent	10,340	10,813	5%
lost-time	35,890	31,752	-12%
% permanent	29%	34%	

Slide 20 provides an explanation in the shift in the mix of claims. In AY 1997, we had 25,550 temporary disability claims, and in 2006, we had 20,940 claims, an 18% decrease. But, in AY 1997 we had 10,340 permanent disability claims and in 2006, there were 10,813 claims, an increase of 5%. A higher percentage of lost-time claims are being granted permanent disability awards. The percentage has grown from 29% to 34%.



The chart on slide 21 provides the non-hearing loss permanent partial disability (PPD) awards as a ratio to the lost-time claims. We may now be reaching a new higher level in PPD claims per lost-time claim. Because most of the permanent disability claims are PPD claims, this is the cause of the higher percentage of permanent disability claims.



Slides 22-24 are AY 1997. Slide 22 shows the histogram of claims by their duration and also shows that the average length of time-loss to date was 178 days. It is the long duration claims (i.e., 251-1000 days) that raise the average.

A question was asked if the numbers include claims that eventually receive Total Permanent Disability (TPD) and PPD awards and Mr. Vasek confirmed they are included.

Another question was asked regarding what the data would look like if the TPD and PPD awards were removed—what is the average time-loss duration for claims of workers who were injured on the job, but did not receive PPD or TPD. Mr. Vasek answered those types of claims have much lower averages of about 60 days compared to claims with PPD awards which average approximately 300 days as shown in earlier slides. PPD claims are five times worse than a claim without PPD.

A comment was made that this is the type of data that had been requested to describe the time-loss duration of the average claim of a worker who is injured on the job, has a time-loss claim and then returns to the workforce fixed and stable. When the PPD and TPD claims are averaged with these claims, it drives the average days of time-loss "through the roof." There is a misconception that the average time-loss days, which include PPD and TPD claims, represent the average number of time-loss days for all workers who are off work. This is not the case as not all workers receive PPD. Mr. Vasek confirmed that without blending in the PPD and TPD claims, the average is about 60 days, similar to other states.

It was asked that for the next meeting, the department provide a simplified message defining the average number of time-loss days for workers who are injured on the job and return to work without PPD or TPD and how the department fares with other states.

Another question was asked if the data presented show the percentage of time-loss claims that are PPD and TPD claims. In AY 1997, 29% were permanent and 71% were temporary. For 2006, 34% were permanent and 66% were temporary.

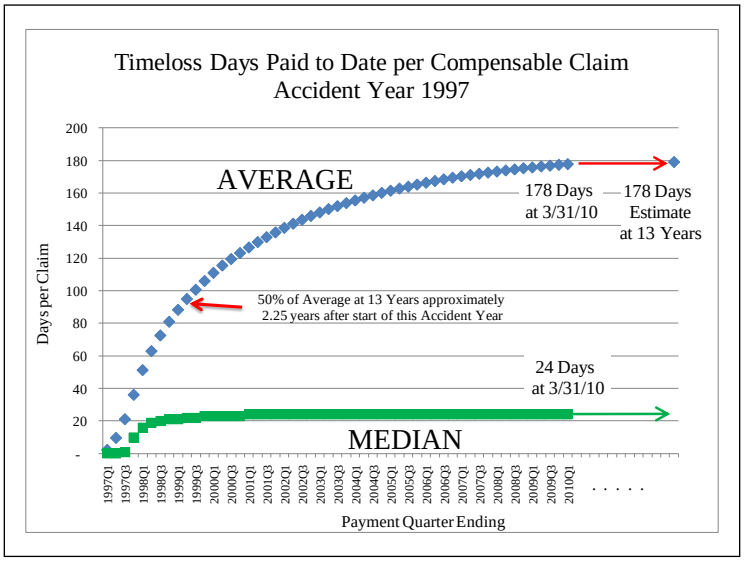
A question was asked to clarify that 71% of workers on time-loss were off work an average of 59 days in 1997 and 66% of workers on time-loss were off work for an average of 60 days. This data is significantly different

than the data of 263 average time-loss days presented previously. Members have tried to explain to others that this is a blended number that includes both types of claims.

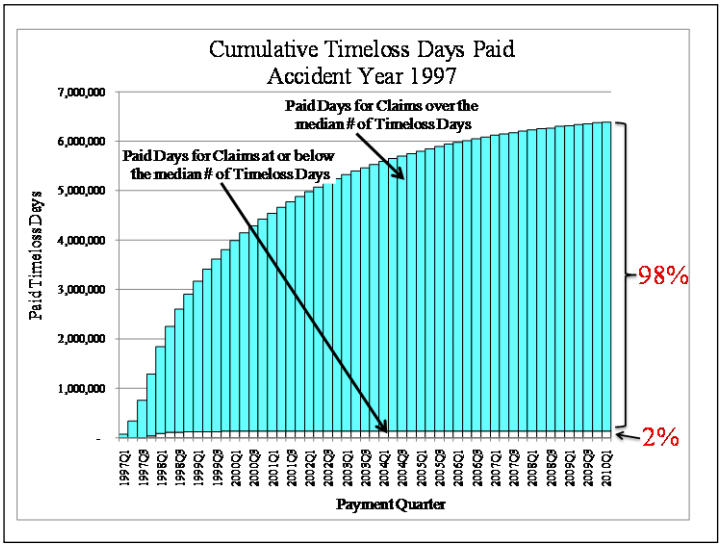
Another member requested the department provide the percentage of cases that are temporary total and the change over the 10-year period. It was felt that it is important to have the permanent total disability number provided as well to have the complete picture.

Another question was asked regarding the 10,340 permanent disability claims for AY 1997—how many claims were total permanent disability versus partial permanent disability. Mr. Vasek answered that the actuaries have estimates of how many would eventually become pensions. These numbers will be provided at the next WCAC meeting.

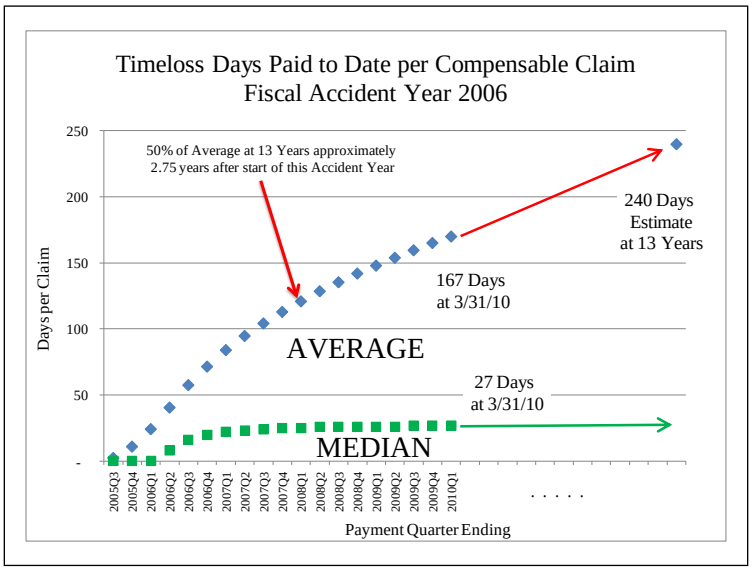
Mr. Malooly added that for the next presentation, data will be presented showing at 16 quarters which claims are estimated to be permanent and which claims are expected to turn into permanent total cases eventually.



Mr. Vasek continued reviewing the presentation. On slide 23, for AY 1997 claims, the median is 24 days. Half the payments were made at 2.25 years after the beginning of the accident period. At 13 years, the average is estimated to be 178 days.



For AY 1997 claims, 2% of all time-loss paid was for claims that were at the median or less. In terms of dollars, 98% of the payments were for claims that were more than 24 days of time-loss. The long duration claims are driving costs up in the system.



Slide 25 is for AY 2006: the actuaries are projecting the median to be 27 days. The average days paid to date is 167 days, projected to be 240 days at 13 years. Half of the time-loss was paid 2.75 years after the start of this accident year.

Due to time constraints, the funding of the Supplemental Pension Fund presentation will be reviewed at a future meeting.

Mr. Malooly reviewed the handouts that were distributed to the members which included:

- Report on Continuation vs. Termination of Death Benefit Pensions Upon Remarriage in Washington's Workers' Compensation System
- PPD Award Schedules
- Agency Rules Development Update
- IME Fact Sheet

The next WCAC meeting is scheduled for August 25, 2010 regarding the 2011 rate indications.

Meeting adjourned.