Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Minutes
September 12, 2011

Business Representatives: Rick Anderson, Washington Farm Bureau- Sakuma Brothers; Rebecca Forrestor, Group Health; and Kris Tefft, Association of Washington Business

Labor Representatives: Frank Prochaska, Association of Western Pulp and Paper Workers; Rebecca Johnson, Washington State Labor Council; Karen Gude, United Food and Commercial Workers 1439; Terry Tilton, Washington State Building and Construction Trades Council, representing Dave Myers

Labor and Industries: Judy Schurke, Director; Beth Dupre, Assistant Director for Insurance Services (Chair)

Board of Industrial Insurance Appeals: Dave Threedy

Recorder: Sharon Avery

Court Reporter: Milton Vance

Guests: Tammie Hetrick, Paulette Avalos, Jeannie Gorrell, David Ducey, Carolyn Logue, Lloyd Brooks, Kim McIsaac, Joan Elgee, Michael Temple, Beverly Simmons, Teresa Mosqueda, Christina Lombardi, Candice Bock, Eddie Cantu, Cody Arledge, Dave Kaplan, Greg Kabacy, Brian Bishop, Janice Camp, Michael Burch, Craig Scukas, Kristeen Johnson, Trish Leimbach, Sandi Beasley, Holly Chisa, Kim Hoff, Scott Dilley, Jerry Bonagofsky, Larry Stevens, and Jan Gee

L&I Staff: Mike Ratko, Kirsta Glenn, Sharon Elias, Michael Silverstein, Stephen Vaughn, Rachel Aarts, Cara Hsieh, Cathy Mowlds, Tim Smolen, Mark Mercier, Bill Vasek, Vickie Kennedy

Opening Comments and Safety Message

The meeting began with introductions of the committee members and audience.

The June 13, 2011 minutes were approved.

Ms. Dupre reviewed the action items from the last meeting:

Action Item	Assigned To:
Dave Threedy was asked to provide data that reflected the issues raised on appeals. Dave explained that the Board does have the data, and that he could provide it in the next report and would do that.	Dave Threedy to provide data on issues raised in appeals in his next report and on a go forward basis.
Dave Threedy was asked to provide the stay motion data broken down by State Fund and Self-Insured claims.	This information is reflected in Mr. Threedy's presentation.
A request was made for the department to provide an explanation that many claims are resolved within the first few weeks of injury and that there is a small percentage of claims that drive up the average. They asked that the department use the median when discussing the average time-loss index.	Kirsta Glenn has included this data in her presentation.
A question was asked if the department would engage the committee on who will be involved in the Rainy Day Fund process.	Representatives have been delegated from Labor and Business.
A question was raised regarding the Supplemental Pension Fund—the forecast of 2012 reflected the COLAs being frozen—are there other inputs that would need to be analyzed and reconciled to understand that portion of the rate in 2012?	Sharon Elias will present these figures in her presentation.
Regarding SB 5278, the information in the rate notices must include an accounting for all programs and services financed in whole or in part by state fund premiums or self-insurers' administrative assessment.	Vickie Kennedy answered that a draft will be provided for review and comments and these will be incorporated into the January 2012 rate notices.
The department committed to meet with Business and Labor in regards to representation for the WCAC committee, Rainy Day Fund Committee and for the Occupational Disease Study.	Members will be announced during the meeting.

Dan Locke presented a safety video regarding tractor rollovers. This and other safety videos can be found on the L&I webpage.

<u>WCAC Appointments- Judy Schurke and Beth Dupre</u>

Director Schurke reviewed the WCAC appointments and term dates. They include:

- Rick Anderson- Term expires on September 1, 2014
- Nancy Dicus- Term expires on October 31, 2013
- Karen Gude- Term expires on May 1, 2013
- Rebecca Forrestor- Term expires on December 1, 2012
- Rebecca Johnson- Term expires on September 1, 2014
- Frank Procheska- Term expires on September 1, 2014
- Kris Tefft- Term expires on November 30, 2014
- Dave Myers- Term expires on October 1, 2014

Ms. Dupre confirmed a subcommittee made up of six members, three labor and three business members, will work with the department on a recommendation for the Rainy Day Fund that is due to the legislature on December 1st. The subcommittee members include Rebecca Johnson (Washington State Labor Council), Diane Zahn (United Food and Commercial Workers), Larry Brown (International Association of Machinists), Rick Slunaker (Associated General Contractors), and Teran Petrina (Washington State Restaurant Association). The third business member has not been determined.

A legislative report is also due on December 1, 2012 regarding the occupational disease study. The department and selected labor and business representatives are tasked to select an independent researcher. The members for this committee are Rebecca Johnson (Washington State Labor Council), Craig Soucy (Washington State Council of Firefighters), Lori Daigle (Sellen Construction), and Kris Tefft (Association of Washington Business).

SHIP Grants- Michael Silverstein

Michael Silverstein, Assistant Director for DOSH, reviewed two handouts regarding Safety and Health Investment Projects (SHIP). Dr. Silverstein explained that the SHIP grant program began in 2007 with a budget proviso to provide grants on a competitive basis to business, labor, and educational institutions to develop safety and health projects that would assist in reducing, finding and fixing workplace hazards and reducing injuries, illnesses and deaths. Over the years, this program has awarded 41 grants for a wide variety of organizations.

Last year, the SHIP program was given statutory authority, including new features. The department has specific types of grants to award: 1) general safety and health grants, 2) those that assist small businesses with safety and health, and 3) those to develop innovative approaches to returning injured workers to work. We have been directed by the legislature to award grants that address priorities established by the WISHA Advisory Committee and the WCAC.

Dr. Silverstein advised that he would like to talk to the committee in a future meeting regarding grants that address return-to-work programs. These grants will not be considered until after a discussion with the WCAC.

DOSH is interested in launching a new round of grant applications. We will be soliciting proposals through the department's website in the next few weeks. Dr. Silverstein referred to the handout with a summary table of the top ten industries for numbers as well as rates of work place injuries (Specialty Trade Contractors, Construction of Buildings, Truck

Transportation, Nursing and Residential Care Facilities, Wood Product Manufacturing, Heavy and Civil Engineering Construction, Hospitals, Forestry and Logging, Repair and Maintenance, and Justice, Public Order and Safety Activities). When we looked at what was causing the high numbers and rates for these industries, we came up with the following: work-related musculoskeletal disorders, falls, struck by or against object/equipment and overexertion. DOSH will use this table as a ranking tool for incoming proposals.

It was asked if musculoskeletal disorders and overexertion are two separate categories or do they fall under the same category. Dr. Silverstein answered that there is some overlap with the classifications but clarified that the musculoskeletal disorder category does not include injuries from slips, trips and falls. It does include problems related to high-force repetitive motion, awkward postures, and overexertion.

Another question concerned whether the severity of the injuries or length of time-loss were factors considered and it was answered that the department pays special attention to time-loss.

It was asked if we are looking into industries that did not rank as high risk and what they have been doing that has made them successful. Dr. Silverstein answered that the department has provided grants in the past to industries/injuries not listed and still intends to do so.

A question was asked about how the department plans to communicate to businesses throughout the state that SHIP grants are available. Dr. Silverstein answered that the department has developed a listserv for broad communication efforts and will post the announcement on the web site. The department's communications office is working on publicizing the grants and we would appreciate any suggestions the committee has on getting this advertised to a broad audience. A member suggested that DOSH present the information at the Governor's Safety Conference.

It was asked when the department will start awarding grants and if the department has an open enrollment during a specific time frame. Dr. Silverstein advised that the announcement for applications will be posted shortly and the application period will remain open for about six weeks. The department will make decisions for the first group of grants before the end of the year with the grants becoming effective around February 2012. There will be additional rounds of grants throughout the biennium.

A question was asked if it is possible to use the data to focus on certain businesses that have higher frequency rates and encourage them to apply for grants. Director Schurke advised in our consultations, we reach out to employers that have high experience factors and offer to work with them.

A comment was made regarding the definition of a small business – it was agreed that the statute was not specific about number of employees. It was suggested that we define this.

Reform Updates: Judy Schurke and Beth Dupre

The packet included one-page handouts regarding the Stay at Work Program, Structured Settlement Program, and the Provider Network- COHE Expansion.

Ms. Dupre provided a brief overview of the three predominant reform projects.

Stay at Work Program: Bill Smith has been hired as the Program Manager. The goal of this program is to be easily accessible to employers and injured workers, provide clear direction to medical providers and to provide reimbursements in a timely manner. We are working on the business requirements to build a technology solution. We are also strategizing an outreach plan to reach as many employers and injured workers as possible. Lastly, we are working on tools such as reimbursement and enrollment applications.

A question was asked to clarify that the program was effective June 15^{th} and if there is a timeframe for when the department will be ready to process payments. Ms. Dupre confirmed that businesses should "save receipts" and documentation for reimbursements—the department hopes to have the program in place by the end of the year and to start the reimbursement process shortly after.

It was asked if the department will be reimbursing employers with cash or credits against their premiums. Ms. Dupre advised the program is working through those policy decisions.

A question was asked if this program applies to all employers or just state fund employers and it was confirmed it is only for state fund employers.

Structured Settlement: Dustin Dailey has been hired as the Program Manager. Similar to Stay at Work, we are working on the development of business processes and understanding what the requirements are to modify systems as necessary. We are working with the Board of Industrial Insurance Appeals and the Attorney General's Office to look at internal policies necessary to start this program with a target date of January 1^{st}.

Provider Network/ COHE Expansion: The Industrial Insurance Medical Advisory Committee and new Provider Network Advisory Group are advising us on standards for the new network. We are working on the business needs to start the credentialing process after the first of the year.

The L&I staff responsible for COHEs have reached out to the self-insured community about participating in COHEs.

The committee confirmed their interest for the department to have a special WCAC meeting in November to get a progress report and timelines for the three programs.

<u>Board of Industrial Appeals Update: Dave Threedy</u>

The presentation was reviewed.

- *Total Appeals Filed and Granted:* Appeals have increased over the past year. As of June 2011, there were 3,436 total appeals filed and 1,954 appeals granted in the quarter.
- *Department Reassumption Rate by Quarter:* The reassumption rate remains at about 25%.
- *Average Proposed Decision and Order (PD&O) Time-Lag by Quarter for Hearing Judges:* This number is down this quarter—it is at 30 days for judges and 19 days for the Board.
- *Quarterly Average Weeks to Completion:* The Board is pleased to see this number has decreased. Their goal is 32.5 weeks, and as of last quarter, the average weeks to completion is 30.8 weeks.
- *Caseload at End of Quarter:* As the appeals have increased, there is a steady increase in the caseloads—at 4,907 at the end of June.
- *Final Board Disposition of Stay Motions 7/1/08-8/31/11*: This slide shows the final disposition of the appeal in cases where a motion for stay had been filed. Of the cases where the department order had been affirmed, 5 stays had been granted and 101 had been denied. In cases where stay motions were requested and the department order was reversed, 21 had been granted and 126 denied.
- *Stay Motions Filed by Quarter*: Thirty-one stay motions were filed for the April-June 2011 quarter.
- *Stay Motion Orders 7/1/08-8/31/11:* The last chart was a breakdown of orders by State Fund and Self-Insurers. State Fund: 6 were granted and 69 were denied; Self-Insurers: 34 were granted and 270 were denied.

In response to questions regarding the structured settlement program, the Board has a team preparing to handle the settlement applications. The Board has sent out draft rules to various organizations of labor and business for comments. These draft rules are also available on the website. The Board's responsibilities, under the law, require that they determine whether agreements are in the best interest of workers and whether workers knowingly enter into the settlement.

The Board has hired four more judges to fill vacancies.

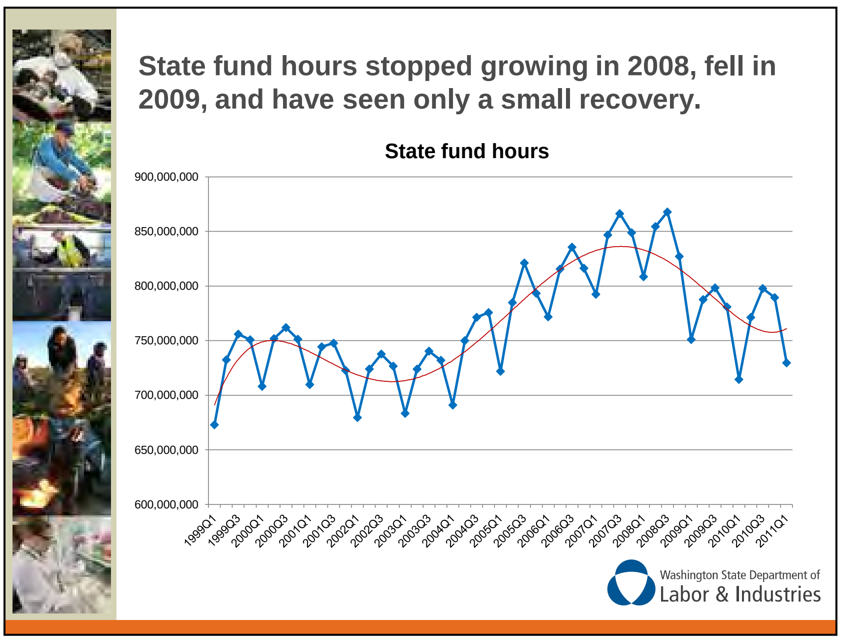
The Board's Seattle office lease ends next June. The Board is looking to move the Seattle office in the near future.

The Board's CLE is scheduled for September 30, 2011 at the Tacoma Training Convention Center.

Economic Update: Kirsta Glenn

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

The projections for future growth have come down since last year. We are now in a period of slow growth that we have not experienced since post-World War II. This slow growth will have long-ranging effects on the outlook of businesses, workers, investors and the workers' compensation system.



This chart shows that State Fund hours stopped growing in 2008, fell in 2009, and have seen only a small recovery. The recovery has been uneven across industries, and claim incidence appears to be continuing its decline. New claims declined by more than the drop in hours which means the incidence of injury appears to have come down over the recession.

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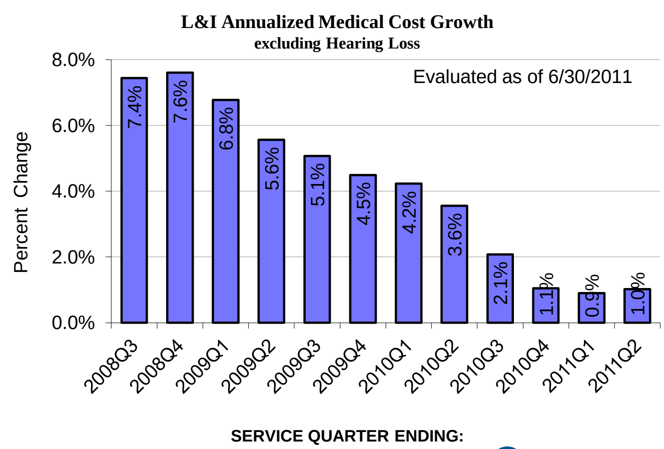
	2007-2009		2009-2010	
	Hours	New Claims	Hours	New Claims
Temporary Help	-33.7%	-56.0%	2.6%	-1.8%
Construction	-27.5%	-39.9%	-10.9%	-16.4%
Manufacturing	-14.7%	-32.9%	-0.4%	-7.0%
Wholesale & Stores	-10.3%	-24.4%	-1.2%	-8.9%
Ag and Forestry	-5.9%	-26.1%	-0.7%	0.2%
Transportation & Communication	-5.6%	-20.3%	-0.7%	-1.8%
Services	-2.0%	-16.1%	0.5%	-2.7%
Healthcare, Prof. Schools, & Gov	-1.9%	-6.1%	-1.1%	-3.0%

Two sectors were highlighted: Construction and Agriculture & Forestry. Since the start of the recession, construction has lost about 70,000 jobs, and the projection is that about 10,000 of those will come back. New claims in the construction industry are also down.

There is also a decline in agriculture, forestry and fishing. However, claims appear to have grown over the past year even though hours have continued to come down.

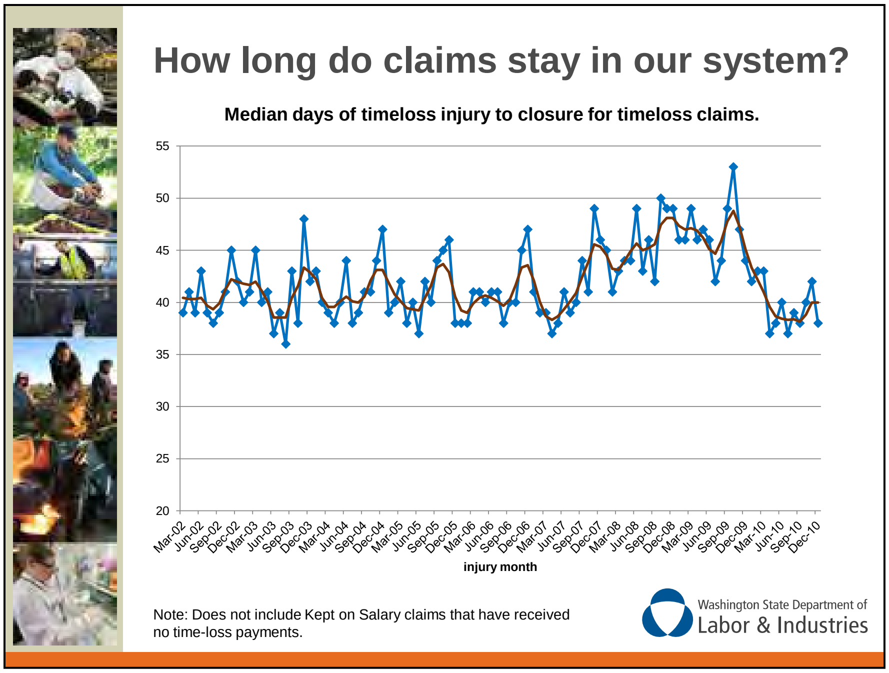
Medical cost growth continues to be well contained.



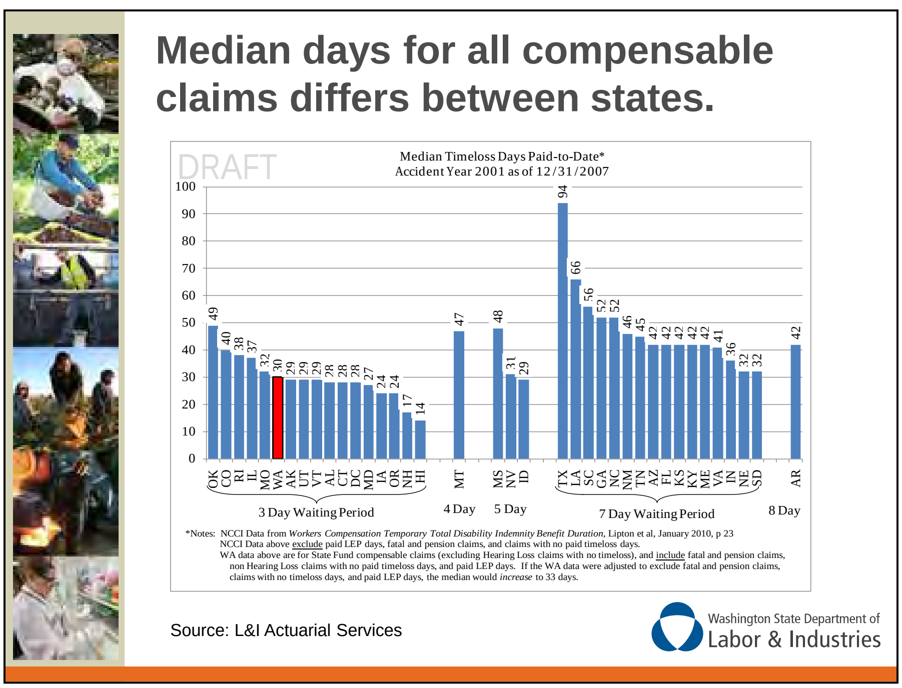
Source: L&I Actuarial Services

One of the beneficial effects of the recession is that medical cost growth is well-contained over the recession.

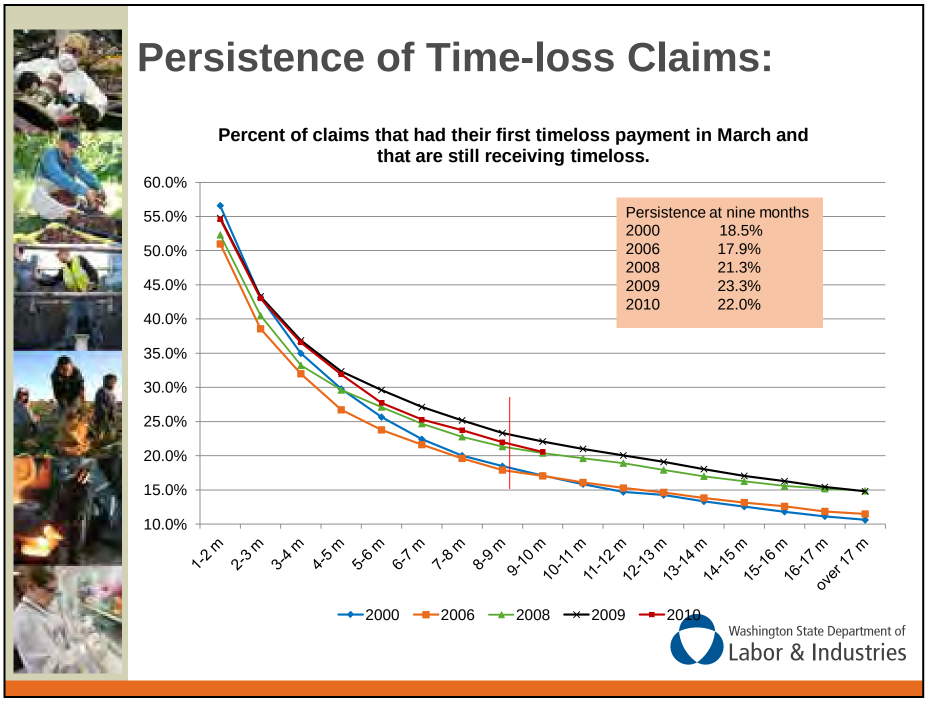
The department has a number of policies and initiatives to keep medical cost growth low.



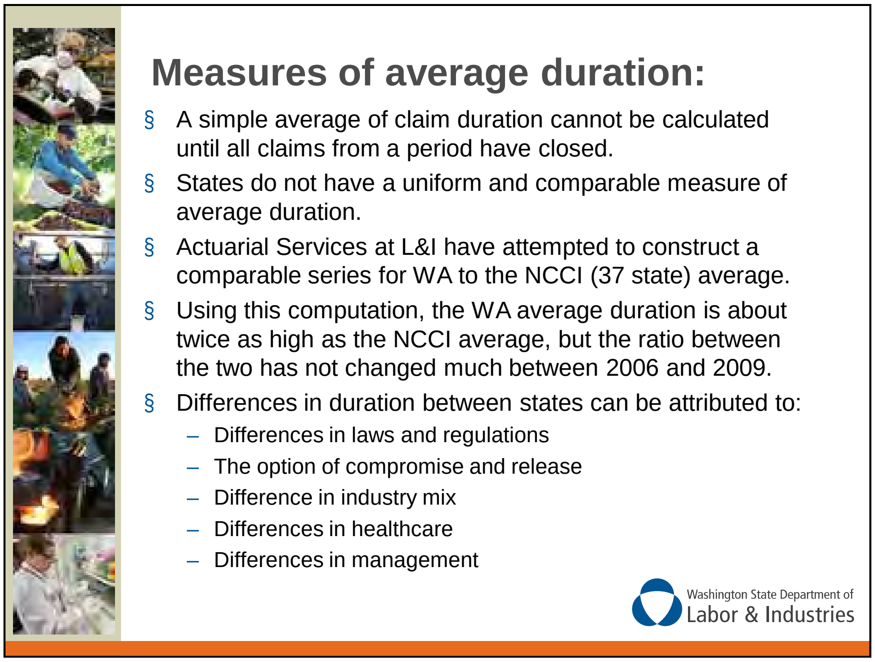
At the last meeting, there was discussion of different ways to look at claim duration. This chart shows the median days of time-loss from injury to closure for time-loss claims. Fifty percent of time-loss claims have less than 40 days of time-loss. Numerous time-loss claims move through our system very quickly. There was some elevation in the early part of the recession, but this has decreased.



This graph compares Washington to other states. It is difficult to make cross-state comparisons because the systems vary, particularly the waiting period before time-loss starts will affect the median. Among states that have a three-day waiting period, Washington's median is about in the middle.



This is another look at duration. Some of time-loss claims are in and out of the system fairly quickly, while some stay in the system for long periods of time. This graph shows the percent of claims that had the first time-loss payment in March and are still receiving time-loss. The graph only goes out 18 months after the first time-loss payment. In the past, less than 20 percent of time-loss claims were still in the system eight to nine months after the first time-loss date. It increased to 23 percent in 2009 and has since come back down. We also want to ensure that if we focus efforts on reducing short-term duration that the duration of longer-term claims does not increase. We take a total perspective of claims in our system.



There are measures of average duration described on this slide. Estimating average duration is a complicated formula. Methods are not comparable among states. Our actuarial staff has made an estimate of duration comparable with the NCCI states. They found that Washington's duration is about twice the average—this ratio has remained stable over time.

Ms. Glenn reviewed facts on claim duration in Washington.

- About 78% of incoming claims never receive a time-loss payment. This percentage has been very consistent over time.
- Over 90% of incoming claims either never receive a time-loss payment or close with less than 60 days of time-loss.
- Older time-loss claims now stay in our system longer than before the recession. The longer an injured worker has been on time-loss, the higher their probability of eventually becoming a pension.

The increasing share of older time-loss claims in our caseload is due to:

- A fall in the number of incoming claims, with increasing resolution
- The duration for older claims is increasing

The challenges of returning to work after a long spell out of labor market include:

-Both hard and soft skills diminish
- Professions evolve
- Contacts are lost
- A period of unemployment can cause:
  - Health to worsen
  -Assets/wealth to fall
  - Stress to increase

The long-term unemployed rose from 20 percent of the unemployed before the recession to 43 percent in 2010. The rate at which the unemployed find jobs fell from 52 percent before the recession to about 35 percent in 2010.

The economic outlook for workers' compensation is that uncertainty is going to remain high. Recovery in the construction industry is expected to be about half of the recovery on average. The labor market is expected to remain tight. The stock market volatility has increased recently and new claims are expected to grow slowly with the recovery in hours. The current stock of claims at the department are weighted towards more complex claims. We will focus on helping newly injured workers maintain a relationship with their employer of injury. It will be very difficult for them to find new employment.

Two long-term demographic trends the department is following are the aging work force and obesity.

<u>Financial Update: Sharon Elias</u>

Sharon Elias, Chief Accounting Officer, presented a financial update including:

1. Supplemental Pension Fund inter-fund loans and repayments update
2. Statutory accounting principle change
3. Preliminary quarter ending June 30, 2011 statutory financial information

1. Supplemental Pension Account Inter-fund loads and repayment update:

In 2006, the department's cash revenue exceeded expenditures. However, in 2007 through 2010, the expenditures exceeded the revenue. As a result, we processed five short-term inter-fund loans. We are currently seeing a reverse where the cash revenue is exceeding cash expenditures again.

As a result, we ended fiscal year 2011 with a higher fund balance than in fiscal year 2010. The balance increased from $14.7 million at June 30, 2010 to $30.6 million at the end of June 30, 2011. There are no future inter-fund loans anticipated.

2. Statutory Accounting Principle Change:

The National Association of Insurance Commissioners is responsible for adopting statutory accounting principle changes that apply to insurance companies. Every year, the association either adopts new principles or makes changes to the existing accounting and reporting rules. These impact our financial statements.

The Statement of Statutory Accounting Principle (SSAP) 91R has been modified. It requires security lending collateral assets and related liabilities to be reported in statutory financial information. To comply with this change, we added securities lending collateral assets and related liabilities to the combined balance sheet. This change increases the total assets and total liabilities by more than $2 billion. Since we are changing both assets and liabilities, there is no impact to the contingency reserve balances.

Prior to Implementation of SSAP 91R (in thousands):

	June 30,2011	June 30, 2010	$ Change	% Change
Total Assets	$12,236,271	$11,575,657	662,614	5.7%
Total Liabilities	$11,450,100	$11,392,447	57,653	0.5%

After Implementing the SSAP 91R (in thousands):

	June 30,2011	June 30, 2010	$ Change	% Change
Total Assets	$14,453,349	$13,951,336	502,013	3.6%
Total Liabilities	$13,667,178	$13,770,126	(102,948)	-0.7%

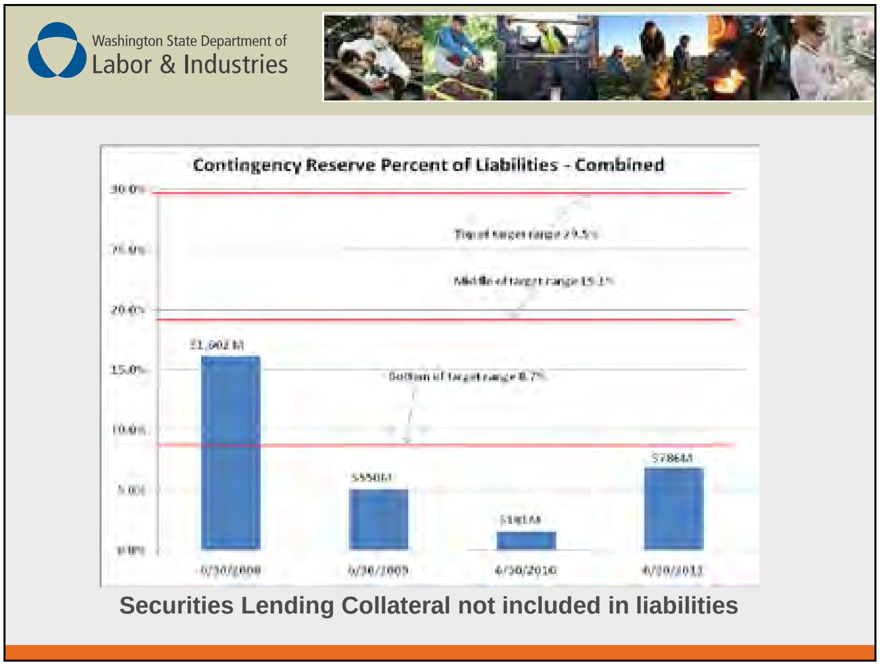
3. Preliminary quarter ending June 30, 2011 statutory financial information

The significant changes in the financial positions since June 30, 2010 include:

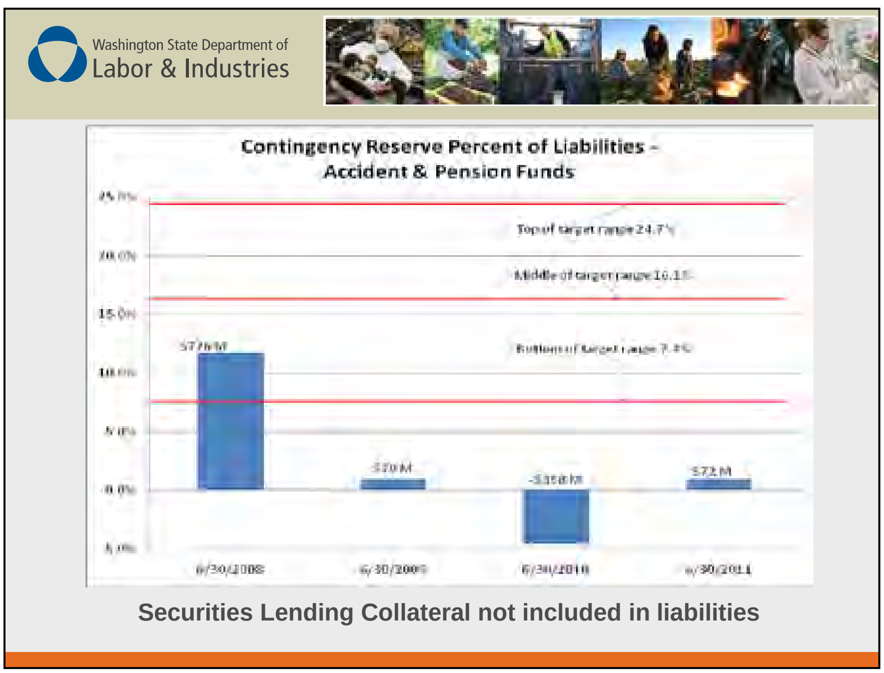
- Total investments increased $595.7 million to $11.7 billion mainly due to capital market improvement.
- Benefit liabilities increased by $51 million to $10.8 billion.

Recently Standard & Poor's downgraded the U.S. debts—though the State Fund holds approximately $3.8 billion in U.S. treasuries and government securities, the Washington State Investment Board (WSIB) does not believe this will affect the portfolio in the short to medium term.

- The contingency reserve balance as of June 30, 2011 was $786.2 million, an overall increase of $605 million. This increase is primarily due to investment gains and effects of workers' compensation reforms.



This chart explains the combined contingency reserve balance in relation to the contingency reserve policy. Currently the contingency reserve is at $786M which is still at the bottom of the targeted range. It has increased from the previous year's $605M.



The contingency reserve for the Accident and Pension Funds was $72M (below the bottom of the target range). The fund is positive for the first time since December 31, 2009.

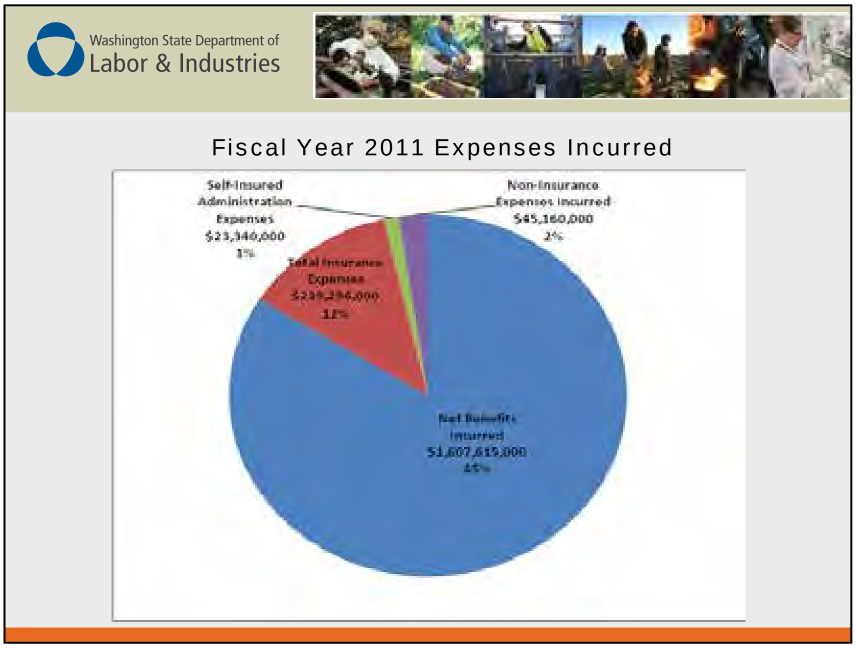
The contingency reserve for the Medical Aid Fund is at $714M, above the lower target.

Financial Highlights of Results of Operations:

- Net premiums earned increased $179.1M due to higher exposure, premium rate change and a decrease in retrospective rating adjustment refunds.
- Benefits paid increased $12.4M, the lowest increase since at least June 30, 2006.
- Benefit payments in the Medical Aid Account were $21M less than Fiscal Year 2010.

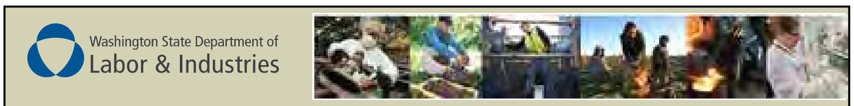
Fiscal Year 2011 Revenues Earned:

- Net Premiums Earned: $1.4B—this contributes to 68 percent of the overall revenues
- Investment Income: $560M—this contributes to 26 percent of the total revenue
- Self-Insurance Reimbursement: $88M—4 percent of total revenue
- Other (including penalty, interest and other miscellaneous items: $52M—2 percent of total revenue



Fiscal Year 2011 Expenses Incurred:

- Total expenses incurred were $1.9B.
- The largest expenditure is benefits incurred which attributed to 85 percent of total expenses ($1.6B)
- The remaining 15 percent represents administrative expenses for insurance expenses, self insurance expenses and non-insurance expenses.



Explanation of State Fund Results
(dollars in millions)

Contingency Reserve, July 1, 2010	$ 181.2
Unexpected Investment Results	
Stocks: Unrealized Gains	370.9
TIPS: Unrealized Gains	46.1
Stocks: Realized Gains (Losses)	23.1
Fixed Income: Realized Gains	45.6
Sub-total Gains (Losses)	485.7
Less Expected Gains	(105.8)
Sub-total	379.9
Insurance Operations Results	
Prior Year Loss Unfavorable	(129.1)
Workers' Compensation Reforms	383.0
Current Fiscal Year (Loss)	(28.8)
Sub-total	225.1
Change to Contingency Reserve	605.0
Contingency Reserve, June 30, 2011	$ 786.2

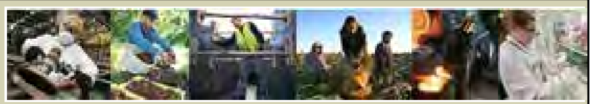
Explanation of State Fund Results:

- As of July 1, 2010, the contingency reserve balance was $181.2M.
- Unexpected Investment Results: The investment gains in unrealized and realized gains was $485M. Actuaries expected $105M so we had an additional gain of $379.9M.
- Insurance Operations Results: We had prior year loss that was unfavorable by $129.1M. Workers' compensation reforms added favorable returns of $383M. The current fiscal

year loss is $28.8M. This gave us a positive operation result of $225.1M. The contingency reserve changed by $605M.

- The contingency reserve balance as of June 30, 2011 is $786.2M.

Washington State Department of Labor & Industries



Key Financial Ratios

	June 30, 2011	June 30, 2010	Workers' Compensation Industry Forecast*
Loss Ratio	107.5%	162.0%	91.0%
Loss adjustment expense (LAE) ratio	10.5%	11.6%	
Loss and LAE Ratio	118.0%	173.6%	91.0%
Underwriting expense ratio	5.2%	5.7%	26.5%
Combined Ratio	123.2%	179.3%	119.0% **
Less: Net investment income ratio	32.9%	36.9%	23.7%
Operating Ratio	90.3%	142.4%	95.3%

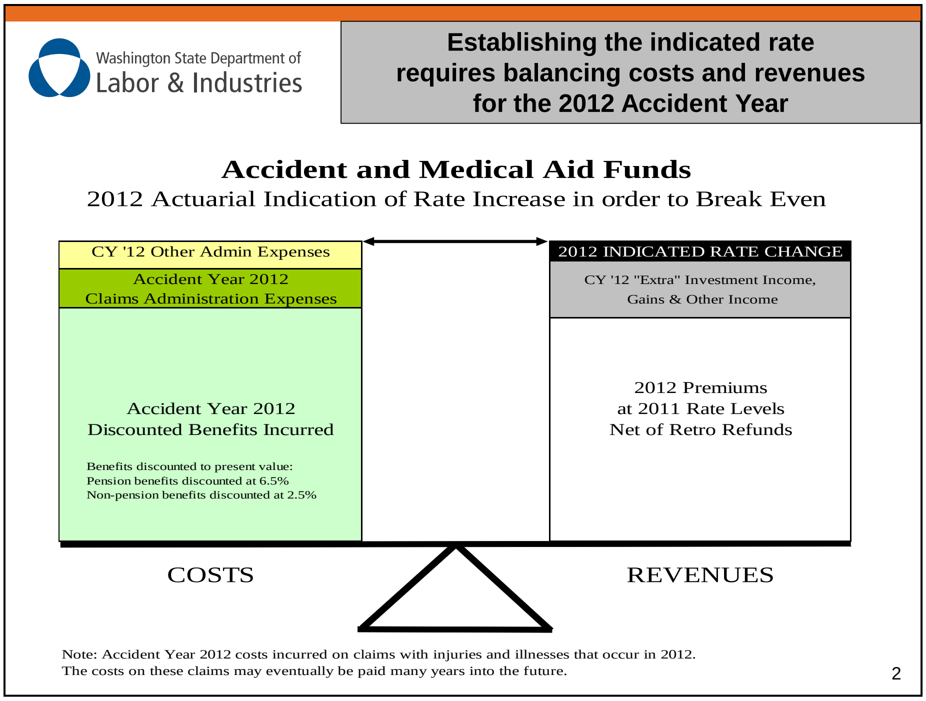
* Source: Conning Research & Consulting *Property-Casualty Forecast & Analysis*, Second Quarter 2011

**Industry forecast for combined ratio includes dividends

Key Financial Ratios: This table shows how we compare to others in the workers' compensation industry.

<u>2012 Rate Indication Discussion: Bill Vasek</u>

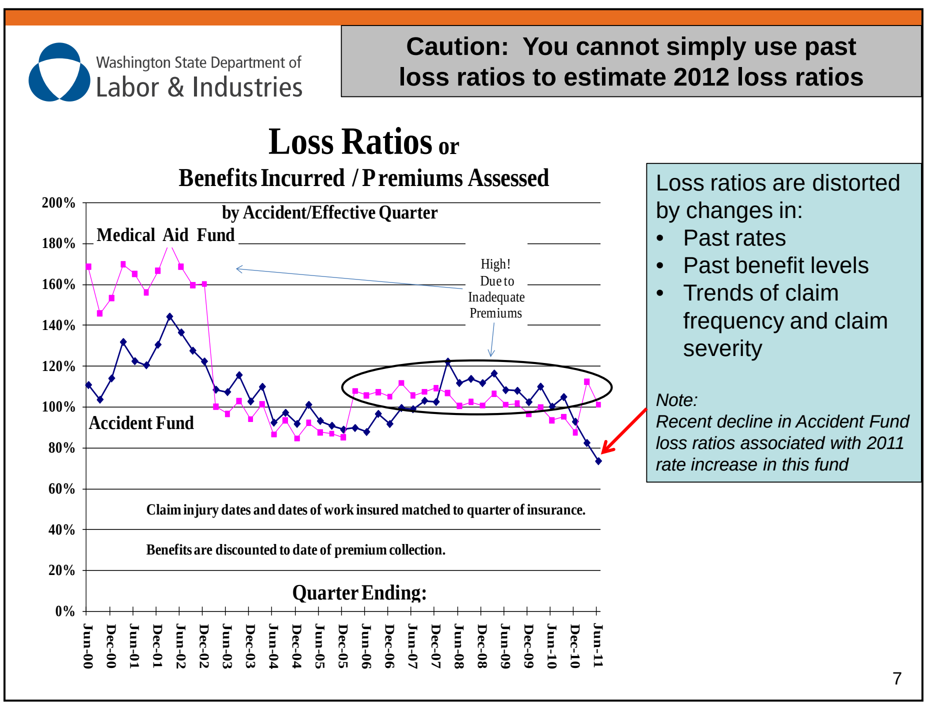
Bill Vasek, Senior Actuary began with the presentation "*2012 Rate Indication and Proposal*". Mr. Vasek explained that establishing the indicated rate requires balancing costs and revenues for the 2012 Accident Year.



There are three components on each of the cost and revenue sides. The cost components are: Discounted Benefits incurred, Claims Administration Expenses, and Other Administration Expenses.

The revenue components are: 2012 Premiums, Less Net Retro Refunds, Extra Investment Income, Gains and Other Income, and 2012 Break-Even Rate Indication.

Accident Year 2012 Discounted Benefits Incurred:

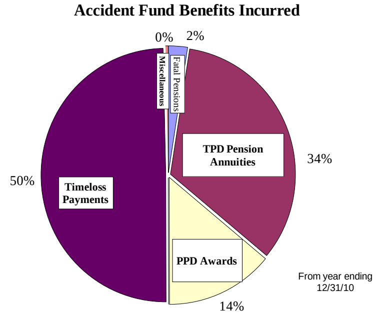


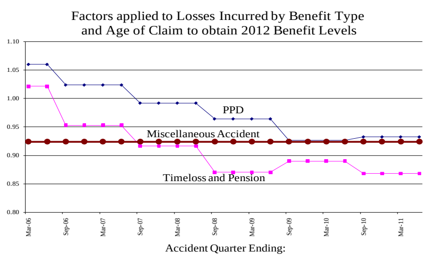
It is difficult to project the loss ratios. There are numerous factors that influence what the loss ratios are.

These factors include: past rates, past benefit levels, and trends of claim frequency and claim severity.

How much would past claims cost in 2012?

Washington State Department of Labor & Industries





- In order to estimate 2012 accident fund benefits we determine how much past claims would cost if they occurred in 2012
- Factors adjust past benefits so that we have an estimate of the costs to be incurred in 2012
- The two most recent quarters are not used as they are immature

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For the Accident Fund, approximately half of the benefits are time-loss payments, a third are TPD pension annuities, a sixth are PPD awards and there are a small number of other costs including miscellaneous costs and fatalities.

Mr. Vasek continued explaining how much past claims would cost in slides 8-10.

Washington State Department of Labor & Industries

Claims Administration Expenses

- These variable costs are a percentage of the estimated benefit cost
- Costs associated with services provided by the following programs that support the provision of benefits for the life of the claim
  - Claims & Claims Support Units
  - Health Service Analysis and the Office of the Medical Director
  - Legal Services & AAGs (Claims)
  - Vocational Rehabilitation

Note: Groupings are consistent with statutory accounting principles

Other Administrative Expenses

- Fixed costs for 2012 associated with other services

Premium Administration
Employer Services
Collections
Field Audit
Field Offices
Retro

General Administration
Insurance Services Admin.
SHARP
DOSH

Other Agency Insurance
Health Care Authority
Board of Industrial Insurance Appeals
UW Department of Environ & Occ Health

Non-Insurance
Board of Industrial Insurance Appeals
DOSH Compliance
Apprenticeship
Employment Standards

12

Slide 12 reviewed the Claims Administration Expenses and the Other Administrative Expenses.

These are the expense items that are considered for rate setting.

Washington State Department of Labor & Industries

Administrative expenses for the workers' compensation system

Accident + Medical Aid Fund Combined
Appropriated Administrative Expenses Paid

	FIXED Prem. Related, General, & Other	VARIABLE Claims Administrative	TOTAL	
FY Yr. 2010	$ 111 M	$ 132 M	$ 243.0 M	Actual
FY Yr. 2011	$ 121 M	$ 126 M	$ 246.6 M	Actual
FY Yr. 2012	$ 126 M	$ 133 M	$ 258.9 M	Estimated based on budgeted increase
Cal. Yr. 2009	$ 110 M	$ 129 M	$ 239.9 M	Actual
Cal. Yr. 2010	$ 114 M	$ 129 M	$ 242.2 M	Actual
Cal. Yr. 2011	$ 125 M	$ 129 M	$ 253.8 M	Estimated
Cal. Yr. 2012	$ 127 M	$ 134 M	$ 261.0 M	Estimated
2011 Std. Premiums Earned	$ 1,623 M			Estimated at 2011 rate levels
2011 Fixed Expenses /Std. Premiums	**7.7%**			
2011 Claim Payments		$ 1,578 M		
2011 Claims Admin /Claim Payments		**8.2%**		

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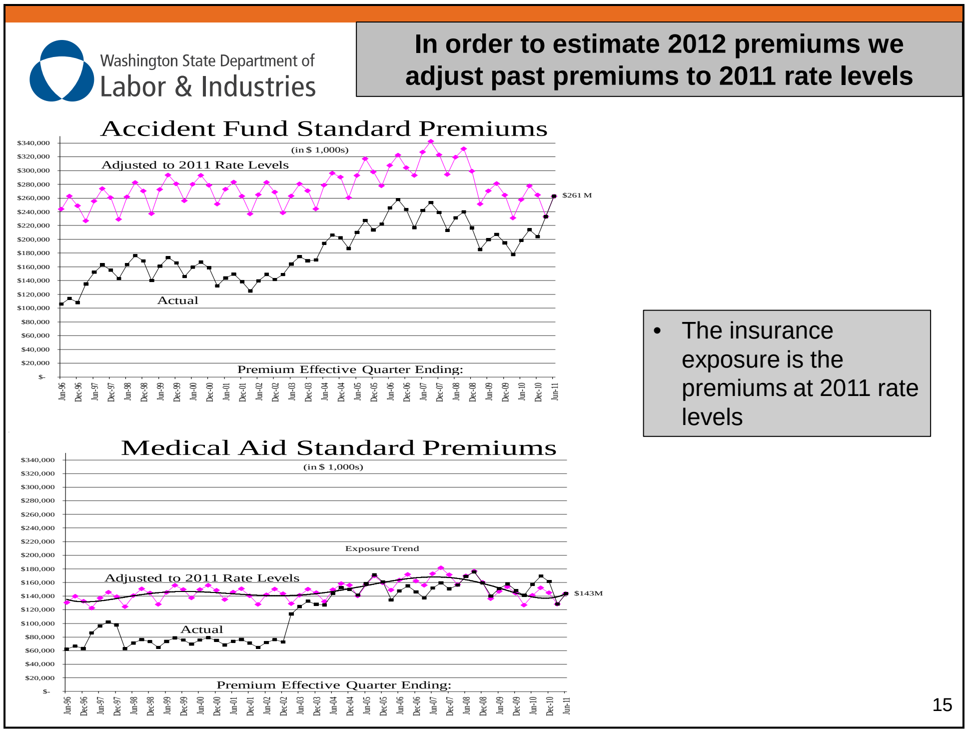
Slide 13 showed the appropriated administrative expenses paid from the Accident and Medical Aid Funds combined.

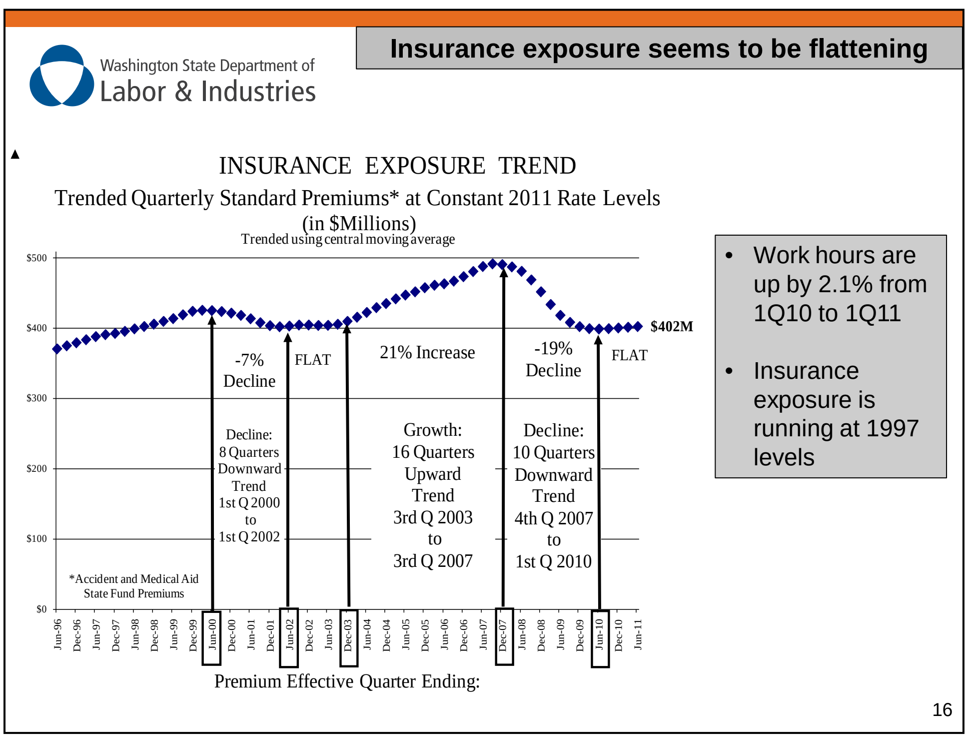
In fiscal year (FY) 2010; $243M; FY 2011, $246.6M; and we are estimating FY 2012 to be $258.9M. For rate setting purposes, we need calendar-year figures—we are expecting $261M to be paid for 2012.

Fixed expenses are roughly 7.7 percent of the estimated premiums at the 2011 rate level. Claims payments are 8.2 percent.



Moving on to revenue, the charts on slide 15 are Medical Aid premiums per quarter.

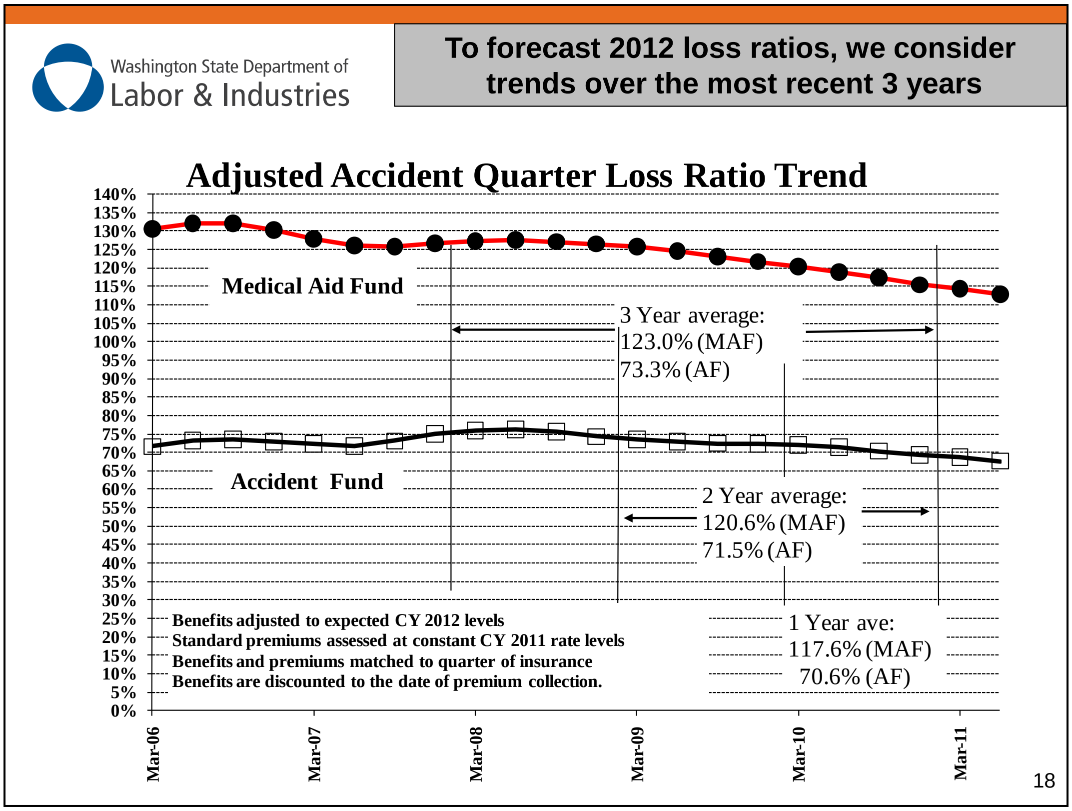
The department recalculates these premiums using 2011 rates.



Slide 16 shows the insurance exposure trend which seems to be flattening.

At the latest point, there is a very modest increase of 2 percent from a year ago.

We are expecting about 2 percent increases on an annualized basis in the future.

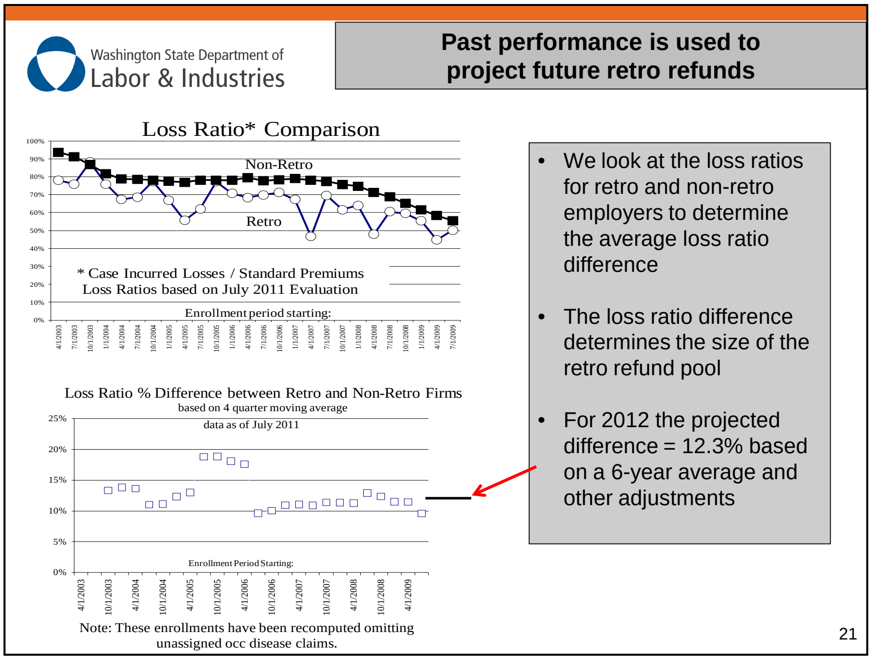


This chart shows the underlying trends for loss ratios, which is used to project the loss ratio for 2012.

The loss ratio peaked around the middle of 2008 for both the Medical Aid and Accident Funds. There is now a slight downward slope.

We are using the one-year average based on the downward trend. We are using a less conservative set of assumptions for rate making.

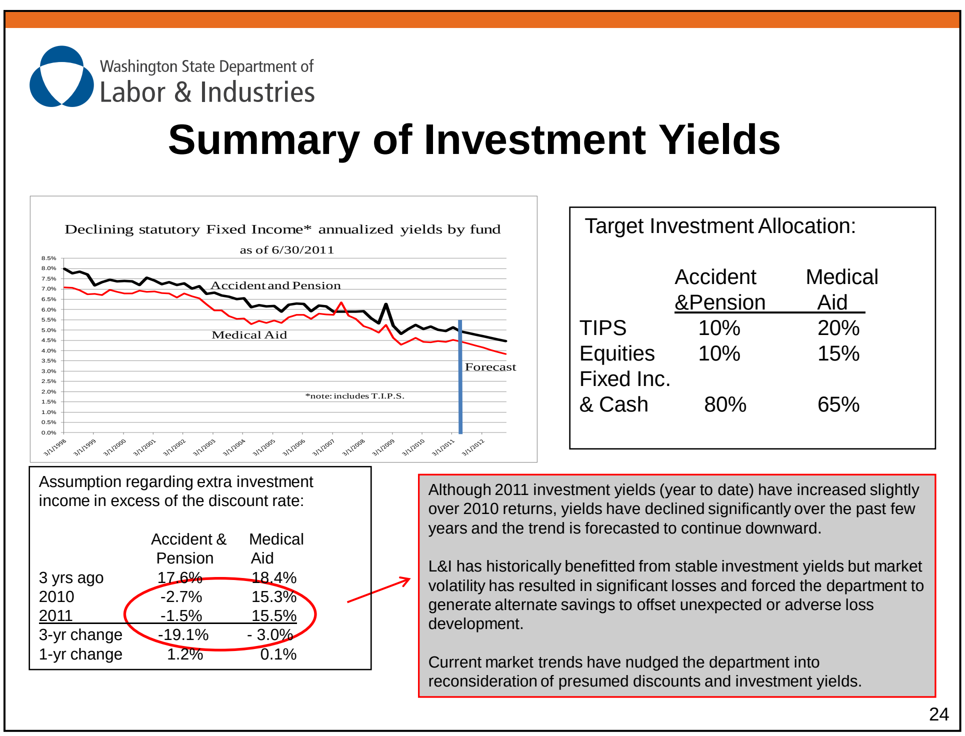
Accident Fund: one-year average: 70.6 percent
Medical Aid Fund: one-year average: 117.6 percent



For the Accident Fund, the premiums are net of retro refunds. When looking at the difference between non-retro and retro loss ratios, we take a percentage difference for each of the coverage periods.

The projected difference for 2012 is 12.3% based on a six-year average and other adjustments.

Actuaries estimate the excess of 2012 investment income yield rates above the liability discount rates. The extra investment income for 2012 that the department is expecting is 5.03 percent in the Accident Fund and 4.54 percent in the Medical Aid Fund.



Investment yields have been declining.

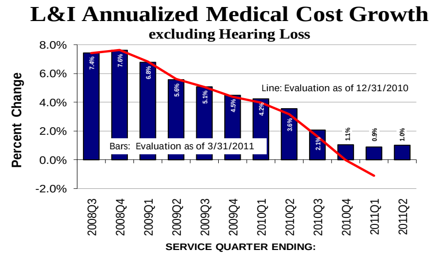
Our fixed income is about 87 percent of our invested securities. We forecast investment income on the fixed income and use that as the assumption for all investment yields for 2012. We then subtract the discount rates.

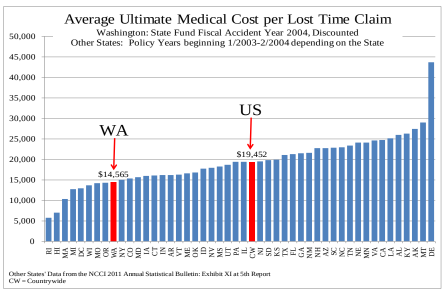
Washington State Department of
Labor & Industries

Medical Aid Fund Trends

Medical Aid Fund Story –
Washington is a Market Leader!

As other workers' comp systems across the country struggle with medical cost containment. L&I has steadily reduced its medical growth rate since 2008 and held the trend to around 1% for the past three quarters.





Medical Aid Fund Story –
Premier Pharmacy Program

A recently published article by WCRI (Workers' Compensation Research Institute) rated Washington the most cost effective state in pharmaceutical costs compared to 17 others. L&I utilizes generic drugs far and above any other state in comparison. Drug cost containment efforts have resulted in pharmaceutical costs accounting for 6% of our total medical costs compared to 13.5% to 18% for NCCI states.

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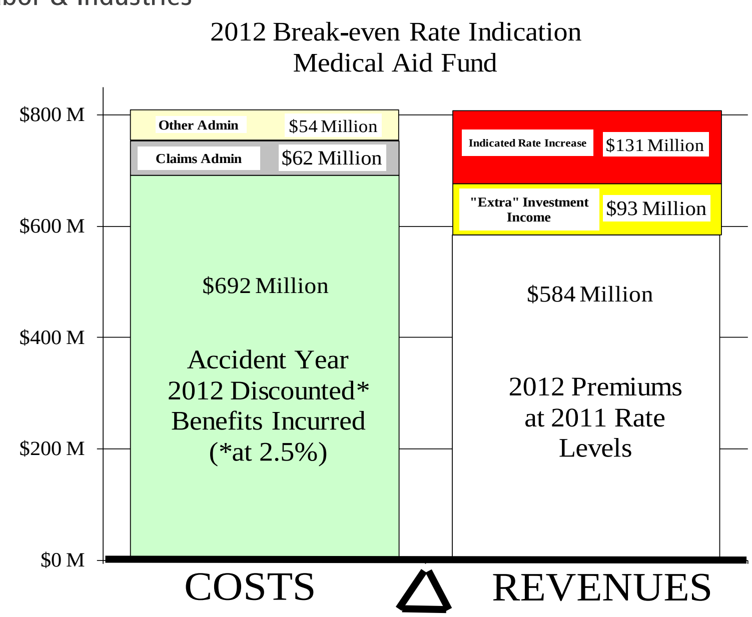
In the Medical Aid Fund, the cost growth has declined dramatically and is now at 1 percent.

The average medical cost per time-loss claim for Washington is lower than the national average (WA: $14,565 versus National: $19,452).

Washington State Department of
Labor & Industries

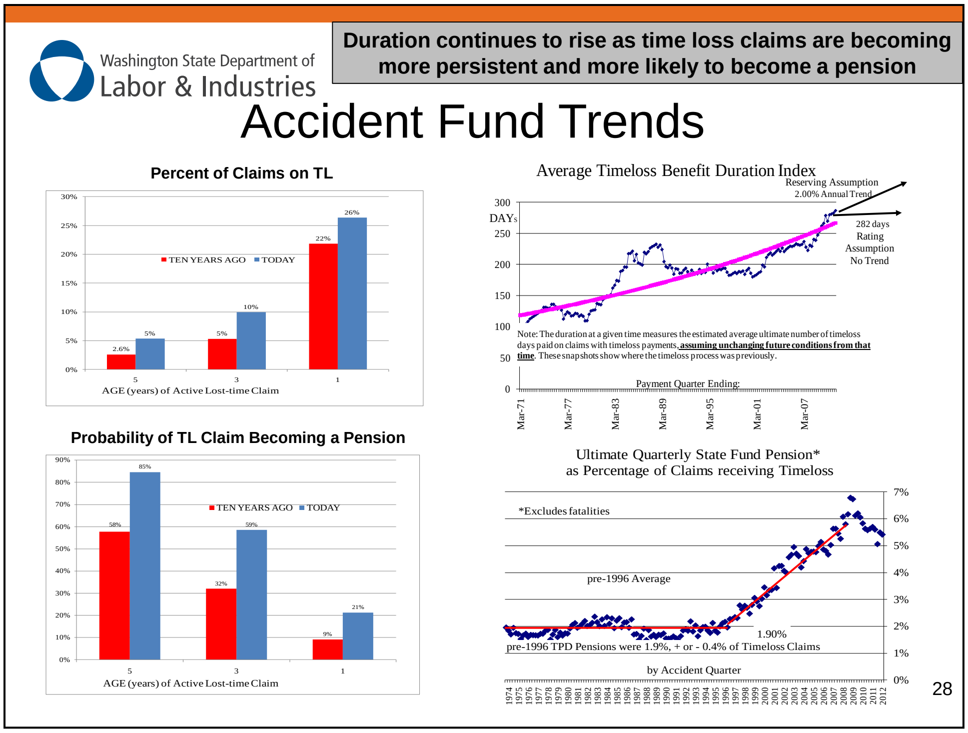
Actuaries project an additional $131M of premium is needed in the Medical Aid Fund to break-even



27

In the Medical Aid Fund, the actuaries project the need for an additional $131M in premiums to balance revenues to costs.

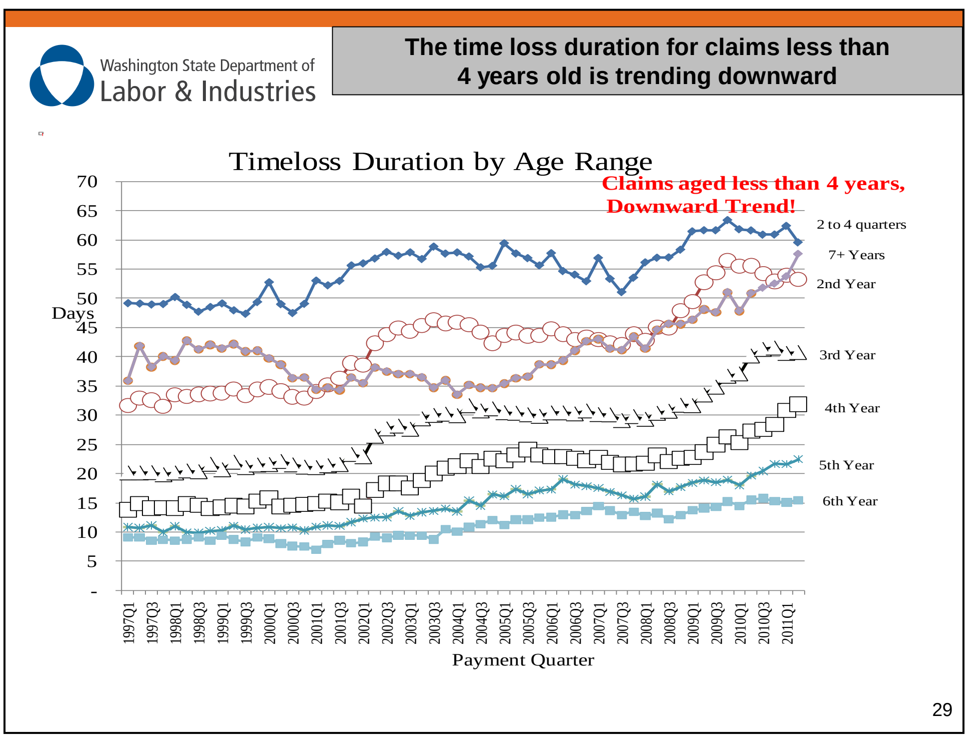
This is a result of the rate decrease that we took last year in the Medical Aid Fund.



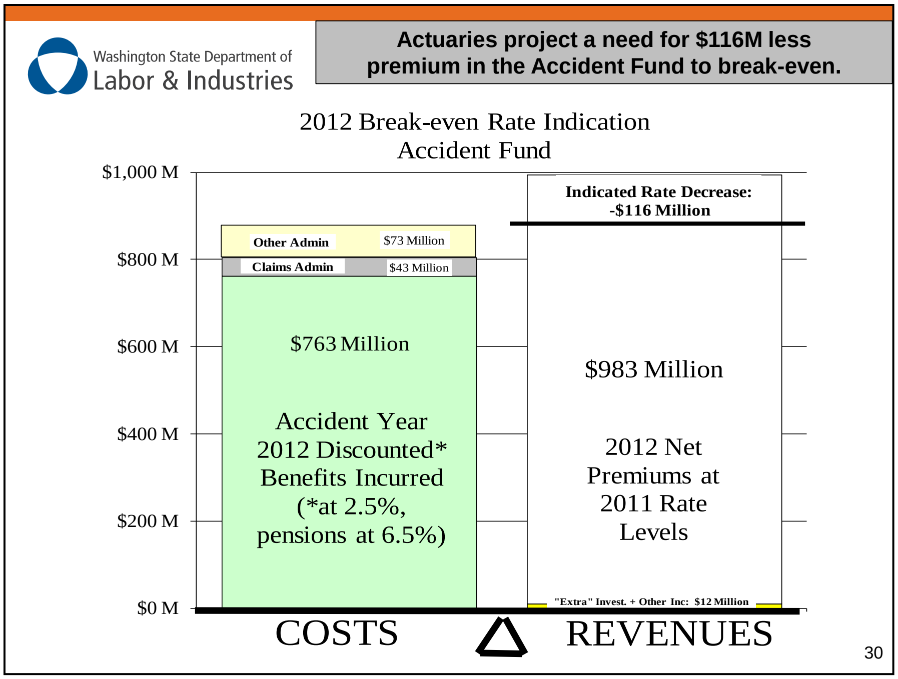
In the Accident Fund, time-loss duration is continuing to rise.

For reserving purposes, we are assuming an increase of 2 percent per year.

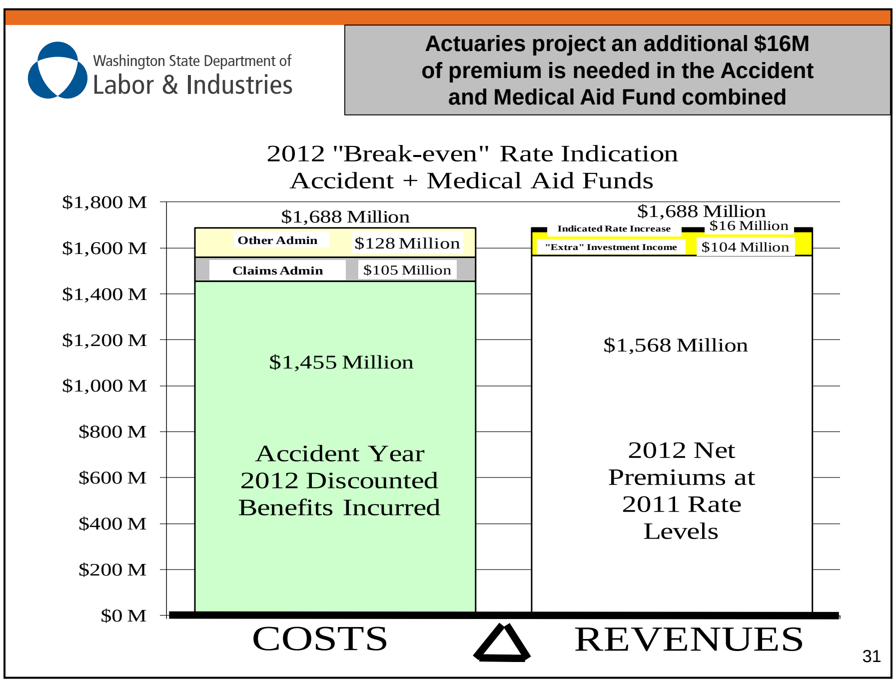
As the time-loss claims become more persistent, they are more likely to become a pension.



The chart on slide 29 shows that time-loss duration for claims less than four years old is trending downward. This is a good trend and is helping to reduce the loss ratios.



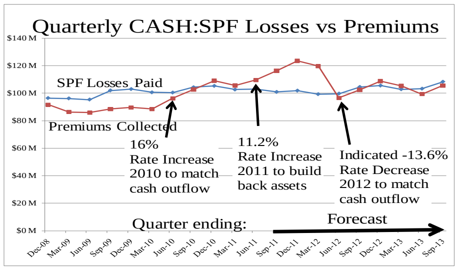
Slide 30 shows the Accident Fund indication is a $116 M rate decrease.

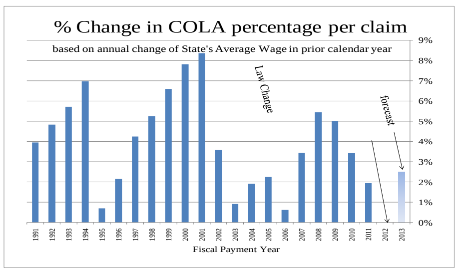


Slide 31 shows the break-even rate indication for the Accident and Medical Aid Funds. It is a combined $16M increase to balance the revenues to the costs.

Washington State Department of Labor & Industries

Supplemental Pension Fund Trends





Beginning 2nd quarter of 2010, five quarterly loans from the Pension Reserve Fund were needed to cover the COLA portion of benefits to pensioners. Loans were paid back within each quarter at a total cost of $21,000 in interest. No further loans are anticipated.

The 2011 COLA freeze and gradually increasing work hours are building back the fund's assets and loans are no longer needed.

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Regarding the Supplemental Pension Fund (SPF), five quarterly loans from the Pension Reserve Fund were needed to cover the COLA portion of benefits. These were all paid back within the quarter.

Much of the negative indication is due to rebuilding the fund no longer being needed.

The law changed to eliminate the July 2011 COLA. The increase would have been 2.1 percent. This will result in less benefits being paid out of this fund, decreasing the indicated rate.

Washington State Department of Labor & Industries

After taking the Supplemental Pension Fund decrease of 13.6% into account, the 2012 break-even rate indication is -0.3%

AY 2012 Break-Even Premium Rate Change*

Based on 2nd Q 2011 Analysis

	Average 2011 Rate**	Indicated Break-even Change	Indicated 2012 Rate**
Accident	$0.336	**-10.7%**	$0.300
Medical Aid	$0.183	**22.5%**	$0.224
Supp. Pension	$0.108	**-13.6%**	$0.093
Stay-at-Work		**NA**	$0.007
Overall	**$0.627**	**-0.3%**	**$0.625**

	State Fund 2012 premiums at 2011 rate levels	Increase to Break Even:	State Fund 2012 premiums at Break-even
Accident	$1,073 Million	($115) Million	$958 Million
Medical Aid	$584 Million	$131 Million	$716 Million
Supp. Pension	$343 Million	($47) Million	$297 Million
Stay-at-Work		$24 Million	$24 Million
Overall Premiums	$2,001 Million	($7) Million	$1,994 Million
Less Net Retro Refunds	($90) Million	($1) Million	($91) Million
'12 Net Premiums	**$1,911 Million**	**($8) Million**	**$1,903 Million**
Employee portion	$464 Million	$54 Million	$518 Million
Net Employer portion	$1,447 Million	($62) Million	$1,385 Million
Employee percentage	24.3%		27.2%
Hourly Rate Before Retro	**$0.627**	**($0.002)**	**$0.625**
Rate Net of Retro	**$0.599**	**($0.002)**	**$0.596**
Employee Rate	**$0.145**	**$0.017**	**$0.162**

* Revenues match expenses for Accident Year 2012 in the Accident and Medical Aid Funds
\+ 7M Net Cash Flow 4/1/12 to 3/31/13 for Supplemental Pension Fund
**Premium rate per hour worked. Based on CY 2010 mix of business.

34

Slide 34 explains that after taking the SPF indicated decrease of 13.6 percent, the overall 2012 break-even rate indication is -0.3 percent.

Using 2011 rate levels, we would have premiums of $2B, less retro funds of $90M, which would be $1.911B. We would need $1.903B to balance the costs with the revenues for next year.

In the footnote, we noted that an additional $7M is still needed in the SPF and is included in the -13.6 percent.

Factors impacting the indicated rate

Washington State Department of Labor & Industries

How did we get here?

From 2010 to 2012

as of June 30, 2011

	3Q 2010 Indication 2011 Change	Adopted Average 2011 Change	Rate Level not Taken	2012 Benefit Inflation	Other Change	BEFORE Reform Break-even Indication	SSB 5801 Impact	EHB 2123 Impact	Indicated Average 2012 Change	Break Even Hourly Rate 2012
Accident	**29.8%**	29.8%	0.0%	2.5%	1.6%	4.1%	-1.1%	-13.3%	**-10.7%**	**0.300**
Medical Aid	**9.4%**	-10.3%	22.0%	5.5%	-3.1%	24.7%	-1.8%		**22.5%**	**0.224**
Supp. Pension	**11.2%**	11.2%	0.0%	2.6%	-10.3%	-8.0%		-6.1%	**-13.6%**	**0.093**
Stay-at-Work								NA	**NA**	**0.007**
Overall	***19.1%**	**12.0%**	6.4%	3.4%	-1.8%	8.1%	-1.2%	-6.7%	**-0.3%**	**$0.624**
Payroll basis	**16.7%**	**9.7%**		1.3%		5.9%			**-2.4%**	**$2.40**

- Indicated rate increase of 19.1% presented for 2011 Rate Year
- Adopted rate increase of 12.0% accepted for 2011 Rate Year
- 6.4% (adjusted for development as of 6/30/11) not assumed and therefore needs to be factored into the 2012 Rate Year
- *17.8% is rate indication for 2011. 19.1% figure includes supplemental pension fund cushion
- Overall 2.4% inflation factor is expected for 2012 Rate Year
- Estimated cost savings from reforms are calculated into total 2012 Rate estimates – offsetting liabilities from previous year and inflation for 2012
- "Other Changes" are a result of declining claim duration for less than 4 year old time loss claims, the favorable medical cost trend and changes to the Supplemental Pension Fund

35

Slide 35 explains the factors that impact the indicated rate. If we did not have the reforms, the indication would be 8.1 percent.

The reforms had a large impact on our level for next year:
EHB 5801: reduced indication 1.2 percent
EHB 2123: reduced indication 6.7 percent

Director Schurke attributed some of the positive changes in the Accident Fund to the department's work with Lean, taking a look at how to handle claims early through electronic filing efforts, and getting people back to work quickly and coordinating with doctors.

Washington State Department of
Labor & Industries

Review of Rate History

Rating Year	Indicated Rate Increase	Adopted Rate Increase	Per $100 of Payroll	% Change Payroll
2011	17.8%	12.0%	$2.46	9.7%
2010	19.4%	7.6%	$2.24	5.5%
2009	6.4%	3.1%	$2.12	1.2%
2008	6.1%	3.2%	$2.10	0.1%
2007*	-1.3%	-2.0%	$2.10	-6.5%
2006	5.2%	0.0%	$2.24	-5.8%
2005	15.1%	3.7%	$2.38	0.2%
2004	19.4%	9.8%	$2.38	9.0%
2003	40.5%	29.0%	$2.18	25.8%
2002	26.3%	1.8%	$1.73	0.1%
2001	16.3%	2.2%	$1.73	-2.7%
2000	17.4%	0.0%	$1.78	-3.1%

Goals for Rate Recommendation:

1. Fair and stable rates
2. Contingency reserve adequacy
3. Appropriate consideration for weathering economic volatility

*Six-month rate holiday in which $315M was given back to employers and workers.

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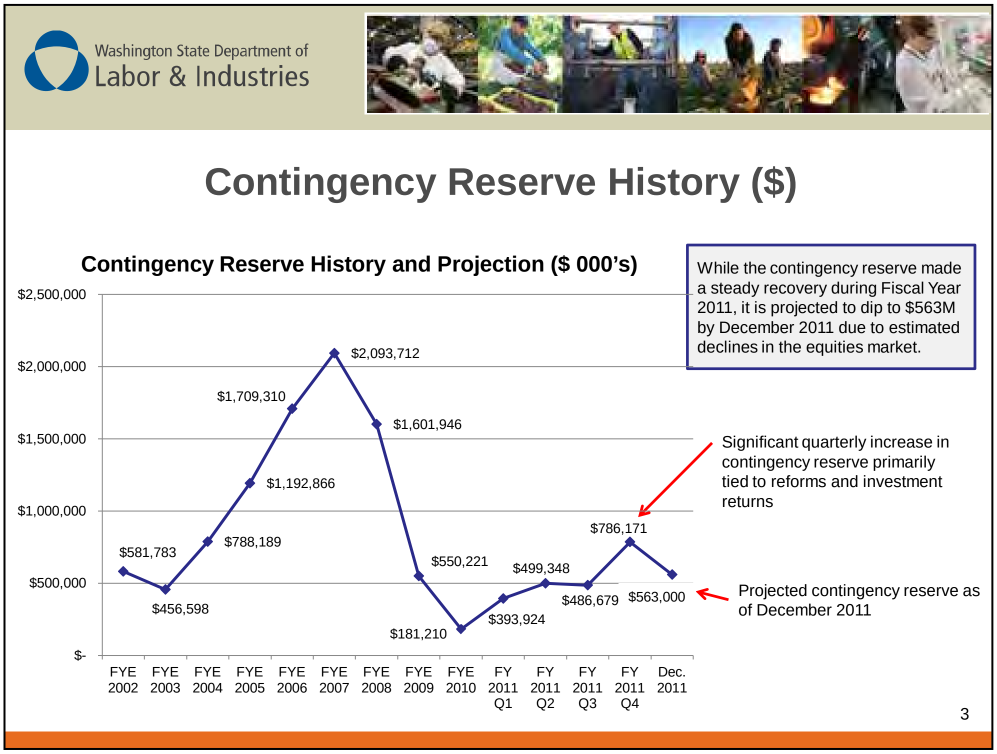
Slide 36 is a review of the department's rate history.

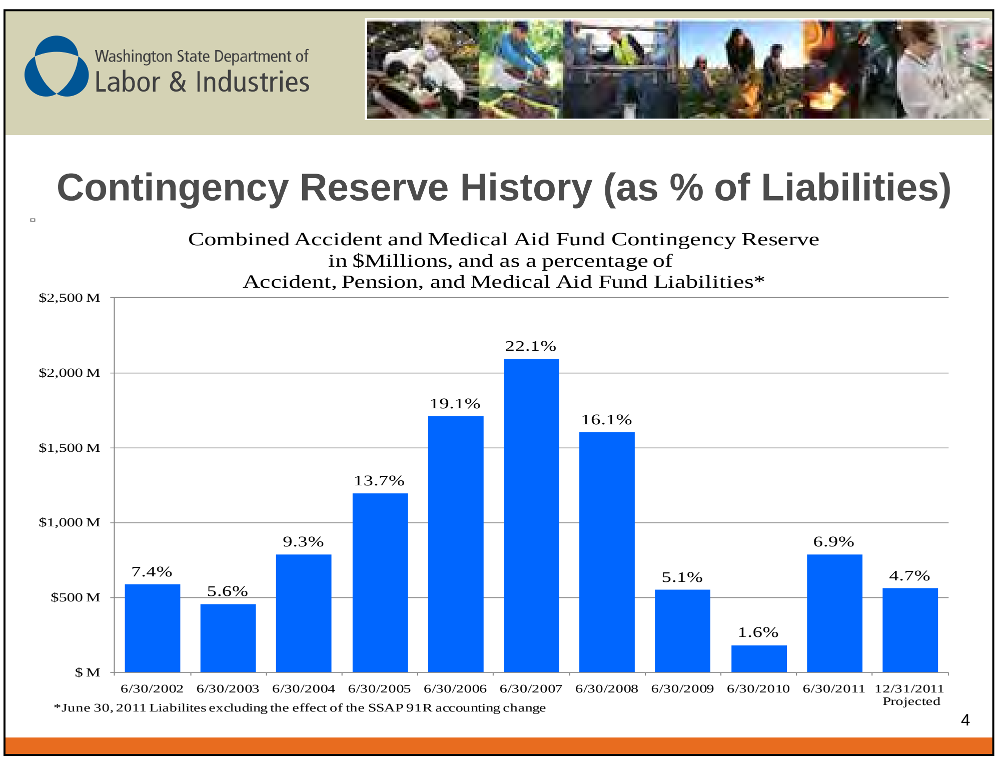
Restoring the Contingency Reserve: Bill Vasek

Mr. Vasek continued with the review of the "*Restoring the Contingency Reserve"* presentation. The contingency reserve is the difference between assets and liabilities. The contingency reserve is an important tool to manage risks related to changes in: economic conditions, claim frequency, hours/exposure, investment returns, inflation, court decisions, and legislation. The department and WCAC need a plan to restore the combined contingency reserves to the lower policy limit to ensure maintenance of stable rates.

In 2005, legislation was passed that directs the department to adopt the lowest possible rates that provide stability and predictability but also take into consideration solvency. In 2007, a WCAC subcommittee advised the department on target levels for the contingency reserve. The rate increase in 2009 that took the contingency reserve below zero was controversial. The Accident Fund would remain below zero without the effect of the reforms (approximately $300M below zero). Recently, the department has been considering plans to bring the Accident Fund contingency reserve to an adequate level to prevent rate volatility in the future.

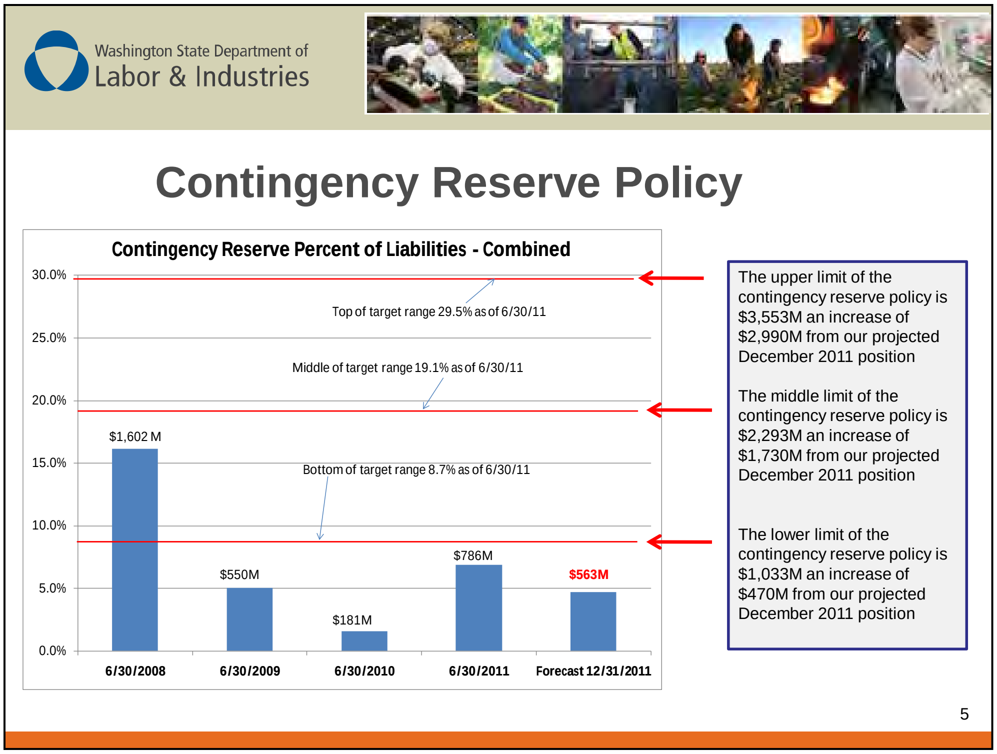


Slide 3 shows the history of the contingency reserve going back to fiscal year end 2002 when it was $581M. It peaked at $2B at the end of 2006 and has come down to $181M at the end of 2010. It is now up to $786M, but because of volatility in the equity markets, the department projects $563M by the end of this calendar year.



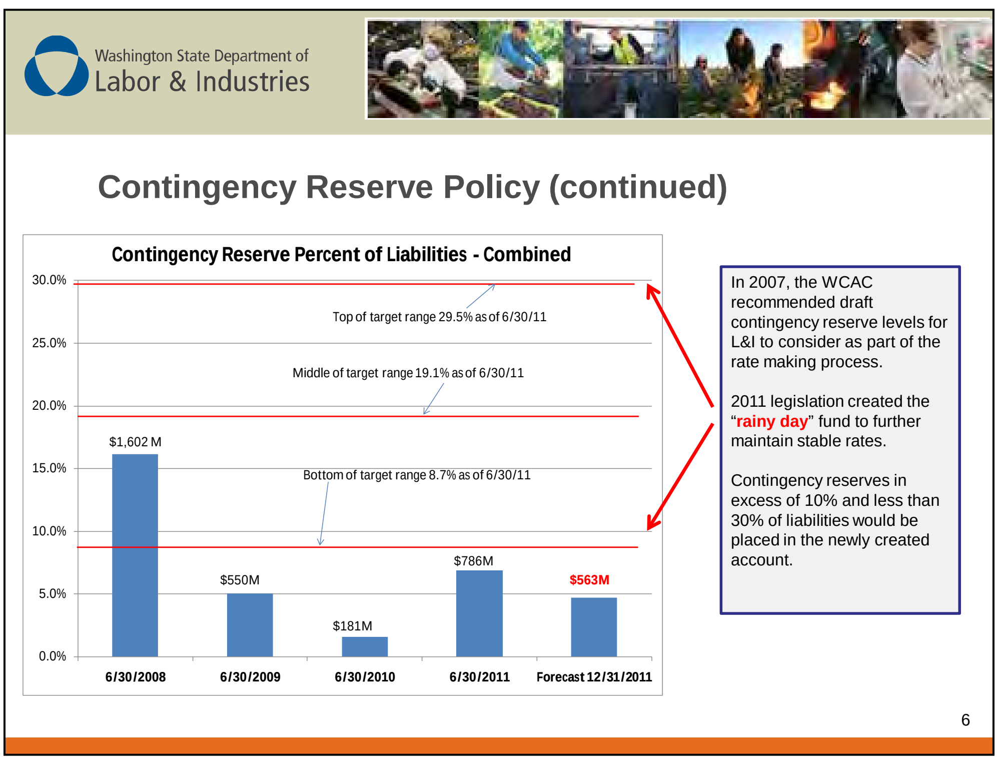
Actuaries review the contingency reserve history as percentage of the total liabilities.

In slide 4, in 2002 it was 7.4 percent, in 2007 peaked at 22.1 percent, came down to 1.6 percent in 2010 and we are projecting 4.7 percent at the end of this year. Director Schurke noted that the lower contingency reserve policy level is 8.7 percent.



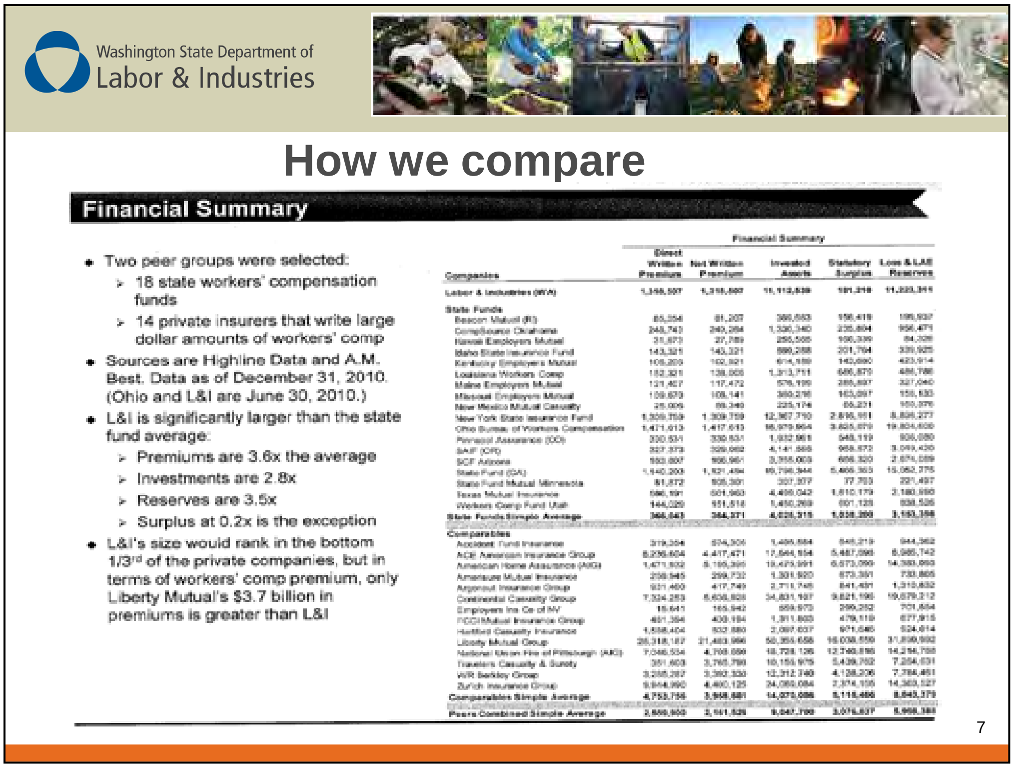
The 2007 WCAC finance subcommittee came up with the target ranges.

The target level for the middle of the range is 19.1 percent. The lower level is 8.7 percent and the upper level is 29.5 percent.



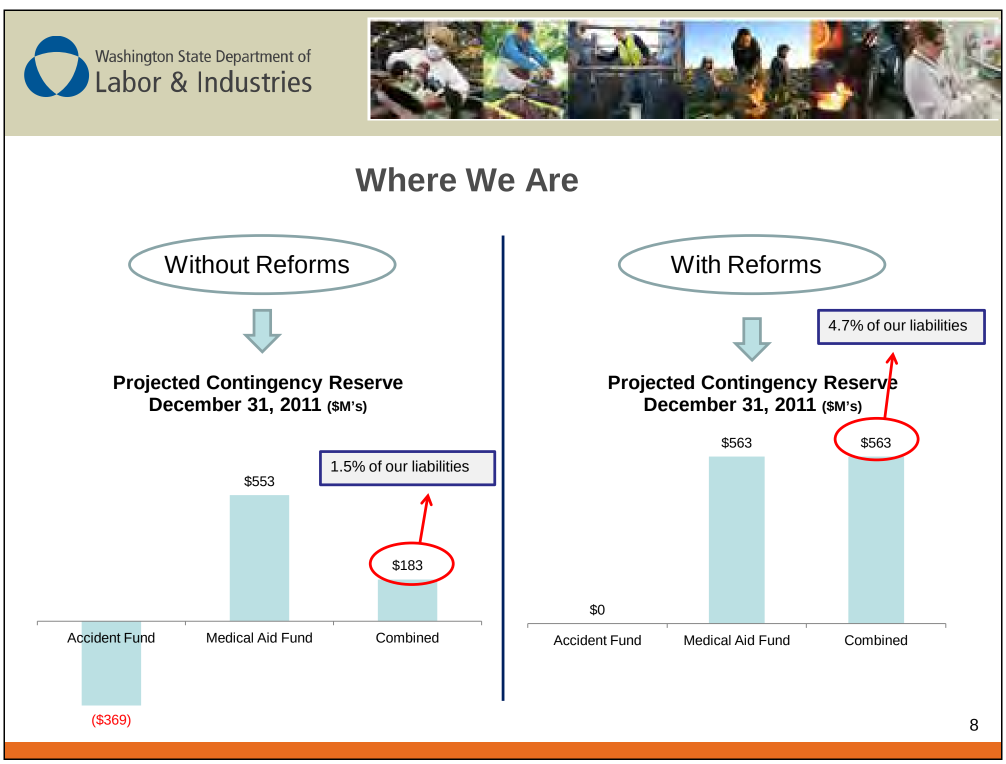
2011 legislation created a Rainy Day Fund.

The percentages in the legislation are close to the lower and upper levels of the contingency reserve policy.



Companies	Direct Written Premium	Net Written Premium	Invested Assets	Statutory Surplus	Loss & LAE Reserves
Labor & Industries (WA)	1,356,507	1,318,507	11,112,539	181,218	11,223,311
State Funds					
Beacon Mutual (RI)	85,354	81,207	380,553	156,419	195,937
CompSource Oklahoma	248,743	240,284	1,330,340	235,804	956,471
Hawaii Employers Mutual	31,673	27,789	255,505	100,339	84,209
Idaho State Insurance Fund	143,321	143,321	599,258	201,794	339,925
Kentucky Employers Mutual	108,203	102,321	614,189	142,690	423,914
Louisiana Workers Comp	152,321	138,005	1,313,711	686,879	486,786
Maine Employers Mutual	121,407	117,472	576,199	285,897	327,040
Missouri Employers Mutual	109,673	108,141	380,216	163,097	155,630
New Mexico Mutual Casualty	25,006	88,349	225,174	88,231	150,376
New York State Insurance Fund	1,309,759	1,309,759	12,367,710	2,816,911	8,826,277
Ohio Bureau of Workers Compensation	1,471,613	1,417,613	18,979,864	3,825,079	19,804,600
Pinnacol Assurance (CO)	330,531	330,531	1,932,961	548,119	936,080
SAIF (OR)	327,373	329,062	4,141,565	958,572	3,049,420
SCF Arizona	560,807	566,961	3,358,003	606,320	2,674,089
State Fund (CA)	1,540,203	1,521,494	19,798,344	5,406,363	15,082,775
State Fund Mutual Minnesota	81,872	808,301	307,377	77,703	221,497
Texas Mutual Insurance	586,191	501,963	4,409,042	1,610,179	2,180,590
Workers Comp Fund Utah	144,029	151,518	1,450,269	601,128	838,526
State Funds Simple Average	366,043	364,371	4,028,315	1,038,209	3,150,356
Comparables					
Accident Fund Insurance	319,204	574,306	1,409,884	548,219	944,362
ACE American Insurance Group	8,236,604	4,417,471	17,044,534	5,487,096	6,985,742
American Home Assurance (AIG)	1,471,932	5,195,395	19,473,991	6,573,090	14,383,093
Amerisure Mutual Insurance	239,945	299,732	1,301,920	673,391	730,805
Argonaut Insurance Group	931,460	417,749	2,711,745	841,431	1,310,832
Continental Casualty Group	7,324,253	5,606,926	34,831,197	9,821,196	19,679,212
Employers Ins Co of NV	15,641	165,942	859,973	299,252	701,654
FCCI Mutual Insurance Group	461,364	430,184	1,311,803	479,119	677,915
Hartford Casualty Insurance	1,558,404	532,880	2,097,037	971,546	524,614
Liberty Mutual Group	25,318,187	21,483,966	58,355,658	16,038,559	31,890,902
National Union Fire of Pittsburgh (AIG)	7,046,534	4,708,099	18,728,126	12,740,896	14,214,708
Travelers Casualty & Surety	351,603	3,765,790	10,155,975	5,439,792	7,254,031
WR Berkley Group	3,288,287	3,392,330	12,312,740	4,128,206	7,784,451
Zurich Insurance Group	9,944,990	4,400,125	24,060,084	2,374,155	14,363,127
Comparables Simple Average	4,753,756	3,958,681	14,073,086	5,118,466	8,643,379
Peers Combined Simple Average	2,860,950	2,141,526	9,047,799	3,076,837	5,956,384

Slide 7 is a comparison by Conning of Washington to other state funds and other insurance companies that write workers' compensation. This is a peer analysis done

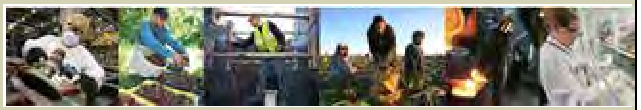


If we did not have reforms, we would have a contingency reserve of $183M ($308M less).

The contingency reserve would be 1.5 percent of our liabilities.

But, because of the reforms, we are expecting to be at $563M by the end of the year, about 4.7 percent of liabilities.

Washington State Department of Labor & Industries



2012 Rate Scenarios and Plans Evaluated

Options to Return the Contingency Reserve to Lower and Middle Policy Levels

Duration of Funding Plan	Contingency Reserve Policy Level	Total Additional Funding Amount	OVERALL 2012 Additional Funding Amount	2012 % Increase Hourly basis	2012 Rates per $100 of payroll	2012 Increase payroll basis
2 years	lower CR	$ 470 M	$ 235 M	**12.0%**	$ 2.70	**9.7%**
3 years	lower CR	$ 470 M	$ 157 M	**7.9%**	$ 2.60	**5.7%**
4 years	lower CR	$ 470 M	$ 118 M	**5.8%**	$ 2.55	**3.6%**
5 years	lower CR	$ 470 M	$ 94 M	**4.6%**	$ 2.52	**2.4%**
10 years	lower CR	$ 470 M	$ 47 M	**2.1%**	$ 2.46	**0.0%**
10 years	Middle CR	$ 1,730 M	$ 173 M	**8.7%**	$ 2.62	**6.5%**
12 years	Middle CR	$ 1,730 M	$ 144 M	**7.2%**	$ 2.58	**5.0%**

Note: in all scenarios, the first year rate increase is followed by break-even rate indications that consider inflation and investment income for the duration of the plan.

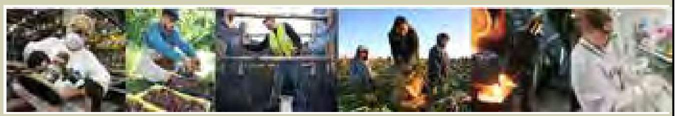
9

The department looked at a variety of different approaches to return the contingency reserve to the lower and the middle policy levels. We looked at getting to the lower contingency reserve policy level within two, three, four, five and 10 years.

We also looked at getting to the middle contingency reserve policy level in 10 or 12 years. The contingency reserve would need to increase by $450M to get to the lower level and by $1.7B to get to the middle of the range.

To get to the lower policy level, additional rate increases would need to be anywhere from 2.1 percent for a 10-year plan, to 12 percent for a two-year plan.

Washington State Department of
Labor & Industries



2012 Rate Scenarios and Plans for Consideration

Options to Return the Contingency Reserve to Lower and Middle Policy Levels

How Quickly?	Total Additional Funding Amount	Accident Funding Increase	Medical Aid Funding Decrease	OVERALL 2012 Additional Funding Amount	2012 % Increase Hourly basis	2012 % Increase Accident	2012 % Increase Medical Aid	2012 Rates per $100 of payroll	2012 Increase payroll basis
3 years	$ 470 M	$ 590 M	-$ 120 M	$ 157 M	**7.9%**	**8.4%**	**15.6%**	$ 2.60	**5.7%**
4 years	$ 470 M	$ 590 M	-$ 120 M	$ 118 M	**5.8%**	**3.6%**	**17.3%**	$ 2.55	**3.6%**
5 years	$ 470 M	$ 590 M	-$ 120 M	$ 94 M	**4.6%**	**0.8%**	**18.4%**	$ 2.52	**2.4%**

Note: in all scenarios, the first year rate increase is followed by break-even rate indications that consider inflation and investment income for the duration of the plan.

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Director Schurke stated that the department believes that the plans to get to the lower policy level in three, four or five years are responsible options for restoring the contingency reserve.

Three years: 7.9 percent
Four years: 5.8 percent
Five years: 4.6 percent

The department would like the WCAC committee members to provide input and advice via phone conferences with the Director prior to the rate proposal.

The department has six hearing dates scheduled for formal public input once the 2012 rates are proposed. They will be:
October 25, 2011, 9AM: Vancouver, WA
October 26, 2011, 1PM: L&I Tukwila, WA
October 26, 2011, 1PM: Bellingham, WA
October 27, 2011, 1PM: Richland, WA
October 28, 2011, 10AM: Spokane, WA
October 28, 2011 10AM: L&I Tumwater, WA

A comment was made that some of the reforms could affect rate volatility. Additionally, there was $400M attributed to the contingency reserve as of June 30th for unexpected investment income, much more than the department predicted. A question was asked, based on the June 30th numbers, how confident is the department on its rate assumptions going forward. Director Schurke answered that the June 30th numbers are the best numbers to utilize. The department will make its final decision based on the third quarter numbers; we do take these into consideration.

The next WCAC meeting will be scheduled for December. Three options were provided and the meeting will be scheduled based on feedback from the committee members.

Meeting Adjourned.

Action Item for future meeting	Assigned To:
Dr. Silverstein advised that he would like to talk to the committee in a future meeting regarding grants that address return-to-work programs—these grants will not be considered until after a discussion with the WCAC.	M. Silverstein