Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Minutes
December 5, 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; Karen Gude, United Food and Commercial Workers 1439

Labor and Industries: Judy Schurke, Director; Beth Dupre, Assistant Director for Insurance Services (Chair); Vickie Kennedy, Chief Policy Advisor

Board of Industrial Insurance Appeals: Dave Threedy

Recorder: Sharon Avery

Court Reporter: Milton Vance

Guests: Dave Kaplan, Michael Burch, Tammie Hetrick, Greg Kabacy, Brian Ducey, Brian Bishop, Joan Elgee, Alexa Silver, Kim McIsaac, Lloyd Brooks, Viona Latschaw, Carolyn Logue, Larry Stevens, Scott Dilley, Tom Kwieciak, and Jerry Bonagofsky

L&I Staff: Mike Ratko, Sandra Sherman, Cheri Ward, Lisann Rolle, Rachel Aarts, Kirsta Glenn, and Sharon Elias

Absent Board Members: Nancy Dicus, Vigilant; Dave Myers, Washington State Building and Construction Trades Council; and Rebecca Johnson, Washington State Labor Council

Opening Comments and Safety Message

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

Dan Locke, Division of Occupational Safety and Health, presented a safety video. This and other safety videos can be found on the L&I webpage. Director Schurke recognized Mr. Locke for his years of service and retirement at the end of the month.

Ms. Dupre introduced the department's new Chief of Claims, Sandra Sherman.

Updates: Judy Schurke

2012 Rates Update:
The department announced and adopted a zero rate increase on December 1, 2011. A question was raised regarding the logging NOC rate class. It appears to have the highest continued increase despite the overall zero increase for the State Fund. How does the department plan to explain an 11 percent increase in this particular risk class when there is a zero average change? Director Schurke clarified that the logging industry did not have the largest percentage increase of all the classes. The department intends to reach out to the contract logger community, with Jerry Bonagofsky, regarding our shared concerns about rate increases for non-mechanized logging.

"Your Premium Dollars at Work":
The Committee members' packets included a brochure "Your Premium Dollars at Work" which is distributed to 160,000 State Fund employers. Ms. Dupre discussed the administrative expenses. The department operates at about one-half the costs of comparable state funds, and at about one-third the cost of private insurance carriers. Ms. Kennedy added that the financial information presented in the brochure differs from the financial statements that will be presented by Sharon Elias because it is not broken down the same way.

A question was asked regarding non-workers' compensation program expenses such as the regulation of farm worker housing and whether their total budget comes from workers' compensation funds. Ms. Kennedy indicated some other programs are 100 percent funded through workers' compensation, but others also receive general fund dollars.

Rate Notices in Mail:
The packet also included a template of the rate notice that will be mailed to employers on December 9, 2011. An allocation has been added for the new Stay at Work program.

CR-103 Filing:
Ms. Kennedy advised that the department is filing a corrected CR-103 for 2012 rates. The first CR-103 was filed on December 1st but did not include the supplemental pension fund rate. The corrected filing does not impact the January 2012 rates. This is why the rates by risk class have not been available on-line until the corrected 103 is done.

Plan/Process for Rebuilding the Contingency Reserve: Judy Schurke and Beth Dupre

During the public comment period for rates, the department heard from the business community that this is still a difficult time to begin rebuilding the contingency reserve, but Director Schurke received a letter in September 2011 that indicated the business communities' willingness to work on a strategy. The contingency reserve is currently about 5 percent of liabilities, providing very little ability to absorb any unexpected costs or benefit changes in the system. Without an adequate contingency reserve, unexpected changes in costs or liabilities are addressed through rate increases. Also, we are not able to invest that money and put it to work for the premium payers.

Plan for Rebuilding Contingency Reserve:
The goal is to establish a time-specific plan for rebuilding the contingency reserve to adequate levels. The department intends to develop the plan by August 2012 when the 2013 rate-making process begins. This will be priority work for the WCAC in 2012. In addition to regular WCAC meetings, monthly meetings to conduct this business will be scheduled beginning in March 2012. The topics for the special meetings will include:

- History and purpose of the contingency reserve
- Financial overview and projected contingency reserve
- Current draft contingency reserve policy
- Pension discount rate
- Dynamic Financial Analysis (Conning/April)
- Actuarial overview of key trends
- Rainy Day Fund
-

Board of Industrial Appeals Update: Dave Threedy

The presentation was reviewed.

- *Total Appeals Filed and Granted:* As of September 30, 2011, there were 3,384 total appeals filed and 2,211 appeals granted in the quarter.
- *Department Reassumption Rate by Quarter:* The reassumption rate is about 24 percent.
- *Average Proposed Decision and Order (PD&O) Time-Lag by Quarter for Hearing Judges:* The goal is 30 days for hearing judges to issue their proposed decision and orders. As of September it is at 30 days.
- *D&O Time-Lag by Quarter*: This is the time it takes for the review judges to draft a Decision and Order and for the three Board members to review, make changes, and sign off. It is at 31 days for judges and 20 days for Board members. We have a new Board member, Jack Eng, who started about six weeks ago.
- *Quarterly Average Weeks to Completion:* The Board's goal is to keep this around 34 weeks and they have been successful in keeping it under that. The average weeks to completion is 30.5 weeks.
- *Caseload at End of Quarter:* The caseload has increased to 5,300 at the end of September.

A question was asked if this increase will have an impact on timeliness. Mr. Threedy remarked if it levels out around 5,300, there is not a concern of a negative impact. But, if it continues to grow, there will be concern because the average weeks to completion will tend to increase. The Board should be able to absorb a certain amount without going above the 34-week goal.

It was asked if the Board has a sense of what is driving up the caseload and whether it is evenly distributed consistent with the rate of claim filings between State Fund and self-insured cases. Mr. Threedy felt the increase in appeals is fairly even between State Fund and self-insured cases. He does not expect the increase to be a problem, but the impact of structured settlements on caseloads is still unknown.

- *Stay Motions- Final Disposition of Dept. Order 7/1/08-10/31/11*: The 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 has been affirmed, 7 stays had been granted and 112 had been denied. In cases where stay motions were requested and the department order was reversed, 23 had been granted and 132 denied.
- *Appeals and Stay Motions Filed by State Fund Employers and Self-Insured Employers:* The slides show the number of appeals filed by State Fund and self-insured employers and the number of stay motions filed by quarter. For July-September, 258 appeals and 7 stay motions were filed by State Fund employers and 121 appeals and 40 stay motions were filed by self-insured employers.

Of these cases, do we know whether the department order was affirmed or reversed? It was felt this would be helpful to understand the outcome of those requests for stays. Mr. Threedy explained this would be difficult because it requires a file-by-file review to determine the actual details of the outcome.

An additional question was asked on the appeals filed by State Fund employers, if these were limited to benefit issues or whether they include an employer appealing their portion of liability with no impact on worker's benefits. Mr. Threedy confirmed appeals of liability and other issues are included in the totals.

- *Stay Motion Orders 7/1/08-10/31/11:* The last chart was a breakdown of orders for State Fund and self-insured. State Fund: 6 were granted and 76 were denied; self-insured: 36 were granted and 288 were denied.

A question was asked if the Board had vacancies and it was affirmed that they do. The Board recently hired four new judges, some in anticipation of structured settlements, and some due to retirements. The Board also anticipates hiring two more judges to begin the first of the year.

A question was made if the Board tracks issues on appeals, and if that information and a statistical report with a breakout of the caseload by issue, code, or trends can be reported for the committee. Mr. Threedy explained they have upgraded their issue coding and could provide this information.

Another question was asked if there are plans to provide data reporting on the structured settlement agreements and how these are being processed. Mr. Threedy advised the Board is setting up parameters to start capturing relevant information to report on.

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 labor market continues to be very sluggish. This has two implications for the department. First, it is difficult for injured workers to reenter the labor market once they have lost connection with their employers of injury. Secondly, employers are under continued pressure and are not hiring and have less ability to offer light duty than they might in stronger economic times.

Construction has not yet begun recovery. It lost a third of its jobs over the recession. It is expected to decline further 2.3% in employment this year. We are not seeing a change for construction. This has important implications for the economy and for workers' compensation.

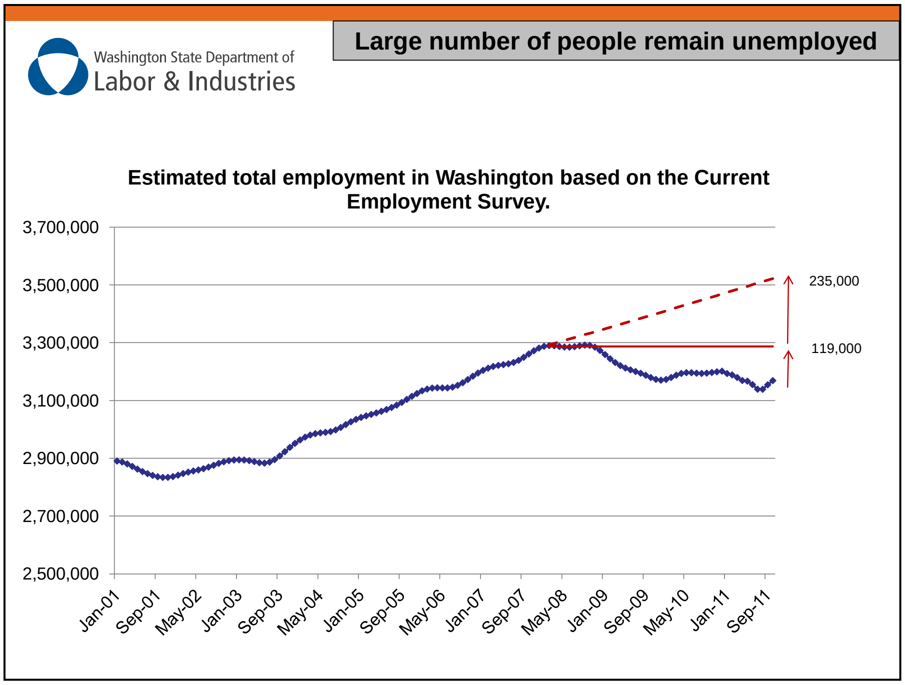
Claim incidence continues to decline. This is positive news and is an indication that we are having fewer injuries per hour worked. Changes in the industry composition can be part of the reason. It does not necessarily mean that claim incidence is decreasing in every industry.

Portfolio of claims at L&I are older. A larger percentage of our caseload is older which has implications for our claims managers who adjudicate these very complex claims.

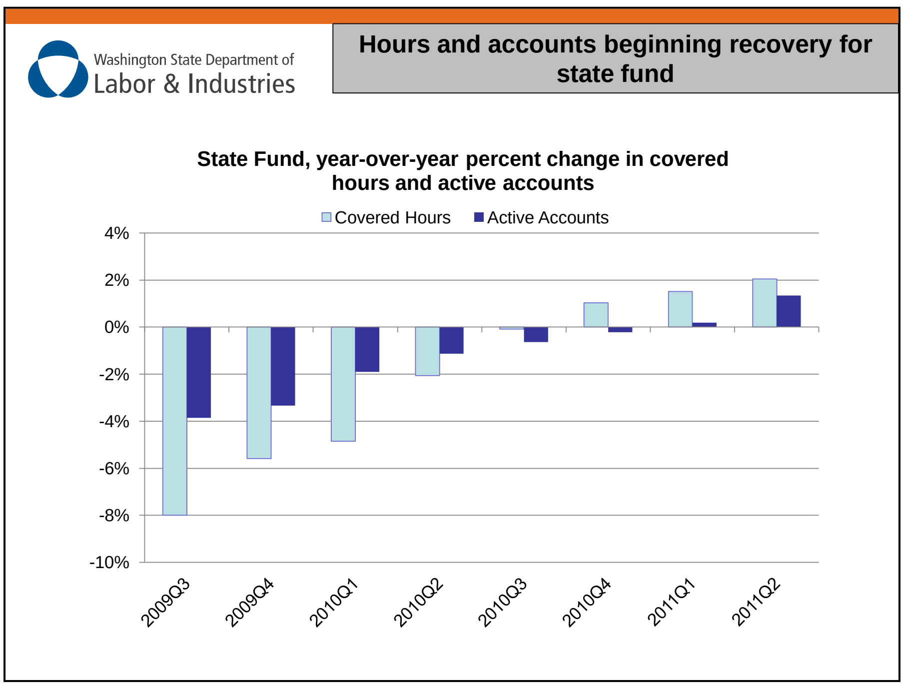
Resolution rate increasing for newer claims. These claims are resolving more quickly and these workers are getting back with their employer of injury or are making a smoother transition back into the labor force because they still have current skills, abilities and connection to the labor force.

Medical cost growth low. This has had a positive impact on the cost of the workers' comp system.

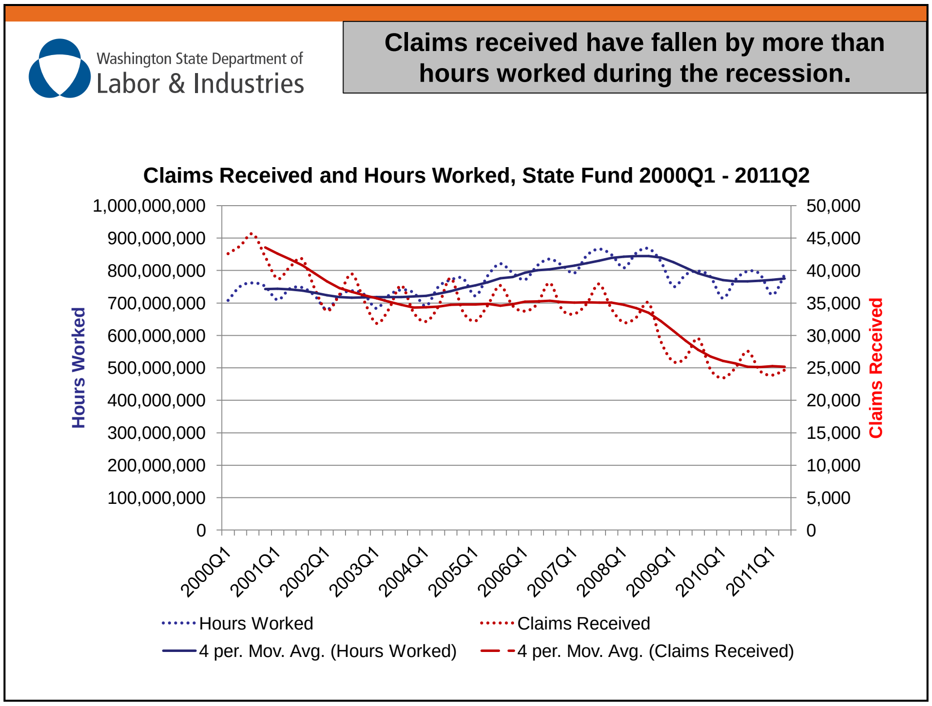
The economy: The national economy continues to muddle through. Washington's economy is doing somewhat better than the nation because of aerospace and software development. Our net exports are mostly to the Pacific Rim countries which are experiencing some growth. Agriculture is also doing well. The main risks come from outside the state: the European sovereign debt crisis and what Washington, DC does with the challenges of the national budget. According to the November forecast, the national real GDP growth will not get above 2.5 percent until 2013.



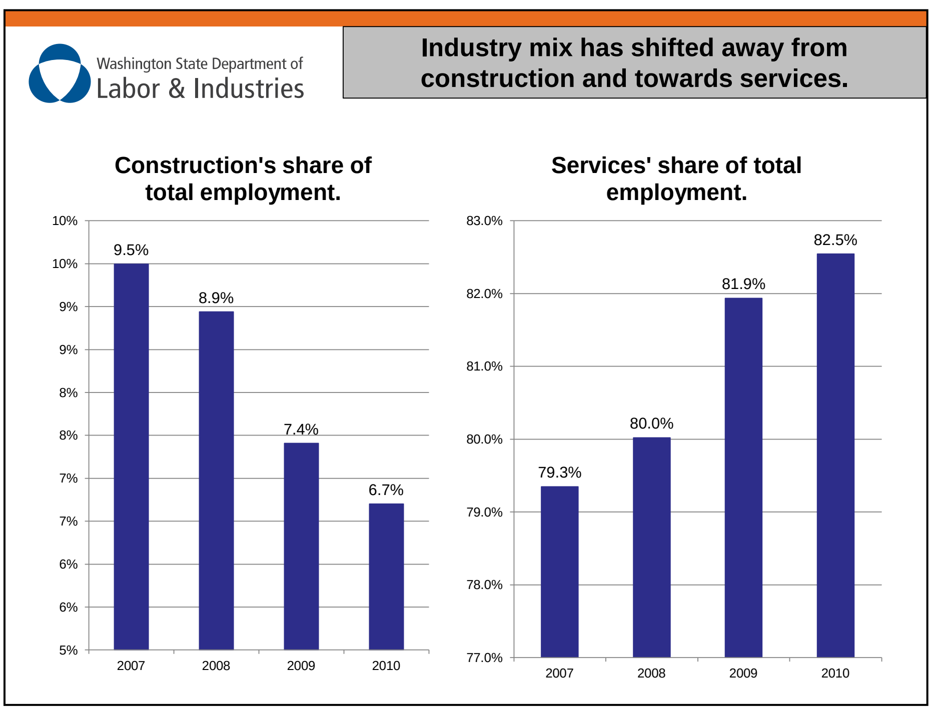
In Washington, a large number of people remain unemployed. We would need to add 119,000 jobs to get back to where we were in employment before the recession. If we continued the growth rate we were experiencing in January 2001, we would need to add 235,000 jobs.



There is a direct comparison between employment and hours worked. This chart shows the percent increase in covered hours on a quarterly basis. We are seeing increases in covered hours and in active accounts. Self-insurers are experiencing a greater increase in covered hours, but not an increase in number accounts.

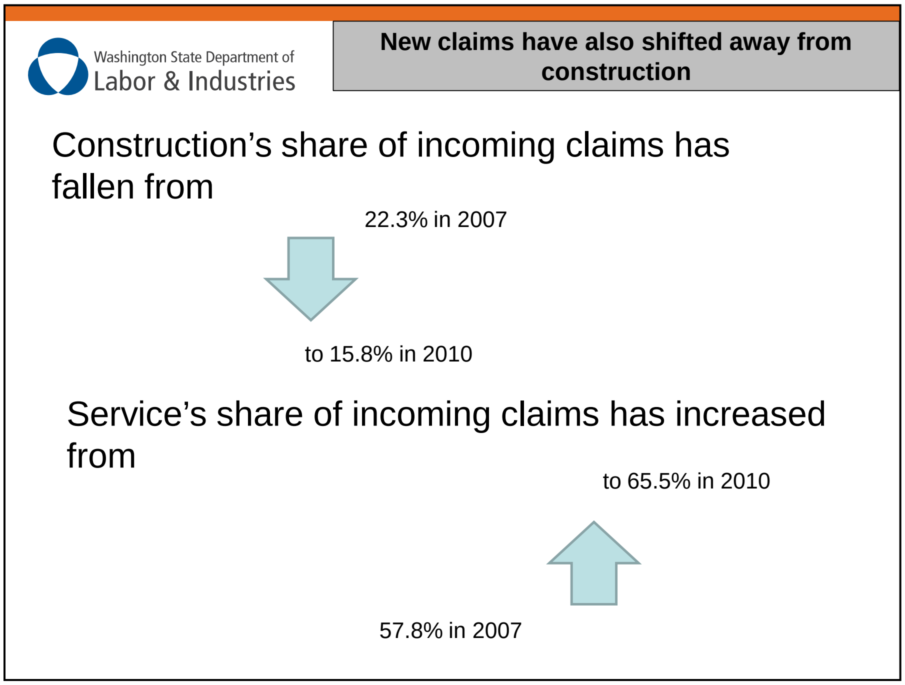


Claims received have fallen by more than hours worked during the recession. When covered hours dropped, so did the number of claims because less work is being done. There is a slight improvement in covered hours, and the number of incoming claims has started to level off.



Along with the decline in hours, there has been a significant shift in the industry mix. Slide 7 shows employment has shifted from construction and to services. In 2007, construction's share of total employment was 9.5 percent and it is 6.7 percent in 2010. In contrast, in 2007 the service sector's share was 79.3 percent, increasing to 82.5 percent by 2010.

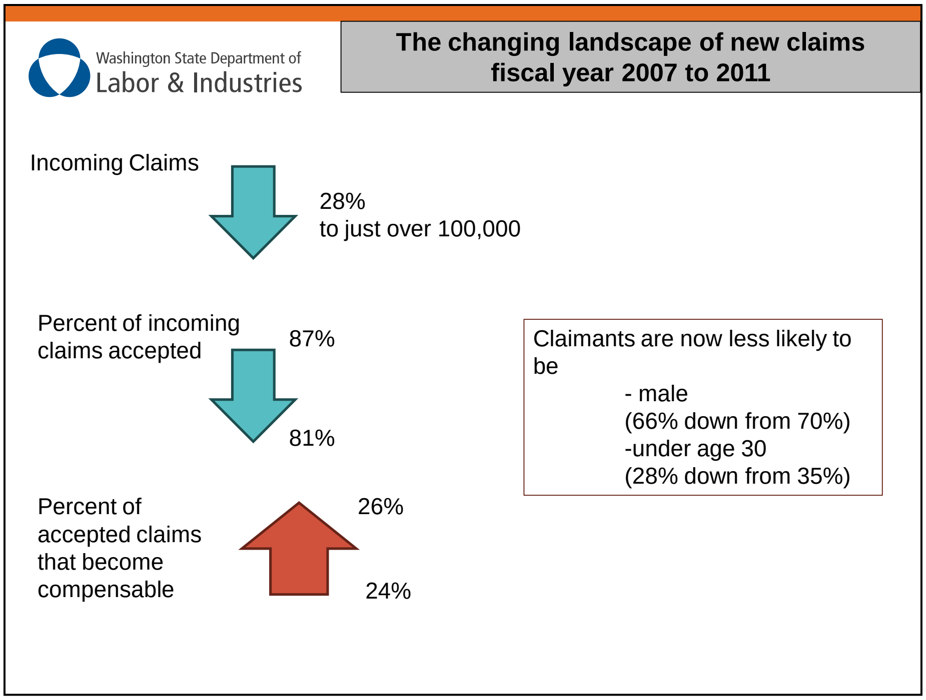
A question was asked if the services hours worked actually increased dramatically or is it because construction decreased so much that the proportion for service-related work is higher. Ms. Glenn explained the total hours for all industries is smaller and because construction's share got smaller, services increased.



New claims have also shifted away from construction. Construction used to account for 22.3 percent of incoming claims. That has fallen to 15.8 percent which is a significant decline. The service sector's share of incoming claims has gone from about 58 percent to 65.5 percent. This does not mean they have more claims, it means their share of the total number of incoming claims has changed.

The fall in the percent of new claims from the construction industry impacts our total portfolio of claims we have on-hand. From 2005-2007, the construction industry was experiencing a huge boom and we received a lot of claims at that time. A portion of these construction claims are still in our system, so when we look at older active claims, a large share originally came from the construction industry. When we look at new claims, that is not the case, as they are coming from other industries.

Even with the industry mix shift, the most common injuries have remained the same. Back and finger injuries are always the top injuries.

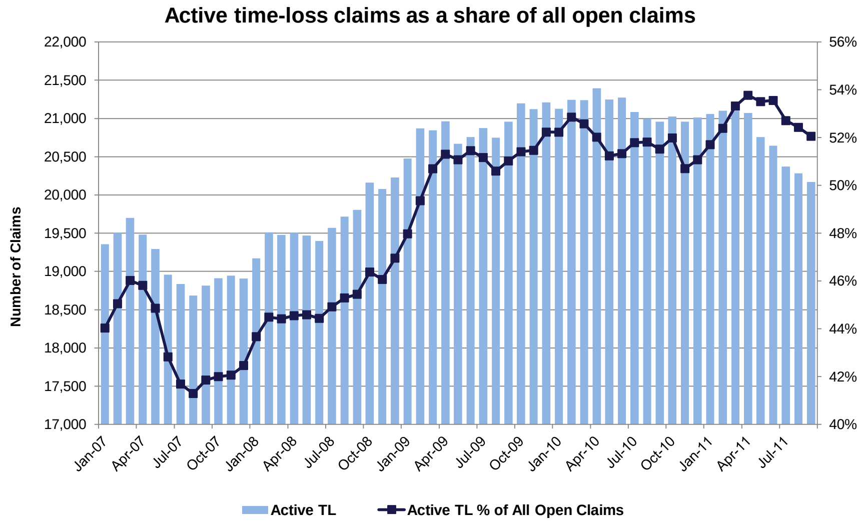


The changing landscape of new claims fiscal year 2007-2011. The number of incoming claims has fallen dramatically, 28 percent, since the start of the recession in fiscal year 2007 to fiscal year 2011. The percent of incoming claims accepted fell from 87 percent to 81 percent. There has not been a change at the department that would cause this drop. The percent of accepted claims that become compensable has increased from 24 percent to 26 percent. Among new claimants, they are much less likely to be male or under 30 years old.

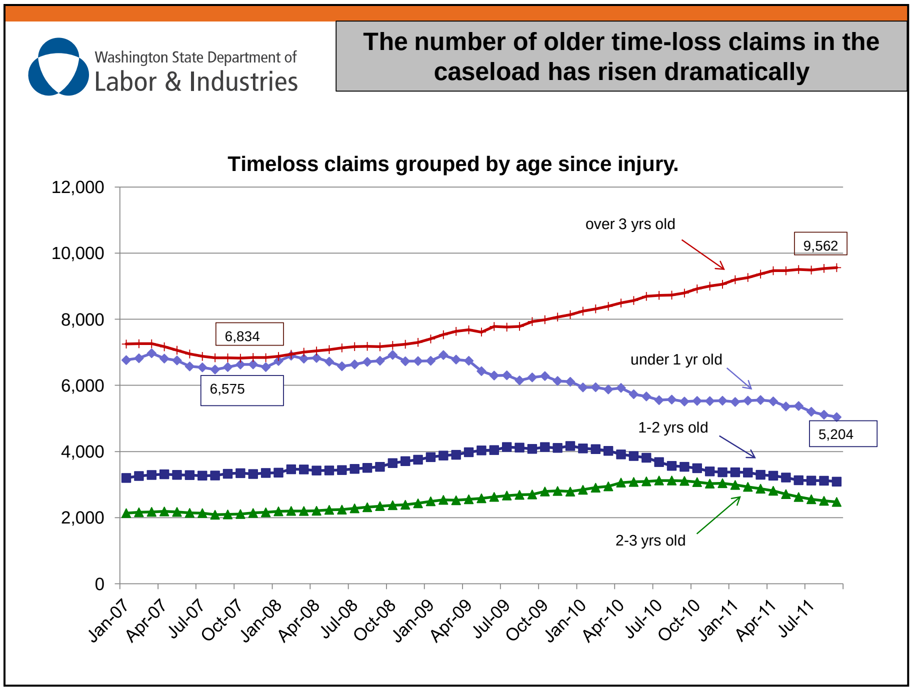
A comment was made that as the economy recovers and the proportion of the labor force in construction and heavy manufacturing increases the resolution rates would probably return to historical levels. Ms. Glenn stated the resolution rates for younger claims were higher in the boom years for construction than they are now.

Washington State Department of Labor & Industries

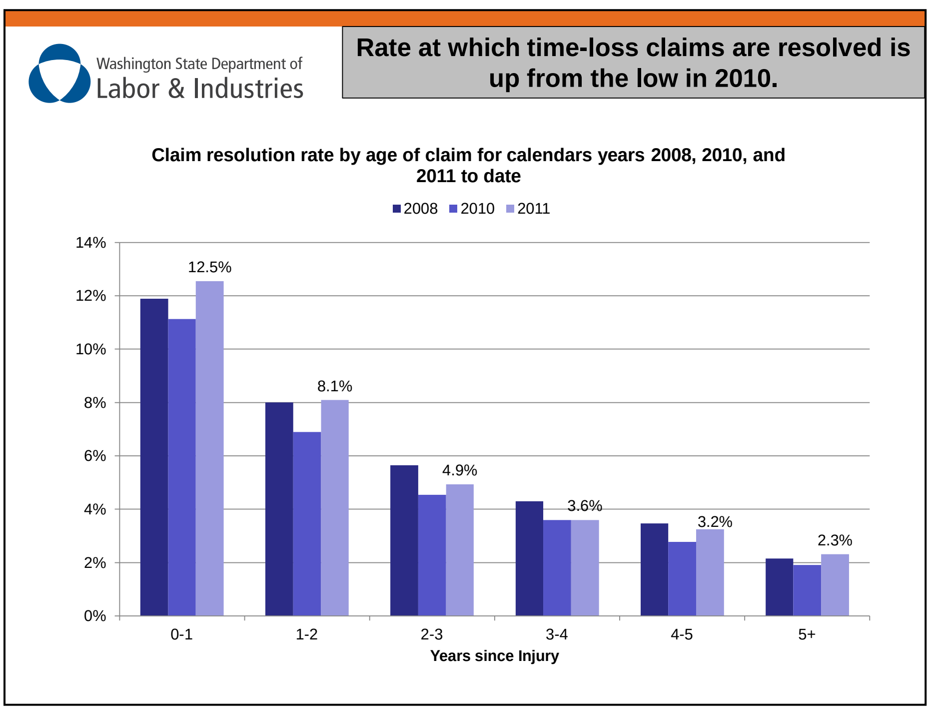
Active time-loss claims now make up a larger share of the caseload.



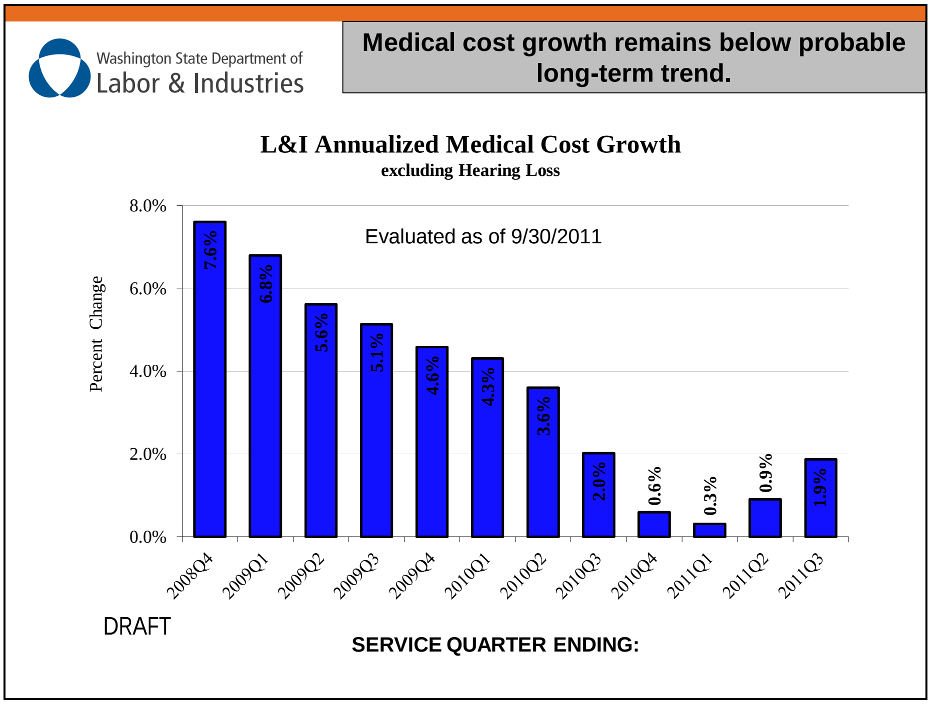
Active time loss claims now make up a larger share of the caseload. The darker line on this graph shows the percent of all open claims that are active time-loss. It has increased for two reasons: (1) it has gone up because we have fewer incoming claims, so the percentage is influenced by claims we already have on-hand; and (2) because many claims came in during the boom years of the economy, they are now older in the claim caseload and they are harder to move out.



The number of older time loss claims in the caseload has risen dramatically. This is time-loss claims grouped by age since injury. The red line is claims over three years old. The absolute number of claims that we have on-hand that are over three years old has increased significantly from 6,800 to 9,500. Other age groups, especially claims under a year old, have declined in number.



Rate at which time loss claims are resolved is up from the low in 2010. The rate at which claims under three years old are resolved has gone up from 2008 to 2011. This increase in the resolution rate for younger claims is positive for both the system and for injured workers because it is an indication that injured workers, especially among the very young claims, are going back to work with the employer of injury. The more we can resolve these young claims, the less long-term disability there will be.



Medical cost growth remains below probable long-term trend.

This is positive for the average cost per claim.

Ms. Glenn summarized her presentation. There is going to be slow growth in employment in the near future. The pressures we are seeing on our system and on businesses will continue. There is a lot of uncertainty about economic conditions. Investment gains have been very volatile. Our workers' comp system has largely managed to adapt itself to this new world. The legislation we are implementing is consistent with the goals of the system. We have reached a new state and we are beginning to see some improvements.

A request was made to have the presentation sent to committee members electronically.

A question was asked regarding the impacts of COHEs and the Stay at Work Program on claims resolution. Ms. Glenn answered the Stay at Work Program does not yet have much impact because it started in mid-June. In the future, it should help resolution rates. COHEs also have a favorable impact.

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

Sharon Elias, Chief Accounting Officer, presented a financial update.

We are mandated by the legislature to issue an annual Comprehensive Annual Financial Report (CAFR), as well as a statutory annual report by December 31st. We are on target for both reports. The State Auditor's Office has already issued their unqualified opinion of our annual

CAFR. The statutory auditors will be giving us an unqualified opinion on our statutory report this week. These will be distributed at the next WCAC meeting.

Industrial Insurance (State) Fund Interim Statutory Financial Information Fiscal Year 2012-First Quarter As of September 30, 2011

Washington State Department of
Labor & Industries

Summary of Financial Position
(dollars in thousands)

	September 30, 2011	Unaudited June 30, 2011	$ Change	% Change
Assets				
Cash and Investments	$ 11,608,626	$ 11,788,380	$ (179,754)	(1.5%)
Securities Lending Collateral	2,039,879	2,217,078	(177,199)	(8.0%)
Premium Receivables, Net	438,856	413,015	25,841	6.3%
Land, Buildings, and Improvements, Net	27,122	25,967	1,155	4.4%
Other Assets	50,971	10,119	40,852	403.7%
Total Assets	$ 14,165,454	$ 14,454,559	$ (289,105)	(2.0%)
Liabilities and Contingency Reserve				
Benefits	$ 10,879,067	$ 10,793,048	$ 86,019	0.8%
Claims Administration	495,623	495,262	361	0.1%
Retrospective Rating Adjustments	96,021	91,159	4,862	5.3%
Other Liabilities	112,202	78,643	33,559	42.7%
Collateral from Securities Lending Activities	2,039,879	2,217,078	(177,199)	(8.0%)
Total Liabilities	13,622,792	13,675,190	(52,398)	(0.4%)
Contingency Reserve	542,662	779,369	(236,707)	(30.4%)
Total Liabilities and Contingency Reserve	$ 14,165,454	$ 14,454,559	$ (289,105)	(2.0%)

Slide 2 is a high level summary of the combined balance sheet on page seven of the financial statement. Ms. Elias reviewed the significant changes since June 30, 2011:

- *Cash and Investments:* Total investments decreased $166.5 million.
- *Securities Lending Collateral:* Securities lending collateral activities decreased $177.2 million.
- *Benefits:* Benefit liability increased by $86 million.
- *Other Assets and Other Liabilities:* These numbers have increased due to experting of the Pension Reserve Account on June 30th.
- *Contingency Reserve:* The contingency reserve balance as of September 30, 2011 was $542.7 million, an overall decrease of $236.7 million.

Total Investments: For fiscal year (FY) 2011 and FY 2012, the investments decreased due to unrealized loss caused by the largest quarterly drop in the equity market since 2008.

The change was from $11,671,588 million to $11,505,077 million, a $166 million drop. $279.7 million of the decrease is due to equities, which is offset by $93.3 million in fixed-income securities and $10 million in short-term securities.

Benefit Liabilities: Benefit liabilities increased by $86 million to $10.9 billion. This is less than one percent since the last quarter.

Washington State Department of
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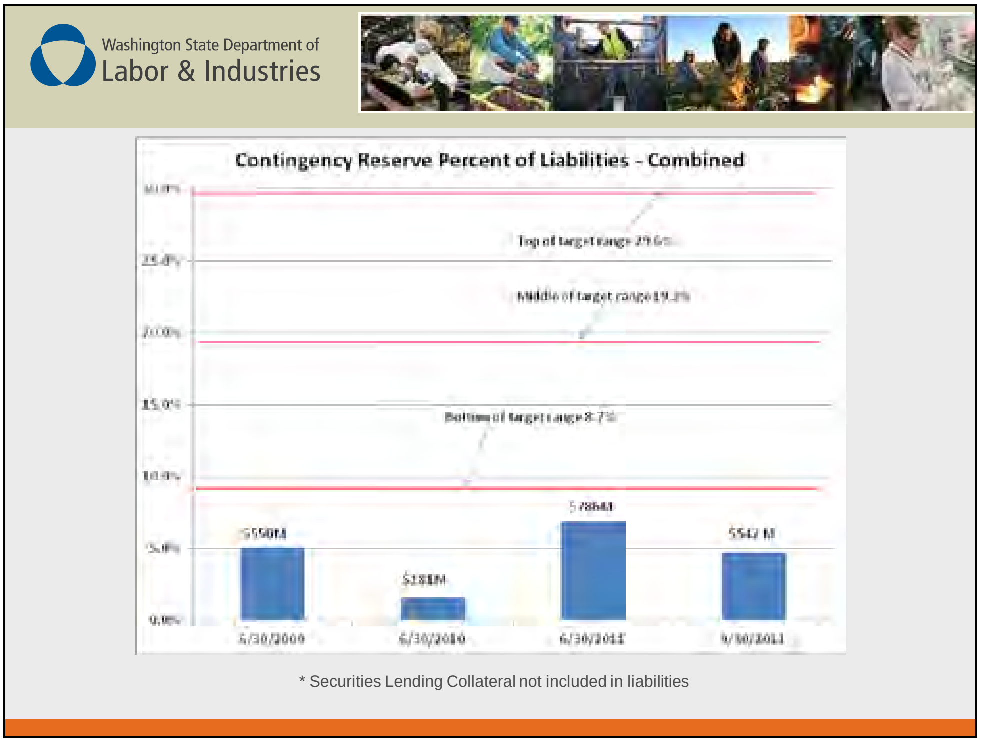
Fiscal Year to Date Change in Benefit Liabilities
As of September 30, 2011 (in thousands)

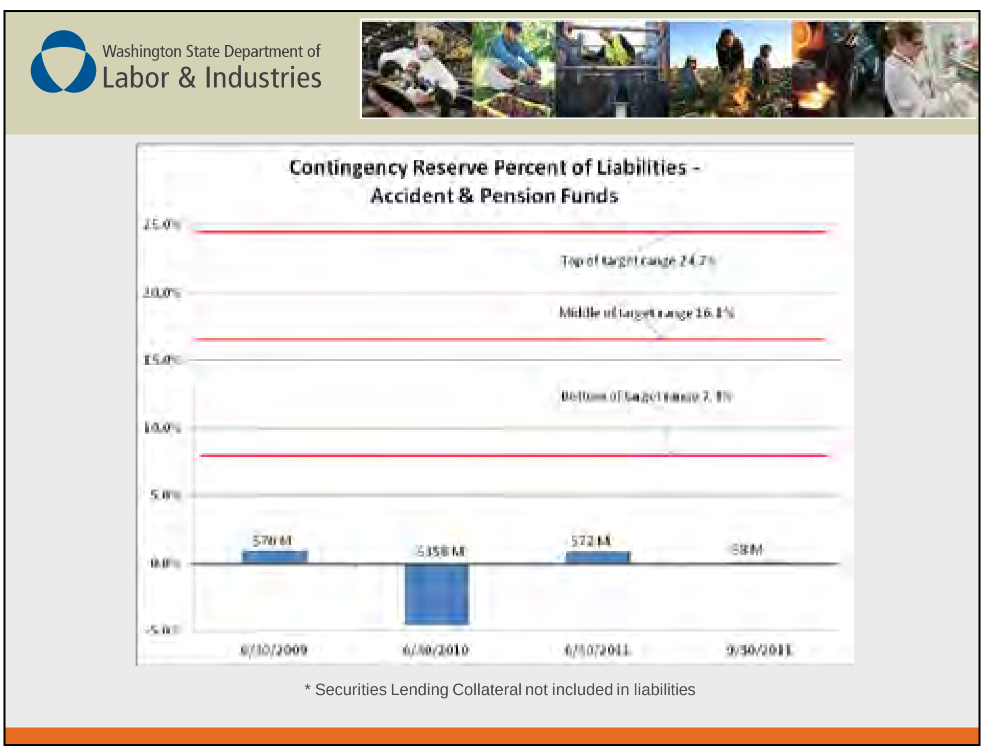
	Accident Account	Medical Aid Account	Pension Reserve Account	Totals
Benefit Liability as of June 30, 2011	$ 4,139,876	$ 3,265,484	$ 3,387,688	$ 10,793,048
New Benefits incurred since June 30, 2011	190,230	172,223	-	362,453
Development on prior liabilities as of September 30, 2011:				
Discount accretion	24,997	19,865	53,058	97,920
Other development on prior liabilities	(40,892)	26,566	524	(13,802)
Net unfavorable prior developments	(15,895)	46,431	53,582	84,118
Claim payments	(157,305)	(128,110)	(88,449)	(373,864)
Establishing state fund pension awards	(53,158)	-	53,158	-
Establishing SI 2nd Injury pension awards	-	-	13,312	13,312
Change in Benefit Liability	(36,128)	90,544	31,603	86,019
Benefit Liability as of September 30, 2011	$ 4,103,748	$ 3,356,028	$ 3,419,291	$ 10,879,067

The chart above explains the changes in benefit liabilities:

- The Accident account benefit liability decreased $36 million due to reduced time-loss duration and smaller than expected growth in exposure.
- The Medical Aid account increased $90.5 million due to increased claim duration, offset by a reduction in the estimated liabilities due to low medical cost growth.
- The Pension Reserve account increased $31 million due to discount accretion and normal pension growth.

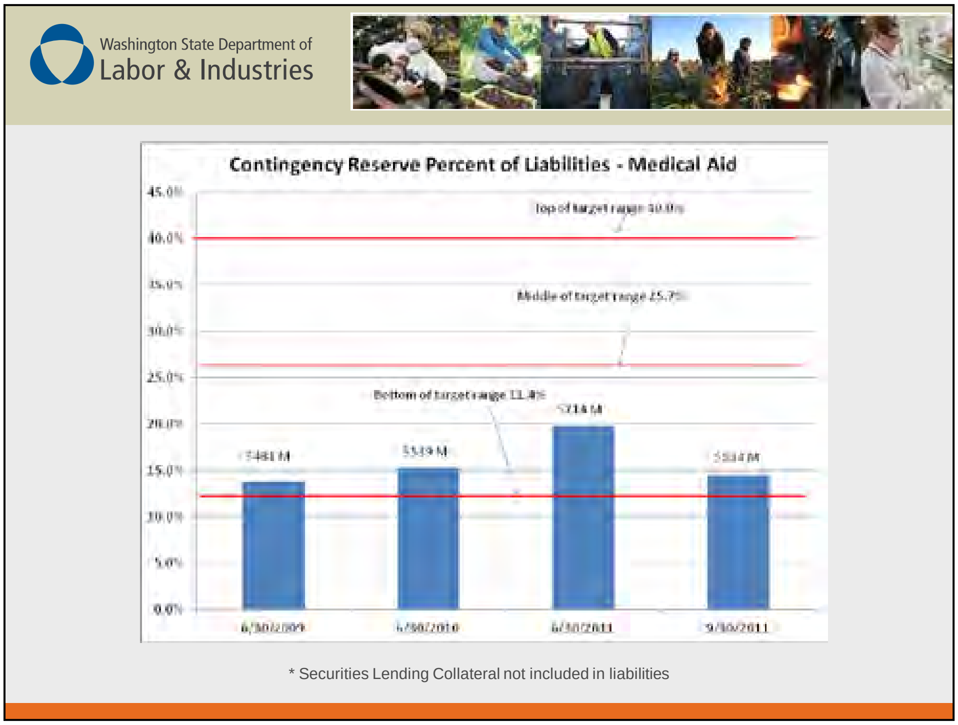


This chart explains the combined contingency reserve balance in relation to the draft contingency reserve policy. Currently the contingency reserve is at $542 million, below the bottom of the target range. It has decreased $244 million due to the unrealized loss in equities.



The contingency reserve for the Accident and Pension Funds was $8 million, below the bottom of the target range.

The Accident Fund had a positive reserve balance of $85.9 million, but the Pension Reserve had a negative contingency reserve balance of $77.7 million.

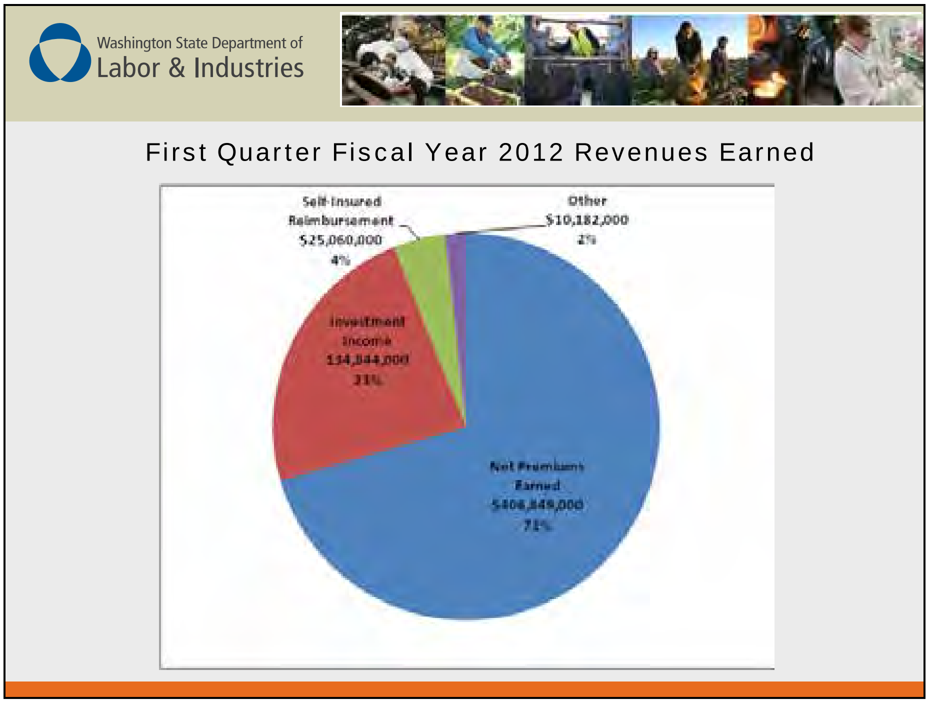


The contingency reserve for the Medical Aid Fund is at $534 million, above the lower target.

The decrease is a result of investments.

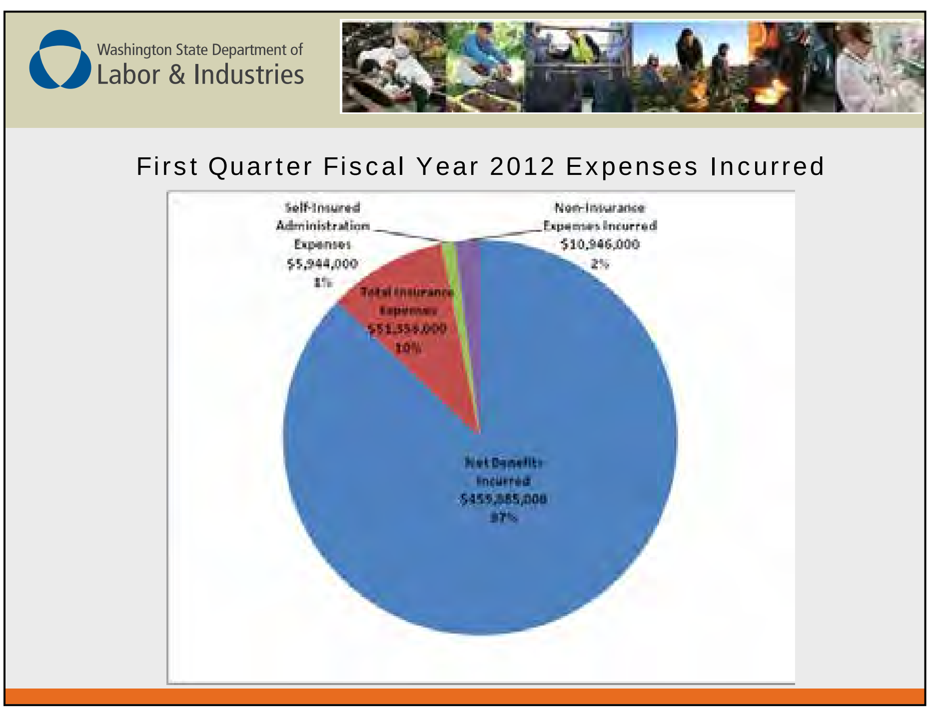
Financial Highlights of Results of Operations (comparison to September 30, 2010):

- Net premiums earned increased $53.1 million due to increased hours reported and premium rate change.
- Net benefits incurred increased $61.4 million due to a higher benefit liability increase during first quarter FY 2012 compared to first quarter FY 2011.
- Net investment gains increased mostly as a result of realized gains on the sale of bonds.
- Equities unrealized gains (losses) decreased $461.6 million due to significant market turmoil during the quarter.



First Quarter FY 2012 Revenues Earned:

- *Net Premiums Earned:* $406.9 million, 71 percent of overall revenue.
- *Investment Income:* $134 million, 23 percent of total revenue.
- *Self-Insurance Reimbursement:* $25 million, 4 percent of total revenue.
- *Other (including penalty, interest and other miscellaneous items:* $10 million, 2 percent of total revenue



First Quarter FY 2012 Expenses Incurred:

- The largest expenditure is benefits incurred which attributed to 87 percent of total expenses ($459.3 million).

- The remaining 13 percent represents administrative costs for insurance expenses, self-insurance expenses and non-insurance expenses.

This chart represents net investment gains and income and realized and unrealized losses and gains. Net investment gains increased mostly due to realized gains on the sale of bonds due to the largest quarterly drop in the market. We had equity unrealized losses of $284 million and Treasury Inflation Protection Security (TIPS) had unrealized gains of 7.5 million.

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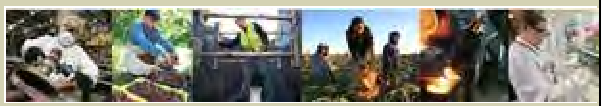


Key Financial Ratios

	September 30, 2011	June 30, 2011	Workers' Compensation Industry Forecast*
Loss Ratio	108.2%	107.5%	91.0%
Loss adjustment expense (LAE) ratio	8.2%	10.7%	
Loss and LAE Ratio	116.4%	118.2%	91.0%
Underwriting expense ratio	3.9%	5.4%	26.5%
Combined Ratio	120.3%	123.6%	119.0% **
Less: Net investment income ratio	29.1%	33.0%	22.1%
Operating Ratio	91.2%	90.6%	96.9%

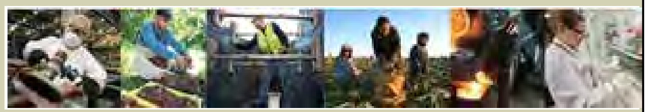
* Source: Conning Research & Consulting *Property-Casualty Forecast & Analysis*, Third Quarter 2011

**Industry forecast for combined ratio includes dividends

Key Financial Ratios: This table shows how we compare to others in the workers' compensation industry. These ratios are computed by using numbers from the statement of income and changes in the contingency reserve.

- *Loss Ratio and Loss Adjustment Expense (LAE) ratio:* Our first quarter number is 116.4 percent compared to 91 percent for the workers' compensation industry. This is because our loss ratio is higher than the private industry, but our LAE ratio is lower.
- *Underwriting Expense Ratio:* This is policy management of our employer accounts and is 3.9 percent compared to the industry's 26.5 percent.
    - o *Combined Ratio:* This represents the loss and LAE ratio and the underwriting ratio, and is 120.3 percent compared to 119 percent in the industry.
- *Net investment income ratio:* We are at 29.1 percent compared to 22.1 percent in the industry.
- *Operating Ratio:* This is the combined ratio, minus the investment ratio to get the operating ratio.

Washington State Department of
Labor & Industries



Cash Flow Summary
(dollars in thousands)

	September 30, 2011	September 30, 2010	$ Change	% Change
Operations				
Net Premiums Collected	$ 385,870	$ 341,604	$ 44,266	13.0%
Other Revenues Collected	32,067	33,468	(1,401)	(4.2%)
Benefits Paid	373,866	370,465	3,401	0.9%
Administrative Expenses Paid	70,887	68,875	2,012	2.9%
Net Operating Cash Flow	(26,816)	(64,268)	37,452	58.3%
Net Investment Income Collected	145,696	133,921	11,775	8.8%
Investment Sales / (Purchases)	(121,204)	(70,212)	(50,992)	(72.6%)
Net Investment Cash Flow	24,492	63,709	(39,217)	(61.6%)
Net Cash Flow	(2,324)	(559)	(1,765)	(315.7%)
Beginning Cash	7,856	5,843	2,013	34.5%
Ending Cash	$ 5,532	$ 5,284	$ 248	4.7%

Cash Flow Summary- We are comparing the first quarter 2011 to the first quarter 2012 information.

- *Net Premiums Collected:* This increased $44.3 million due to changes in hours worked and the premium rate change.
- *Benefits Paid:* This increase was less than 1 percent.
- *Net Investment Income Collected:* This increased $11.8 million mostly due to realized gains on the sale of fixed income investments.

Washington State Department of
Labor & Industries

Explanation of State Fund Results
(dollars in millions)

Contingency Reserve, July 1, 2011	$ 779.4
<u>Unexpected Investment Results</u>	
Equities: Unrealized Gains (Losses)	(284.0)
TIPS: Unrealized Gains	7.5
Equities: Realized Gains (Losses)	(1.1)
Fixed Income: Realized Gains	12.1
Sub-total Gains (Losses)	(265.5)
Less Expected Gains	(28.4)
Sub-total	(293.9)
Insurance Operations Results	
Prior Year Loss Favorable	16.8
Current Fiscal Year Income (Loss)	40.4
Sub-total	57.2
Change to Contingency Reserve	(236.7)
Contingency Reserve, September 30, 2011	$ 542.7

Explanation of State Fund Results:

- As of July 1, 2011, the contingency reserve balance was at $779.4 million.
- Unexpected Investment Results: The investment gains in unrealized and realized gains were $293.9 million.
- Insurance Operations Results: Results were favorable this quarter by $57.2 million.
- The contingency reserve changed by $236.7 million To $542.7 million as of September 30, 2011.

<u>UW Voc Legislation Report: Jeanne Sears</u>

Jeanne Sears, from the University of Washington, began with the presentation "*VIP Evaluation: 2011 Highlights*".

The Vocational Improvement Project (VIP) pilot runs January 1, 2008 through June 30, 2013. The 2011 report is the second of three reports. The reports cover both State Fund and self-insured claims where feasible. This is an independent evaluation.

Two surveys of injured workers were conducted in addition to the claims data and the Employment Security Department wage data. Survey A is a baseline survey. It was done as people were referred for development of their vocational retraining plan. They were interviewed before they made a choice of Option 1 or Option 2. We completed that in the fall of 2009, and there was a 62 percent response rate. Survey B is the outcome survey that was recently completed. These workers were interviewed four to six months after their claims were closed. This survey looks more at employment outcomes, acquired skills, and satisfaction.

Ms. Sears reviewed four preliminary highlights of the findings. These cover:

- Efficiency improvements
- Job demand ratings
- Worker' opinions
- Option 2
    - Who chose Option 2?
    - Option 2 employment outcomes

Efficiency Improvements: This review only includes State Fund claims because baseline data is not available for self-insured claims. Baseline data is for 18 months in 2006 to 2007 which was compared to the last 18 months before the end of 2010.

1. *Repeat Referrals:* Compared to the baseline, the percentage of State Fund claims with repeat referrals (a plan development referral followed by one or more additional referrals in one claim) decreased for all three types of referrals looked at:

- Ability to Work Assessments (AWA) referrals: 27 percent compared to 41 percent
- Plan Development (PD) referrals: 25 percent compared to 24 percent
- PI referrals: 31 percent compared to 35 percent

The reduction in repeat AWA referral appeared smaller this year than last and these may be a smaller decrease next year.

2. *Plans Submitted to L&I:* Training plans were twice as likely to be submitted to the department, at any point, after they were referred to the vocational counselor for plan development compared with the baseline. We saw better timeliness as plan submissions were consistent with the 90-day requirement under the pilot.

3. *Plans Approved by Default:* We saw a significant decrease in plans that took more than 15 days to approve under the pilot. Very few plans were approved by default. Under the pilot, if the department does not act within 15 days of plan submission, it is deemed approved.

4. *Time from Plan Development Referral to Retraining: VIP plans were 54% more likely to have retraining begin at any point after PD referral, compared with baseline. And, time from PD referral to retraining has decreased under the pilot*

5. *Completed Retraining Plans:* There is no significant change in percentage of plans competed (baseline is 59 percent; pilot is 57 percent). Referrals for plan implementation can end for a variety of reasons. We will have more information when Survey B responses are analyzed because we will be asking workers for specific reasons why they did not complete their plans.

6. *Time from Plan Completion to Claim Closure:* This was for workers who were determined employable. VIP claims were 49% more likely to have been closed at any point after plan completion, compared with baseline

Job demand ratings: The legislation intended to provide opportunities for participation in meaningful retraining in high-demand occupations. The Employment Security Department has a list of occupations and whether they are high demand by location. (High demand means there are more jobs than workers to fill them.) Of the 4,000 plans reviewed, there were almost 600 that were general office clerks and 83 percent of those plans were rated high demand. Half of the State Fund plans and three-fourths of the self-insured plans had high demand goal occupation ratings under the pilot. The percent of high demand goal occupation has been rising gradually over time for both.

Workers' Opinions: This is from Survey A, the baseline survey. Almost 70 percent both assessed the workers' comp system as at least somewhat effective and were at least somewhat satisfied with the vocational rehab system. Looking at the negative responses, we found that people with more negative responses tended to have more time passing since their injury. They had been determined eligible for plan development more than once. Some interviewed in English rather than Spanish and others had reported poor health or poor functional ability. Workers who reported more economic problems were more likely to rate the workers' comp system as ineffective, but it did not affect their rating of the vocational rehab system. Older workers and people who had completed an apprenticeship prior to their injury were more dissatisfied with the vocational rehab system.

A question was asked if there are a number of undocumented workers who expect to be retrained but ultimately find out they are not eligible, and whether this influenced their opinions. Ms. Sears clarified that there were very few Spanish-speaking workers in this survey so she is not sure if that data could be drilled down.

Another question was asked regarding the timeframe of this survey and when they completed the program. Ms. Sears answered that Survey A was done before they started their plan development. The outcome survey (Survey B) is after their claims are closed—this data was just received.

Ms. Kennedy added that the Vocational Rehabilitation Subcommittee reviewed the results of the survey and considered the 69 percent positive or somewhat satisfied for both the vocational system and the workers' comp system as positive because these are claims that are older, the workers have lost their relationship with their employer, and are anxious about returning to work. This is considered a fairly good rating given all these issues influencing the workers.

Option 2: About a quarter of State Fund and 30 percent of self-insured workers chose Option 2. Workers more likely to choose Option 2 were those who had lower pre-injury wages, males, with less education, and those who thought their plan would have a negative effect on return to work. There are four different ways employment outcomes were looked at.

1. The percentage of workers who returned to work (RTW) and the timing of that return to work (separated by State Fund and self-insured). The projection from the analysis is after three years following claim closure, less than half of workers returned to work. This is higher for State Fund than self-insured workers.
2. We looked at wage standards at different levels. The percentage attaining each of five wage measures, calculated for each quarter after claim closure:
    a. Any wages
    b. At least full-time minimum wage
    c. At least 50 percent of the worker's pre-injury wage
    d. At least 75 percent of the worker's pre-injury wage
    e. At least 100 percent of the worker's pre-injury wage

For State Fund, it is in the 20 percent range and for self-insured it is about the 12 percent range for workers who returned to work in any particular quarter for any wages after their claim closed. For 100 percent of wages, it is less than 10 percent for State Fund and less than 5 percent for self-insured.

A comment was made that until we summarize the Survey B material, we will not know what percent of workers who took Option 2 even intended to return work. Ms. Sears agreed—we do not know if some of these workers felt they could ever work again or planned to work again.

3. The third way the data was reviewed was for workers who went back to work at some time—we looked at a short-term measure and a sustained measure of return to work. For the short-term, we used each of the five wage measures and looked at whether the worker met that in the first quarter after the quarter their claim was closed. For the sustained measure, we looked at whether they met that measure in three of the four quarters after the quarter their claim closed. Seventy percent of workers who did return to work at some point had some wages in the in the first quarter after they returned to work. Half of them had some wages in three of the four quarters after their claim closed.
4. The last way this was reviewed was to compare pre-injury wages with post return-to-work wages for those workers who returned to work. For each worker who returned to work, we looked at their post-RTW mean quarterly wages (averaged over 4 quarters). The quarterly wage was $6,884 pre-injury and $3,734 post return to work. We divided them into four groups based on the actual level of their pre-injury wages. For people who made the least before their injury, there was not much of a change. But, people who made more pre-injury, still made more after they returned to work, but the percent decrease in wages is higher.

In summary, we found that the employment outcomes were poor relative to pre-injury wages and full-time minimum wage standards. Forty-two percent with State Fund claims and 27 percent with self-insured claims returned to work within three years of claim closure. Those who return to work experienced a 46 percent drop in average wages, and two-thirds averaged less than full-time minimum wage. Those earning more pre-injury also earned more on return to work but had a larger percent drop in average wages. State Fund workers appeared to fare better on every wage measure.

Ms. Sears added that these analyses are descriptive. This does not include control for differences between the self-insured and State Fund workers. The recession also accounts in part for issues in both finding work and making a comparable wage to pre-injury earnings. We also do not know whether workers who completed a retraining plan do any better than Option 2 workers.

The next report about employment outcomes and comparisons will be by option choice and job demand rating. We will look at the percent of Option 2 workers who are expected to request tuition. In Survey B, workers are asked about their use of skills they got from retraining, the frequency of disputes before and after the pilot program, and workers' satisfaction and opinions about how the system could be better.

A comment was made that this data does not directly address the workers who return to their job of injury. Is this included in this study? Ms. Sears advised Survey B asked people if they are working with their same employer and with their same job. Ms. Kennedy added this work is specifically about the vocational rehab legislation, which primarily affects the vocational process from plan development forward. When there is a worker who goes back to their employer of injury, it will generally happen before they get into the vocational system.

An additional comment was made that without the actual number of employees who did not intend to return to work or who subsequently retired, the data is skewed.

Regarding job demand ratings, a question was raised about whether the next study will look at how many workers actually were placed in a high-demand job. Ms. Sears did not have this level of detail. Ms. Kennedy added that the study specifically focuses on high-demand jobs because it was a goal in the legislation. There is a significant number of State Fund claims where the goals are for balanced-demand jobs. When added to high-demand job goals, the proportion is fairly close to self-insurers.

It was asked what the department plans to do with this data. Ms. Kennedy answered that the department is working with the Vocational Rehabilitation Subcommittee over the next year on their recommendations for further legislative change. Ms. Sears is working closely with the subcommittee to answer questions about the study and receive their feedback.

A question was asked if the study considers structured settlements and the impact that might have on workers. Ms. Kennedy answered no because the study was very specifically crafted to the 2007-2008 legislation. Ms. Dupre added that as part of the legislation, a structured settlement report is due in 2015.

<u>Next Meetings: Beth Dupre</u>

Preliminary dates will be sent out to the committee members to schedule meetings in 2012, to include special meetings regarding the contingency reserve. There was a preference to have additional meetings scheduled at the Tukwila Service location.

Meeting adjourned.