Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tukwila, WA
Meeting Minutes
April 9, 2012

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

Labor Representatives: Rebecca Johnson, Washington State Labor Council; Dave Myers, Washington State Building and Construction Trades Council; and Karen Gude, United Food and Commercial Workers 1439

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

Board of Industrial Insurance Appeals: Dave Threedy

Recorder: Sharon Avery

Court Reporter: Milton Vance

Guests: Viona Latschaw, Tammie Hetrick, Scott Dilley, Greg Kabacy, Nancy Simcox, Joan Elgee, Todd Gendrau, Stephanie Hoffman, Jerry Bonagofsky, Craig Scukas, Beverly Simmons, Kim Hoff, Stephen Lerch, and Dave Kaplan

L&I Staff: Mike Ratko, Rachel Aarts, Natalee Fillinger, Cheri Ward, Dustin Dailey, Tamara Jones, Kirsta Glenn, Sharon Elias, Diana Drylie, Bill Smith, and Doug Stewart

Opening Comments and Safety Message

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

Rachel Aarts presented a safety video from the Division of Occupational Safety and Health (DOSH) webpage.

The minutes from the September 2011 and December 2011 quarterly meetings were approved.

Building a Better Customer Experience: Judy Schurke

The department has contracted Ipsos, who has worked with WorkSafeBC in British Columbia regarding customer experience. The focus is on putting workers and employers at the center of our processes. These efforts are complimentary to Lean. 800 workers and 600 employers were surveyed regarding State Fund workers' compensation program and 400 workers and 400 employers were surveyed regarding DOSH. The results will be shared at the next WCAC meeting on June 21, 2012.

Board of Industrial Appeals Update: Dave Threedy

Mr. Threedy reviewed a handout which included a breakdown of issues of all the appeals that are currently in the agency.

The presentation was reviewed.

- *Total Appeals Filed and Granted:* As of March 2012, there were 3,503 total appeals filed and 2,075 appeals granted in the quarter.
- *Department Reassumption Rate by Quarter:* The reassumption rate is about 26 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 March it is at 33 days. This is due to greater caseloads and the number of new judges in the agency.
- *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 41 days for judges and 22 days for Board members.
- *Quarterly Average Weeks to Completion:* The Board's goal is to keep this around 34 weeks. The average weeks to completion is 31.9 weeks.
- *Caseload at End of Quarter:* By the end of March, the caseload had increased to 5,523. The Board is monitoring this increase closely.
- *Structured Settlements:* As of April 6, 2012, eleven Claim Resolution Structured Settlement Agreements (CRSSA) were filed. Eight of these were rejected, though two of them are re-files of rejected agreements (they were rejected because they did not follow the statutory provisions for the amount the payments).

A question was asked if these were all State Fund claims and Mr. Threedy answered there was a mix of State Fund and Self Insured claims—most of them were Self Insured claims.

The Board's Seattle office will move to a new location on Second Avenue in the Bay Vista building by the end of July 2012.

Legislative Update: Vickie Kennedy

Vickie Kennedy, Chief Policy Advisor, reviewed the presentation. There were no amendments made to Title 51 RCW (workers' compensation). There were changes impacting the agency overall and in other programs. A summary of those were provided in the committee members' binders. If a member has specific questions, they were encouraged to contact Tamara Jones, Legislative Liaison.

Pay during Appeal report: The final report on the outcome of the Pay during Appeal legislation was distributed for review late last year. This report was required by 2007 legislation which provided for the payment of benefits pending an appeal by an employer unless they requested and received a stay with the Board to not pay those benefits.

There was concern expressed by Senator Keiser regarding the Self-Insurance Overpayment Reimbursement Fund that was designed to pay back employers that were not able to recoup overpayments from workers that resulted from this legislation. To date, the fund has not been used. We don't expect much use in 2012 because employers must attempt to recoup overpayments for at least two years following the appeal and the assessment of the overpayment. The department is in the process of analyzing potential overpayments and expectations for the fund by pulling random samples of claims and will provide the findings to the WCAC at the June or August meeting.

A question was asked on the value of the fund and Ms. Kennedy answered it is a worker-paid fund and valued at approximately $1 million. We collected premiums for two years at a small fraction of a cent per hour worked. We began collecting premium immediately in case the director exercised her discretion to waive an overpayment. No overpayments have been waived, and we are still waiting for the first request for reimbursement.

<u>SSB 5992: Second Injury Fund Study:</u> In 2005, legislation made changes in the Second Injury Fund assessments for the self-insured community by providing that half the costs be experience rated. The Second Injury Fund is used when a new injury combined with an old disabling condition means the worker is totally and permanently disabled. The pension reserve costs are charged primarily to the Second Injury Fund, and the self-insured employer community pays into the fund.

There was concern when the experience rating model was developed for this fund that it could alter outcomes for workers by discouraging some total permanent disability pensions when relief increased costs for employers. This report is to confirm whether that actually happened or not. The due date of the report allowed three years of experience to develop. Department staff is currently working on the methodology and the final data for the report. The expectation is to begin drafting the report in June.

The report compares two groups of claims:

- Group 1: Claims closed between 7/1/02 and 6/30/04
- Group 2: Claims closed between 6/30/09 and 6/30/11

If the outcome shows a 15 percent negative impact on workers, then the experience rating for half of the Second Injury Fund would go away.

A question was asked if the usage has changed; at one point it was 95 percent and decreased to 75-85 percent range. Ms. Glenn answered it has gone down, but the fund is still significantly used. It was thought to be around 85 percent when this legislation passed—Ms. Glenn committed to providing the exact numbers at the next meeting.

Another question was asked if there are disputes about the experience-rated portion of the fund from employers. Ms. Kennedy advised that the department will research and provide an answer at the next WCAC meeting.

<u>EHB 2123: Addressing the workers' compensation system:</u>

- Occupational Disease Study: The study is currently underway. It is looking at the frequency and severity of occupational disease claims, their impact on long-term disability, and how our statutory definition and interpretation compares to other states. This study will be submitted to the Legislature by December 1, 2012.

  W.E. Upjohn Institute was selected as the contractor for this research (they were the contractors for the Pension Study as well). The Upjohn team has met with department executives and key staff and they have contacted various employer and worker stakeholders. Ms. Kennedy will send the list of stakeholders who were contacted to committee members per their request. The draft report will be submitted to the department by Upjohn staff in July 2012, the report will be reviewed with designated representatives from the WCAC in August/September 2012, and the department will provide the final study to the Governor's office and legislators in November/December 2012.

- Joint Legislative Audit and Review Committee (JLARC): JLARC conducts performance audits and special studies on behalf of the Legislature. Stephanie Hoffman introduced herself as the lead analyst on a study of the claims management system, including self-insured claims, that is part of the reforms passed in 2011. There are six different topics that they have been asked to address:
  1. Decision making: Determine if decisions have been made in a fair and timely fashion.
  2. Dispute resolution: Determine whether disputes are resolved in a timely, fair and effective manner.
  3. Communication: This is for employers and workers; is the communication timely, responsive and accurate including review and appeal rights, the use of plain language and face-to-face meetings.

4. Organizational Structure: Determine if this is most efficient available.
5. Service delivery models: Analyze organization and delivery for retrospective rate plan participants as well as non-participants; identify whether or not there are differences and how those differences may impact retrospective rating plan refunds.
6. Initiatives: Determine whether current initiatives improve service delivery and meet the needs of workers and employers, and if they improve public education and outreach.

JLARC has been asked to make recommendations regarding administrative changes that should be made to improve the efficiency and potentially improve service delivery. JLARC is scheduled to submit progress reports by December 1, 2012 and December 1, 2013. The final results are due to Legislature by June 30, 2015.

Ms. Hoffman provided a general timeline for the JLARC study that included:

- Spring: Focus on study methodology and design and learn about Washington's workers' comp system and other states' systems.
- Spring/Summer: Select a consultant to assist with developing the initial audit work plan and the study methodology.
- Fall: Draft first report/work plan which will include different design methods with different costs associated with them.
- Late November/Early December: First report to the Legislature will be presented.
- Early 2013: Begin the full evaluation.

Included in the handouts was an overview of JLARC and member information.

<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 31, 2012. Independent auditors have issued unqualified, or 'clean', opinions for both reports. The auditor's opinions are included on pages 15 and 16 in the CAFR report and pages nine and ten in the statutory financial information. Both of these reports, and an updated ten-year summary, are available on the department's website at: http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports/Default.asp.

In addition to the two audits of our financial statement, we requested the State Auditor's Office (SAO) to review the Supplemental Pension Account Inter-fund loans and repayments for calendar year (CY) 2011. During CY 2011, two inter-fund loans were processed, one in

January 2011 and one in April 2011. The SAO confirmed the department has repaid the loans within the timeframes and each repayment was appropriately calculated. The department does not expect to borrow any more money from the pension account; we have two months of cash flow saved.

Industrial Insurance (State) Fund Interim Statutory Financial Information Fiscal Year 2012-Second Quarter As of December 31, 2011

Summary of Financial Position
(dollars in thousands)

	December 31, 2011	Unaudited June 30, 2011	$ Change	% Change
Assets				
Cash and Investments	$ 11,827,868	$ 11,788,380	$ 39,488	0.3%
Securities Lending Collateral	1,508,582	2,217,078	(708,496)	(32.0%)
Premium Receivables, Net	427,302	413,015	14,287	3.5%
Land, Buildings, and Improvements, Net	29,172	25,967	3,205	12.3%
Other Assets	8,664	10,119	(1,455)	(14.4%)
Total Assets	$ 13,801,588	$ 14,454,559	$ (652,971)	(4.5%)
Liabilities and Contingency Reserve				
Benefits	$ 11,040,017	$ 10,793,048	$ 246,969	2.3%
Claims Administration	503,477	495,262	8,215	1.7%
Retrospective Rating Adjustments	122,218	91,159	31,059	34.1%
Other Liabilities	59,556	78,643	(19,087)	(24.3%)
Collateral from Securities Lending Activities	1,508,582	2,217,078	(708,496)	(32.0%)
Total Liabilities	13,233,850	13,675,190	(441,340)	(3.2%)
Contingency Reserve	567,738	779,369	(211,631)	(27.2%)
Total Liabilities and Contingency Reserve	$ 13,801,588	$ 14,454,559	$ (652,971)	(4.5%)

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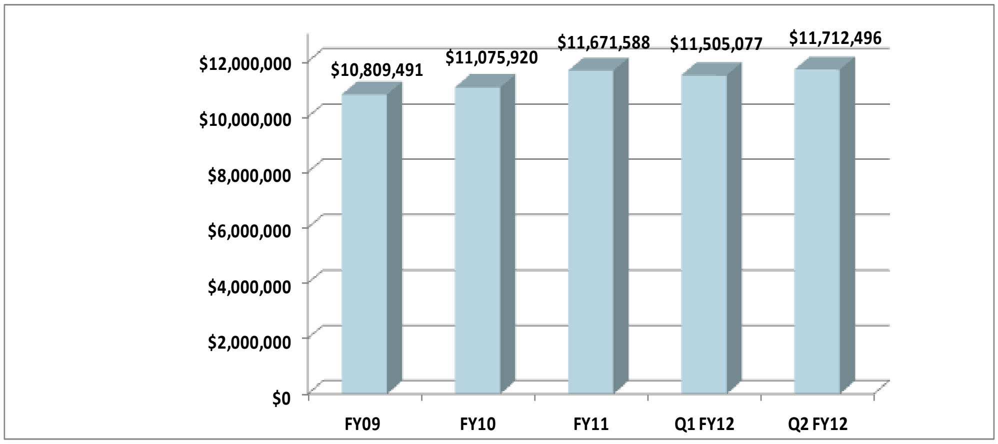
Slide 42 is a high level summary of the combined balance sheet on page seven of the quarterly financial statement. Ms. Elias reviewed the significant changes since June 30, 2011:

- *Cash and Investments:* Total investments increased $39 million.
- *Securities Lending Collateral:* Securities lending collateral activities significantly decreased $708 million.
- *Benefits:* Benefit liability increased by $247 million.
- *Retrospective Rating Adjustments:* Liability for retro rating adjustments increased $31 million.
- *Contingency Reserve:* The contingency reserve balance as of December 31, 2011 was $567.7 million, an overall decrease of $211.6 million.

Total Investments
(in thousands)



Securities Lending Collateral not included

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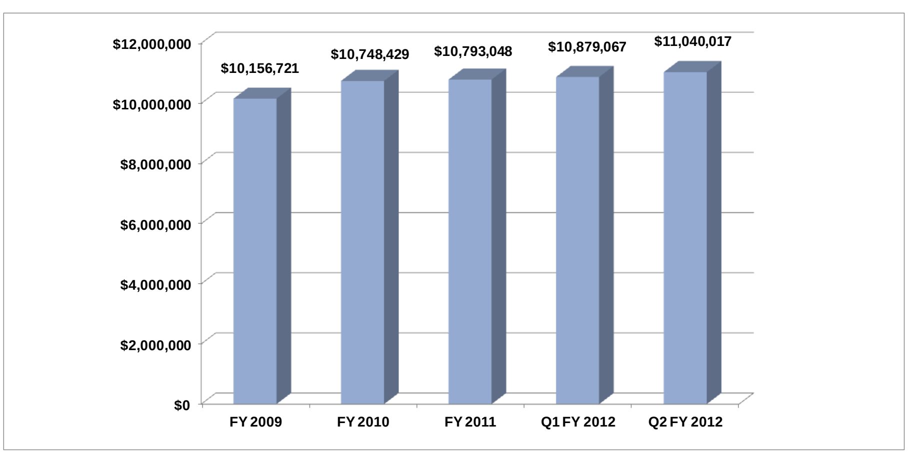
Total Investments:

The investment increase in the second quarter is due to investment market improvement.

The change was from $11,671,588 million to $11,712,496 million, a $39 million increase.

Benefit Liabilities
(in thousands)



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Benefit Liabilities:

Benefit liabilities increased by $247 million to $11.04 billion.

Fiscal Year to Date Change in Benefit Liabilities As of December 31, 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	370,471	338,255	2,960	711,686
Development on prior liabilities as of December 31, 2011:				
Discount accretion	48,981	39,168	104,659	192,808
Other development on prior liabilities	(95,141)	107,228	-	12,088
Change in discount rate	73,300	2,827	-	76,127
Claim payments	(310,069)	(281,672)	(177,865)	(769,606)
Establishing state fund pension awards	(104,222)	-	104,222	-
Establishing SI 2nd Injury pension awards	-	-	23,866	23,866
Change in Benefit Liability	(16,680)	205,806	57,843	246,969
Benefit Liability as of December 31, 2011	$ 4,123,196	$ 3,471,290	$ 3,445,531	$ 11,040,017

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The chart above explains the changes in benefit liabilities:

- The Accident account benefit liability decreased $16 million due to favorable development due to reduction in Total Permanent Disability (TPD); compensable claims are being closed faster.
- The Medical Aid account increased $205.8 million due to unfavorable development of increased activities in older claims and the change in the discount rate.
- The Pension Reserve account increased $57 million due to discount accretion.

Effects of Non-Pension Discount Rate Change as of September 30, 2011

(dollars in thousands)

	Benefit Liability Discount Rate		Change in Benefit Liability	
	2.0%	2.5%	Dollars	Percent
Accident Account	$ 4,177,048	$ 4,103,748	$ 73,300	1.8%
Medical Aid Account	3,358,855	3,356,028	2,827	0.1%
	$ 7,535,903	$ 7,459,776	$ 76,127	1.0%

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This chart explains the non-pension accounts, which are the Accident and Medical Aid accounts, and the impact of the discount rates. We went from a discount rate of 2.5 percent to 2.0 percent.

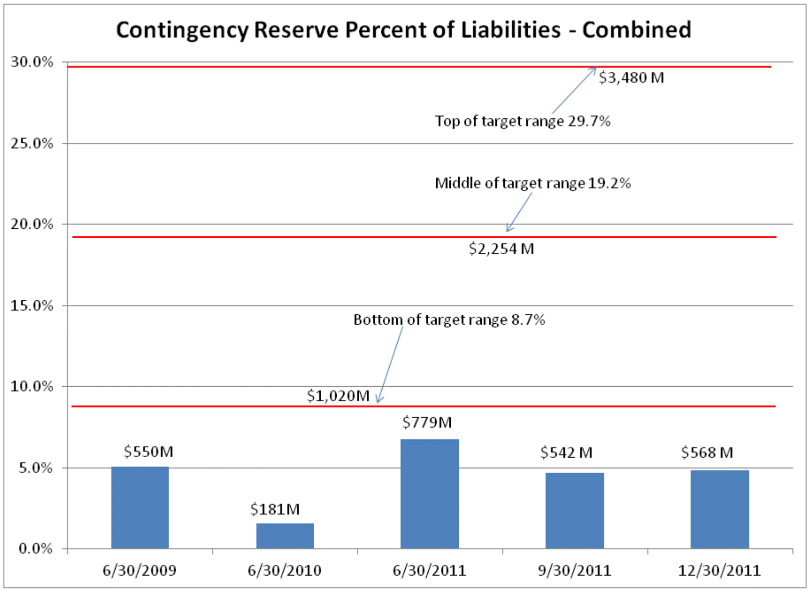
In the Accident Account, we increased our liability by $73 million or 1.8 percent.

In the Medical Aid Account, we increased it by $2.8 million because the inflation assumption is tied to the discount rate. When the discount rate decreased, a corresponding change was made in the inflation assumption.

The total change is $76.1 million.

A question was asked why the discount rate changes from year to year. Ms. Elias answered that the discount rate is based upon the five year average of the twenty year U.S. Treasury yield bond.

Due to investments, the treasury yield is decreasing. This is one of the reasons the discount rate changes. Another reason is the interest rates have gone down significantly. Mr. Vasek uses this discount rate to come up with the actual benefit liabilities. The last time the Accident/Medical Aid discount rate changed was during FY 2005.



* Securities Lending Collateral not included in liabilities

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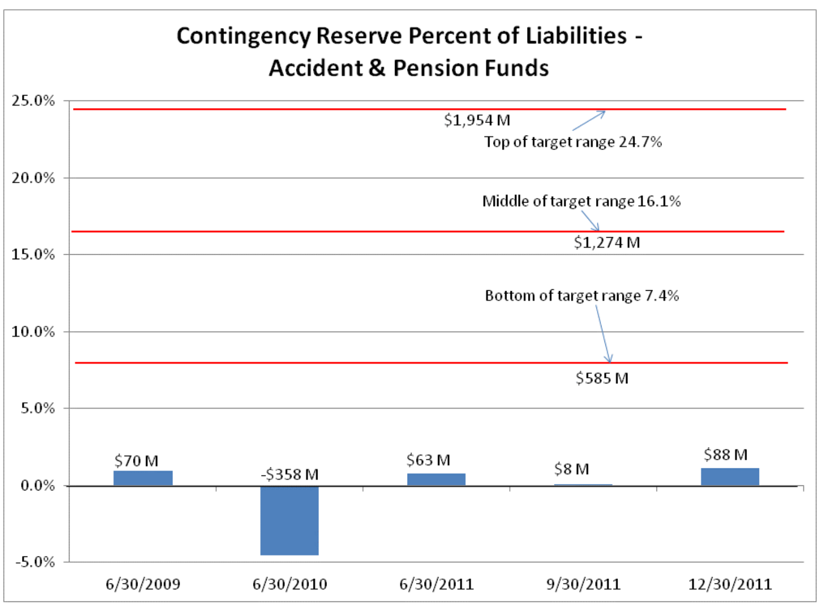
This chart explains the combined contingency reserve balance in relation to the draft contingency reserve policy.

Currently the contingency reserve is at $568 million, below the bottom of the target range.



* Securities Lending Collateral not included in liabilities

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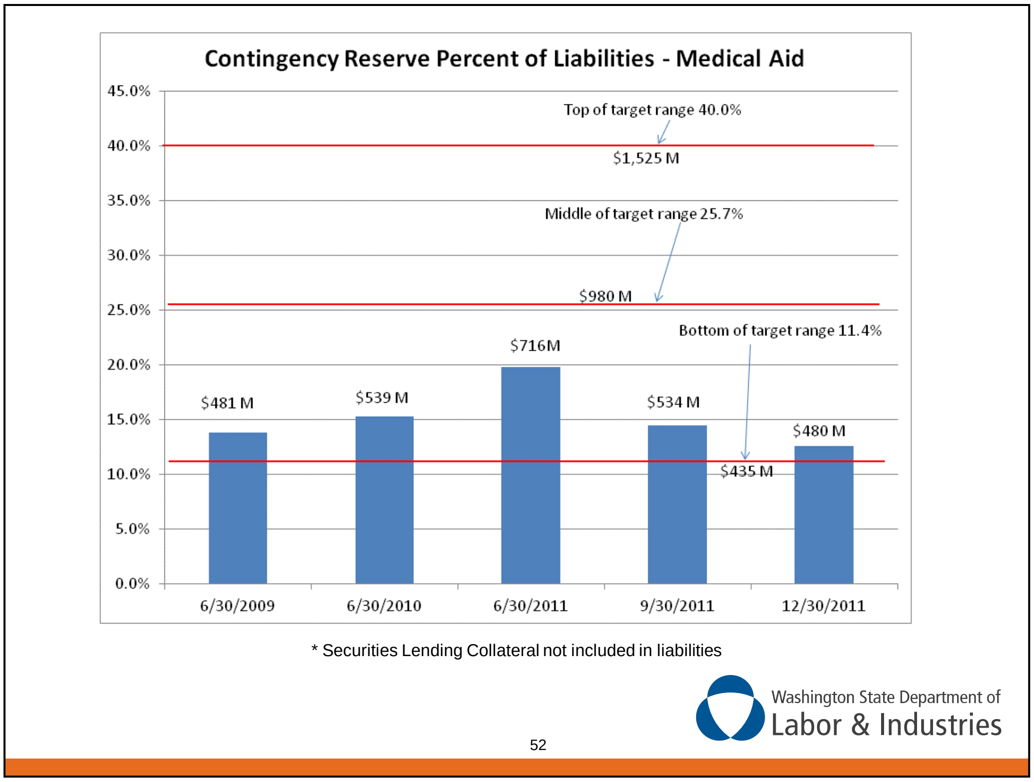
The contingency reserve for the Accident and Pension Funds was $88 million, below the bottom of the target range.

The Accident Fund had a positive reserve balance of $144.3 million, but the Pension Reserve had a negative contingency reserve balance of $56.2 million.

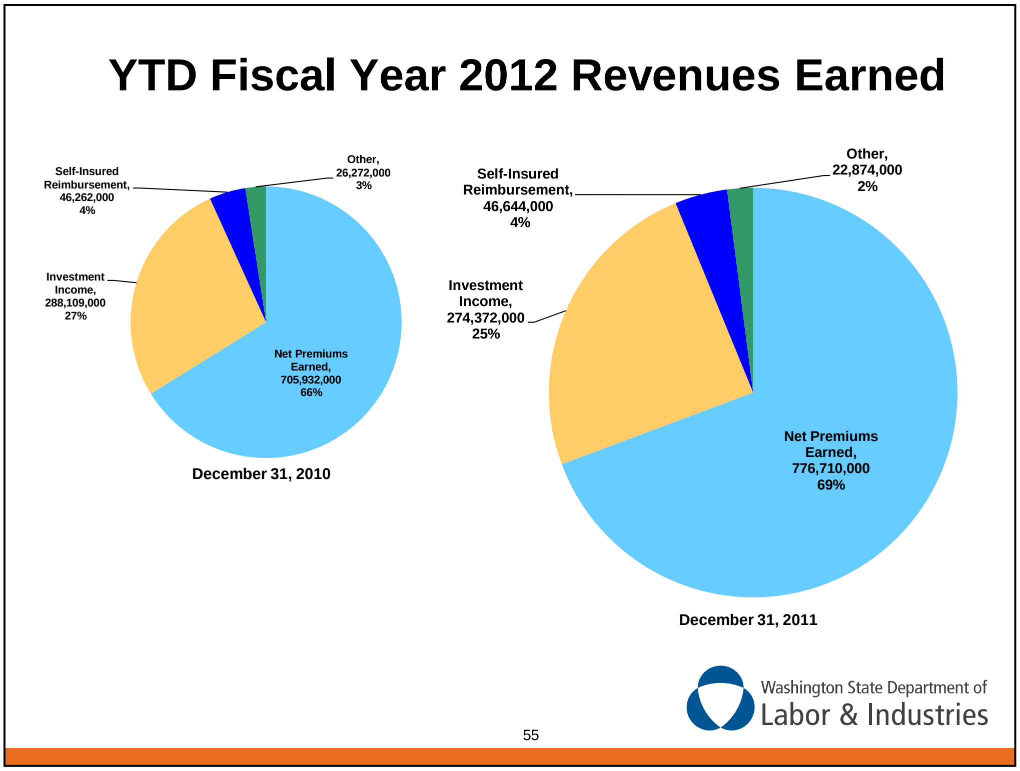


The contingency reserve for the Medical Aid Fund is at $480 million, above the lower target.

The decrease is due to change in benefit liabilities.

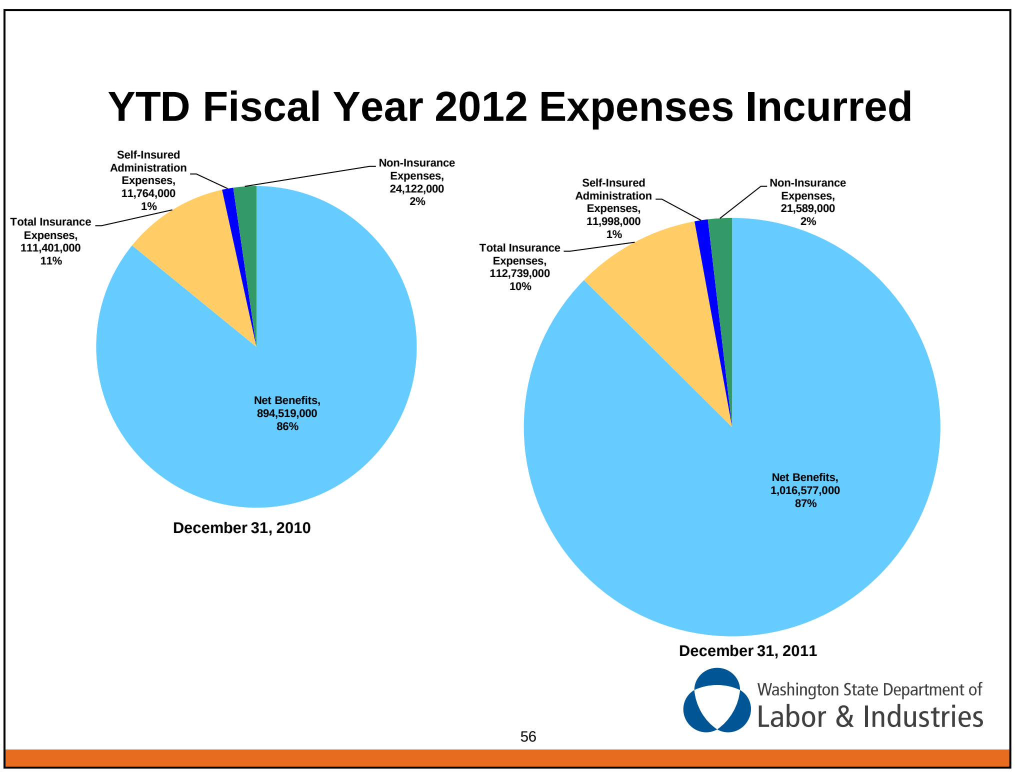
Financial Highlights of Results of Operations (comparison to December 31, 2010):

- Net premiums earned increased $70.8 million due to increase in the number of accounts, hours reported, and premium rate change.
- Net benefits incurred increased $122 million due to the increase in benefit liabilities as a result of the change in the discount rate.
- Net investment gains decreased due to $1.4 million in realized losses on the sale of equity.
- Equities unrealized gains (losses) increased $468.2 million due to market turmoil earlier in the year.



Year-To-Date (YTD) Fiscal Year (FY) 2012 Revenues Earned:

- *Net Premiums Earned:* $776.7 million, 69 percent of overall revenue.
- *Investment Income:* $274 million, 25 percent of total revenue.
- *Self-Insurance Reimbursement:* $46 million, 4 percent of total revenue.
- *Other (including penalty, interest and other miscellaneous items:* $22.8 million, 2 percent of total revenue

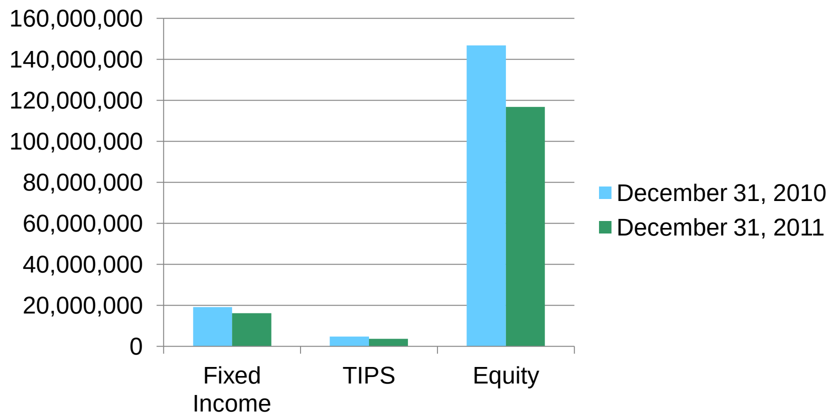


YTD FY 2012 Expenses Incurred:

The largest expenditure is benefits incurred which attributed to 87 percent of total expenses ($1 billion).

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

Realized and Unrealized Gains by Type



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This chart is a comparison by the type of investments we have.

There's a significant difference in equity for 2010 and 2011 due to unrealized losses due to market turmoil. TIPS and fixed income have been performing consistently.

Key Financial Ratios

	Dec 2011	Sept 2011	Jun 2011	Workers' Compensation Industry Forecast*
Loss Ratio	125.4%	108.2%	107.5%	90.0%
Loss adjustment expense (LAE) ratio	9.8%	8.2%	10.7%	
Loss and LAE Ratio	135.2%	116.4%	118.2%	90.0%
Underwriting expense ratio	3.9%	3.9%	5.4%	25.5%
Combined Ratio	139.1%	120.3%	123.6%	117.0%
Less: Net investment income ratio	30.5%	29.1%	33.0%	22.0%
Operating Ratio	108.6%	91.2%	90.6%	95.0%

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

**Industry forecast for combined ratio includes dividends

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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 second quarter number is 135.2 percent compared to 90 percent for the workers' compensation industry. The change from the prior quarter is due to benefit liabilities.
- *Underwriting Expense Ratio:* This is policy management of our employer accounts and is 3.9 percent compared to the industry's 25.5 percent.
  - *Combined Ratio:* This represents the loss and LAE ratio and the underwriting ratio, and is 139.1 percent compared to 117 percent in the industry.
- *Net investment income ratio:* We are at 30.5 percent compared to 22 percent in the industry.
- *Operating Ratio:* This is the combined ratio, minus the investment ratio to get the operating ratio. We are at 108.6 percent compared to 95 percent in the industry.

Cash Flow Comparison to December 31, 2011-

- *Net Premiums Collected:* This increased $104 million due to increase in number of accounts, reported hours worked, and premium rate change for CY 2011.
- *Benefits Paid:* This increase was less than 1 percent ($4.6 million).

Explanation of State Fund Results
(dollars in millions)

Contingency Reserve, July 1, 2011	$ 779.4
Unexpected Investment Results	
Equities: Unrealized Gains (Losses)	(166.9)
TIPS: Unrealized Gains	11.1
Equities: Realized Gains (Losses)	(1.4)
Fixed Income: Realized Gains	28.4
Sub-total Gains (Losses)	(128.8)
Less Expected Gains	(53.3)
Sub-total	(182.1)
Insurance Operations Results	
Prior Year Loss Unfavorable *	(15.4)
Change in Discount Rate *	(78.3)
Current Fiscal Year Income (Loss)	64.1
Sub-total	(29.6)
Change to Contingency Reserve	(211.7)
Contingency Reserve, December 31, 2011	$ 567.7

* Includes CAE

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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 $182.1 million.
- Insurance Operations Results: Results were unfavorable by $29.6 million.
- The contingency reserve changed by $211.7 million to $567.7 million as of December 31, 2011.

A question was asked regarding the pension discount rate, however, this will be discussed at the special meeting following the quarterly WCAC.

WCAC Healthcare (HC) Subcommittee: Diana Drylie

Diana Drylie, Occupational Health Services Manager, provided an update regarding the WCAC-HC Subcommittee and reviewed the handout “For Consideration by the Workers’ Compensation Advisory Committee”.

The subcommittee met in January 2012 to discuss proposed updates to their charter. In the past, the subcommittee has solely focused on Centers of Occupational Health and Education (COHEs); however, they are interested in expanding their focus to the emerging best practice efforts including COHE oversight and expansion, the top tier of the provider network, best practices and incentives, and the development and pilot of new occupation health best practices.

A question was asked to describe the difference between the WCAC-HC Subcommittee and the State Provider Network Advisory Group. Ms. Drylie advised that the State Provider Network Advisory Group is provider-focused with labor and business representatives included. This committee helps design all of the 5801 reform efforts and their primary concerns have been determining the minimum standards for network participation, how to ensure we have providers in the system, and the criteria for a provider to become a top tier provider. The WCAC-HC subcommittee membership is labor and business stakeholders.

An additional question was asked regarding who makes the determination about the medical fee schedule. Ms. Dupre answered that the committees are not involved in this process; this is determined by the department’s Health Services Analysis program. Ms. Drylie added that the subcommittee helps the department identify appropriate practices that we can provide incentives to. The subcommittee is also involved with the COHE specific administrative reimbursements.

Another question was asked if the COHEs each have a business/labor advisory board and how that group interacts with the WCAC-HC Subcommittee? Ms. Drylie answered that there are two community COHEs, Renton COHE and the Eastern Washington COHE, which have local business/labor boards. There are representatives from both boards on the WCAC-HC subcommittee. The WCAC-HC works on statewide implementation, high level policies and determining what direction we want to go. The business/labor advisory boards focus on being a conduit between their COHE and their community. Ms. Gude added that the Eastern Washington COHE business/labor board plan on meeting more frequently and in a smaller executive group to focus on the COHE expansion.

Ms. Dupre advised that Ms. Peterson will coordinate a conference call with the WCAC members to provide additional details of the charter purpose and to answer further questions.

It was asked for the department to provide a visual diagram, ahead of the conference call, that depicts how these groups with related charters interact in terms of their agenda, authority and who they report to.

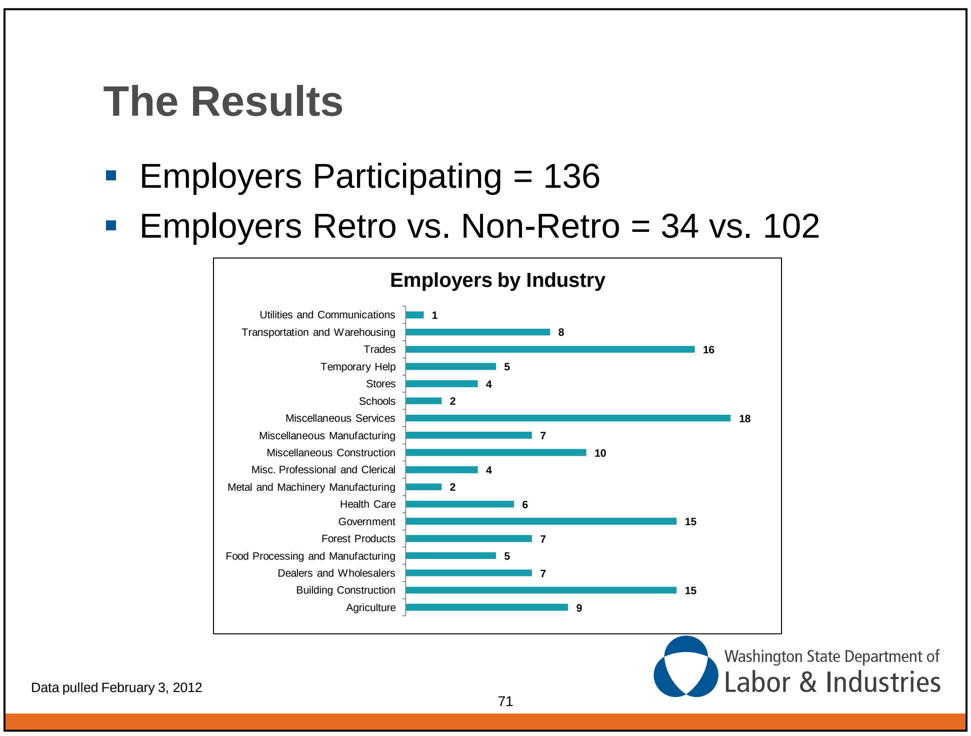
Reform Updates

Stay at Work: Bill Smith

Bill Smith, Stay at Work Program Manager, presented an update on the Stay at Work program. The Stay at Work program provides a financial incentive for employers to bring their injured workers quickly and safely back to light duty or transition work. Eligible employers can be reimbursed for 50 percent of the base wages paid to injured workers and other costs such as clothing, tools or additional training.

Data from February 2012 include:

February 3, 2012	February 28, 2012
Total Claims: 263	Total Claims: 423
Reimbursement Requests Scanned: 341	Reimbursement Requests Scanned: 883
Total Days Reimbursed: 6,889	Total Days Reimbursed: 12,230
Employers Participating: 136	Employers Participating: 207
Employer Retro vs. Non-Retro: 34 vs. 102	Employer Retro vs. Non-Retro: 269 vs. 154



This graph is a cross section of the number of different employers by industry that are starting to use the program.

Looking Ahead: The program's early outreach efforts will focus on the top one hundred employers, state government and Retro groups. The program is targeting specific areas of interest in industries such as logging, construction, nursing homes, and hotel chains. Lastly, the program is reaching out to the medical providers, including physician assistants and nurse practitioners, to assist with Early Return to Work and Stay at Work efforts.

The program has employer web-based training available on the department's website.

A comment was made expressing interest for a future update to look at the relationship of the Stay at Work numbers, time-loss ratios and the impact on time-loss claims for claims filed in that period.

Director Schurke commented on the return on investment for this program. Oregon's results found that in a three year look back, more workers were still at work and at higher wages. Our Research and Data Services group is reviewing Oregon's metrics and whether we want to replicate those or have other metrics.

A question was asked to clarify the department's efforts with the medical community, such as SeaMar, and helping them process light duty descriptions more timely.
Mr. Smith answered that the program is working with the COHEs and have presented to U.S. Healthworks. The program is also scheduled to present to Apple Physical Therapy. Ms. Dupre added that the Stay at Work program is working with Health Services Analysis on best practices and top tier incentives. As we build out our medical provider network, they may be motivated by financial reimbursements.

A comment was made that the program is running very well, employers have received the reimbursements quickly, even with the backlog. They also felt the program has had positive impacts on business and labor within a company.

Our uptake of the program exceeds Oregon's experience and we are working to keep pace without incurring any delay.

A request was made to have the form in Word rather than PDF format. This request is currently being worked on.

Structured Settlement: Dustin Dailey

Dustin Dailey, Structured Settlement Program Manager, continued with an update for the Structured Settlement program.

The Story: The program had a successful launch. We have successfully negotiated an agreement with a represented injured worker that has gone through the Board approval process and we have successfully made the first payment on April 2, 2012.

As a reminder, the Structured Settlement Agreements provide a new option for resolving the non-medical portion of an industrial insurance claim. It is a voluntary option available to workers and employers. Workers can reopen for future medical care, however, workers are reminded that if they have surgery, time-loss will not be available, nor will they get an increased permanent partial disability (PPD) award. The intent of this program is to provide workers the opportunity to pursue retirement goals independent of the workers' compensation system, achieving the best outcome for workers, and controlling pension costs. The agreements are limited to eligible injured workers who are at least 55 years old, have an accepted workers' compensation claim, and have submitted their claim within 180 days.

The program was launched January 3, 2012. The rules have successfully gone through the hearing process and are set to become effective on April 20, 2012. The payment capability became effective as of March 26, 2012 and the program has successfully implemented the first payment.

The Results: As of last week, 99 applications have been received from workers and 23 applications from employers. 29 of those workers are represented by legal counsel, while 93 are pro se. The program has begun to send out general interest letters to all eligible injured workers about the new option and noticed an increase in the number of applications from unrepresented workers.

A question was asked about the review process and when a request comes in, is there a different protocol whether the request comes from a worker who is pro se or represented? Mr. Dailey advised there is not, and no trend has been noticed in the process time with working with pro se or represented workers. The goal when negotiating agreements, particularly with pro se workers, is to have a face-to-face meeting with the worker and the Assistant Attorney General staff to ensure the worker fully understands the contract. This is not happening with represented workers because the negotiating has been through their attorney.

Of those settlement requests, 87 are not pursuing settlement any longer due to various factors. Twenty claims are in the L&I review process. This usually takes less than ten days to complete, which includes a full claim file review, talking to the applicant and gathering additional information needed. Eleven requests are in active negotiation and there is one settlement contract drafted and one has gone to payment.

Looking Ahead: The program is developing a web-based case management system scheduled for deployment May-June 2013. We are sending letters out to eligible workers so they are aware of the option and the program continues to apply Lean thinking throughout the process.

A question was asked if there is a standard form developed for contract drafting, "is there variability from case to case?" Mr. Dailey answered there is some variability, such as claim closures; we are working from a standard template that is heavily modified to accommodate the particular facts and circumstances of each case.

Another question was asked regarding how the program determines who is an eligible worker when sending out a letter to see if they are interested in the agreement. Mr. Dailey answered that the interest letters are being sent to all workers meeting the statutory eligibility requirements and the list is generated through a system data pull. The claims are not individually analyzed for settlement potential as part of this worker awareness effort.

Medical Provider Network and COHE Expansion: Diana Drylie
Diane Drylie, Occupational Health Services Manager, provided an update for the Medical Provider Network and COHE Expansion.

Medical Provider Network:

The Story: The goal for SSB 5801 is to establish a Medical Provider Network to ensure effective health care treatment and access to quality providers. The network will identify all providers in the state who can provide quality care to injured workers and encourage them to participate in the network. Starting January 2013, any provider who provides ongoing care to injured workers will have to be part of the department's network, which means they will meet minimum standards, and they will be credentialed through our system. The department has worked closely with the Provider Network Advisory Group to identify the minimum standards for providers in the network. These standards have been written into rule and are now final. The recruitment process has begun by identifying high volume providers and sending them letters and an invitation to participate in the network. The network is scheduled to go live January 2013.

A 2009 analysis looked at 150 providers who directed care for a large proportion (49 percent) of our long duration time-loss claims. A large proportion of these providers are taking care of hard claims and are assisting the injured workers. However, these providers include some with repeated quality of care complaints, extended treatment, high opioid prescribing and billing issues. In 2009-2010, Governor Gregoire put together an interim work group on workers' compensation to study and recommend legislative changes on these issues.

The Results: The final rules on network standards were adopted January 3, 2012. The rules include language developed by the Industrial Insurance Medical Advisory Committee (IIMAC) on risk of harm, establishing clear criteria for terminating a provider for patterns of poor quality and harmful care. In addition, the Provider Network Advisory Group agreed that when a provider is terminated, they will not be allowed to treat injured workers while the decision is in appeal.

We have a finalized Provider Network Agreement and installed a credentialing database. Also, we have an agreement with OneHealthPort so providers who already have their information in that system can release it to the department and it will come to us automatically. The provider will not have to submit a separate application to the department.

Looking Ahead: The program will continue to send out regional mailings from Eastern to Western Washington followed by an intensive recruitment effort. The department will then start enrolling providers who have 'clean files', which means they meet all of the minimum credentialing standards and do not need further review. A credentialing committee is being established for applications that require further investigation and determine if the provider should be allowed into the network. The program is establishing a work flow to ensure the process if efficient. Finally, the program is working on how to transfer care for those injured workers who lose their provider or go to a provider that is not in the network.

A comment was made about how impressed they were with the department's efforts on swiftly organizing and implementing this process.

Centers of Occupational Health and Education (COHE):

The Story: The goal is to promote and incentivize use of occupational health best practices for providers. Tools to achieve this include expanding geographic access to the COHEs, identifying best practices throughout the life of the claim, and identifying 'top tier' network providers who use best practices to provide them financial and non-financial incentives.

By December 2013, at least 50 percent of State Fund injured workers will have access to COHEs. By December 2015, the goal is 100 percent of workers will have access to a COHE provider. We started piloting additional best practices in January 2012, including a pilot focused on activity coaching, a service that helps an injured worker move more and prevents deconditioning and disability. Lastly, we are working on how to identify top tier providers and what incentives should be put in place for them. The department will meet with the Provider Network Advisory Group on April 26, 2012 to get feedback on proposed criteria for top tier providers.

The department is working with two self-insured employers to pilot how the COHE model could be incorporated into their workers' compensation processes.

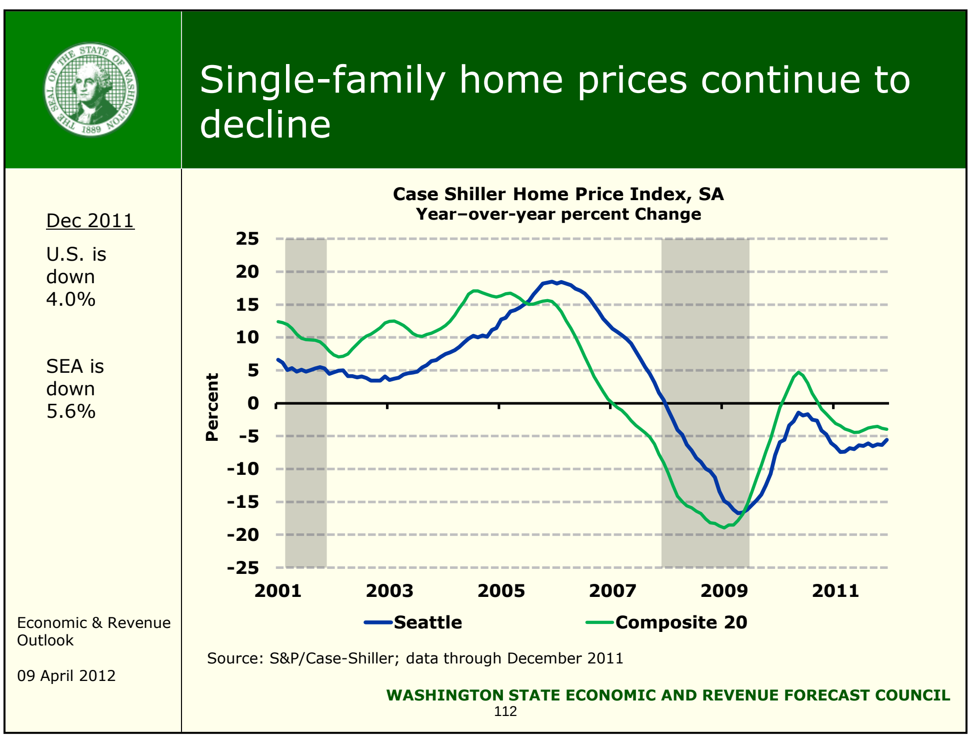
The Journal of Medical Care in December 2011 released a report showing injured workers treated by COHE providers had 19.7 percent fewer disability days, and cost $510 less. If the injured worker had a back strain, there were 29.5 percent fewer disability days. This shows providers can make an impact on what happens to injured workers.

The Results: In July 2011, we implemented standard COHE contracts and began 'beta testing' new COHE performance measures and provider scorecards. In September 2011, we had focus groups with clinical experts and identified fourteen potential best practices. Some are being piloted, while some are included in the opioid guidelines the Industrial Insurance Medical Advisory Committee (IIMAC) is drafting. In Fall 2011, the program recruited providers to pilot the Functional Recovery Questionnaire. This is to test whether or not identifying a worker who is at high risk of disability and putting interventions in place can make a difference. There have not been a lot of claims identified through this process yet. In March 2012, we completed a feasibility study with an external contractor to identify what kind of information technology systems could support the provider use of best practices. The feasibility study is recommending that we release a Request for Proposal (RFP) to try to find out what the industry can do for us.

Looking Ahead: The department will be working on the following:
- Develop the RFP for the Occupational Health Management System (July 2012).
- Adopt rules on criteria and incentives for Top Tier providers (Fall 2012)
- Begin surgical best practices pilot (Fall 2012)
- Release RFP for new COHEs (July 2013)
- Implement Occupational Health Management System (July 2013)
- Begin Top Tier Network and Incentives (July 2013)

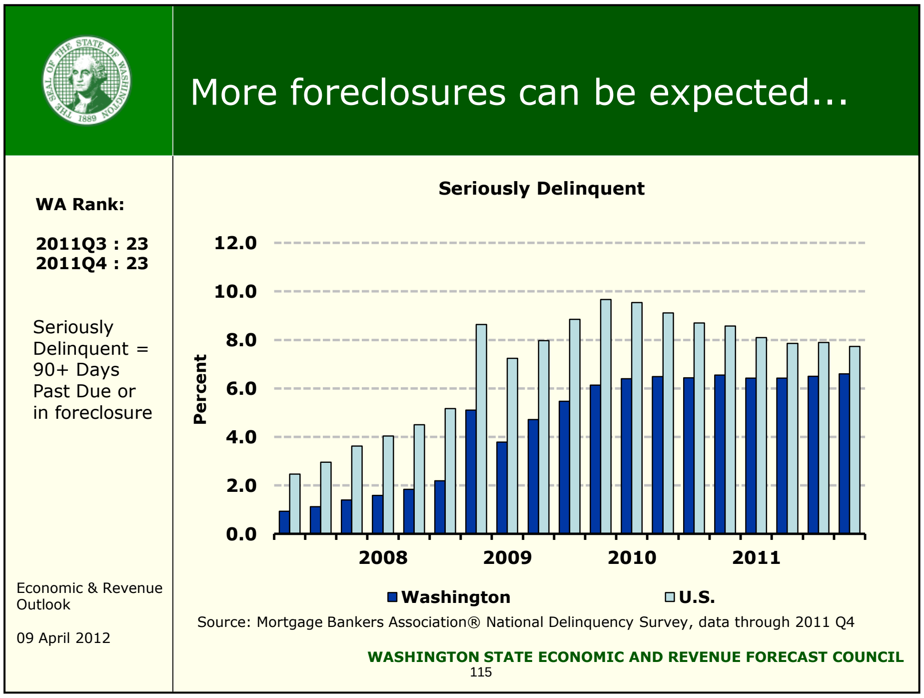
<u>Economic Update: Housing and Construction Outlook: Stephen Lerch</u>
Stephen Lerch, Interim Chief Economist and Executive Director of the Economic and Revenue Forecast Council, presented an economic update to focus on the housing and construction outlook and how it relates to the economic recovery.

Mr. Lerch provided a brief summary about housing and construction industries. There was a major decline in construction employment from record highs in 2007-2008; this included housing and commercial real estate. We are starting to see very slow recovery in the construction sector, especially in the rental sectors. Beginning late this year, the current forecast does show some gains in construction employment.



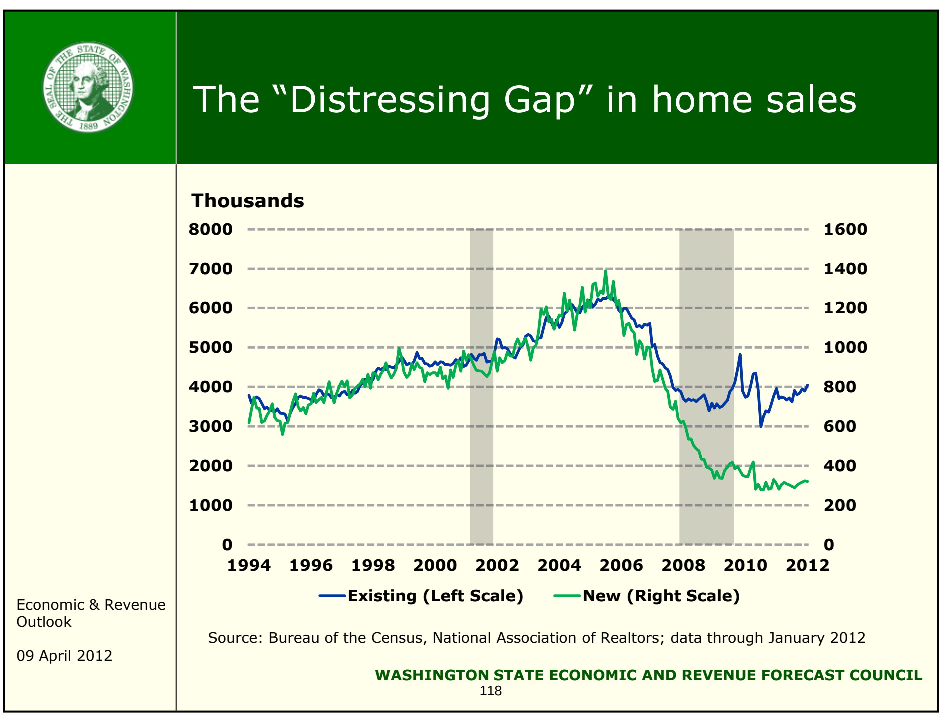
Based on the Case Shiller Home Price Index, starting at the start of the recession, house prices both nationally and in Seattle have been declining.

Distressed sales are pulling down home sales prices; distressed sales are short sales, and sales of foreclosed homes. Based on national and Washington data, the non-distressed sales have not fallen as much as the total; the total is driven by foreclosed houses or near foreclosed houses.



More foreclosures can be expected as past due rate remains high. Washington is faring better than the U.S., but another two percent of mortgages are at risk of slipping into foreclosure. That will increase the supply of houses which in turn keeps the downward pressure on the housing market.

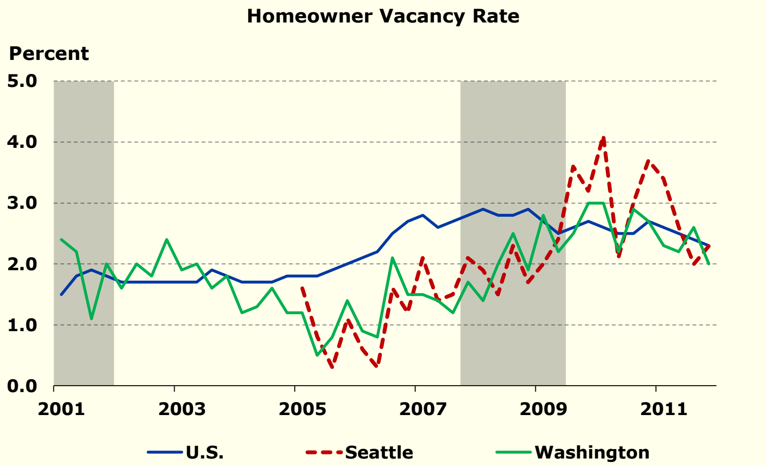
In Washington, 6.2 percent of loans are 90 days past due or in foreclosure.



The large supply of foreclosed and distressed houses has caused something new, the "Distressing Gap" in home sales. Usually new home sales and existing home sales track each other well; however, since the recession, we have a gap. New houses are less appealing to buyers when there is potential to get cheaper houses that are going on the market for foreclosures. When people are not purchasing new homes, builders are not building them, creating a significant drop in the inventory of new homes.

Home prices are still under downward pressure.

Homeowner vacancy in Seattle is now as high as the U.S.



Source: U.S. Census Bureau; data through 2011 Q4

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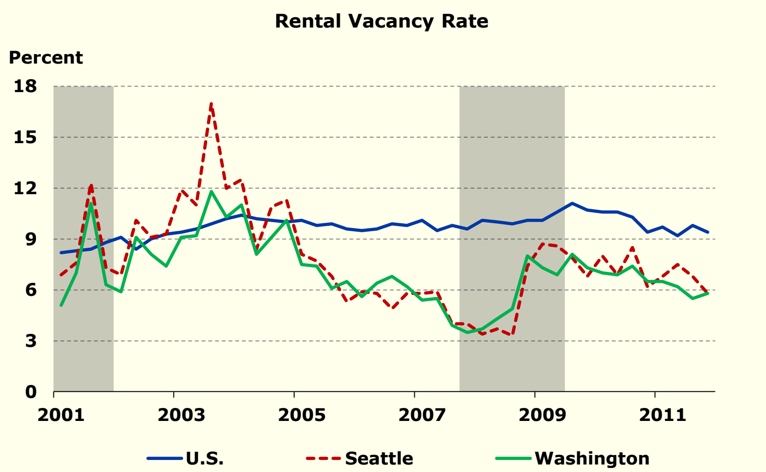
This graph is the ratio of home ownership versus renting. The red line is the historic average— both nationally and in Seattle, it is currently much cheaper to rent than to own compared to history. Even though the houses coming into the market are pushing down house prices, renting looks a little more appealing.

Rental vacancy rates are declining in Washington



Source: U.S. Census Bureau; data through 2011 Q4

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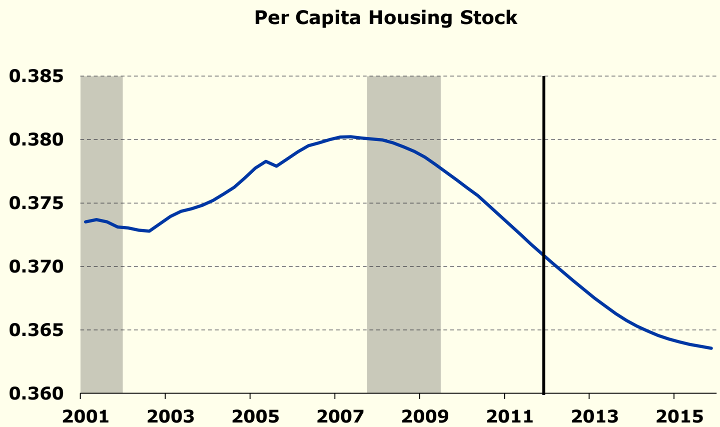
This graph shows that vacancy rates are declining and we are starting to see rising rents.

This is positive news for one sector of construction; multi-family housing.

Will we overshoot on housing?

The bubble has been worked off



Source: U.S. Census Bureau, ERFC February Forecast; data through 2011 Q4

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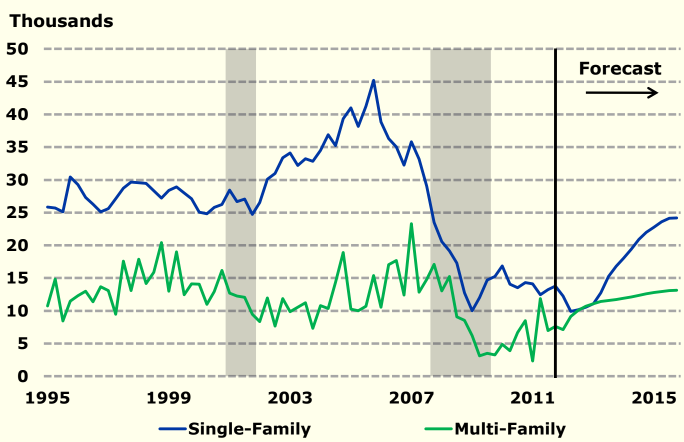
This graph is the housing stock relative to population for the U.S. There has been a big decline in construction of both multi-family and single-family homes. Population has continued to grow. As the economy slowly recovers, we will see an increase in household formation rates, these are people living with parents who get jobs and want to move out. This may cause some pressure to build new structures.

Construction will eventually recover…



Source: WA State Employment Security, ERFC February Forecast; data through 2011 Q4

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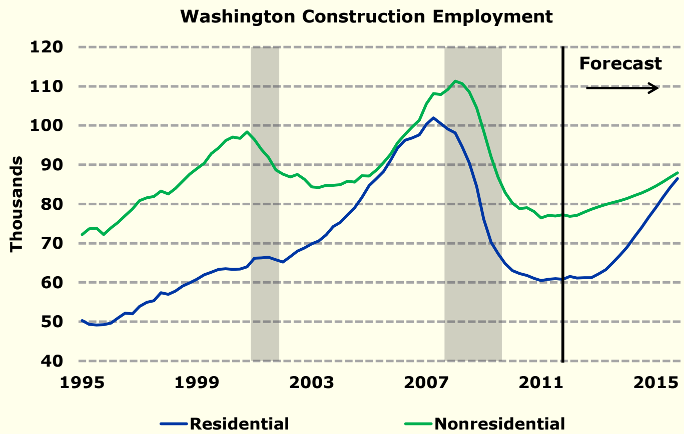
Construction will eventually recover as will construction employment.

This is the forecast for both single-family and multi-family housing- the factors will start to put some upper pressure, some increases in construction.

…as will construction employment



Source: WA State Employment Security, ERFC February Forecast; data through 2011 Q4

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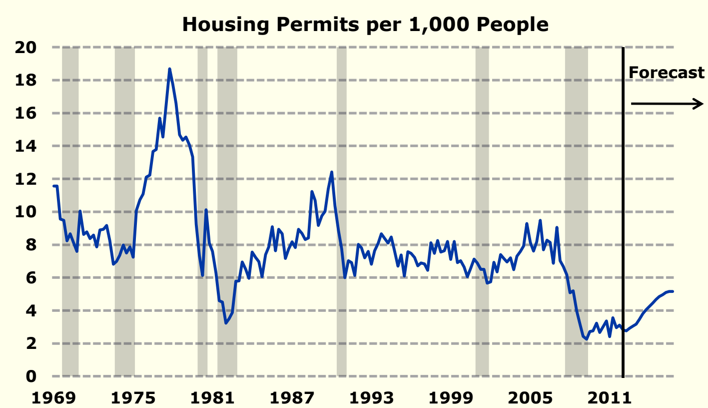
If there are increases in multi-family and single-family housing, we will also start to see increases in commercial building. The forecast shows an increase in construction employment starting later this year; but this is nowhere near pre-recession high points.

Housing permits relative to population will still be below historic levels in 2015



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Source: U.S. Census Bureau, WA State Employment Security, ERFC February Forecast; data through 2011 Q4

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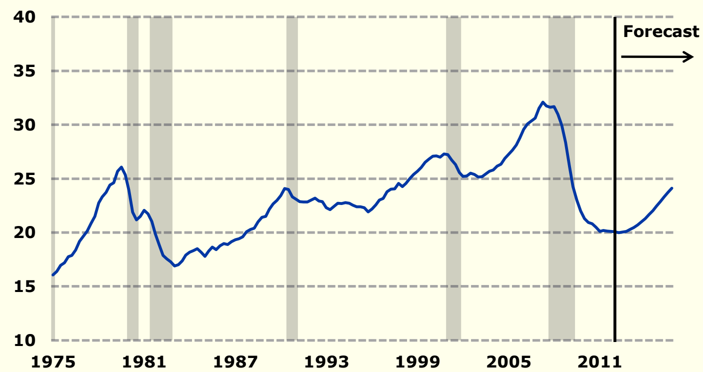
This is the forecast for housing permits. Per 1,000 people, we do see some increases, but if this is scaled by population, you can see we are still way below where we have been.

…as will construction employment

Construction Employment per 1,000 People



Source: U.S. Census Bureau, WA State Employment Security, ERFC February Forecast; data through 2011 Q4

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This is the forecast for construction employment per 1,000 people, there is an upward trend. As incomes rise, you get more demand for second houses, or bigger spaces, or more retail space.

This is positive, but not anywhere near where we were before the recession.

Washington construction will recover at about the same rate as the nation.

Conclusion

- The construction sector has been in a major slump since 2007 – 08
- Large number of houses in or headed to foreclosure has increased supply and pushed down prices
- Builder response: greatly reduced new home construction
- Some positive signs emerging:
  - Relatively lower price of renting vs. owning has increased multifamily housing demand
  - Growing population, depreciation of existing housing stock should eventually spur new home construction
- Forecast – rising construction employment starting in late 2012

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Mr. Lerch concluded the presentation.

Next Meeting: Beth Dupre

Ms. Dupre introduced Natalee Fillinger as the new Self-Insurance Program Manager.

The next WCAC Quarterly meeting is scheduled for June 21, 2012 from 9:00 a.m.-11:30 a.m. at the Tumwater office.

Meeting adjourned.