Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Minutes
September 17, 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; Cody Arledge, Washington State Building and Construction Trades Council; Karen Gude, United Food and Commercial Workers 1439; and Sofia Aragon, Washington State Nurses Association

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: Jeff Stowe, Candice Bock, Todd Gendreau, Art Dallessandro, Larry Stevens, Jerry Bonagofsky, Tammie Hetrick, Trish Leimbach, David Mendoza, Lance Deyette, Leonard Smith, Lauren Gubbe, Kim Hoff, Scott Dilley, Patrick Holden, Viona Latschaw, Greg Kabacy, Tom Kwieciak, Joan Elgee, Jim Newhall, Jan Gee, Paulette Avalos, Dawn Gearhart, Jeannie Gorrell, and Craig Scukas

L&I Staff: Tim Smolen, Mark Mercier, Russell Frank, Celia Nightingale, Jenifer Jellison, Sharon Elias, Kirsta Glenn, Janet Peterson, Leah Hole-Curry, Bill Vasek, Mike Ratko, and Rachel Aarts

Opening Comments and Safety Message

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

The minutes from the June 21, 2012 quarterly meeting were approved.

Ms. Dupre presented a safety video from the Safety and Health Assessment & Research for Prevention (SHARP) program from www.keeptruckingsafe.org.

Safety & Health Investment Project: (SHIP) Jenifer Jellison

Jenifer Jellison, SHIP Program Manager, provided a SHIP Program activity update. The program is requesting WCAC member feedback on identified priorities for the next safety and health grant acceptance round as well as any additional priorities that should be addressed.

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

The presentation was reviewed. The Board has moved into the new Seattle location located on Second Avenue in the Bay Vista building.

- *Total Appeals Filed and Granted by Quarters:* There were 3,697 total appeals filed and 2,036 total appeals granted last quarter.
- *Department Reassumption Rate by Quarter:* The reassumption rate reflects the proportion of appeals where the Department decides to reassume jurisdiction. There were 28 percent this quarter.
- *Average Proposed Decision and Order (PD&O) Time-Lag by Quarter for Hearing Judges:* The goal is 30 days for hearing judges to issue Proposed Decision and Orders. For the last quarter, it was 32 days. The Board has hired a number of new judges over the last couple of years due to retirements and transfers.
- *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 BIIA members to review, make changes, and sign. It is at 34 days for judges and 18 days for BIIA members—both of these are decreasing.
- *Quarterly Average Weeks to Completion:* The BIIA's goal is to keep this around 32.5 weeks. The average weeks to completion is at 31.6 weeks.
- *Caseload at End of Quarter:* This reflects the number of appeals active in the agency and the goal is to keep it below 5,000. It is at 5,388 which reflect a downward trend.
- *Structured Settlements:* As of September 4, 2012, there were thirty-five claim resolution structured settlement agreements filed (nine were re-files of rejected agreements). Fifteen of these were rejected, sixteen approved and four are pending.

Questions were asked if there were common themes in the rejected settlements and if most rejected settlements get re-filed. Mr. Threedy answered there were no common themes with the rejected files, however, they have received various agreements with issues regarding the statutory requirements such as minimum and maximum payments or where there is not enough information to make the determination. Many rejected settlements are resubmitted.

A question was asked regarding the changes that caused the downward trend of incoming caseloads for March 2012. Mr. Threedy advised that because of increased appeals, efforts have been made by judges to get the Orders out more quickly.

Industrial Insurance Fund Preliminary 4th Quarter Statutory Financial Information: Sharon Elias

Sharon Elias, Chief Accounting Officer, presented the preliminary financial report. Some figures will change at the end of November when the agency completes the year-end adjustments and Eide Bailly completes the audit of the department's statutory financial statement.

Insurance Operation Highlights

- Net premiums earned increased as a result of increased hours reported and changes in the premium rates. These increases were offset by a $30.5 million increase in retrospective rating adjustment liabilities.
- Net benefits incurred increased as a result of a 3.8% increase in benefit liabilities compared to June 30, 2011, offset by the decrease in benefits paid.
- Since Fiscal Year 2009, medical benefits paid have continued to decrease due to a drop in claim frequency and containing medical costs (medical growth is below 4%).
- Actuarial estimates of new liabilities (new accident year) continue to decrease.

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Ms. Elias reviewed the **Insurance Operations Highlights** on slide 16. In addition, Ms. Elias indicated that the Stay at Work program is highlighted on pages 29 and 30 and the Structured Settlement program on page 31 of the full financial report included in member packets. Additionally the first payment for the Structured Settlement program was paid in April 2012.

Results of Insurance Operation

		Preliminary Cumulative from July 1, 2011 to 6/30/2012	Fiscal Year Ending 6/30/2011	Fiscal Year Ending 6/30/2010	Fiscal Year Ending 6/30/2009
	Insurance Operation				
A	Premiums earned	1,463,352,000	1,429,530,000	1,250,433,000	1,360,533,000
	Deductions				
B	Benefits (Losses) incurred	1,954,615,000	1,601,225,000	2,135,874,000	2,348,838,000
C	Claim administrative expenses incurred (LAE)	181,419,000	159,641,000	152,309,000	185,980,000
D	All other insurance expenses	69,313,000	84,379,000	71,375,000	132,490,000
E	Total Insurance expenses	2,205,347,000	1,845,245,000	2,359,558,000	2,667,308,000
F	Net insurance operation gains (losses)	**(741,995,000)**	**(415,715,000)**	**(1,109,125,000)**	**(1,306,775,000)**
G	**Benefit (Loss) Ratio (B/A)**	133.6%	112.0%	170.8%	172.6%
H	**Claim Administration Liability (LAE) Ratio (C/A)**	12.4%	11.2%	12.2%	13.7%
I	**Other insurance expense Ratio (D/A)**	4.7%	5.9%	5.7%	9.7%
J	**Combined Ratio (G+H+I)**	150.7%	129.1%	188.7%	196.0%
K	**Net insurance operation gain (loss) Ratio (F/A)**	-50.7%	-29.1%	-88.7%	-96.0%

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Slide 17 reflects the **Results of the Insurance Operation** which includes several components.

- *Premium Earned:* $1.463 billion
    - The number of reported hours and accounts in fiscal year (FY) 2012 were much higher than FY 2011.
- *Benefits Incurred:* $1.954 billion
- *Claims Administrative Expenses Incurred:* $181 million
- *All Other Insurance Expenses:* $69 million (this includes managing policies and BIIA expenditures, but does not include self-insurance or non-insurance expenditures).
- *Benefit (Loss) Ratio:* The benefit loss ratio is at 133.6 percent. This means for every dollar collected, a dollar and thirty-three cents is spent for benefits.
    - There are two components of benefits loss; one is benefits paid and the other is changes in the benefit liabilities. Benefits paid decreased compared to FY 2011. In addition, we had a small increase in benefit liabilities of 3.8 percent compared to 2011.
        - Accident Fund account benefits paid $622.7. This is a decrease from FY 2011 primarily due to the 6.8 percent decrease in the frequency of compensable claims in the current accident year.
        - Medical Aid Fund account benefits paid $565.3 million. We have been able to contain medical cost growth below 4 percent. We have seen lower insurance exposure over the last several years and decreasing claim frequency.
        - Pension Reserve Fund account benefits paid $359.2 million. This has increased as a result of new pensions with increasing pension benefit amounts compared to existing (older) pensions.
- *Claim Administration Liability (LAE) Ratio:* 12.4 percent
- *Other Insurance Expense Ratio:* 4.7 percent
- *Combined Ratio:* The overall combined ratio is 150.7 percent. This means for every dollar collected, a dollar and fifty cents is spent. We rely heavily on investment income to offset expenditures.

Fiscal Year to Date Change in Benefit Liabilities

in ($1,000s)

	Preliminary June 30, 2012 Accident	Preliminary June 30, 2012 Medical Aid	Preliminary June 30, 2012 Pension	Preliminary June 30, 2012 Combined	June 30, 2011 Combined	June 30, 2010 Combined	June 30, 2009 Combined
Liability as of June 30 [1]	$4,139,876	$3,265,484	$3,387,688	$10,793,048	$10,748,429	$10,156,721	$9,330,953
New liabilities incurred since June 30th	$748,892	$639,020	$0	$1,387,912	$1,419,262	$1,546,357	$1,581,451
Development on Prior liabilities as of June 30th							
A Discount accretion [1]	$94,133	$76,766	$220,395	$391,295	$372,581	$350,643	$322,964
B Other development on prior liabilities	$14,207	$40,085	$0	$54,292	($236,573)	$198,181	$400,093
C Change in Discount Rate	$73,300	$2,827	$0	$76,127			
Claim Payments	($622,719)	($565,349)	($359,269)	($1,547,337)	($1,556,606)	($1,544,166)	($1,523,070)
Establishing state fund pension awards	($202,104)		$202,104	$0	$0	$0	($396)
Establishing S-I 2nd Injury pensions			$44,990	$44,990	$45,955	$40,693	$44,726
Change in liability	$105,709	$193,349	$108,220	$407,279	$44,619	$591,708	$825,768
Liability as of June 30th [2]	$4,245,585	$3,458,833	$3,495,908	$11,200,326	$10,793,048	$10,748,429	$10,156,721

[1] FY2012 at 2.5% accident & medical aid, 6.5% pension
[2] FY 2012 at 2.0% accident & medical aid, 6.5% pension

Due to workers' comp reform

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Slide 22 explains the change in benefit liabilities.

In FY 2012, there was a decrease in new accident liabilities due to the drop in claim frequency. Claim payments have also been decreasing overall. FY 2012 preliminary numbers were $11.2 billion in liabilities.

Investment Highlights

- Both assets and liabilities from securities lending activities decreased $2.2 billion – WSIB changed custodian banks and recalled all securities on loan prior to year end.
- $513 million in realized gains is due to the sale of equities to align with a new benchmark. When the equities were sold, a reversal of previously recorded unrealized gains was made to avoid duplicate reporting.

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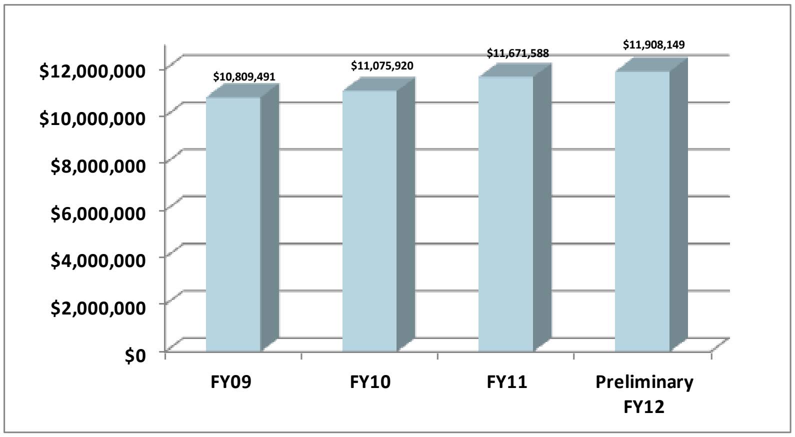
Ms. Elias reviewed the **Investment Highlights** on slide 23.

Total Investments

(in thousands)



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Total Investments:

Preliminary total investments for FY 2012 is $11,908,149.

Investments grew $237 million compared to June 30, 2011.

Investment Income equals income coming from interest payments, dividends, and capital gains collected upon the sale of investments

		Preliminary Fiscal Year Ending 6/30/2012	Fiscal Year Ending 6/30/2011	Fiscal Year Ending 6/30/2010	Fiscal Year Ending 6/30/2009
	Investment Income				
L	Net investment income earned	481,892,000	491,654,000	486,996,000	517,863,000
M	Net realized capital gains	547,771,000	68,768,000	17,725,000	(41,466,000)
N	Net investment gain (loss)	**1,029,663,000**	**560,422,000**	**504,721,000**	**476,397,000**
O	**Investment Income Ratio (N/A)**	70.4%	39.2%	40.4%	35.0%

Increase in realized capital gains is mostly due to the sale of equities to align with the benchmark.

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Slide 25 explains investment income and the investment income ratio.

We have an investment income ratio of 70.4 percent. In December 2011, the WSIB approved recommendations to change the benchmark from the Dow Jones U.S. total stock market index to the MSCI USIMI benchmark. In May 2012, the WSIB sold equities and bought new investment in order to align with the new benchmark, and this resulted in $513 million of net realized capital gains.

Investment Yield equals the annual rate of return on investments expressed as a percentage

	Preliminary Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Investment Income	481,892,000	491,654,000	486,996,000	517,863,000
Net Realized Gain (Loss)				
Fixed Income	31,728,000	45,634,000	17,643,000	(34,280,000)
Equity	2,768,000			
Equity (align with the new benchmark)	513,275,000	23,134,000	82,000	(7,186,000)
Total Realized Gain (loss	547,771,000	68,768,000	17,725,000	(41,466,000)
Unrealized Gain (Loss)				
Equities	(69,838,000)	370,867,000	149,875,000	(350,312,000)
Equity (align with the new benchmark)	(513,275,000)			
TIPS	36,671,000	46,077,000	29,192,000	(11,337,000)
Total Unrealized Gain (Loss)	(546,442,000)	416,944,000	179,067,000	(361,649,000)
Total Invested Assets	11,908,149,000	11,671,588,000	11,075,920,000	10,809,491,000
Investment Yields				
Investment Income/Average Invested Assets	4.1%	4.3%	4.5%	4.7%
Realized Gain (Loss)/Average Invested Assets	4.6%	0.6%	0.2%	-0.4%
Unrealized gain (Loss)/Total Invested Assets	-4.6%	3.7%	1.6%	-3.3%
Total	4.1%	8.6%	6.2%	1.1%

This is due to the sale of equities to align with the new benchmark

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Slide 26 explains the investment yield.

The realized and unrealized gains offset each other and resulted in an investment yield of 4.1 percent.

Change in Contingency Reserve (dollars in millions)

Contingency Reserve, July 1, 2011	$	779.4
Unexpected Investment Results		
Equities: Unrealized Gains (Losses)	$	(583.1)
TIPS: Unrealized Gains (Losses)		36.7
Equities: Realized Gains (Losses)		516.0
Fixed Income: Realized Gains (Losses)		31.7
Sub-total Gains (Losses)		1.3
Less Expected Gains (Losses)		(110.1)
Sub-total		(108.8)
Insurance Operations Results		
Prior Year Loss (Unfavorable)	$	(54.3)
Reduction of Non-Pension Discount Rate		(76.1)
Prior Year Retro (Unfavorable)		(77.5)
Premium Adequacy (Inadequacy)		114.3
Sub-total		(93.6)
Change to Contingency Reserve	$	(202.4)
Contingency Reserve, June 30, 2012	$	577.0

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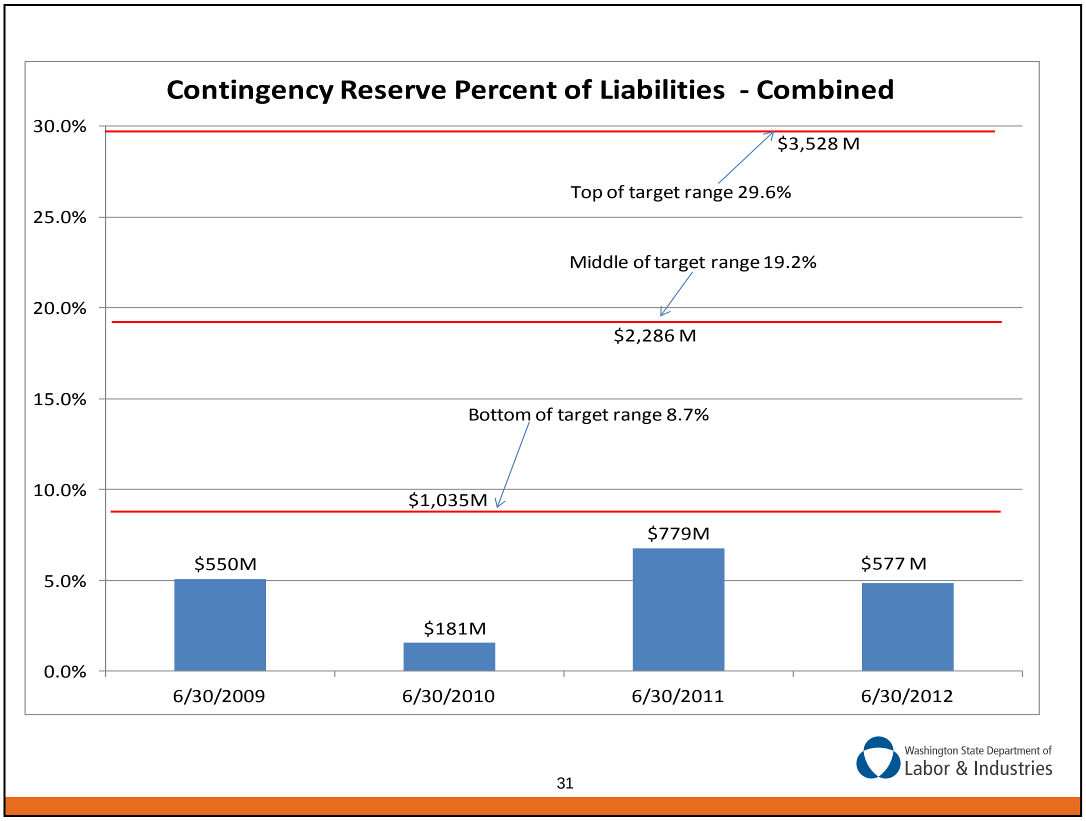
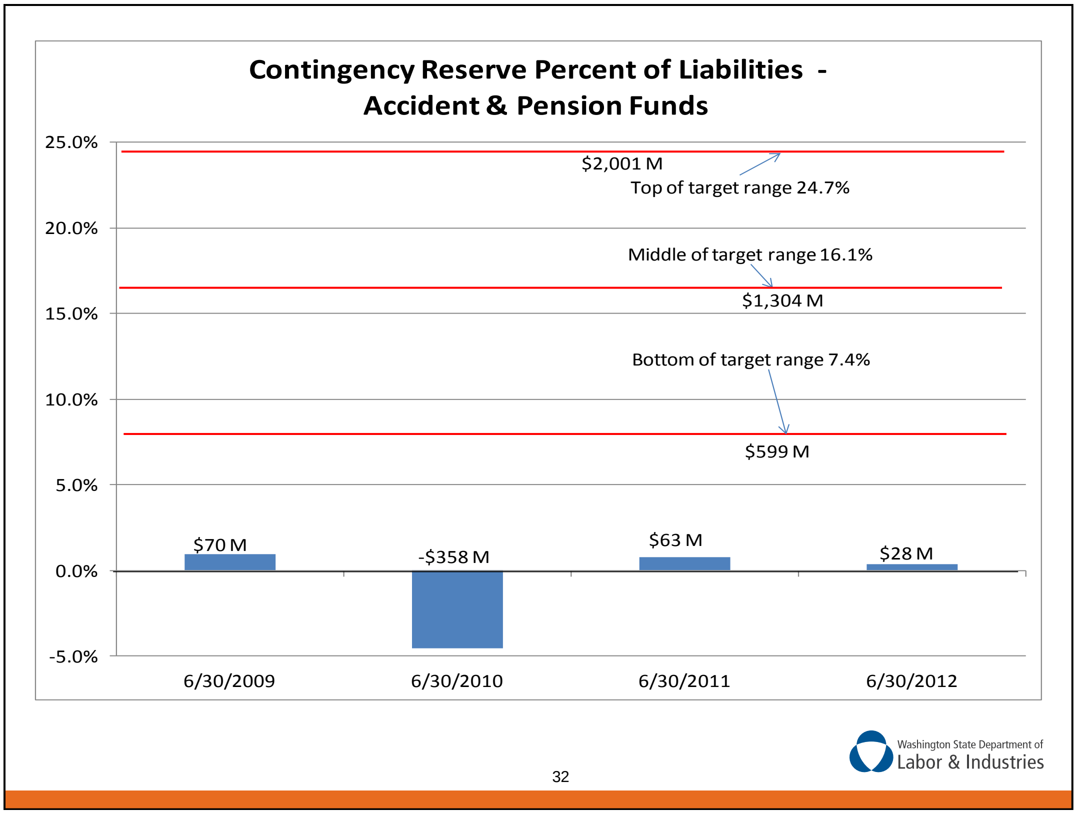
Slide 30 is the **Change in Contingency Reserve:**
- As of June 30, 2011, the contingency reserve balance was $779.4 million.
- Unexpected Investment Results: The investment loss in unrealized and realized gains was unfavorable by $108.8 million.
- Insurance Operations Results: Results were unfavorable by $93.6 million.
- The contingency reserve decreased by $202.4 million to $577 million.



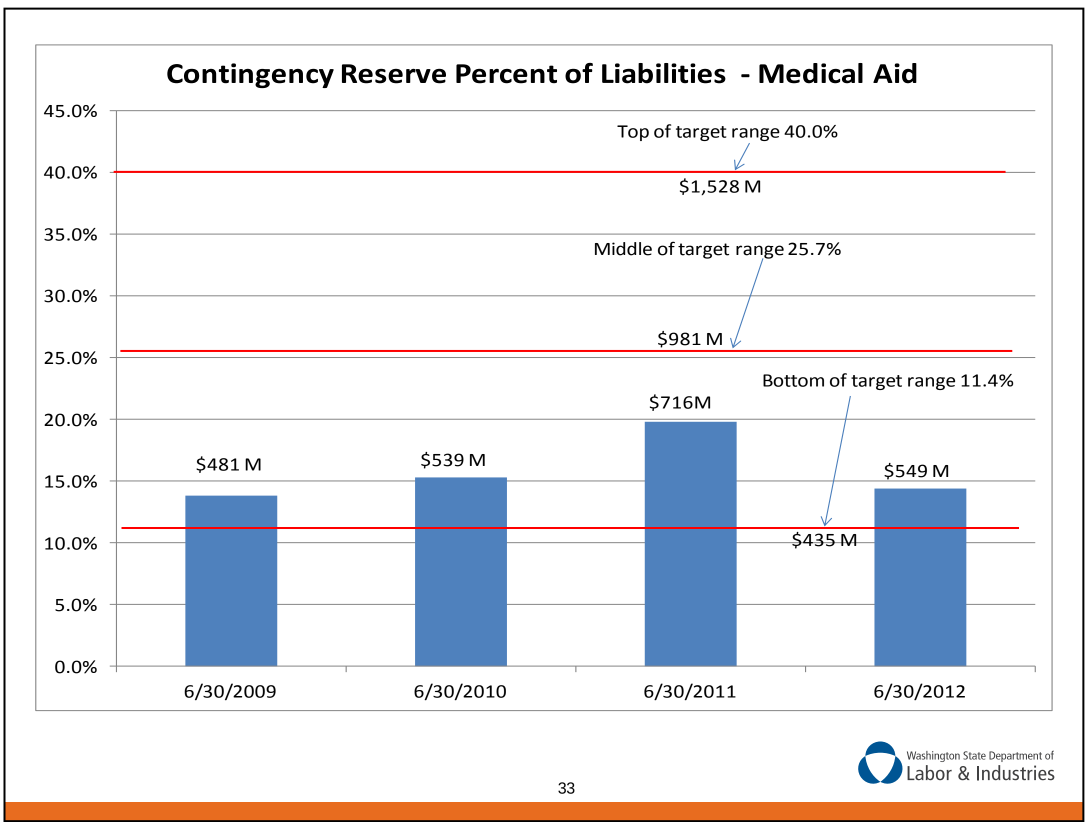
This chart explains the combined contingency reserve balance in relation to the draft contingency reserve policy.

Currently the contingency reserve is at $577 million, below the bottom of the target range.



The contingency reserve for the Accident and Pension Funds was $28 million, below the bottom of the target range.

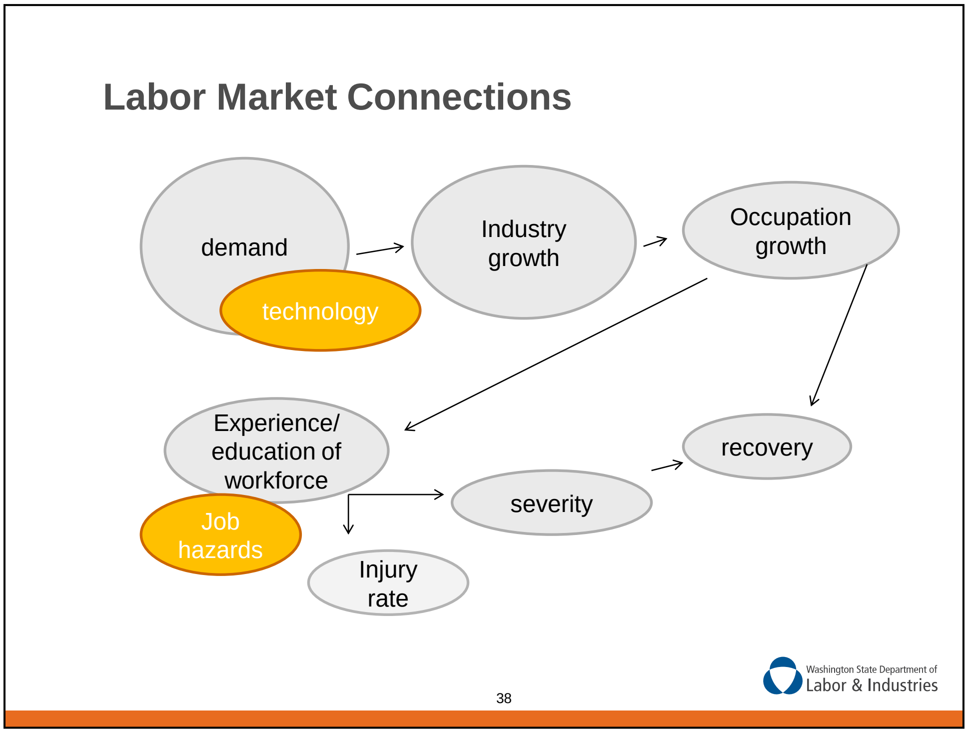
The Accident Fund had a positive reserve balance of $82.5 million, but the Pension Reserve had a negative contingency reserve balance of $54.5 million.



The contingency reserve for the Medical Aid Fund is at $549 million, above the lower target.

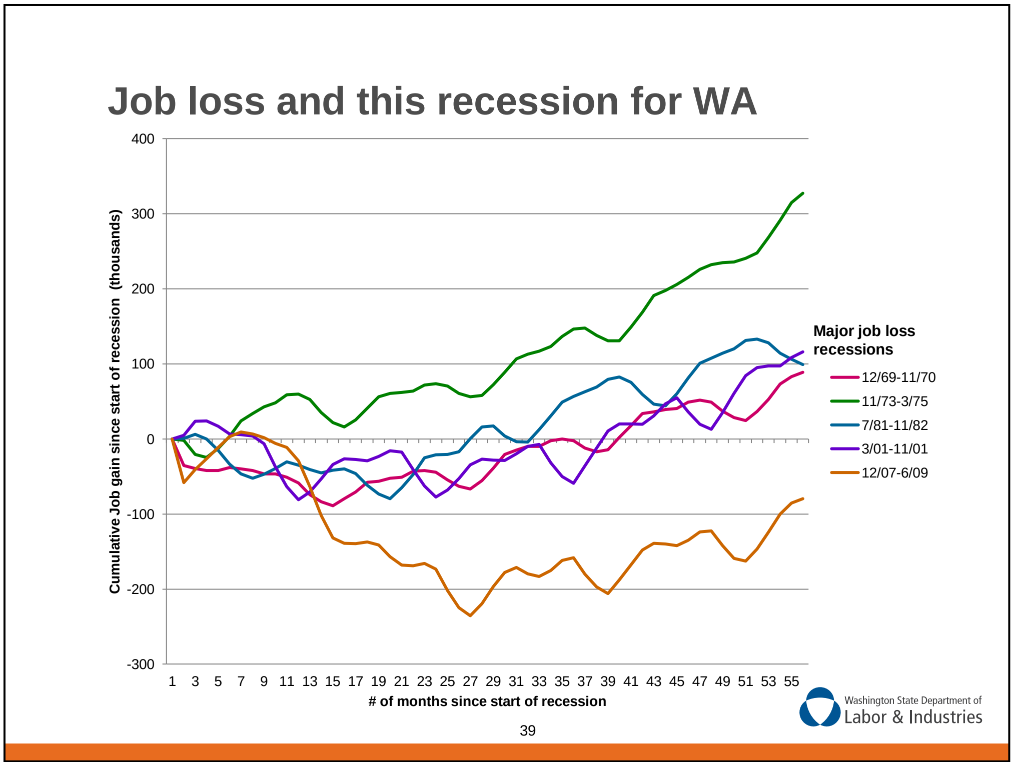
Economic Update: Kirsta Glenn

Kirsta Glenn, Research and Data Services Program Manager, presented an economic update focused on the economy's potential impacts to the workers' compensation system. Workers' compensation is affected by the labor market, costs and the rate of investment return. In the labor market, there are short-term and long-term impacts. Short-term impacts include both persistent and non-persistent factors while longer-term impacts include such things as the demographic make-up of the labor force and the industrial structure (technological advances, demand, etc.).

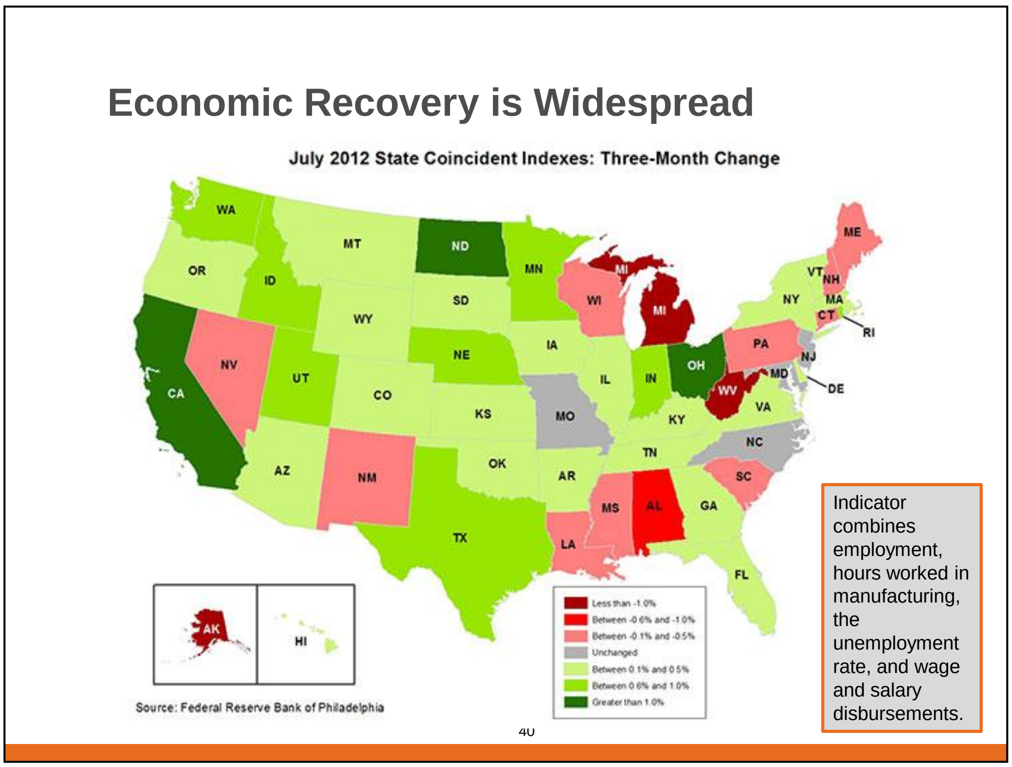


Ms. Glenn reviewed the graph on slide 38.

- Total demand is what people, other nations and government are buying. This determines which industries grow.
- Technology interacts with the demand for goods and services to determine which industries are going to be growing. This is important for the department because that to determines occupational growth.
- Occupational growth is going to determine the work force experience and the education of the workers. This will then determine the kinds of injuries that occur and how severe those injuries are.
- Recovery is also impacted by occupational growth because part of what determines the recovery rate is whether there are jobs for injured workers to return to.



In the graph on slide 39, each line represents a different recession. It shows the month-to-month job growth after the recession starts. Ms. Glenn noted that some recessions had minimal job losses (refer to 1973 recession). Contrast that with the recent recession which was much deeper and longer lasting.



<u>The recovery is widespread.</u> The graph on slide 40 has different colors that represent current indicators of economic growth and recovery. Indicators combine employment, hours worked in manufacturing, the unemployment rate, and wage and salary disbursements. This map was almost all red a few years ago.

Job growth in Washington has been very consistent across the recovery period.

The pace of recovery across industrial sectors in Washington

Percent Change in Employment	2007-2009	2009-2011	2011-2012
mining & logging	-21.3%	-9.0%	-2.5%
construction continued slump	-16.3%	-19.2%	-0.7%
manufacturing unexpected strength	-6.5%	-2.4%	3.9%
trade, transportation, utilities recovery	-3.4%	-1.5%	1.5%
professional & business services	-2.9%	1.0%	1.6%
other services	1.8%	0.1%	-0.7%
information	3.1%	-1.2%	-0.4%
Government new weakness	3.3%	-1.1%	-0.7%
Federal	4.7%	2.5%	-2.1%
State	2.4%	-1.9%	-0.2%
State (ed)	1.0%	0.5%	1.3%
Local	3.3%	-1.5%	-0.6%
Local (ed)	1.0%	0.5%	-1.0%

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Slide 42 shows <u>the pace of recovery across industrial sectors in Washington</u>. The highest percentage job loss was in mining and logging. Construction, manufacturing, and trade followed. The government sector grew during the recession in terms of jobs. After the recession (2007-2009), logging continued to have major job declines; from 2009-2011 we saw a continued 19 percent job decline in construction. Construction represents a large number of people in the work force and has a significant impact on the economy as a whole.

Currently, construction is in a continued slump. It has not turned around in terms of job growth.

- Manufacturing showed unexpected strength in job growth. 10,000 jobs were created in the last year in Washington; this was unexpected but positive news.
- Trade also has begun to recover. This sector includes retail trade. 7,822 jobs were created in the trade sectors.
- Government is declining. Government lost 3,600 jobs.

<u>More education means a higher labor force participation rate and lower unemployment. Recession hurt workers at all education levels.</u> One indicator in the labor market is the education of the workforce.

- In 2007, the labor force participation rate for those with less than a high school education was 46.5 percent. It is now 46.3 percent in 2012. The unemployment rate for this group went from 6.8 percent to 13.4 percent.
- In 2007, the labor force participation rate for those with a Bachelor's Associate or higher was 78 percent. By 2012, labor force participation rate for this group had gone down to 76.1 percent. The unemployment rate for this group went from 1.9 percent to 4.2 percent.

<u>Changing age distribution of workforce: youth partcipating less and older Americans participating more.</u> In 2012, labor force participation was 64 percent overall. It was lower among the youth at 55 percent and

40 percent for older adults. For older workers, this represented a 5.1 percent increase in labor force participation since 2003 while the participation rate for younger workers declined during the same period by 7.6 percent. Older workers are getting jobs at a higher rate.

The unemployment rate in 2012 was 8.6 percent total; 16.7 percent for youth and 6.4 percent for older workers.

Duration of unemployment

	2007	2009	2011
Less than one month	35.9%	22.2%	19.5%
One to three months	31.5%	26.8%	21.8%
Three to five months	15%	19.5%	15%
Six or more months	17.6%	31.5%	43.8%

Source: Bureau of Labor Statistics, national

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The chart on slide 46 shows that before the recession, more than 17 percent of workers were out of work for six months or longer. Currently 43.8 percent have been out of work for six months or longer. Six months is a duration marker that is often reported because it is a signal that people are beginning to lose skills, experience and contacts that will allow them to reenter the job market successfully. If the job growth continues to be as slow as it is, it will not be enough to absorb all these people who want jobs.

The concern is whether these workers will find jobs again. If they enter the labor force at a much lower level than previously, we would lose this generation of middle income wage earners.

Discouraged workers want a job but believe none are available.

Persons with disability – 2011 (age 16-64)

	disability	no disability
Labor force Participation rate	32.3%	76.6%
Unemployment rate	16.2%	8.8%
Out of 1,000 pop working	271	699

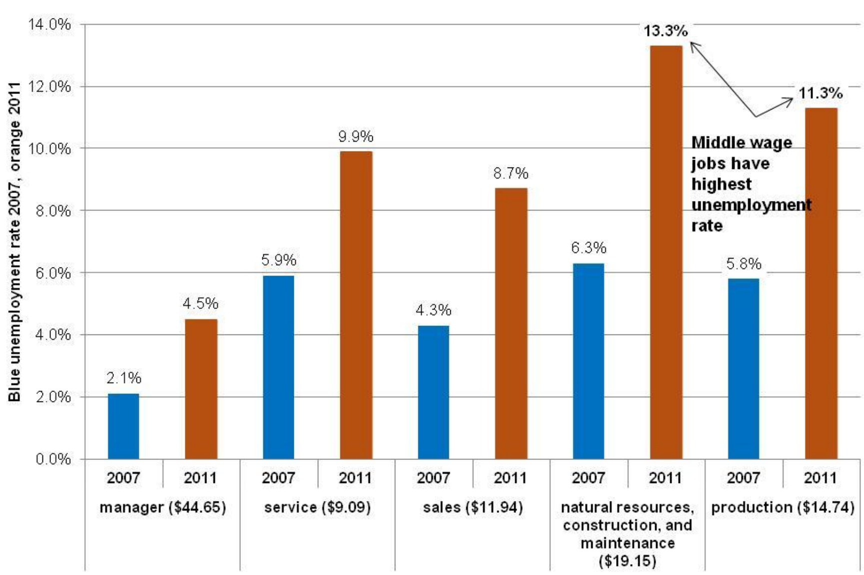
Disability definition: difficulty hearing, serious difficulty seeing even with glasses, difficulty concentrating, remembering, or making decisions, difficulty walking or climbing stairs, difficulty dressing or bathing, difficulty doing errands.

Source: current population survey 48

Ms. Glenn provided slide 48 and the definition of disability used for this slide. The labor force participation rate is 32 percent for the disabled compared to over 76 percent among those with no disability. The unemployment rate is 16.2 percent for the disabled versus 8.8 percent the non-disabled. The net effect of this is that out of 1,000 people with disabilities at working age, only about 270 are working. For people without disabilities, about 700 out of 1,000 are working. When looking at work as a quality-of-life issue, this is a tragedy for those people and for our country's overall productivity.

All of the trends in education, skill level, people with disabilities, people dropping out of the labor force, slow job growth, and the changing industry mix have an impact on what the income distribution is in the overall economy.

Occupation – unemployment rate and average hourly wage



May 2011, national occupational employment and wage estimates 49

The graph in slide 49 shows the unemployment rate by occupation. The average hourly wage for each occupation is in parentheses. The average wage of managers is $44.65 an hour compared to service occupations with an average rate of $9.09 an hour. Natural resources, construction, maintenance and production are considered middle-income jobs.

The unemployment rate is much lower for managers with high wage jobs. The unemployment rate for the middle income jobs increased the most. This is evidence that we are seeing middle-wage jobs being thinned out, with growth in low-wage and very high-wage jobs.

The general trend confirmed recently with census information is that income and inequality is increasing.

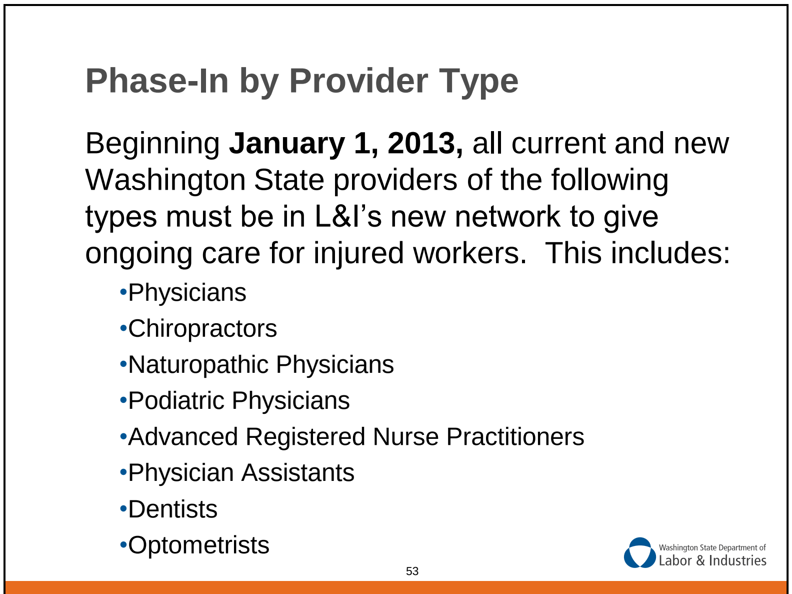
In conclusion, job growth is likely to be slow, but steady into the future. The industry mix is going to continue to change and some industries will do better, while some will do worse. Those who were worse off at the start of the recession continue to be worse off today and they have been joined by some people in the middle-income group. For workers' compensation, exposure and claims continue to grow slowly due to the slow recovery. The changing industry mix affects our averages, and a portion of our claimants will continue to struggle.

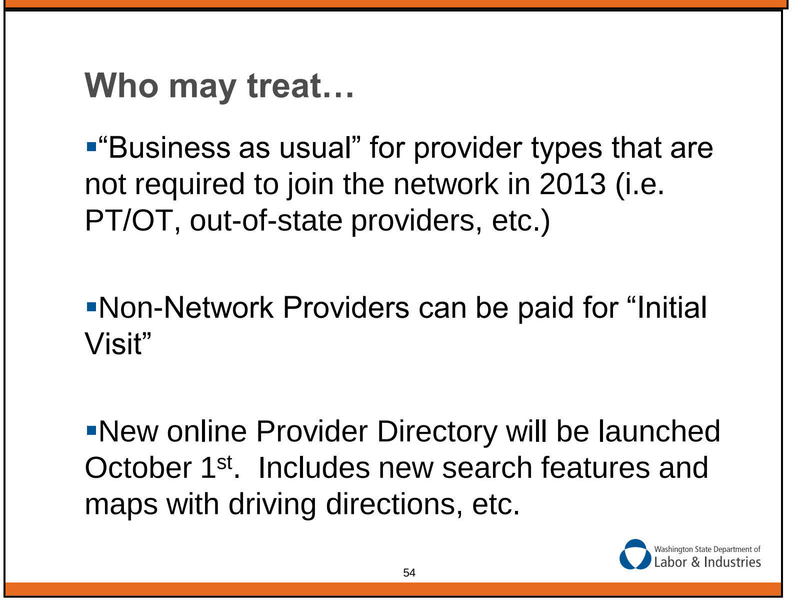
A question was asked if Washington is doing anything differently relative to other parts of the country. Ms. Glenn advised the data in the presentation is national data and trends. She expected that Washington would do worse than the rest of the country in terms of income distribution because the state is a high technology state with a relatively highly educated and youthful employment base.

A question was asked to elaborate on the agriculture industry's effect on lower-wage jobs. So much of the country was affected by a drought, however, our agricultural sector has been fairly strong. The agricultural industry's challenges include attracting workers who want to work in agriculture at the wages offered under the conditions that exist.

SSB 5801: Implementation: Medical Provider: Janet Peterson and Leah Hole-Curry

Janet Peterson, Program Manager for Health Services Analysis, provided an update on the implementation of the Medical Provider Network. As a reminder, the mandate is to establish a Medical Provider Network to ensure effective health care treatment and access to quality providers. Starting January 2013, injured workers must see network providers for ongoing care.





Ms. Peterson reviewed slides 53 and 54. She continued with an overview of the guiding principles of the network enrollment processes.

Guiding Principles: Our processes and forms are based on those used by other health plans in Washington state. We are utilizing the same forms used by hospitals for credentialing providers. We also are utilizing group contracts. If a health care organization is already credentialing their providers with the same or higher standards we have adopted in rule, we are signing a delegation agreement and a group contract. For individual providers who do not fall under a group contract, they can find all application material at www.JoinTheNetwork.Lni.wa.gov. The program's goal is for a January 1, 2013 launch date. We will continue to enroll providers as they decide to treat injured workers. If a physician decides to enroll after January 1, 2013, or if we have not completed processing their application prior to January 1, they will have provisional enrollment for up to sixty days.

Providers in the Network Enrollment Process as of 8/14/2012

Individual applications received	~3,500
Providers being enrolled through delegated groups	~9,500
TOTAL	**~13,000**

PERCENT OF INJURED WORKERS WHO LIVE WITHIN 15 RADIUS MILES OF AT LEAST 5 NETWORK PRIMARY CARE PROVIDERS:

State Fund	**Self-Insured**
97% (vs. 99% CY12 baseline)	99% (vs. 99% CY12 baseline)

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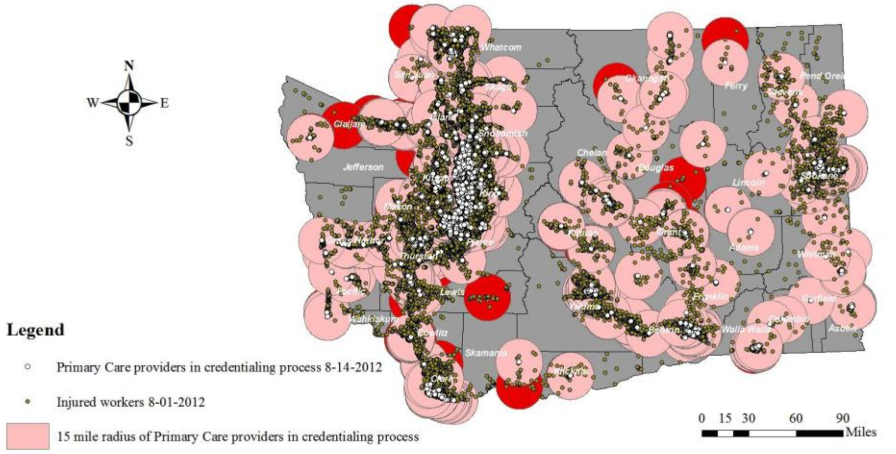
As of mid-August, we received 3,500 individual applications and are in the process of enrolling 9,500 providers through group contract arrangements.

To compare to current baseline access, we are using a geo-access software which uses the injured worker's residence and a 15-mile radius to determine if there are five or more potential primary network doctors in that radius. The baseline 99 percent of current access.

Provider Network
Providers in Credentialing Process as of August 14, 2012, and Injured Workers Population as of August 1, 2012



Authors: Gustavo Aviles and Cecila Maskell

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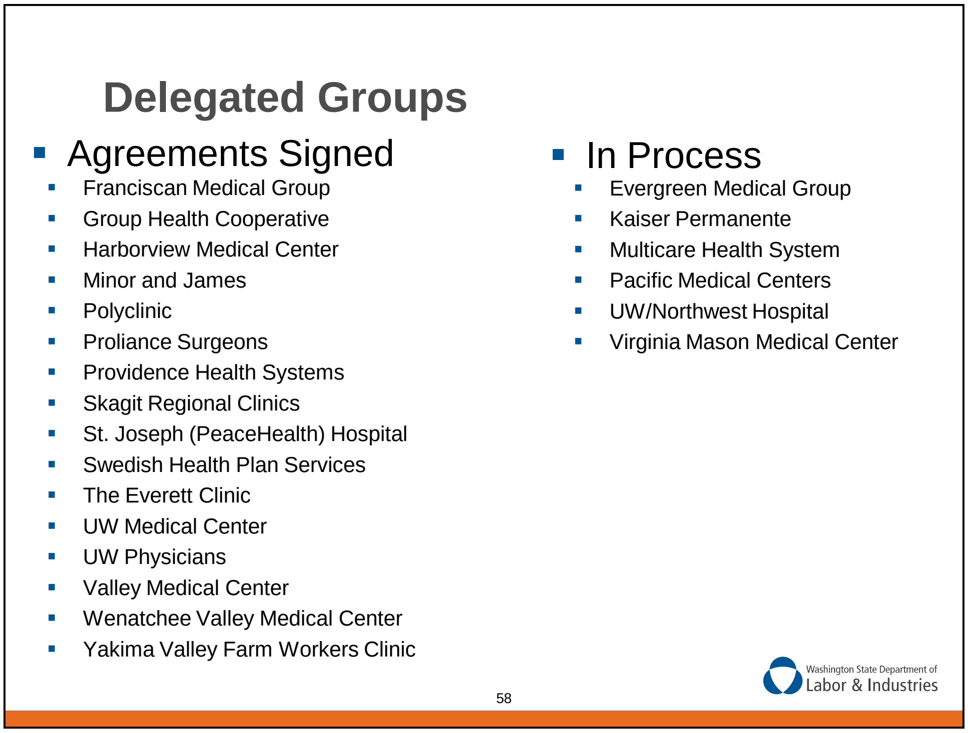
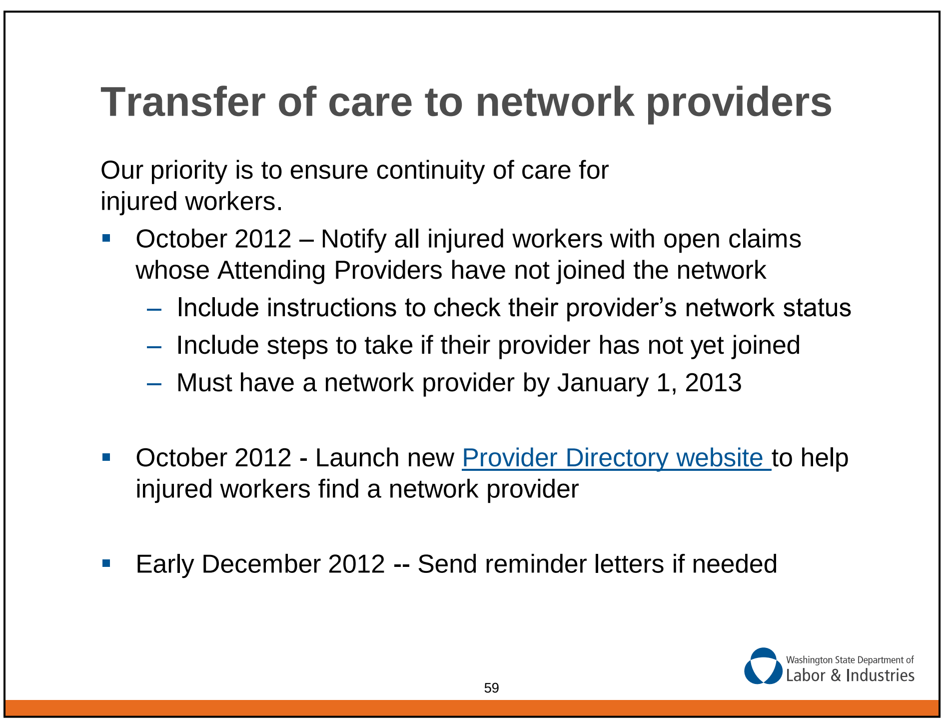
The network development is already providing good geographic coverage.



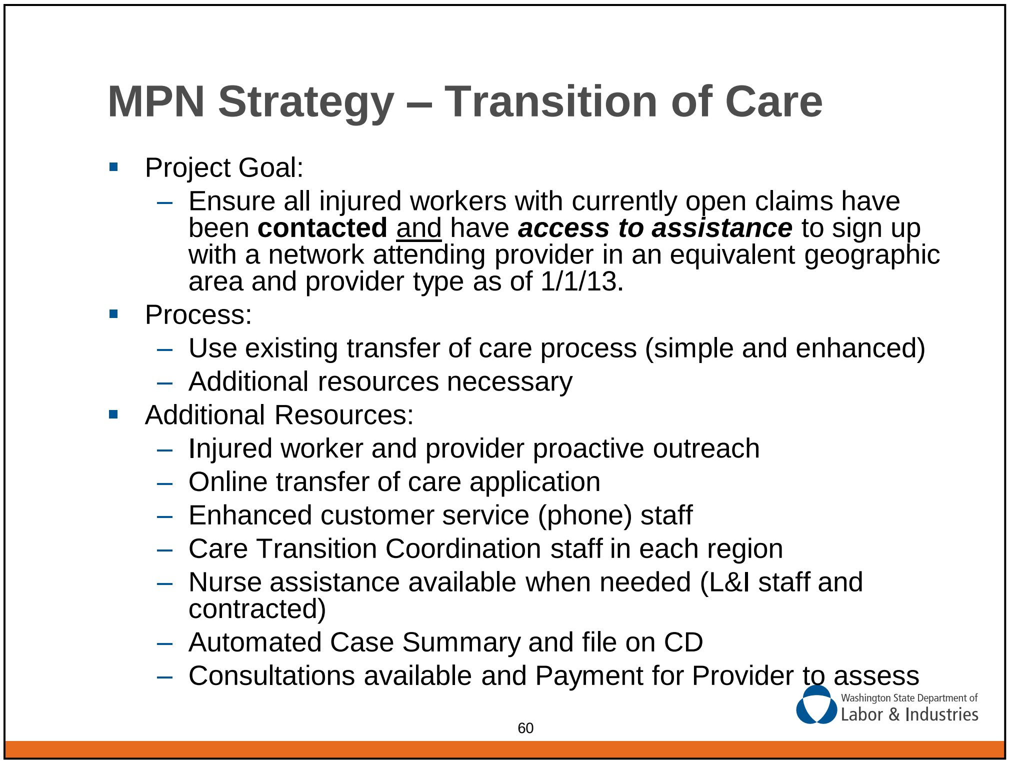
The department anticipates 22 groups that will qualify for delegation agreements. The department is busy loading the data from these groups into our systems and this is one of the key priorities this month.

A question was asked if we can compare providers participating in the network to providers currently in the system. Ms. Peterson advised 17,000 introduction letters were mailed to providers who had an active provider number. Based on recent data, about 72 percent of these providers have responded to the department. The response rate by region is consistent. There are a few gaps geographically that we are targeting. Recruitment continues to be a high priority for the program.

Ms. Dupre thanked Ms. Peterson and the outreach staff for their efforts in soliciting providers to join the network.



Leah Hole-Curry, Medical Administrator, continued the presentation and reviewed slide 59 regarding transfer of care to network providers.



Slide 60 is the MPN strategy about transition of care. The projects goal is to ensure all injured workers are notified about the change.

Ms. Hole-Curry highlighted the resources to enhance customer service such as additional phone staff to assist with anticipated higher call volume. The program is also adding Care Transition Coordinator staff that will be geographically based in the regions. These staff can provide further information for an injured worker who may have an issue using the provider directory, have a language barrier, or have a complex case. The Care Transition Coordinator may also note the workers who need additional assistance; they would involve current department nursing staff. Lastly, we are generating an automated case summary for use in transfer of care so the right information is provided to providers who conduct a consultation.

A question was asked how many workers will receive the letter that their provider has not applied for the Medical Network. Ms. Hole-Curry advised the department is currently pulling this data but anticipates it to be a relatively low proportion given the response and coverage rates.

A committee member voiced their appreciation of the department's proactive efforts to communicate with injured workers.

Chuck Hitchings, Medical Program Specialist, provided a demonstration of the website and application process. The site is intuitive, quick and easy. The website is not live yet and we are in the process of loading the data to ensure it will be populated when the notifications are sent out. The notifications to injured workers will contain a link to the site.

A question was asked how workers will know if they are seeing a non-network provider on their initial visit once the network launches in January. Ms. Peterson answered the program is working on notifying them with a phone call and following up with a letter.

Ms. Kennedy added that she and Natalee Fillinger, Program Manager for Self Insurance, have been working with Rebecca Forrestor and Lisa Vivian on basic rule requirements for how self-insured workers will also get this information.

L&I Stay at Work Program- Employer Overview Video

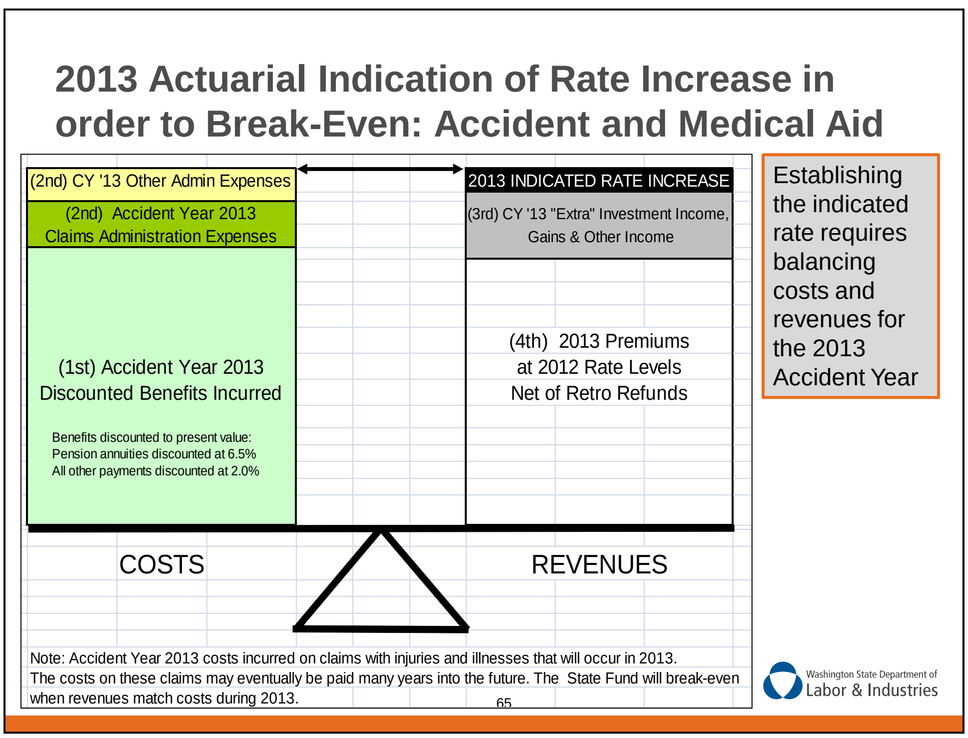
A video produced by the Communications and Stay at Work office was presented. This video can be found at www.lni.wa.gov/Main/StayAtWork/Videos.asp.

After the break, Sofia Aragon was introduced as the newest member of the WCAC.

Overall 2013 Rate Level Analysis to Break-Even and Meet Contingency Reserve Policy Levels: Judy Schurke and Bill Vasek

Kim Contris, Assistant Director for Communications, presented a new video to help explain the rate making process using a technique called white board animation. This video will be posted on the department's website at www.lni.wa.gov/Main/ControlMyRates/video.asp.

Bill Vasek, Senior Actuary began the presentation. Mr. Vasek explained that establishing the indicated rate requires balancing costs and revenues for the 2013 Accident Year.



There are three components on each of the cost and revenue sides:

The cost components are:

1. Discounted Benefits incurred,
2. Claims Administration Expenses, and
3. Other Administration Expenses.

The revenue components are:

1. 2013 Premium Less Net Retro Refunds,
2. Extra Investment Income, Gains and Other Income, and
3. 2013 Break-Even Rate Indication.

Expected 2013 Costs

Discounted Benefits Incurred

- For claims with injuries/illnesses in 2013, with costs discounted to present value at the following rates:
  - Pension benefits (6.5% per year of payout)
  - Non-pension benefits (2.0% per year of payout)

Claims Administration Expenses

- Variable costs associated with the lifetime provision of 2013 claims' benefits (claims management, medical cost and policy management, vocational rehabilitation services, etc.)

Other Administration Expenses

- Fixed costs paid during 2013 associated with other services including premium collection (account management, fraud prevention services, DOSH, SHARP, UW, etc.)

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Expected 2013 Revenues

2013 premiums

- Accident and Medical Aid Premiums, if assessed at 2012 rate levels

Less Net retro refunds

- Net retro refunds for 2013 Retro enrollments; reduces premium revenue

Extra investment income, gains and other income

- Investment yield, in excess of discount rates, because benefits are already discounted for anticipated investment income (so we don't double count)

Indicated Premium Increase

- Indicated change to premiums for revenues to break-even with costs.

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Slides 66 and 67 were reviewed.

The largest costs are the benefits and the largest revenues are the premiums.

A Few Ratios to Understand

1. Divide Costs and Revenue Items by Premiums (at 2012 Rate Levels)

- Loss is synonymous with benefits
- Loss / Premiums = "Loss Ratio"
- Other Admin. Expenses / Premiums = Other expense ratio
- Indicated Premium Increase / Premiums = % Rate Increase

2. We take (Claims Admin Expense / Loss) X (Loss/Premium) = CAE/Premium

3. We take (Investment income/Invested Assets) X

- **(Invested Assets/Premium)**
- **= Invested Income/Premium**

Loss ratios are critical to understanding our ratemaking process!

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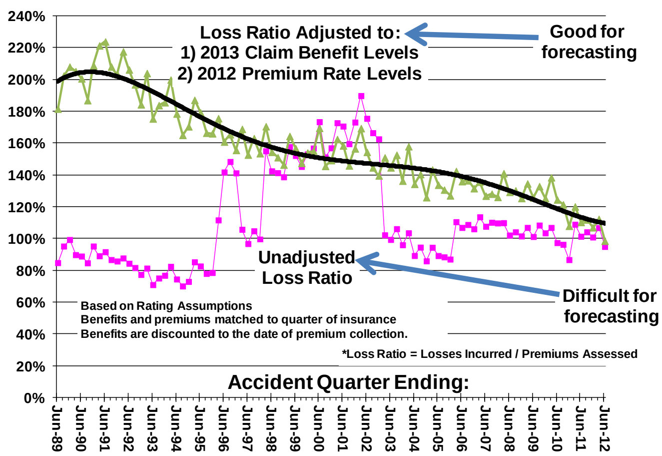
<u>Loss ratios are critical to understanding our rate making process.</u> Benefits are synonymous with loss.

Mr. Vasek reviewed the different types of ratios on slide 68. The important ratio for the rate making process is the ratio of losses to premiums.

Medical Aid Fund Loss Ratios*



Loss ratios are distorted by changes in:

- Past rates
- Past benefit levels

So, we adjust these two factors out.

What is not adjusted for are:

- Claim frequency
- Claim severity

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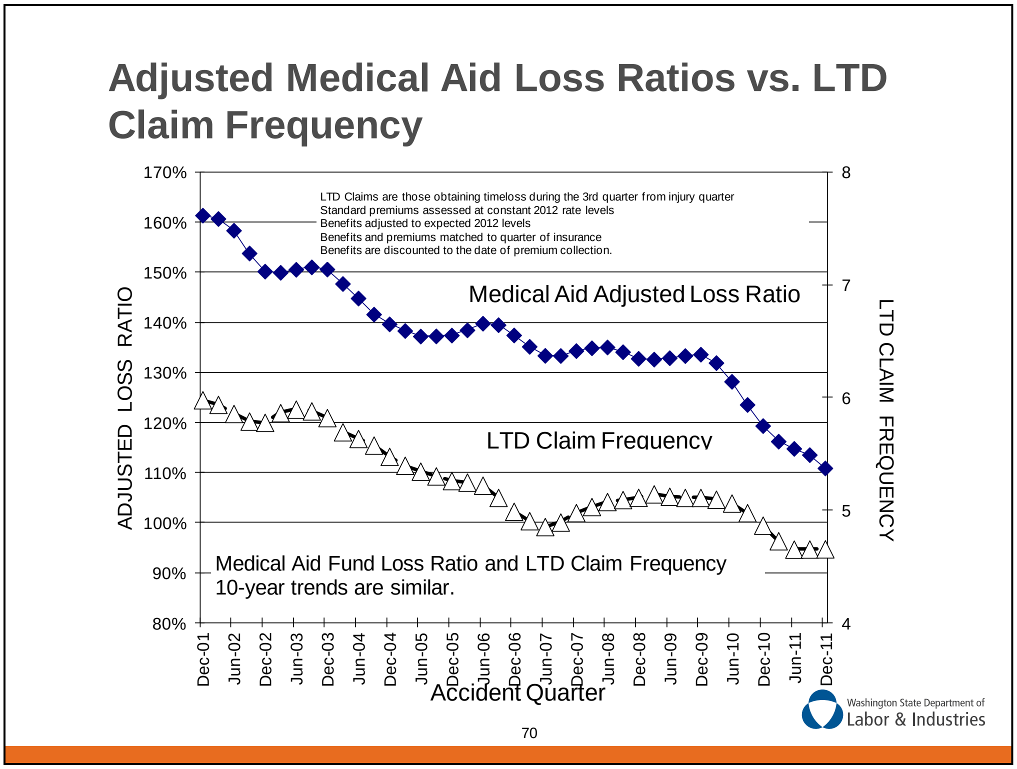
It is difficult to project the loss ratios without adjusting for numerous factors that influence the loss ratios.

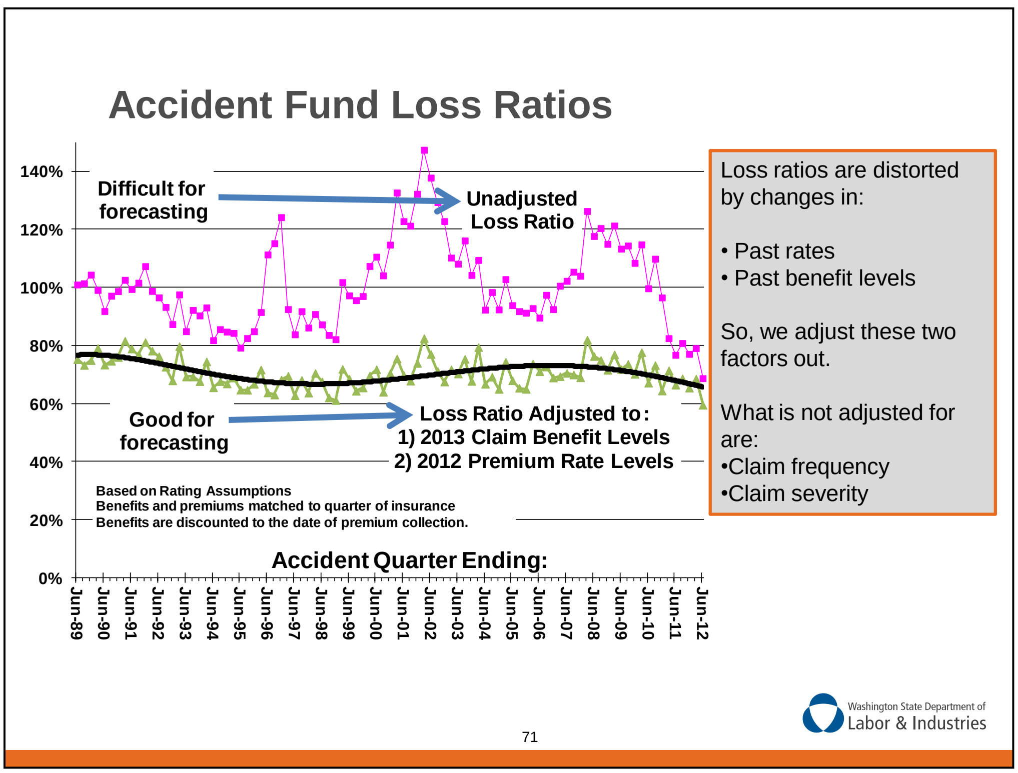
These factors include: past premium rates, past benefit levels, and trends of claim frequency and severity.

The declining curve is due to the changes to claim frequency and severity trends.



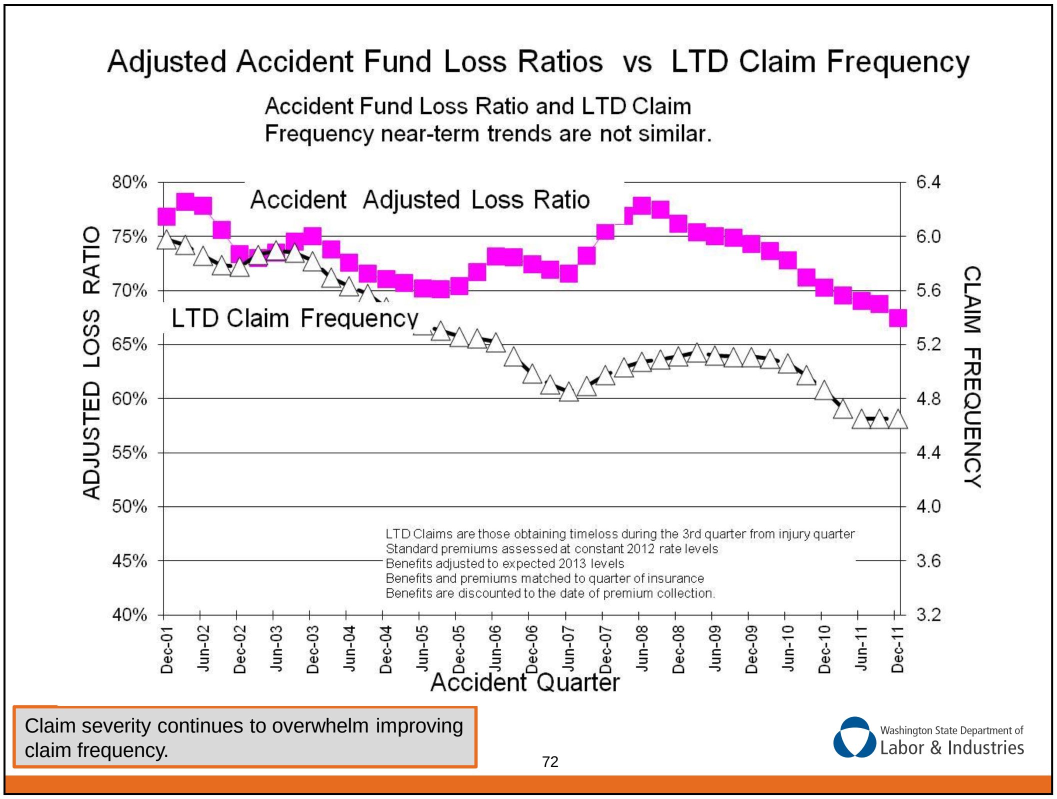
The chart on slide 70 compares the adjusted Medical Aid loss ratios to long-term disability claim frequency (LTD). To determine the LTD claim frequency, the actuaries count time-loss claims active during the third quarter of their claim age and divide by the premiums adjusted to 2012 rate levels.

The shapes of the two curves are very similar.



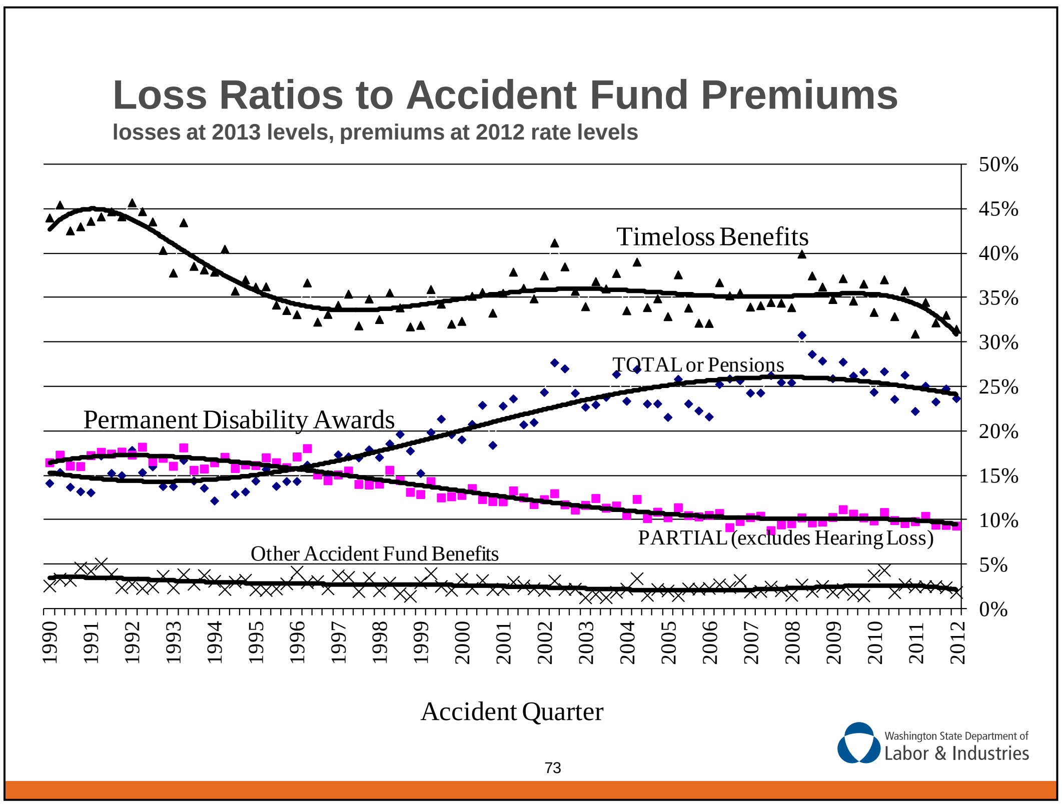
The actuaries make the same adjustments shown on slide 71 with the Accident Fund loss ratios.

Severity and frequency has had an influence on this trend as well.

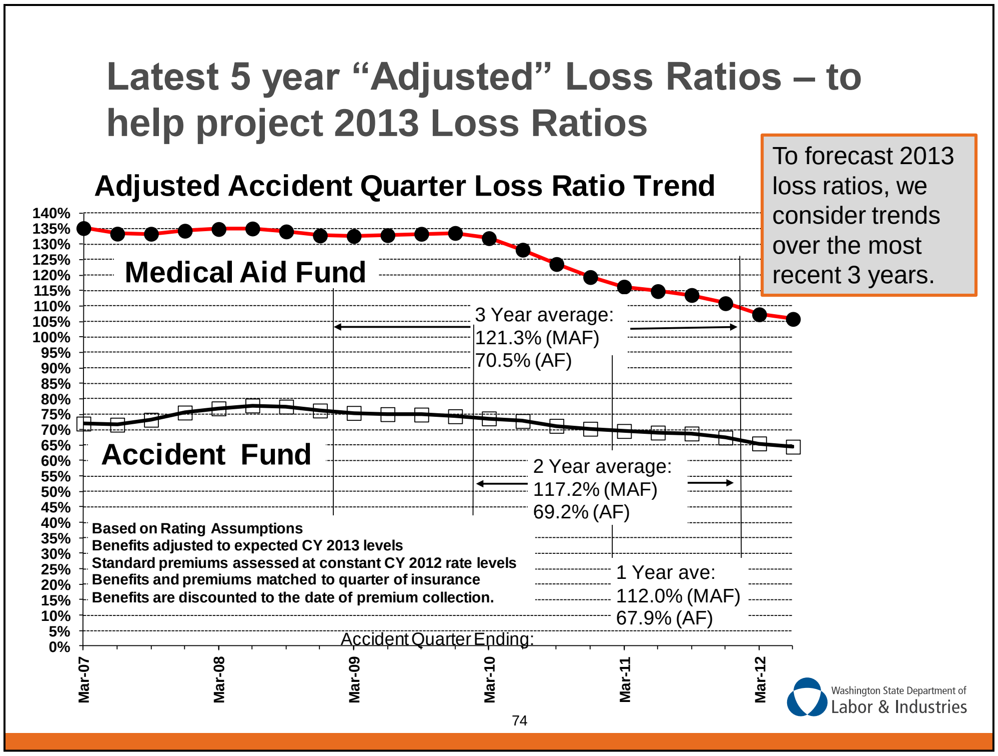


When comparing the Accident Fund loss ratio with LTD Claim Frequency, there are fewer similarities than with the Medical Aid Fund.

<u>Claim severity continues to overwhelm improving claim frequency.</u>



Although trending downward, the chart on slide 73 shows that the decline in loss ratios by claim type has not been as significant as the downward trend in claim frequency.



This chart shows the underlying trends for loss ratios, which are used to project the loss ratio for 2013.

Actuaries chose the one-year average due to decreasing claim frequency trend.

The projected 2013 Accident Year loss ratios are:
Accident Fund: one-year average: 67.9 percent
Medical Aid Fund: one-year average: 112 percent

Claims Administrative Expenses for the Workers' Compensation System

	Accident	Medical Aid	Combined	
2013 Premiums at 2012 rate levels	$ 1,114 M	$ 602 M		Standard Premiums assessed
Expected AY 2013 loss ratios at 2012 rate levels	68.2%	112.1%		Indicated loss ratios w/ Tobin
Expected AY 2013 Losses Incurred	$ 760 M	$ 675 M	$ 1,435 M	
Expected Overall CAE to Losses Incurred ratio AY 2013			7.39%	Based on 10 year average FY '02 to '11
Expected Overall AY 2013 Incurred CAE			$ 106 M	
Expected CY 2013 Paid CAE	$ 61 M	$ 81 M	$ 142 M	
Expected AY 2013 CAE incurred	$ 45 M	$ 61 M	$ 106 M	
Expected AY 2013 CAE incurred to Losses Incurred	6.0%	9.0%	7.4%	

Insurance industry ratios of CAE/Loss are three times higher!

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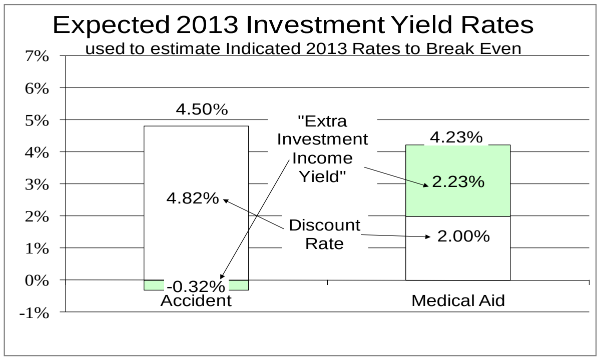
Slide 76 reviewed the claims administrative expenses (CAE) for the Workers' Compensation System. The combined expected 2013 losses incurred for Accident Year (AY) 2013 is $1,435 million. Based on a ten year average, the overall CAE to losses incurred ratio for AY 2013 is expected to be 7.39 percent. Insurance industry ratios are closer to 20 percent- this is three times higher compared to the department.

For other expenses in the system, the actuaries reviewed what was spent in past years and set expectations for 2013:

Accident Fund: 6 percent
Medical Aid Fund: 7.3 percent

2013 Expected Investment Yields



Extra Investment Income (as a % of Premiums) As of June 30, 2012

Extra Investment Income from:	Accident Fund*	Medical Aid Fund
Invested Assets in excess of Loss Liability	-0.4%	1.0%
Yield in excess of Discount**	-1.4%	15.6%
TOTAL	**-1.8%**	**16.7%**
Invested Assets to Premium leverage:	**4.42**	**7.00**

*includes the Pension Fund
**highly leveraged by ratio of Invested Assets/Premiums

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- Actuaries estimate the excess of 2013 investment income yield rates above liability discount rates.
- Investment income yield rates will be below liability discount rates by -.32% in the Accident Fund and above by 2.23% in the Medical Aid Fund. (as percentage of invested assets)
- Excess yield rates are restated as percentages of premium to determine how much premiums can be offset by investment income.
- Excess yields are -1.8% for the Accident Fund and 16.7% for the Medical Aid Fund (as a percentage of premiums).
- The Accident Fund excess yield is negative because
  - liabilities are greater than invested assets and
  - yields lower than discount rates.

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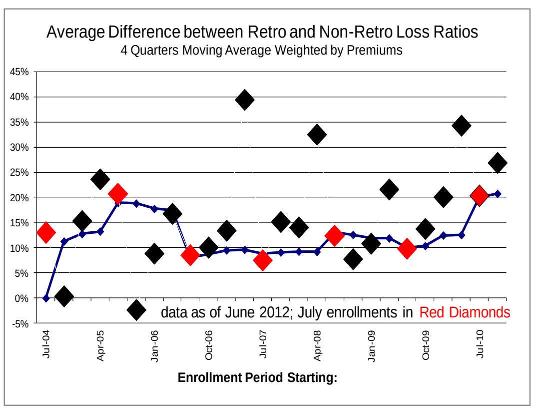
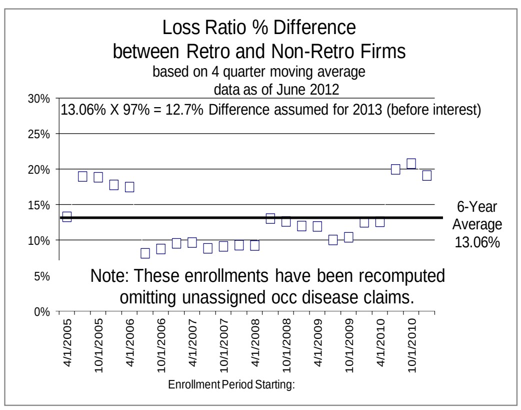
Actuaries estimate the excess of 2013 investment income yield rates above the liability discount rates.

The extra investment income for 2013 that the department is expecting is -1.8 percent in the Accident Fund and 16.7 percent in the Medical Aid Fund as a percentage of premiums.

Retro and Non-Retro Loss Ratios





- Past performance is used to project future retro refunds.
- We compare the loss ratios for retro and non-retro employers to calculate the loss ratio difference.
- The moving average loss ratio difference helps determine the size of the retro refund pool.
- For 2013 the project difference = 12.7% as a percentage of accident and medical aid premiums based on a 6-year average and a bias adjustment.
- The 12.7% difference translates to a 9.3% retro adjustment as a percentage of accident fund premiums

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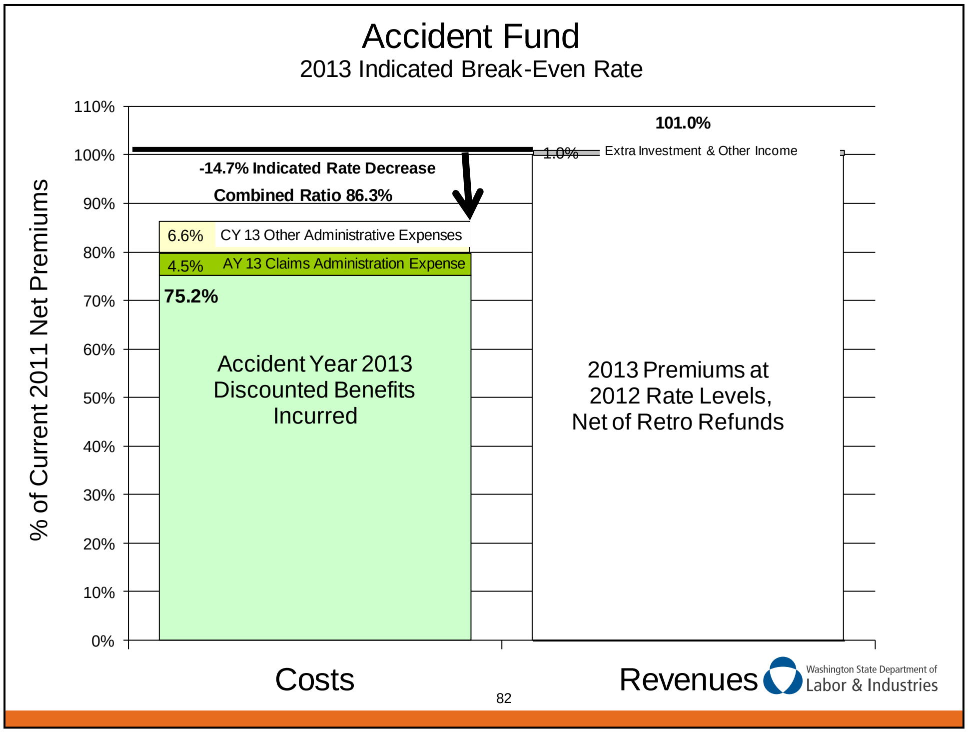
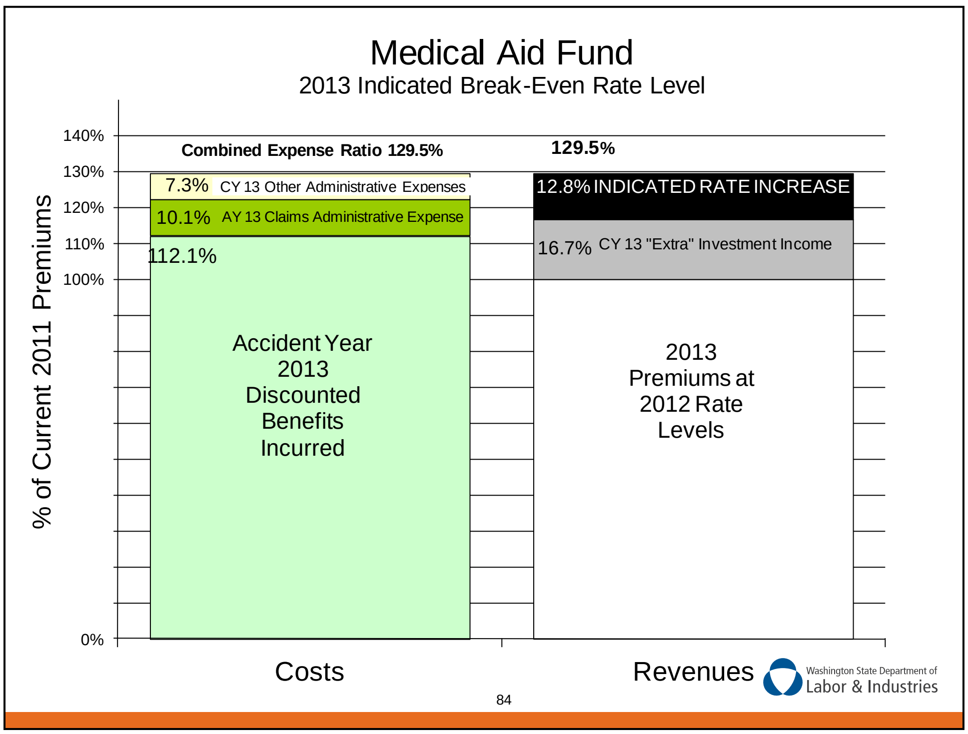
For the Accident Fund, the premiums are net of retro refunds.

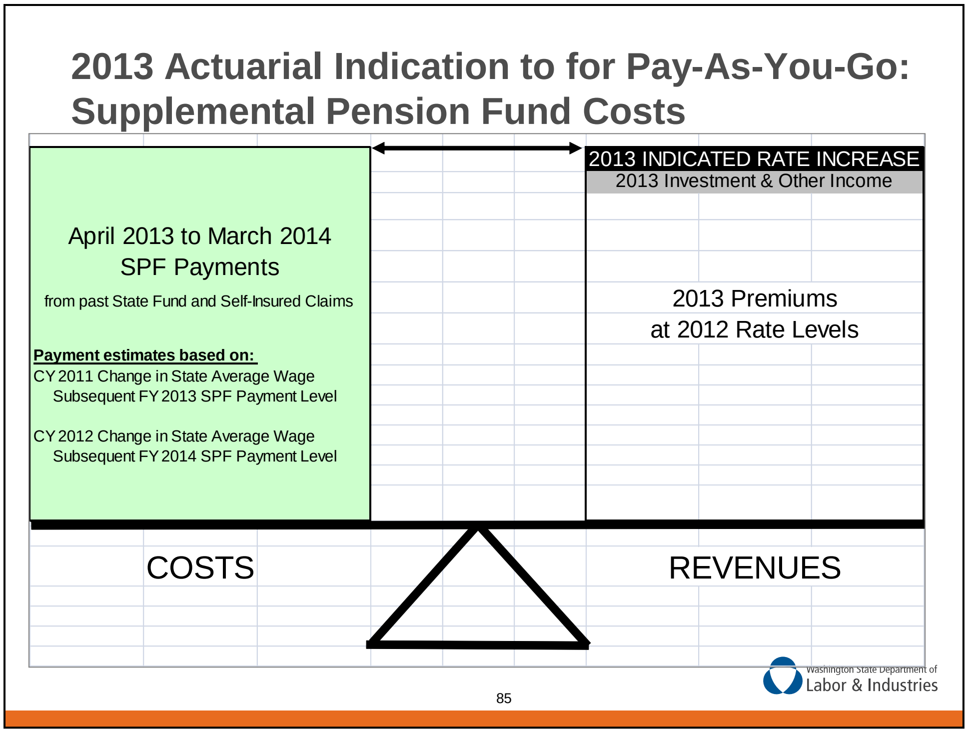


Slide 82 shows the Accident Fund 2013 Indicated Break-Even Rate. The combined expense ratio is 86.3 percent while the revenue ratio is 101 percent.

In order to balance the revenues and the costs, we have to take a rate reduction of 14.7 percent.

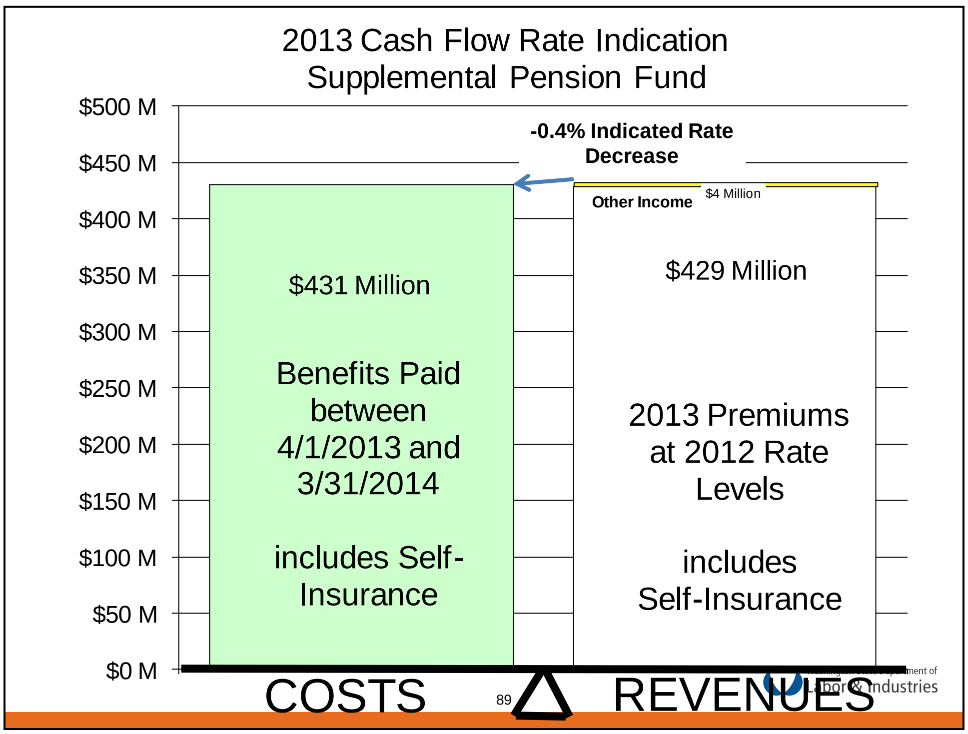


Slide 84 shows the Medical Aid Fund 2013 Indicated Break-Even Rate. A rate increase of 12.8 percent is necessary to balance the revenues and the costs.



Slide 85 shows the indicated Supplemental Pension Fund rate increase. The costs side includes payments the department will make during the 12 months from April 2013 to March 2014. Revenues are mainly premiums.

This is a pay-as-you-go fund.



We are expecting $431 million to be paid during this one-year period. On the 2012 rate level basis, we expect $429 million. We expect an additional $4 million of other invested income and penalties. A slight decrease of 0.4 percent is necessary in order to match the revenues with the paid costs during the year.

	WA. Stay at Work program	
	2013 Break-even Rate Level Projections	
	based on expected experience for Accident Year 2013	
(1)	**2013 Average Weekly subsidy**	$404.71
(2)	# of subsidy weeks - Timeloss Claims	10
(3)	# of subsidy weeks - non Timeloss Claims	5
(4) =(1) X (2)	Average Subsidy - Timeloss Claims	$4,047
(5) =(1) X (3)	Average Subsidy - non Timeloss Claims	$2,024
(6)	# of SAW participating Timeloss claims	3,685
(7)	# of SAW participating non Timeloss claims	5,005
(8) =(4) X (6) + (5) X (7)	2013 Undiscounted SAW Loss Incurred	$ 25.04 Million
(9)	Discount Factor	97.9%
(10) =(8) X (9)	**2013 Discounted SAW Loss Incurred**	**$ 24.53 Million**
(11)	2012 Average SAW Rate	$0.00714
(12)	Expected Hours	3.270 Million
(13) =(11) X (12)	**2013 SAW premiums at 2012 rate levels**	**$ 23.36 Million**
(14) =(10) / (13) - 100%	**Break-even 2013 Rate Change**	**5.0%**

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The Stay at Work program is a new account that we now set rates for. The 2013 SAW premiums at 2012 rate levels are $23.36 million. The SAW premiums need to be increased by 5 percent in order to balance to the expected 2013 incurred losses.

AY 2013 Break-Even Premium Rate Change*

Based on 2nd Q 2012 Analysis

	Average 2012 Rate**	Indicated Break-even Change	Indicated 2013 Rate**
Accident	$0.342	**-14.7%**	$0.292
Medical Aid	$0.184	**12.8%**	$0.207
Supp. Pension	$0.093	**-0.4%**	$0.093
Stay-at-Work	$0.007	**5.0%**	$0.007
Overall	**$0.625**	**-4.2%**	**$0.599**

	State Fund 2013 premiums at 2012 rate levels	Increase to Break Even:	State Fund 2013 premiums at Break-even
Accident	$1,117 Million	($164) Million	$954 Million
Medical Aid	$600 Million	$77 Million	$677 Million
Supp. Pension	$304 Million	($1) Million	$303 Million
Stay-at-Work	$23 Million	$1 Million	$25 Million
Overall Premiums	$2,045 Million	($87) Million	$1,958 Million
Less Net Retro Refunds	($93) Million	$5 Million	($89) Million
'13 Net Premiums	**$1,952 Million**	**($82) Million**	**$1,869 Million**
Employee portion	$464 Million	$39 Million	$502 Million
Net Employer portion	$1,488 Million	($121) Million	$1,367 Million
Employee percentage	23.8%		26.9%
Hourly Rate Before Retro	**$0.625**	**($0.027)**	**$0.599**
Rate Net of Retro	**$0.597**	**($0.025)**	**$0.572**
Employee Rate	**$0.142**	**$0.012**	**$0.154**

Without the savings from the reform legislation, the 2013 indicated rate would have been approximately +4.0% vs. -4.2%.

* Revenues match expenses for Accident Year 2013 in the Accident and Medical Aid Funds

**Premium rate per hour worked. Based on CY 2011 mix of business.

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Slide 91 is the combined overall rate indication for all the funds. The overall 2013 break-even rate indication is -4.2 percent. <u>Without the savings from the reform legislation, the 2013 indicated rate would have been approximately 4 percent versus a negative 4.2 percent.</u>

A request was made to drill down the particular elements of the reform legislation that accounted for these savings. A commitment was made to provide this data to the committee.

Mr. Vasek continued to explain that by using 2012 rate levels, we would have premiums of $2.045 billion, less retro refunds of $93 million, which would be $1.952 billion. As a result, a rate reduction of -4.2 percent would be needed to get to $1.869 billion to balance the revenues with costs for next year.

How did we get here?

	2Q 2011 Indication 2012 Change	Adopted Average 2012 Change	Rate Level not Taken	2013 Benefit Inflation	2011 LTD Claim Frequency Decrease	Other Change	Indicated Average 2013 Change	Break Even Hourly Rate 2013
Accident	**-10.7%**	2.0%	-12.5%	2.0%	-7.4%	3.2%	**-14.7%**	**0.291**
Medical Aid	**22.5%**	0.4%	22.0%	5.0%	-7.4%	-4.9%	**12.8%**	**0.207**
Supp. Pension	**-13.5%**	-13.5%	0.0%	3.6%		-3.9%	**-0.4%**	**0.093**
Stay-at-Work				2.0%		2.9%	**5.0%**	**0.007**
Overall	**-0.3%**	**0.0%**	-0.3%	3.1%	-6.2%	-0.7%	**-4.2%**	**$0.598**
Payroll basis	**-2.4%**	**-2.2%**		1.0%			**-6.3%**	**$ 2.15**

From 2012 Indication to 2013 Indication

- We took 0.3% carry over from 2012
- 3.1% inflation from 2012 to 2013
- Claim frequency has decreased 2012 in 12 months by -6.2%
- -0.7% Net of other changes (claim duration and reforms kicking in) have offset

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Slide 93 explains the factors that impact the indicated rate.

A significant contributor to the -4.2 percent rate indication is the decline of long-term disability claim frequency. Since 1990, we have averaged a 2.4 percent decrease in long-term claim disability. We exceeded that average last year as the decline was -7.4 percent.

12/31/2012 Contingency Reserve Projection			
	Accident & Pension	Medical Aid	Combined
Contingency Reserve as of 6/30/2012	$ 42 M	$ 549 M	**$ 591 M**
estimated remainder of 2012 CR change*	$ 24 M	($ 26) M	**($ 2) M**
estimated Contingency Reserve 12/31/2012	$ 70 M	$ 520 M	**$ 590 M**
estimated Total Liabilities 12/31/2012	$ 8,300 M	$ 3,900 M	**$ 12,200 M**
estimated 12/31/12 CR as % of Liabilities	0.8%	13.3%	**4.8%**
Lower CR Policy level	7.4%	11.4%	**8.7%**
Middle CR Policy level	16.1%	25.7%	**19.2%**
Upper CR Policy level	24.7%	40.0%	**29.6%**

6/30/12 Accident CR includes effect of self-insurance funding from Pension Fund "experting"

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Slide 95 is the 12/31/2012 Contingency Reserve Projection. The estimated contingency reserve by 12/31/12 is $590 million. The estimated total liabilities will be $12.2 billion. The contingency reserve is estimated to be 4.8 percent of liabilities at 12/31/12.

We are below the lower policy level for our projected combined contingency reserve.

Review of Rate History

Rating Year	Indicated Rate Increase	Adopted Rate Increase	Per $100 of Payroll	% Change Payroll
2012	-0.30%	0.00%	$2.39	-2.40%
2011	17.80%	12.00%	$2.45	9.70%
2010	19.40%	7.60%	$2.24	5.50%
2009	6.40%	3.10%	$2.12	1.10%
2008	6.10%	3.20%	$2.10	0.10%
2007*	-1.30%	-2.00%	$1.38	-6.50%
2006	5.20%	0.00%	$2.24	-5.90%
2005	15.10%	3.70%	$2.38	0.20%
2004	19.40%	9.80%	$2.37	9.00%
2003	40.50%	29.00%	$2.18	25.80%
2002	26.30%	1.80%	$1.73	0.10%
2001	16.30%	-2.20%	$1.73	-2.70%
2000	17.40%	0.00%	$1.78	-3.10%

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

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Slide 96 is a review of the department's rate history.

Director Schurke advised that the department is proposing to take a zero percent rate increase. The pension discount rate is not a part of the rate proposal we will be making.

Business has asked that as we rebuild the contingency reserve, we take an approach that is as predictable and gradual as possible. Labor has asked that we follow the plan and keep building toward a contingency reserve that is adequate. In past discussions, we were unable to settle on an appropriate level for the contingency reserve as business advocated for the lower level while labor requested mid to high levels.

Director Schurke proposed a ten-year plan to get the combined Accident and Medical Aid Funds' contingency reserve to 14 percent of liabilities. The plan reviewed with the WCAC does not anticipate an average annual rate increase of more than 5.5 percent. One assumption built into the plan is an average annual wage inflation rate of 3.5 percent. The plan is a framework for future WCAC discussions regarding lowering the pension discount rate and continuing to rebuild the contingency reserve.

The pension discount rate plan, which is not part of the initial rate proposal, would bring the pension discount rate from 6.5 percent to 4.5 percent over the ten years.

The first few years of the plan would result in rate increases of about 5.5 percent, dropping to roughly 3 percent in later years.

It was requested that the decision process and discussions that helped decide on this ten-year plan be described. For example, in early discussions, the committee reviewed twenty or more different example plan scenarios that included higher to lower contingency reserve and pension discount rate options. What were the levers involved that helped smooth the plan out?

Director Schurke advised that an initial scenario showed a 19 percent increase. This was never intended to be the department's proposal but rather an example of what would be needed to get to the mid-level of the 2007 draft contingency reserve policy levels. The department provided the committee 25 scenarios for discussion and consideration of the various elements. The levers included the contingency reserve target, the ultimate goal for the pension discount rate, the time frame, and how the amounts are spread over the ten years.

A comment was made that the department was very responsive to concerns raised during the process, specifically the ultimate target being between the low and mid range and the discount rate change not being as aggressive given the impacts. The framework for having this discussion on the contingency reserve each year seems very responsible.

A comment followed expressing appreciation for the educational process provided during the spring and summer in reviewing different reserves and levers and how those change our projections in the future. The commitment from stakeholders with regard to the framework as we move forward on a year-to-year basis is appreciated.

The committee members all agreed on the ten-year plan with the goal for a 14 percent target for the contingency reserve as well as the 4.5 percent as a target over ten years for the pension reserve discount rate.

Director Schurke clarified that we are not agreeing that there is going to be a 5.5 percent increase for four years followed by the remaining increases on this plan. This is the framework for future rate-making discussions.

Director Schurke suggested the department begin discussing rates with the committee in April or early May (reviewing FY 3rd quarter financials and rate analyses) rather than waiting until July or August.

Director Schurke closed the meeting by indicating the rate proposal for a zero overall average rate change will move forward and the department will file the proposal on September 18, 2012. The difference between the indicated rate of a 4.2 percent decrease and zero, or about $80 million, will begin restoring the contingency reserve. Public Hearings will be scheduled the last week of October.

Director Schurke advised that this was Beth Dupre's last WCAC meeting -- she and the committee members expressed their appreciation.

Meeting Adjourned.

Next Meeting:

The next WCAC Quarterly meeting is scheduled for December 6, 2012, from 9:00 a.m.-12:00 p.m. at the Tukwila Service Location.

Assignments from meeting:

Assigned To:	Follow Up Request
Bill Vasek	A request was made to drill down the particular elements of the reform legislation that accounted for these savings. Mr. Vasek will provide this data.