Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tukwila, WA
Meeting Minutes
December 6, 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: Karen Gude, United Food and Commercial Workers 1439; Sofia Aragon, Washington State Nurses Association; Dave Myers, Washington State Building Trades; and Cody Arledge, Washington State Labor Council

Labor and Industries: Judy Schurke, Director; and Vickie Kennedy, Chief Policy Advisor

Board of Industrial Insurance Appeals: Dave Threedy

Recorder: Sharon Avery

Court Reporter: Milton Vance

Guests: Tammie Hetrick, Alan Paja, Chuck Gotcher, Dave Kaplan, Viona Latschaw, Scott Dilley, Tom Kwieciak, Veronica Shakotko, Michelle Stender, Greg Kabacy, Janice Camp, David Mendoza, Art Dallesandro, Lloyd Brooks, Mark Henderson, Kim Hoff, Erik Smith, Richard Clyne, Carolyn Logue, Bob Hawk, Kathy Osler Frank Romero, and Larry Stevens

L&I Staff: Mike Ratko, Rachel Aarts, Sharon Elias, Kirsta Glenn, Diana Drylie, Janet Peterson, Bill Smith, Dustin Dailey, and Natalee Fillinger

Opening Comments and Safety Message

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

The minutes from the September 17, 2012 quarterly meeting were approved.

Director Schurke presented a safety video from the Division of Occupational Safety and Health (DOSH) program regarding a brush cutting fatality.

The members' binders included: the meeting presentation; legislative reports and rules update; the first quarter fiscal year 2013 statutory financials; September 17, 2012 minutes; and a copy of the 2012 "Your Premium Dollars at Work" brochure.

2012 Rates Update: Judy Schurke and Vickie Kennedy

The department announced and adopted a zero rate increase for 2013 rates. Rate hearings were held in October and were attended by a number of individuals. At the hearings, concern about the logging rates and the effect on that industry were shared.

Director Schurke met with the House and Senate Committees and advised that due to the 2013 indicated rate decrease, a zero rate increase would increase the contingency reserve by approximately $80 million in calendar year 2013. Director Schurke also discussed elements of the WCAC-approved plan to rebuild the contingency reserve to 14 percent (minimum) over the next ten years and reduce the pension discount rate from 6.5 to 4.5.

"Your Premium Dollars at Work": Vickie Kennedy
The Committee members' packets included a brochure "Your Premium Dollars at Work" which is distributed to 160,000 State Fund employers. Ms. Kennedy advised that the financial information is categorized in the same way as the financial statements that will be presented by Sharon Elias.

Rate Notices in Mail: Vickie Kennedy
Rate notices for employers were printed this week. Employers will receive copies of their quarterly individual rates and experience factors by January 1, 2013.

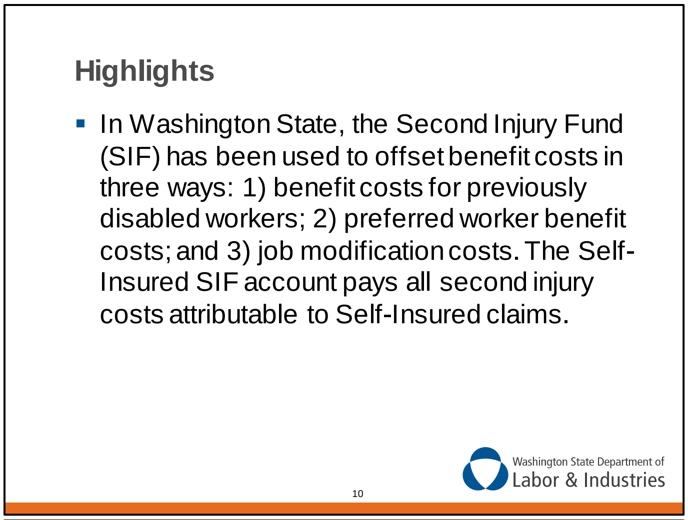
Insurance Services Updates: Judy Schurke

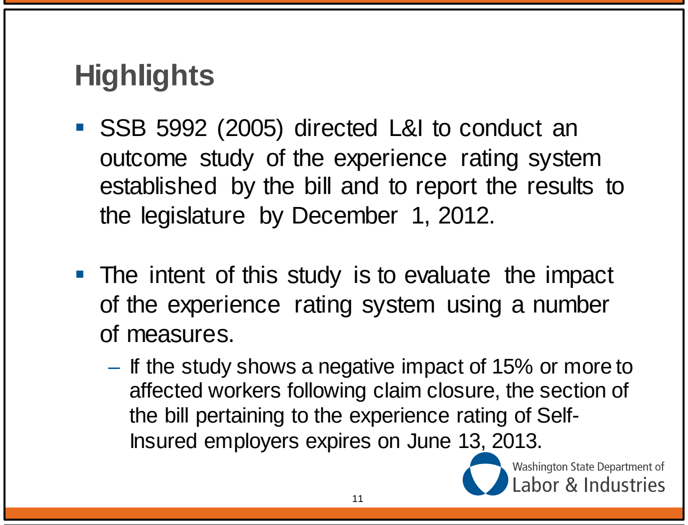
Vacant Assistant Director Position:
Director Schurke provided an update on the Assistant Director for Insurance Services position that was vacated by Beth Dupre in October 2012. Vickie Kennedy and Ernie LaPalm are in acting roles and are sharing duties. The position description is currently being revised; this position is a professional job and requires understanding of the insurance operations and management.

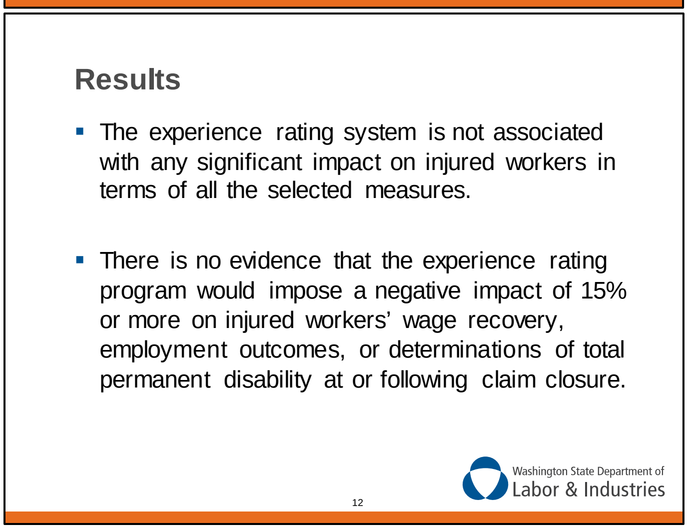
Operational Health Plan (OHP) Update:
The OHP is a plan to improve the internal health of claims operations in Insurance Services. The department completed a number of assessments including industry best practices and is reviewing the results to inform the OHP work. In addition, we are utilizing Lean methods and working closely with staff to use their best knowledge about how to improve their work. More details will be provided at the next WCAC meeting.

Legislative Update: Vickie Kennedy

Legislative Reports:
In the members' binders, the Vocational Improvement Legislative Report and Structured Settlement Implementation Report were enclosed. There are a number of other reports in process and are not released, waiting for final approval from the Governor's office; once these are approved, the department will send them out electronically.







Ms. Kennedy reviewed slides 10-12 regarding the legislative report on modifying self-insured assessments under the Second Injury Fund.

The biggest impact for the Second Injury Fund is total permanent disability pensions where the majority of the cost of the pensions are charged to the Second Injury Fund rather than to the individual employer.

In 2005, the legislature mandated a different approach to the assessment so that part is experience rated. Under this model, heavier users of Second Injury Fund relief pay a greater share through their assessments.

The legislature included a study after enough years under the new model to determine whether there had been a negative impact on workers in return-to-work wages, claim closure outcomes, or total permanent disability pensions. The report has been completed and there is no evidence of significant impact to the worker community.

Ms. Kennedy has consulted with legislative staff and no action needs to be taken to ensure that the experience rated model continues based on this report.

A question was asked to confirm that this is now a law. Ms. Kennedy advised this has become permanent and no further reports are required.

Highlights

- ESSB 5920 (2007) directed L&I to pilot a number of changes to vocational services beginning January, 2008, and ending June, 2013, unless the legislature takes action to make the changes permanent or to extend the pilot period. This report describes the implementation and results to date of the Vocational Improvement Project (VIP).
- The University of Washington was chosen to perform the independent review and study of the VIP outcomes. The final report from the researchers is due December 2012.

Highlights

- VIP is intended to "allow opportunities for eligible workers to participate in meaningful retraining in high demand occupations, improve successful return to work and achieve positive outcomes for workers, reduce the incidence of repeat vocational services, increase accountability and responsibility, and improve cost predictability."

Ms. Kennedy reviewed slides 14-20 regarding the Vocational Improvement Project (VIP) legislative report. Effective 2008, several changes were made to the vocational system; tuition funds and time were significantly expanded. Money was increased from $4,000 to $12,000 and indexed to changes in community college tuition rates, time allowed for training increased to two years, and workers were provided an option where they could opt out, take a vocational award and not participate in their vocational plan.

There were accountability expectations for all parties such as limits on when an employer could make a job offer that a worker is required to take. Workers are required to sign an accountability agreement regarding their responsibilities during a retraining plan. The department must act on a plan and approve or deny within fifteen days of submission.

The University of Washington conducted an in-depth review of the outcomes for workers with the changes in the system.

The legislation's intent was to ensure more funds are spent on services to workers and less on repeated efforts.

Results

- We've not seen improvement in the proportion of workers who successfully complete their plans. However, we are now able to hold workers accountable when a plan failure is due to their own actions.
  - The current success rate for our workers is comparable to success rates for similar organizations that provide retraining for adult populations.

Results

- The use of on-the-job training (OJT) as an alternative to formal training did not increase under VIP, as anticipated.
- We were not able to identify a viable way to implement the concept of "reserved slots" for workers within training institutions.

The UW report looked at various goals of the improvement legislation. It shows the use of on-the-job training as an alternative to formal training has not improved. This is due to many factors including the economy and vocational counselors' ability to develop a plan within 90 days (OJT plans are more time consuming). These issues will be reviewed by the Vocational Rehab Subcommittee which includes labor and business representatives.

The legislation also indicated we should reserve slots in community colleges for injured workers. We have not been successful in this effort.

The report also indicates no improvement in the completion of training plans. The UW believes this is likely due to two-year plans being more difficult to complete than one-year plans. We are more successful with claim resolution when a worker does not complete their plan. Either the worker has gained enough skills to be employable or they have taken steps that resulted in benefit suspension which moves the case to claim closure.

The UW researcher struggled to separate the impacts of the vocational improvement legislation outcomes with impacts of the recession; return-to-work outcomes were not good for workers coming out of the system or for anyone during the evaluation period due to the down turn in the economy.

Ms. Kennedy reviewed additional results on slides 18-20.

Results

- We have decreased time for plan development by 69 days per claim on average and dropped re-referral rates by 35%. Cost savings for efficiencies offset costs for longer training plans.

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Results

- We expanded access for workers to gain broad skills development in high demand occupations.
  - 74% of training goals approved for workers are now for high or balanced demand occupations.
- We've demonstrated that partnering with WorkSource can improve a worker's access to employment.

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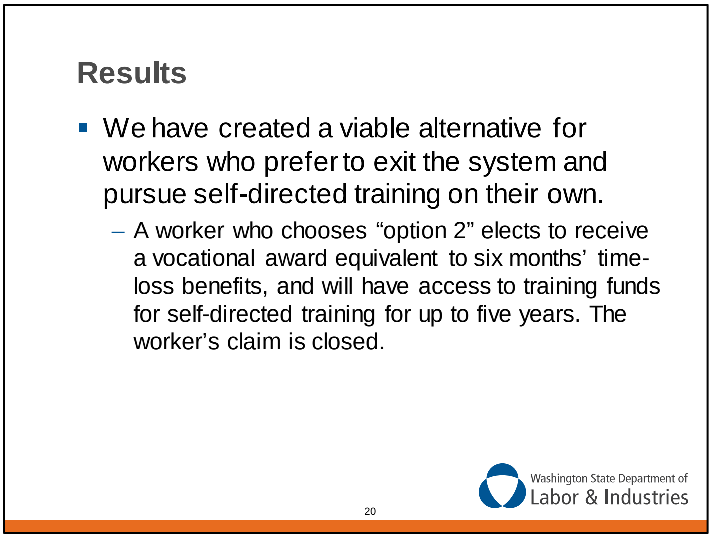
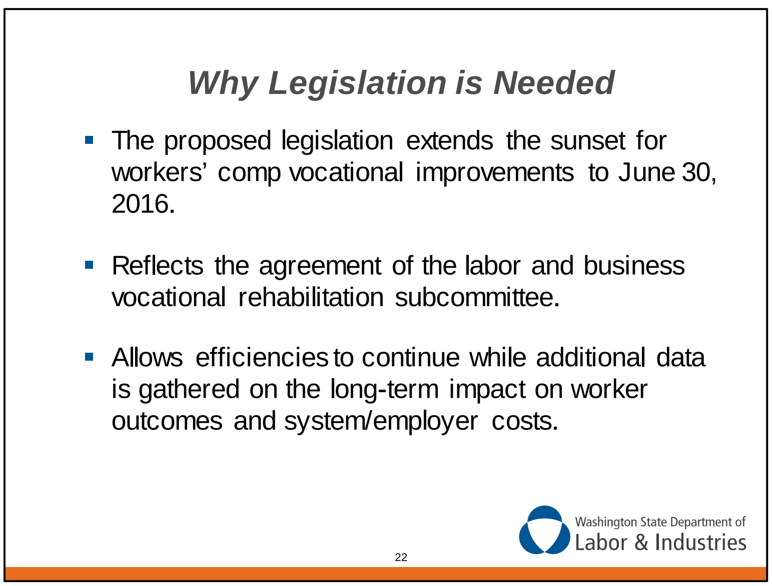


Agency Request Legislation:

Vocational Rehabilitation:
The agency request legislation on vocational rehabilitation has not been approved by the Governor's office, but it reflects the agreement and recommendation of the business and labor vocational rehabilitation subcommittee. The subcommittee was tasked with making recommendations on whether the 2007 changes become permanent, are extended, or whether they should be allowed to sunset.



The committee recommended a three-year extension of the pilot.

Director Schurke added that the group has been working on this for a number of years and this is a thoughtful approach to the policy issues for injured workers and employers.

A concern was raised regarding the way the dollar benefit is indexed to the cost of higher education's tuition. In 2007, the pilot included an increase from $4,000 to $12,000 to secure better outcomes, but due to tuition rates rising, there was an unintended consequence of increasing vocational benefits to the current $17,000 due to the indexing provision. Ms. Kennedy confirmed the concern of tuition increases has been raised to the vocational subcommittee and will be reviewed.

Vocational Improvements

- Examples of efficiencies and improvements gained:
  - The time for vocational professionals to submit a retraining plan has dropped by 38% (69 days).
    - For 1,649 claims annually, this is a savings of $4,485 per claim.
  - Repeated attempts at vocational services have dropped 35%.
  - About 27% of eligible workers choose to pursue a vocational award and self-directed training, speeding claim resolution and reducing costs.
  - Through required partnerships with WorkSource, injured workers are receiving more assistance to find a job.

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Summary of Changes

- Extends the sunset date for the Vocational Improvement Project by three years to June 30, 2016, per the recommendation of the labor/business vocational rehabilitation subcommittee.

- Requires L&I to collaborate with the subcommittee on continued analysis of the vocational system for injured workers. Annual reports are included through December 1, 2015.

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Ms. Kennedy reviewed slides 23 and 24 that provided a summary of other legislation being proposed.

Addressing Industrial Insurance for Horse Racing Employment:

Why Legislation is Needed

- Currently, workers' compensation premiums for covered employment in the horse racing industry are calculated on a per-license basis, assessed at the time the license is purchased.

- The Washington Horse Racing Commission (WHRC) believes the current requirements make it difficult to attract horse owners to Washington tracks because premium for an entire year must be paid up front.

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Summary of Changes

- Allows the department and the WHRC to develop rating and reporting approaches that will be easier to manage and will encourage more participation in the industry.

- Specifics regarding the method of assessment and payment of premium are removed from statute and will be done in rule.

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This legislation has been approved by the Governor's office and is based on work with the Washington Horse Racing Commission.

Modifying Payment Methods on Certain Claimant's Benefits:

Why Legislation is Needed

- Injured workers and crime victims would have faster access to their funds, no check cashing fees, no lost/stolen checks in the mail, immediate reissuing of lost cards, and cards that can be used at any business accepting credit and debit cards.
- L&I would save staff time, paper and postage currently required to manually process paper warrants.

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This legislation has also been approved by the Governor's office and will allow the department to provide options in how we pay time-loss benefits to injured workers and crime victims.

Summary of Changes

- Language is added to appropriate sections of the law to allow other forms of benefit payments, in addition to direct deposit and 'warrants' or paper checks.
- L&I would be permitted to implement technology changes that would reduce costs.
- If implemented in the 13-15 biennium, cost avoidance starts FY 2016:

	FY 2016	FY 2017	FY 2018	FY 2019
Net Cost Avoidance	($57,456)	($114,912)	($160,877)	($160,877)

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Why Legislation is Needed

- Currently, all time-loss benefits for injured workers and crime victims are mailed as 'warrants', or checks. This is inefficient and outdated.
- Proposed legislation would allow electronic payment options including prepaid debit cards.

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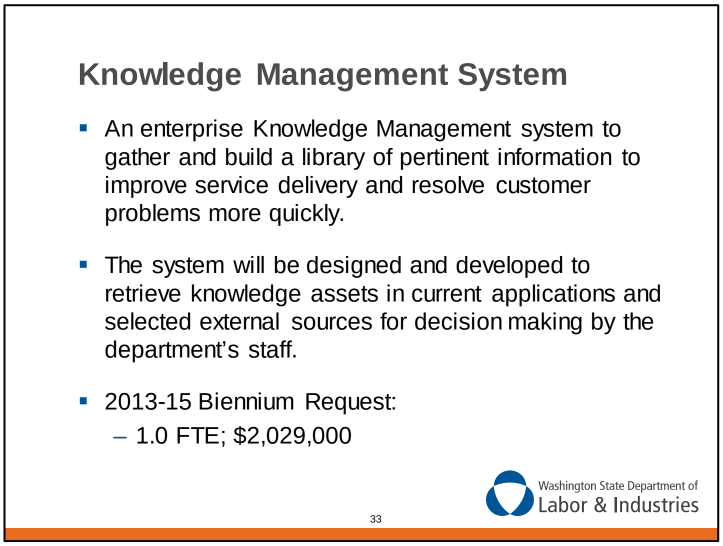
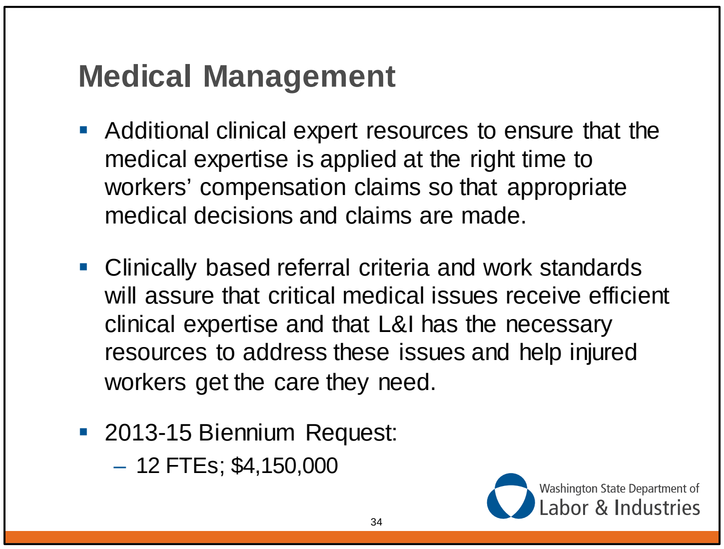
L&I Decision Package Requests



The Knowledge Management System would allow the department to update our reference material for claim managers. The current on-line system is antiquated, difficult to use and has limited searching ability for materials. The system will be modernized and allow claim managers easier access to information.



We are seeking more clinical resources for the claims program. Injured worker claims have become more medically complex over the years and the department is not comparable to other insurers for access to clinical or medical resources. We are requesting 12 more Occupational Nurse Consultant (ONC) resources for the claims program. The current ratio is 23 claim managers to 1 nurse; this would make it 10 to 1, closer to the ratio of other workers' compensation insurers.

Board of Industrial Insurance Appeals Update: Dave Threedy

Mr. Threedy began his presentation advising the committee that the workforce for the Board has changed due to retirements and staff leaving for federal or private positions. In the last 14 months, 12 new judges were hired, a 20 percent turnover rate. The Board does not expect to see significant changes in the processes.

The presentation was reviewed.

- *Total Appeals Filed and Granted:* As of September 2012, there were 3,343 total appeals filed and 2,047 appeals granted in the quarter.

Director Schurke advised that the claims program worked overtime; the Board should see the trend for this go up.

- *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 September it is at 35 days.

- *D&O Time-Lag by Quarter*: This is the time it takes for the review judges to draft a Decision and Order and for the Board members to review, make changes, and sign off. It is at 37 days for judges and 25 days for Board members.
- *Quarterly Average Weeks to Completion:* The Board's goal is to keep this around 34 weeks and they have been successful in keeping it under that. The average weeks to completion are 33.1 weeks.
- *Caseload at End of Quarter:* The caseload has decreased to 5,281 at the end of September.
- Structured Settlements: As of November 19, the board had 31 agreements from different claims that were reviewed. Of those, 9 were rejected and 22 were approved.

Mr. Threedy was asked if he could provide whether these were self-insured or state fund; Mr. Threedy advised he can provide this for the committee members in the future.

It was asked if the theme for the rejected agreements was lack of or incomplete information. Mr. Threedy felt that, yes, that is the overriding theme. Mr. Threedy advised that a number of settlements were received that had issues with the statutory requirements for the payment schedule; either there was no payment schedule or they did not consider the maximums and minimums allowed. Mr. Threedy advised the payment schedule is posted on the Board's website.

Mr. Threedy added that the office move to Seattle was successful.

<u>Industrial Insurance (State) Fund Statutory Financial Information: Sharon Elias</u>

Sharon Elias, Chief Accounting Officer, presented a financial update for the first quarter, September 30, 2012.

Results of Insurance Operations

Statutory Statement of Income

		1st Quarter Ended September 30, 2012	Unaudited Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
	Insurance Operations					
A	Net premiums earned	$ 435,403,000	$1,463,393,000	$1,429,530,000	$ 1,250,433,000	$ 1,360,533,000
B	Benefits (losses) incurred	381,720,000	1,957,245,000	1,601,225,000	2,135,874,000	2,348,838,000
C	Claim administrative expenses incurred (LAE)	47,463,000	184,878,000	159,641,000	152,309,000	185,980,000
D	All other insurance expenses	17,574,000	71,162,000	84,379,000	71,375,000	132,490,000
E	Total insurance expenses	446,757,000	2,213,285,000	1,845,245,000	2,359,558,000	2,667,308,000
F	Net insurance operation gains (losses)	**$ (11,354,000)**	**$ (749,892,000)**	**$ (415,715,000)**	**$ (1,109,125,000)**	**$ (1,306,775,000)**
G	**Benefit (Loss) Ratio (B/A)**	87.7%	133.7%	112.0%	170.8%	172.6%
H	**Claim Administration Liability (LAE) Ratio (C/A)**	10.9%	12.6%	11.2%	12.2%	13.7%
I	**Other Insurance Expense Ratio (D/A)**	4.0%	4.9%	5.9%	5.7%	9.7%
J	**Combined Ratio (G+H+I)**	102.6%	151.2%	129.1%	188.7%	196.0%

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Slide 45 is the results of Insurance Operations. Ms. Elias focused on the following lines:

- *(Line G)*: The benefit loss ratio is 87.7 percent compared to the industry average of 93 percent; this is great news since we have been over 100 percent in past years.
- *(Line J):* The combined ratio is 102.6 percent; this means for every dollar of premium we earn, we spend a $1.03. For our operation, and for the workers' compensation industry, it is expected to have greater than 100 percent because we rely on investment income in addition to premiums. The industry average is 118 percent.

Premiums Earned

	Source of Data	State Fund Total	Accident Account	Medical Aid Account
Standard Premiums Collected	Combining	$ 422,876,000	$ 269,638,000	$ 153,238,000
Less Retrospective Rating Adjustments	Statement of	(14,881,000)	(14,881,000)	-
Net Premiums Collected	Cash Flows	**407,995,000**	**254,757,000**	**153,238,000**
Premiums Receivable as of September 30, 2012	Combining	478,595,000	306,597,000	171,998,000
Less Premiums Receivable as of June 30, 2012	Balance Sheet	432,484,000	277,213,000	155,271,000
Changes in Premiums Receivable	(Assets)	**46,111,000**	**29,384,000**	**16,727,000**
Retrospective Rating Adjustments as of September 30, 2012	Combining	(140,393,000)	(140,393,000)	-
Less Retrospective Rating Adjustments as of June 30, 2012	Balance Sheet	(121,690,000)	(121,690,000)	-
Changes in Retrospective Rating Adjustments	(Liabilities)	**(18,703,000)**	**(18,703,000)**	-
Net Premiums Earned		**$ 435,403,000**	**$ 265,438,000**	**$ 169,965,000**

This comes from Results of Insurance Operations slide (A)

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The chart on slide 46 shows premium earned for the first quarter was $435 million.

There are three different components in premiums earned. The first is standard premium that is received and collected; another is premium receivables; and the last is changes in retrospective rating liabilities.

Number of Reported Hours and Accounts By Calendar Quarter

Reporting Year Quarter	Total Hours	Number of Accounts
June, 2012	815,152,169	147,644
March, 2012	756,817,650	141,036
December, 2011	789,525,109	141,734
September, 2011	825,410,245	143,345
June, 2011	783,697,610	141,781
March, 2011	724,910,734	138,222
December, 2010	789,535,555	141,008
September, 2010	798,238,841	142,825
June, 2010	771,784,612	141,495
March, 2010	714,962,024	138,321
December, 2009	781,252,068	141,374
September, 2009	798,686,745	143,695

Note: The major driver of premiums earned in the quarter is the change in covered hours.

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The number of reported hours and accounts has increased compared to June 30, 2011 and is reflected on slide 47.

Total hours have increased by 31.5 million hours to 815 million hours.

Total number of accounts have increased 5,863 to 147,000 accounts.

Benefits (Losses) Incurred

		1st Quarter Ended September 30, 2012				
	Source of Data	State Fund Total	Accident Account	Medical Aid Account	Pension Reserve Account	Unaudited Fiscal Year 2012
Net Benefits Paid	Statement of Cash Flows	$ 374,718,000	$ 151,517,000	$ 132,277,000	$ 90,924,000	$ 1,547,338,000
Benefit Liabilities as of September 30, 2012	Combining Balance Sheet (Liabilities)	11,209,957,000	4,168,307,000	3,519,770,000	3,521,880,000	11,202,955,000
Less Benefit Liabilities as of June 30, 2012		11,202,955,000	4,245,695,000	3,458,833,000	3,498,427,000	10,793,048,000
Change in Benefit Liabilities		**7,002,000**	**(77,388,000)**	**60,937,000**	**23,453,000**	**409,907,000**
Net Benefits Incurred		**$ 381,720,000**	**$ 74,129,000**	**$ 193,214,000**	**$ 114,377,000**	**$ 1,957,245,000**

Note: Net benefits incurred includes what we have paid out in benefits plus any change in the value of existing benefits.

This comes from Results of Insurance Operations slide (B)

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Benefit (Loss) Ratio: This is the biggest portion of our financial insurance operation. The benefits incurred for the first quarter of 2012 is $381 million.

Benefits incurred has decreased by 78.1 million; 17 percent compared to September 30, 2011.

Fiscal Year to Date Change in Benefit Liabilities
(in thousands)

	September 30, 2012				Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
	Accident	Medical Aid	Pension	Combined	Combined	Combined	Combined
Liability as of June 30th	$4,245,695	$3,458,833	$3,498,427	$11,202,955	$10,793,048	$10,748,429	$10,156,721
New liabilities incurred since June 30th	189,118	177,115	465	366,698	1,388,204	1,419,262	1,546,357
Development on Prior liabilities							
Discount accretion	20,569	16,873	54,795	92,238	397,617	372,581	350,643
Other development on prior liabilities	(80,092)	(897)	-	(80,990)	108,077	(236,573)	198,181
Change in Discount Rate	-	-	-	-	813,460		-
Claim Payments	(151,554)	(132,154)	(90,923)	(374,631)	(1,547,337)	(1,556,606)	(1,544,166)
Establishing state fund pension awards	(55,429)	-	55,429	-	-	-	-
Establishing S-I 2nd Injury pensions	-	-	3,686	3,686	-	45,955	40,693
Change in liability	($77,388)	$60,937	$23,453	$7,002	$409,907	$44,619	$591,708
Liability as of 9/30/12 and June 30th	$4,168,307	$3,519,770	$3,521,880	$11,209,957	$11,202,955	$10,793,048	$10,748,429

Due to workers' comp reform

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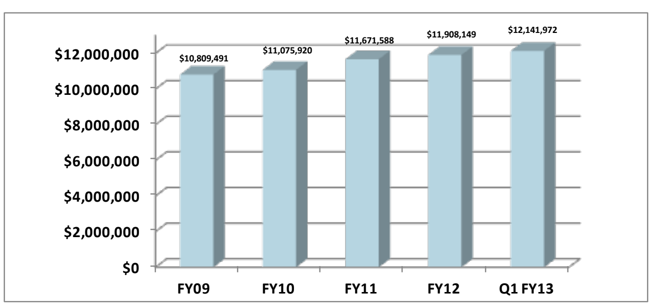
The chart on slide 50 explains the changes in benefit liabilities:

- The benefit liability increased $7 million.
  - The favorable development is primarily due to a positive change in prior liabilities of $81 million. This results from a decline in time-loss duration, and when fewer claims have time-loss payments, there are fewer anticipated total permanent disability pensions.

Total Investments
(in thousands)



Securities Lending Collateral not included

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Total Investments:

Total investments increased $233.8 million to $12.1 billion.

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

		1st Quarter Ended September 30, 2012	Unaudited 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					
L	Net investment income earned	$ 120,583,000	$ 481,892,000	$ 491,654,000	$ 486,996,000	$ 517,863,000
M	Net realized capital gain (loss)	24,053,000	547,771,000	68,768,000	17,725,000	(41,466,000)
N	Net investment gain (loss)	**$ 144,636,000**	**$ 1,029,663,000**	**$ 560,422,000**	**$ 504,721,000**	**$ 476,397,000**
	Net investment Income as a % of net premiums earned (L/A)	27.7%	32.9%	34.4%	38.9%	38.1%
	Net realized capital gains (loss) as a % of net premiums earned (M/A)	5.5%	37.4%	4.8%	1.4%	-3.0%
O	**Investment Income Ratio (N/A)**	33.2%	70.4%	39.2%	40.4%	35.0%

Increase in realized capital gains is mostly due to selling and re-purchasing equities to align with a new bench mark.

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Slide 52 explains investment income and the investment income ratio.

Our investment has been performing well despite continuous slow economic growth.

The investment ratio is 33.2 percent; Conning forecasted that the workers' compensation investment income ratio would be 19.2 percent.

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

	1st Quarter Ended September 30, 2012	Unaudited Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Investment Income	$ 120,583,000	$ 481,892,000	$ 491,654,000	$ 486,996,000
Net Realized Gain (Loss)				
Fixed Income	24,045,000	31,741,000	45,634,000	17,643,000
Equity	8,000	516,030,000	23,134,000	82,000
Total Realized Gain (Loss)	24,053,000	547,771,000	68,768,000	17,725,000
Unrealized Gain (Loss)				
Equities	107,012,000	(583,099,000)	370,867,000	149,875,000
TIPS	(5,765,000)	36,671,000	46,077,000	29,192,000
Total Unrealized Gain (Loss)	101,247,000	(546,428,000)	416,944,000	179,067,000
Total Investment Income, Realized and Unrealized Gain	245,883,000	483,235,000	977,366,000	683,788,000
Total Invested Assets	$ 12,141,972,000	$ 11,908,149,000	$ 11,671,588,000	$ 11,075,920,000
Investment Yields				
Investment Income/Average Invested Assets	1.0%	4.1%	4.3%	4.5%
Realized Gain (Loss)/Average Invested Assets	0.2%	4.6%	0.6%	0.2%
Unrealized gain (Loss)/Total Invested Assets	0.8%	-4.6%	3.7%	1.6%
Total Investment Yield	2.0%	4.1%	8.6%	6.2%

This is a result of restructuring the equities

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The chart on slide 53 shows the annual rate of return on our investments and considers both realized and unrealized gains and losses as well as investment income.

We had $245 million total investment income in realized and unrealized gains; this represents 2 percent yield for the first quarter.

Net Income (Loss) equals what remains after subtracting all the costs from revenues

		1st Quarter Ended September 30, 2012	Unaudited Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
F	Net insurance operation gains (losses)	$ (11,354,000)	$ (749,892,000)	$ (415,715,000)	$ (1,109,125,000)	$ (1,306,775,000)
N	Net investment gain (loss)	144,636,000	1,029,663,000	560,422,000	504,721,000	476,397,000
	Other Income					
P	Finance and service charges	11,324,000	50,330,000	52,626,000	43,040,000	54,614,000
Q	Self Insurance and Non-Insurance Revenues less Expenses	(3,303,000)	33,370,000	10,970,000	21,121,000	26,633,000
	Total other income	8,021,000	83,700,000	63,596,000	64,161,000	81,247,000
R	**Net income**	$ 141,303,000	$ 363,471,000	$ 208,303,000	$ (540,243,000)	$ (749,131,000)
S	**Operating Ratio (J - O)**	69.4%	80.9%	89.9%	148.3%	161.0%

Due to realized capital gains on equities

Due to workers comp. reform

Washington State Department of Labor & Industries

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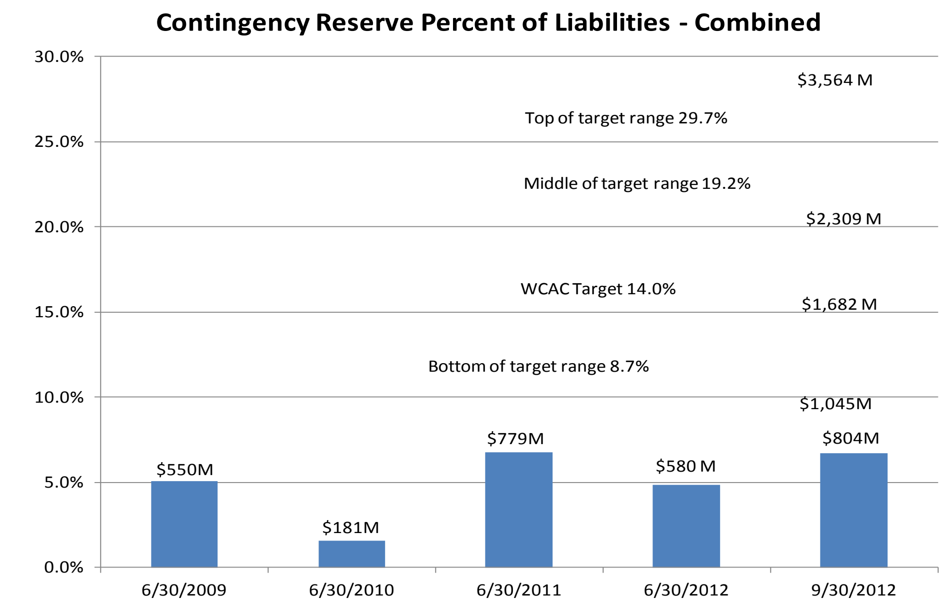
We have a net income of $141 million this quarter.

Our operating ratio is 69.4 percent. The operation ratio is derived by taking the combined ratio and subtracting the investment income ratio. Our operating ratio is at an all-time low.



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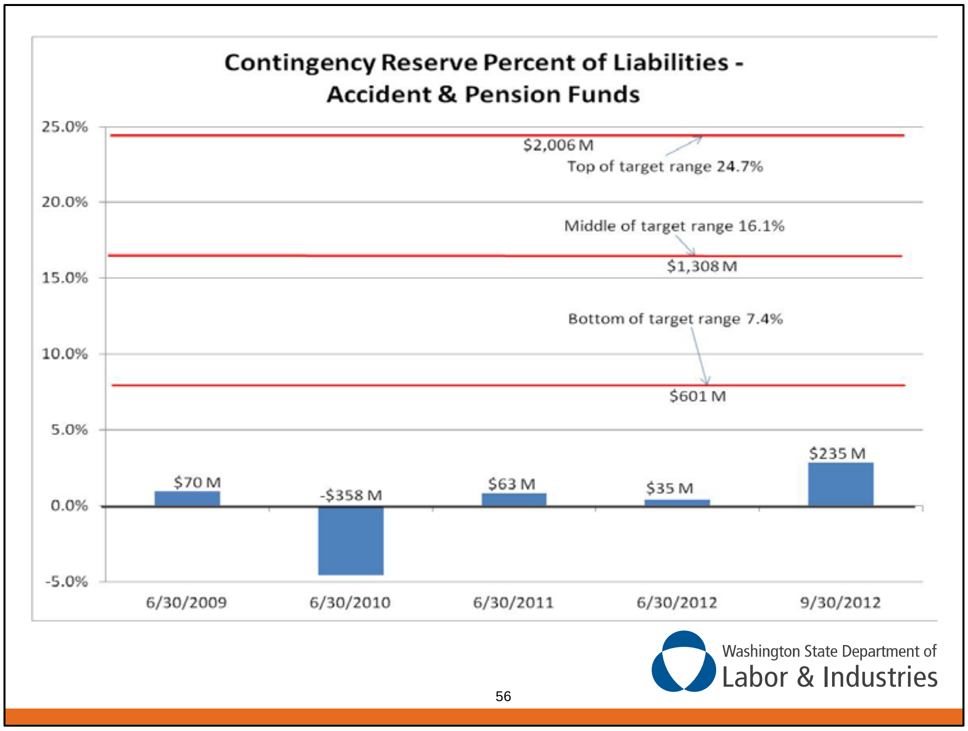
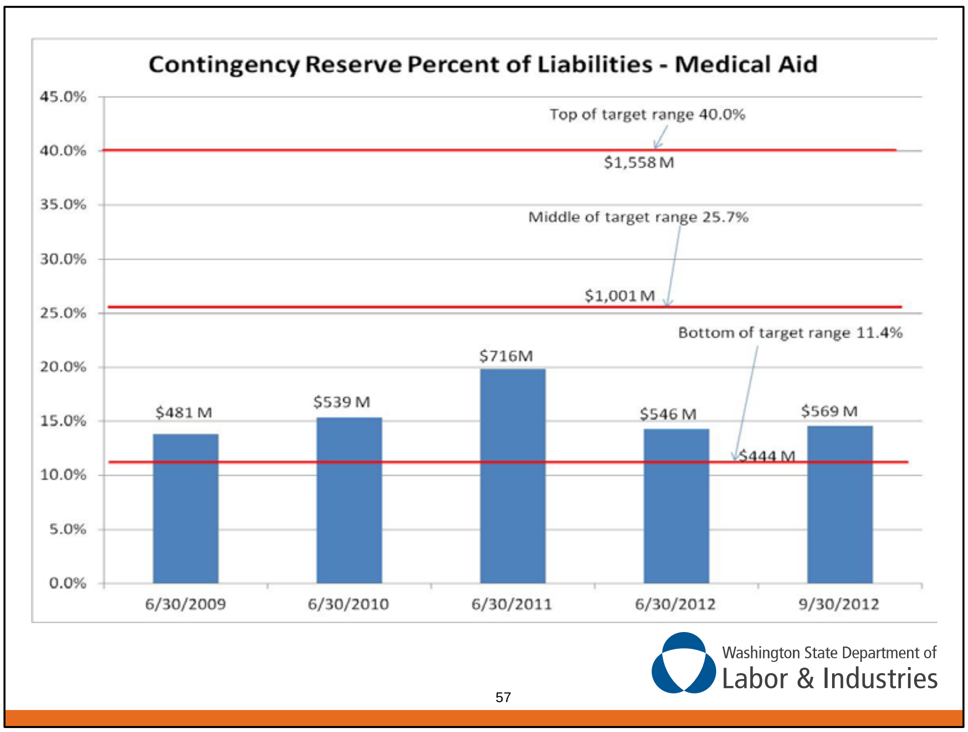
The WCAC target of 14 percent of liabilities is added to the combined contingency reserve chart based on the discussion with the WCAC over early/mid 2012. This chart explains the combined contingency reserve balance in relation to the draft contingency reserve policy. Currently the contingency reserve is at $804 million, below the bottom of the target range.



The contingency reserve for the Accident and Pension Funds was $235 million, below the bottom of the target range; however the ending balance is higher than it has been for the past four years.

The Accident Fund had a positive reserve balance of $216 million, and the Pension Reserve had a positive contingency reserve balance of $19 million.



The contingency reserve for the Medical Aid Fund is at $569 million, above the lower target.

Change in Contingency Reserve (in millions)

Contingency Reserve, July 1, 2012	**$**	**580.4**
Unexpected Investment Results		
Actual Realized and Unrealized Gains (Losses)		
Equities: Unrealized Gains (Losses)		107.0
TIPS: Unrealized Gains (Losses)		(5.8)
Equities: Realized Gains (Losses)		-
Fixed Income: Realized Gains (Losses)		24.0
Sub-total Actual Gains (Losses)		125.2
Less Expected Gains (Losses)		(27.8)
Sub-total Unexpected Gains		**97.4**
Insurance Operations Results		
Favorable development		67.9
Prior Year Retro (Unfavorable)		(9.5)
Current Quarter Insurance Results		67.9
Sub-total		**126.3**
Change to Contingency Reserve		**223.7**
Contingency Reserve, September 30, 2012	**$**	**804.1**

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Slide 58 is the **Explanation of State Fund Results:**

- As of July 1, 2012, the contingency reserve balance was at $580.4 million.
- Unexpected Investment Results: The investment gains in unrealized and realized gains were $97.4 million.
- Insurance Operations Results: Results were favorable this quarter by $126.3 million.
- The contingency reserve changed by $223.7 million to $804.1 million as of September 30, 2012.

Key Highlights . . .

- Premiums earned increased due to an increase in hours reported.
- Favorable development of $81million in prior liabilities is mostly due to:
  - A decline in time loss duration which caused fewer claims to receive time-loss payments
  - Resulting in fewer anticipated TPD pensions.
  - Resulting in a benefit (loss) ratio of 87.7% compare to an industry average of 93%.
- Total investments grew by $233.8 million to $12.1billion. Assets and liabilities from securities lending activities increased by $62.6 million.
- Operating ratio is at all time low at 69.4%.
- Contingency Reserve increased by $223.7 million to $804.1 million.

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Ms. Elias concluded the presentation with a review of the key highlights on slide 59.

Director Schurke informed the committee that we have another unqualified opinion from the SAO's independent review and gave thanks to Ms. Elias and her staff for their efforts.

Economic Update: Kirsta Glenn

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

Ms. Glenn began with the **U.S. economic outlook**:
Housing Market: The existing home sales were down slightly in August 2012; but this is up 11 percent over a year ago. Because we are starting from a very low level, the recovery in the housing market will take a long time. New home sales were increased by 5.7 percent above August sales; this is 27 percent above last year's levels. Finally, the Case-Shiller twenty-city home price index increased 0.5 percent in August; this was the seventh consecutive month of an increase. The low vacancy rates should continue to put upward pressure on the housing market. These are good signs nationally for the housing market.

Jobs: Job growth is showing a very slow recovery. In spring of 2012, the national growth was 100,000 jobs a month. Economists believe an estimated 150,000 jobs per month are needed to keep up with normal labor market growth. By the summer, the growth was over the 150,000 mark. The most recent data from ADP, a private firm that reports on jobs, in November 2012 job growth was only 118,000. The decrease in growth is believed to be due to the impact of Hurricane Sandy and that the impact will skew our numbers well into next spring.

Consumer confidence: Consumer confidence for September and October was up. The Consumer Confidence Board Index increased by 9 points to 70.3 in September; this was the highest point since February 2010. The University of Michigan survey for October was 82.6 which is the highest since October 2007.
Wages: Wage growth has been slow, and is lower than it was pre-recession. The reason for the low average wage growth may be due to the growth in employment of lower wage service sector jobs.

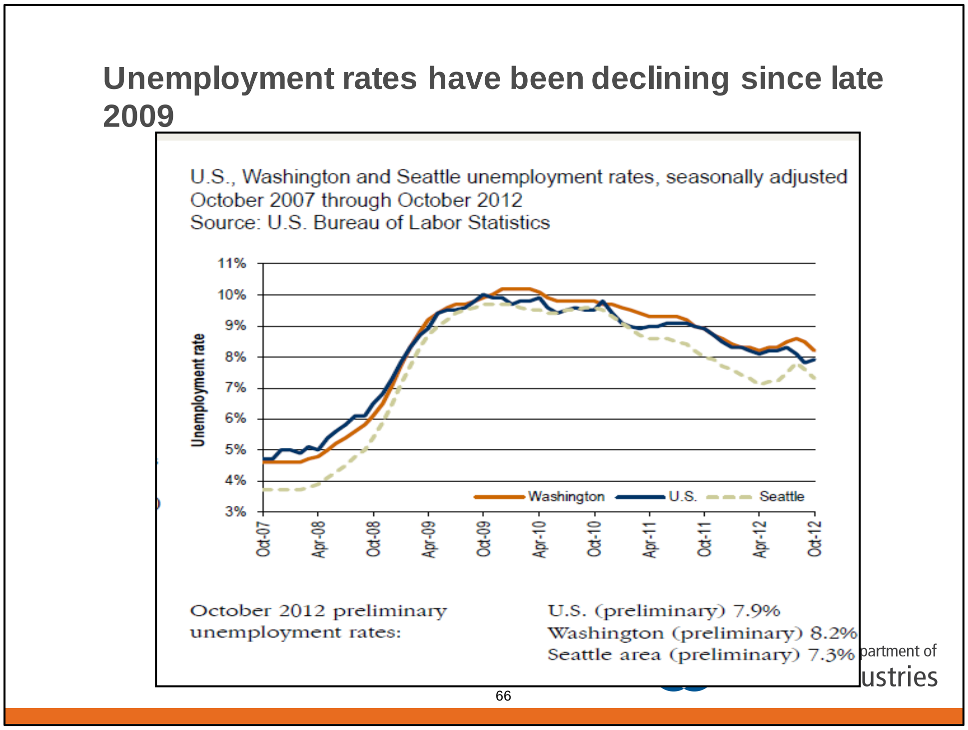
Major Risks:

Fiscal Cliff: By January 1, 2013, Congress needs to act or automatic increases in income tax rates will occur and automatic across-the-board budget cuts will be implemented. The estimate of the fiscal cliff impact's that it would cause the national economy to return to a recession for the first half of 2013. It is assumed that a short-term agreement will be made by outgoing Congress, but that it will not address the underlying issues which may not be dealt with until late 2013.

European sovereign debt crisis: The European Union's forecasted growth for next year is zero percent (across the board) compared to two to three percent for the U.S. The Eurozone returned to recession in the third quarter of 2012. Germany and France seem to being doing better while Greece has been in a recession for three years. The October unemployment in the Eurozone is 11.7 percent; there are 18.7 million people out of work. Spain and Greece have unemployment over 25 percent with youth unemployment around 60 percent. Recovery is expected in the second half of 2013.

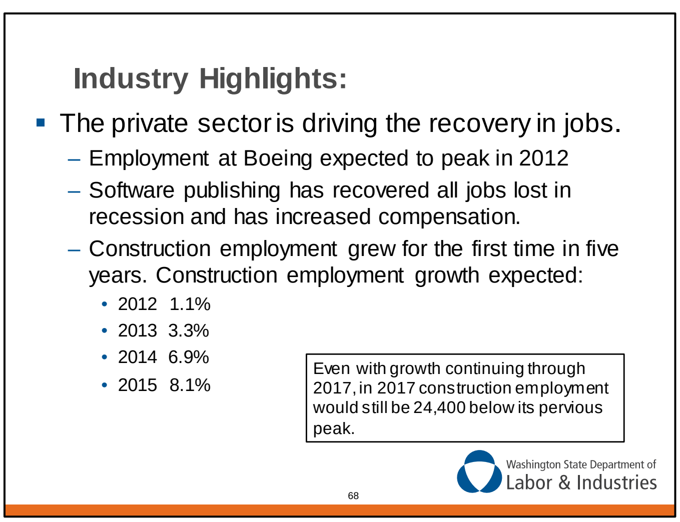
Japan's growth rate is at zero percent. China's growth is expected to slow from 10 percent to 7-8 percent; as the base level begins to increase, the growth will naturally slow down. China and India seem to be the power house economies.

Washington Economy: Washington added 6,700 jobs in October (private sector added 9,600 jobs and public sector lost 2,900 jobs). Over the year, Washington has added 54,900 jobs, (private sector added 57,000 jobs and public sector lost 2,100 jobs). The public sector job declines are expected to continue through 2013. Washington's seasonally adjusted unemployment rate was 8.2 percent, down 0.3 percent from last month, and down 0.4 percent over the year.



The graph on slide 66 shows the unemployment rates for the U.S., Washington, and Seattle. Seattle's unemployment rate has declined and is doing better than the rest of the state.

There are emergency unemployment insurance benefits that are set to expire at the end of December 2012. The Employment Security Department estimates that around 40 percent, approximately 50,000 people, will lose their unemployment benefits on December 29th. The end of emergency benefits is likely to lower the unemployment rate and cause more competition for injured workers who are attempting to return to work.



Ms. Glenn reviewed **Industry Highlights** on slides 68 and 69 and the **Economic Forecast** on slide 70.

Industry Highlights cont:

- Financial sector employment also declined over the last five years – expected 2012 0.9% gain.
- Retail trade – growth around one percent through 2017.
- Professional and Business Services – employment over 345,000 in 2012 (12% of total employment). Expected to grow 3-4% through 2017. Will surpass its previous peak in 2012.
- State and local government currently experiencing declines in employment. Declines expected to continue through 2013.

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Economic Forecast -

Nov 2012 Economic and Revenue Forecast Council.

- Personal Income growth will improve as economy recovers
- Job growth is expected to improve
- Housing construction will continue to build momentum
- Core inflation will remain moderate

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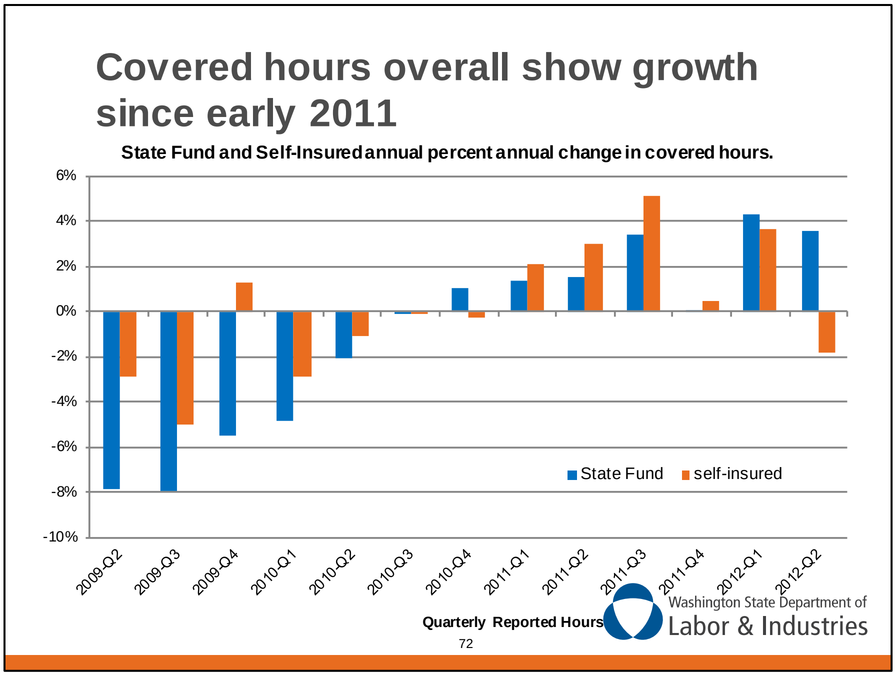
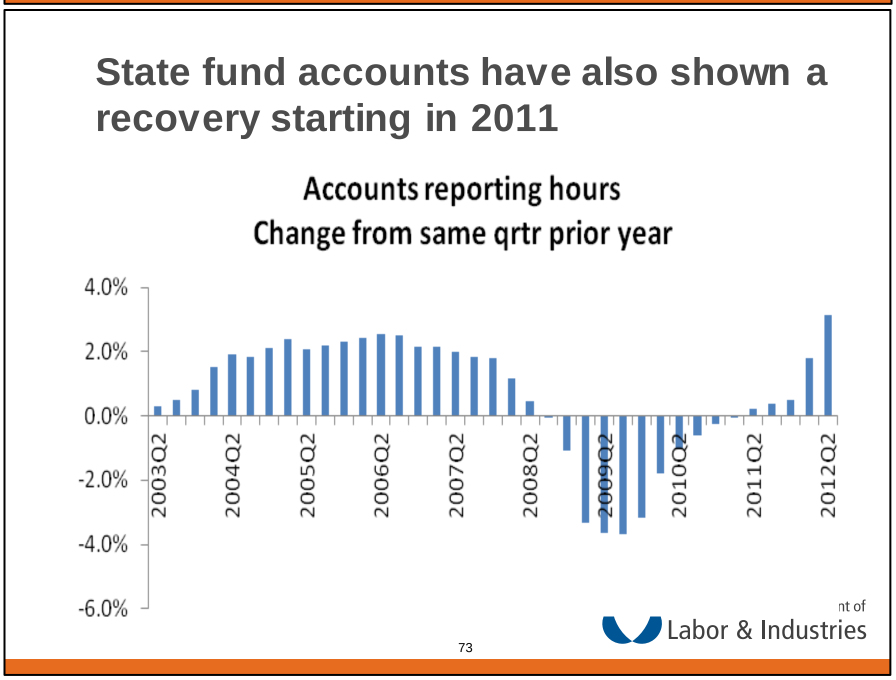
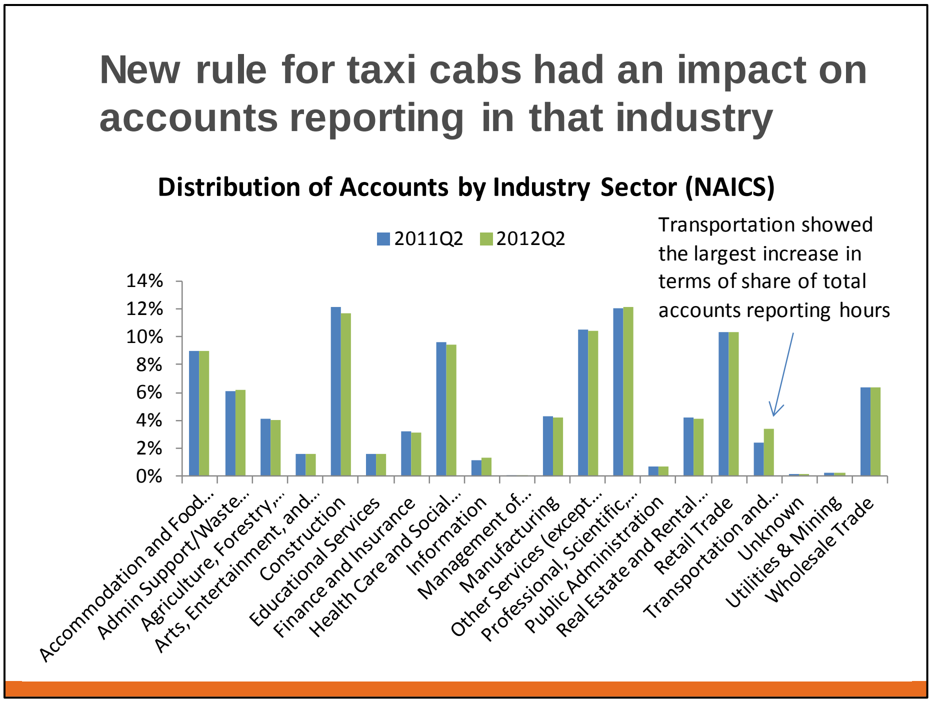
Ms. Glenn advised she will continue with the impact of recovery on workers' compensation and focused on: covered hours, number of accounts, number of new claims, frequency of injuries, existing claim distribution, claim resolution and inflation.



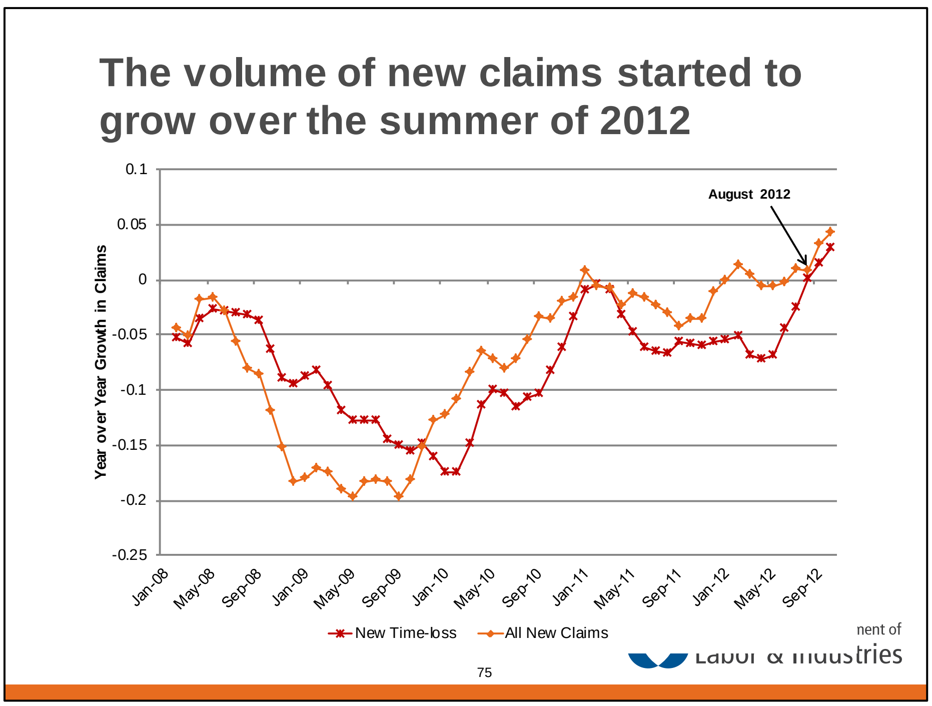
This chart on slide 72 shows the covered hours growth for both state fund and self-insured. The increase in hours is consistent with the increased employment.



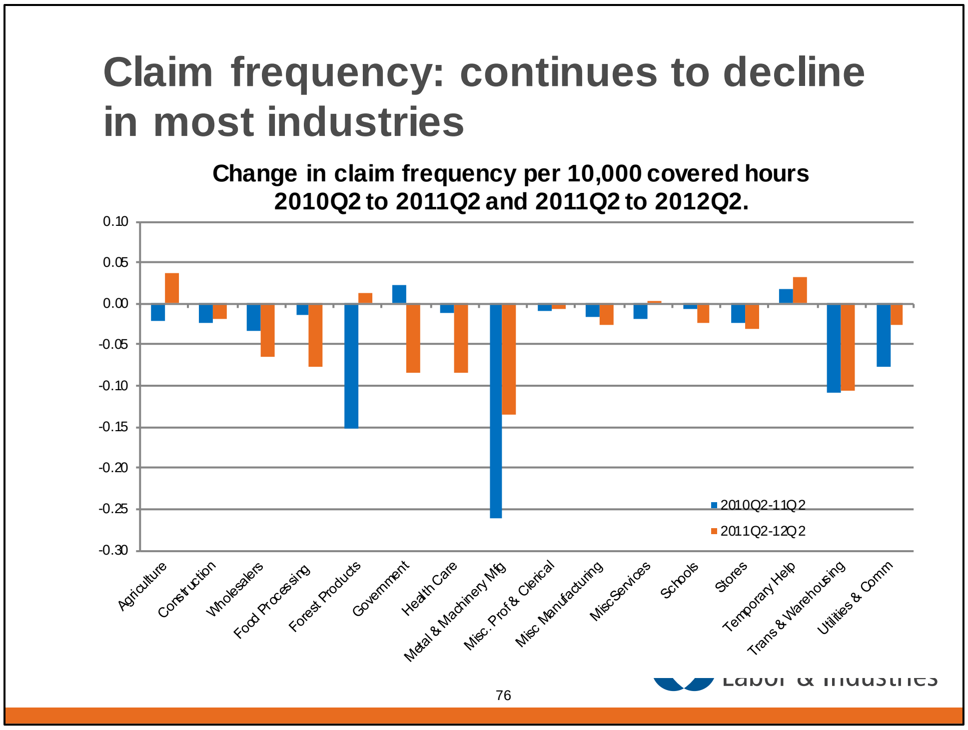
Slide 73 shows accounts reporting hours and the change from the quarter of the prior year. There was an unusually large increase over the past two quarters in new accounts. We identified that this was mostly occurring in transportation, the taxi industry.



The graph on slide 74 shows the impact of the new requirement for reporting for taxi cabs. Overall, even without taxi cabs, there was a solid increase in new accounts.

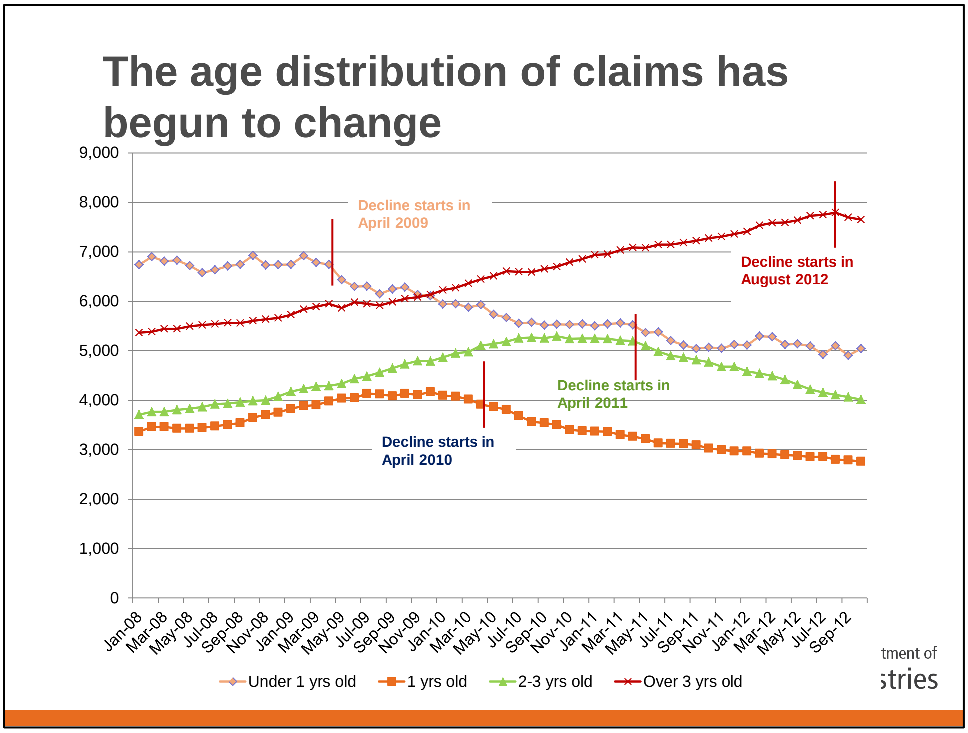


The graph on slide 75 shows the growth rate of new claims on a year-to-year basis. Growth has become positive for all new claims and new time-loss claims. The increase in claims is a reflection of the increase in hours worked. With an increase in employment, we are going to get more claims into the system.



The graph on slide 76 shows by industry the change in claim frequency per 10,000 covered hours. In general, claim frequency is declining; the increase in the volume of claims is not due to an overall increase in claim frequency.

A few industries where claim frequency is increasing are agriculture and temporary help. In agriculture, we often see variation because frequency depends on the crops picked because each has very different injury rates. Temporary help is one of the first industries to begin improving in a recovery and they tend to have high injury rates.



<u>The age distribution of claims has begun to change.</u> In this graph, the number of claims that are under a year old (less than a year from their injury date) started to decline with the recession in 2009. The number of claims that are one year old began declining April 2010; claims two to three years old began declining April 2011. The claims that are over three years are just seeing the first sign of decline. This is important because it may be an indication of claims work as well as the impact of reform measures that emphasize early return to work.

Rate at which time-loss claims are resolved is up from the low in 2010

Average Rate of Time-loss Claim Resolution

Calendar Year	Up to one year	Two to three years	Three years and over
2008	11.9%	7.2%	2.9%
2009	11.6%	7.0%	2.8%
2010	11.1%	6.0%	2.5%
2011	12.6%	6.9%	2.8%
2012 (through Oct)	12.4%	7.4%	2.8%

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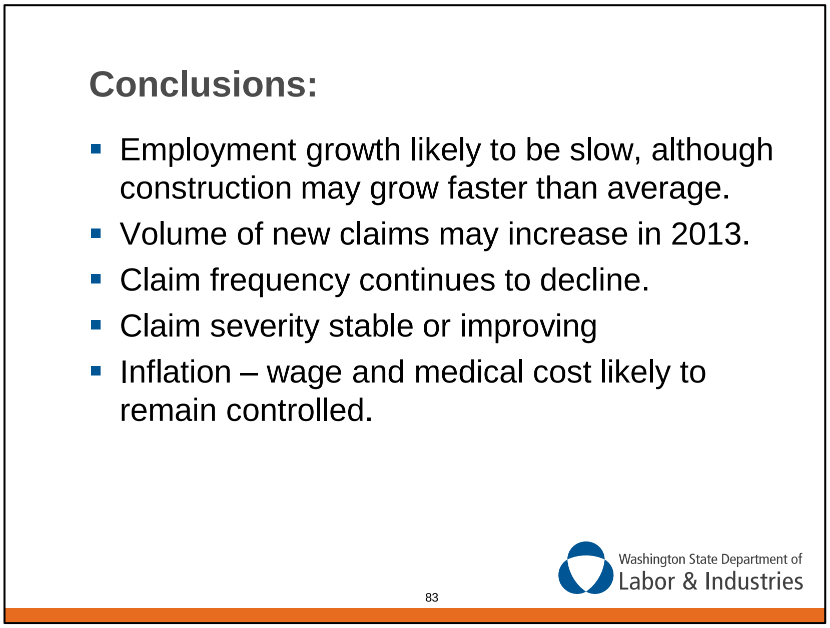
The table on slide 78 shows the resolution rate of claims that are in different age groups. The rate at which these claims close has gone up, particularly for the younger claims that are under a year old. This is positive because claims that close within an early time frame are more likely to be associated with return to work than claims that close later.

Ms. Glenn advised that the U.S. price inflator, Seattle CPI and average annual wage growth all are expected to be low into the near future; inflation is going to remain low. On medical inflation, the national medical cost inflation growth is five percent, which is much lower than recent trends. Washington state workers' compensation medical cost growth is lower than national levels and is currently below the Governor's four percent target. Improved medical management is likely to keep medical inflation low in Washington into the future.



Ms. Glenn summarized her presentation.

It was asked what the average cost of a claim in Washington is. Ms. Glenn advised she will look into the question and provide a comparison to a national benchmark. Another question was asked to provide the data for treatment only versus time loss claims as well.

Reform Implementation Updates: Bill Smith, Dustin Dailey, Janet Peterson and Vickie Kennedy

Washington Stay at Work Program: Bill Smith

Bill Smith, Stay at Work Program Manager, presented an update on the Washington Stay at Work (WSAW) program. The WSAW program provides a financial incentive for employers to bring their injured workers quickly and safely back to light duty or transitional 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.

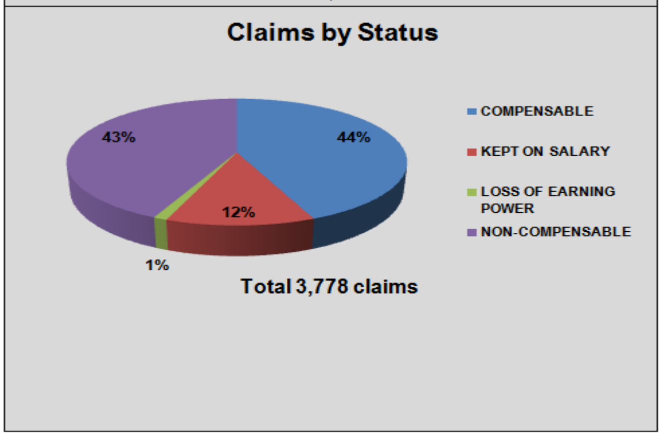
The program has been live for ten months.

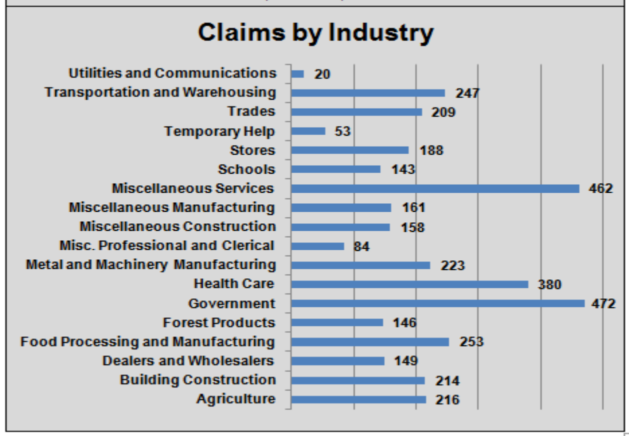
Mr. Smith provided updated statistics and highlights:

- The actuarial goal for the program at maturity is 8,600 claims per year. The goal for the first year is 4,000 and as of October 2012, we are ahead of the projection with 3,778 claims.

Program Summary Through Oct. 2012

Reimbursement Request and Claim Information	Employer Information
Reimbursement Requests Scanned 6,042	Employers who have Participated 1,366
Paid Wage: $ 7,239,838.23 Expense: $ 43,685.21 Total: $ 7,283,523.44	Employers Participating Size this month* Large: 167 Medium: 35 Small: 36
Total Days reimbursed 103,425	Retro vs. Non-Retro Claims 2,734 vs. 1,044





*All report numbers are cumulative except employer participating size, which is for October only. (Employer size is based on payroll hours submitted at the account level for 4 quarters. 1,920 annual hours are used to determine the number of FTEs for each account. The employer size is computed as: 0-25 FTEs = Small, 26-50 FTEs = Medium, 51+ FTEs = Large.)

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- Mr. Smith reviewed the *Program summary through October 2012* slide on page 91.

Ms. Kennedy advised that the retro participation in this program is very high. We are anticipating a significant uptake in the second year for Stay at Work because of the retro program and their ability to market these kinds of opportunities to employers.

- King County is the top county that utilizes the program.
- Sprains, strains, tears and fractures top the list of injuries.
- The top claims received by type of work are from the health care sector. An article was published by the Department of Labor that there is a 10 percent increase in the work-related injuries in the health care profession. The injuries tend to be lifting injuries and strains. Manufacturing and construction sectors also top the list.

Program Summary 2012:

- Increased staff to meet the program's growth and to work on the backlog.
- Conducted 202 outreach presentations to include 5,208 attendees. The program recently presented a webinar to the IRS small business forum; the intent was to work with agencies who help businesses that are getting started to know about this program.
- Eight articles about WSAW have been published in national, state and local publications. Most recently, the National Safety Council posted an article about the program.

- The department's Internal Audit reviewed the program's QA process and determined it addresses the legal issues according to the WAC and RCW.
- On-line applications should be available January 2013.

Stepping into 2013:

- There will be increased focus on outreach efforts. During the first six months of the year, the department's communication office will work on advertising this program along with FileFast.
- Determine the effectiveness of the WSAW program.
- Encourage employers to utilize online applications. This will help speed the filing process, staff will be able to assist employers with the form more quickly and there will be no issues regarding illegible applications.

Ms. Kennedy added that the FileFast program, a new approach in claim filing for the state fund, is a good fit with the WSAW program's outreach efforts because the sooner we get the claim submitted, the sooner the department can work with employers on stay at work opportunities.

Director Schurke reminded the committee that this is a state fund program; self-insured employers are not participating because they have their own programs. The WSAW program's goals are similar to Oregon's program; Oregon's research has shown that workers involved in the program were more often back to work three years after the injury and at higher wages.

A comment was made from an employer regarding the success of this program. They remarked that their payments are processed quickly and they received assistance from the return to work staff to help with coordination with medical providers. This collaboration, as well as the retro group, has been an asset. They have had issues with medical providers providing slow responses but believe COHE will help with this issue over time.

Ms. Kennedy advised that the department reported to the legislative committees that we saved an estimated 80,000 time-loss days on claims due to this program.

Structured Settlement: Dustin Dailey

Dustin Dailey, Structured Settlement Program Manager, continued with an update for the Structured Settlement program. As a reminder, structured settlement agreements provide a new option for resolving the non-medical portion of industrial insurance claims. This is a voluntary option that allows workers to settle the future indemnity on their claim for an agreed settlement amount.

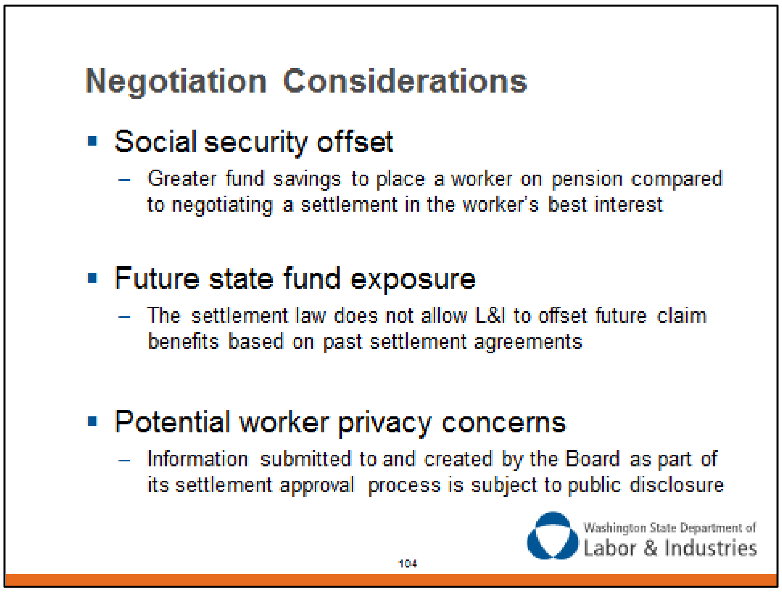
The program provides flexible solutions that achieve the best outcomes for workers while controlling claim costs. There are tangible benefits such as financial certainty for workers, claim cost finality for employers, and fund savings. The intangible benefit is an overall sense of closure for all parties involved.

Recent Status Highlights:

- The Structured Settlement legislative report on implementation was submitted to the Governor's office on time. The program will report annually through 2014.
- Independent studies evaluating quality and effectiveness of structured settlements are due in 2015, 2019 and 2023.

- As of November 19, 2012, a total of 386 State Fund settlement applications have been received; the application source is predominantly from injured workers (358) versus employers (28). 88 of those workers are represented by legal counsel, while 298 are pro se.
- 15 state fund and 7 self-insured agreements have been approved by the Board and have become final.
    - For state fund agreements, 9 were unrepresented workers and 6 were represented.
    - For self-insured agreements, 6 were represented workers and 1 was unrepresented.

It was asked if represented workers' requests move through the system more quickly. Mr. Dailey answered the typical process takes approximately a month for both represented and unrepresented workers; however, for represented workers, it can take less time when the decision is with the Board because they do not have the IAJ conference to participate in.



Mr. Dailey reviewed slide 104 regarding Negotiation Considerations.

There has been a recent shift in state fund approvals; three most recent state fund agreements were rejected by the Board for reasons other than the worker's best-interest. The rejections have been for either technical elements or they are requesting more information to evaluate.

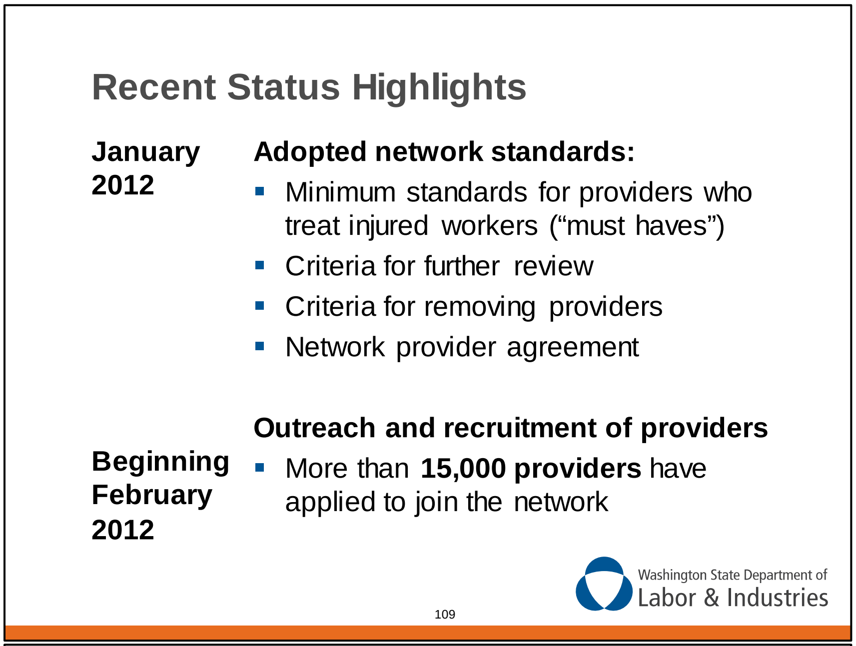
- One technical element is claim overpayments. Claim overpayments cause uncertainty about the settlement's final periodic payment amount. The program is working on whether we can include an existing claim overpayment into the settlement payment plan as a convenience for the worker.

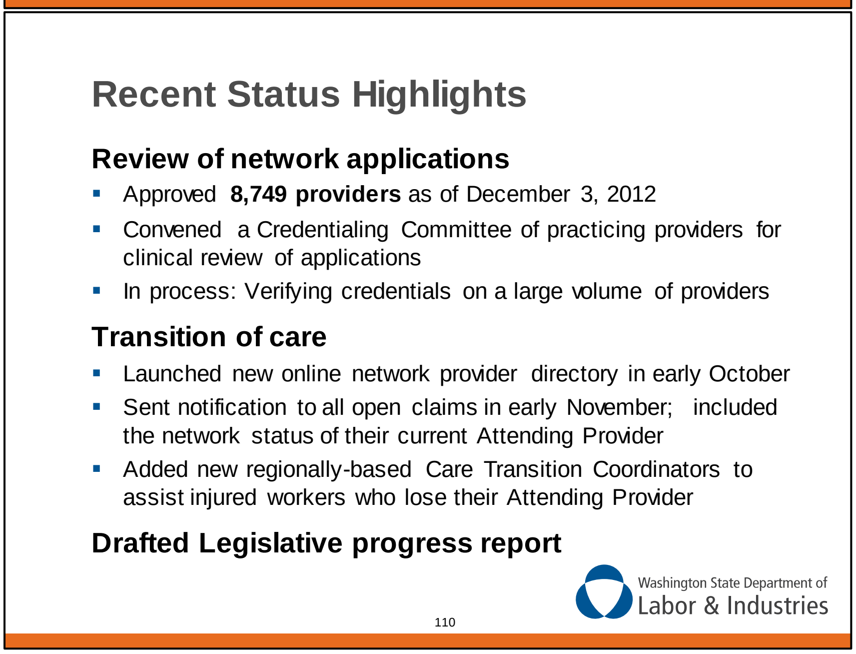
It was asked what the average time period is for negotiations to be completed. Mr. Dailey answered that once we enter negotiations, it usually takes three to four weeks but could take up to three months. This is due to the need for workers to gather financial information such as Social Security or retirement benefits.

Another question was asked if either state fund or self-insured agreements have been revoked (once the board approves a settlement, any party has 30 days to revoke the agreement) and Mr. Dailey said no.

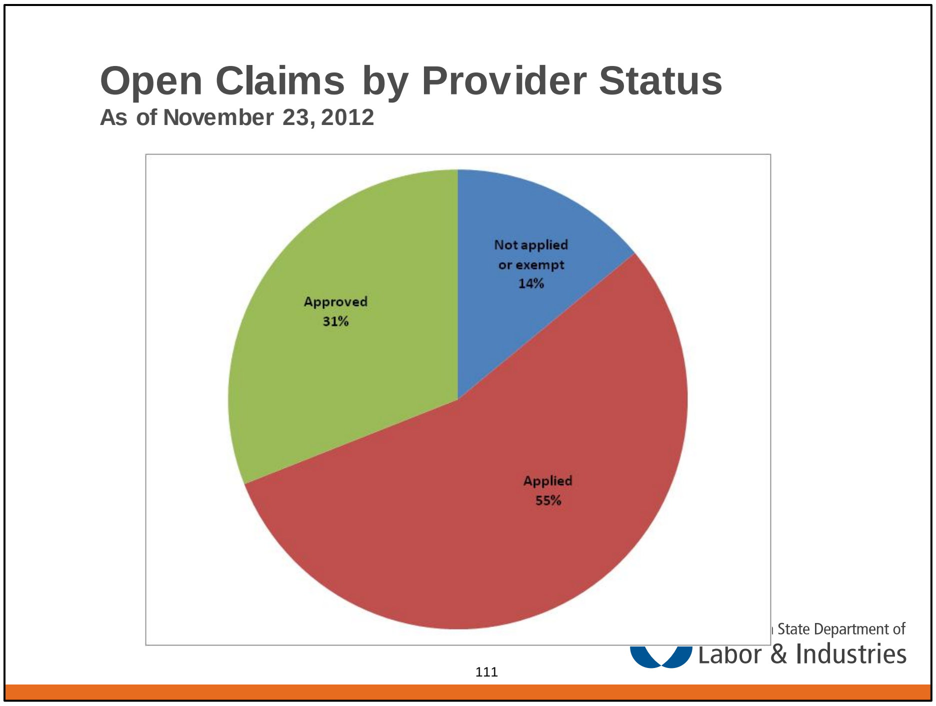
Medical Provider Network: Janet Peterson

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 2013, injured workers must see network providers for ongoing care.





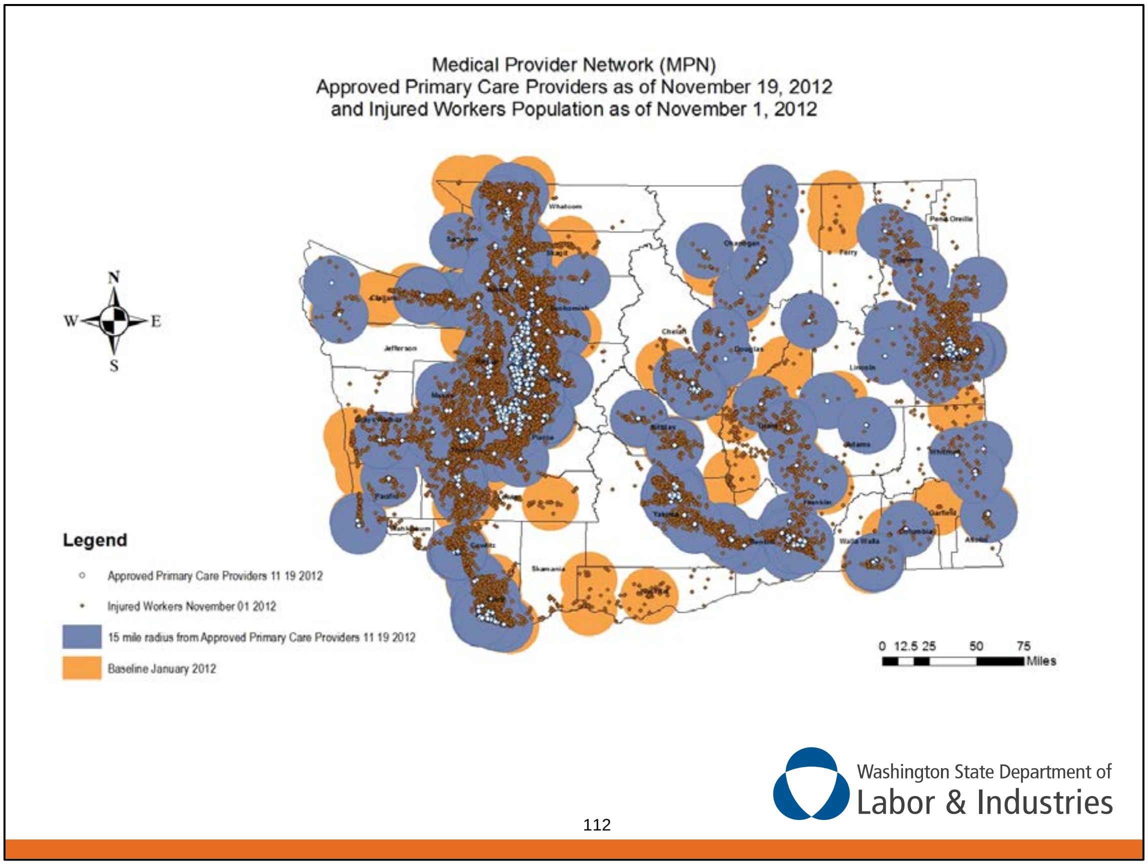
Ms. Peterson reviewed recent status highlights on slides 109 and 110.



Slide 111 shows some of the challenges the program faces. As of November 23, 2012, 55 percent of providers had applied and were in the review process. 14 percent of providers have not applied or are exempt (such as emergency room providers who are not required to join the network).

For the 55 percent of providers who have applied to join the network, two strategies are being used by the department to process the applications:

- The program is prioritizing based on geography as well as the number of open claims providers are treating.
- Under the rules, the program is allowed to grant provisional enrollment if the application meets certain key criteria; these doctors will receive a letter granting provisional enrollment so we do not disrupt care on the January 1, 2013 kick off.



The map on slide 112 shows where injured workers currently have access within a 15 mile radius to a primary care network provider. 95 percent of workers are in an area where they have access to five or more primary care providers already approved into the network. When providers who have applications in process are included, 98 percent of workers have access to five or more primary care providers.

A question was asked if geographic access (to a provider was an issue for injured workers prior to the network and Ms. Peterson advised it was. The black dots are workers and those in the white area on the map did not have access to a primary provider.

Looking Ahead

- Finish reviewing large volume of provider network applications
- Offer help to injured workers who need to transition to a new Attending Provider
- Starting January 1, 2013: Providers who have not been approved into the network can only treat injured workers for an initial office or emergency room visit when their claim is first filed.
- Continue recruiting providers who have not joined the network.
- By January 1st, implement outgoing calls to injured workers who see a non-network provider for their initial visit.

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Ms. Peterson reviewed what to expect in the next few months on slide 113.

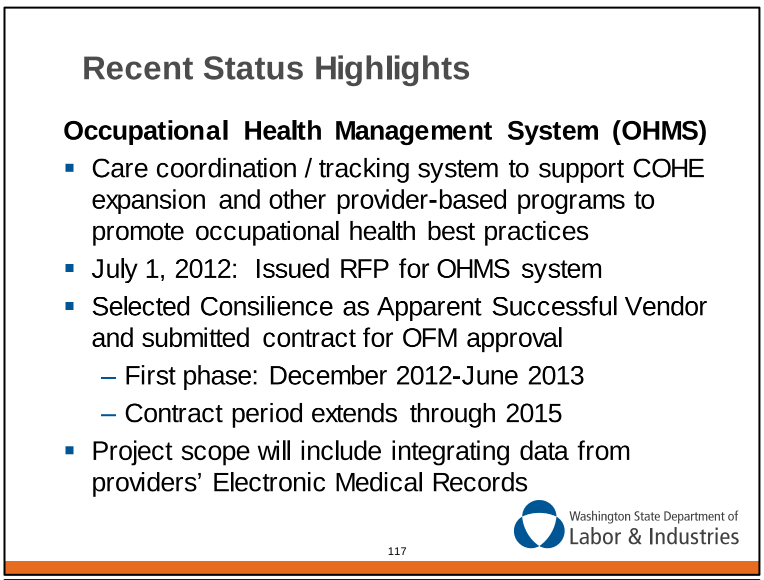
Ms. Kennedy recognized business and labor representation on the Provider Network Advisory Committee, along with eight practitioners from the medical and chiropractic advisory committees, for helping the department establish the rules and processes to support this new system. Ms. Peterson also recognized WSIA members for their assistance.

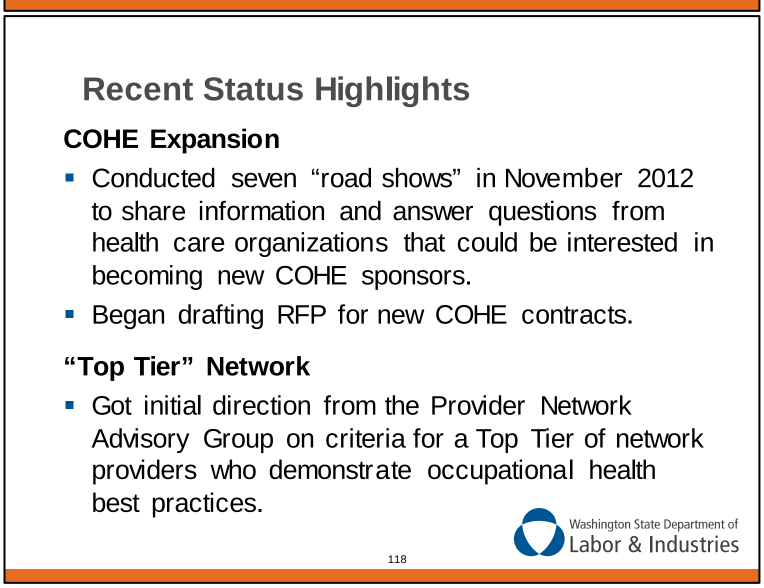
<u>Centers of Occupation Health and Education (COHE) Expansion: Diana Drylie</u>

Diana Drylie, Occupational Health Services Manager, continued the presentation with an update on the COHE expansion. COHEs promote and incentivize use of occupational health best practices.

- The plan is to expand geographic access to COHEs; currently there are four COHE centers. The department plans to have six COHEs throughout the state by July 2013 with the goal of having access for the entire state by July 2015.
- Expand occupational health best practices over the full period of recovery for workers (not just the first twelve weeks).
- Identify 'top tier' network providers who use best practices, and provide incentives.

Ms. Peterson reviewed recent status highlights on slides 117 and 118.





The department has been drafting the Request for Proposals (RFPs) and is requesting participation from two business and two labor representatives to assist on the evaluation committee.

In the past two years, the COHEs have been reviewed to determine if any modifications should be made before expansion. The department is planning to modify staffing for health services coordination.

Proposed Expansion of COHE Services

	FY2013 baseline	FY2014	FY2015	FY2016
Number of COHE sponsors	4	6	9	12
Number of COHE claims	28,900	34,900	46,900	55,950
Claims per Health Services Coord FTE	3,000	2,350	2,350	2,350
Minimum number of HSCs per COHE	1	2	2	2
Number of HSCs	11 FTE	20 FTE	26 FTE	32 FTE
% of COHE claims touched by HSC	12%	25%	25%	25%
% of HSC time supported by admin fee	60%	40%	40%	40%
HSC billable services	$156,609	$1,197,590	$1,609,369	$1,919,918
Add'l COHE admin payment	$1,204,425	$1,653,720	$2,103,720	$2,465,720
TOTAL COHE PAYMENTS	$1,361,034	$2,851,310	$3, 713,089	$4,385,638

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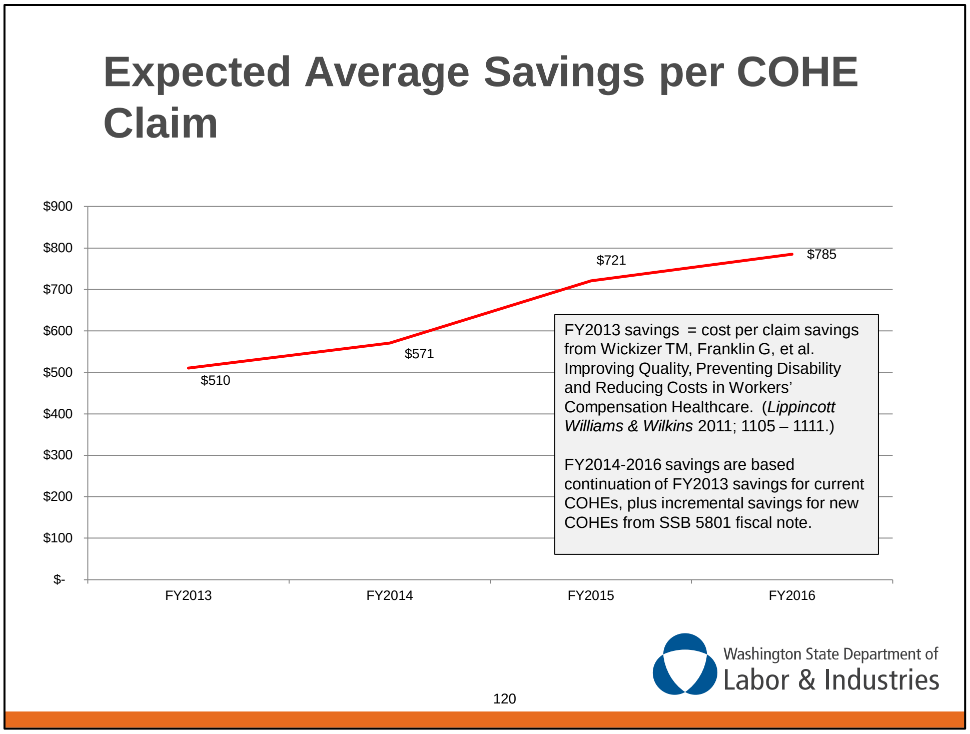
The Workers' Compensation Advisory Committee – Health Care Subcommittee advised that employer representatives indicate there is not contact on enough claims from the Health Services Coordinators (HSCs). To address this, the table on slide 119 shows the proposed changes to the staffing model to encourage HSCs to have fewer claims; our current contract has one HSC for every 3,000 claims initiated each year. We will require all COHEs to have at least two HSCs; instead of 3,000 claims to one HSC it will be 2,350 to one.

We are also modifying the fee schedule to allow more of the HSCs' time to be funded based on the services provided to injured workers.

We pay COHEs in different ways; we pay an administrative fee to COHES for the training of providers to ensure best practices are completed. We also pay the HSCs for the claim specific services they provide to the employers or injured workers. Currently, 60 percent of HSC costs are paid by administrative fees. We are changing the model so that only 40 percent is paid with administrative fees and the remaining 60 percent is covered by paying for the identification of claims that need assistance, making contacts with the worker, provider and employer and assisting with return-to-work efforts.

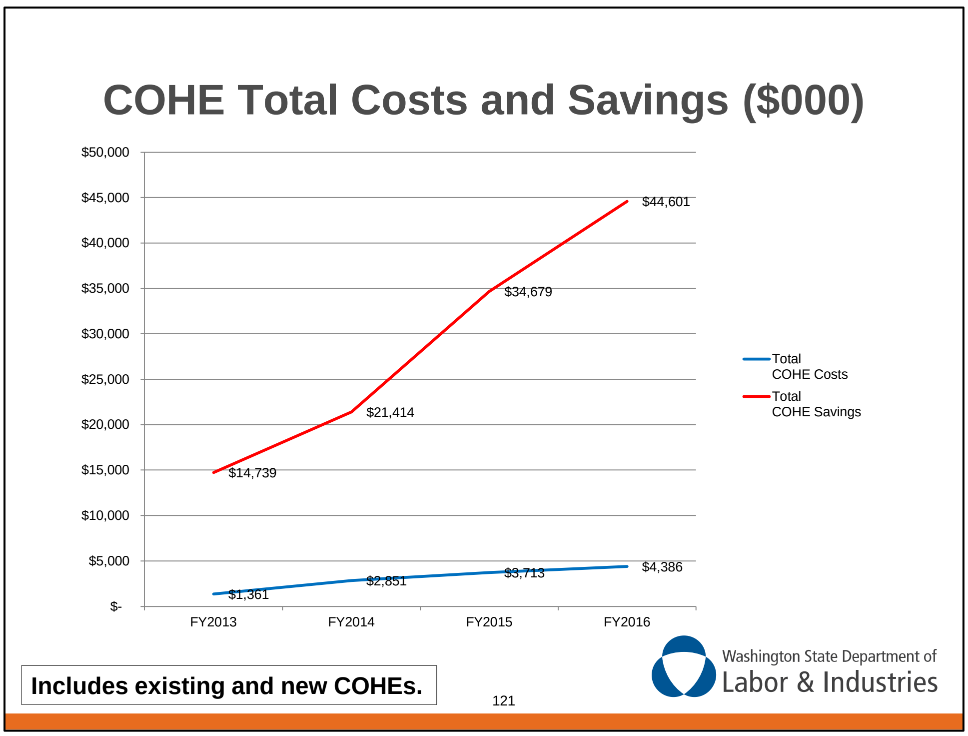
Due to the increase in geography, number of claims, and slight increases in the fee schedule, there is a growth in the cost of the COHEs. However, there are large claim savings from COHE services.



A study shows that COHEs save $510 per claim compared to non-COHE claims as shown on slide 120.

FY 2014-2016 savings are based on actuarial estimates. Savings rose significantly when looking at the entire life of a claim versus just one year.

In the most recent quarter, COHE claims are $1,600 less expensive than non-COHE claims.



The new COHEs will not achieve the same savings the first year compared to existing COHEs; the projections are 50 percent less. The bottom line represents the increased expenses and costs of COHEs. In FY 2013, the cost is $1.36 million with $14.7 million in savings.

Ms. Drylie noted that existing COHEs are not grandfathered into the system; they will need to respond to the RFP and compete as well.

Looking Ahead

December 2012	Bring vendor on board to work on OHMS
January 2013	Issue RFP for new COHE contracts
June 30, 2013	First phase of OHMS goes into production
July 1, 2013	New COHE contracts begin.
Ongoing	Adopt rules and establish infrastructure for "Top Tier"

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Ms. Drylie reviewed slide 123 "Looking Ahead".

A question was asked about phone call charges made by HSCs. Ms. Drylie advised calls are in six minute increments at $8.00 per six minute increment. This is set at 90 percent of the rate a vocational counselor would receive and is based on the requirements for the HSC' positions.

A question was asked for an example of Top Tier best practices and how the incentive program works. Ms. Drylie advised that best practices can include submitting a Report of Accident timely and complete, using the activity prescription form when appropriate, and contacting the employer for return-to-work discussions. The incentives have not been finalized yet; however we anticipate having one non-financial incentive such as making the administrative process easier for Top Tier providers.

Occupational Disease Study and Fraud Report Update: Vickie Kennedy

Ms. Kennedy continued the presentation with a JLARC update. The claims management study is due 2015. The study scope and plan are an estimated cost of $664,000.

Occupational Disease Study

Upjohn Institute for Employment Research Findings:

- The study considered the law, policy changes, adjudication, and trends and did not find significant areas of concern with the occupational disease (OD) claim adjudication in Washington.
- The researchers did not find that diseases caused by natural aging or conditions outside the workplace were increasingly being accepted as OD claims in Washington.
- The incidence of OD claims for older workers has grown faster than the growth in the workforce. This is especially true for workers in the 45 to 59 age class. It is not true for workers over 60.

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Ms. Kennedy reviewed slides 126-128 regarding the Occupational Disease Study. A copy of the final report will be released to the committee member once it is available.

Occupational Disease Study

Upjohn Institute for Employment Research Findings:

- OD claims have declined more slowly than injury claims.
- Upjohn did not find that pre-existing conditions are becoming more common among OD claims in Washington.
- The contrast between self-insured employers and State Fund employers seems to be growing larger.
  - State Fund employers have higher incidence of OD.
  - The 1997 – 2009 trend for OD claims for State Fund employers was downward while it was upward for self-insured.

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Occupational Disease Study

Upjohn Institute for Employment Research Findings:

- The review of OD statutes in other states revealed a great variety. Washington is not unique. The “naturally and proximately” language to define OD in Washington may be less clearly defined than other jurisdictions, but appellate decisions have clarified most issues.
  - Washington’s occupational disease experience is not extraordinary compared to neighboring Oregon and British Columbia.
  - Washington did not show the same downward trend in the OD proportion of all compensated claims that Oregon and BC experienced. The difference is small and may be accounted for by local conditions.

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Fraud Initiative

- EHB 2123 Section 701 (2011) directed L&I to provide a one-time report on its efforts to address provider, employer, and worker fraud.
- Fraud and other misuse of the system and benefits increase workers’ compensation costs for businesses and employers and puts honest employers at a competitive disadvantage.

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Ms. Kennedy reviewed slides 129-131 regarding the Fraud Initiative.

This report is currently in draft; the final report will be forwarded to the committee members once available. The report includes the department’s efforts on education and public awareness of fraud, not just in the workers compensation system, but to include the contractor areas and underground economy.

Fraud Initiative

- L&I has finalized a contract with ISO ClaimSearch for accessing and using the national database.
  - L&I is working with ISO to develop a method for sharing and receiving large data runs.
  - The system is operated under stringent privacy rules.
  - L&I is allowed full disclosure of any data regarding our claims that the database may contain.
  - First exchange of data is planned to occur by the end of 2012.
  - For cases reported as potential fraud or referred for investigation.
  - Investigators are using the database to see if there are multiple claims for the same injury.

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Fraud Initiative

- L&I ran a legislatively mandated ad campaign from January through March 2012 to help combat the underground economy. The advertising campaign featured a radio ad and banner ads on several websites.

- Traffic for SuspectFraud.com, developed by Dept. of Revenue, increased over 50% to an average 3,000 visits/month. More than 500 visitors used SuspectFraud.com to jump to L&I's website during this period. The fraud hotline received over 50% more phone calls than during the period prior to the ad campaign.

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Director Schurke asked the committee members to review potential 2013 meeting dates and send availability to Sharon Avery.

Director Schurke concluded the meeting by expressing her gratitude to the committee members for their services on the WCAC. She advised her last day with the department would be December 31, 2012.

Meeting Adjourned.