Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Notes
September 16, 2013

Business Representatives: Rick Anderson, Washington Farm Bureau- Sakuma Brothers; Nancy Dicus, Vigilant; Kris Tefft, Association of Washington Business; and Rebecca Forrestor, Self-Insurers Association
Labor Representatives: Karen Gude, United Food Commercial Workers 1439 and Jeff Johnson, Washington State Labor Council
Labor and Industries: Joel Sacks, Director; and Vickie Kennedy, Assistant Director for Insurance Services
BIIA: Dave Threedy, Board of Industrial Insurance Appeals
Absent: Sofia Aragon, Washington State Nurses Association and Dave Myers, Washington State Building Trades
Court Reporter: Milton Vance
Recorder: Sharon Avery

Guests: Mitchell Robert, Lindsey Shafer, Brian Bishop, Melissa Taylor, Lauren Gubbe, Janice Camp, Tom Kwieciak, Nancy Barnes, Viona Latschaw, Veronica Shakotko, Kim Murphy, Dave Kaplan, Joan Elgee, Jim Newhall, Kathy Petruzzelli, Sheri Sundstrom, Brian Ducey, Rick Clyne, Craig Scukas, Alan Paja, Jessica Gallardo, Scott Dilley, John Meyer, Carolyn Logue, and Erik Smith

L&I Staff: Debra Tollefson, Celia Nightingale, Tim Smolen, Lisann Rolle, Mariya Rohde, Julie Black, Sharon Elias, Steve Reinmuth, Mike Ratko, and Rachel Aarts

Welcome: Joel Sacks and Vickie Kennedy

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

Director Sacks reviewed the agenda and announced that the 2014 rate proposal is a 2.7 percent overall rate increase.

A safety message was shared. The minutes from the last meeting were approved and will be posted on the website. The committee members received the June meeting minutes electronically which were condensed and focused on questions and answers and issues that arose from discussion rather than a review of the material. Committee members felt these were more manageable and easier to read.

Debrief from Conning Presentation: Joel Sacks and Vickie Kennedy

The department is required by the State Investment Board to periodically review investment strategies. In preparation, we asked Conning to provide a comparison of L&I's funds and investment approaches with those of other insurance companies and state funds. Director Sacks requested the committee members' feedback and thoughts for next steps.

From the Conning presentation, Director Sacks indicated there are a variety of potential strategies when it comes to asset allocation. This is primarily because of two competing goals: on one hand, maximum returns can help keep rates low; on the other hand, maximum return increases investment risk. Investments in equities have historically done better than in bonds in the long term, but not the short term. Income return on bonds is not producing the same income today as in the past. Ms. Kennedy added we need to keep in mind the proportion invested in equities compared to the level of the contingency reserve. Director Sacks praised the State Investment Board on their investment strategies.

It was asked what percent of the portfolio is invested in equities. Mr. Vasek answered 12 percent overall.

Another question concerned how the State Fund weathered the recession compared to other insurance companies. This was not addressed in the Conning presentation.

Director Sacks offered future discussions, with those interested, regarding the various investment scenarios that Conning will provide which will be the basis for our recommendation to the Investment Board. For example, we could propose a 9 -15 percent range as the proportion invested in equities rather than the current.

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

Sharon Elias, Chief Accounting Officer, presented a financial update for fiscal year 2013- fourth quarter.

Ms. Elias provided a fiscal year financial highlights overview:

- Overall, the performance of the state fund for fiscal year 2013 was positive.
- The contingency reserve balance increased from $580 million to $617 million from July 1, 2012 through June 30, 2013 due to:
    - Earning more premiums than projected liabilities for the current accident year; and
    - A strong stock market that led to unrealized gains.

<u>State Fund Results:</u>

- Insurance Operations:
    - Premiums Earned (we took in): $1,586 million
        - Net premium earned increased by $122 million mainly due to an increase in hours reported.
    - Total Expenses Incurred (we spent): $2,383 million
- Net Benefits Incurred represents 88 percent of total insurance expenses:
    - Benefits incurred increased by $205 million compared to last year due to changes in benefit liabilities.
    - There was $291 million of total unplanned benefit liabilities. Unplanned benefit liabilities included:

        - ($273 M): decrease in liabilities due to reduction in number of future expected Total Permanent Disability pensions granted

        + $244 M: an increase in liabilities due to a 75% reduction in the saving assumptions regarding structured settlements

        + $132 M: an Increase in liabilities due to Increase in the expected number of future claims receiving medical payments for older claims

        + $33 M: an Increase in liabilities due to difference between actual pensioner mortality and expected mortality

        + $77 M: an increase due to change in the non-pension discount rate from 2.0 to 1.5%

        + $78 M: all other increases in liabilities

- $273 million reduction in total permanent disability pensions
- Net loss of $244 million due to a one-time adjustment in estimated structured settlement savings
- $132 million increase in the expected cost of future medical payments for older claims
- $33 million increase due to the difference between actual pensioner mortality and expected mortality from current tables used for pension reserves
- Net loss of $77 million due to change in the non-pension discount rate from 2.0 percent to 1.5 percent; and
- Net loss of $78 million due to other changes

A question was asked about the mortality tables used. Ms. Kennedy answered the pension tables have not been changed since the late 1980s. Once a year, current pension liabilities go through an experting or re-evaluation process. The $33 million represents the results of the annual experting process.

Director Sacks explained the ten year estimate used for medical payments on older claims. The $132 million represents a trend for medical costs that are more than ten years ago. When using a ten year average, there will be an increase in projected liabilities when older years with lower trends drop off.

Another question was asked regarding the reduction in projected pensions. Ms. Kennedy answered that more claims are being closed in the most recent quarter without pension and fewer claims moved into long-term disability which is where ultimate pension counts come from. Unlike the medical payments where we are dropping off better years, older years were poorer performing when it comes to total permanent disability. Director Sacks advised the trend in the last four quarters has been a decline in projected pension costs. This is based on initiatives that are underway and the positive impacts we are having in other areas of claims management.

It was asked if future medical is based on open claims or does it include anticipated reopenings and if it includes contingent reimbursements, such as Medicare or other medical costs incurred prior to the claim. Ms. Kennedy answered it would include open claims and those on pension with treatment orders. However, if a claim is closed, there is not anticipated medical liability nor do we account for potential Medicare because medical costs related to the accepted conditions on the claim are the responsibility of the State Fund. If Medicare pays, we reimburse them from the Medical Aid Fund.

Director Sacks addressed two one-time events. If the structured settlement and non-pension discount rate adjustments were not included in the liability changes, there would be reduction in liabilities.

Ms. Elias continued the presentation.

- Investments Income:
    - Total investment income was $553 million.
    - Investments grew $643 million in the past twelve months and ended at $12.6 billion as a result of bond investment income and a strong stock market.
- Other Revenues and Expenses:
    - The net for other revenues and expenses was $40 million.
- Results of Operations:

- We have a net loss of $203 million.
- Contingency Reserve:
  - As of June 30, 2012, the contingency reserve balance was $580 million. As of June 30, 2013, the contingency reserve balance was $617 million, compared to the WCAC target of $1,755 million (14 percent target for ten year plan).
  - The contingency reserve for the Accident and Pension Funds was $202 million.
  - The contingency reserve for the Medical Aid Fund was $416 million.
- Key Financial Ratios:
  - The operating ratio for state fund is 120.8 percent (state fund excluding change in structured settlement savings would be 105.4 percent).

2014 Rates: Joel Sacks

Director Sacks reviewed the proposed rate setting process for 2014. The CR 102 will be issued on September 17, 2013, a series of public rate hearings will be scheduled and the final decision on rates will be announced in late November.

The average proposed 2014 premium rate increase of 2.7 percent is less than 2 cents per hour. If we were similar to other states and considered revenue through wage inflation, it would be a 2 percent decrease.

There are four different funds involved. We are proposing no increase in the Accident Fund as current projections will be sufficient to cover new claim costs. The Medical Aid, Supplemental Pension and Stay-at-Work are funds are split between workers and employers. There is a proposed increase in the Medical Aid Fund to get closer to the estimated break-even rate. The remaining two funds would change consistent with break-even estimates under the proposed rates.

Director Sacks was asked how much the department is projecting the 2.7 percent increase will bring into the system. The impact on the contingency reserve will be between $75 to $95 million.

Another question was asked about the logging rates. Ms. Kennedy answered the change is 3 percent increase, bring non-mechanized logging to just over twenty dollars per hour. The department is planning to provide a rate discount incentive for loggers for 2014.

There are four key components to the rate setting strategy:

1. Steady and predictable rates.
   - Historically adopted rates have been unpredictable.
   - Long-term goal is 0 percent change on payroll basis.
2. Benchmark against wage inflation (this happens automatically in other states).
   - In Washington, rates are based on hours worked. When wages increase, revenue does not increase.
   - The latest change in wage inflation was 3.4 percent.
3. Steadily rebuilding reserves to protect against unexpected changes.
   - The WCAC target is 14 percent of contingency reserve as liabilities, or $2,047 million by the completion of the nine-year plan.

4. Lower costs while focusing on better outcomes for injured workers.
   - Improve culture of return-to-work among all parties: workers, employers, medical providers, L&I.
   - Improve medical outcomes through the medical provider network, COHE's and implementing the network's top-tier.
   - Improve claims management to eliminate delays based on Lean management principles.
   - Safety Initiatives.
   - Make it easier to do business with L&I.

A comment was made that it was appreciated how intentional the department is doing things that contribute positively to administrative outcomes.

<u>Results L&I: Reducing Costs & Improving Outcomes: Joel Sacks and Vickie Kennedy</u>

Director Sacks reviewed Governor Inslee's administration focus called Results Washington. Each agency director will work in collaboration with others to develop specific action plans to contribute to these goals. The Governor's goals are: world-class education; prosperous economy; sustainable energy and clean environment; healthy and safe communities; and efficient, effective and accountable government.

Three areas of focus on safety have been identified for the "healthy and safe communities" goal. They are public safety, traffic safety and an emphasis on workplace safety. The worker safety goal is to decrease workplace injury rates that result in missing three or more days from work from 376 per 100,000 full-time workers to 354 per 100,000 full-time workers by 2016.

The department's target is to focus on reducing those injures that result in time loss through both safety and initiatives that maintain the employee/employer relationship. For instance, the Stay at Work program has been a tremendous success and we will continue to expand this program to work toward this goal.

Director Sacks reviewed the five goals for the department:

1. Make workplaces safe;
2. Help injured workers heal and return to work;
3. Make it easy to do business with L&I;
4. Help honest workers, businesses and providers by cracking down on the dishonest ones; and
5. Ensure L&I is an employer of choice.

Ms. Kennedy continued with a detailed review of goal 2. The key focus areas include: create a culture of return to work; reduce the development of preventable permanent disability; and collaborate with internal and external stakeholders to reduce system delays and improve the customer experience.

The initial focus will be on the first six months of the claim as this is where the greatest opportunities are. Claims Evolution efforts and the Return-to-Work Partnerships Program are connected to this goal. The key focus areas of the goal help prioritize various efforts and initiatives.

The measures for this goal are shown in the Power Point presentation, along with descriptions of current initiatives.

<u>Board of Industrial Insurance Appeals (BIIA) Update: Dave Threedy</u>

Mr. Threedy advised there was an increase of the number of appeals received; it is unclear if this is a fluctuation or if it something that will continue. The board continues to operate within their goals as far as the time lines for getting out orders and the average weeks to completion.

Structured settlements have increased 50 percent.

<u>Closing Comments:</u>

The next WCAC meeting is scheduled on December 12, 2013 at the Tukwila Service Location.

Meeting Adjourned.