

**Workers' Compensation Advisory Committee (WCAC) Meeting**  
**Labor and Industries, Tukwila, WA**  
**Meeting Notes**  
**December 12, 2013**

**Business Representatives:** Rebecca Forrester, Self-Insurers Association; Rick Anderson, Washington Farm Bureau- Sakuma Brothers; Nancy Dicus, Vigilant; and Kris Tefft, Association of Washington Business

**Labor Representatives:** Dave Myers, Washington State Building Trades; and Karen Gude, United Food Commercial Workers 1439

**Labor and Industries:** Joel Sacks, Director; and Vickie Kennedy, Assistant Director for Insurance Services

**BIIA:** Dave Threedy, Board of Industrial Insurance Appeals

**Absent:** Jeff Johnson, Washington State Labor Council and Sofia Aragon, Washington State Nurses Association

**Court Reporter:** Milton Vance

**Recorder:** Sharon Avery

**Guests:** Sheri Sundstrom, John Meier, Brian Bishop, Greg Kabacy, Tom Kwieciak, Jim Newhall, Dave Kaplan, Janice Camp, Viona Latschaw, Alan Paja, Lindsey Shafer, Lloyd Brooks, John Bowden, Paul Chasco, Matthew Bryant, Greg Krohm, and Regine Neiders

**L&I Staff:** Rena Shawver, Ryan Guppy, Doug Stewart, Natalee Fillinger, Mike Ratko, Rachel Aarts, Sharon Elias, Steve Reinmuth and Ron Langley

**Welcome: Joel Sacks and Vickie Kennedy**

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

The department sponsored a teen safety video contest and the award winning video "The Teen Worker's Survival Guide" produced by a student from New Market Skill Center was shared as the safety message.

Ms. Kennedy advised that the committee's binders included updates for Joint Legislative Audit and Review Committee (JLARC), rules development, and the "Your Premiums Dollars at Work" pamphlet. This pamphlet is distributed to all state fund employers with their rate notices. An update on the 2011 reforms was also included. The structured settlement information has been updated and does not include self-insured cases.

Director Sacks reviewed the agenda and requested the committee to provide their feedback on topics and presentations for future WCAC meetings.

**JLARC's Workers' Compensation Management System Audit: John Bowden**

John Bowden shared the objectives of his presentation and described the successful bidder for the audit on slides 6-10.

The team of industry experts includes:

- Matt Bryant- WorkComp Strategies
- Greg Krohm- Former Executive Director of International Association of Industrial Accident Boards and Commissions (IAIABC)
- Frank Neuhauser- Project Director, Research Specialist at University of California at Berkeley

- Mike Manley- Oregon Department of Consumer and Business Services; Oregon Rate Study
- Terry Bogoyo- Retired Administrator from Worksafe BC
- Two former insurance executives from private insurance
- Most of the work will be completed within the next fifteen months. The contractor will obtain qualitative and quantitative data from the department and will work with the self-insured employers for claims data from their third party administrators. The data will be used to assess the promptness, fairness and efficiency of the workers' compensation claims management and determine if there are recommendations to improve the system or reduce costs.
- The final report (preliminary) is due June 2015 and will include recommendations and the department's response to those recommendations.

Mr. Bowden was asked how JLARC was receiving names of stakeholders to contact; he responded that the department is identifying names and Jeff Johnson and Kris Tefft were asked to provide information on who might be interested in interviews with JLARC.

Another question was asked if self-insurance data will be assessed and Mr. Bowden responded there will be a comparison between state fund and self-insured. There will also be a comparison with retro and non-retro.

Director Sacks asked WCAC members and stakeholders to work with the auditors to provide insight and perspective; the more input they receive, the better the report will be for the department.

### **Industrial Insurance (State) Fund Financial Overview: Sharon Elias**

Sharon Elias, Chief Accounting Officer, presented a financial update for fiscal year 2014- first quarter.

Ms. Elias provided a three month financial highlights overview:

- Overall, the performance of the state fund during first quarter of fiscal year 2014 is positive.
- The contingency reserve balance increased from \$619 million to \$860 million from July 1, 2013 through September 30, 2013 due to:
  - Higher than expected investment results; and
  - Estimates of liabilities declined due to fewer active pension and time loss claims than expected.

### **State Fund Results:**

- Insurance Operations:
  - Premiums Earned (we took in): \$443 million
  - Total Expenses Incurred (we spent): \$479 million
- Premiums Earned:
  - Net premium earned increased by \$8 million mainly due to an increase in hours reported.
- Net Benefits Incurred:
  - Benefits incurred increased from \$42 million compared to last year due to:
    - Increased reported hours and;
    - The new discount rate of 1.5 for non-pension liabilities.
  - There was positive \$75 million unplanned change in benefit liabilities.

(Increase in hours reported means we have increase in exposure. We changed the discount rate from 2 percent to 1.5 percent; this means we record higher liabilities but this increase is partially offset by lower discount accretion).

Ms. Kennedy was asked about the unfavorable development for the Stay at Work program of \$15 million; she responded that in early estimates, the department anticipated half the annual savings the first year and double this in the second and subsequent years once the program reached full maturity. The actuaries are seeing that program maturity is not as fast as anticipated. The original estimates were very aggressive compared to Oregon's experience with their Employer at Injury Program. The actuaries now anticipate another year for the program to reach full maturity.

Director Sacks added that the department is placing a focus on the first year of a claim, with programs such as Stay at Work, to help workers get back to work. These efforts should reduce workers on time loss at 12-24 months and lower the projections of workers who are long-term disabled and eventually go on to pensions.

It was asked if the department has plans to ensure the Stay at Work Program meets the anticipated goal. Ms. Kennedy answered that the department's media campaign had a positive impact on the program. Discussions about next steps of the campaign are in progress. We also plan to review the process for submitting reimbursement requests to ensure it is not more difficult than necessary. Lastly, the department may report the data differently in the "Reform Updates" to explain the program's long term impact on ultimate pension and long term disability cases.

Director Sacks was asked about the change in non-pension discount rate that contributed to the planned benefits liabilities; Ms. Elias addressed this later in the presentation.

Ms. Elias was asked what all other unexpected development of \$23 million included; this includes a number of positive and negative developments including PPD. Ms. Elias will email the committee other examples.

Ms. Elias continued the presentation.

- Investments Income:
  - Total investment income was \$158 million.
  - Investments grew \$289 million in the past three months and ended at \$12.8 billion as a result of investment income and a strong stock market.

Director Sacks expressed that we will have challenges with investment income earned because of the bond market. The department's investments are 85 percent fixed income bonds; when the long term bonds were purchased 5 to 8 years ago, they had a much higher rate of return than the funds receive now as the bonds mature and we purchase new ones. 15 percent of investments are in the stock market; when stocks do well, we sell to rebalance and invest into fixed income.

- Other Revenues and Expenses:
  - The net for other revenues and expenses was \$15 million.
- Results of Operations:
  - We have a net loss of \$137 million. We have a net income of \$137 million from operation (which means our expenses are less than our revenues).
- Contingency Reserve:
  - The contingency reserve for the Accident and Pension Funds was \$363 million.
  - The contingency reserve for the Medical Aid Fund was \$498 million.

- As of June 30, 2013, the contingency reserve balance was \$619 million. As of September 30, 2013, the contingency reserve balance was \$860 million, below the WCAC target of \$1,764 million (14 percent target for ten year plan).
- Key Financial Ratios:
  - The operating ratio is 82 percent.

Director Sacks reviewed the key factors in the contingency reserve change for the last quarter on slide 28.

**Steadily Rebuilding Reserve Benchmarks: Joel Sacks and Vickie Kennedy**

Director Sacks reviewed the Nine Year Reserve Benchmarks plan to rebuild the contingency reserve to 13 to 15 percent of liabilities. The department is using a range rather than a specific number because of unpredictability, primarily of equities.

Director Sacks also reviewed the anticipated changes to the contingency reserve for 2014. The significant changes to state fund pension reserves this quarter include adjusting the change in the discount rate for current claims that are not yet pensions but are anticipated to be pension cases at a future point. The discount rate was reduced from 6.5 percent to 4.5 percent which increased liabilities by \$166 million. It was asked if the decrease in pensions could have been a result of the recession and lower employment, lower hours and lower exposure. Ms. Kennedy felt the recession did not influence the numbers but believes early interventions have had some influence.

**Legislative Update: Vickie Kennedy**

A number of legislative reports are pending release from the Governor’s office. Once finalized, copies will be sent to committee members. The reports can also be viewed at [www.lni.wa.gov/Main/AboutLNI/Legislature/#3](http://www.lni.wa.gov/Main/AboutLNI/Legislature/#3).

Ms. Kennedy briefly described the reports listed in the Power Point presentation on slide 36.

She also described the rate incentive available to employers reporting hours in non-mechanized logging on slide 37. This incentive is the result of the work of the Logger Safety Task Force.

**Update on Agency Goal- Helping Injured Workers Heal and Return to Work: Vickie Kennedy**

This goal supports our commitment to save \$35-\$70 million by reducing liabilities through better outcomes from injured workers.

To further focus Insurance Services’ work on the goal, the division has reorganized and created a new program called Return to Work Partnerships. Ms. Kennedy introduced Ryan Guppy, recently appointed Chief of Return to Work Partnerships.

Ms. Kennedy continued the presentation.

She reminded the WCAC that the three key focus areas for the agency goal of helping injured workers heal and return to work are:

1. Create culture of return to work;
2. Reduce the development of preventable permanent disability; and
3. Collaborate with internal and external stakeholders to reduce system delays and improve the customer experience in the first six month of the claims process.

The department will begin reporting out measures on different initiatives under each focus area on a quarterly basis.

### **Claims Evolution: Vickie Kennedy**

Claims Processors: A pilot in August identified daily administrative tasks claim managers did that could be assigned to a support person, allowing the claim managers to focus on complex claim management issues. The positive results from the pilot included saved staff time and improved customer experience. The department is placing a claim processor in each unit.

Return to Work Future State: This is a partnership between Claims, the RTW program, and the field. It focuses on identifying claims early on and providing custom services to those cases that are high risk of long term disability. This pilot is focused in King County and involves one claim unit and one group of RTW staff in the field. Where vocational counselors typically get cases much later in the claim process, they will get cases in the pilot at about 60-90 days if field RTW efforts are not successful.

A concern was raised that this concept may not work for seasonal employees in the agriculture or construction industries. It was agreed that seasonal or intermittent work complicates RTW.

Director Sacks added our focus is going beyond the employer of injury and providing resources to workers who may not have access to utilize their transferrable skills. This approach is geared toward workers who are motivated and it is to help them understand options available to them.

Apprenticeship Program: The department has a 22 month apprentice program for level two claims adjudicators; this includes ten months classroom training followed by twelve months of on the job training. A consultant has been hired to identify how we can improve and modernize the training program. We will have e-learning modules as refreshers, and are looking at eliminating claims transfers in apprentices' caseloads. Another significant change is in the work checking process.

### **Building a Better Customer Experience: Ron Langley**

Ron Langley, Customer Relations Manager, began his presentation with an overview of how the customer experience research was done. This effort is driven by Agency Goal 3 "Making It Easier to do Business with L&I". We are using customer input and the fundamental elements of Lean to effectively make changes based on what is learned from the customers.

For surveys, we are only focused on state fund time loss claims. For workers, the department excluded those who are represented because we are measuring our direct contact interactions. For employers, Retro and employers with TPAs were not included.

We will continue to conduct these surveys long term; injured workers and employers will be contacted twice a year through the remainder of the biennium.

Surveys are also being conducted with employers who have participated in DOSH consultations.

### **Closing Comments:**

A list of potential dates for 2014 was provided to the committee members; meetings will be scheduled based on availability. September minutes will be sent electronically for review and approval.

Rebecca Forrester was recognized for her representation of the self-insured community for the last six years on the committee. Sherry Sundstrom was announced as the new self-insured representative.

Meeting Adjourned.