

Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Notes
September 22, 2014

Business Representatives: Bob Battles, Association of Washington Business; Nancy Dicus, Vigilant; Kris Tefft, Washington Self-Insurers Association; and Mike Roozen, Farm Bureau

Labor Representatives: Joe Kendo, Washington State Labor Council 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: Sheri Sundstrom, Hoffman Construction and Sofia Aragon, Washington State Nurses Association

Court Reporter: Milton Vance

Recorder: Sharon Avery

Guests: Jan Gee, Carolyn Logue, Veronica Shakotko, Alan Paja, Craig Scukas, Jim Newhall, Scott Dilley, Richard Clyne, Brian Ducey, Christin Brewer, Kathy Petruzzelli, Curran Bower, Derek Rutter, Janice Camp, Patrick Conner, Joan Elgee, Lauren Gubbe, Carl Ertmaoa, Holly Chisa, Peri Smith, and Terry Peterson

L&I Staff: Karen Jost, Amy Ray, Susan Parsons, Dan Johnston, Ron Burford, Tim Smolen, Cheri Ward, Rachel Aarts, Mike Ratko, Sharon Elias, and Ryan Guppy

Welcome: Joel Sacks and Vickie Kennedy

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

The department shared a safety message about the "Lifting Safety App".

Mortality tables and pension discount rate- rule filing:

In past WCAC meetings, we have discussed the need to update the pension mortality tables in addition to beginning the planned changes in the pension discount rate. The WCAC subcommittee assigned to work with the department on options for implementing changes recommended the following:

- Contingency Reserve Impact: The committee was in consensus that the full impact to the contingency reserve should be taken all at once in June 2015. The impact will be between \$85 million to \$91 million.
- Discount Rate Reduction: The committee recommended taking the first step toward reducing the discount rate to 6.4 percent in June 2015.
- Impact to Pension Benefits for Surviving Spouse Options: The committee recommended the blended approach to the gender consideration for the pension mortality tables. This is consistent with the state retirement system and the State Actuary Office.

On September 16, 2014, the department filed the CR101 (Preproposal Statement of Inquiry) to make the changes.

Industrial Insurance (State) Fund Financial Overview: Sharon Elias

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

Ms. Elias provided a fiscal year financial highlights overview:

- Overall, the performance of the state fund for fiscal year 2014 was positive.

- The contingency reserve balance increased \$329 million, from \$620 million to \$949 million from July 1, 2013 through June 30, 2014 due to:
 - Strong stock market and investment income;
 - Operational influences; and
 - Premiums collected greater than new liabilities.

State Fund Results:

- Insurance Operations:
 - Premiums Earned (we took in): \$1,673 million
 - Total Expenses Incurred (we spent): \$2,375 million
- Premiums Earned:
 - Net premium earned increased by \$89 million mainly due to an increase in hours reported, more hours reported by businesses in higher rate classes, in addition to the rate increase in January 2014.
- Net Benefits Incurred:
 - Benefits incurred decreased from \$32 million compared to last year.
- Investment Income:
 - Total investment income was \$783 million.
 - Dividends from interest income increased compared to 2013 due to \$9 million from the settlement of recovery of Lehman bonds.
 - TIPS were sold due to the new asset allocation policy, resulting in realized gains of \$245 million.
 - The department's portfolio is periodically rebalanced resulting in \$41 million in capital gains.
- Investments grew \$871 million in the past twelve months and ended at \$13.4 billion, impacted by investment income and a strong stock market.
- Other Revenues and Expenses:
 - The net for other revenues and expenses was \$54 million.
- Results of Operations:
 - We have a net income of \$135 million.
- Contingency Reserve:
 - As of June 30, 2014, the contingency reserve balance was \$949 million. This is below the WCAC target of \$1,859 million (14 percent of liabilities based on the agreed-upon ten year plan).
 - The contingency reserve for the Accident and Pension Funds was \$283 million.
 - The contingency reserve for the Medical Aid Fund was \$ 666 million.
- Key Financial Ratios:
 - The operating ratio is 113.3 percent.

Director Sacks introduced Mike Roozen of Washington Bulb Company, as Rick Anderson's replacement on the committee representing Washington State Farm Bureau.

State of the Fund: Joel Sacks and Vickie Kennedy

Director Sacks reviewed the categories of changes in the liabilities from June 30, 2013 to June 30, 2014 on slide 22.

The director was asked about the return on investments for this year. This has not been calculated but will be provided later.

A committee member commented that if investment returns become higher than in the past, then perhaps we will not need to bring the pension discount rate down to 4.5 percent. It is important to review the numbers so we are not unnecessarily dropping the rate too far.

A question was asked if the \$91 million savings in operational influences could be drilled down. In response, it is difficult to break down the \$91 million and attribute it to individual specific initiatives or efficiencies, because of the number of efforts that are occurring simultaneously. We have a non-financial proxy measure to help understand what is working and not working. The department is trying to influence the overall culture that employers, medical providers, injured workers and staff have concerning a focus on return to work.

It was asked as projects mature, are there metrics in place that will give a better sense of what is working and not working? Ms. Kennedy answered we will still struggle to drill down financials for each effort because of the number of initiatives involved, but the department is measuring implementation and changes through the performance dashboard. Each operational strategy is connected to a measure or measures.

Discussion then shifted to the contingency reserve. The department has three contingency reserve goals for 2015. They are:

- Reduce pension discount rate.
 - Reduce pension discount rate from 6.5 percent to 6.4 percent (reserve impact: \$21M to \$31M)
 - Further reduce pension discount rate to 6.3 to 6.2 percent
 - Update pension mortality tables (reserve impact: \$85M to \$91M)
- Increase operational efficiencies.
 - Anticipate adjustment to avoid double counting 2011 Reform savings (\$50 M to \$75M)
- Increase contingency reserve.

The committee agreed to a ten-year plan to rebuild the contingency reserve while bringing down the discount rate gradually to be mindful of the impact the discount rate has financially on self-insurers.

The plan includes:

- Rebuilding surplus to provide an adequate safety net (at least 14 percent of liabilities by 2022).
- Adjusting for changing assumptions on investments (pension discount rate) and mortality for pension recipients.
- Set annual targets to show stakeholders progress toward achieving overall goal.

2015 Workers' Compensation Premium Rates: Joel Sacks

Director Sacks reviewed the proposed rate change for 2015.

The average proposed 2015 premium rate increase of 1.8 percent is about one cent per hour worked.

There are four different funds involved. We are proposing no increase in the Accident Fund. The Medical Aid, Supplemental Pension and Stay-at-Work are funds split between workers and employers. There is a proposed increase in the Medical Aid Fund would get closer to the estimated break-even rate. The proposal for the remaining funds would change consistent with the break-even estimates.

The current projected overall 2015 break-even is -2.1 percent.

The director was asked why an increase is being proposed since an average zero percent change would still mean rates are 2.1 percent higher than needed. In response, several things are considered:

- The estimated break-even rate
- The benchmark to wage inflation
- Small incremental increases to grow the reserves

A question was asked whether because the Medical Aid Fund's reserve has helped the overall contingency reserve, if we begin taking lower increases for this fund, will we need higher rate increases in both Accident Fund and Medical Aid Fund in 2016?

Historically, when the department has provided dividends, they were from the Accident Aid Fund and not the Medical Aid Fund. As an alternative for Medical Air, the department did not take the break-even rate. Over the years, the break-even rate was significantly higher than what was being charged. The current proposal is closer to break-even for the Medical Aid Fund.

It was asked what the difference is from the 1.8 percent proposal to taking the full indicated rate for Medical Aid Fund? The proposal is 6 percent for Medical Aid Fund, or about two-thirds of break-even.

Six public hearings are scheduled from October 22-30, 2014. A final decision will be made at the end of November and the new rates will take effect January 1, 2015.

Agency Request Legislation and Budget Packages: Vickie Kennedy

Ms. Kennedy described the 2015 potential agency request legislation related to Insurance Services on slide 40. She reviewed the efforts taken for "Goal 2: Help Workers Heal and Return to Work".

The department has been working with the vocational subcommittee on significant enhancements to the Preferred Worker Program. This program is historically underutilized: it allows an employer that hires a worker with permanent work restrictions to be free of the primary workers' compensation premiums for that worker for up to three years, and to be protected from new claim costs over the same time period.

We are looking at changes modeled after Oregon's system and our Stay-at-Work Program. This includes language in the vocational statute to use as a tool to improve return-to-work outcomes through the vocational process.

Self-insured claims are not included as generally self-insured employers have good return-to-work programs and they do not want to add to second injury fund costs. However, a self-insured employer who hires a state fund injured worker could take advantage of the new benefits because costs are to the state fund.

It was asked if the department will still have a preferred worker risk classification so employers are paying at a lower rate as well. Ms. Kennedy advised yes, those two provisions remain available.

Ms. Kennedy added that the benefits will not be available for every claim because a worker must have a permanent disability that is a substantial barrier to their employment.

An audience member expressed appreciation to the department for looking into this program.

Ms. Kennedy advised we are proposing the enhanced preferred worker program and the recommendations to the vocational subcommittee as one piece of legislation.

The vocational subcommittee has discussed the primary elements of the 2007 legislation:

- Expanded training time for eligible injured workers.
- \$12,000 in training funds indexed to increase community college cost (now \$17,500).
- An option for injured workers who do not want to participate in a training plan to take a vocational award equivalent to six months' time-loss (option 2) and access to training funds for self-directed training while their claim moves to closure.

The subcommittee agreed to recommend making permanent two years training time, and is discussing whether to cap tuition benefits as there have been significant increases in those costs. They are also looking at whether to make changes in option 2.

Director Sacks reviewed the other three agency request legislation concepts.

Ms. Kennedy briefly discussed the budget proposals:

- Resources for the Logger Safety Initiative
- Additional support for 2011 Reforms including the Stay-at-Work Program, Medical Provider Network, and COHE expansion where participation overall is much greater than originally anticipated.

A question was asked to expand on the proposed cost included in workers' compensation premiums for the forest products industry beginning in 2015. Ms. Kennedy advised that a legislative budget proviso allowed \$840,000 from SHIP grants to be spent to start the LSI for an FTE to manage the program and the third party auditor. The department was also required to assign two premium auditors to the effort. This funding did not cover the total needs of the program. The proviso also indicated \$420,000 would be recovered from the forest products industry through rates. We have proposed using the supplemental pension fund as a collection mechanism to avoid any impact on experience rating and to ensure self-insured participation. This comes to \$6.50 per FTE in the forest products industry, which can be split with employees.

Ms. Kennedy continued the presentation with a review of the "Workers' Comp 2015-17 Budget Proposal" handout and the policy level requests.

Insurance Services Performance Metrics Dashboard: Vickie Kennedy

Due to time constraints, Ms. Kennedy advised she would review these slides after the meeting is over for those interested.

Early Vocational Services and Predictive Analytics: Ryan Guppy

Ryan Guppy, Chief of Return to Work Partnerships, provided an update for return to work efforts and vocational services.

Early Vocational Services (Early Ability to Work or EAWA Experiment): This effort is beginning to influence the number of days between claim receipt and the first AWA referral. A group of apprentices are participating in this experiment by making vocational referrals on time-loss claims at 60-70 days unless it is a catastrophic case or if the worker is currently medically unstable. Through this experiment, Claim Managers are beginning to have different conversations with doctors about helping the worker return to work. We are beginning to identify possible new approaches for Vocational Rehabilitation Counselors to gauge stakeholder motivation and engagement. The outcomes based on closed early referrals are 48 percent of workers returned to work compared to 10 percent of all other AWA referrals, while the proportion found able to work is relatively the same at 42 percent compared to 40 percent of all other AWA referrals.

Using Analytic for a Return to Work Score: This is an indicator based on claim characteristics that the injured worker and the employer may need assistance in order to keep or return the worker to work. The model was reviewed on slide 55.

It was asked if Mr. Guppy has presented this information to the Retro Advisory Committee; he has not but he has updated some of the committee members and other Retro participants.

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

Dave Threedy provided a quarterly update from the Appeal Board.

- Total Appeals Filed and Granted:
 - Total Appeals Filed Quarterly: 3,310
 - Total Appeals Granted Quarterly: 1,942
- Department Resumption Rate by Quarter: The Board tracks how many appeals for which the department reassumes jurisdiction. This is at 26%.
- Average Proposed Decision: Order Time-Lag by Quarter for Hearing Judges: This is the time between the hearing and when the judge issues the proposed decision and order. The average was 32 days which is a decrease.
- Decision & Order Time-Lag by Quarter: This is how many days it takes the Board members to process a Decision and Order after a Petition for Review has been granted; this is at an average of 26 days.
- Quarterly Average Weeks to Completion: This was a measure reported by the Board in the performance agreement with the Governor. The goal is to keep it at 32 weeks; it is currently at 30.5 weeks.
- Caseload at End of the Quarter: There were 5,183 appeals at the end of the quarter.
- Percentage of Final Orders Appealed to Superior Court- Quarterly: 2.7percent

Closing Comments:

If the committee members have future agenda items that you are interested in discussing, send an email to Vickie Kennedy.

Meeting Adjourned.