DEPARTMENT OF LABOR AND INDUSTRIES

STATE OF WASHINGTON

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WORKERS' COMPENSATION ADVISORY COMMITTEE

TRANSCRIPT OF PROCEEDINGS

Monday, September 22, 2014

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BE IT REMEMBERED, that a Workers' Compensation Advisory Committee meeting was held at 9:00 a.m. on Monday, September 22, 2014, at the Department of Labor & Industries, 7273 Linderson Way SW, Tumwater, Washington. Committee members present were: JOEL SACKS and VICKIE KENNEDY from the Department; DAVE THREEDY from the Board of Industrial Insurance Appeals; JOE KENDO, DAVE MYERS and KAREN GUDE representing labor; and BOB BATTLES, NANCY DICUS, KRIS TEFFT and MIKE ROOZEN representing business.

WHEREUPON, the following proceedings were held, to wit:

Reported by:
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Monday, September 22, 2014
Tumwater, Washington

# I N D E X

PROCEEDINGS

Welcome & General Updates

MS. KENNEDY: So first, let's go around the table for introductions, and then we'll go to the audience for introductions.

Karen, do you want to start?

MS. GUDE (Labor): Karen Gude with United Food and Commercial Workers.

MR. MYERS (Labor): Dave Myers, Washington State Building Trades.

MR. KENDO (Labor): Joe Kendo with the Washington State Labor Council.

MR. THREEDY: Dave Threedy, Board of Industrial Insurance Appeals.

MR. SACKS: Joel Sacks, L & I.

MS. KENNEDY: Vickie Kennedy, L & I.

MS. DICUS (Business): Nancy Dicus, Vigilant.

MR. TEFFT (Business): Kris Tefft with the Self-Insurers Association here this morning on behalf of Sheri Sundstrom.

MR. ROOZEN: Mike Roozen, Farm Bureau.

MS. KENNEDY: Bob Battles is on his way but will be a bit late.

Do you want to start over there with Sharon.

(Audience members introduced themselves.)

MR. SACKS: All right. Well, thanks everyone for joining us today.

Typically this is the meeting where we announce rates.

Last year we tried to do things just a little bit different and announce rates at the very beginning of the meeting. This year we decided to front-load it even more.

Just because of scheduling conflicts, we wound up actually filing the rate increase prior to hearing. So all the information has been released.

And what we'll be doing today is sort of walking through some of the logic of where the proposed 1.8 percent rate increase comes from as well as sort of anchoring it within sort of talking about the financials, both overall and then for the year.

Before we jump into any of that, though, one of the first things we like to do at all of our meetings is sort of kick things off with a safety message. And what we're going to show today is just an application on safe lifting that is up on our Web site. So let me do that first and then talk to you a little bit about it afterwards.

So in essence what the app will do is help you visualize, depending on sort of how and where you're lifting. It'll help you understand sort of the implications that that particular lift has on your body.

Okay, Rachel.

(Safety message presentation.)

MR. SACKS: In essence, what this is an attempt to do is to show depending on how you position your body and where you lift from the equivalent of the amount of weight that you're going to actually be lifting.

This is kind of really apropos for me. I went to the chiropractor this morning and got a ten-minute lecture on proper lifting and discovered ironically how different it is than the way we sort of trained our bodies.

So they actually watched me lift and told me what to do. I tried doing everything he said. And each time I did it wrong.

So this app feels like it's very appropriate for me this morning.

And Rachel, this is on ...

MS. AARTZ: It's on the -- inside L & I if you do a search for "safety lift."

MR. SACKS: So it's up on the Web site?

MS. AARTZ: Yeah, it's on the Web site, yes.

MR. SACKS: And the intent here is to try to develop some of these tools, make it easily accessible and sort of focus on sort of real straight-forward common sense, easy-to-use tools both for workers and for employers to share with their workers.

MS. KENNEDY: Thanks, Joel.

And before I turn the microphone over to Sharon to give us the financial update, I just wanted to quickly acknowledge for folks in addition to the rate filing on September 16th, we also filed the CR101 to change both the pension discount rate and the mortality tables which we've discussed with this group earlier. We will put together a rule that's relatively generic on the discount rate and talks about our plan moving forward, engaging the Workers' Comp Advisory Committee and what our ultimate goal is as opposed to refiling it every year to make that adjustment.

So Sharon, here you go.

## Industrial Insurance (State) Fund Financial Overview

MS. ELIAS: Okay. Good morning.

My son told me that -- I practice my speech on my son this weekend, and he told me to tell a joke. But when I try to tell a joke, he said that my joke was dryer than my speech was. So I'm hoping to keep you awake this morning. I will do my best.

Today in your packet, there is two information. One is your quarterly financial information as well as your

PowerPoint. And I'm going to talk about the PowerPoint -- information on the PowerPoint.

Our presentation today covers entire fiscal year 2014 which means June -- July 1st of 2013 through June 30, 2014, cumulative.

Information in big red say "Preliminary." That's because we -- in the state of Washington fiscal year closes on June 30th. Most state agency has until September to close their books. But we really try in L & I to close more than 90 percent of our books by end of July so that you have most current, most accurate information when you get them in September.

We will produce our final financial statement after the audit is completed in November -- October and November. In December -- it will be posted on the Web site in December.

So I like to announce a good results. Fiscal year '14 has been a great year. We had contingency reserve increase of $329 million going from 620 on July 1st to $949 million on June 30th.

Several factors impacted that increase. One of them is that we did a great job -- I mean, market did a great job in stock market, and therefore, we had over $200 million increase in unrealized investment gains as well as we had -- our investment income was higher than last year.

We also had decrease in benefit incurred by 32 million due to operation efficiencies. And also we had $89 million premium collected higher than we had in the previous year. Which all of these will be discussed in greater detail later.

State Fund results consist of the three boxes indicated in the PowerPoints.

First one is insurance operation which is the first blue box which is premiums plus any insurance expense plus benefits incurred.

Second box is investment income. That includes investment income from interest and dividends plus any capitalized gains from sale of stocks and bonds.

The third green box is other revenues and expenses.

Great news is that even though we had loss from insurance operation, we have 135 net income because our investment income was higher than the losses from insurance operation.

So let's talk about insurance operation. So when we talk about insurance operation, we look at how much we took in as a premium earned, which is 1.6 -- $1,673 million, compare to what was insurance expenses which means benefits incurred plus other expenses incurred which is $2,375 million. Great news is that overall when you compare the numbers to 2013, we had a decrease in insurance operation by 103.

And two main factors that contributed to that decrease. First one is that as you can see, our premium earned is greater than June 30, 2013, by -- it's $89 million.

Another big factor is benefits incurred is smaller than last year by 32 million, which both of them will be discussed in next couple of slides.

So first one is premium earned. This chart compares premium earned 2014 to 2013. As I indicated previously, the great news is that premium earned increased by $89 million. And when you look at the components that makes up the premium earned, the first one is net premium collected. That's actual cash coming in the door is higher than previous year.

Second one is premium receivable. Actuaries estimate how much we think the June premium will be that will be collected in September, and that also increased.

And then last one is the Retrospective Rating liability refunds.

The premium collected and the premium receivable increase because of three things.

First one is that we are -- there is a increase in number of hours reported by the employers.

Second thing is that more hours reported by business in higher rate classes.

And third thing is that we had a rate increase in January 2014 which attributed to this increase.

Retrospective Rating refund -- estimated refund liabilities also increased by $16 million -- I mean, $12 million compared to 2013, one, because they're performing better than the State Fund, and also we had increase of 6 percent standard premium enrollment for Retro participants.

The benefits incurred. So this chart shows fiscal year 2014 benefits incurred compared to 2013. We broke out the benefits incurred in a slightly different way than we have previously here just hopefully to simplify the explanation.

So benefits incurred is made up of two components. Benefits paid, the first line, plus the change in benefit liabilities. When you add 1,565 plus 566, it gets benefits incurred 2,131.

Again, the great news is that benefits incurred compared to 2013, we had a decrease of 32. And the major contribution of that decrease is related to the $38 million decrease in benefit liabilities.

So we looked at the benefit liabilities and we broke it into two components. One of them is how much that we had in operational influence in the way that our benefit liability is show up in our books. And that one is consider operational influence. And the actuaries estimated that we had $91 million decrease in benefit liabilities as result of operational influence. That means Vickie's doing a great job in all of our Lean projects she's working on.

Second component is the non-operational influence, which means the things that we as a L & I made decisions due to new information or new things that impacted our benefit liabilities.

First major amount of 346 is because we discount our liabilities. So every year we going to show discount accretion, or that change in benefit liability due to discount is 346 million.

Second thing that we have made a decision is pension discount rate. This year we made a decision to reduce our discount rate for future TPD, and that added to the increase in liability of 256.

Also, on the third item, every quarter actuaries tries to refine their estimate based on most recent information. And as result of refining actuarial forecast, they estimate we would have 58 million less liabilities.

And second to the last, 130 million is that already the reform savings are already part of our operation, and in order to avoid duplicate counting, we recognize part of that which increase liability by 130.

Lastly, the change in liability payments is combination of three factors:  new liabilities coming on the book plus any liability payments that we made during the year plus any pension transfers that we made from accident to pension account.

(Bob Battles now joining the proceedings.)

I know that's a lot of information.  Anybody has any question?

MR. SACKS:  I want to -- in the next portion of the agenda, we're going to take this slide and spend a little bit more time drilling down on what each of these means. So just sort of a quick overview as it connects to the overall financials.  But we're going to spend some more time walking through this because there's a lot of I think important information in terms of understanding some of the financials embedded in this.

MS. ELIAS:  Second component of State Fund result is investment income.  We had 783 investment income which is $230 million more than the 2013 of 553.  There is couple of increases.

First one is dividends from the interest income increased compared to 2013.  That increase result of two factors.

One is that we had $9 million from the settlement of recovery of Lehman bonds, which we talked about previous quarters. We also sold TIPS. And we purchased more bonds incomes, which means we generated more investment income as result of having more bonds in our books.

Second component is realized gain from fixed income investment sold. We sold a couple of different times -- we -- 17 million of the bonds were sold is attributed to 262. The remaining 245, we sold TIPS, we changed our asset allocation policy, and we no longer hold TIPS, and all of the TIPS were sold from all funds.

MR. SACKS: And just a reminder. We've talked about this a little bit. But the way we sort of at this point manage our financial portfolio, we are currently in two kinds of investments. We're in stocks or equities and bonds. What we wind up doing is we have a sort of an upper limit on stocks. And so every time the stocks get above that upper limit, we sell the stocks, reinvest it in bonds to make sure the percentages stay about where we want them to. In some ways what that does is it's sort of a conservative strategy so you don't get too reliant on one form of investment because what we know about stocks is -- you know, they're going up right now, which is great. At some point, they're going to go down.

On the bonds, what Sharon was sharing is in working with many of you on the committee, we made a decision to change an investment constraint that we had had for a few years, which is we had a particular type of bond that were called TIPS, which is basically a specific bond that hedges against inflation. That had not turned out to be the best of investments when you look at sort of what's been happening with inflation. So what we basically did is removed that constraint and now basically treat TIPS as any other type of bond and allow the State Investment Board to decide how much TIPS to have, how much commercial backed bonds to have, and sort of manage that overall bond portfolio for us. And they do a tremendous job of particularly on the fixed income side of managing the portfolio.

As we -- because we sold so many of the TIPS, which is not something we typically do -- you see that 262 number. Because typically when we buy a bond, we hold it basically until maturity because what we want is the annual coupon, which is what that 480 represents on the slide.

So in essence what we did here is a one-time sale of one kind of bonds at a good time, and then reinvested them in other types of bonds, which is why that 262 is a higher number than you'll typically see in a given year.

MS. ELIAS: And so the last realized gain on stocks as Joel talked about, we periodically do rebalance our portfolio, which resulted in $41 million of capital gains.

So total investments. Compared to 2013, our investment grew 871 million during the year. Ended up with a $13.4 billion.

A couple of things attributed to this increase. One is that we are reinvesting our net income.

Second one is that investment grew due to a strong stock market. We talked about how we had $200 million of unrealized gain.

And also premium we collected for future benefit, we invested until when benefits are paid.

So the last box, the green box, of the State Fund results is just other revenues and expenses. And other revenues exceeded expenses by 54 million contributing to net income.

So let's recap the results of operation.

So we -- first green box or insurance operation, we had a loss of 702.

Then second box or the pink box, we had interest income from dividends, interest and sale of stocks and bonds of 783.

And then we had other income over expenses, 54, which contribute to the net income of $135 million.

So how does this impact the contingency reserve?

First one is that we started at the beginning of the fiscal year with $620 million. Then we had a net income of 135, unrealized capital gain of 200, and then other minor accounting changes of 6 million, which made a increase in contingency reserve by 329, which resulted in our contingency reserve balance being end of June 30 of $949 million.

Last -- next three charts are contingency reserve balance relative to the targets that we have set.

This chart has two targets. One of them is the blue bar which is WCAC target. And red bar is the target that we set per agreement with the WCAC. I guess blue bar is per policy and red bar is by -- per WCAC.

So we ended up 949 which is below the 8.7 bottom target of 1,157 million. It's highest it's been in last several years.

MS. KENNEDY: Sharon, I just wanted to clarify because I realize that several folks are on the committee now who weren't necessarily participating when those red lines, the bottom, middle and top target ranges were established. And that was in 2007 I believe when we had conversations about where we wanted to see the combined contingency reserve. And later when Sharon gets into this, you'll see it's by fund.

So we continue to look at how we're doing compared to that. The 14 percent was our more recent agreement over the next several years where we're trying to get the combined contingency reserve.

So the red ones are just really to give us a perspective based on those 2007 conversations.

MS. ELIAS: This chart shows accident and pension contingency reserve compared to the targets -- agency policy targets.

Again, we ended up 283 million for accident and pension, which accident had $277 million and $6 million in pension plan. We have not included the experting that we normally do to wipe out or zero out pension reserve contingency reserve balance. So that's not reflected here yet.

Our 283 is below the 659 bottom target range of 7.4 percent. But again, it is highest it's been in last five years or so.

This chart shows medical aid contingency reserve compared to the targets. And we had $666 million of contingency reserve in medical aid account which is higher than the bottom of the target of the 499.

These are key ratios that insurance companies use to compare their performance with other companies. So we have benefit pay ratio, claim administrative expense, and then underwriting, combined ratio, and investment income, and operating ratio.

Because we had a 702 million insurance operation loss, our combined ratio is 142 percent, which means we took in every 100 dollars of premium, we're spending 142 in expenses.

Our investment income is always higher -- is almost always higher than our counterparts of the industry and is at 28.7 percent.

Our operating ratio when you combine all of those is 113.3.

And you remember I talked about that we had a net income of 135, and you're wondering why do we have operating ratio of 113, greater than 100 percent? That's because we don't include our realized gains in the calculation of operating ratio.

So if we had included the realized gains, our investment ratio would have been 46.8, and our operating ratio would have been 95.2 if we had included the realized gains that we talked about earlier.

Also, you remember we talked about that we also made some decisions to reduce the pension discount for teacher TPD discount rate and also the making accounting entry for double counting of the 2004 refer. If we had not done those two things, our operating ratio would have gone down to 90.2 percent because it also reduces the benefit loss ratio.

So did I keep everybody awake I hope?

MS. SACKS: So Sharon, you can just go back for a second.

A couple of things I think are important about this slide. What we're trying to do is -- and it's hard -- one, this is a hard slide to read. It's taken me a long time myself to sort of get my head around what these numbers mean.

For those who come from the insurance industry, one of the commitments that we had is how do we present our data in a way that's comparable to what the private sector does as they present the data. And so that's what the numbers in the chart represent.

However, when I look at that 142 number, the question is wait a minute, what's -- that seems troubling to me. What does that mean?

And when we began to dig down and say what's -- how -- let's take into account a couple of things that are really bookkeeping things on the liability side that should have been done in the past but weren't.

So, for example, we've talked as a committee about trying to bring down the pension discount rate from 6.5 to 4.5. Well, this year we made a big contribution to doing that, and I'll talk more about that in a minute.

Because we took that this year does absolutely nothing in terms of the actual liabilities that are owed, but it makes a more reliable accounting of the liabilities. That increases that ratio.

The second thing is -- and we'll talk a little bit about this in a minute -- we also had to do some adjusting just to make sure we weren't double counting savings for the 2011 reforms. That also factored into the 142.

Again, it does absolutely nothing for the actual liabilities, but because of this bookkeeping piece, the way the system is created, it's to make sure the companies for L & I doesn't sort of just slip a big liability increase in one year and not have it show up in the numbers.

So what I asked is: You know, if we were where we should be -- this was just sort of a normal operating year where we weren't adjusting some of these one-time things that really aren't a reflection of what's happening on a claims floor, what would our numbers look like. And that's what those last two numbers look like.

What this shows is a loss ratio which is basically the very top number of 104, which is the amount of premiums we collect compared to the amount of benefits that we're going to have to pay, which actually for us that's perfectly okay that that's above 100. Because we're counting on our investment income to be able to make up the difference. So we purposefully invest our money, expect to get a return, and we use that return to help pay for the benefits. So that number really is not concerning for us because we're not in the business of making a profit that's above 100.

The operating ratio number then takes everything into account including the interest that we earn. And if we didn't have those one-time adjustments, which we'll talk to in a minute, our operating ratio for this year would have been 90, which is basically where for the moment we meant it to be. And the reason for the moment we want it below 100 is what that basically means is we're bringing in more money than we're paying out in total, and the only way we're going to grow the contingency reserve is if we do that.

Sharon's last point then is, Okay, but if you guys were above 100, how does your contingency reserve grow?

And that, again, is sort of an accounting feature and in some ways a challenge with this form. This does not take into account the growth in the stock market.

So our investments and stocks went up. From an accounting perspective because we didn't cash out, we're still in the stocks. We're not allowed to take credit for it on the sheet using traditional accounting methods.

Now, there are some firms and some other state funds that actually play by a different set of rules, and they actually include that in their investment ratio. So when you compare our investments to some other states, you've just got to be really careful about what's in there because we can make that number --

Sharon, what was that number with ...

MS. ELIAS: It would have been 46.8 for investment ratio and 95.2 percent for the operating ratio just by including the realized gains.

MS. SACKS: So if we wanted to play by a different set of rules, we could -- we certainly could. And that's why as we do -- it's really important and we're trying really hard as we're looking at any of these comparisons across states to dig in and know what's in and what's out because some of these decisions about you're including and not including dramatically affect the numbers.

MS. KENNEDY: Any other questions for Sharon?

So before we move to the next section, I want to do two things. First of all, I should have done this earlier. My apologies.

Can someone give Mike the mic? And I'm going to put you on the spot just for a second. As the newest WCAC member, just tell us a little bit about yourself, Mike.

So Mike is taking over for -- in the seat that was formerly held by Rick Anderson.

MR. ROOZEN (Business): Once again, my name's Mike Roozen from Mount Vernon, Washington. I'm part of a family business that grows flowers and bulbs. You might know us as the tulip festival.

I'm taking Rick Anderson's, the Washington State Farm Bureau's spot. I've been in the -- at the ground floor or in the trenches of working with L & I and the case management issues and the rate issues for 25 years. And it goes along -- these numbers go along with my degree in finance and accounting, and so I feel perfectly at home with what we're doing right now.

And so I'll take any questions, you know, for anybody else.

MS. KENNEDY: Thanks, Mike. And welcome to the committee.

MR. ROOZEN (Business): Thank you.

MS. KENNEDY: I think if we just take a minute, they're going to see if they can fix the microphones. So we'll just pause for a second here and let our technicians take over for a minute.

(Pause in proceedings.)

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State of the Fund

MR. SACKS: So what we wanted to do next is in case we haven't done enough numbers for early on a Monday morning, I wanted to drill down a little bit more specifically on the liability side.

So one of our commitments to you is trying to figure out a way of opening up our books, looking at both the income stream and also the liability stream in a transparent, understandable and actuarially accurate manner. It turns out that those aren't necessarily concepts that go well together.

So Bill has been very indulgent in allowing me to use some language that's not entirely actuarially correct. But he may be my lifeline as we try to walk through this.

The intent is to try to sort of be clear on what's happening, what do the numbers mean for our operations, and to the extent that we can, how do these numbers help drive the decisions that we're trying to make from a departmental perspective and help provide all of you the information that you need to better understand what's actually happening with the workers' comp system.

So in particular what this slide tries to do is capture the major categories of changes in our liabilities from a year ago.

At first blush, when I look at this, the first thing that comes out at me is, Okay, you guys grew your contingency reserve by 300 million, which is really good, but your liabilities increased by close to -- by just under 600 million, which is that bottom line. How is that good news?

And so my mission if I choose to accept it is try to walk you through why that 566 number is actually a pretty good number. So please ask lots of questions because we're trying to, again, make this as clear and transparent as we can.

What we've done with that 566 which is basically a look at how our liabilities on the books are higher than they were a year ago and saying, well, what's driving that? And what we've done is basically divided it into two buckets.

The first bucket is what we're calling non-operational liability changes. And those are liability changes that quite frankly have nothing to do with what was happening in the way that claims are being administered. It's more actuarial bookkeeping changes. And we'll walk through some of those big ones.

Then sort of what's left is when you take an account of all of those, what's actually happening as it relates to claims management. And when you do that, where that number lands you is a $91 million decrease in liabilities. And as we talked about sort of a year ago when we announced the rate increase last year, we said that we wanted that number on sort of the operational side to be somewhere between 35 and 70 million.

So what I want to do is try to explain why -- and we're at 91 which is better than the target that we set, but yet why would liabilities increase by 566? So that's the intent of this part of the conversation.

Starting from the top then, the first line that you see there talks about regular reserve discount reduction. That will always show up on our books.

And what that represents is when a liability comes in, so when a new claim comes in the door, we basically assume that we don't need the full value of the potential cost of that claim at the very beginning because we're taking our trillion dollars and investing them and some of our payouts aren't going to be for a number of years. So rather than charge workers and employers the total cost for that claim, let's charge a little bit less, let's take the money that we won't have to pay out for five, six, seven years, invest it, use that investment income to make up the difference. So that's what's called discounting.

Because we do that, as the time comes where we actually have to start paying out the full amount of the cost of that claim, we have to sort of restore that liability. So if we started out saying we only need 98 cents for every dollar of cost, eventually we got to bring that 98 up to 100. And so every quarter what we do is we sort of take some of the stuff that discounted up front and put it back on the books. And that's really what that 346 represents.

MS. DICUS (Business): Present value?

MR. SACKS: I think so, Nancy. I want to be careful because it means different things to different people.

The piece that's really important is to compare that 346 with -- on slide 11 you saw the 480. Because the 480 was basically the investment income earned from dividends and interest.

As long as that number on slide 11, that top line, is greater than the discount that we're restoring each year, we're in good shape.

I'll pause there and say one of the things this committee said was, Boy, this is a -- if you are discounting too much, then you're running a risk when the stock market or the bond market doesn't do so well if you're not going to bring in enough money to cover that 346.

And so one of the things that this committee decided a few years ago is to take the pension discount rate, which is basically how much -- for those claims that will eventually be pensions and rather than assume a 6.5 percent rate of return year in and year out which is somewhat aggressive, bring it down to a 4.5 rate of return.

And so what we said is that way we'll be a little bit more conservative with our books, more likely to hit that number and not in the future run into a place where the income we're earning is less than what we had assumed as it relates to the discount rate.

However, as this committee's talked about a number of times, in order to do that, what that means is taking a big amount of liabilities and putting them back on the books. So going from 6.5 to 4.5 basically means we got to increase the liabilities.

And so the agreement was let's build a ten-year plan to gradually do that so that we're not in a place where we dramatically change the size of the contingency reserve, sort of not with a real change in liabilities, but just a stroke of the pen.

It's also really important to do that to gradually phase this in because this also has a significant impact on the amount self-insurers have to pay the Department up-front.

So the idea was let's build a ten-year plan to get there and gradually take that discount rate down.

This in many ways was the second year of that plan. And what we did this year as part of that second rate of that plan is take a portion of that eventual hit of going from 6.5 to 4.5. And that's really -- when you see the line that says pension discount change of 154 million, in essence what we did was recognize that there's a bunch of our liabilities that start out as accident claims and then become pension claims. When they become pension claims, the discount rate changes because -- we're at a discount rate today of 6.5, and for time-loss claims, it's --

Bill, is it 1.5?

MR. VASEK: Yes.

MR. SACKS: A discount rate of 1.5.

So in essence every year when we would move things from the accident fund to the pension fund, we would basically say, Well, we need less money because of that change in discount rate.

What we did with that 154 is we said, We know we're going to eventually move from 6.5 to 4.5, so let's make that adjustment now for those future pensions. It was just on the State Fund side. It has no impact on the self-insurers. But it was sort of the -- what it did was increase our liability by 154, which is in some ways the bad news.

The good news is we don't have -- when we start moving that discount rate down, each percentage point we move the discount rate down, it'll cost us a little bit less.  So in many ways, we sort of made that first down payment.

Let me pause there before going forward to sort of -- I've said a lot.

Nancy.

MS. DICUS (Business):  What was the return on investments for this year?

MR. SACKS:  Does someone know?  Sharon?

MS. ELIAS:  We didn't calculate that.  But we can provide that later.

MS. DICUS (Business):  I think one thing with the proviso group is that even changing the discount rate from 6.5 to 4.5, if investments started being a lot higher than they have in the past, then we wouldn't necessarily have to bring it all the way down to 4.5.

So I think keeping -- asking that question each year will be really important so we're not artificially dropping it too far.

MR. SACKS:  And then I think the other question may be:  Are there things other than adjusting the discount rate to take into account better terms?

Because what you -- my concern with the discount rate is you've sort of built in a long-term commitment. In other words, we're going to have some years where we're going to far, far surpass whatever the target is for investments.

But the 6.5 is current. So when you have a bad year, it's going to hurt. There's some value in having that lower, and then when we do better, sort of factoring that into rates and other things so we can take advantage of the up side without having some of the adverse bookkeeping effects on it.

Part of this -- quite frankly the challenge here is much of this is sort of a bookkeeping -- what do the financial sheets show at any given snapshot in time rather than what's actually happening in the operation.

Any questions?

MS. KENNEDY: And Nancy, I did hear Sharon say we can calculate that and get it to you -- to the group.

MR. SACKS: So the second number I want to talk about under the discount rate -- the 256 million discount rate reduction is model change for 13-year plus claims.

So what our actuaries do every year constantly is they consistently look at all of the assumptions that we make about our liabilities and we try to refine those estimates.

One of the things that they identified this year as a practice that we should probably adjust is we have sort of made an assumption that any claim that was older than 13 years we assumed for discounting purposes it was a pension. Now, that could be a claim that quite frankly had been closed and then reopened and it was just getting time loss for a limited period of time, but because the claim itself was older than 13 years from that original opening, we had treated it as a pension for discounting, which in essence what that meant was treat it at a 6.5 percent discount rate rather than the 1.5 discount rate.

The recommendation the actuaries brought back is, Boy, that's probably not -- because these are non-pension claims, let's actually from a bookkeeping perspective put it in the right bucket. So let's move it from the pension bucket to the bucket where it actually belongs, which is time loss. It does absolutely nothing in terms of the amount of money we will pay out. But because you move it from the bucket with a discount rate of 6.5 to a bucket with a discount of 1.5, it is a one-time significant increase in liabilities. And that's where the 102 million comes from.

So again, just simply moving it from bucket A to bucket B even though we're going to pay out the same exact amount of money increased the liability by 100 million.

I'll pause there for a second.

Okay. The next slide in terms of adjustment, this one actually went in the right direction. That was basically all of the other actuarial adjustments that Bill and the actuarial team made. So there's a whole series of -- if you think about what the forecast council does in a quarter, they're making a whole series of adjustments in their economic assumptions, not necessarily what's happening in the economy, but just changes in the way they model. When you sort of combine all of those model changes, it reduced liabilities by 58 million. And there's a whole series of small things that contributed to that number.

The next piece is $130 million increase in liabilities. Again, it's a bookkeeping piece, but we -- I want to try to walk you through this. We talked about it at prior WCAC's, but it's taking me about eight explanations before I can get my head around it.

Back in 2011 when the reforms passed, there were a whole series of assumptions about how much will these reforms save us. The challenge that the Department had is all of our actuarial assumptions in many ways are forecasts. The way you forecast is based upon what's happened in the past. So when you have major reforms to the system or major economic changes that don't show up in the past, they're not going to show up in any of the forecasts. But yet the decision was made that, Boy, we really want to reflect the reforms on our books immediately after the bill passed. And so what the Department did was basically did all the work they needed to do, came up with a number, and then took the assumed savings from the 2011 reforms, basically subtracted from the bottom line. So it was basically an accounting thing to take an account of what we believe will happen in the future but doesn't show up in any of the estimates. The idea there was eventually over time when things start showing up in the estimates, we would stop having that negative number on the balance sheet because it's showing up in the big numbers.

This year for the first time, we started actually taking that -- reducing that minus number at the end. In other words, rather than doing it from the very beginning and sort of taking that down a little bit each quarter, the Department had not adjusted that number at all until this year. So what we did this year was say, Boy, you know, we can't keep this forever. We need to stop -- we need to get this out of here because the reforms are working, reforms are not working, they're showing up in the numbers themselves. We can't sort of come up with all of our work and then in the end just subtract the number out.

So we took about I think two-thirds of the one-time projected savings and zeroed that out. But what that did, again, is create a one-time increase in liabilities. And our plan is to eliminate the rest of that next near. So again, nothing of what's happening in the operational side of the house, but it's sort of a shoring up of the bookkeeping.

Pause there for questions.

MS. DICUS (Business): How much is left?

MS. KENNEDY: About 75 million I think.

MR. SACKS: It is 75 million. And our plan is to take most of that all next year. And we'll get to that in just a minute.

And then the last piece was a 17 million to the good where we sort of looked at the liability payments from last year compared to this year.

That all totaled would have increased our liability by 657 million. Then what's left are the changes of what's actually happening as it relates to managing claims. And there, that difference is about -- is 91 million.

The challenge that we're going to face -- because I think the question that maybe you would ask is: How can we drill down that 91 million? And where we're going to have a really hard time -- because we didn't necessarily run it at controlled experiments. We don't have a different workers' comp system without all the reforms and without all the operational things that are happening. We don't necessarily have the capacity to say, Okay, 20 million is due to an early return to work effort, 10 million is due to calling people first, 5 million is due to a change in voc. Because there's at least two dozen different things all going on at the same time.

So we're doing what we can to sort of have proxy -- non-financial proxy measures to try to help us understand what's working and not working, but it's going to be very difficult with a lot of certainty that point to a specific thing that's happening and say, Well, that saved us specifically "X" amount of money because there's eight or nine other things going on at the same time.

You got a question?

MR. TEFFT (Business): It's hard to wrap your head around it. I mean, how do you know that you have $91 million in savings?

MR. SACKS: In the aggregate?

MR. TEFFT (Business): Yeah. I mean, just because you're $91 million better off now -- it's sort of a causation-and-correlation problem you're setting up if you can't tease out what's saving what.

MR. SACKS: Let me try this: The 91 number we can say is there. Because in some ways that's a delta between the stuff that wasn't operational, the 657, and the actual number when you ran all the models, which is 566. So that we're confident in.

The next question is: Okay, can you say what are the five things that cause the 91? That's where it gets -- that's where I think it gets trickier.

MR. TEFFT (Business): You could be taking credit for some things that aren't part of the five operational -- I mean, claim behavior may account for the 91 million, right?

MS. KENNEDY: So Kris, you're right. But part of what we're trying to do -- and this is where it gets really difficult in trying to separate this out. We're trying to influence, for example, the overall culture that employers, medical providers and injured workers have about return to work.

So are we having an impact? I hope so. Is part of that perhaps due to Retro groups taking that same message out to some of their members? Probably. But where it becomes difficult is trying to separate out that cause and effect. But I think we're -- I'm confident we're doing the right thing. Some of it is a matter of are we doing them at the right time in a claim.

The medical provider network is identifying new evidence-based guidelines that are influencing some of this. Have we identified every single one of those guidelines? Not yet. There's still work to be done on that.

So I think that's where some of the difficulty comes in just to give you some examples.

MR. TEFFT (Business): Well, I understand what you're saying. And please don't misunderstand. I'm not criticizing you for saving $91 million in operations. That's great.

I'm surprised to hear how difficult it is to find out what is contributing to that savings. With as much brain power as, you know, sits on staff, there's got to be a way to ...

MS. KENNEDY: Can I add just a little bit?

For example, we've got -- we've reported here on claims evolution, some of the efforts there. And the one thing that we struggle with -- I think this is a challenge we give Kirsta all the time -- is being able to have within the claims units certain control groups that are uninfluenced by the initiatives just to give us that kind of a comparison.

We're doing a lot of work around early vocational services. We started that with a limited number of staff.

What we started to find out is that everybody was excited enough about what they were seeing. It was starting to influence the other units who began taking some of the next steps and started to do some of that work on their own. We certainly didn't want to say, Don't provide that service to your workers so that we have a clean comparison group. It's almost impossible to do that. But just to give you an idea of one area that we've struggled in trying to figure out what kind of a specific dollar and number of claims influence we're having.

MR. SACKS: And Kris, the issue you're raising is absolutely fair. It's a place we're going to strive to be able to answer.

And I think what will wind up happening is we can sort of take one thing and say, Okay, we think the one thing saves "X" or costs "Y." But when you start getting six or seven and try to add a bunch of things up to the 91, I don't think we'll ever be able to add it up because there's a bunch of things working together.

So you've got the provider network and changes we're making in the provider network, changes we're making in voc. I'm not sure we're going to be able to disentangle was it really the provider network, was it changes in voc, or is it the two combined that really are driving things.

MR. BATTLES (Business): But I think what Kris is asking -- I kind of agree -- is that I appreciate that you can't distinguish maybe between five. Maybe what I'm hearing is, It isn't even a five. It could be something completely not done -- am I correct in saying that? It could be something that sits outside of the realm.

And so, again, appreciate the 91 million. But if it's outside of that, is there any way to say that this isn't just reduction in claims or -- you know, I mean, something that is completely not influenced by what L & I is doing.

And I think -- so I appreciate that maybe you can't allocate or split that 1 million down to whether it's this program or this program, but the question is: Is there a way to say this really is by those five you're mentioning or those seven, or as it completely a social change that we're seeing out there because of the market or something like that?

MR. SACKS: Fair questions, Bob and Kris. And I think we can do it with a degree of confidence.

Whenever you're sort talking about a place where you're necessarily not in a laboratory with a pure scientific study, it's going to be hard to say with 100 percent confidence. But what we will do is we'll be able to run some analysis to say, look --

And I'll give you an example. What we did with the provider network, we took a look at a quasi-control group. We looked at docs who were treating injured workers who are no longer part of the provider network currently, looked at their costs compared to docs that are in the provider network and said, Boy, there's a big delta here. That gives us a sense that that's probably with a degree of confidence that there's something about the provider network that's reducing costs because these higher-costs docs aren't treating and the costs have gone down.

Now, can we say with 100 percent confidence that there's not something else going on or that folks on their own would have just chosen not to go to those docs any more? I'm not sure I can get to 100 percent. I think the best we can do is to be as transparent as we can, saying, Here's the bottom-line number. Here's the analysis that we did that we think contributes to that bottom-line number and recognize that I think similar to all the other financials where I was talking about before, I think it's fair for all of you to look at it and say, Okay, but what about this? And I think that's -- as it relates to this business, I think that will always be an element of more conversation.

MR. KENDO (Labor): As these projects mature, are there metrics in place that will over time give us a better sense as to what's working, what isn't, or what's working more?

MR. SACKS: And as we get to the -- after the break, Vickie will sort of walk you through for a number of the particular initiatives, here are the kind of things we're measuring on that initiative. So I mean, we're building in for each of the initiative measures.

MR. KENDO (Labor): So in four years or five years we'll have a better sense as to how those tease out?

MS. KENNEDY: I think we'll still struggle on the financial side specifically because of the number of initiatives involved.

We are certainly measuring -- you know, when you think about the performance dashboard, we've got our overall measure I'll get into and then some intermediate ones. Under each one of those is a list of strategies that we're pursuing. And we're giving you a few of the measures that we've been reporting on regularly.

A lot of the measures when we get even deeper down are about implementation and number of claims involved. Where we try to be careful is when you start to isolate and say, This particular initiative had exactly this dollar figure knowing that there's all the other influences going on at the same time.

MR. TEFFT (Business): You exceeded your savings estimate, though. So -- I mean, good job. We're not being sore winners. It's just -- what -- you know, how do we bottle what worked and produce more of it?

MR. SACKS: Correct, absolutely.

And, again, I think it's fair to question when we're doing better than expected. It's fair to raise the question when we're doing worse than expected. In either situation I think we need to recognize that this is not nearly as an exact science as any of us would want it to be.

MS. KENNEDY: Just one other thing I want to add since we're talking about the 91 million.

Sharon commented in her presentation that she specifically talked about the good work that I'm doing, and I just have to say that it's not my good work; it's the good work of the team. We've got an outstanding leadership team. And I think every one of them feels the same kind of passion that I do about getting better outcomes for workers to save money in the system. Several of them are here in the audience. I just wanted to make sure that they were the ones that were acknowledged for really what's happening and their great ideas.

MR. SACKS: Jump to the next slide.

So this is sort of the summary. And with the context that we just did, here are the things that we said we wanted to focus on a year ago.

The first was begin to move the pension discount from 6.5 down to either keeping it at 6.5 or all the way down to 6.3.

The second was to focus on these operational efficiencies.

And the third was to increase the contingency reserve from 5 percent to 7 percent and up to 900 million.

Let's jump to the next slide.

On the first goal, what we have done is we took -- rather than sort of bringing down the discount rate specifically, we took sort of that early hit of 154 million that we talked about.

The discount rate today is 6.5. Vickie mentioned that we put rulemaking out there. What we will be doing then is dropping the discount rate. However, it will show up in the September numbers of 2015 because what -- basically what will happen is when we drop the discount rate, when that will take into effect is every year at the end of the fiscal year, what we do is something called experting on the pension side which is to make sure that each individual pension case is actually reserved at the right amount. When we do that, that will be the time when the pension discount rate is adjusted. So while we will take the discount rate down -- and I think this group has made the decision to bring it down to 6.4, we won't actually see it in our numbers until we see the September 2015 numbers, which is why you see that result one be as a zero.

On the operational efficiency side, the 91 million, which we talked about, and then in terms of where we landed, the contingency reserve is at 7.2 percent, a little bit above that 7 mark, and at 949, again, as of June of 2014.

So then moving to 2015. What this slide represents is what do we want to get done, what are some of the adjustments we're going to be making in 2015.

We see a couple of things that will be driving down the contingency reserve from its $950 million marker. The first is the move from 6.5 to 6.4, which again will show up on the books September of '15. It will be somewhere between a $20- and $30 million reduction.

One of the decisions then for this committee is do we want to bring that in 2015 bring that rate down lower or be at a place where we keep it at 6.4 and then make the decision to bring it down but actually not implement it until 2016? And the deadline for us is we have to know what the discount rate is by June 30th of '15. So at the moment, the plan is to bring it from 6.5 to 6.4. It's up to this group in some ways to decide if we want to bring it down further, and that's a discussion over the next nine months.

A couple things that could contribution to that decision is one) at the last WCAC we talked about the fact that another change that we need to be making in our liabilities is an update for mortality, that basically when we look at sort of the way we calculated for folks on pensions, how long they were living, then we got new data, it turns out people were living longer and we needed to be adjusting the tables.

When we make those adjustments which is the other rulemaking Vickie mentioned, that -- again, not increase what we actually pay out, but in terms of what shows up on the books, that's an increase of 85 to 90 million.

So the subcommittee basically said, Boy, if you do that at the same time as you bring it down to 6.4, that's probably enough for a year.

And then lastly, what we want to do is get most if not all of the remaining double -- potential double counting from the 2011 reforms off of the books.

Those things combined are things that we see as driving down the contingency reserve.

Two things that we see as driving up the contingency reserve. The first is the rate increase that was announced -- the proposed rate increase of 1.8 percent. And again, we're -- so that's that first line.

The second line then is we want to see another year of what we're calling operational efficiencies, sort of that broad bucket we were talking about. And we'd like to again see a number at the end of the fiscal year of somewhere between 35 and 70.

And then lastly, the other thing that will change the contingency reserve is going to be our investments. And we don't know whether they're going to go up or down.

Questions? All right.

Then the next two slides basically put this within the context of the broad plan. I think we've talked about most of this.

The goal overall is -- right now we're at about 7.2 percent for the contingency reserve. By 2022 the target is to be at least 14 percent. And at the same time to have the discount rate be at 4.5.

And then what we want to do is sort of set and adjust annual targets so each year we'll have a sense of whether we're on track making progress or not.

And the next slide is sort of the chart that we have. It sort of helps us identify where we were two years ago in terms of the goals we were trying to hit.

We have not yet adjusted this document. I think over time as we sort of -- we probably will want to make marginal changes to these targets based upon where we start 2015.

Questions? Carl.

"CARL": I know sometimes it's so easy to get tunnel vision because your group is set on the state of Washington. Have you considered looking at other states similarly? Like Ohio has similar a workers' compensation program that's doing a great job like Washington to see what do you think? What's your point of view? Or look at other states to save costs or do things like you've been doing in terms of like the voc, early return to work. Maybe that should have been considered sooner if you look at other states. Do you look at other states?

MR. SACKS: Absolutely.

Carl, thanks.

So this question was, you know, how and where do we benchmark against other states? And we're absolutely doing that.

So we've established a relationship with Ohio where we've been having some conference calls back and forth where we're talking about our best practices, trying to steal their best practices from them.

We are involved in a number of national associations. A number of us will actually be going to a conference next week with a number of different workers' comp firms to get a sense of what some of their practices are, what are some of the things that they're engaging in. We're also looking to partner with some of the -- and understand what's happening in some of the Canadian systems. Because in many ways, some of the Canadian workers' comp systems are more similar to the system that we have in Washington compared to a number of other states.

MS. KENNEDY: That's absolutely right, Joel. And it's always a bit gratifying going to these because they look to us as a leader, especially in medical.

And we'll talk a little bit about our next goal which is to be a -- when I get into mine -- which is to be a leader in return to work.

We'll also talk about our proposed legislation, which was another one that we're stealing away from Oregon just like we did the Stay At Work program.

So those conversations with other states are great exchanges both for us and for them.

## 2015 Workers' Compensation Premium Rates

MR. SACKS: Okay. Then transitioning from this year to next year, I wanted to spend just a couple of minutes just walking you through the rates.

And again, where I want to start is last year we laid out a philosophy. How do we want to go about setting rates, and what criteria should we be using. And this year use exactly the same criteria. And we've sort of alluded to every one of these in prior meetings and in some parts today.

So, again, at a high level, goal number one in terms of a principle is in the short and long term I believe -- and lots of feedback I've gotten from many of you and many other folks across the state is it's really important to have steady and predictable rates.

One of the criticisms of the Department in the past has been, Okay, times are good, you cut rates. And then it turns out two years later something changes and rates go up dramatically. And it's sort of that see-saw up and down makes it really, really hard to plan. And if you sort of take away some of that volatility, that would be in everybody's best interest.

So that's sort of one of the anchoring processes when you see some of the decision-making for this year and hopefully beyond.

The second is, Okay, if you want steady and predictable, steady and predictable to what? And so what we put out there as a marker is we want to benchmark our rates to what's happening with wage inflation.

Basically what wage inflation represents is a increase -- in the aggregate, increase in the earnings that people in the state have.

The reason that that's so important for our operation I think is twofold. One, it absolutely increases our costs. Because as wages go up, the amount of time loss -- benefits go up as well because time loss is based upon a percent of what people earn.

In every other jurisdiction, the workers' comp companies have wage inflation built into the money that they collect because the way they set their rates is they set their rates based upon a percentage of payroll. So for every $100 you pay your workers, you pay the workers' compensation company $2 bucks. So if you wind up paying from $100 to $105, you're now going to be paying an extra nickel to your workers' comp company. So they automatically get more money as wages go up. They don't need to adjust rates.

We set rates based upon a different criteria here. We set rates in this state upon the hours that you work.

And the idea there is the risk associated with getting hurt is connected to how much you work. The more hours you work, the more you're exposed to risk, the more likely you are to get hurt. That's sort of the premise on how we set rates.

The challenge with that is as salaries go up, we don't have a built-in increase in rates. So salaries go up, you're still working, you work 40 hours a week, you pay us the same amount of premium.

So what we wanted to basically say is, Okay, let's benchmark to wage inflation. If we keep it to wage inflation or a little bit below, then in any other state in the country, it's physically the equivalent of a zero rate increase. So that's sort of that second premise.

The third premise is what we talked about which is we --

MR. TEFFT (Business): Joel?

MR. SACKS: Oh, excuse me.

MR. TEFFT (Business) Can I drill down on that a little bit?

MR. SACKS: Of course.

MR. TEFFT (Business): I skipped ahead to the supplemental slide on the break-even rate.

You -- it's slide 68. You have about 2 percent wage inflation. And taking into account everything you just said about how it increases your time-loss cost, you have an 8.9 percent negative break-even for the accident fund. So your 1.8 overall is on the medical. So how does wage inflation have anything to do with the rate that you propose?

MR. SACKS: What I'm articulating, Kris, is a benchmark and as a rationale. And so in essence it's, Okay, you know, if we're going to be steady and predictable, steady and predictable to what?

And our -- from my perspective, the costs are increasing. Now, we come back and we say, Okay, but there's room in the break even -- in the accident fund.

If it were not for the third principle, which is growing the contingency reserve, I think you have a little bit -- I think you have a much stronger point.

The reason I say that is remember we talked about lowering the discount rate. All of the cost associated with lowering the discount rate comes out of the accident fund. And so if you jump back to the one slide that Sharon showed, slide 17, the challenge here in the accident fund is while it's nice that we've seen that accident contingency reserve grow, the reason it did not grow nearly as dramatically as it could have, when you look at the break-even rate, because that break-even rate was similar last year, was because of all of those different changes when we talked about the discount rate. Over the next number of years we're going to see that same phenomenon, which is why we -- we're at a place where I think the accident rate's going to have to be higher than break even in order to absorb the changes in discount. So in essence what we are doing is keeping the accident rate steady.

So for -- this is sort of the inside baseball conversation. For the typical employer, their rate next year will be on the accident fund side is identical to one of those issues.

MR. BATTLES (Business): So Joel, I appreciate what you're saying. But then if you look at that -- then again skipping -- we don't mean to take you out of your order.

MR. SACKS: That's fine.

MR. BATTLES (Business): But if you look at that, and you see the overall break even is actually a minus 2.1 percent, even if you didn't -- on average. And we understand that some are going to go up and some are going to go down regardless. But if we had averaged to zero, we still would have been increasing the reserves by 2.1 percent.

MR. SACKS: So Bob's point is, Okay, why are we doing the increase at all?

MR. BATTLES (Business): Well, I mean -- and I understand some industries are going to have higher regardless. But --

MR. SACKS: But in the aggregate.

MR. BATTLES (Business): Yeah.

MR. SACKS: What this represents -- and it's sort of the same thing that we -- it was sort of the same principle we took last year. This is our best guess at break even. I mean, it -- because in essence what we're trying to predict is what are the costs associated with claims that will be filed in calendar year 2015. And so there's -- I mean, I have a lot of confidence that we do the best that we can. When we look at a break-even number at this point, there's certainly a fair amount of giving it one way or the other. So it could wind up next quarter when we get even new numbers in, that 2.1 will change. I can't tell you sitting here today whether that 2.1 is going to be higher or lower. And so one of the things I'm trying -- and I think this is a fairly significant difference in the way we've done business -- which is why we have the four principles.

For years the driver in how we set rates was we look at this number, and hey, good news, it's minus 2.1 this year. So why not do minus 2.1 or even do zero? The approach I'm taking is to say, You know what? I think we should do it a little bit differently. I think we should sort of see until we grow the contingency reserve to a level that we're all comfortable, let's look at sort of small incremental increases -- and this year it's 1.8, wage inflation is at 2. What that's then going to do is next year and the year after, the year after, that gives us a little bit of room if it turns out that break even's a positive number or above wage inflation. We can still come in at wage inflation and still continue to grow because we have a little bit of a cushion as we're growing the reserve.

MR. BATTLES (Business): But if you look at -- I mean, again -- and I see what you're saying. I mean, you want to grow the reserves. But if we take the assumption that it's really a 3.9 increase in the reserves and not a 1.8 for the class. So we're -- and I'm not saying that we necessarily go down minus 2.2. But if the national trend right now is to reduce rates -- and that's what's happening out there -- Oregon just reduced rates substantially. If we're seeing that national trend -- and again, I'm not saying that we should go back to -- we don't want the influx. I appreciate the consistency and that neutral growth kind of thing.

But I'm -- you know, I'm going to go back to my folks and explain to them why is it a 1.8 percent increase on average when there's actually a break even, it's potentially a 2.1 percent negative. And so I don't see -- that's the issue I think I'm having with this.

I appreciate the principles. I do appreciate the consistency. But that's a concern that I don't see -- especially when we're looking nationally. If you take into account your number 2 problem here on the benchmark saying it's wage inflation, if all those other states are reducing rates, then something's going on here. So ...

MR. SACKS: Again, Bob, what I would -- I appreciate -- there's no right answer. And I appreciate what you're saying. And if I were looking at this from a one-year-snapshot perspective, I'm drawn to what you're saying.

What I'm looking at --

If we could jump, Rachel, to slide 32, what I'm looking at is finding a way to avoid the spikes. So what green represents on this slide -- this is a slightly longer answer to get to your point, Bob.

What green represents is wage inflation. What red represents are the adopted rates. So what I see is in those years where we've gone zero where we've gone below, it is almost without a doubt a situation where you see a spike here. So by having sort of these smaller increases -- and yeah, it does -- it is greater than the current projected break even. But what that does is -- what I'm looking for is a smooth line that looks similar to what that green line looks like. And so sort of in retrospect, what I'm arguing is, boy, over time had we stayed to the green line in the past, you would not see all of those years with those huge increases. So what we're doing is we are reducing the risk in the out years of a spike.

Yes, Patrick.

"PATRICK": To your last point first, Joel, I can appreciate the logic behind it. Is there a chance that perhaps at the next Workers' Comp Advisory Committee we might be able to see a comparison over this same time span of NCCI rates versus the average annual rate inflation for the U.S. -- wage inflation for the U.S. to see if that kind of trend analysis is valid?

MR. SACKS: Bill, help me here. I'm --

MR. VASEK: It's not an hourly basis. The NCCI -- (inaudible). It's apples and oranges here.

"PATRICK": But if the base argument is that the other states automatically get an increase based on higher wages being paid, then you would think that the basic trends would be similar. So if the argument is here we need to level this out because ours is based on hours, you're doing it based on an average hourly wage, why would it not at least have some semblance of comparison to take a look at what the average annual wage increase has been by year over this period of time across the country and compare that to what the market basket of workers' comp rate changes have been through NCCI to see if there is any kind of comparison or similar kind of smoothing like what you're suggesting?

MS. KENNEDY: Patrick, I think part of the problem that Bill's trying to get to is if you look at the NCCI states and the only influence is wages, then their rates will -- their rate level will stay at zero because they're charging based on so many dollars per hundred dollars of payroll. So where we would -- for example, if it's only wages that we ever worry about, if ours are following this green line, and theirs are at exactly zero, that's where you have a comparison. I think that's the difficulty.

MR. SACKS: Let's say I want to try. I mean, I think it's a fair request, Patrick. So let's try to figure out how to do it.

Jump to the next slide for a second.

Part of what we would probably need to do is to say, Okay, let's convert us to payroll. And so what this slide represents is if you were looking at us on a payroll basis, our projection -- and again, this is a projection because we don't know what the wages will actually be -- is that this 1.8 percent increase is actually at any other state a 1.2 decrease.

I want to -- I'm not talking about 1.2 percent decrease because we'll sort of see how wages play out. But where that one -- just to give you a sense of where that comes from is wage inflation was 2 percent; we're announcing 1.8 percent. So what that means is in essence if we were on any other scale, we'd be sitting here -- the conversation we'd be having is, Okay, you guys are only dropping rates by 1.2 percent; you should be dropping them by something more.

MS. DICUS (Business): I think that request makes sense because you're also looking at the influence of the medical cost and, you know, the other drivers that drive those rates. So it would just be an interesting comparison.

MS. KENNEDY: The other thing, Nancy, that occurred to me after hearing Patrick's question too is we track as best we can through different publications what's happening in the other states. You're right, several of them have been going down. There's some that have been going up. And we can certainly look at the broad base of several of them, especially the NCCI states which is about 37 of them.

MR. TEFFT (Business): You know, I -- since hearing you inaugurate this philosophy, you know, I've maybe thought you meant something else by the word "benchmark." You benchmark against wage inflation. It sounds like you mean tying it to wage inflation. I think benchmarking is -- there can be some variance, and that's okay. I mean, wage inflation was "X." You were able to beat it by 6 percent.

I mean, are you saying your philosophy is wage inflation is 3 percent, then a good rate setting is 3 percent, sort of irrespective of what the insurance trends or operational trends are in the system that would perhaps suggest a different --

MR. SACKS: No.

MR. TEFFT (Business) -- outcome?

MR. SACKS: I'm -- I would describe it this way: I'm starting with wage inflation. So for the past two years, we've come in lower.

So last year what we saw was -- ESD announced with wage inflation -- with rate setting was -- was it 3.2 or 3.4?

MS. KENNEDY: 3.4.

MR. SACKS: It was 3.4 percent. We came in at 2.7.

This year the number that we saw in wage inflation was 2, and we came in at 1.8.

So in some ways, if everything is going as well as I hope it goes, I sort of see that as a ceiling. I can't say that with 100 percent certainty because of all the other factors. But in terms of trying to instill a degree of predictability and certainty, what I'd like to see is be able to say -- you know, when ESD announces that number come July, you know that overall that's -- it's not going to be higher than that when L & I three, four, five months later announces what the rate increase is going to be.

And as we get to the point where we're at a place where we're comfortable with the contingency reserve, which in and of itself once we get close to 14 percent is a conversation that we need to have as a broader community, that also drives the decision making.

If we did not have principle number 3, which is we are looking to increasing the contingency reserve, we would be landing in a different number -- we would be landing in a different number this year than the number we have. Because in essence what I'm trying to do with the 1.8 is both build the reserve and give us a spot where for the next few years we're going to be able to come in lower than that wage-inflation number.

MR. TEFFT (Business): So what I'm going to say is going to sound sharper than I mean it. But what I hear you saying is this is kind of like a PR exercise than an actual insurance -- than an actuarial exercise. Wage inflation is how you tell the story or explain your rate increase in a given year. It may or may not actually play a role in how you calculate your proposal in a given year.

MR. SACKS: I think it's -- I would go a little further and say it absolutely has influence. And it has an influence in part because of the ceiling. And it has an influence in part because I think it's a good guidepost for us.

So when we look at a negative 2.1 break even and ask ourselves, Okay, what is the right delta between the rate we're going to set, looking both to raise the contingency reserve and looking at the out years keeping this -- keeping rates predictable, for me that too was a decent marker to understand, Okay, we should be not -- clearly not over the 2; we can come in a little bit below the 2. But the 2 was a decent marker, a decent predictor.

MR. TEFFT (Business): You know I represent self-insurers, and this is ...

MS. KENNEDY: I would -- I want to add one thing too, Bob.

The other thing I think it's been helpful for, Kris and Bob, is it's a number that's available by July 1st. So it gives you a sense of what our benchmark is five, six months before we're even talking about it. And I think that's helpful too.

MR. BATTLES (Business): And I just want to say -- I mean, I appreciate, again, the increase because one) I think the justification to increase is to increase the reserves, to be comfortable. But you could have done that, at least from what I'm looking at, and on average been a zero increase. And you still would have based on your numbers increased the reserves by up to potentially 2.1 percent because you wouldn't -- it would not have reduced it.

So I'm just saying that's where I -- I kind of -- where Kris has said this is that it doesn't -- if this is just going to be an exercise that every year we won't go above it, but we're probably going to be hitting the inflation, I'm not sure how that really becomes -- what does all the rest of this look at then? Because it just looks -- these numbers are just -- they're not relative if we're going to -- this affects both sides here because this affects the rates.

MR. KENDO (Labor): Yeah, but I mean -- you know, there's an important goal here of creating that buffer over the next ten years. And, you know, fundamentally you're still seeing the aggregate rate decrease relative to wage inflation, right? If wage inflation is 2 percent, the rates are only going up 1.8 percent. I mean, that's still a net drop when you're looking at it in aggregate while we're still building the reserves. And, you know, we're tying a rate increase to the exact model that wage inflation is. It is assuming a lot of things about the model, right? And you're not really working in that buffer.

So while, you know, our members will also be paying more in terms of their, you know, shared proportion of the rates, you know, I think the thing to understand is like this is when those really difficult decisions come into play when you're trying to obtain a goal, right?

And so when I'm talking to my members -- not that they're going to be paying into workers' comp, which, granted, is less proportion than what yours are, you know, that's the message we're going to bring, right? This is about stability and long-term planning. And it's still not seeing an aggregate rate increase relative to inflation.

MS. KENNEDY: The other thing just so that folks have this information -- and Bill, correct me if I've got the number wrong. When I think about our effort to build the contingency reserve, and you'll see that the premium rate increase, we're hoping to bring in about 70 to 90 million towards that. Each percentage of a rate increase is about $16- to $18 million. So if we had only the difference between the negative 2 and zero, then we're in around the $35 million range, just to give you a sense of the impact on the contingency reserve.

MR. BATTLES (Business): And I appreciate that. Again, I'm not trying to stir up the pot. Well, I guess I am, but I'm doing it in a nice way with a smile.

And so I do appreciate you having this discussion.

MR. SACKS: And again, it's not a question of stirring up the pot. For me, it's a question of let's be transparent.

This is an important public policy conversation. And I think that, you know, reasonable minds may differ, but I think the only way -- the purpose behind this committee is to bring reasonable minds to the table and have a conversation.

Patrick.

"PATRICK": Thanks, Joel.

And I think that most of us would agree that getting to whatever the agreed-upon contingency reserve numbers are should actually play a bigger role in helping to stave off future rate increases, which is why we're not balking at this point too much over the proposal.

But I'm curious what kind of decrease in the MAF reserve are we likely to see as a result of the adopted rate reflecting only about two-thirds of the indicated rate for that fund.

MR. SACKS: Great question. Let's jump to the slide on the medical aid fund.

What we saw this year, we came in -- we were below break even for the last couple -- we've been below break even on the medical aid for a number of years. Because of the stock market what we have seen is not necessarily huge drops. I mean, in some ways you can sort of trace I think -- and Bill, you're going to have to help me here -- the changes in the medical aid have been reflective because we're more heavily in the stock market in medical aid than we are in the accident fund. What we have seen is the impacts of a good stock market showing up more here than on the accident side.

So the question you're raising, Patrick, is: Is there a risk that we see that 666 number drop a little bit because -- over the course of the next 12 to 18 months because we're below break even, I'd say yes. I would say it is less of a risk as a result of this proposal than where we are today because we're actually going to be as of January 1st be closer to break even in the medical aid than we are today.

Bill, is that fair?

MR. VASEK: Yeah.

"PATRICK": I guess the reason I raise it is is the medical aid fund's reserve has actually been helping to prop up the overall contingency reserve. So if we start eroding this, then are we setting ourselves up for an even higher rate increase perhaps both in the MAF and the accident fund heading into 2016? And if we're talking about the MAF being such a small portion of the overall rates, then what would be the difference from 1.8 to one point what if you were to take the full indicated rate for the MAF?

MR. SACKS: I'd have to give that to ...

MR. VASEK: Well, it's an extra 23 a month.

MR. SACKS: Patrick, let me get you that number.

I would be very hesitant to do that because I don't see that risk -- I don't see that risk when you look back at the trend line for the last number of years of being great enough to require such a big change in the medical aid. I think -- again, looking at slide 68, the break-even rate is 9.2.

And then, Bill, how much as a result of the rate increase, that drops from 9.2 to what? As a result of the proposal; I'm sorry.

MR. VASEK: I believe it's 6 percent.

MR. SACKS: Okay. So it drops us from 9.2 down to about 3.2?

MS. KENNEDY: Right. We are taking about two-thirds --

MR. VASEK: No. It's 6 percent -- (inaudible).

MS. KENNEDY: Bill, are you saying that the proposal is 6 percent medical aid?

MR. VASEK: Yes.

MS. KENNEDY: So we're achieving about two-thirds.

MR. RATKO: Yes.

MR. SACKS: So it would be about a one-third greater than that, Patrick, to answer your question.

And this feels -- again, this is probably the closest that we will have been to break even in medical aid.

And let me just pause for a second.

The reason we've been so much higher in the medical aid is historical. So what happened historically is when the Department made decisions to do dividends, dividends were done on the accident fund.

On the medical aid fund, the Department was not able to do a dividend. And the reason for that is the medical aid fund is 50 percent worker, 50 percent employer. It was imp -- there was no way to give a dividend back to every worker in the state of Washington.

So in the alternative, for a number of years, what the Department did is in essence because of the -- given the size of the contingency reserve and the medical aid fund, the Department made the decision not to take the break-even rate and to charge -- have no increase in the medical aid fund, with the idea being that that would draw down size in that given year the medical aid fund.

It made sense in the one year, but challenging the out years is that just grew that break-even rate bigger and bigger and bigger until you were at a point where it was a significant -- the break-even rate was significantly higher than what was being charged. I think -- it was so big that I think that became interesting.

I think the numbers on where we are now and the way it's going to be going over the next year or two feels like -- again, long term getting us back to a place where we should -- over the next few years we get to a place where we're actually close to break even on the medical aid for the first time in a while.

"PATRICK": So did I understand you correctly that essentially the medical aid fund if you were to take the full indicated rate, it would get somewhere closer, instead of .206 to .212, ballpark? I mean, we're talking about another four-tenths to half cent difference.

MS. KENNEDY: I don't know if I want to trust my mental math here.

"PATRICK": Fair enough.

MR. SACKS: Yeah. But in essence it would be a 225. We would be -- we would be announcing a 225.

MS. DICUS (Business): Isn't that where you took most of the rate increase last year?

MR. SACKS: Yes.

And so the reason we're at 9.2 as opposed to double digits sitting here today is because we -- that's where we took the increase last year.

MS. KENNEDY: We're back on slide 34.

MR. SACKS: Well, let's just go back to 33, 33 just for a second.

So again, I just want to highlight again. And I think this puts some good context around this. The 1.8 percent increase in our terms -- again, if we were in any other state, the message would be a 1.2 percent decrease because when you look at it from a wage inflation perspective, it's less than the 2 percent wage inflation. And so what that represents is sort of the fourth year looking at the current numbers where it is sort of zero or below.

The one thing I need to just caution is 2014 and 2015 the actual impact on payroll is too early to calculate because you don't know what the actual payroll was for 2014 or 2015, so we're sort of using ESD's data as proxy data. But that's what's happened in the past.

So those numbers will shift a little bit as we move -- as we actually get the rest of 2014 in and they bring 2015 in.

MS. KENNEDY: Joel, I want to get back to slide 30. You didn't get a chance to do that one.

MR. SACKS: Oh. Sorry.

So in the aggregate here's what the 1.8 percent represents. It turns out -- it comes out to be about -- for the average employer, you know, if there was such a thing as the employer who was going up exactly 1.8 percent, and as most of you know, almost no one will go up 1.8 percent. Because each industry has a different rate, and then each individual has a different experience factor. But on average, it's about a $24 a year increase or about $2 a month.

Okay.

MS. KENNEDY: We should be on 35.

MR. SACKS: Let's jump to 34 for a second.

So, again, what this represents -- again, it gives you a longer time period than what you saw before about the reserve.

Best guess right now, 14 percent would put the contingency reserve in the neighborhood of $2 billion. So that's sort of the delta over the next eight years that we're trying to get to. And then once we're there, that insulates us from unforeseen circumstances. And then we can have the conversation about do we as a community believe is the right level reserves, again, looking at what makes sense for Washington, and then also we'll spend some time sort of sharing what all the other insurance companies across the country do.

So in terms of time tables, this basically represents the time table for the hearing process, just again another reminder. Everything we've talked about here as regards rates is a proposal. We are at the rule-making stage, so we're at a 102. There will be a series of six public hearings and conversations with many of you about this.

And then at the end of November will be a final decision on rates with the new rates taking effect 2015.

MS. KENNEDY: And I just want to put on my APA hat for just a second because technically with the filing of the 102 we're in the public comment period. So all of this has been information to inform you. But we are not recording this as part of public comment. Use that information to provide your testimony either in writing or at one of the six public hearings.

Thank you.

MR. SACKS: And then what we'll do after the break is sort of circle back to, Okay, that fourth principle said let's grow the reserves, but let's make sure that we're not just doing it through open conversations we just had about rate increases. What is it that the Department can and should be doing to be focusing on improving operations, reducing liabilities?

This slide sort of represents at a high level our focus, and most of it post-rate will be sort of drawing down into this. And there's nothing here that basically is different than what we talked about at the last four or five meetings. It's creating that culture of return to work in everything that we do in working with doctors and working with employers and working with our managers on the claims floor and it's streamlining every process that we can in trying to front-load as much as we can about getting somebody power to think about what they need to be doing to return to work.

And then what we'll do after the break is talk a little bit about here in more detail some of the initiatives here's what we're finding and then sort of gearing up for the 2015 legislative session and what we're thinking about in terms of both legislative and budget packages that we think help contribute to continuing to achieve the reductions in liabilities.

MS. KENNEDY: So we are about 15 minutes behind. So we'll take our break till 11:10, but I'm going to start us right at 11:10 in your seats or not. How's that?

(Recess taken.)

MS. KENNEDY: All right, we're ready to get started.

Agency Request Legislation & Budget Packages

MS. KENNEDY: So the first thing we're going to go over is our agency request legislation.

So Joel mentioned just before the break -- and one thing I want to comment on before I get started on this, folks may recall last year that we offered to the WCAC a deeper conversation into some of the data, some of the actuarial trends. And please let us know if you're interested in us doing that again. That gives you I think more of a perspective on the break-even rate indication. So just let us know. Just send me a quick e-mail. Or, you know, we'll figure out a date. Just let me know if that's something that would be of interest to you.

So on the agency's potential request legislation and budget proposals, so I'll go through the -- those that relate specifically to the insurance services program, the workers' comp system, and then let Joel talk about those that are being developed for the other programs.

You won't get absolutely every piece of detail, but those that are really we believe of primary interest to the Workers' Comp Advisory Committee.

And you also have I believe a description in your binders of each of these packages.

Just a reminder first that we are focusing our efforts on the agency's five goals. You can see them here.

Goal 2 is the one that -- certainly it's not the only thing Insurance Services is involved in, but it's a primary driver of a lot of the conversations that we're having.

Right now we're working on potential legislation with the vocational subcommittee. This is the group that originally developed and has worked together to ensure implementation of the vocational improvement changes that were part of 2007 legislation and went back to 2008.

So two things that we're working with this group on. One of them is some significant enhancements to the preferred worker program.

For folks that don't know, we currently have a preferred worker program. It is very underutilized. And what it does is allows for an employer that brings back a worker with permanent restrictions to be free of the primary workers' comp premiums for that worker for three years. And I say primary because the supplemental pension fund is still -- still has to be paid for that worker's hours. And they're not at risk for the cost of any subsequent claim in that three-year period on their experience record.

What we find, though, is that really is not a very utilized program. Part of it being the timing. Because it typically comes in after claim closure. Part of it being that we really have to rely on the worker to tell someone that they are a preferred worker so the employer can take advantage of that benefit. And if you're in a very low risk industry which is where a lot of these preferred workers fall because we're really looking at work that meets their physical restriction. So it may be more sedentary which is going to be a lower premium rate. There isn't always a lot of financial advantage for that employer when you look at some of those other rates.

So we're looking at a program that is modeled both after Oregon's system and it links really well to our stay-at-work provisions. So we're looking at adding language in the vocational statute so that this becomes part of the voc process. Folks that are familiar with our vocational system know that a private VRC will look at a list of nine priorities that start with potential jobs with the employer of injury and then look at other employers and ultimately looking at potential retraining for a worker.

So what we've done is look to incorporate this language into those priorities so it becomes a tool for a vocational counselor when it comes to really finding work alternatives for an injured worker with either their employer of injury other than the job of injury itself, that wouldn't qualify someone, or with another employer which often what we get is a voc outcome in those cases is a determination if the worker is able to work because they've got skills but they're not actually working.

So what we're hoping is that this is a tool so that a vocational counselor can actually have a return to work outcome as opposed to an able to work outcome, which we think is beneficial not only to injured workers but to employers too because they'll not only have the increased benefit but we may reduce the number of vocational disputes, for example, because it's pretty frightening for a worker to know their benefits are ending but they have no job to go back to.

So those are some of the potential outcomes where we're looking at. We're working with the actuaries to analyze what that impact could actually be.

The benefits, just to give you a quick outline, as I said, they're modeled very closely to the Stay At Work program. So we're looking at partial wage reimbursements for the first three months or 66 work days that an employer brings an individual back. Also reimbursement for equipment, special tools and clothing.

We're not replicating the training -- the very minimal training reimbursement available to stay at work because the -- that really means the worker shouldn't have been to a retraining plan if training's actually needed.

If the relationship with the worker and the employer is maintained for at least a year, then we're looking at what we're calling a durable employment bonus for that employer for maintaining that work relationship with the injured worker. And those would be payable both to the employer of injury and to potentially another employer.

Self-insured participation is not included in our discussions with Lori Deagal (phonetic) who's the self-insured representative on the voc subcommittee. She said that these are options that most -- some insured employers already have good return-to-work programs. They're bringing back a worker wherever they can. Although a self-insured employer who hires a State Fund injured worker under this plan could take advantage because then it's State Fund costs, they're not actually bringing one of their own workers back.

Fund it through the second injury fund which for the State Fund really just means it's funded through the accident fund as opposed to stay at work which is a separate shared funding.

That's really the primary elements of that particular proposal.

Is there any questions about that one?

MS. DICUS (Business): Did you say it's paid for through second injury fund?

MS. KENNEDY: It's called second injury fund, which is a separate assessment if you're a self-insured employer. For the State Fund when we give second injury fund relief, for example, that's really just a charge against the accident fund.

So there isn't a separate account.

So more to come as we finalize language on that particular piece.

Joel.

MR. SACKS: And for me this is a I think a really potentially exciting change to the workers' comp system. And it really aligns around that goal about everything that we're trying to do about focusing on helping injured workers heal and return to work. I think this does a couple of things.

First, from the worker's perspective, what this does is it provides an additional tool to sort of keep somebody motivated to say, Hey, here's something in addition for you to be thinking about and encouraging you as you're applying for a job. This may be an extra reason why an employer might hire you.

And then everything that we know about sort of that workforce development system about sort of what drives employers to make decisions, the fact that they may be able to reduce that first-year cost of hiring an injured worker may be enough to make a difference between hiring somebody and not hiring somebody.

So if what we can do here is keep workers engaged and motivated, believing they can get a job, and then encouraging employers to actually decide to make job offers gets people back to work.

And then I think the second piece that's I think really ingenious about this -- and again, Carl, we steal this from the state of Oregon -- is taking this same program and allowing the employer of injury to participate. Because one of the challenges we have right now with the program is it's not nearly as beneficial to the employer as this proposed program. And I can't use this program with the employer who it might not hurt.

And if you think about it, the place I'm most likely and most comfortable to talk about my injury is with my current employer because they already know about it. I'm going to be less likely to talk about it with a new employer because I'm afraid that may result in my not getting hired.

So what we're hoping is we get this -- that with continued work with all of you, we get a bill that has sort of universal support we're able to implement, and then we'll be able to go out and market and work with employers, both employers of injury and then find as many other employers who are interested in participating in this program, and then sort of matching injured workers with interested employers.

So when we find an employer who first says, I would love to hire an injured worker and take part in this program if there is someone who's an injured worker who has these kind of skills and then try to match them up with that.

So that's sort of the longer term vision about how this could work.

MS. DICUS (Business): So will you still have a preferred worker risk classification so you're paying at a lower rate as well?

MS. KENNEDY: Yes, those two provisions will stay intact, but we've moved it all under the voc statute so all the preferred work will be in one place. But the premium discount would still be something that's available as with the protection from another injury in that time period.

A couple of other things. Just to comment on the durable employment bonus is not in Oregon statute. They actually do some different things for workers at different disability levels. So that's sort of our own creation I believe. I don't recall if as we looked at other programs if we found a state that actually had that or not.

And I forgot what -- I'm just going to move on to --

MR. SACKS: Tom.

MR. KWIEZIAK: Just to go back to the preferred worker thing, so I agree that it's underutilized big time. But if it's going to be available to the employer of injury, so, you know, employer of injury has an unsafe workplace, the guy gets hurt, he hires him back, he doesn't have to pay premiums for three years?

I mean, right now if that happens, the employer gets punished because his rates go up for having an unsafe workplace. I don't know. It just seems odd that, you know, you maybe reward employers who have an unsafe workplace.

MS. KENNEDY: So a couple of comments I would have.

First of all, there's still an impact on an employer's experience for all the other benefits. This would not hit their experience record. It won't have -- I didn't say this in the first part, and I should have. It will not be available in every single claim because a worker has to have a permanent disability that is likely to be a substantial barrier to their employment. So we're really looking for those difficult cases to get them back on the job.

We've had some discussion about that very thing, Tom. And I think a couple of things. We're intentionally connecting it to voc services so that there is an advocate for that worker that's working with the employer to make sure that this is an appropriate job for them. That's one thing.

And the other thing I think is difficult, we're really driving towards keeping workers motivated. I think you'll see when Ryan does his discussion about how we're trying to get vocational services early in a claim before all these relationships are severed and before a worker really has a long-term disability mindset.

I think we have to be careful of driving towards keeping this worker out of long-term disability which is really what our goal is, or failing to take action because of some of the reasons you're talking about. But it's really that worker then who is facing a life-long term disability when we could have potentially avoided it.

I hope I'm articulating that well.

MS. GUBBE: I just want to say for AGC, I'm excited about it. And it's been something that's been a long desire of ours because it's sorely underutilized workers don't tell their new employers that they're preferred workers and -- (inaudible) -- that they have a new injury; it's sad. Because no one gets the benefit. And the worker gets benefit too because they don't have to -- (inaudible). So we're actually very excited about it.

And the claim actually -- (inaudible) -- still impacted that it occurred -- (inaudible) -- that claim would still affect the rates for two years. So they're still getting hit with whatever the high-cost claim is. And it's going to be a high-cost claim because --

(inaudible).

So we are very excited about it. And we thank the Department for looking at it.

MR. SACKS: Patrick.

"PATRICK": Okay. So I'm just trying to make sure I understand this correctly. If you're talking about somebody who's been referred to voc services after a significant injury, now, we're talking about somebody who's not able to go back to the same kind of work they were doing. Is that true in all cases or is it most cases, first?

MS. KENNEDY: If they can go back to their job of injury or they have a full release, there are no restrictions so they can do their job of injury, this would not be available.

"PATRICK": Okay. So this would more akin to where if I'm a manufacturer or one of my guys gets injured on the floor, he can't go back to doing the assembly kind of work, manufacturing work he was doing, but if I had an inside sales position, then he would potentially be hired for that one, I would get the PWP benefit on rates for that new -- for that classification that he was newly in to, but I would still have the higher rate and impact to my claims for that three-year look-back for the manufacturing side.

MS. KENNEDY: Correct. Well -- yes. It's impacting your overall experience, so yes, you're correct on that, Patrick.

The other thing you can do, though, is you'll get up to a three month half wage reimbursement for bringing that worker into the sales area addressing those early costs of bringing a new employee.

MS. GUBBE: And it would work on full-time modified jobs, right? If you were modifying their job of injury, it would still work because they can't do their customary job.

MS. KENNEDY: Yes. As long as it relates back to their permanent disability that's that barrier to employment, yes, you're right.

MS. GUBBE: So conceptually for us, then we keep their pension benefits intact. That's why this is so beautiful for us is because -- I mean, we keep their pension too.

MR. BATTLES (Business): I've got a quick question on these proposed legislation. I know I've been working with Tammy. But do we have the actual legislation? Because what I'm hearing again is that -- I look at these principles. They look good. There's some potential. But the devil's in the details. And so until we see the bills, to comment it's very difficult to say any further than interest concepts; we look forward to seeing the details.

MS. KENNEDY: So let me give you a quick update on that, Bob.

So getting into the second part, because these are all around the voc statutes, we were combining it into one bill. So the enhanced preferred worker program and the recommendations to the voc subcommittee would be packaged as one piece of legislation.

There are still some areas that are open questions with that voc subcommittee, and that's why we don't actually have language. We're hoping that maybe by the end of this week they will have come to some agreements on a couple of the recommendations, and then we can get a bill out to you.

Just to give you -- that'll just -- I'll use that as a segue into the second part.

So the voc subcommittee is looking at that 2007 legislation. And the primary elements, just as a reminder, expanded the training time for those injured workers that are eligible up to two years, and at the time $12,000 indexed to raises in the community college costs. So that is now $17,500 per account.

It also allowed an option for those injured workers who don't want to participate in a training plan to take a voc award that's the equivalent of six months time loss and then access to their training funds for self-directed training and we move their claim to closure.

There's some other elements in there. Those are really the most significant changes that we have.

So some of the things that the subcommittee is looking at, just to give you an idea, I think that they are pretty much in agreement that two years is the right period of time.

We've had some conversation about the tuition funds and whether we should have a cap. When they agreed to indexing to community colleges, no one saw the recession coming, and some pretty significant increases in those costs. So we're having a fun discussion about that.

While all of them think it's very important that the funds be adequate for someone to actually access community college certification and degree programs, and we know that we've got some that are hitting the caps, so we're doing a further analysis into what might be driving them to that cap. So that's why they're not yet in agreement on that particular piece.

We're also looking at the option to benefits where a worker has to make that choice within a certain number of days after their training plan is actually approved.

We've heard interest in a while for workers that --

in that first quarter of their training, about the first three months or so, depending on what kind of plan they're in, who at that point realized that training was not the best option for them, and today they really can't get out of the training system without putting up some significant barriers, maybe getting into a non-co-op status or something else that just drives that plan to failure. So we're talking about whether we should allow a later option out and let them go ahead and attempt retraining.

Those are a couple of the I think most difficult areas that the group is working through right now. But we're getting data in response to their request that should help drive those final recommendations from that particular group.

So if there's no questions on that, I'm going to let Joel talk about some of the other divisions.

MR. SACKS: Okay. The next three have a varying degree of impact on workers' comp which is sort of to be transparent and used as an opportunity to share the things we're thinking about.

The second bullet would be a one-line addition to the existing safety and health statute.

There are currently a series of elements within the safety and health statute that specifically cull out criminal sanctions under a certain set of circumstances for various things that could happen in the workplace.

What we are considering proposing is adding sort of a one-liner to the end of that that basically says nothing in this statute would proclude a prosecutor from using other criminal laws as it relates to looking what happens in the workplace.

So in essence what we're trying -- what we're looking at doing here is making it clear to local prosecutors that if they believe a crime occurred in a workplace that they have access to the criminal tools that are available to them in any other circumstance, and they're not simply -- they're not exclusively bound by Title 49 and the criminal sanctions in Title 49.

The real-world implications of this I think are very, very few and far between. But it aligns with our goal 4 which is believing that very few employers that choose to knowingly neglect their workers deserve a different set of treatment. And so what we want to basically do is have a statute -- clarify statute that says if a prosecutor believes a crime occurred, they should be allowed to prosecute. It's not something that we would use because, you know, we don't have prosecutory authority. This is different than any of the civil sanctions, the DOSH issues. There are times when we conclude an investigation today that we did refer to prosecutors. When we do make that referral, then basically what this change in statute would do is leave it clear to a prosecutor that they could look at the case file that we have, evaluate it against all existing criminal sanctions and decide if they believe that they should be filing criminal charges, and if they do, what charges will be filed.

MS. DICUS (Business): Is this typical in other states?

MR. SACKS: I think --

MR. BATTLES (Business): OSHA does have a couple, yeah.

MR. SACKS: I think California has it. I don't know that it's specific in the other state-plan states.

I think there's an argument to be made today about whether it exists in other state plans -- I mean, in other states. I think what this does is make it explicit where I think in the rest of the country one could argue that it's implicitly there. I think our desire here is just to basically clarify for prosecutors what tools they have at their disposal.

MR. BATTLES (Business): I don't know how much detail you want to go into this at the WCAC, but I guess my question on this: Is it -- right now the only time you would do a criminal willful, which is what we're talking about here for the referrals, would be if there's a fatality. Is that going to change? Is that -- because right now -- are you talking about referring these sanctions, you know, to seek sanctions, is that going to have to come from the Department where the prosecutor would have grabbed this independently? Are we looking at any changes in the statute on that basis?

MR. SACKS: No changes in the statute. Just the line that basically says a prosecutor is not bound by Title 49.

So I'm not sure I'm directly answer -- I'm not sure I know the answer to directly answer your specific questions you're asking, Bob.

Tammy, do you -- is this something to defer?

"TAMMY": We can talk off-line when it's not the WCAC. But we're not changing the Director's obligation to refer a case to the prosecutor. And we're also not changing our influence on the county prosecutor's discretion about whether or not to pursue change -- pursue criminal action.

So there are -- there's one section of the existing WISHA statute that is related to fatalities. There are two other criminal sanctions today in the WISHA statute. One is for refusing to take a piece of equipment or something that's been red-tagged off the line and putting that back into service. And then there's another one where if you willfully knowingly remove certain safety equipment and direct your workers to then use that. But that's an existing misdemeanor under the WISHA statute. None of those conditions change. It just says to a county prosecutor if the actions that occurred in the workplace rise to the level of a current criminal penalty, under Title -- (inaudible).

MR. BATTLES (Business): And we can talk about it more off-line.

But I guess the question I also -- we're still looking at a referral process as opposed to the prosecutors coming in and just taking the statute on their own.

"TAMMY": Yes.

MR. SACKS: Patrick.

"PATRICK": Is this coming from the prosecutors? I mean, have we seen examples recently where prosecutors have declined to actually file charges at the request of the agency citing concerns that they were barred from doing so, that there is an inferred power already on the books for them to be able to prosecute where appropriate?

MR. SACKS: I would say the first part of your question, yes, Patrick; the second, no. In other words, I -- there are a series of places now where we are required to make referrals to prosecutors. It is relatively rare that anything occurs once it goes to the prosecutors.

I think in part what this would attempt to do is help to clarify for prosecutors what they can do with our referrals. I mean, part of the conversation I think that we've had is prosecutors are sometimes more comfortable with the stuff that they use every day rather than relying on different statutes. So in essence what this would say is, You have the tools -- here are the facts. You have all the tools available to you that you have in every other circumstance. You're not limited to just looking at Title 49 to decide what you could or could not charge somebody with. So in essence it may be more a perceived barrier and giving a little more flexibility to our county prosecutors.

"PATRICK": So are we actually seeing where some of your referrals are going unprosecuted as a result of their unwillingness to look outside of Title 49?

MR. SACKS: Again, I want to be real careful in attributing -- I want to differentiate fact from the reason behind the fact.

In other words, it is fair to say that the referrals over the number of years have not resulted in county prosecutors picking up a case and prosecuting it. I don't think it's appropriate for me to comment on what went into their reasoning.

"PATRICK": That's fair.

Is there a chance we might be able to get a five-year look-back at the number of referrals versus number of prosecutions to see what that gap is?

"TAMMY": Sure.

And you'll -- what you'll see is the number of referrals is less than a handful from my understanding. And the number of prosecutions is -- (inaudible).

MR. SACKS: Any other questions on this?

Third potential bill and the fourth are more budgetary related.

So what the first basically does is -- would provide the Department with a slightly different path, a potential easier path to deal with a couple of challenges that we face today. And I'm going to use self-insurance as the example. Both of these are sort of live things where we are putting in for budget increases in the '15/17 budget that I'm not sure when you sort of step back and think about it are necessarily procedurally the best way to go.

So the first is in partnership with the self-insurers, they've identified and will probably continue to identify places where they would like to see an investment.

And let's use an IT system as an example. The way the self-insurance community works -- and Kris, correct me if I get this wrong -- we pay for it but they charge an assessment back to the self-insurers who they reimburse. So it does not come out of 608/609.

Self-insurers pay for whatever we spend on the self-insurance community themselves. However, we don't necessarily have the money or the authority to spend the self-insurer's money that we're going to collect without legislative approval. So in essence we have to go to the legislature, go through the budget process to get approval to invest in a computer system that the self-insurers have said this is something we want to pay or we want to pay for.

What this bill will do in those circumstances is allow the Department to basically in consultation with the WCAC make the decision to go ahead and spend that money and then collect it back from self-insurers.

The second thing that this would do -- sort of that same spirit with stay at work. So one of our budget packages is we needed to increase the number of FTE's administering the Stay At Work program to be able to get the paperwork processed so people will participate.

Right now we're going to the legislature. We have the data to say that, Hey, here's the workload. We want an appropriation from the Stay At Work account which is basically a line on the premiums that we collect.

Assuming the legislature would approve it, the money comes in July. What this would basically say is just as it relates to the Stay At Work program and helping employers enroll in the Stay At Work program, if there's money in the account we would have access to it and be able to spend it on Stay At Work activities, whether it's processing the forms or working directly with employers to help them set up and create a Stay At Work program.

So basically in both of these cases what we would see is the business need driving the expenditure in realtime.

In both of these cases, it would require a conversation with you as the WCAC before the Department could engage in those activities.

MR. KENDO (Labor): So what's the -- particularly with the self-insurance facet of this, what's the mechanism for approving the funding? Is it through rule-making or just through --

MR. SACKS: Tammy, you want to comment?

"TAMMY": So the language that we're drafting right now is -- (inaudible) -- bring it up before the WCAC, taking your comments and consultation. There's also an allotment process that is required before we can spend it. So it's both the conversations here as well as, you know, the normal allotment process that we -- (inaudible).

MR. KENDO (Labor): So fundamentally it's an administrative decision, right? So get administration action to spend the money without -- I'm saying this without -- without there being a need for, you know, a rule-making process or something like that.

MR. SACKS: I think as drafted, yes, if that were an issue that needed more attention. We're certainly open to it.

MS. KENNEDY: So Joel, do you want to just talk quickly about this one?

We're about 30 minutes behind.

MR. SACKS: And then the last one, we have a series of other -- of programs that we administer. We inspect elevators in the state. We inspect factory-assembled structures. And we regulate and make sure that contractors who do work are registered.

What this would basically -- they're all fee-based programs. What this proposal would basically do is take those fee-based programs and create a dedicated account, similar to what we have in 608/609, or for those of you who are familiar, somewhat like we have in the electrical program. So sort of take it out of the general fund with the idea being that the fees that employers pay into this program would then be used to actually administer this program as opposed to it being put into the general fund and then trying to get an appropriation from the general fund and competing with things like -- (inaudible).

MR. BATTLES (Business): Would this be an individual fund or would we break each one up like the electrical fund?

MR. SACKS: The intent would be to merge them together in one fund but keep separate accounting for each of the three programs. And there would be a portion of this that would be distributed back to the general fund. So it would not be 100 percent into this fund. A portion of it, probably in the neighborhood of 10 percent, would go to the general fund to ensure that the general fund doesn't wind up losing out of this. So keep the general fund whole and we allow the program to run off its --

MR. BATTLES (Business): And this is factory-assembled structures, construction, contractor registration and elevators?

MR. SACKS: Yes, yes.

MR. KENDO (Labor): Did you say what proportion of those fees would then be going to the general fund?

"TAMMY": The current thinking right now is that all the penalties that are collected from those three programs would remain in the state general fund. And that is -- (inaudible) -- to address the concern that we would -- (inaudible) -- by writing more penalties. Instead, that's the portion that would stay in the state general fund.

So what's difficult about it is over the past five years of projecting forward, there's, you know, amounts that come into the account into the state general fund and then the legislature acts to appropriate that money back. And so it's difficult to determine how -- what the right amount is to keep the state general fund whole. It's just because that's a moving target. So what this would allow us to do is to be able to keep the permit fees, the fees associated with actually having to administer those programs, it has language in there that says the fees will be set at a level that is necessary as close as possible to maintain those programs and all of the penalties within the state general fund. So that is an amount that is going to vary over time.

I know that that may not answer your question, but that's as close --

MR. KENDO (Labor): Yeah, no, that's good.

"TAMMY": -- as we can really come to explaining -- (inaudible).

MR. SACKS: And ballpark, you know, plus or minus, it's in the neighborhood of 10 percent.

"TAMMY": It's been as low as 7 percent over the last three to five years -- (inaudible). Projections could be as high as 12 percent. It really is dependent on permit dollars and then what the legislature determines is necessary to -- (inaudible).

MS. DICUS (Business): So this only affects general fund programs, not those covered by diverted work comp programs?

MR. SACKS: This proposal as written just covers those three programs: the contractor compliance program, the elevator, and the factory-assembled structures program.

MS. KENNEDY: So I'm going to propose a slight change in the agenda.

Joel and I can spend just a minute and talk about the budget proposals. You do have something in your binders already describing each one of these. I will offer to do the performance dashboard after the meeting for anyone who wants to stay, and we'll have -- after we answer any questions quickly on the budget, we'll have Ryan do his presentation on some of the early return-to-work stuff if that works.

So specifically on the budget proposals, the top two for Insurance Services are maintenance level packages.

The first one represents the Logger Safety Initiative. And these are FTE's that are already committed to this program but we borrowed them from other areas of the Department primarily staffing up DOSH to do the work involved on the consultation side for this initiative.

The other elements are the Stay At Work program that Joel already mentioned, the Medical Provider Network, and COHE expansion where participation overall is much greater than we originally were geared up for. So that's why we're looking for additional FTE's for that.

MR. SACKS: And I'm just -- in budget speak, what this first maintenance basically represents is the funding you need to do the work of today. It's nothing new, nothing different. It's just here's the additional cost associated with either doing what you do today or covering State At Work as the example, but workload as it exists today.

MS. DICUS (Business): Sorry. Before you move on, I -- there's a comment on the strategic priorities that the administrative cost is included in work comp premiums for the forest products industry beginning in 2014. Can you expand on that?

MS. KENNEDY: So the original Logger Safety Initiative legislation, that was a bill proposed that required us to really put in place what we were doing and then to come back for -- with the recommendation for permanent funding of that effort. And the initial budget proviso said get half of -- it's a little more complicated than this -- gave us about eight hundred and some thousand from the SHIP grants in order to start the Logger Safety Initiative. Primarily a program person, a couple of auditors, and the third-party auditor. The funding was not sufficient to cover that, even those basic things that mandated us to do. And then there are additional staff that we've had to add since then.

It also said get 420,000 of that back from the forest products industry through rates. So we did not take that step in 2014, but 2015 and 2016 there is an additional rate consideration. We've added it to the supplemental pension fund to avoid any impact on experience rating and to ensure self-insured participation. That's part of the rate proposal for 2015. And it comes to about $8 per FTE in the forest products industry.

MS. DICUS (Business): Will that be communicated to forest products industry --

MS. KENNEDY: Yes.

MS DICUS (Business): -- folks?

MS. KENNEDY: Yes. That was part of the -- yeah, we certainly can. It was part of the recent rate filing. But we've not pulled together all the communication that needs to occur on that.

Moving on into the policy level requests which really are looking at new approaches in different program areas, different issues that we have.

The first one would add vocational specialists to the claims floor to really assist our claims managers on complex vocational issues, supporting our efforts to get vocational services to injured workers much sooner in the claims, helping to eliminate barriers with the medical providers, employers, workers, depending on the case and what the needs are.

I'm going to skip down to the self-insurance risk analysis system, which is the technology to support the audit reform that we've been working closely with the self-insured community and labor on developing, and I think that new approach certainly warrants a presentation I think at a future WCAC, and that's the system that self-insurers will be paying for.

The other one that's specific to Insurance Services is taking the initial steps to retire LINIIS, our current mainframe system that some of us have come to know and love over the last almost 40 years, but Joel's goal is to try to replace it before it turns 40, right?

So I skipped over the non-workers' comp specific ones, underground, income enforcement and the chemical hazardous incident prevention. If it's all right, I'll move on to Ryan's presentation.

"UNIDENTIFIED MALE": Vickie, I have a question. Has it been brought up as the workforce ages to look at occupational disease claims that have been filed recently?

I've noticed a large increase, and that concerns me because it's a causal relationship and the preexisting conditions that are always related somehow to the industrial injury.

MS. KENNEDY: Well, we can certainly have an off-line discussion. I will say we've not looked at it from the standpoint of changing the statute which is really these are legislative proposals. I will tell you that we hired a new medical director as part of a budget package a couple years ago to specifically look at occupational disease, and his work is just getting underway.

## Early Vocational Services and Predictive Analytics

MS. KENNEDY: There should be a button up towards the top (of the mic), Ryan.

MR. GUPPY: I don't need it.

So I just have a couple minutes here to bring everybody up to speed on a couple of areas that I'm involved with having to do with early vocational services and some models looking forward about how we get the right services to the right people at the right time.

And so we're just going to touch on two of the highlighted boxes today and give you a little bit of background on what it is we're doing operationally to try to help meet -- (inaudible).

So going back to January of this year, we began an experiment to try to figure out if we got a referral out to vocational services earlier in a claim -- (inaudible) -- much earlier. Because historically the outcomes haven't changed all that much between let's say -- (inaudible) -- 150 days, which is going back to about 2005 to more recently or up to right now at about 215 days. And so what we were trying to do is figure out -- the outcome distribution is about the same no matter if we wait 300 days or 150 days. What if we got it out even earlier than that? What if we tried -- (inaudible)?

So back in January we were -- (inaudible) -- just finish their work-checking, and we're really just starting to -- (inaudible). We didn't have any preconceived notions about what vocational services looked like.

And lastly, maybe they didn't really have that great of an understanding of what vocational services really are, but they volunteered for this experiment.

In addition to those claim managers trying to get those referrals out earlier, we were also asking the claim managers and the VRC's to adhere to a standard of work.

And so as a result of those two efforts coming together, we're starting to see some pretty significant results. Although, early on, the numbers look pretty small.

One of the main things that we wanted to do is we just wanted to do this at 60 to 70 days and find out what would happen. We did make one change in our approach which was instead of calling the -- having the claim manager call the attending physician, have the claim manager call the employer of record, the injured worker and the vocational counselor at the time they made this referral for an ability-to-work assessment. We also asked those claim managers and those VRC's to connect with the physical therapist that was involved with the claim, which about 85 percent of the time it was the physical therapist.

The point behind that piece of standard work was to make sure the therapy was really guided towards return-to-work solutions versus just focusing on medical. So we kind of wanted to bridge those gaps early on.

And so far what we're learning -- let me go back to this slide. What we're learning most importantly is in the middle of this slide. It's really an opportunity for vocational counselors who historically have really been focused on providing the Department with a defendable ability-to-work assessment with opportunities to engage an injured worker, engage their motivation, help keep them engaged in the process, and then ultimately create better partnerships between the doctor and the employer, the injured worker and the VRC much early in the claim instead of three or four years down the line when everybody's upset about something that went wrong.

And so from a partnership's perspective, everybody's playing pretty nice in the sand box right now.

Okay. We don't have a ton of data around this yet. We've got about 81 -- (inaudible) -- so far. But out of those 81, we've got 48 percent of injured workers have returned to work compared to 10 percent of all other AWA referrals across the board.

So you might say, Well, is that a reflection that the private sector should be used earlier on a claim and -- (inaudible) -- like early apprenticeship? No.

I think that what that means is that employer-employee relationship is a moving target. And maybe when our folks are involved in early on, that relationship is not at a point where it can be -- (inaudible). But as the claim progresses a little bit, we're finding that a lot of those people actually will come back to the table and come up with some really great return-to-work solutions.

8 percent of those people went to work with -- (inaudible) -- which means that they were released to

work, they took advantage of our WorkSource partnerships, they took advantage of some of the other partnerships. We have ESD, our reemployment specialist, for instance. And they were able to get back to work.

42 percent of those were found able to work. A big difference between able to work and return to work is one is just proving that you have the ability to work through employability. The other one's actually returning to work. We've got 42 percent of workers found able to work in the early AWA experiment versus cross-employment is about 40 percent. But out of those 65 who were released for full duty, no restrictions compared to 50 percent of all other ability-to-work assessment referrals.

What that means is, again, because we're throwing resources at these individuals earlier in a claim, the likelihood of them falling into long-term disability is significantly shrunk.

These people are being released back to the same level of work they were doing before they got injured, so therefore, they're still closer to the workforce than say if they were -- (inaudible) -- some other kind of transfer -- (inaudible).

Anybody have any questions so far?

This is really exciting stuff for us.

A couple years back, the Department really put its arms around Lean. And one of the areas the Department really took advantage of that happened to be in the claims floor and in return to work. And so over the course of a few years there were some -- (inaudible) -- to really shrink the overall duration of the length of time it took from when the claim manager made an ability to work assessment referral to the time that vocational counselor submitted the recommendation to the Department. That was historically about 492 days. That's going back a couple years at this point.

But because of some of the Lean measures and other things we've done, we're really shaving down the number of days between the first AWA, how long that AWA is, and then how quickly we can get it closed.

So we're looking at some numbers here where -- today's date, so we're looking at about 270 days of unnecessary time loss being reduced from the system as a result of AWA and as a result of some of these earlier approaches, again, going back to folks are return to work.

People are talking about vocational services and talking about it differently. It's not just -- (inaudible). And we're looking to the private sector community to develop some strategies that they can use early on in the claim because we're having a conversation with people at 60 to 70 days versus 300 days.

MS. KENNEDY: So Ryan, before you move on to this one, the comment I would make is that some of these closures of the vocational services, as Ryan said, are extremely promising.

Now, some of the really complicated cases are those that aren't closed yet. We know that. But this is exactly the kind of work that's driving our budget package about having the additional resources on the floor because these are the kind of conversations and barriers that those VR -- or our VSS's which are really our own VRC staff are helping work through with the vocational community, and so far in those cases we're seeing right now they're not only reducing the duration, but the actual cost of those vocational services are cheaper because they have not had to spend nearly as many hours with that injured worker when you think about ability-to-work assessments and plan development and retraining because they're finding opportunities for them to work earlier in the claim.

MR. GUPPY: So, for instance, the average ability-to-work assessment duration is about 160 days across the floor. That came down from well over 200 as a result of the Lean issues a couple years ago.

In these early AWA referrals, the meetings were actually about 70 to 75 days.  So -- (inaudible) -- and the costs are -- (inaudible).

These are preliminary numbers.  We think that's probably going to move up.  We're going to try to keep it where it is right now.

But initially it seems like we're headed in the direction -- it seems like those early results we're getting are going to start helping us to arrive to where we want to go, which is getting those services to people much earlier, not only from a time-loss cost perspective but also from a preventing preventable disability perspective.

So in that spirit, we're also looking at trying to figure out before people go out to the private sector.  So when those claim managers are looking at claims and trying to figure out which ones need return-to-work services and which ones don't, it's kind of hard to nail down exactly what that looks like.

And to make sure that when we do assign our field staff to somebody out in the field to work with an injured worker, that injured worker hasn't already returned to work, or that injured worker and that employer are already well on their way.

So we're trying to figure out how we can use some analytics to determine what we call -- (inaudible).  So it would be an indicator that this person or this employer might need extra help getting back to work. And then you can throw -- (inaudible) -- services, our own resources at those to stakeholders to try to -- (inaudible).

We've been piloting using some predictive analytics since about October last year to try to figure out if there is a model we can go to, what does it look like, what are the characteristics of these individuals that are coming into our system that really need extra assistance with returning to work.

So a model has been developed. We look at it. We look at it -- (inaudible) -- who have been off of work for about 40 days and have not returned to work, and we're also looking at people that based on some -- (inaudible) -- characteristics, the likelihood that they'd be off for a year is much higher. And there's a sweep that goes through. There's a score that's generated. And then that particular individual, that claim number is then looked at differently by a claim manager of the unit. They make a referral out to our field staff, and they provide intensive services, meaning the vocational service specialist out in the field and the occupational nurse consultant where you gather with the injured worker and the employer and medical provider to try to get that person back to work because you'd think that based on the analytics there's a higher likelihood that the person's going to be off work a year.

What some of those scores look like are listed here. And without spending a bunch of time going through all of these, you can tell that the very top person is on opioids for greater than 14 days. The likelihood of this person being -- (inaudible) -- is much higher and down the list.

So this is based off of a review of our data over a year period of time.

And so what happens is a person gets an aggregate score based upon how many of these indicators they match. And they'll either be either low, medium or high risk for being off work in one year.

And so far what we're looking at is the outcomes of that pilot have been pretty successful, although our numbers are still relatively small.

We have been able to effectively return to people -- return people to work that were in the highest risk of being long-term disabled. We provided integrated service out in the field.

And right now we're trying to figure out moving forward how can we adopt this across -- (inaudible).

So again, finding those people at day 40. Is their return -- (inaudible) -- especially on people that their -- (inaudible). If that relationship's broken, let's move them on to an ability-to-work assessment. Let's have a vocational counselor walk that person down to WorkSource. Let's have the vocational counselor sit down and help them develop a resume, and not just develop a document, but really have a coaching session with that injured worker so they can help understand the skills they are bringing to the table and -- (inaudible).

And so what we're looking to do is take -- (inaudible) -- and have it be directed specifically at those people -- (inaudible).

And so given the time constraints we have, I'm not going to go deeper on the predictive analytics, but it's definitely something moving forward probably in the spring next year.

Anybody have any questions?

MS. DICUS (Business): Just a quick question. Have you done this presentation before the Retro Advisory group?

MR. GUPPY: No. But I believe they are somewhat aware of some of these initiatives. I have spoken about them.

MS. DICUS (Business): Okay, thanks.

MR. GUPPY: Anything else? Joel?

MR. SACKS: If you take Ryan's presentation overall, I think the spirit behind it, again, aligns with what we were talking about earlier. How do we transform the relationship we have with the vocational counselors in the private sector for -- where almost every difficult claim may go to them. And if you change it from one where their job is to sort of gather information for us so that we can make adjudicative decisions and transform it to what is it that you can be doing, still doing what we're hiring you to do, which is work with this -- you know, get us the information we need to move this claim along and work with this worker whether they're motivated to help them get back to work.

And so it's whether it's working -- whether it's working with WorkSource, whether it's getting the claims out the door sooner where folks are still more likely to be motivated. Or if it's preferred worker enhancements in the bill, which is to give these voc counselors an extra tool as they're working with the workers, overall I think the strategy is these are folks that we can transform from somebody who's viewed as an arm of the Department that's simply there to gather information, get back to the Department as an advocate to someone who's viewed as an advocate to the worker who can help somebody get back to work. And quite frankly from our perspective, if the doctor, if the vocational counselor is focused on getting the best possible outcome for the worker, and they get back to work at a job that they can do, that they want to do, that's the best outcome for the claim. I mean, we would rather have that information than a report this big (gesturing) about what a worker might or might not be able to do to move their claim forward. So a closed claim with a good job for a worker that's an appropriate job is the outcome we're looking for.

Ryan, I think what you're doing in the voc community is helping us move in that direction.

MR. GUPPY: Absolutely.

What I shared with you today as far as the presentation goes is a glimpse of the future state of where we're trying to take that group of stakeholders and how we can help shape what they're doing before -- (inaudible). And employability is still -- (inaudible) -- of what their role is. But then -- (inaudible). Return to work is the best option.

So stay tuned. And I appreciate the comments. Thanks.

MS. KENNEDY: Okay.

Joel, unless you have some closing comments, we'll go ahead and adjourn. But we'll just take a couple --

Oh, Dave, I forgot about you. Go ahead, Dave.

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Board of Industrial Insurance (BIIA) Update

MR. THREEDY: I'll be quick. Just a few slides in here to give you a snapshot of how things are going at the board.

The first slide, top line is the total appeals we've received through the door. And the bottom line is how many of those end up getting granted. The ratio tends to stay pretty close to the same over time. And it looks like there might be a slight decrease in appeals through the end of June. But overall I say it's been pretty level.

The next slide, this is something we like to keep track of because one of our interests is making sure our decisions are issued as timely as possible. And so we keep track of how long it takes our judges to issue their orders once the record has been completed and submitted to them for a decision.

And so our goal is to keep it around 35 days. And so we're doing pretty good, which is -- it's satisfying since we do have a number of new judges who sometimes tend to take longer to get their decisions out.

Next slide is a snapshot on how actually we're doing as far as our time lag after the proposed decision has been issued and we have decided to grant review of that decision. The top line shows how much time it's taking our judges to submit a draft of our final order. And then the bottom line is how much the board members take to review that, sign, and get it out the door.

Again, this is another metric on how long it's taking us to complete cases. And this average weeks to completion applies to all cases, both those that are litigated and those that are dismissed or settled by an agreement.

And caseload at the end of a quarter shows just how many active appeals we actually have in the agency for that period of time.

And finally, this is just -- this report was created to keep workers' comp disputes out of the court system. And so this kind of gives an indication of the percentage of final orders issued by the board that actually end up going into the court system, which is a pretty low number.

Any questions?

MS. KENNEDY: Okay. Thank you, Dave.

Closing Comments & Adjourn

MS. KENNEDY: We were going to ask for future agenda items, but why don't you e-mail those to us if you've got any ideas. And we can also e-mail you the list of prior items that may still be on our plate as suggestions from previous meetings.

So we'll go ahead and adjourn. I'll just take a couple of minutes so that people who want to leave can, and anyone who wants to stay, and we'll go through the performance dashboard; I'm happy to do that with folks.

So thank you all for coming and drive safely.

(Whereupon, at 12:15 p.m., proceedings adjourned.)

# C E R T I F I C A T E

STATE OF WASHINGTON )
                    )   ss.
County of Pierce    )

I, the undersigned, a Certified Court Reporter in and for the State of Washington, do hereby certify:

That the foregoing transcript of proceedings was taken stenographically before me and transcribed under my direction; that the transcript is an accurate transcript of the proceedings insofar as proceedings were audible, clear and intelligible; that the proceedings and resultant foregoing transcript were done and completed to the best of my abilities for the conditions present at the time of the proceedings;

That I am not a relative, employee, attorney or counsel of any party in this matter, and that I am not financially interested in said matter or the outcome thereof;

IN WITNESS WHEREOF, I have hereunto set my hand on this 11th day of October , 2014, at Tacoma, Washington.

H. Milton Vance, CCR, CSR
Excel Court Reporting

(CCR License #2219)