

Workers' Compensation Advisory Committee

June 23, 2015



Agenda

Time	Topic	Presenter(s)
9:00am-9:20am	Welcome & General Updates <ul style="list-style-type: none"> • Introductions • Safety Message • Updates: <ul style="list-style-type: none"> • Benefit Accuracy Workgroup • 15-17 Budget discussions • Finance Committee • Electronic Benefit Payment System 	Vickie Kennedy Joel Sacks
9:20am-10:05am	Industrial Insurance State Fund Financial Overview	Sharon Elias
10:05am-10:25am	Insurance Services Performance Metrics Dashboard	Vickie Kennedy
10:25pm-10:40am	BREAK	All
10:40am-10:55am	Independent Medical Exams	Vickie Kennedy
10:55am-11:10am	Ask L&I	Ray Jones Brooke Dixon Mitchell Dunlap
11:10am-11:40am	Goal 4: Help honest workers, business and providers by cracking down on the dishonest ones	Liz Smith
11:40am-11:50am	Board of Industrial Insurance (BIIA) Update	Dave Threedy
11:50am-12:00am	Closing Comments & Adjourn	Vickie Kennedy Joel Sacks

WELCOME & GENERAL UPDATES

*Vickie Kennedy,
Assistant Director for Insurance Services*

*Joel Sacks,
Director*



SAFETY MESSAGE



I SURVIVED

Don't ever think:

- It won't happen to me
- It's just another day
- I've done this a thousand times

It happened to me, and I'm alive because:

- My supervisor reminded me about PPE
- My fall protection worked
- I avoided a 30-foot fall

Apollo

"I went home safe and made it to my son's baseball game that night." —Tanner Kane



INDUSTRIAL INSURANCE (STATE) FUND

FINANCIAL OVERVIEW

STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2015 THROUGH THIRD QUARTER
JULY 2014 - MARCH 2015

Sharon Elias
Chief Accounting Officer



Significant Financial Highlights

July 2014 through March 2015

- The contingency reserve decreased \$22 million, from \$950 million to \$928 million, from July 1, 2014 through March 31, 2015 mainly due to:

	<ul style="list-style-type: none"> • Premiums are greater than current accident year incurred benefits • Investment income increased • Prior year's benefit liabilities increased less than expected (favorable)
	<ul style="list-style-type: none"> • During first quarter an accounting entry was recorded for the remaining portion of the 2011 reform savings • During the third quarter the new mortality table was implemented • The pension discount rate decreased from 6.5 to 6.4% • Recognized costs associated with extending Vocational Option 2 benefits and eliminating the sunset provision

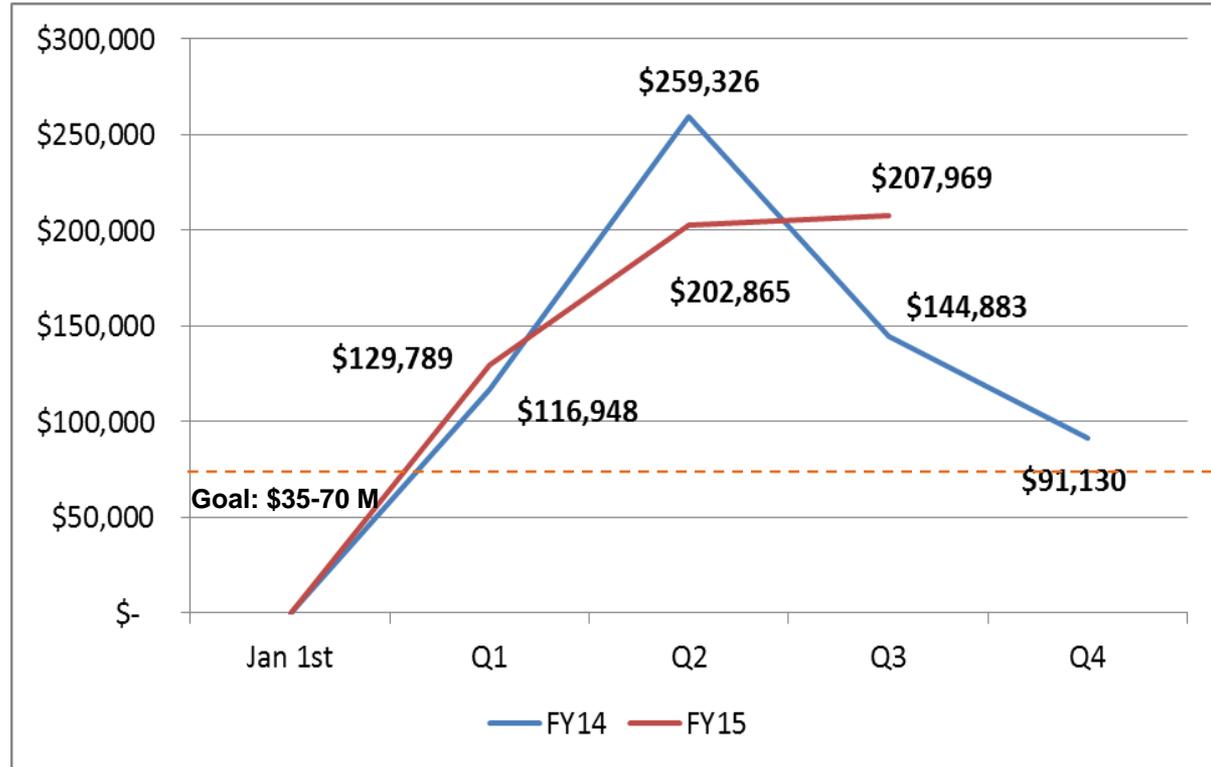
Change in the contingency reserve by quarter:

- From July 1st to September 30, 2014 the contingency reserve increased \$11 million, from \$950 to \$961 million.
- From October 1st to December 31, 2014 the contingency reserve increased \$52 million, from \$961 to \$1,013 million.
- From January 1st to March 31, 2015 the contingency reserve decreased \$85 million, from \$1,013 to \$928 million.

Fiscal Year 2015 (as of March 31st)

\$208M in operational efficiencies

- First three quarters of FY15 continued favorable development
- FY14 ended up at \$91M



Potential Changes for 2015 contingency reserve

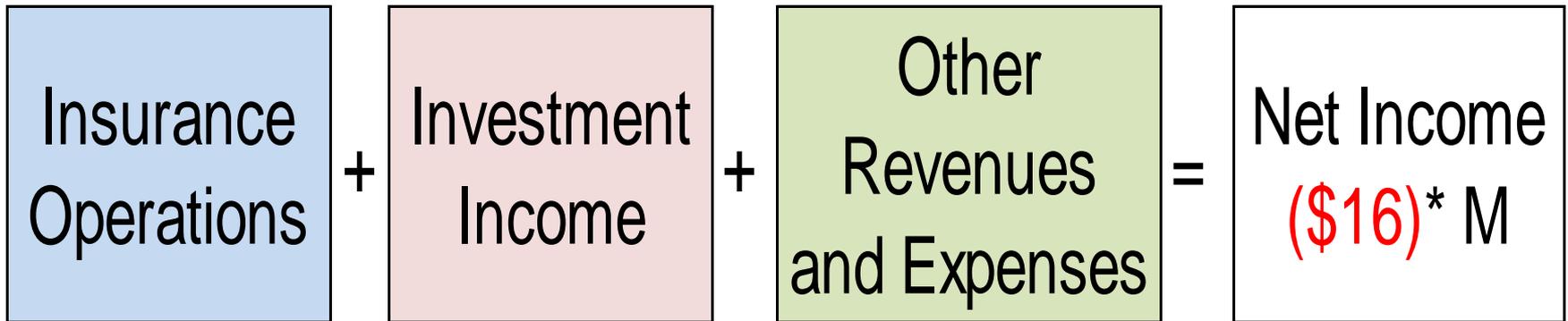
Drivers		Percentage			Amount (range) dollars in millions		
Decisions that will reduce the contingency reserve							
	Reduce Pension Discount Rate*	6.5%	to	6.4%	\$21	to	\$31
	Further reduce Pension Discount Rate	6.4%	to	6.2%	\$50		\$60
	Updated pension mortality tables				\$85	to	\$91
	State pension adjustment (GASB)				\$X	to	\$Y
	Non-pension discount	1.5%	to	1.0%	\$110	to	\$130
Decisions that will increase the contingency reserve							
	Premium rate increase			0.8%	\$70	to	\$90
	Continue operational efficiencies				\$35	to	\$70
This will either reduce or increase the contingency reserve							
	Investments				\$X	to	\$Y

State Fund Results

“Net Income”

July 2014 through March 2015

From July 2014 through March 2015, expenses exceeded revenues resulting in net loss of **(\$16)*** million.



*If we had not taken the savings offset, implemented the new mortality table, decreased the pension discount rate, or book the costs associated with the vocational option 2 law change, we would have a net income of \$219 million.

Insurance Operations

July through March
(in millions)

	Nine Months Ended	
	March 31, 2015	March 31, 2014
We took in (Premiums Earned)	+ \$ 1,355	\$ 1,208
We Spent (Expenses Incurred)		
Benefits Incurred	1,617 *	1,501
Claim Administrative Expenses	154	121
Other Insurance Expenses	59	56
Total Expenses Incurred	- 1,830	1,678
Net Loss from Insurance Operations	= \$ (475) *	\$ (470)

*Benefits Incurred would have been \$1,382 M and Net Loss from Operations would have been (\$240) M if the one-time adjustments to benefit liabilities had not been made this year.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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Premiums Earned

July through March
(in millions)

	Nine Months Ended		Difference
	March 31, 2015	March 31, 2014	
<i>Standard Premiums Collected</i>	\$ 1,492	\$ 1,367	
<i>Less Retrospective Rating Adjustments</i>	(43)	(37)	
Net Premiums Collected	1,449	1,330	
Changes in future Premiums Amounts To Be Collected	(28)	(6)	
Changes in future Retrospective Rating Adjustment Refunds	(66)	(116)	
Net Premiums Earned	\$ 1,355	\$ 1,208	\$ 147

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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Benefits Incurred

July through March
(in millions)

	Nine Months Ended		Difference
	March 31, 2015	March 31, 2014	
Benefits Paid	\$ 1,205	\$ 1,149	\$ 56
Total Change in Benefit Liabilities*	412	352	60
Benefits Incurred	\$ 1,617	\$ 1,501	\$ 116

* March 31, 2015 Total Change in Benefit Liabilities includes:

- \$ 83 million adjustment to avoid double counting 2011 Reform savings
- \$112 million from implementing the mortality table that includes gender
- \$ 25 million from the costs associated with Vocational Option 2 law change
- \$ 15 million from reducing the pension discount rate from 6.5 to 6.4%.

Without the changes, the Benefits Incurred would have been \$1,382 million.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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Investment Income

July through March
(in millions)

Nine Months Ended

	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Investment Income Earned from Dividends and Interest	+ \$ 370	\$ 358
Realized Gains from Fixed Income Investments Sold	+ 32	198 *
Realized Gains from Stocks (Equity Investments) Sold	+ 17 **	41 **
Total Investment Income	= \$ 419	\$ 597

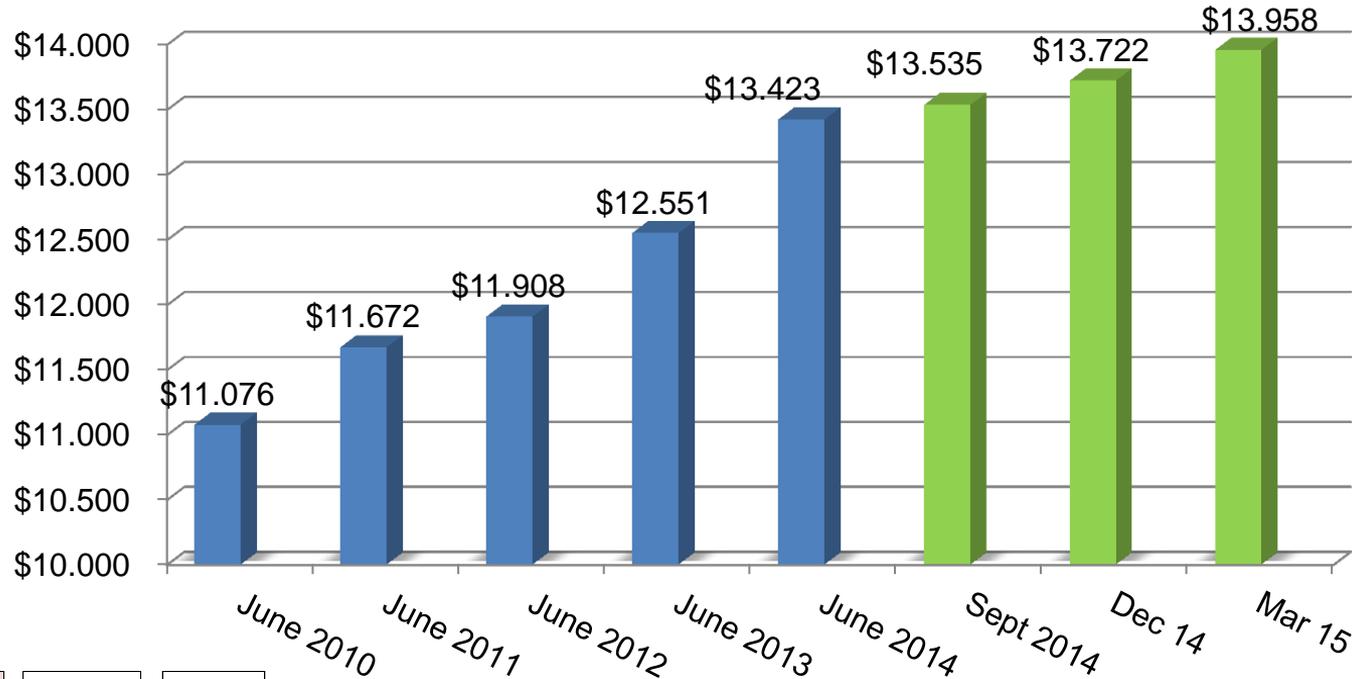
Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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* Sold TIPS due to the change in the asset allocation policy.

** Sold equities to rebalance the investment portfolio.

Total Investments

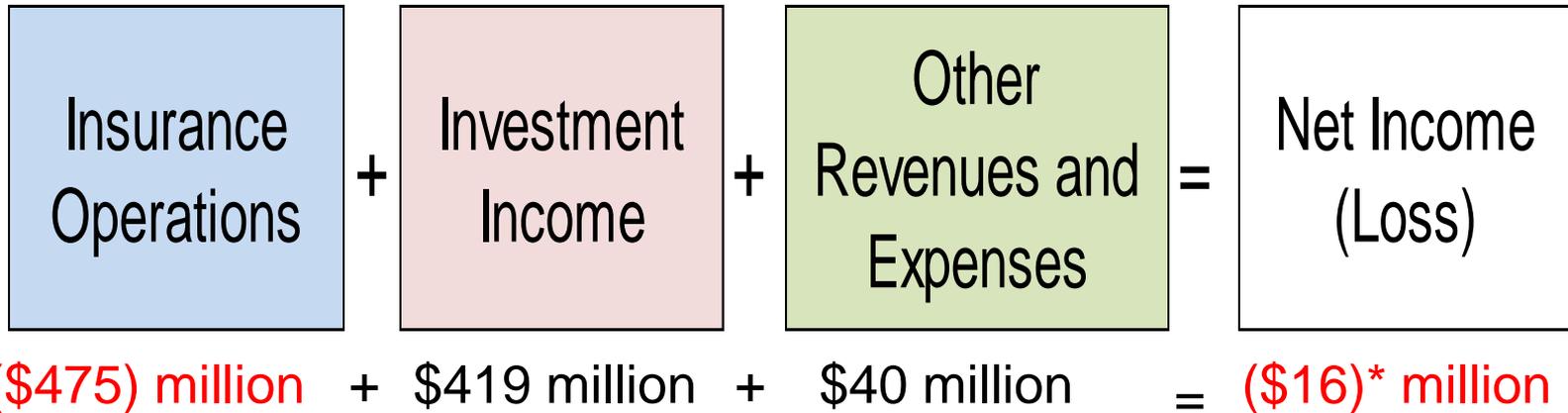
(rounded to billions)



Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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Results of Operations

July 2014 through March 2015



*If we had not taken the savings offset, implemented the new mortality table, decreased the pension discount rate, and booked the cost but not the anticipated savings for the vocational option 2 law change, we would have a net income of \$219 million.

How Did Contingency Reserve Perform?

July 2014 through March 2015

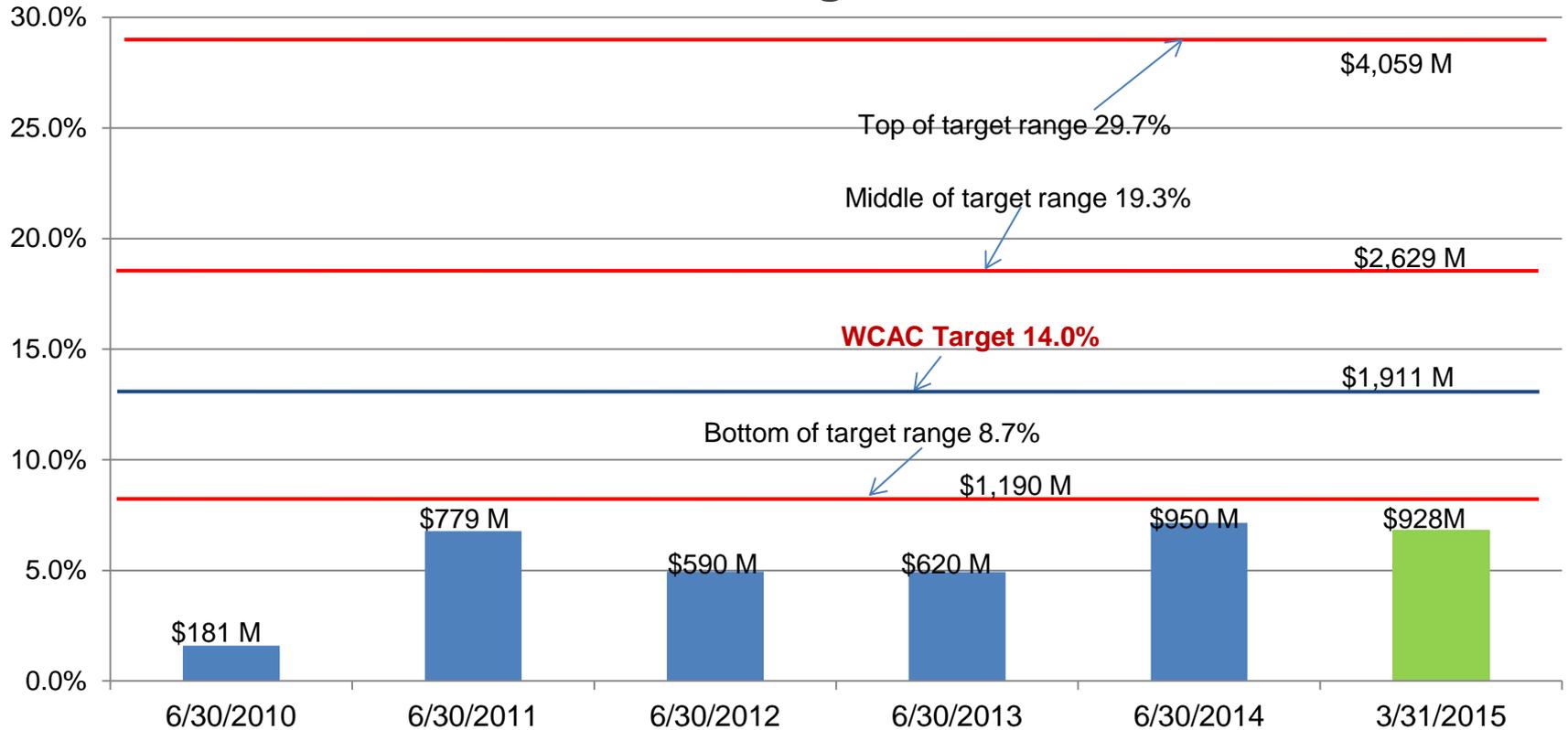
Change **(\$22)** million

Beginning Contingency Reserve as of June 30, 2014	+	Net Income (Loss)	+	Unrealized Capital Gain/(Loss)	+	Other Accounting Adjustments	=	New Contingency Reserve as of March 31, 2015
\$950 million	+	(\$16) million	+	\$14 million	+	(\$20) million	=	\$928 million

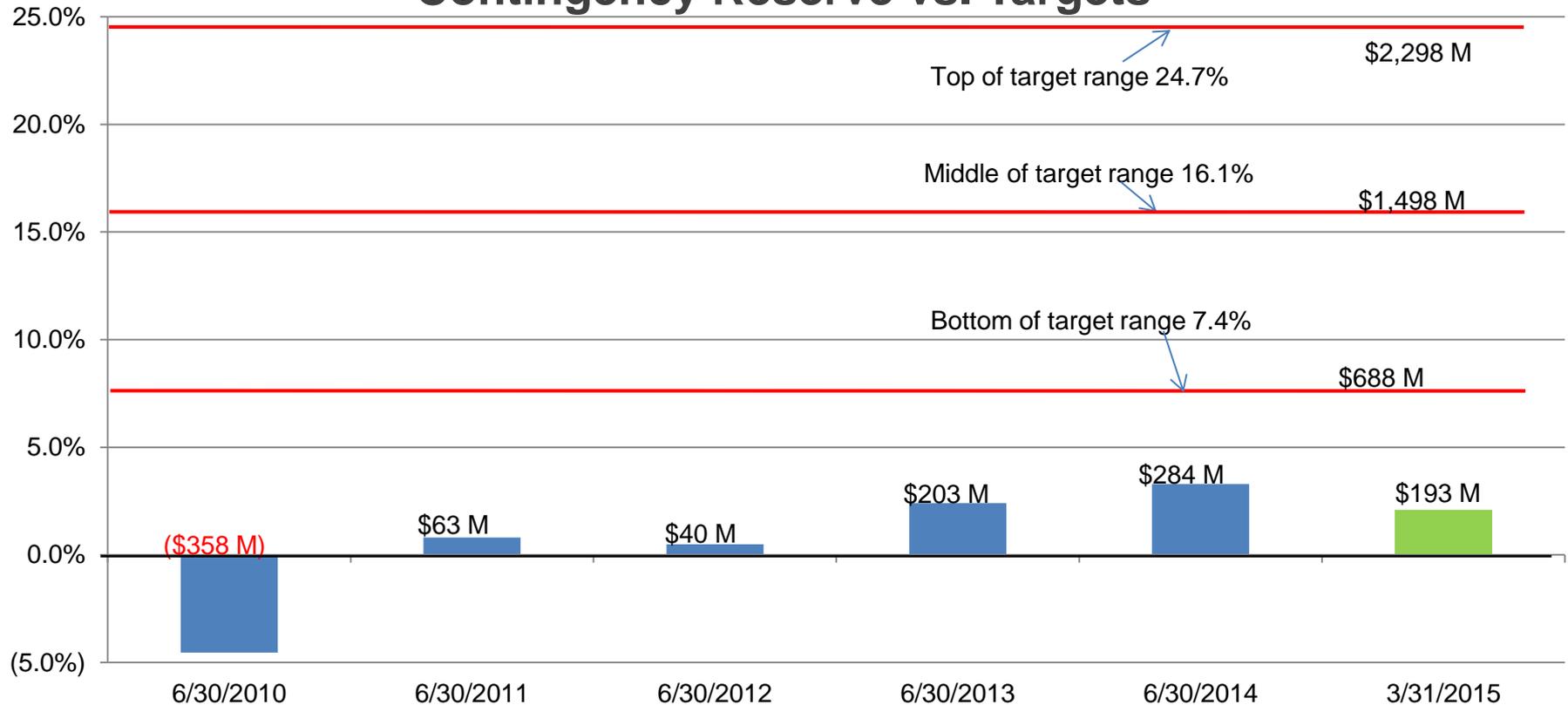
On March 31, 2015, the contingency reserve would have been \$1,163 million if we had not taken the one-time adjustments as shown on previous slides.

*Note: Unrealized capital gain/loss are not a part of net income because we have not “**cash**ed in” our profits or losses.*

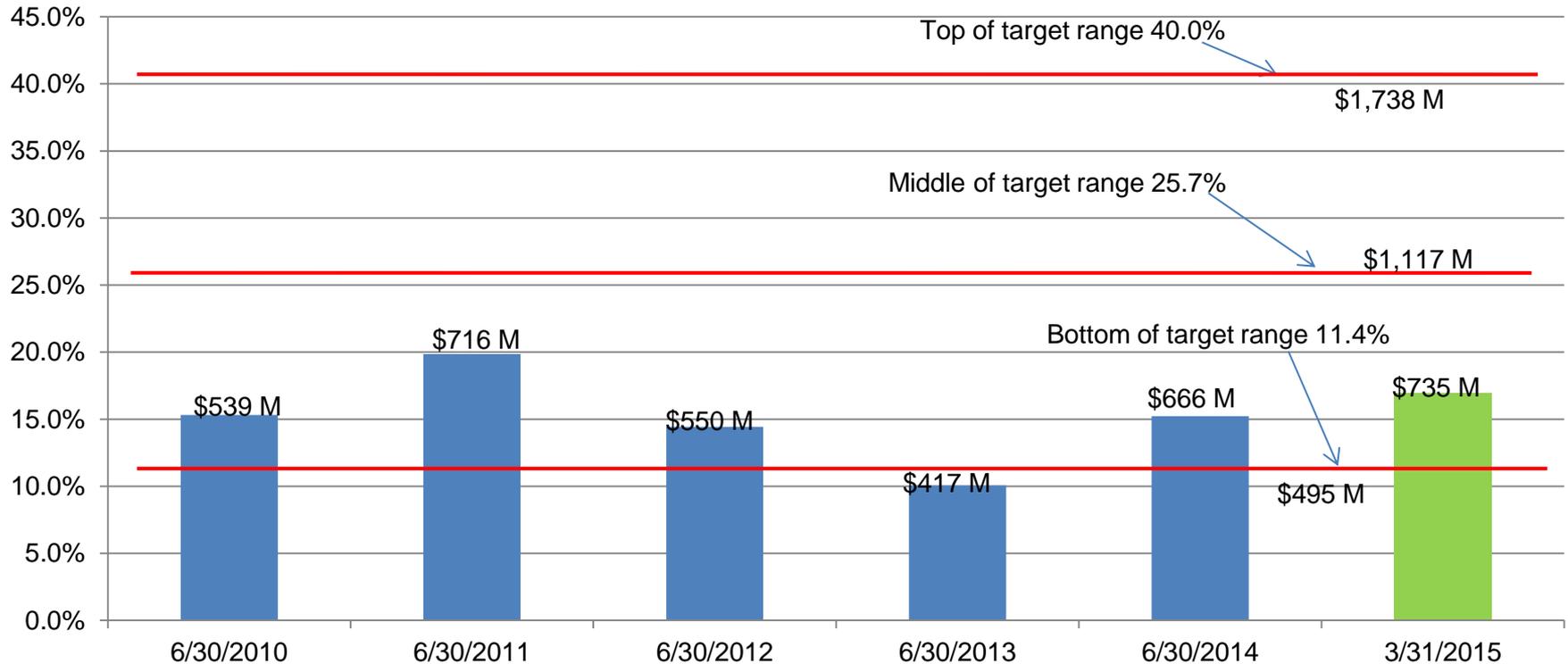
Combined Contingency Reserve vs. Targets



Accident & Pension Contingency Reserve vs. Targets



Medical Aid Contingency Reserve vs. Targets



Key Financial Ratios as a percentage of premium earned

Ratios	Nine Months Ended March 31, 2015		Nine Months Ended	Fiscal Year Ended	Excluding one-time adjustments
	State Fund	Industry Forecast	March 31, 2014	June 30, 2014	March 31, 2015
Current Year Benefit (Loss Ratio)	91.5%		93.9%	90.0%	91.5%
Prior Year Benefit (Loss Ratio)	27.8%		30.4%	37.4%	10.5%
Total Benefit (Loss Ratio)	119.3%	59.8%	124.3%	127.4%	102.0%
Claim Administration Expense (CAE) Ratio	11.4%	13.7%	10.0%	9.9%	11.4%
Sub-Total: Benefit and Claim Administration Expense Ratios	130.7%	73.5%	134.3%	137.3%	113.4%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.4%	24.5%	4.7%	4.7%	4.4%
Combined Ratio	135.1%	98.0%	139.0%	142.0%	117.8%
Investment Income Ratio	27.3%	17.4%	29.6%	28.7%	27.3%
Operating Ratio	107.8%	80.6%	109.4%	113.3%	90.5%

Note: a ratio of 100% would indicate that costs = premium for the period

Questions & Comments

Contact Sharon Elias,
Chief Accounting Officer

- Phone: 360-902-5743
- Email: elia235@lni.wa.gov.

Thank You!

Historical Investment Performance

	Nine Months Ended		Fiscal Year Ended			
	March 31, 2015	March 31, 2014	June 30, 2014	June 30, 2013	June 30, 2012	June 30, 2011
Investment Income	369,698,000	357,924,000	479,774,000	465,868,000	481,892,000	491,654,000
Realized Gain (Loss)	50,036,000	239,588,000	303,184,000	87,405,000	547,771,000	68,768,000
Unrealized Gain (Loss)	14,524,000	135,064,000	200,333,000	266,041,000	(546,428,000)	416,944,000
Total Invested Assets	13,957,626,000	3,862,688,000	13,422,957,000	12,550,887,000	11,908,149,000	11,671,588,000

Unrealized gain (loss) changes are impacted mostly by stock market results.

Note: Unrealized gains and losses are commonly known as “paper” profit or losses which imply that they have not been “cashd in.”

Supplemental Information No. 1

9-Year Reserve Benchmarks

Update: \$928 million contingency reserve or 6.8% of total liabilities.

9-Year Interim Targets

Year	Contingency Reserve Target (range)	Pension Discount Rate (PDR) Target (range)	Contingency Reserve (CR) Yearly Goal (displays steady growth) <small>dollars in millions</small>
Quarter Ending June 2013	4.9%	6.5%	
2014	5 - 7%	6.5 - 6.3%	\$ 652 to \$902
2015	6 - 8%	6.3 - 6.2%	\$ 797 to \$1,032
2016	7 - 9%	6.2 - 6.0%	\$ 957 to \$ 1,167
2017-2018	8 - 11%	5.9 - 5.5%	\$ 1,122 to \$ 1,452
2019-2020	10 - 13%	5.4 - 4.7%	\$ 1,472 to \$1,742
2021-2022	13 - 15%	4.7 - 4.5%	\$ 1,757 to \$2,047
9-Year Contingency Reserve Goal			\$2,047

Each tenth of a percent the PDR drops, the CR could reduce between \$30 to 60 million.



INSURANCE SERVICES PERFORMANCE METRICS DASHBOARD

Vickie Kennedy

Assistant Director for Insurance Services

Helping Workers Heal and Return to Work

Status	Focus Area	Key Indicator	Baseline 2012	1st Qtr 2015	Target
	Overall indicator	Decrease number of long-term disability (LTD) claims – out of every 10,000 accepted claims	436 claims	425 claims	377 claims
	Culture of return to work	Increase return to work in 6 months - out of every 1,000 new TL claims	812	809	840
	Reduce preventable disability	Decrease time-loss persistence from three to six months	70.9%	68.9%	62%
	Collaborate to Reduce system delays	Decrease average days of time-loss paid at three months <i>from the first time-loss payment.</i>	56.1 days	57.0 days	54 days

Overall indicator not updated from last time. RTW updated from website with 2015Q1 data, 4 quarter rolling average

Creating a culture that promotes Return to Work

Status	Focus Area	Key Indicator	Baseline 2012	1st Qtr 2015	Target
	Culture of return to work	Increase return to work in 6 months - out of every 1,000 new TL claims	812	809	840
	Target RTW services on high risk claims	% of claims off work on day 40, who are still off work 6-12 months from claim receipt	50.0%	49.5%	TBD
	Identify critical intervention points	Percent of Ability to Work Assessment (AWA) referrals made in 90 days of claim receipt	5.6% Calendar year 2013	15%	10%

Help injured workers heal and reduce preventable disability

Status	Focus Area	Key Indicator	Baseline 2012	1st Qtr 2015	Target
	Reduce preventable disability	Decrease time-loss persistence from three to six months	70.9%	68.9%	62%
	Occupational health best practices	Percent of initiated claims seeing a COHE provider	31%	45.3%	50%
	Effective pain management	Percent of claims received with opioids 6-12 weeks from injury	4.9%	1.0%	NA

Collaborate with stakeholders to reduce system delays

Status	Focus Area	Key Indicator	Baseline 2012	1st Qtr 2015	Target
	Collaborate to Reduce system delays	Decrease average days of time-loss paid at three months from the first time-loss payment.	56.1 days	57.0 days	54 days
	Standardize work of key processes	Median time-loss days to first AWA referral <small>(average monthly)</small>	249 <small>(calendar year 2013)</small>	165	TBD
	Collaborate with external stakeholders	New approaches for Vocational Rehabilitation Counselors	NA	Working with external Vocational community	NA



BREAK

INDEPENDENT MEDICAL EXAMINATIONS (IME)

Vickie Kennedy

Assistant Director for Insurance Services



Background

- Problem
 - IMEs managed by multiple applications with manual processes tracked by hand-entered data
- Solution
 - A comprehensive technology application for the assignment, management, and reporting of IME referrals.

System Interface Details

- **Claims Interface**
 - Initiate IME referral for scheduling, receive examiner reports, request addendums
- **Panel Interface**
 - Receive offers and submit confirmations, appointment options, and decline offers
 - Submit examiner reports and addendums
- **L&I Scheduler Interface**
 - Schedule IMEs the system cannot schedule
 - Create travel and translation work items

Deliverables for Panels

- The ability to confirm, reschedule, or cancel examinations online within approved business rules.
- Application for examiners to submit their reports and any addendums via secure file transfer.
- The ability for examiners to review claim documentation online.

Big Wins

- System displays referral status (initiated, scheduled, canceled, report uploaded, etc).
- Helper text added.
- System captures data for reporting purposes.
- Referrals sent throughout the day.
- Panels immediately receive addendum requests.
- Addendums are no longer sent to the incorrect provider or address

ENTERPRISE KNOWLEDGE MANAGEMENT PROJECT

<https://secure.lni.wa.gov>

Ray Jones
Brooke Dixon
Mitchell Dunlap





GOAL 4: HELPING HONEST WORKERS AND BUSINESSES BY CRACKING DOWN ON THE DISHONEST ONES

*Elizabeth Smith, Assistant Director
Fraud Prevention & Labor Standards*

Results L&I

2013-2017



Our Mission

Keep Washington safe and working



Washington State Department of
Labor & Industries

PUBLICATION F101-082-000 [03-2014]

Goal 1 Make workplaces safe.

- Reduce injury rate of workplaces visited by L&I.
- Foster a culture of safety at as many workplaces as possible.

Goal 2 Help injured workers heal and return to work.

- Create a culture of return to work.
- Reduce unnecessary disability.
- Reduce system delays and improve our customers' experience.

Goal 3 Make it easy to do business with L&I.

- Provide info and materials that our customers can easily understand.
- Decrease time and costs for customers.
- Improve specific processes based on customer needs/expectations.

Goal 4 Help honest workers, businesses and providers by cracking down on the dishonest ones.

- Improve identification of bad actions.
- Improve public perception that we are targeting bad actions.
- Decrease the number of bad actions.

Goal 5 Ensure L&I is an employer of choice.

- Encourage and promote safety and wellness.
- Promote a culture of trust.
- Increase opportunities for staff to learn and grow.



4

Help the honest workers, businesses and providers by cracking down on the dishonest ones.

Improve identification of bad actions

Improve public perception that we are targeting bad actions

Decrease the number of bad actions

Overview of Goal 4 Activities

- Agency-wide effort to analyze each individual compliance area and assess its enforcement approach, identify gaps, and implement changes.
- The purpose is to ensure a consistent enterprise approach to compliance that is effective in finding and deterring bad actors.

Overview of Goal 4 Strategy

Two components:

- Escalation Strategy Analysis
- Strategic Data Analysis

Escalation Strategy Analysis

Do our compliance systems:

- Ensure a system of effective enforcement actions that become more severe as the number of repeat encounters or seriousness of the underlying violations increase?
- Find and focus on the worst violators?
- Use enforcement tools in the appropriate circumstances?
- Create incentives for entities to stay in or move toward more compliant behaviors?

Strategic Data Analysis

Build systems that:

- Identify key data about our violators and violations causing the most harm.
- Analyze the data and look for trends.
- Pick a trend, analyze the root causes.
- Develop a customized compliance response that addresses the trend and its root cause.
- Follow up and monitor the data to see if the effort is working.

Areas of Focus

- Construction Compliance
- Employment Standards
- Electrical
- Safety and Health

Employer Premium Value Stream

- Currently focusing on the programs/staff who educate, detect, enforce and prosecute relating to employer premiums.
 - Escalation strategy
 - Strategic data analysis
- Programs involved: Employer Services, Detection, Field Audit, Firm Appeals, Collections, Field Services, Construction Compliance, Actuary.

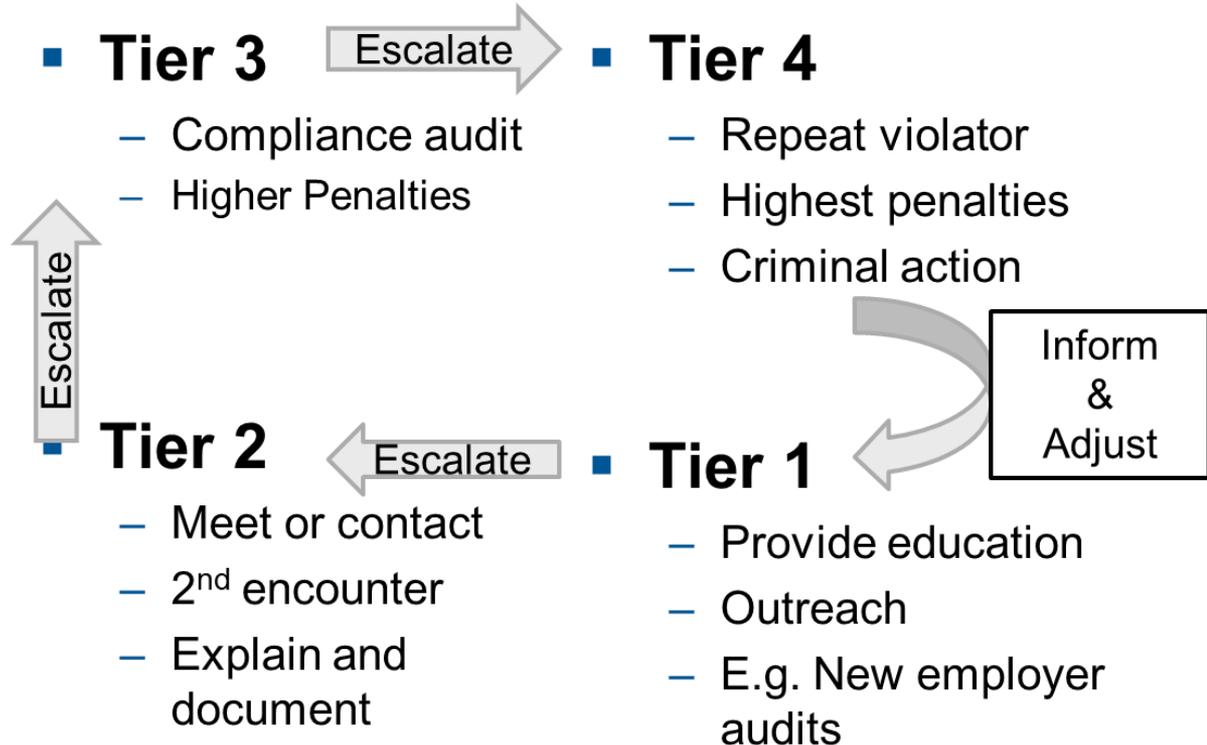
Employer Premium Escalation Strategy

Goals:

- Apply progressive and escalating enforcement steps as warranted by the entities' history and behavior.
- Focus resources and touch points where the need is greatest – on the significant violators.
- Handle low level violators in a different way.
- Build new detection techniques.
- Train and ensure consistency through the varied response levels.

Employer Premium Escalation Strategy

Draft Premium Compliance Escalation Strategy



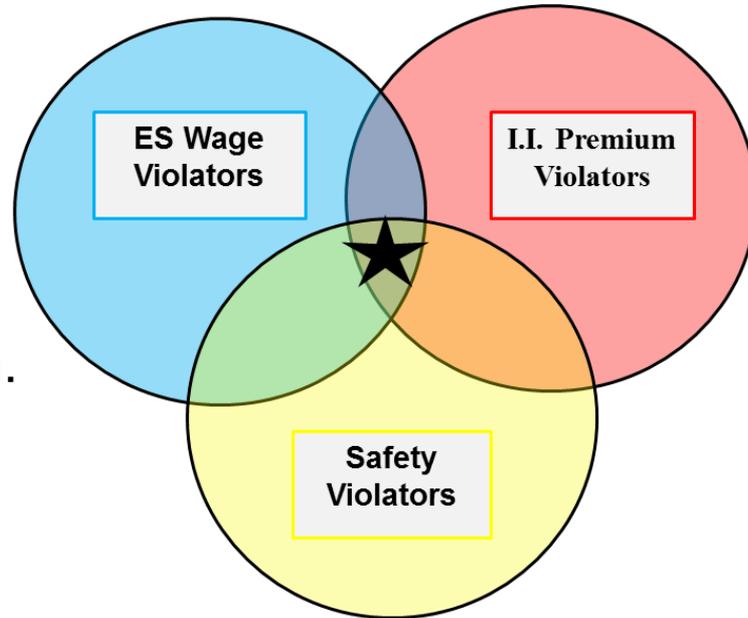
Employer Premium Escalation Strategy

Next steps

- Stakeholder with affected program areas and staff.
- Analyze what we do today; what would be required to move to this model?
- Recognize:
 - Potential pilot in one area
 - Identify and implement progressive steps
 - Rethink performance measures
 - Requires good data, tracking and documentation
 - Long term transition

Significant Violator Data Analysis

- Create list of violators.
- Focus on the intersection.
- Possible to add other intersections and other programs later.
- Analyze data and trends.
- Create a plan for ongoing data gathering and analysis.



Data Analysis – Next Steps

- Thus far we have been trying to look at the 50,000 foot level and define some general criteria about violators who cross multiple program areas within L&I.
- Next we will take a more in depth look at the firms that met the “Triple Junction” criteria and try to identify patterns, etc. at a much more detailed level.
- We will also be doing more work looking at violators who cross two program areas and trying to see if they require more detailed examination for non-compliance in additional areas as well.
- There will be a new group of subject matter experts formed to do this more detailed examination.
- Group will recommend changes or customized enforcement techniques for significant violators.

Next Steps

Complete Employer Premium escalation strategy/data analysis – pilot results.

- Launch date - Fall 2015

Prevailing Wage Value Stream

- Launch date – June 2015

Provider Fraud Value Stream

- Launch date – November 2015

Claimant Fraud Value Stream

- Launch date – March 2016

Questions?

Contact:

elizabeth.smith@Lni.wa.gov

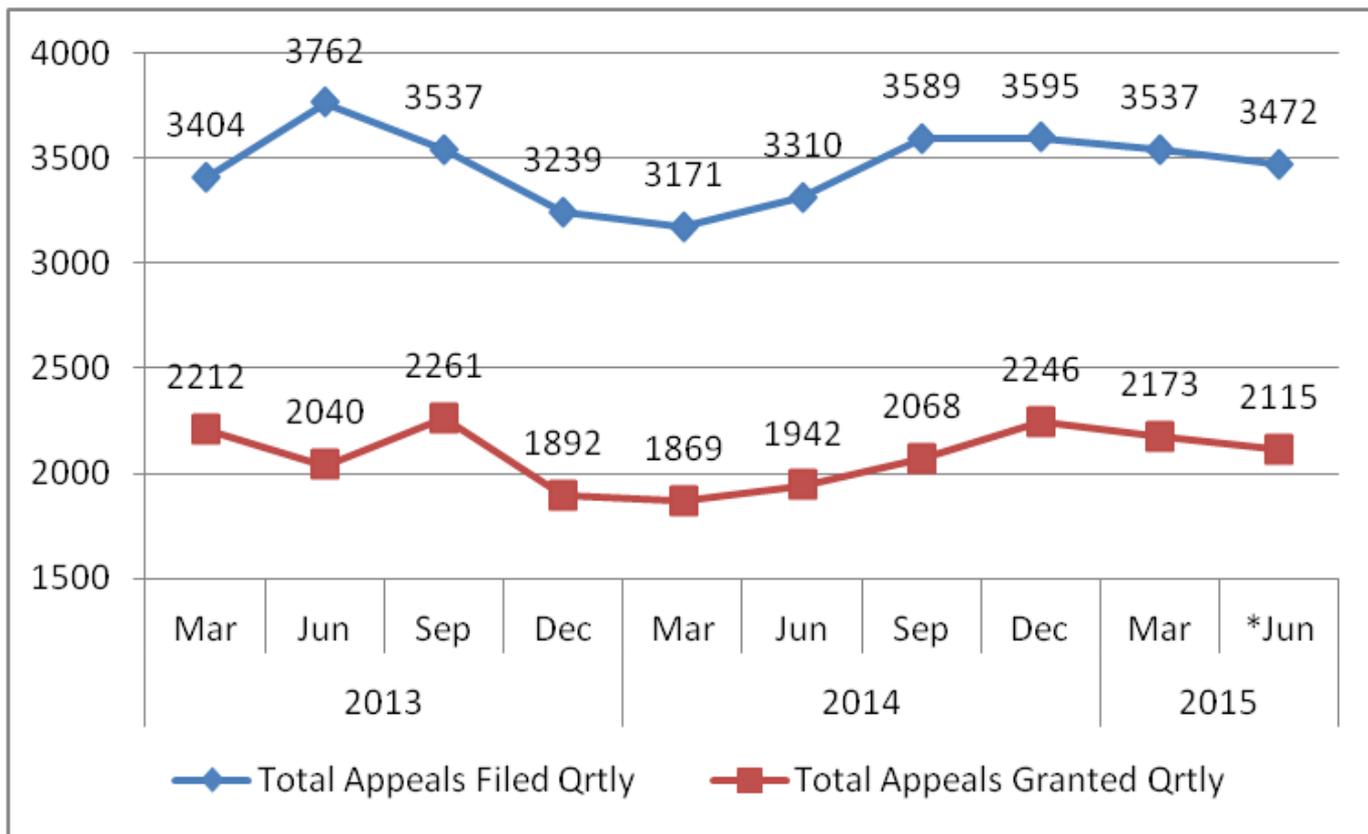
(360) 902-6320



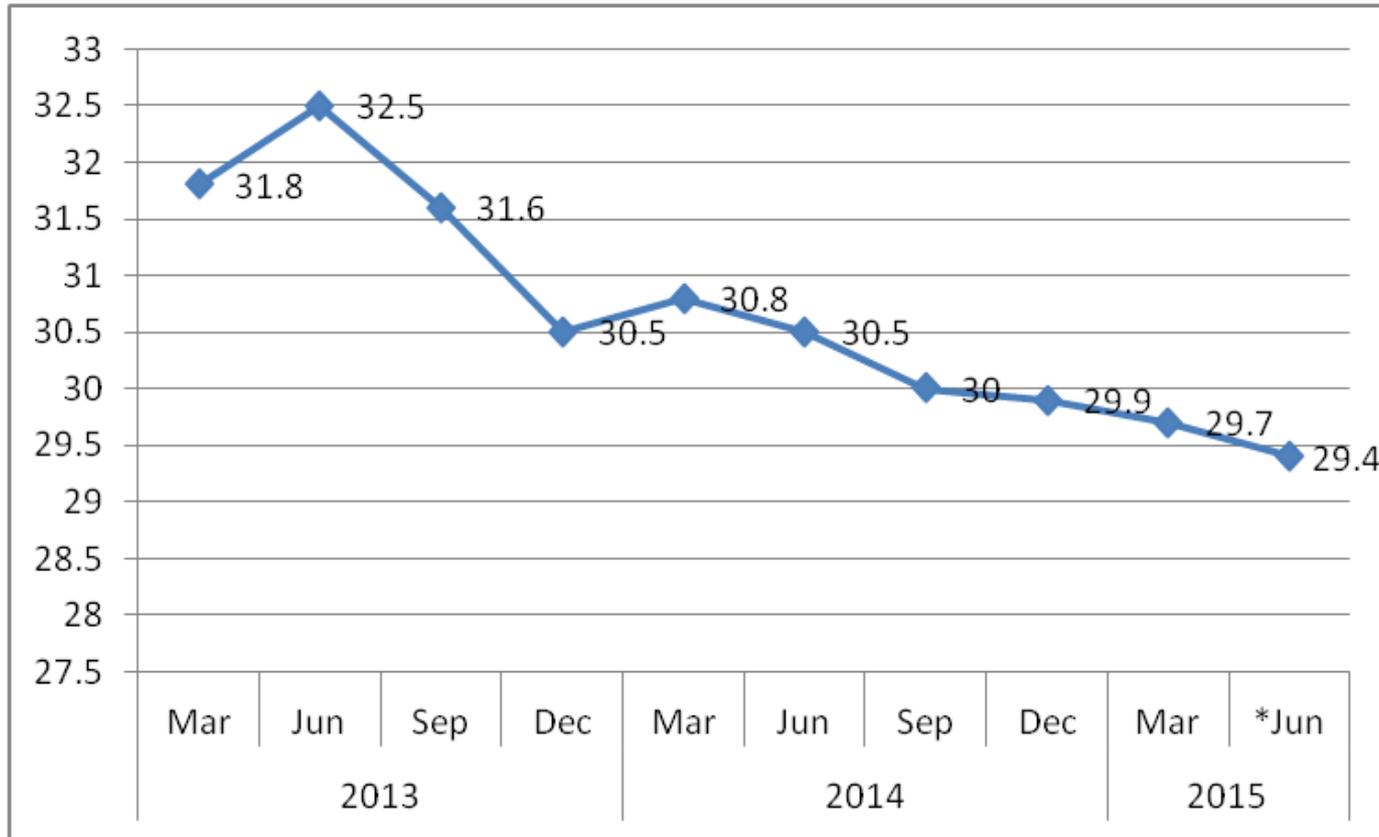
BOARD OF INDUSTRIAL INSURANCE (BIIA) UPDATE

Dave Threedy,
Chair

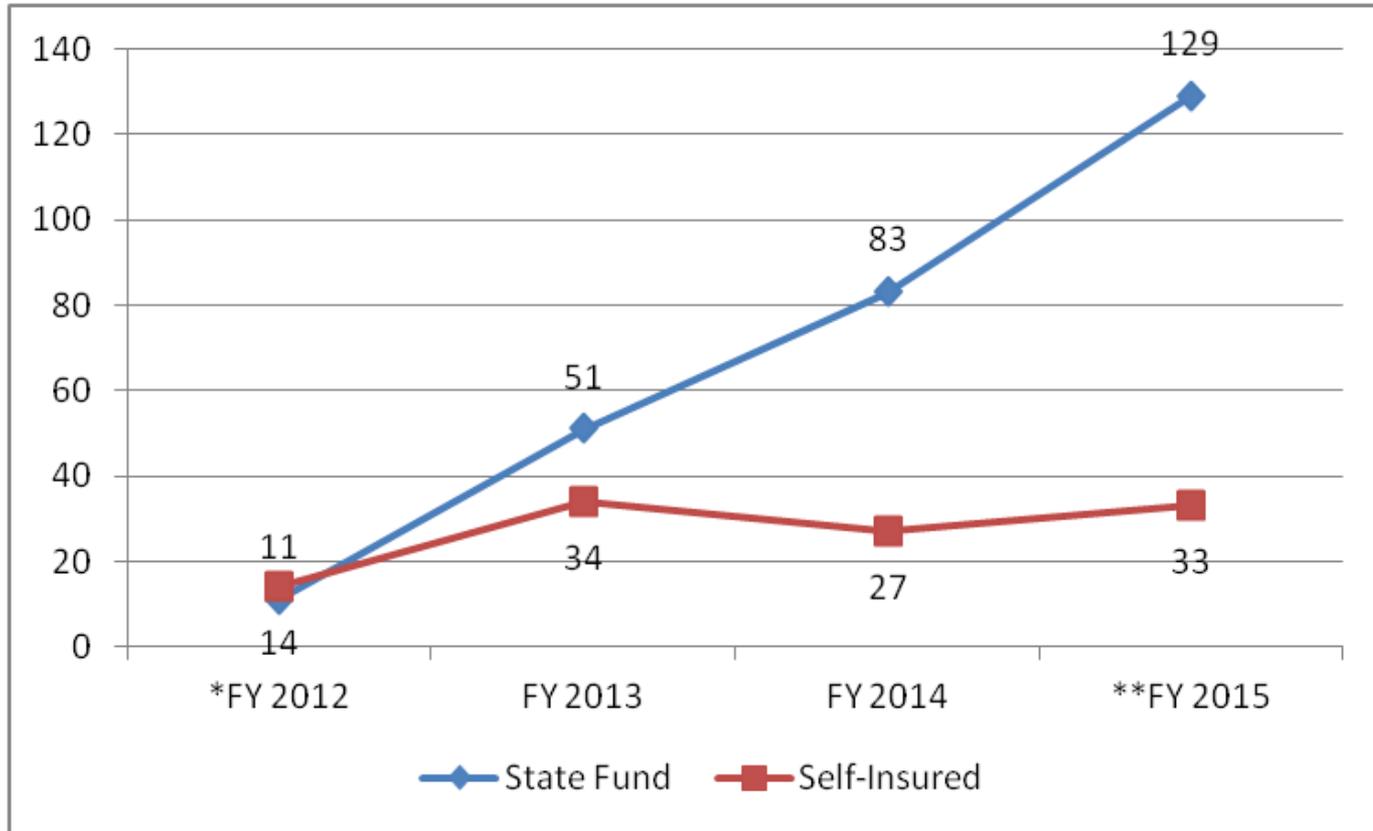
Total Appeals Filed and Granted



Quarterly Average Weeks to Completion



Structured Settlements



CLOSING COMMENTS

*Vickie Kennedy,
Assistant Director for Insurance Services*

*Joel Sacks,
Director*



ADJOURN

Next WCAC Meeting:
Tuesday, September 23, 2015
L&I Tumwater Headquarters

