

**Workers' Compensation Advisory Committee (WCAC) Meeting
Labor and Industries, Tumwater, WA
Meeting Notes
September 25, 2015**

Business Representatives:

Sheri Sundstrom, Washington Self-Insurers Associations
Mike Roozen, Washington State Farm Bureau
Bob Battles, Association of Washington Business
Nancy Dicus, Vigilant

Labor Representatives:

Joe Kendo, Washington State Labor Council
Neil Hartman, Washington State Building and Construction Trades Council
Karen Gude, United Food and Commercial Workers 1439

Labor and Industries:

Joel Sack, Director
Vickie Kennedy, Assistant Director for Insurance Services

BIIA:

Dave Thredy, Board of Industrial Insurance Appeals

Absent:

Karen Bowman, Washington State Nurses Association

Court Reporter:

Milton Vance

Recorder:

Sharon Avery
Veronica Berets

Guests and Labor and Industries Staff:

Not available due to not having the sign-in sheet

Welcome & General Updates: Joel Sacks and Vickie Kennedy

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

Ms. Kennedy made a motion to approve April 2015 and June 2015 meeting minutes. All approved.

Director Sacks went over the agenda and goals for the meeting to include a walk-through of financials and a discussion of workers' compensation funds two percent rate increase announced on September 23, 2015. Director Sacks shared that Anne Soiza with the Division of Occupational Safety and Health (DOSH) will talk about prevention strategies.

The safety message focused on the L&I's Injured Young Worker Speakers Program.

Industrial Insurance (State) Fund Financial Overview: Rob Cotton

Rob Cotton, Workers' Compensation Account Manager for Financial Services, presented the financial update for Fiscal Year 2015 – July 2014 through June 2015.

Mr. Cotton noted that 90 percent of transactions were recorded when this was prepared so there will be some changes (except for investment numbers which are final). The final statutory financial statements will be issued in late December.

Mr. Cotton provided a financial highlights overview for July 2014 through June 2015:

- The contingency reserve balance increased \$248 million, from \$950 million on July 1, 2014 to \$1,198 million on June 30, 2015 due to:
 - Premiums are greater than current accident year incurred benefits;
 - Investment income increased; and
 - Prior year's benefit liabilities are less than expected mainly due to lower projected medical costs.
- Other significant changes included:
 - During first quarter an accounting entry was recorded for the remaining portion of the 2011 reform savings;
 - During third quarter, the new mortality tables were implemented, the pension discount rate decreased from 6.5 to 6.4 percent, and costs were recognized for changes in vocational Option 2 benefits.

State Fund Results:

- Insurance operations:
 - Premiums earned (we took in): \$1,808 million
 - Total expenses incurred (we spent): \$1,880 million
- Premiums earned:
 - Net premium earned increased by \$135 million mainly due to increase in hours reported
 - Increase of 167 million hours over the prior year for a 4.9 percent increase over the last fiscal year
- Net benefits incurred:
 - Benefits incurred increased from \$251 million compared to last year.
- Investment income:
 - Total investment income was \$552 million.
- Investments grew \$580 million and ended at just over \$14 billion.
- Other revenues and expenses:
 - The net for other revenues and expenses was \$53 million.
- Results of operations:
 - We have a net of \$251 million. *Insurance operations would have been (\$67 million) and net income would have been \$538 million if the one-time adjustments to benefit liabilities had not been made this year.*
- Contingency reserve:
 - As of June 30, 2015, the contingency reserve balance was \$1,198 million.
 - The contingency reserve for the Accident and Pension Funds was \$248 million.
 - The contingency reserve for the Medical Aid Fund was \$951 million.

- Key financial ratios:
 - The operating ratio is 92.2 percent.

State of the Fund: Joel Sacks

Year-by-Year Net Change in Benefit Liabilities from June 30, 2014 through June 30, 2015

- Expected Non-operational liability changes:
 - Regular reserve discount reduction was \$479 million
 - New liabilities less benefit payments was \$125 million
 - Other changes was less \$87 million
- One-time Non-operational liability changes:
 - Discount rate reduction was \$37 million
 - Mortality table change was \$165 million
 - Adjustment to avoid double counting 2011 Reform savings was \$83 million
- Operational influence:
 - Operational effect was less \$515 million
- Total for Fiscal Year 2015 was \$287 million

Director Sacks reviewed the State of the Fund slides. Director Sacks explained that the department is now using changes in data and trends adjustments in the end. It has taken a couple of years to do so, but the financials are more straightforward now.

Director Sacks moved on to the operational efficiencies. He explained that the actuaries recalculate long-term liabilities each quarter. Over the course of the past four quarters we have reduced our projected long-term liabilities by just over half a billion dollars. This represents changes related to claims. The trend lines are showing that we will pay out less than the actuaries thought a year ago.

There are three goals to pay attention to related to our financials and the changing reserve:

The first is to gradually reduce our pension discount rate.

Second, we want to show the results of our operational efficiencies. We are increasing the contingency reserve through things we're doing operationally.

Lastly, we want to show you the results. The contingency reserve is increasing.

Preliminary contingency reserve on June 30th was 8.9 percent of liabilities or just under \$1.2 billion. The percentage as of September 18th was closer to 8 percent. This number will always flex depending on the stock market.

2016 Workers' Compensation Premium Rates: Joel Sacks

Director Sacks discussed the 2016 rates. We are proposing a 2.6 percent rate increase in the Accident Fund. No change in the Medical Aid Fund. A 6.25 percent increase in the Supplemental Pension Fund and a 25 percent decrease in Stay at Work account. When you aggregate these together, it comes to an overall increase of 2 percent.

As a reminder, in Washington State we charge premiums by the hour worked. Every time an employer gives their employee a raise, the Department doesn't receive additional money. But when a worker gets hurt, their time-loss rate is higher due to increased wages.

Insurance Services Performance Metrics Dashboard: Vickie Kennedy

Ms. Kennedy briefly reviewed the quarterly Insurance Services performance metrics dashboard for the overall indicator and focus areas. Ms. Kennedy noted she has committed to Director Sacks that we will look for ways to improve our efficiencies, some of which is through efforts that started in 2011, along with newer approaches very focused on injured worker outcomes, particularly return to work.

Our claim managers, along with vocational specialists on staff, nurse consultants, folks that work in our Medical Provider Network, our external vocational rehabilitation partners are focusing on delivering the right services at the right time.

Our overall indicator look at the rate at which injured workers are long-term disabled by measuring the number of workers on time-loss 12 months post-injury.

One of the department's efforts to create a culture of return to work is having claims identified by a "return-to-work score". These claims meet certain criteria that indicate the worker may be at high risk for long-term disability. A recent initiative focuses resources on these high risk claims when the worker is on time-loss at the 40th day. This will likely trigger a referral to our field early return-to-work staff to work with the employer and injured worker. We are measuring the number of those claims still on time-loss six to twelve months from the claim receipt.

Ms. Kennedy went on to say that we are also looking at the percentage of claims initiated with COHE providers. The Department is very close to statewide access to COHE for workers at this point and we expect the numbers to continue to grow. Our goal is to have at least 50 percent of claims initiated by a COHE provider because they take steps that are return-to-work focused and help coordinate care for workers.

Goal 1: Make Workplaces Safer: Anne Soiza

Director Sacks welcomed Ms. Soiza for this presentation. He mentioned that the committee's interest to hear not just about workers' compensation, but how are we doing on our other agency goals. The Department of Labor and Industries has 5 goals.

L&I's 5 Goals:

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

Most of Insurance Services work is focused on Goal 2. But the best way to help workers and employers is to ensure they never come into the system to begin with. Ms. Soiza not only leads DOSH, but also leads our agency-wide efforts about prevention.

Ms. Soiza began by explaining that, here at Labor and Industries, we have the unique position of having the premier research occupational health program in the same agency as the workers' compensation system and the state's occupational safety and health administration.

We are focusing our efforts to prevent fatalities and hospitalizations. Over the last several years Washington State has been rated in the best ten states for frequency of fatalities. In 2013 we were rated the second lowest state in the nation. We should have 2014's data sometime in May, and it is likely that our fatality numbers will be slightly higher.

It was asked what sort of injury would fall into the "other" 19 percent category (see slide 64). These would include injuries such as chemicals, burns, etc.

Ms. Soiza went on to say that we provide coverage for 300,000 workplaces. The department has 120 inspectors and 60 consultants. With this small amount of staff, they are focusing on where they can have the most impact.

Legislative Implementation and JLARC Audit Update: Vickie Kennedy

Ms. Kennedy mentioned there were two primary bills for workers' compensation that passed in 2015: Substitute House Bill 1496 being the first. SHB 1496 was the bill we worked closely with the business-labor-vocational work group to develop and it includes two major components. One is to make permanent the changes we started in a pilot in January 2008 to improve vocational outcomes and options for injured workers. The primary elements of that pilot were made permanent along with expanding the vocational Option 2 benefits and the time frame for workers to select it. The workgroup is made permanent, as is our partnership with WorkSource.

There is a public hearing on October 27th, here, at 1:00 pm to address the proposed rules for expanded vocational Option 2 benefits.

We plan on more rule changes related to this bill. For Example, private vocational rehabilitation counselor's (VRC) could provide assistance to an injured worker who chooses Option 2. We need to define what kind of activities this can include along with ensuring the workers know about that benefit.

We are now beginning to draft rules around the new preferred worker benefits which will be available January 1, 2016.

Senate Bill 5468 allows the department access to funds that have traditionally been appropriated through the legislative budget cycle. Now where either the self-insured community has asked for a one-time project or adjustment in our administrative support for them, or where there is a need for an agreement with stakeholders for Stay-at-Work program support, we're able to use funds without waiting for the traditional process.

We will set up a stakeholder group once we begin to see demand that warrants access to the Stay-at-Work Fund. Currently, we are focused on self-insurance because we've been working with them for some time on improving the audit program.

Ms. Kennedy explained that as part of the 2011 reform package, Joint Legislative Audit & Review Committee (JLARC) was asked to look at the Department's claim management practices, for State Fund, both Retro and non-Retro, and for self-insured claims. JLARC has a report available on the JLARC website from the external consultants hired to do this work. From that report there is a smaller report from JLARC that highlights certain areas and three recommendations. Two of those recommendations are to Labor and Industries and one to the Legislature.

JLARC Audit Recommendations:

- L&I should institute standards for early phone contact, claim management planning and clear documentation in claims management.
- L&I should expand its pilot programs and enhance its claim management support systems (training, performance measures, and technology) with a focus on return to work.
- The legislature should allow self-insured employers to issue formal orders when accepting claims, and L&I should incorporate a review of those orders in its audits of self-insured employers.

The department has concurred with the two recommendations and we are working now to develop an implementation plan to present to them in February 2016 and will report thereafter every year until the work is completed.

Board of Industrial Insurance Appeals (BIIA): Dave Threedy

Mr. Threedy started out by discussing the PD&O Time-Lag by Quarter for Hearing Judges. The Board is meeting its goal of no more than 30 days to get decisions out from the judges.

The D&O Time-Lag by Quarter was met.

It was asked if we are looking at over 60 days to get a D&O.

Mr. Threedy confirmed that is true. He went on to discuss the Caseload at End of Quarter slide. Keeping track of the appeals within the agency, there is variability, but usually between 5,100 and 5,500 over the last few years.

Closing Comments & Adjourn:

Director Sacks stated that we continue to look for agenda items from the committee, for example things that were not covered today in enough detail, or topics we haven't been covering. Please reach out to us about issues that are of most interest and importance to the committee members.

Meeting Adjourned.