

Insurance for Workers and Employers

Your Guarantee

Washington State established its workers' compensation program in 1911, the result of a historic compromise that provided mutual protection for workers and employers. Workers gave up their right to sue their employer for a work-related injury or illness. In exchange, employers were protected from the cost of extended claims and tort liability that would result from workplace injuries. Changes through the years involved negotiations with employers and workers.

Our Commitment

The Department of Labor and Industries (L&I) administers the workers' compensation program to serve the interests of injured workers and their employers. Our commitment:

- ▣ Work with employers and workers to prevent workplace injuries and illnesses.
- ▣ Provide prompt and certain relief to workers who suffer work-related injury or illness.
- ▣ Administer the program and its finances in a way that maximizes benefits and minimizes costs.
- ▣ Maintain program integrity by eliminating fraud and abuse, and by making sure injured workers return to work as soon as medically possible.
- ▣ Listen to and respond to the needs of our customers.

Responsive Change

To fulfill this commitment, L&I must identify problems, aggressively find remedies, and be open to new ideas and change. Our administration of workers' comp must evolve as new proven technologies become available. For example, we must closely monitor medical advancements, authorizing those that improve an injured worker's condition and resisting those that provide little or no relief. We must manage claims effectively, encourage return-to-work options and minimize the financial impact of a claim. No one benefits when a claim lasts longer than it should.

Finally, we must continue to partner with employers and workers to improve a vital and vigorous workers' compensation program.

2004

Year in Review

Washington's Workers' Compensation Program

- ▣ Insurance for Workers and Employers
- ▣ A Year of Change in Workers Comp
- ▣ Benefits/Administrative Costs
- ▣ Premiums Compared to Inflation
- ▣ Statistics at a Glance
- ▣ Financial Summary

2004 Year in Review

For additional copies of the 2004 Year in Review, contact the Labor and Industries office nearest you.

This publication is also available online at www.LNI.wa.gov/IPUB/200-005-000.pdf.



A Year of Change in Workers' Comp

This has been a pivotal year for the workers' compensation insurance program administered by the Department of Labor and Industries. Efficiencies in our operations, such as our ability to control medical costs, and improvements in the economy limited the 2005 rate increase to 3.7 percent. We believe that amount will cover medical inflation and a cost-of-living increase in workers' comp benefits, which state law mandates.

In addition, a steady, decade-long increase in time-loss duration is beginning to flatten out. If the trend holds steady, and the financial markets remain healthy, we will go into 2005 with a contingency reserve of \$800 million.

Claim Management

While we cannot take credit for improvements in the economy, we do believe we have made major strides in the way we manage claims. Some improvements are as simple as doing a better job of answering the phones. Our phone system still needs some work, but it is getting better. Other changes were more complex. For example, the L&I Claim and Account Center will soon give workers, employers and health-care providers online access to this information 24/7.

New Tools to Combat Fraud and Abuse

With support from business, organized labor and the Governor, the Legislature in 2004 passed HB 3188. The law provided additional resources and gave L&I some powerful new tools to detect, prosecute and, ultimately, prevent fraud.

We will report quarterly to the Legislature on our progress.

Best Practices in Treating Injured Workers

Making sure workers have access to health-care providers who know how to treat occupational injuries and illnesses is a key ingredient in providing timely and appropriate benefits. Unfortunately, there are vast areas of the state where 50 or 100 miles separate an injured worker from the nearest provider with expertise in occupational medicine. To make that care more available and effective, L&I has partnered with medical facilities in Renton and Spokane to establish Centers for Occupational Health and Education (COHE) to share best practices in treating injured workers.

Prevention Still Top Goal

As an agency, our primary goal is to make workplaces safer and prevent injuries and occupational disease. We offer a variety of services — safety consultations, workshops and educational materials — and enforce workplace safety rules.

When a workplace injury or illness does occur, our focus shifts to minimizing the financial impact — on the worker, and on his or her employer. That means first ensuring that the claim is legitimate, and then making sure we provide proper and timely decisions that give the worker the best chance for recovery and an early return to work.

Looking Ahead

This year began with questions about the way L&I determines the amount of money needed to cover claims. In response, we met with the Workers' Compensation Advisory Committee (WCAC) and other interested parties to explain the process we use to estimate expenses and income. In the coming year, we will provide the WCAC with funds to hire an outside, independent actuary to evaluate our rate-setting and reserving policies.

In addition, we remain committed to managing claims more effectively, combating fraud and encouraging return-to-work options for injured workers. The changes made this past year are just the beginning. In the year ahead, we look forward to working with the new administration and Legislature to make the workers' compensation system even more efficient and to better serve our customers.

Sincerely,



Robert Malooly,
Assistant Director, Insurance Services



Washington State Workers' Compensation State Fund

The "State Fund" provides workers' compensation insurance for almost 1.9 million workers. Premiums paid by employers and workers, and investment earnings, finance the program.

The Department of Labor and Industries administers the State Fund. In addition, companies that self-insure their workers' compensation cover another 799,000 workers.

Statistics at a Glance

Operating Environment	2003	2004
Employers Insured	156,000	158,000
Workers Covered	1,820,000	1,850,000
Hours Reported	2,870,637,000	2,909,795,000
Premiums Assessed (employers' portion)	\$797,597,000	\$974,161,000
Premiums Assessed (workers' portion)	\$193,533,000	\$265,504,000
Investment Income	\$493,875,000	\$868,041,000
Claim Costs Incurred	\$1,438,309,000	\$1,584,660,000

Claim Statistics	2003	2004
Number of Claims Filed	140,709	137,834
Number of Claims Accepted	125,162	121,088
Number of Claims Denied	17,373	16,304
Fatal Pensions Awarded	55	70
Total Permanent Disability Pensions Granted	1,588	957
Permanent Partial Disability Awards Granted	14,826	14,612
New Time-loss (Wage Replacement) Claims	28,296	29,501
Medical-only Claims Accepted	98,586	93,685
Retraining Plans Completed	772	1,042
Total Days Lost from Work	7,290,000	7,190,000

Demographics of Accepted Claims	2003	2004
Male Injured Workers	70%	70%
Female Injured Workers	30%	30%
Average Age of Injured Worker	37	37
Workers Younger than 30	33%	33%
Workers 30 to 50	52%	52%
Workers Older than 50	15%	15%

Most Frequent Injuries	2003	2004
Cut/Abrasion on the Hand/Finger	18,367	17,632
Sprain/Strain Back	17,586	16,192
Sprain/Strain Lower Back Extremities	7,307	6,951
Eye Injuries	6,604	6,060
Sprain/Strain Trunk	5,438	5,530

Note: The fiscal year is July 1 through June 30. FY 2004 statistics are not final.



Benefits/Administrative Costs

86 percent of revenues goes to pay benefits

These benefits include medical treatment (34%), wage replacement and disability payments (36%) and pensions (16%).

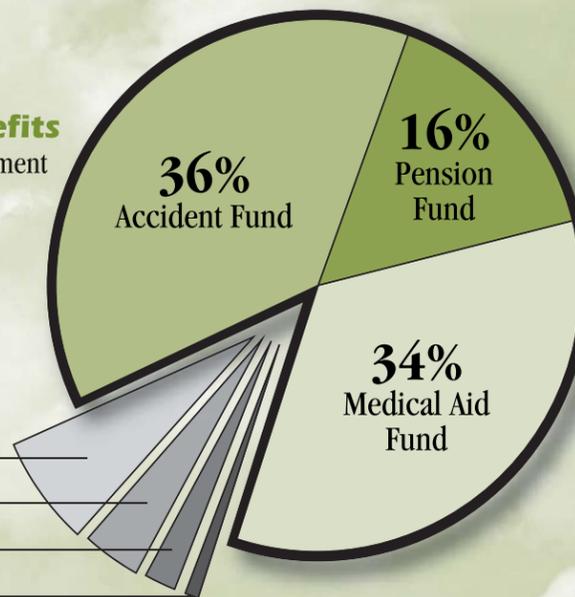
14 percent goes for administrative costs

These costs are half the national average for workers' comp insurers. Costs are low because L&I does not pay taxes or brokers, advertise or produce a profit for investors.

Claims Administration	7%
Other Expenses*	4%
Premium-related Expenses	2%
General Insurance Expense	1%

*Includes WISHA, Board of Industrial Insurance Appeals and University of Washington research.

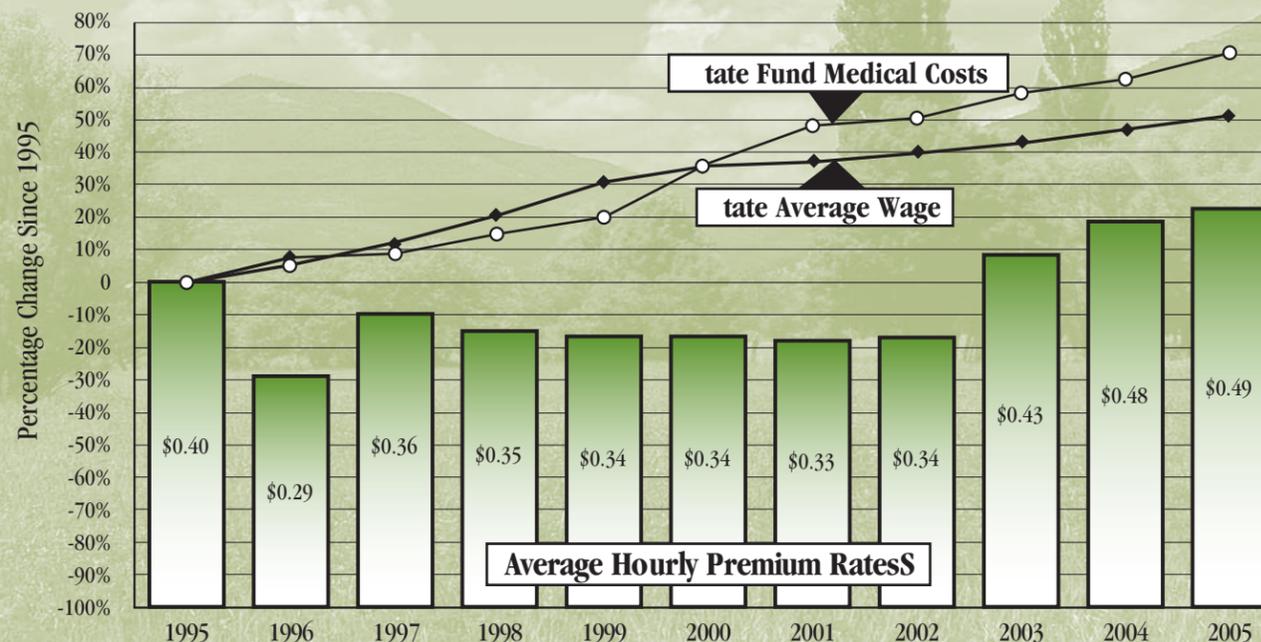
Notes: The Pension Fund includes pension payments made by self-insured companies. Figures based on expenses paid during FY 2004.



Premiums Compared to Inflation

Medical treatment and time-loss (wage replacement) payments are the two primary benefits injured workers receive through the State Fund. Inflation affects the cost of these benefits.

As this bar graph shows, State Fund premiums have consistently remained below the rate of inflation for medical costs and wages.



* Rates are after Retro refund.

Financial Summary

Summary of Financial Condition		
Year	Ending: 6/30/03	Ending: 6/30/04
Assets		
Cash and Investments	\$8,257,270,000	\$8,916,310,000
Premiums Receivable, Net	\$305,803,000	\$344,205,000
Land, Buildings and Equipment, Net	\$57,751,000	\$54,293,000
Other Assets	\$20,882,000	\$19,775,000
Total Assets	\$8,641,706,000	\$9,334,583,000
Liabilities and Contingency Reserve		
Benefits	\$7,549,679,000	\$7,968,235,000
Claims Administration	\$435,363,000	\$377,903,000
Retrospective Rating Adjustments	\$110,223,000	\$111,037,000
Other Liabilities	\$89,843,000	\$89,219,000
Total Liabilities	\$8,185,108,000	\$8,546,394,000
Contingency Reserve	\$456,598,000	\$788,189,000
Total Liabilities and Contingency Reserve	\$8,641,706,000	\$9,334,583,000
Summary of Operations and Contingency Reserve		
Revenues		
Net Premiums Earned	\$885,326,000	\$1,126,673,000
Net Investment Income	\$452,552,000	\$432,389,000
Investment Gains	\$41,323,000	\$435,652,000
Self-Insured Pension Contributions	\$55,084,000	\$67,647,000
Other Income	\$18,018,000	\$17,650,000
Total Revenues Earned	\$1,452,303,000	\$2,080,011,000
Expenses		
Benefits Incurred	\$1,438,309,000	\$1,584,660,000
Claims Administration Expenses Incurred	\$62,417,000	\$31,697,000
Other Administrative Expenses Incurred	\$82,119,000	\$90,873,000
Total Expenses Incurred	\$1,582,845,000	\$1,707,230,000
Change in Non-Admitted Assets	\$5,356,000	(\$41,190,000)
Change in Contingency Reserve	(\$125,186,000)	\$331,591,000
Cash Flow Summary		
Operational Revenues Collected	\$883,577,000	\$1,157,112,000
Benefits Paid	\$1,106,119,000	\$1,166,104,000
Administrative Expenses Paid	\$187,194,000	\$175,110,000
Net Operating Cash Flow	(\$409,736,000)	(\$184,102,000)
Net Investment Income Collected	\$493,683,000	\$471,684,000
Other Cash, Net	(\$94,668,000)	(\$257,100,000)
Net Investment and Other Cash Flow	\$399,015,000	\$214,584,000
Net Cash Flow	(\$10,721,000)	\$30,482,000
Beginning Cash	(\$15,650,000)	(\$26,371,000)
Ending Cash	(\$26,371,000)	\$4,111,000

Note: Figures rounded to nearest \$1,000

Source: Washington State's Accounting and Financial Report System

An Invitation to Learn More

This 2004 Year in Review is part of our effort to help L&I customers, the Legislature and the public learn more about Washington State's workers' compensation program. Detailed financial reports are available online at www.StateFundFinancial.LNI.wa.gov.

Visit the Department of Labor and Industries web site:
www.LNI.wa.gov.