

## **Workers' Compensation Advisory Committee (WCAC) Meeting**

Labor and Industries, Tukwila, WA

Meeting Notes

June 19, 2018

### **Business Representatives:**

Mike Roozen, Washington State Farm Bureau

Kris Tefft, Washington Self-Insurers Associations (*for Sheri Sundstrom*)

Bob Battles, Association of Washington Business (*via phone bridge*)

Tammie Hetrick, Washington Retail Association (*via phone bridge*)

### **Labor Representatives:**

Karen Gude, United Food and Commercial Workers 1439

Joe Kendo, Washington State Labor Council

Brenda Wiest, Teamsters Local 117

Neil Hartman, Washington State Building and Construction Trades Council (*for Mark Riker*)

### **Labor and Industries:**

Joel Sacks, Director

Vickie Kennedy, Assistant Director for Insurance Services

### **Board of Industrial Insurance Appeals (BIIA):**

Linda Williams, Chair

### **Court Reporter:**

Milton Vance, Excel Court Reporting

### **Recorder:**

Sarah Battin (*present*), Veronica Berets (*minutes*)

**Guests:** Jeff Day, Coreen Urrutis, P. Koenig, Richard Coine, Cathy Cottingham, Cheri Ward, Lloyd Brooks, Marie Fiore

### **Welcome & General Updates: Joel Sacks, Vickie Kennedy, and Mike Ratko**

Meeting started with introductions of the committee members and the audience. Following introductions, Jenifer Jellison with the Division of Occupational Safety and Health (DOSH), presented the safety message on the Safety and Health Investment Projects (SHIP) Grant Program.

Ms. Kennedy continued on with updates. She reminded the members that the 2011 Legislature passed several workers' compensation reforms including structured settlements which required three reports. The first report in 2015 was completed by the Upjohn Institute. Another report is

due in 2019 and the final in 2023. The areas of focus include evaluation of the quality and effectiveness of the settlements, the overall impact to the system and to employers, and the outcomes for workers.

The report in 2019 will discuss similar items and Upjohn will perform the study, expanding their 2015 report. We anticipate focus groups of injured workers who participated in settlements along with interviews of employers and attorneys who were involved.

Upjohn hopes to engage more self-insured employers, workers and third party administrators (TPAs) for the 2019 report. Over the last year or so, their participation in structured settlements has increased, so we expect that to be an important part of the report.

The draft report is due to the department in May 2019. We will have the opportunity to review, and submit to the Legislature and any interested stakeholders.

Ms. Kennedy continued to say that Mike Ratko is currently putting together a workgroup to discuss hearing aid replacement versus repair as one of the issues the department agreed to review in response to concerns during the last legislative session.

Ms. Kennedy is also leading a group to consider how to incorporate Masters' level mental health counselors to assist injured workers in our system. The first meeting was in early June and the group plans to meet on a monthly basis through 2019. We will look at what other jurisdictions do, fee schedules, what might be the requirements for those who are providing these services to injured workers, etc. We will continue to keep you updated on this topic in future meetings.

Ms. Kennedy stated that there has been a change in leadership in the department. Leah Hole-Marshall has accepted a position with another agency. Since this position is involved in many of our initiatives in support of the Office of the Medical Director, we have appointed John Boze as acting medical administrator. Mr. Boze currently works in the Health Services Analysis program and has an extensive background in medical administration.

Ms. Kennedy introduced Mike Ratko to present on the WCAC finance committee's work on reinsurance.

Mr. Ratko started by informing the audience that the last finance committee meeting was held on May 22. A decision was made to next tackle the topic of the level of our contingency reserve. The department plans to continue working with Conning and Associates, a vendor/consultant with the State Investment Board (SIB). SIB will be able to provide the department with a comparison of our reserves to other jurisdictions across the country and in Canada. From there, the department will evaluate the impact of our level of reserves on rates and stability of rates.

Mr. Ratko moved on to the reinsurance update. The department has continued further discuss with the finance committee about reinsurance. Guy Carpenter, the consultant we've contracted

to help with reinsurance, continues to wait for our final decision before they take us to market to get pricing. We will continue to brief you going forward.

### **Board of Industrial Insurance (BIIA): Linda Williams**

Ms. Williams stated that the latest data is roughly the same as it has been in past reports. She stated that they are continuing to see more and more cases. Appeals have slowly increased, but they are working to get them completed in a reasonable amount of time.

Structured settlements have also been increasing. The Board is working on ways to get those through timely but without compromising the statutory requirements.

The Board is completing cases overall in a timely manner. This means our customers are getting their resolutions quickly even though there has been an increase in appeals.

It was asked how the Board absorbs an 800 case increase between March of last year, and March of the current year.

Ms. Williams stated that they have added an additional review position. But, to date, they have been able to absorb the additional cases by monitoring how long judges are taking to review and complete tasks.

### **Business Transformation Requirements Update: Brian Colker (Linea Solutions)**

Ms. Kennedy introduced Brian Colker with Linea Solutions.

Mr. Colker started by reviewing the current progress on the workers' compensation replacement business case.

- **Business Transformation projects**
  - The agency has been doing considerable work to prepare for the replacement, including workers' compensation requirements, enterprise data strategy, and technology assessment and readiness.
- **Investigation of comparable projects**
  - The agency continues to speak to and visit other organizations about their experiences and lessons learned to gain additional knowledge both in and out of Washington State.
- **Drafted an end-to-end timeline for the effort**
  - The work has been outlined that will be necessary from beginning to end, including considerations for different scenarios of scope, sequencing, phasing, etc.
- **Building bottom-up cost and staffing estimates for the effort**

- The working estimates have been catalogued for all of the costs (L&I FTEs, external consulting support, hardware, software, etc.), leveraging information from comparables as reference points.
- **Focusing on identifying risks**
  - The agency continues to consider and document risks and the mitigation strategies to ensure success.

Linea Solutions specializes in consulting for public insurance and benefit organizations like L&I. Linea has helped similar projects at about 40 organizations across the US and Canada. Linea is an independent consultant and has no relationships with software providers, so there is no vested interest in the solution L&I chooses. Linea has planned for a seven year timeline to implement new technology for L&I.

Timeline Highlights:

- The first 12 months are focused on software selection, implementation preparedness, and establishing base infrastructure
- The remaining six years include the core COTS software implementation, configuration, and roll-out
- **Phased Approach**
  - Employer Accounts to be followed by Claims
  - Phased design, configuration, testing, and deployment along the way; not a “Big Bang” approach
- **Addressing risks that are common for projects this size**
  - Emphasis on change management
  - Structured approach to project governance and project management
  - Proactively hiring for key business and technology positions to free-up subject matter experts to work on the project

Based on analysis of two major comparables, which were discussed at the last WCAC meeting in April (Ohio and Toronto) and based on Linea’s experience with similar public sector transformation projects, we estimate seven years. Ohio and Ontario, the two major comparables, took four-five years; however, L&I’s organization is larger and more complex than Ohio and Ontario, and L&I is replacing a 40-year-old system. Ohio and Ontario were replacing much more modern applications. Also, in working with L&I, Linea has determined that a phased implementation approach best suits the agency’s needs, follows industry best practices, and provides the greatest possibility for success. This means that L&I will be going live in increments along this seven-year period.

Based on the comparable projects and lessons learned, we are specifically addressing common project risks:

- L&I staff’s jobs will change a lot and therefore L&I needs to emphasize change management, which focuses on the people side of large business transformation projects like this. We know that staff will be heavily impacted by this project, that the project itself will be disruptive, and will require large numbers of staff. Manual processes that staff

perform today could be automated in the future through workflow, customer web portals, and integrated imaging.

- Governance – L&I must establish a solid foundation and partnership between business and IT with clearly defined roles and responsibilities.
- Backfill key resources – L&I must have a well thought out hiring and resourcing plan to bring in temporary staff to make sure the organization can maintain high levels of customer service while the project is ongoing.

We're still working through the estimates on resources, phasing and costs. In order to build the cost estimates, we looked at the comparable projects which, in the end, were behind schedule and over budget. We will start with what's known as a bottom-up estimate. This means defining the resource requirements for every phase of the project and making assumptions about who is going to do the work – FTE, contractor, or consultant, and adding up the numbers. Currently we're in the \$300-400 million range over the course of the seven years. We are continuing to refine this number over the next several weeks. L&I's systems are older, more complex, and support more lines of business than the comparisons simply do not have. L&I covers a lot more than just workers' compensation.

Next Steps:

- The business case is coming together as planned and expected
- Continued research, investigation, and planning further affirms the approach to this project
- The agency is doing its homework so that they can focus on delivering this important project AND ensure minimal disruption to the day-to-day work with employers and injured workers
- Report out to the WCAC the results of this ongoing work at future meetings
  - Refined cost and resources needed
  - Timeline

*--15 minute break--*

### **Business Transformation: Employer Accounts: Chris Bowe**

Ms. Kennedy stated that the work with Linea outlines our existing business processes at a high level. Linea finished with Employer Services first, which gave us the chance to hear from them about opportunities for improvement in efficiencies, from how we currently conduct business. Much of the improvements require technology support, but some changes can be made now in preparation.

Ms. Kennedy introduced Chris Bowe, Employer Services Program Manager, to provide an update on what we are working on now even though a new system is still two to three years out.

Mr. Bowe started by talking about how to prepare staff for the future changes.

- Breaking away from traditional model
- Focus on customer outcome
- Testing ideas to provide timelier services
- Testing ideas to provide greater convenience

Over the last couple of years, we have been exploring a different concept for the way 189,000+ employer accounts are managed. We have seen a model in other jurisdictions where a portion of the accounts are managed in a group environment. At L&I currently each account is assigned a specific Account Manager which means each account manager has approximately 4500 accounts.

Some ideas of changing our business model include:

- Introducing the service center approach which would allow some marginal improvements that will later be sustained through new technology. We will take a look at our “low touch” customers, moving these accounts to a service center where the account is not assigned to an individual but to a group or staff. This is similar to the concepts behind auto adjudication of claims where human interaction isn’t always needed. However, any customer who needs to connect with an Account Manager can be supported by any person on the team.
- We can start to experiment with expanded business hours.
- We can begin to build the skills and abilities of our most senior underwriters so they can provide greater value and education to our most at-risk employers.
- We can improve processes for referrals to program areas within the department to ensure employers receive the services they want and need.

Mr. Bowe continued by talking about some of the upgrades a newer system could bring:

- Enhanced web portals
  - Ability for employers to enter updates in a straight through process like changing phone numbers and addresses.
  - Adapt certain business actions for straight through processing: for example, a logging company adding the log hauling risk class.
- Enhanced data management
  - Data available to employer specific to their account.
  - Ability to better estimate future costs and/or future savings.
  - Reduces delays in service.
- Worker safety
  - Quicker processing allows for L&I to help prevent further harm.

## Industrial Insurance (State) Fund Financial Overview: Rob Cotton

Rob Cotton, Workers' Compensation Account Manager for Financial Services, presented a financial update for fiscal year 2018 through third quarter – July 1, 2017 through March 31, 2018.

The contingency reserve balance increased \$1,059 million, from \$2,972 million on July 1, 2017 to \$4,031 million on March 31, 2018 due to:

- Favorable development on prior year liabilities
  - Medical Aid: lower than expected claim counts, lower than anticipated medical payments
  - Accident: reduction in the number of anticipated active time-loss claims
  - Total Permanent Disability: fewer active older time-loss claims
  - Partial Permanent Disability: fewer awards
- Gains on investments
- Premiums and investment income are adequate to pay for expected costs

### State Fund Results:

- Net income of \$226 million

### Insurance Operations:

- Premiums earned (we took in): \$1,561 million

### Premiums earned:

- Net premium earned increased by \$45 million more than the prior year

### Net benefits incurred:

- Benefits incurred decreased by \$463 million compared to last year

### Results of operations:

- We have a net gain income of \$226 million

### Contingency reserve:

- \$2,972 million at the start of the fiscal year
  - \$226 million from our net income
  - \$112 million from unrealized capital gain (loss)
  - (\$20) from non-admitted assets
- New contingency reserve as of March 31, 2018 is \$3,290 million

### Key financial ratios:

- The operating ratio is 48.8%

Insurance Services Dashboard – Help Injured Workers Heal and Return to Work: Vickie Kennedy

Ms. Kennedy stated that the department is continuing to achieve new benchmarks. Ms. Kennedy walked through the dashboard.

DASHBOARD SUMMARY		
Measure	Change from 2012 (unless otherwise noted)	Highlights
<b>Long Term Disability</b> – share that received a TL payment in the 12 month post injury	Down 20.2 % ↓	Lowest since 2002
<b>Persistency</b> – Ratio: claims with a TL payment in the 6 <sup>th</sup> month to those with payment in the 3 <sup>rd</sup> month	Down 6.2 % ↓	
<b>Resolution rate</b> - time-loss claims at 6 months	Up 5.9% ↑	
<b>Auto adjudication of claims</b>	Up 73% from 2014 ↑	Highest since 2002*
<b>High risk claims</b> – share return to work at 12 months	Up 8.2% ↑	
<b>Median time-loss days paid at 1<sup>st</sup> AWA referral</b>	Down 70.2% ↓	Lowest since 2002*
<b>% RTW outcomes</b> when 1 <sup>st</sup> AWA referral made by 90th day of TL	Up 52.8% since 2014 ↑	
<b>% RTW outcomes</b> - all first AWAs	Up 124% since 2014 ↑	
<b>WSAW participation</b>	Steady utilization ↔	
<b>COHE utilization</b>	Up 84% ↑	Highest since 2002

Mr. Sacks mentioned that we are seeing data that shows our claims are closing and the employment rate of the injured workers is rising; that injured workers are healing and returning to work.

Closing Comments & Adjourn:

Director Sacks closed the meeting.

Meeting Adjourned.