

Workers' Compensation Advisory Committee (WCAC) Meeting

Labor and Industries, Tukwila, WA

Meeting Notes

December 12, 2018

Business Representatives:

Mike Roozen, Washington State Farm Bureau

Sheri Sundstrom, Washington Self-Insurers Associations

Bob Battles, Association of Washington Business

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

Mark Riker, Washington State Building and Construction Trades Council (*via phone bridge*)

Labor and Industries:

Joel Sacks, Director

Randi Warick, Deputy 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:

Tara Osuna (*present*)

Guests: Bill Vasek, Casey Tozzi, Cathy Cottingham, Cheri Ward, Coreen Urrutia, Jessica Nau, Jeff Day, Jim Bowman, Kaithe Long, Kari D'Aboy, Kris Tefft, Leigh Haley, Lloyd Brooks, Marie Fiore, Mark Phillips, Mark Shaffer, Marty Cohen, Tom Kwieciak, Veronica Shakotko.

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

Meeting started with introductions of the committee members and the audience. Jeff Killip, Education Outreach Senior Manager in Division of Occupational Safety & Health (DOSH) (L&I), presented the safety message. Following the safety message, Ms. Warick gave an update on reinsurance discussions at the WCAC Finance Committee.

Insurance and investing operations are inherently risky (see slide for list of risks)

- **Operational Risks** - Time-loss duration; long-term disability; medical growth; pension frequency; changes in operations; systems; management; caseload size; recruitment and retention; etc.

- **Economic Risks** - Investments (interest rate, equity market, credit, default, etc.); wage inflation; medical inflation; employment
- **Insurance Risks** - Pricing and reserving; claim frequency; claim severity; catastrophe (earthquake, terrorism, etc.)
- **Simultaneous Risks** - More than one risk event may happen at the same time

Specifically, we have been exploring reinsurance as a mitigation strategy to protect against insurance and simultaneous risks.

Mr. Ratko gave an update on where we are on the re-insurance.

Guy Carpenter (GC) has been working with us for over a year to help us understand the pros and cons of procuring reinsurance for Washington's worker compensation system.

Likewise our actuarial team has worked to provide robust and credible data to GC so that they could provide accurate and exceptional modeling depicting the potential impacts of a variety of catastrophic events in Washington State.

Prudent next step is to guard against a possible adverse event.

We are currently at step 9 in the re-insurance placement process.

Why did we land on \$1B?

While we discussed protecting \$1B of our contingency reserves through catastrophic reinsurance, we ultimately purchased \$800M in reinsurance above the first \$200M (with us paying the first \$200M like a deductible). We decided this amount was an appropriate level of reserves as historical events (economic recessions) that impact our reserve levels tend to reduce our revenues by 20%. Further, if a catastrophic event occurred at the same time as an economic recession, the decline in revenue could be compounded up to 40%. In such a situation, the reinsurance would keep our reserves at a level where we would not need to use rate increases to rebuild our surplus funds.

Wanted to ensure that following a catastrophic event we could:

- Maintain a certain level of the contingency reserve that would protect against rate volatility
- Maintain our current benefit obligations and expected influx of claims (following a catastrophic event)
- Maintain enough cash flow to continue operations without disruption (e.g. if we had to move operations to the other side of the state in the case of a catastrophic event on the west side).

Parameters reviewed:

- Lower and higher deductible options
- Varying limits of coverage, and
- Cat bonds

- Opted not to pursue Cat bond at this time.

Our recommendation for placement is: Traditional Reinsurance of \$800M excess \$200M

This amount of reinsurance commits us to pay the first \$200M in catastrophic losses and then the next \$800M in losses are paid by the reinsurer.

Why did we select this option?

- Met goals previously outlined.
- Provided best coverage for cost point while maintaining a reasonable deductible.
 - May cost up to \$13.4 M but not more.
 - May or may not get full placement – which would impact the total cost.
 - The purchase of the insurance is reasonable.

When the 2019 rates were being considered we were factoring the potential for reinsurance and noted that its procurement would not impact rates.

The impact of the purchase price (\$13.4M) on the state fund premium rate is less than one percent (0.6%) – not significant.

All in favor of the recommendation for re-insurance placement. Zero “nay” votes

Mr. Ratko gave an update on the hearing-aid workgroup. Current data indicates third party vendors for self-insured employers averaged 5.8 years to replacement. Most hearing aid replacements for private pay customers range from 3 to 6 years.

Rule proposal to allow replacement at 5 years

Key rulemaking dates:

- CR 102 filed: 01/22/2019
- Tentative hearing date(s): 02/27/2019
- Tentative CR 103 filing date: 04/02/2019
- Tentative effective date: 05/15/2019

Mr. Sacks thanked the WCAC members and the representatives on the task force. This is a perfect example of taking an issue that could be legislated and confirming for our elected representatives that we can bring the right people to the table to have meaningful conversations and come up with relatively agreed upon solutions.

Master’s Level Mental Health Therapists (MLTs): Vickie Kennedy

Most injured workers, even if they lose some time off work, will heal and move back into the labor force or remain in the labor force without any additional assistance beyond initial treatment and follow-up. However, we always have a number that require some additional interventions.

Often vocational counselors can address the return-to-work barriers, re-engage the worker and the employer, and move on to a successful outcome. For a small number, they need more than

that, and they need assistance related to behavioral or mental health issues. We do not currently allow MLTs specializing in mental health to treat in an injured worker's claim.

We've been asked by the chairs of both the Senate and the House policy committees along with many worker advocates over the years, to allow MLTs to help address some of the access to care gaps that we currently have for mental health needs. We've been working with a group of stakeholders, including but not limited to, representatives from Washington State Association for Justice, various business representatives from both the self-insurance community and State Fund employers, several mental health professionals, including a psychologist and a psychiatrist. We've been meeting monthly since April to develop the best way to address this gap and introduce MLTs into our system.

The workgroup has focused on how to consistently provide the support our workers need to recover and return to work. We're really focusing on behavioral health and how we can provide brief interventions to help a worker cope.

We will use a pilot to test our MLT training, adequacy of the number of interventions allowed, etc.

Business Transformation: Provider Credentialing: John Boze

Mr. Boze talked through slides 33-37.

Mr. Sacks gave some additional general updates once Mr. Boze had completed his presentation.

1. Governor's budget will be released tomorrow.
2. This week the Federal government has filed a lawsuit against the State in Federal court related to House Bill 1723, passed this legislative session, providing presumptive coverage for workers' compensation for workers exposed to Hanford job sites. The Federal government is making an argument that the bill is unconstitutional. The Attorney General is defending the law that the legislature passed.

Board of Industrial Insurance Appeals (BIIA) Update: Linda Williams

Ms. Williams talked through slides 41-46.

Reference to slide 41

QUESTION: Ms. Sundstrom asked if data could be broken out between WISHA appeals and workers' comp claims. **ANSWER:** Ms. Williams – YES. Ms. Kennedy asked if it was also possible to break out State Fund and Self Insurance. Confirmed and will do so moving forward.

Reference to slide 42

QUESTION: Ms. Kennedy asked if some of the data is influenced by the complexity of the DOSH penalty appeals? **ANSWER:** You'd think it would be, although it seems as though we absorb some of these significant WISHA cases without them affecting the overall numbers.

Frank Fennerty, labor representative on the Board, is retiring in June after 38 years. Search has begun for his replacement.

The BIIA is losing people to retirements. The last two hires did not have workers' compensation experience, although a lot of experience in other personal injury fields and incredible amounts of trial experience and writing experience.

Janet Whitney (Chief Judge) will be retiring in Spring 2020.

Joe Kendo: The labor community has met with Frank to go over what qualifications are fundamentally needed as well as what qualifications in his perspective are important to do the job well. Frank pointed out the difference in the requirements for this position today versus 40 years ago. It's much less of a management job and more of a legal position. Job posting to be out in January.

Workers' Compensation IT Replacement Plan: Joel Sacks

Joel talked through slides 48-56

Project Spans a 7 year time period

Start date on July 1, 2019, to its estimated end date in 2026.

The primary work during first nine months will include the Commercial Off The Shelf (COTS) procurement effort: assessing, selecting and ultimately contracting with L&I's chosen COTS software provider and COTS implementer. The last six years of the project are for designing, configuring, integrating, testing and deploying the core COTS software solution.

Planning a Phased Approach

Employer accounts is planned to be first followed by claims management and the benefit payments with 6 total go-live dates.

Estimated budget request by biennium

'19-'21: \$81,974,000

'21-'23: \$92,946,000

'23-'25: \$92,581,000

'25-'27: \$35,136,000

Estimate budget request by Workstream Groupings

- Foundational Work: \$5,346,000
- Implementation, Configuration, Customization: \$153,465,000
- Data conversion and major integration points: \$57,475,000
- COTS software, enabling technology & hardware: \$92,712,000

2019 is the year where Business Transformation starts to look real.

Resource and Readiness Planning

- Approved funding for this project is key, but we have to prepare far ahead of getting the funding approved. Prep work has been ongoing since July 2017. Here are just a few areas we need to consider:

- We have to look at each business area (Employer Services, Claims, technology programs, etc.) and plan for structures, roles, tasks for individuals involved in the project
- We are planning to recruit for more than 150 staff roles associated with the project. A mix of FTEs and contractors. Selection process will likely begin sometime in the Spring.
- We need to identify space for the team.

Procurement of a Systems Integrator

- We need to bring on the services of a systems integrator to assist L&I with several technical services including integration of the new workers' compensation system with existing L&I systems; integrating data across different systems; developing custom software; and advising on technological infrastructure, data security and cloud-based services.
 - Plan is to publish the *Request for Quotations and Qualifications* for the SI this year and hopefully bring on a vendor by May.

Procurement of Commercial Off-The-Shelf Vendor & Implementer

Two critical components:

- Software and the services to implement the software
- One vendor may offer both the software and implementation services. In other cases, the software vendor and implementation contractor could two different companies.
- We plan to have the procurement done by the end of June. If funding is approved, we will publish the Request for Proposals as soon as July 1.
- The process will take up to one year once the RFP is published. In order to complete a thorough, competitive procurement. The process is expected to include a "software proof-of-concept," where top bidders demonstrate how their products would work, using examples and data from L&I.
- The procurement is considered Year 1 of the 7 year process to replace the workers' comp IT system.

Completion of our website redesign Business Transformation project. Launch of the new LNI.wa.gov is scheduled for June 15, 2019. First external-facing project to be completed as part of Business Transformation.

Completion of Enterprise Data Governance project. June 2019.

Completion of our Provider Credentialing project, migrating to Provider One in Fall 2019.

Change Management

- When embedded early, change management helps identify risks and mitigate issues when they are less costly to solve.
- We have dedicated internal change managers and vendor partners now.
- A relatively small investment in change management services from the outset will help to shape and gain support for the changes that are coming at L&I, protect the agency's substantial investments in technology and transformation efforts, and make the transitions go more smoothly.

Project Management

- Dedicated project director has been working on the project since 2017.
- As of today, we have dedicated project managers for resource and readiness planning, one for the SI procurement, and one for the COTS procurement.
 - Manage scope of project.
 - Defining activities and tasks.
 - Track and report progress.
 - Communicate to stakeholders regularly.
 - Align with Change Managers
 - Assess, manage and mitigate risks.

Communication Planning

- Focused on internal communication. Strategic, consistent communication to all staff levels to build awareness and understanding of changes to come.
- We'll plan on future communication to external audiences.

Employee Engagement and Resistance Management

- L&I will train managers and supervisors to serve as coaches and mentors for employees who may be resistant to change or need to develop skills to effectively move through transition. This type of human-focused investment will build positive and concrete change in individuals; support training and development efforts; and help to maximize return on investment.

Training Strategy

- L&I's training strategy will focus on the needs of more than 2,000 employee's at all 23 locations on how to use the new workers' compensation computer system.
- Training on the new software will be provided by the selected vendor; however, we need to consider:
 - Training tied to each type of job or work unit.
 - Training on user-acceptance testing
 - Training on how to support the new system (programming languages, configuration and system admin support)
 - Customer training to help customers navigate a new system.

Integration

- Help design and implement an architecture that enables multiple systems to work together, including designing interfaces for real-time data sharing and integrating business processes across applications.

Custom Development

- Some programs and features are unique to Washington and not available in a commercial COTS product. An SI helps identify, design and deliver custom functions or applications.

Data Management

- Work with us to design and implement a data warehouse replacement, including developing databases for generating reports.

Technical Infrastructure Design

- Work with L&I to analyze and size the infrastructure needs and to design the future infrastructure. SI will help support the infrastructure as it's developed, including assisting with configuration management, monitoring, performance troubleshooting, backup, recovery and similar tasks.

Legacy System and IT Support

- Help L&I's IT team support overall change management (technical).
- Assist with legacy-systems support and maintenance.
- Advise on changes in technology-related processes and procedures.
- Provide targeted staffing support.

Cybersecurity

- Manage security risks, including technical assessment, testing, remediation, technical requirements for COTS security, cloud security requirements, and recommendations on other security threats and mitigations.

Cloud

- Help assess requirements for cloud-based infrastructure, developing a procurement for cloud services, if required, and assisting with procurement and contract development.

L&I's second procurement will be for a new workers' compensation computer system. This procurement will contain two components: software and the services to implement that software. One vendor may offer both the software and implementation services. In other cases, the software vendor and implementation contractor could be from two different companies.

- Includes proof-of-concept execution and work to gather agencywide requirements for enterprise content management.
- This is a long process that we have already started. We plan to have the procurement done by the end of June. If funding is approved we will publish the Request for Proposals as soon as July 1.
- The procurement process will take up to one year once the RFP is published.
- It takes a year to complete a thorough, competitive procurement process. The process is expected to include a "software proof-of-concept," where top bidders demonstrate how their products would work, using examples and data from L&I.
- The procurement process is considered Year 1 of the 7 year process to replace the workers' comp IT system.

Core Solution:

- Design, test and deploy the software
- Design interfaces

- Customize software (as needed; will try to avoid wherever possible)
- Provide help-desk support after go-live
- Support future enhancements, upgrades and general application support

Data Migration

- Mapping legacy data to target database
 - Supporting software related to content management, correspondence management, reporting and analytics.
- Data cleansing processes and applications
- Develop data-masking methods for personal info.

Migration

- Provide on-site staffing for go-live support
 - Technical readiness support for IT
 - Help-desk support for business area
 - Data cut-over support

Training

- Oversee a training program for internal and external users.
- Deliver product documentation
- Develop knowledge management system for future development.
- Technical training for L&I IT staff.

For those interested in the procurement strategy and the evaluation process it is located in Section 16 of the Business Case located on the OFM website.

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

Ms. Kennedy stated she would briefly talk through each slide of the dashboard. Talked through slides 57-70

As you can see all arrows are going in the right direction, exception is stay-at-work participation.

Dashboard Summary

Measure	Change from 2012 (unless otherwise noted)	Highlights
Long Term Disability – share that received a TL payment in the 12 month post injury	Down 23% 	Lowest since 2002
Persistency – Ratio: claims with a TL payment in the 6 th month to those with payment in the 3 rd month	Down 4.8% 	
Resolution rate - time-loss claims at 6 months	Up 5.5% 	
Auto adjudication of claims	Up 81.4% from 2014 	Highest since 2002*
High risk claims – share return to work at 12 months	Up 7.0% 	
Median time-loss days paid at first vocational service	Down 79% 	Lowest since 2002*
% RTW outcomes - all first vocational service referrals	Up 129% 	
WSAW participation	Steady utilization 	
COHE utilization	Up 83% 	

* Earliest year for which measurement is available

QUESTION: Mr. Roozen asked if we are seeing a decline in aggregate injury rates just per 10,000 worker hours? **ANSWER:** Yes, a decline in injury rates.

Industrial Insurance (State) Fund Financial Overview: Rob Cotton

Mr. Cotton talked through slides 71-86.

Reference to slide 85

What was the methodology in establishing the target ranges to begin with?

The current ranges were established around a risk tolerance goal that stated the target level would equate to a 1% risk of insolvency over a three year period of time.

In order to move the targets up, we would need to reconsider either the percent of insolvency risk or the period of time. (I.e. If we want to consider moving the target level up given our current CR level, we would need to consider either shortening the 3-year window, or changing the percent of insolvency risk.)

Closing Comments & Adjourn:

Director Sacks closed the meeting.

Meeting Adjourned.