

Workers' Compensation Advisory Committee (WCAC)

Monday, June 22, 2020



AGENDA

Workers' Compensation Advisory Committee (WCAC) Quarterly Meeting

Monday, June 22, 2020

Join Zoom Meeting <https://zoom.us/j/93719835157>

Meeting ID: 937 1983 5157

Password: wcac0622!

10 a.m. – 12 p.m.

Time	Topic	Presenter(s)
10:00 – 10:10	Welcome <ul style="list-style-type: none">• Introductions• Safety Message	Joel Sacks Vickie Kennedy
10:10 – 10:40	General Updates <ul style="list-style-type: none">• Legislative and rules updates• Other• Workers' Compensation System Modernization	Joel Sacks Vickie Kennedy Randi Warick
10:40 – 11:15	COVID-19 impacts	Joel Sacks Vickie Kennedy
11:15 – 11:20	Short “rest your eyes” break	
11:20 – 11:35	Industrial Insurance State Fund Financial Overview	Rob Cotton
11:35 – 11:45	Insurance Services Dashboard	Vickie Kennedy
11:45 – 11:55	Board of Industrial Insurance (BIIA) Update	Linda Williams
11:55 – 12:00	Closing Comments & Adjourn	Vickie Kennedy Joel Sacks



Safety Message

Joel Sacks

General Updates



Impacts of COVID-19



DOSH Materials – Coronavirus (COVID-19)

- Hazard Alert (March 2020): Employers Will Play an Important Role in Controlling the Spread of COVID-19
- Hazard Alert (April 2020): Ethylene Oxide Sterilization Systems Must Not Be Used to Sterilize Masks and Respirators
- FACT SHEET: Ergonomics – Don't Bend, Don't Break: Setting Up a Safe and Healthy Workspace for Teleworking

DOSH Guidance – Coronavirus (COVID-19)

- General Requirements and Prevention Ideas for Workplaces
- Review of Respiratory Protection for Workers (Adult Family Homes, Long Term Care Facilities)
- Dealing with COVID-19 in Construction – removed, being updated
- Protecting Grocery Store Workers

DOSH Guidance – Coronavirus (COVID-19)

Agriculture

- Prevention in Agriculture and Related Industries
- Food Processing-Warehouse
- *Additional Requirements to Protect Temporary Worker Housing (Guidance for Emergency Rule WAC 296-307-16102) – DRAFTED*
- COVID 19 Ag Requirements Safety Tool Kit for Governors Proclamation 20-57 (MSHOP)

DOSH Other Materials – Coronavirus (COVID-19)

- Coronavirus Employee Training PPT Template for Employers
- Which Mask for Which Task? COVID-19 Prevention at Work – When to Use Face Coverings and Respirators
- FAQs – Common Questions and Answers Regarding Worker Face Covering and Masks Requirements

DOSH Coronavirus (COVID-19) - Website

The screenshot shows the Washington State Department of Labor & Industries website. The header includes the logo, navigation links (Home, My L&I: Sign In), and a search bar. The main navigation menu includes Safety & Health, Claims, Patient Care, Insurance, Workers' Rights, and Licensing & Permits. The breadcrumb trail is Home > Safety & Health > SAFETY TOPICS >. The page title is "topics". The left sidebar lists "SAFETY TOPICS" with sub-sections: Search By Topic, Industry, Chemicals & Materials, and Machinery & Equipment. The main content area is titled "COVID-19 (Coronavirus)" and contains the following text:

The Department of Labor & Industries (L&I) requires employers to implement [the Governor's "Stay Home, Stay Healthy" order](#). Employers **must** ensure social distancing for employees and customers, frequent and adequate employee hand-washing, and that sick employees stay home. Employers must also provide basic workplace hazard education about coronavirus and how to prevent transmission in languages best understood by employees. L&I does not currently require employers to have a written coronavirus transmission prevention plan.

Use the information and resources on this page to help keep everyone safe and healthy during the COVID-19 pandemic. If you have other specific questions on how you can maintain a safe and healthy workplace, [contact a DOSH consultant near you](#).

Workers' Comp Claims

- COVID-19 claims as of June 12, 2020
 - 1,422 State Fund claims
 - 623 Self-insured claims
- Status:
 - 664 claims allowed and still open
 - 1,063 allowed and closed
 - 58 claims rejected
 - 260 claims pending

COVID-19 Workers' Comp Claims

- 2,000+ claims so far, mostly from:
 - Healthcare industry (~73%)
 - First responders (~5%)
- Claims that meet criteria are considered on case-by-case basis:
 - Was there increased risk or greater likelihood of contracting the condition due to the worker's occupation?
 - If not for the job, would the worker have been exposed to the virus or contracted the condition?
 - Can the worker identify a specific source or event while working that resulted in exposure?

Access to Medical Care

- Expanded existing telehealth policies
 - Telehealth when home is the originating site
 - Initial evaluations via telehealth
 - Activity Prescription Forms (APFs) via telehealth
 - Telerehab (PT, OT)
 - Telerehab work hardening
 - TeleSIMP (chronic pain management)
 - TeleBrainRehab
 - TeleIMEs
 - Interpretive services via video or telephone

Other COVID-19 issues

- Delays in treatment, despite expanded telehealth policies
- Limited transitional light duty during the worker's recovery
- Injured worker retraining plans on pause, unless remote/virtual
- Claim managers' work processes during telework, customer access impacts

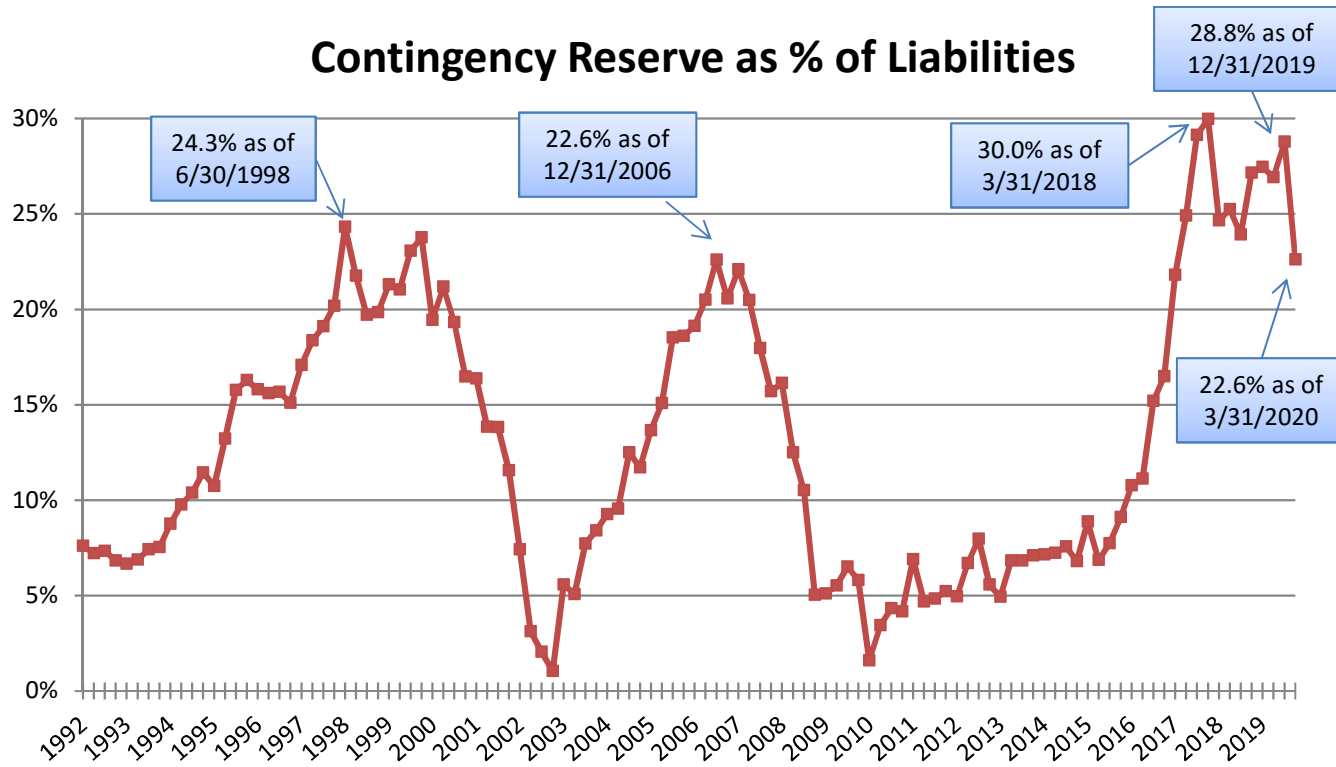
Employer Options for Workers' Comp

- Employer Assistance Program:
 - Grace period for premium payments, plus payment plans for employers with financial difficulties during pandemic.
 - Employers can request payment deferral up to 90 days or for a 90-day payment plan.
 - No penalties or interest on deferred payments.
- COVID-19 claims not be used in employer experience factors, rating or Retro adjustments.
- COVID-19 claim costs not included in self-insurer administrative assessment calculations.

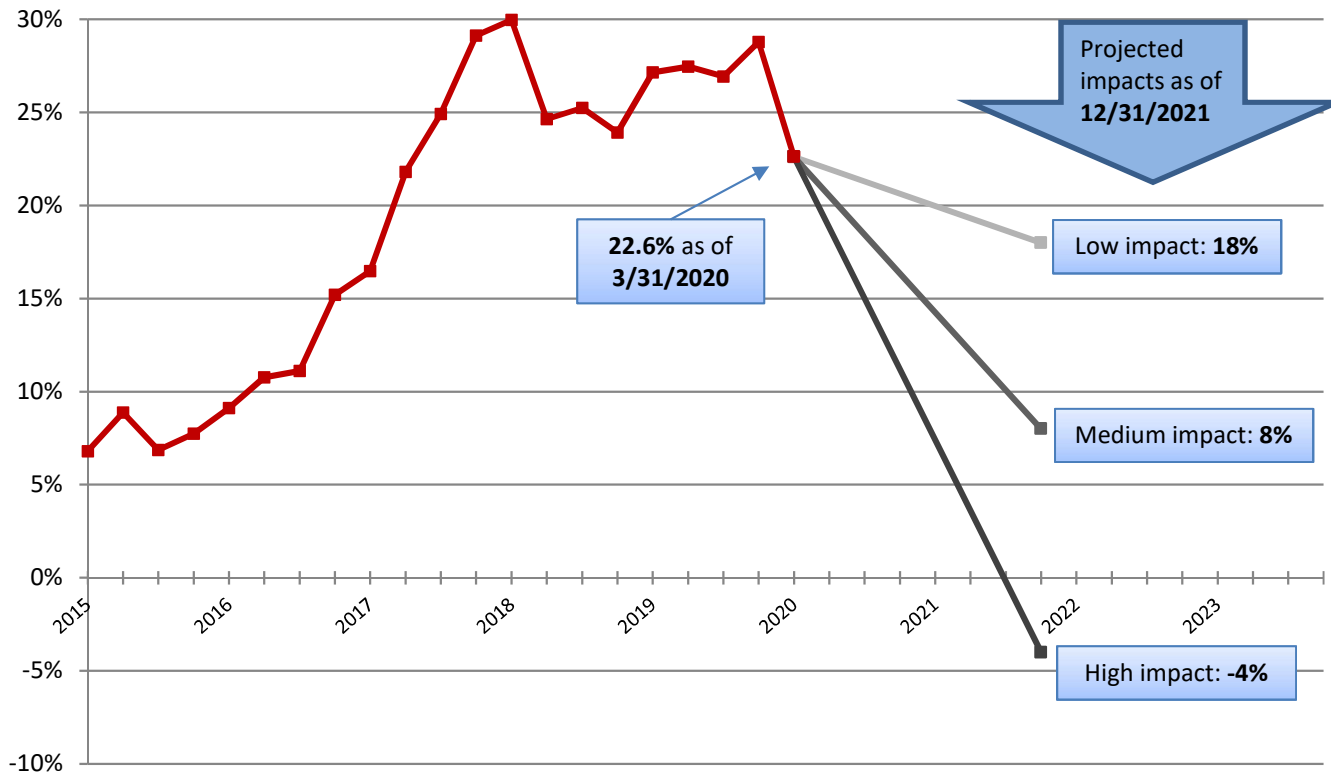
Anticipated Impacts to the Department's Financials Due to COVID-19

- Decrease in investment income and assumptions
- Increased claims duration
- Costs for COVID-19 claims
- Increase in uncollectable workers' compensation premium debts
- Reduced premiums to all funds especially the supplemental pension fund

Contingency Reserve as a percent of liabilities is at 22.6%.



Projected impact on the Contingency Reserve



SPF challenges due to COVID-19

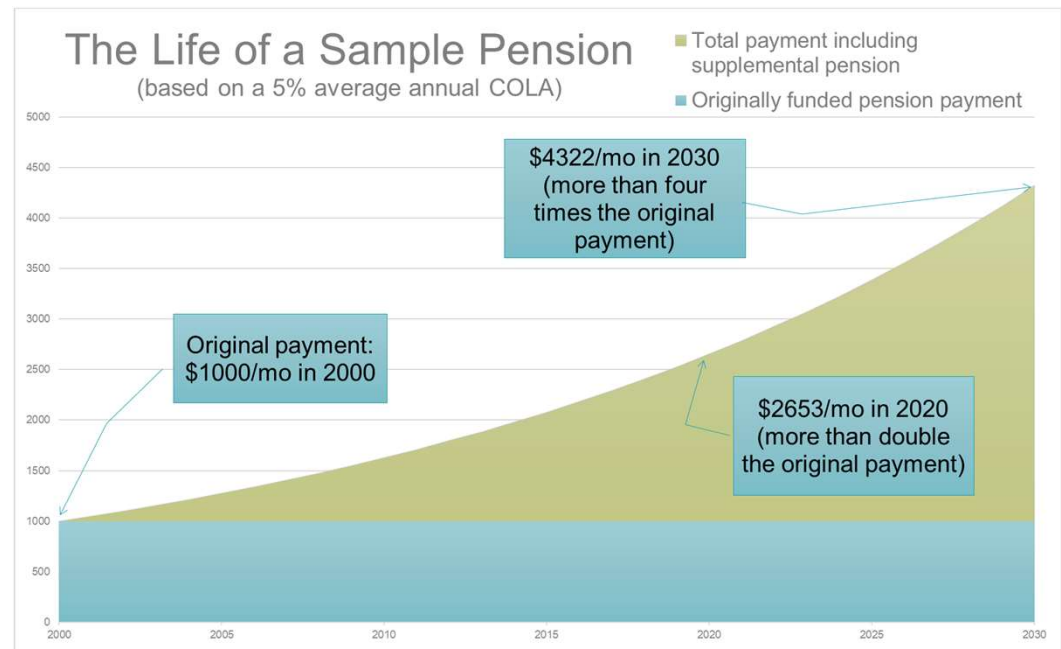
- **Substantial reduction in revenue** due to a reduction in reported hours.
- **COLA outlays continue to increase** with the state average wage. (6.7% for benefits effective July 1)
- If the asset balance in the fund goes negative, it would necessitate a loan from the Pension Fund.
- The loan is paid back with interest, increasing future SPF rates.

Supplemental Pension Fund (SPF) [\(RCW 51.32.073\)](#)

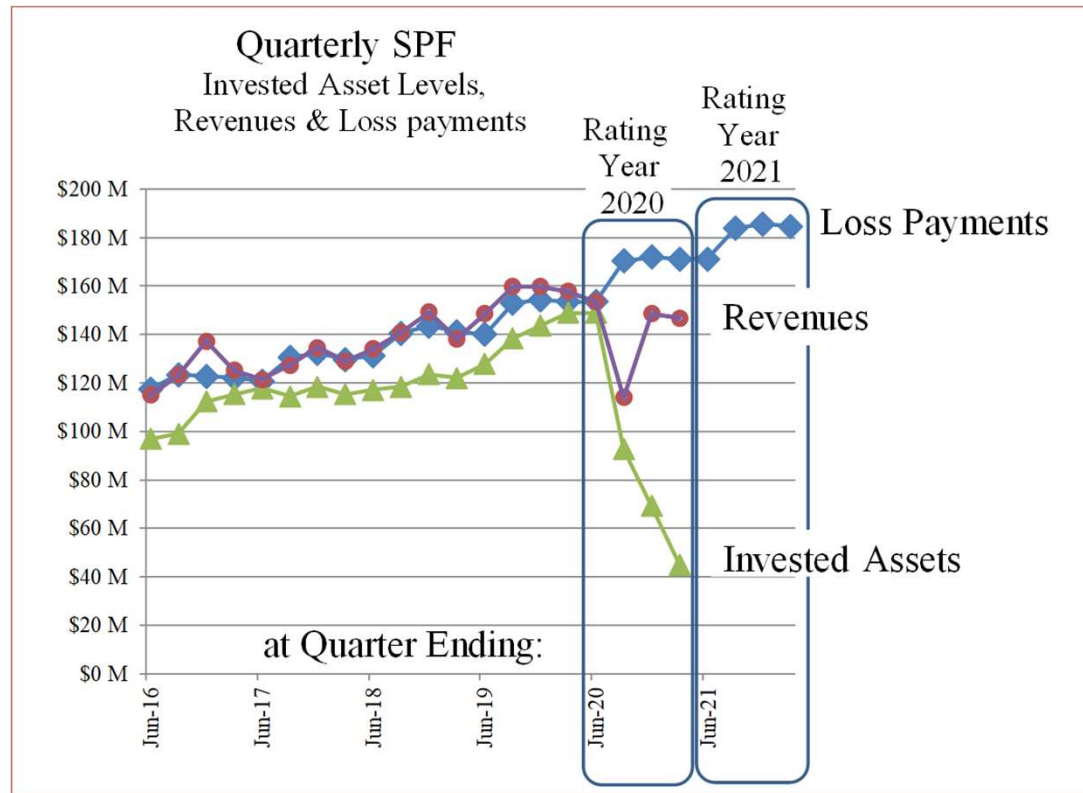
- SPF premiums cover the annual Cost of Living Adjustments (COLAs) in pension and time-loss benefits
- SPF is allowed to collect only enough premium to make the **current** COLA payments for new and past claims (“pay as you go”)
- Minimal cash in the bank (three months of payments) to absorb a revenue shortfall.
- This differs from the Accident Fund (AF), Medical Aid Fund (MAF), and Stay at Work program (SAW) that aim to collect sufficient premiums to pay for **current and future** benefit payments.
- Premiums are shared equally between employer and employee

Factors that influence SPF rate changes

- Annual changes to COLA percentage:
 - Based on State Average Annual Wage calculated by WA ESD.
 - Estimated total SPF payment % increase is close to **2 x (COLA %) – 2%**
 - **So, if COLA % is over 6%, then double digit increase to total SPF payments.**



Supplemental Pension Fund rate scenarios through 3/31/2022



Break Time



Industrial Insurance (State) Fund Financial Overview

**Statutory Financial Information
Fiscal Year 2020 through Third Quarter
July 2019 – March 2020**








Rob Cotton, Chief Accounting Officer



Significant Financial Highlights

July 2019 through March 2020

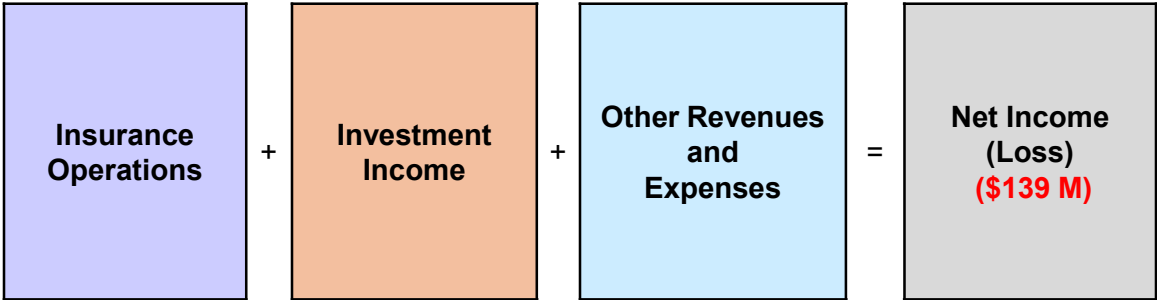
The contingency reserve decreased \$559 million, from \$3,954 million on July 1, 2019 to \$3,395 million on March 31, 2020.

 	<ul style="list-style-type: none">• Loss on investments• Net Unfavorable development on prior year liabilities<ul style="list-style-type: none"> Medical Aid: mainly due to an increase in both the number and cost of new hearing aids and the use of private vocational recovery services early in claims Accident: higher amount of active claims and anticipated increase of duration due to COVID-19 pandemic estimates Structured Settlements: increase in the number of settlements Total Permanent Disability: a reduction in claim frequency Partial Permanent Disability: fewer awards• Premiums and investment income are adequate to pay for actual costs
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

<p>Change in contingency reserve by quarter for fiscal year 2020.</p> <ul style="list-style-type: none">• July 1st to September 30, 2019 – a decrease of \$16 million• October 1st to December 31, 2019 – an increase of \$289 million• January 1st to March 31, 2020 – a decrease of \$832 million

State Fund Results

“Net Income”
July 2019 through March 2020



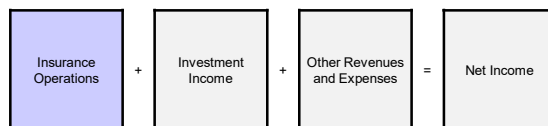
Insurance Operations

July through March 2020
(in millions)

Nine Months Ended

		March 31, 2020	March 31, 2019
We took in (Premiums Earned)	+	\$ 1,395	\$ 1,432
We spent (Expenses Incurred)			
Benefits Incurred		1,784	1,198
Claim Administrative Expenses		180	176
Other Insurance Expenses		70	72
Total Expenses Incurred	-	2,034	1,446
Net Income (Loss) from Insurance Operations	=	\$ (639)	\$ (14)

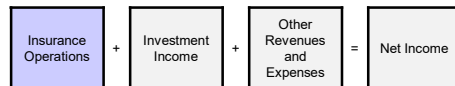
Net loss from insurance operations is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.



Premiums Earned

July through March
(in millions)

	Nine Months Ended		Difference
	March 31, 2020	March 31, 2019	
Standard Premiums Collected	\$1,652	\$1,729	
Less Retrospective Rating Adjustments	(58)	(39)	
Less Ceded Reinsurance Premiums	(12)	(5)	
Net Premiums Collected	1,582	1,685	
Changes in future Premium Amounts To Be Collected	(74)	(82)	
Changes in future Retrospective Rating Adjustment Refunds	(113)	(171)	
Net Premiums Earned	\$ 1,395	\$ 1,432	\$ (37)

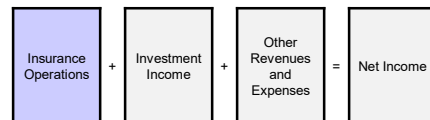


Benefits Incurred

July through March
(in millions)

Nine Months Ended

	March 31, 2020	March 31, 2019	Difference
Benefits Paid	\$ 1,271	\$ 1,227	\$ 44
Change in Benefit Liabilities	*513	(41)	554
Change in Discount Rate Reduction from 6.1% to 4.5% for State Fund	0	12	(12)
Total Benefits Incurred	\$ 1,784	\$ 1,198	\$ 586



* Due to net unfavorable development (see Significant Financial Highlight slide)

Investment Income

July through March
(in millions)

Nine Months Ended

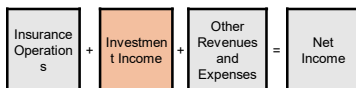
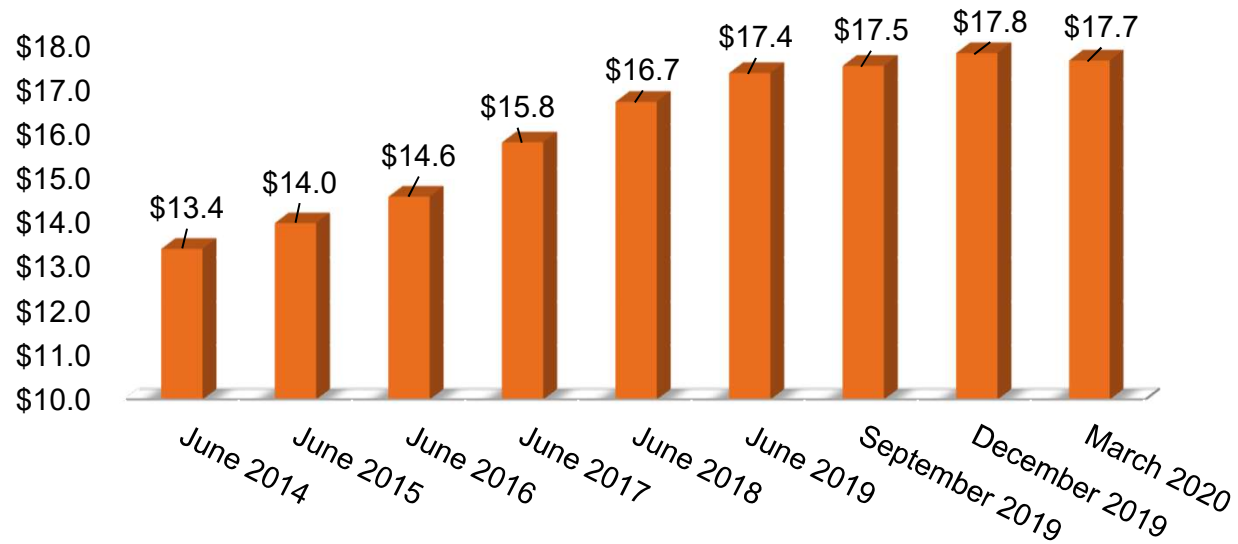
		March 31, 2020	March 31, 2019
Investment Income Earned from Interest on bonds	+	\$ 376	\$ 373
Realized Gain/(Loss) from Fixed Income Investments Sold	+	134 *	(26)
Realized Gains from Stocks (Equity Investments) Sold	+	3	0
Total Investment Income	=	\$ 513	\$ 347

*Mainly resulted from the sale of bonds in order to transfer assets from the accident account to the pension reserve account to cover the pension reserve deficit that existed at the end of FY19 and rebalancing the investment portfolio in March 2020.



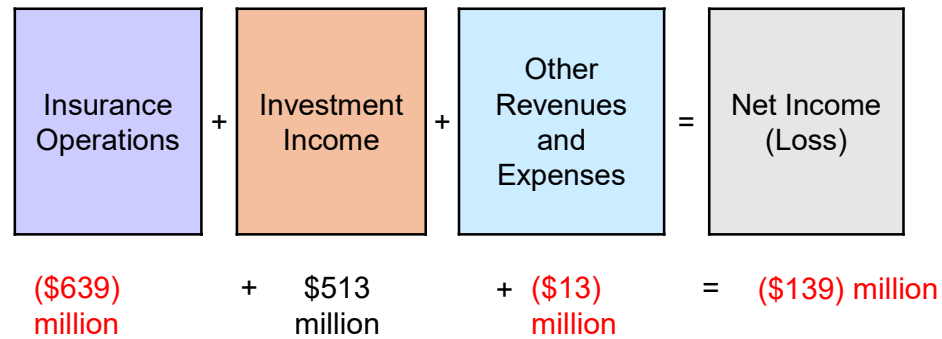
Total Investments

(rounded to billions)



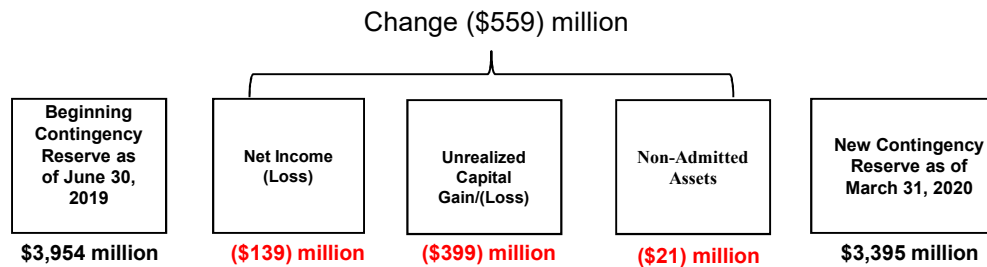
Results of Operations

July 2019 through March 2020



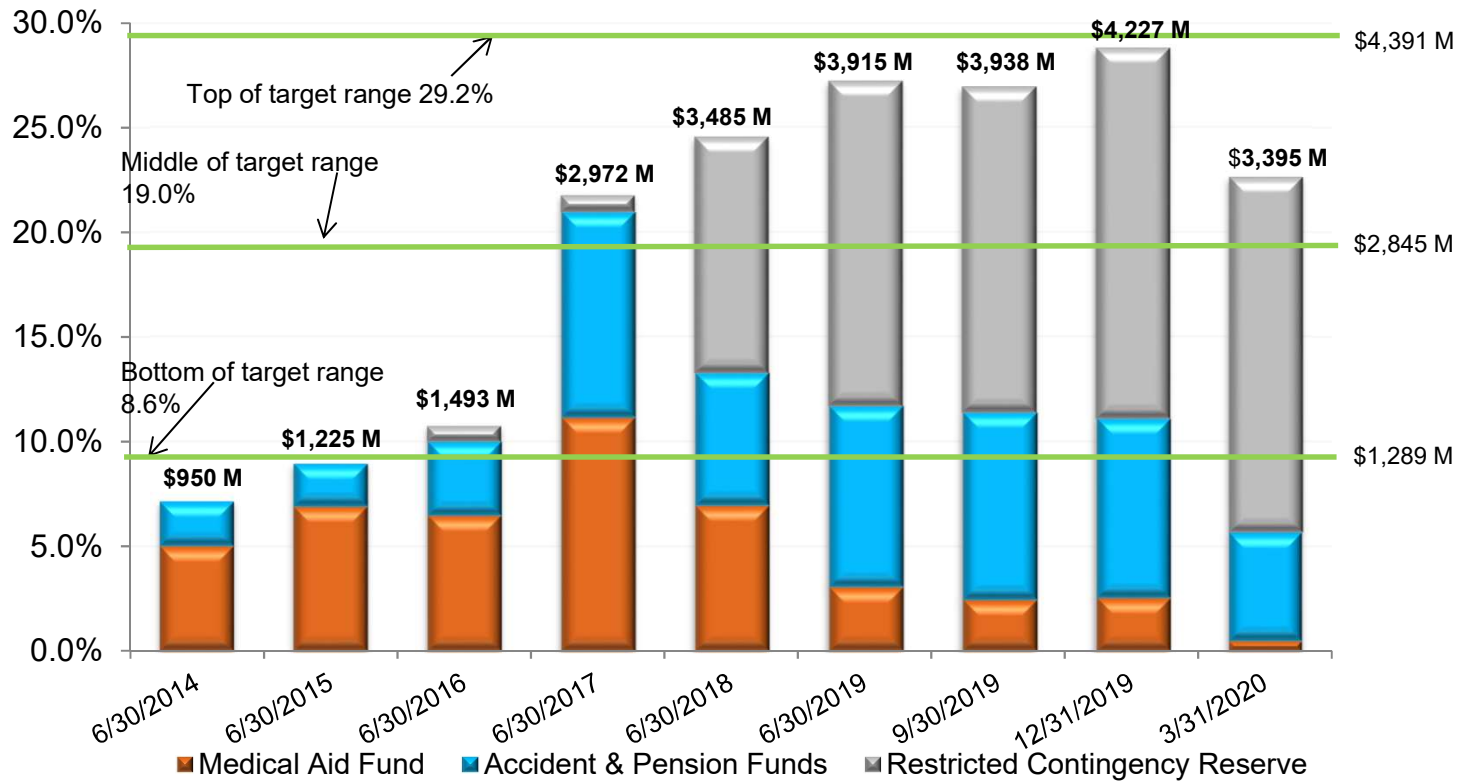
How Did Contingency Reserve Perform?

July 2019 through March 2020



Combined Contingency Reserve vs. Targets

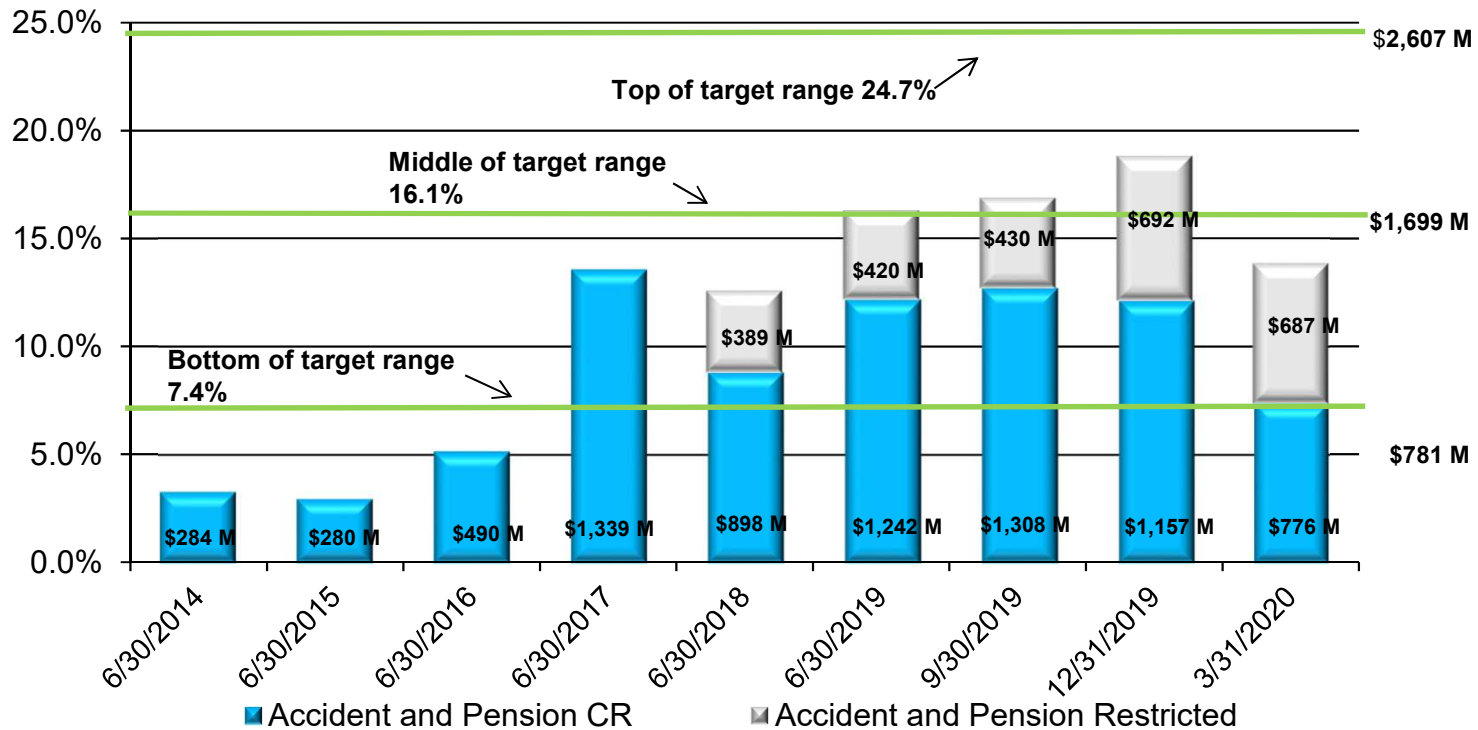
Combined Contingency Reserve is 22.6% of Total Liabilities



*Restricted is based on final June 30, 2019 financial information and the change in the value of investments through 3-31-20.
The WCAC Target has historically been the midpoint between the bottom and middle target.*

Accident, Pension & Restricted Contingency Reserve is 13.9% of Liabilities

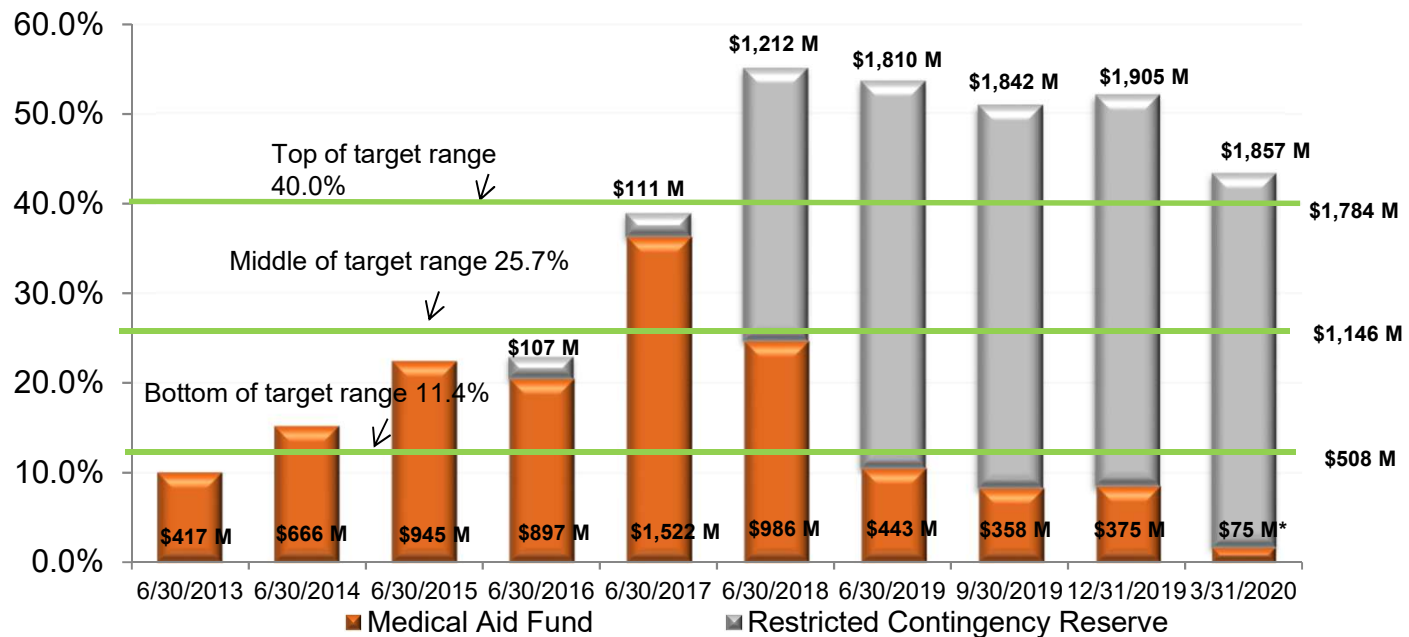
Accident & Pension Contingency Reserve vs. Targets



The WCAC Target has historically been the midpoint between the bottom and middle target.

Medical Aid & Restricted Contingency Reserve is 43.3% of Liabilities

Medical Aid & Restricted Contingency Reserve vs. Targets



Restricted is based on final June 30, 2019 financial information and investment earnings through 3-31-20.
The WCAC Target has historically been the midpoint between the bottom and middle target.

* Effective June 1, 2020, \$371M was transferred from the Medical Aid Account's restricted contingency reserve to unrestricted. This was done to ensure the unrestricted medical aid account has a positive balance at fiscal year-end 2020.

Key Financial Ratios

as a percentage of premium earned

Ratios	Quarter Ended March 31, 2020		Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018
	State Fund	Industry Forecast		
Current Year Benefit (Loss Ratio)	93.5%		83.7%	77.8%
Prior Year Benefit (Loss Ratio)	34.4%		4.9%	17.1%
Total Benefit (Loss Ratio)	127.9%	50.0%	88.6%	94.9%
Current Year CAE Ratio	10.6%		10.3%	9.0%
Prior Year CAE Ratio	2.3%		6.0%	2.3%
Total Claim Administration Expense (CAE) Ratio	12.9%	15.0%	16.3%	11.3%
Sub-Total: Benefit and Claim Administration Expense Ratios	140.8%	65.0%	104.9%	106.2%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	5.0%	27.0%	5.3%	4.6%
Combined Ratio (Industry omits dividends)	145.8%	92.0%	110.2%	110.8%
Investment Income Ratio	27.0%	19.5%	25.9%	22.9%
Operating Ratio	118.8%	72.5%	84.3%	87.9%

Questions & Comments

Contact Rob Cotton,
Chief Accounting Officer

- Phone: 360-902-5743
- Email: cotr235@lni.wa.gov.

Thank You!

Supplemental slides

Reconciliation of Change in Benefit Liabilities

(In \$1,000s)

July 1, 2019 Benefit Liability Beginning Balance	\$13,163,053
Prior Year Benefit Payments	(\$1,086,134)
Prior Year Development and Model Change (Unfavorable)	\$188,243
Self Insurance Prefunded Pension Transfers	\$19,378
Regular reserve discount reduction	\$272,550
Net Total Prior Year Benefit Liability as of March 31, 2020	<u>\$12,557,090</u>
New Current Year Benefit Liabilities	\$1,119,616
March 31, 2020 Benefit Liabilities Ending Balance	<u>\$13,676,706</u>
Change Between Beginning and Ending Balance	\$513,653

Highlights of Changes in the Contingency Reserve

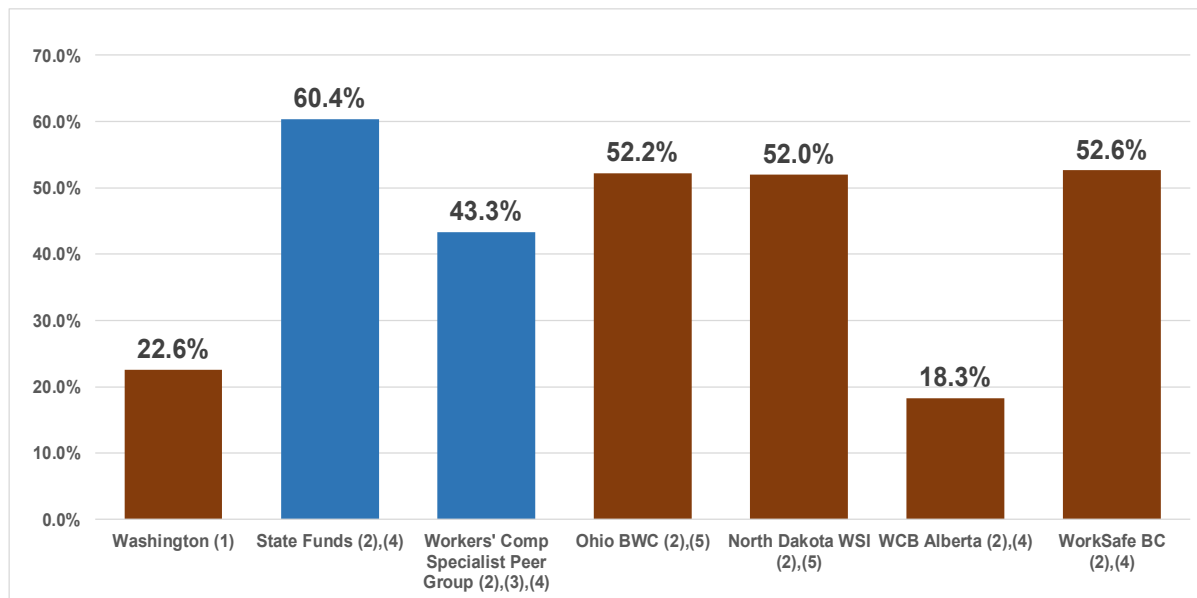
	FY14	FY15	FY16	FY17	FY18	FY19	FY20 Q3	Total
Changes that increased the contingency reserve								
↑ Operational Influences and model changes	\$149 M	\$543 M	\$147 M	\$926 M	\$941 M	\$352 M	(\$188) M	\$2,870 M
↑ Rate Changes	\$58 M	\$59 M	\$38 M	\$27 M	N/A	N/A	N/A	\$182 M
↑ Greater than expected changes in the stock market	\$279 M	N/A	N/A	\$411 M	\$199 M	\$50 M	N/A	\$939 M
Changes that decreased the contingency reserve								
↓ Rate Changes	N/A	N/A	N/A	N/A	\$14 M	\$120 M	\$101 M	\$235 M
↓ Mortality table change	\$0	\$146 M	\$0	\$0	\$0	\$0	\$0	\$146 M
↓ Adjustments to avoid double counting 2011 reform savings	\$130 M	\$83 M	\$0	\$0	\$0	\$0	\$0	\$213 M
↓ Discount rate reduction	\$256*M	\$31 M	\$31 M	\$36 M	\$646 M**	\$0	\$0	\$1,000 M
↓ Less than expected changes in the stock market	N/A	\$29 M	\$101 M	N/A	N/A	N/A	334 M	\$464 M

Operational Influences
 FY14: \$91M
 FY15: \$515M
 FY16: \$136M
 FY17: \$926M
 FY18: \$941M
 FY19: \$327M
 FY20: (\$193)M
Total: \$2,743M

*Model change for 13-year plus claims \$102 M; Pension Discount change \$154 M.

**Pension Discount Rate reduction from 6.2% to 4.5%

Washington's CR is below most other funds as a percent of liabilities



(1) Preliminary as of 3/31/2020

(2) Source: Conning Peer Analysis, September 18, 2019

(3) Worker's Comp Specialist Peer Group—workers' compensation specialist insurers including some state funds

(4) As of 12/31/2018

(5) As of 6/30/2018

Historic Results of Operations

July through March
(in millions)

As of Quarter Ended March 31,	Insurance Operations	+	Investment Income	+	Other Revenues & Expenses	=	Net Income (Loss)
2020	(639)		513		(13)		(139)
2019	(14)		347		16		349
2018	440		491		36		967
2017	119		387		45		551
2016	(219)		462		43		286
2015	(475)		420		40		(15)
2014	(470)		597		43		170
2013	(579)		427		26		(126)
2012	(620)		394		52		(174)
2011	(540)		416		53		(71)

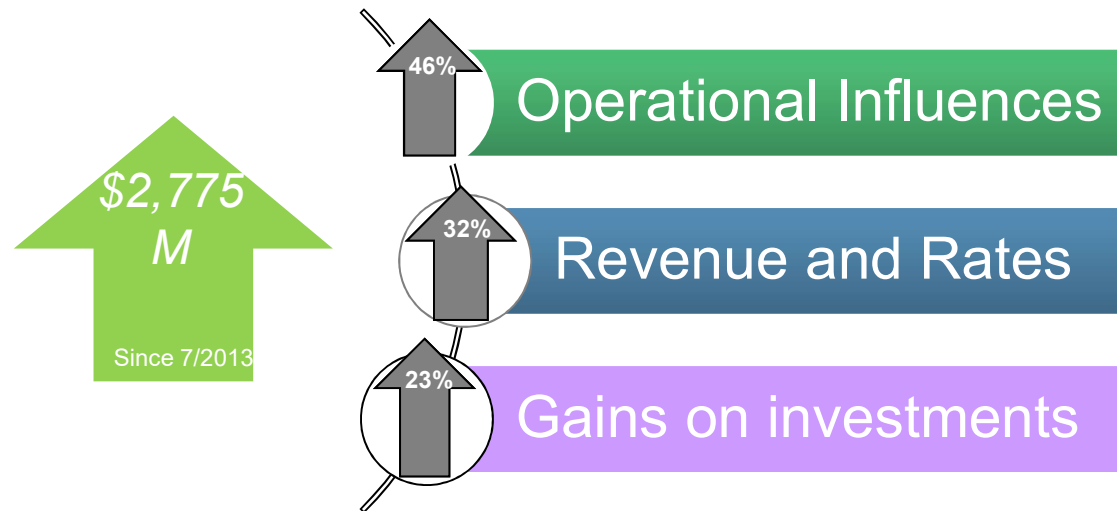
Historical Investment Performance

Fiscal Year Ended

	Quarter Ended March 31, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Investment Income	376,156,000	498,626,000	481,048,000	478,130,000	498,499,000	493,408,000
Realized Gain (Loss)	136,416,000	(23,498,000)	1,092,446,000	102,540,000	137,988,000	58,660,000
Unrealized Gain (Loss)	(398,865,000)	151,820,000	(812,942,000)*	380,183,000	(181,830,000)	23,691,000
Total Invested Assets	17,690,492,000	17,443,448,000	16,728,166,000	15,815,997,000	14,593,530,000	14,003,302,000

***Unrealized gains in prior years that increased the contingency reserve were removed from unrealized and included in realized gains when equities were sold in fiscal year 2018.**

Contingency Reserve Drivers



As of 3/31/2020 the CR is at \$3,395 M.












Dashboard – Help Injured Workers Heal and Return to Work

Vickie Kennedy

Assistant Director for Insurance Services

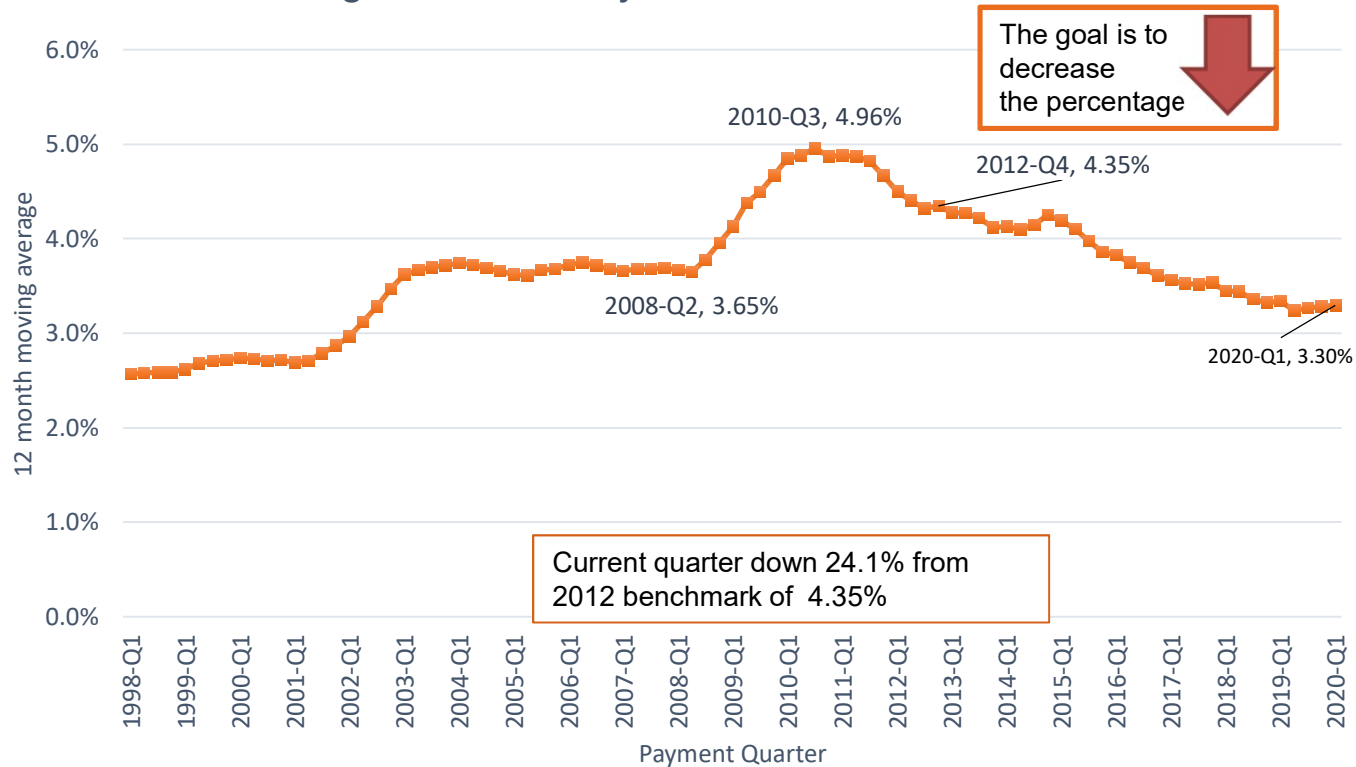
DASHBOARD SUMMARY

Measure	Change from 2012 (unless otherwise noted)	Highlights
Long Term Disability – share that received a TL payment in the 12 month post injury	Down 24.1 % 	
Estimated Ultimate Pensions 2004 - 2016	Down 18.8% (From 2012 Estimates) 	
Resolution rate - time-loss claims at 6 months	Down 1.5% 	
Auto adjudication of claims	Up 80.4% from 2014 	
High risk claims – share return to work at 12 months	Up 5.6% 	
Median time-loss days paid at first vocational service	Down 75% 	Lowest since 2002*
% RTW outcomes - all first vocational service referrals	Up 207% 	
WSAW participation	Steady utilization 	
COHE utilization	Up 88% 	

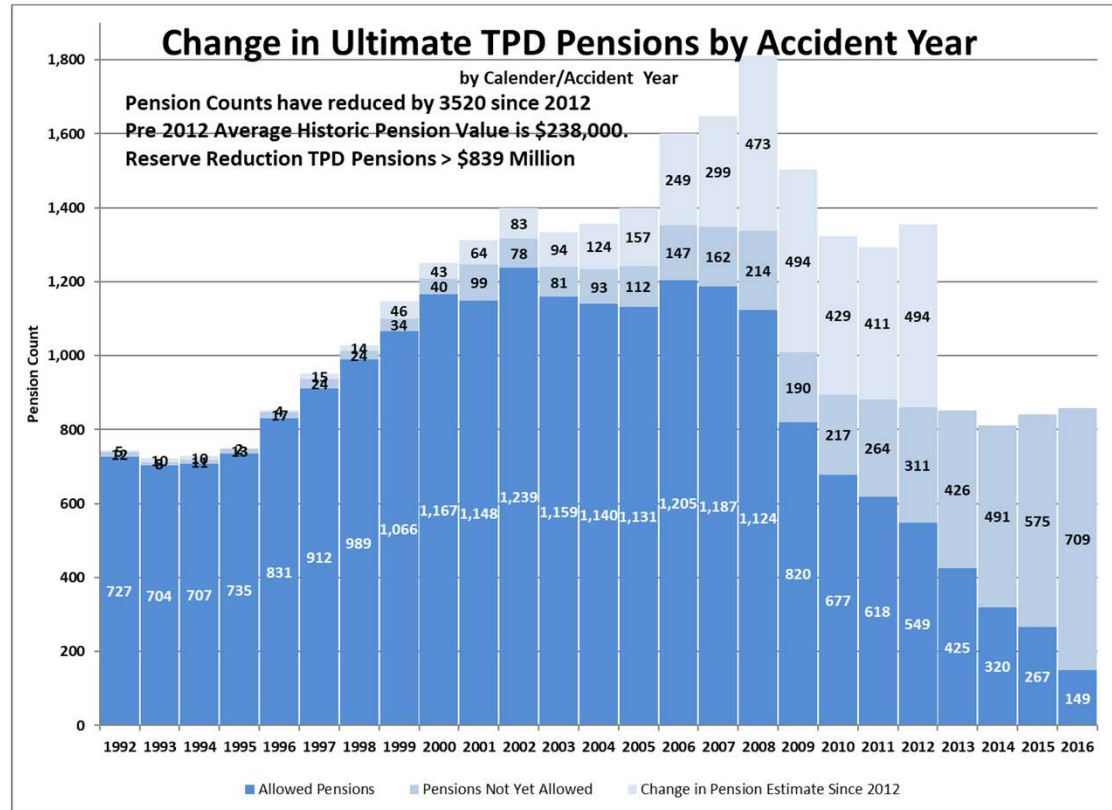
* Earliest year for which measurement is available

Long term disability percent

Share of injured workers with time-loss paid in the 12th month post injury: *smaller percentage indicates less long-term disability*

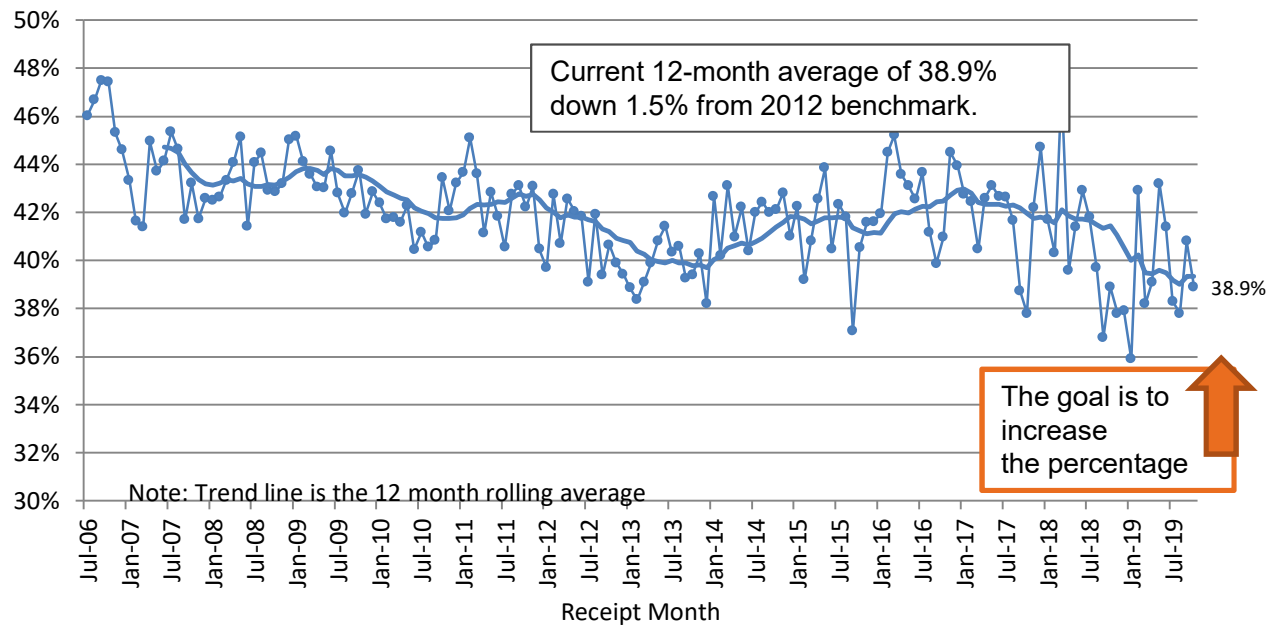


Pensions by accident year, latest estimates compared to prior estimates.

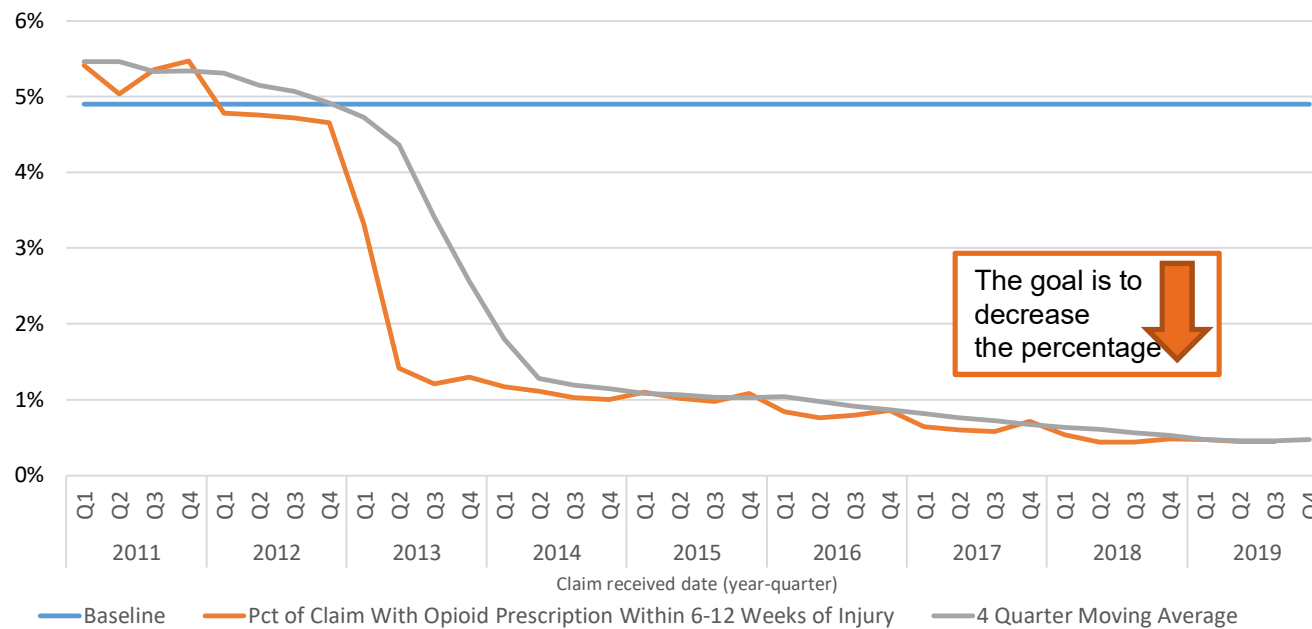


The share of time-loss claims resolved six months after claim receipt

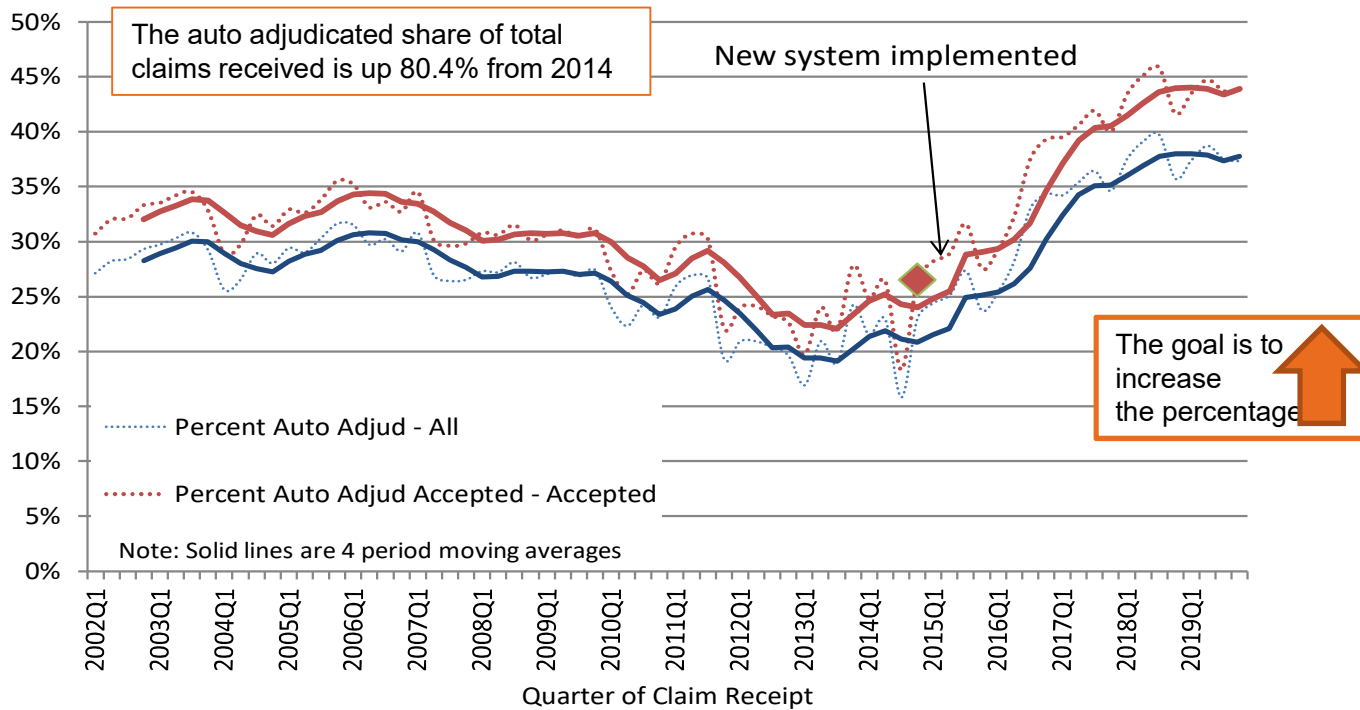
Share of time-loss claims resolved six months after claim receipt



Percentage of accepted State Fund claims with billings for opioids within 6 to 12 weeks of injury



A new auto-adjudication process was implemented in early 2015 and is showing results



High risk claims – Initiatives in the first year are improving RTW outcomes

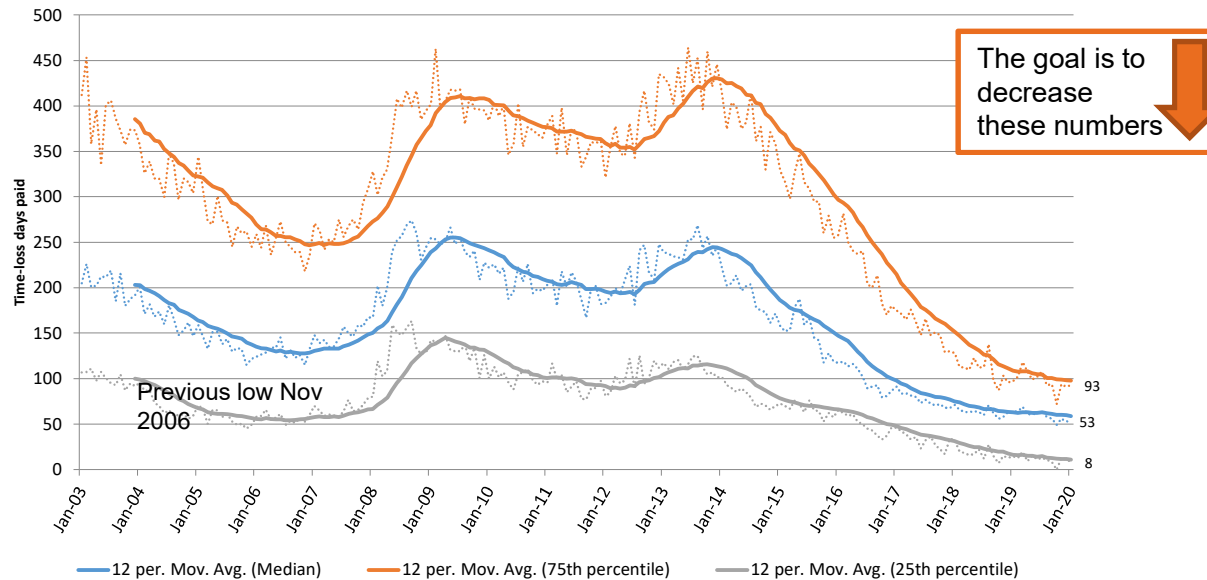


High risk workers are defined as those being disabled on the 40th day following claim receipt, about 1,540 claims per quarter. RTW is defined as the status of not receiving disability benefits between 7 and 12 months

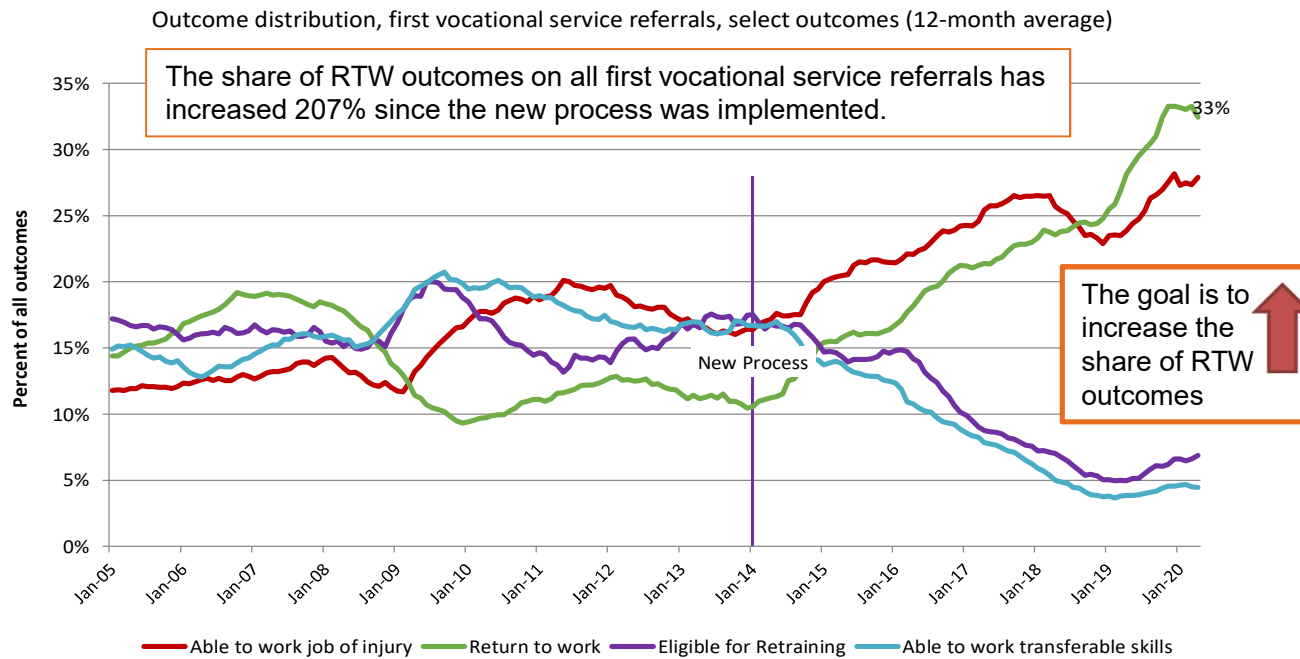
Referrals are now targeted to address the onset of disability

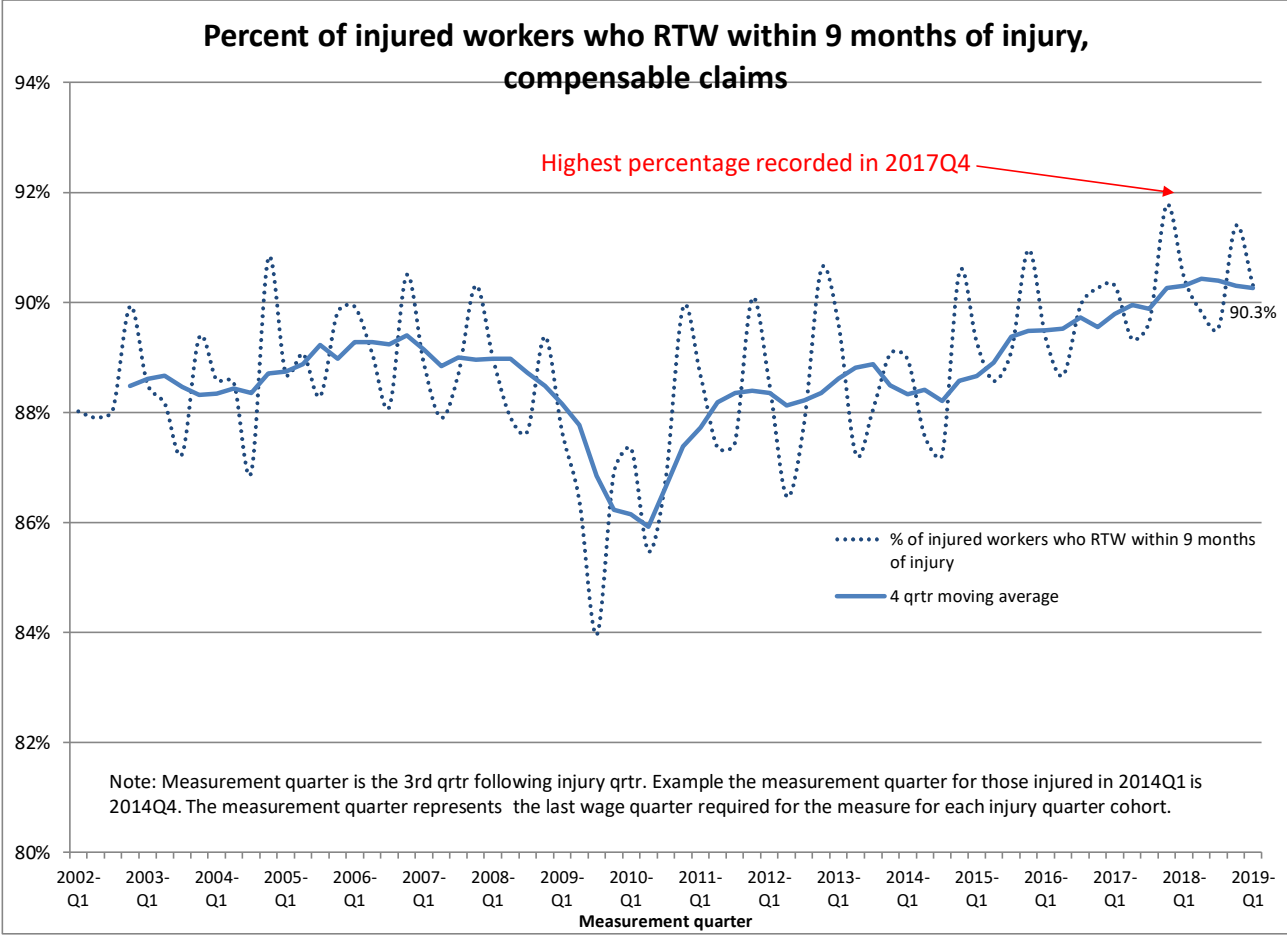
Current median down 75% from 2012 baseline.

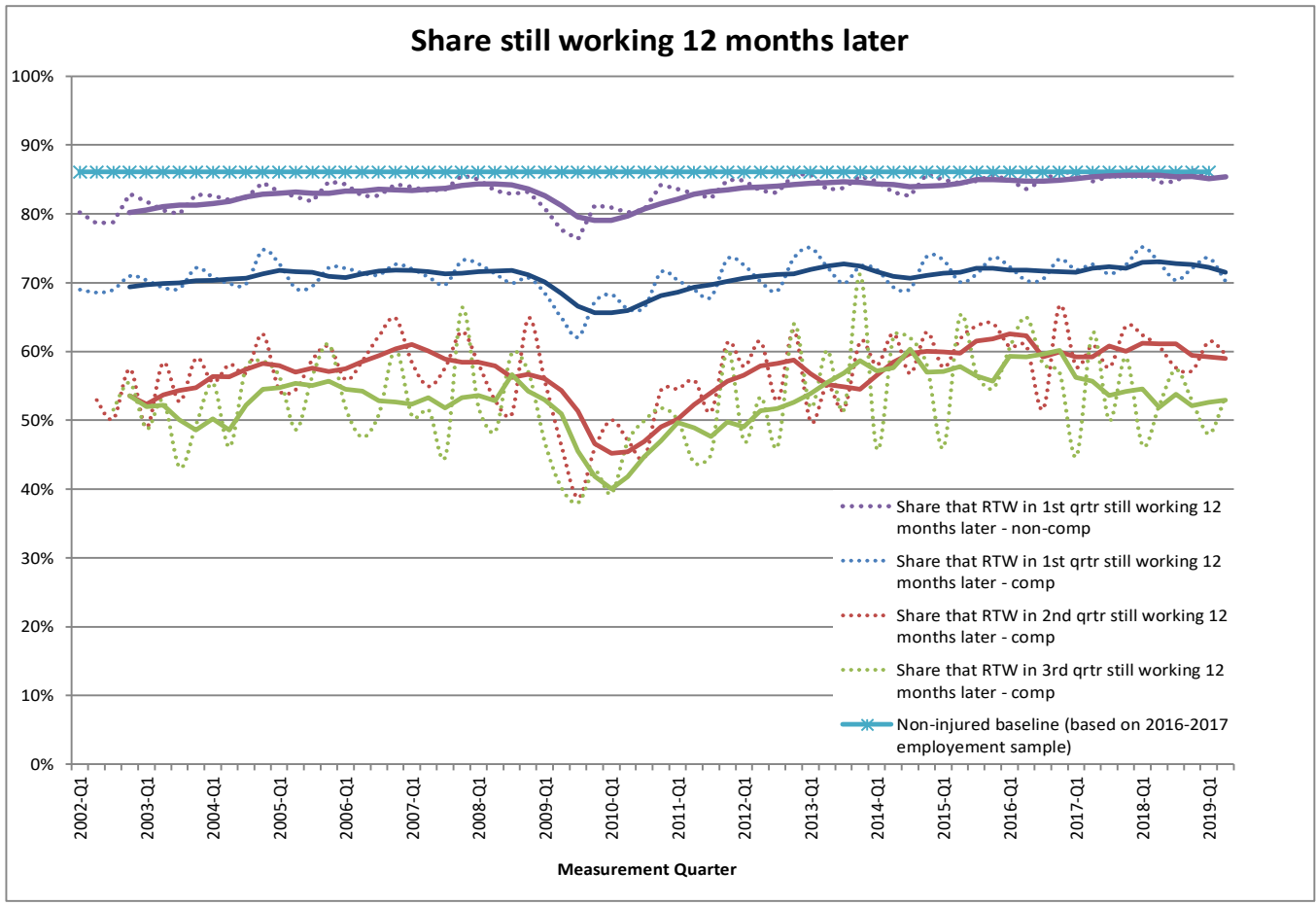
Time-loss days paid at first vocational service referral



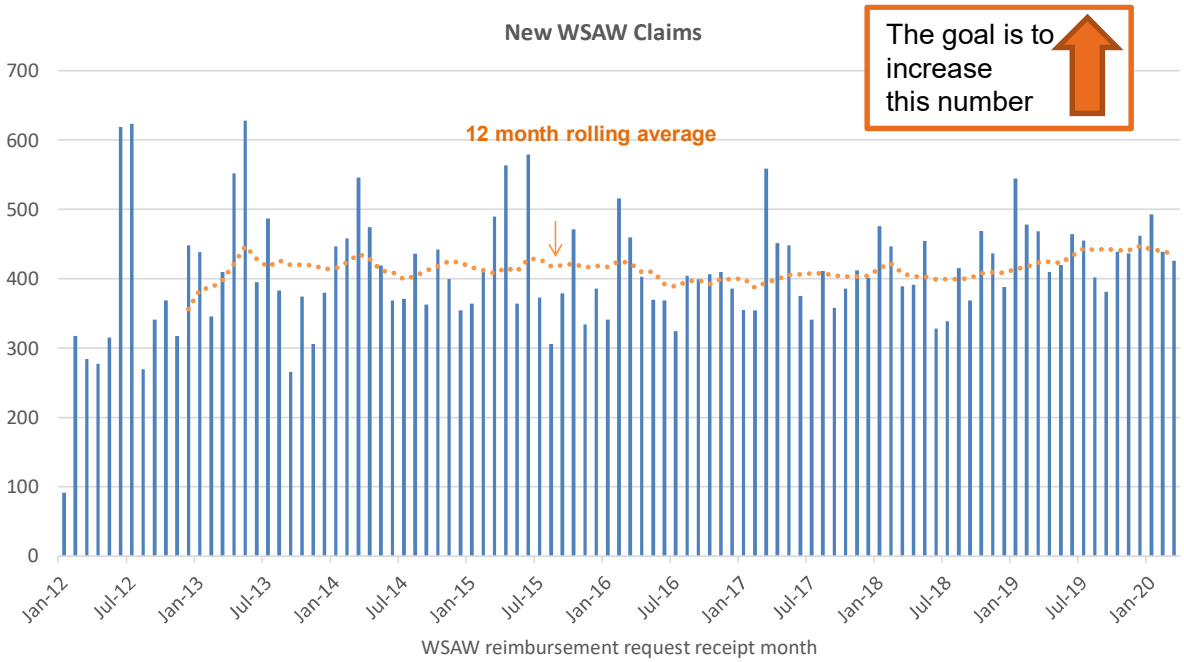
New focus on return to work has increased positive employable outcomes for all first vocational service referrals



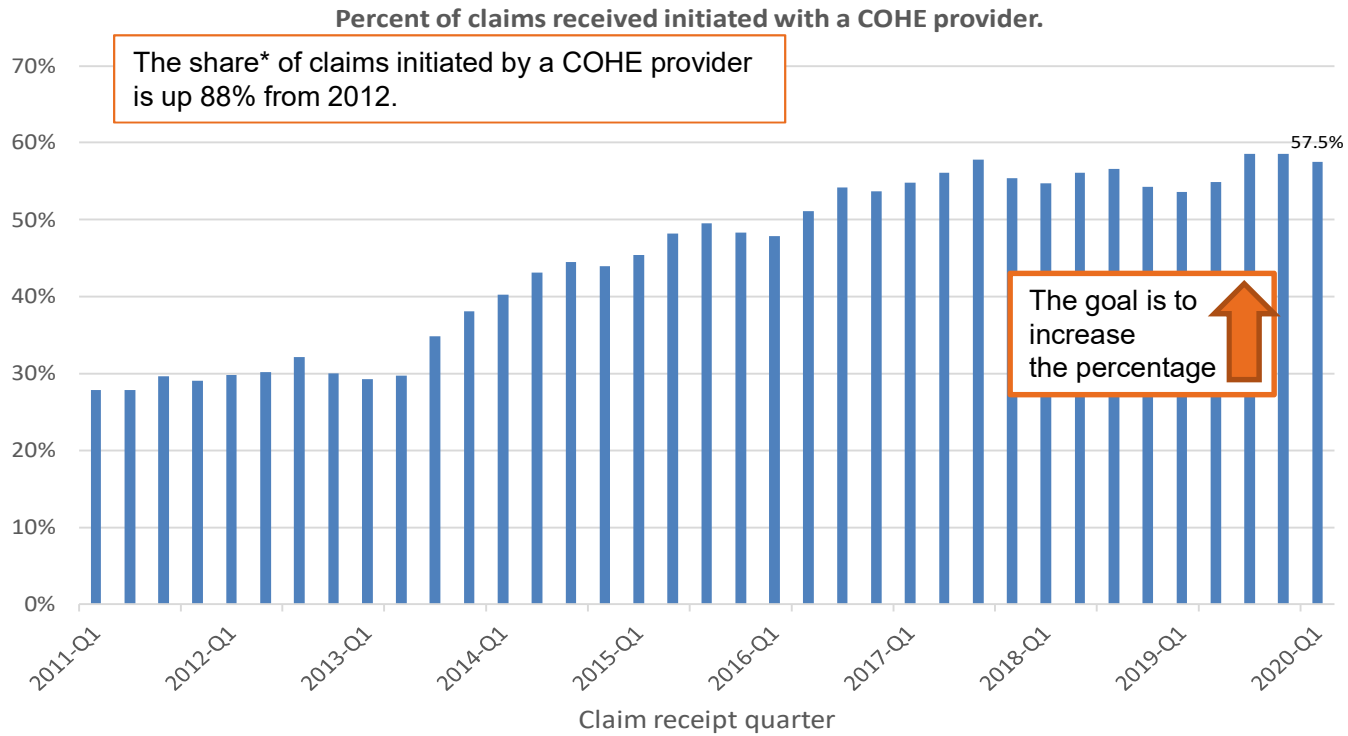




Participation in light duty job assignments helps maintain the employer/injured worker relationship.



Percentage of claims for injured workers initiated with a COHE provider



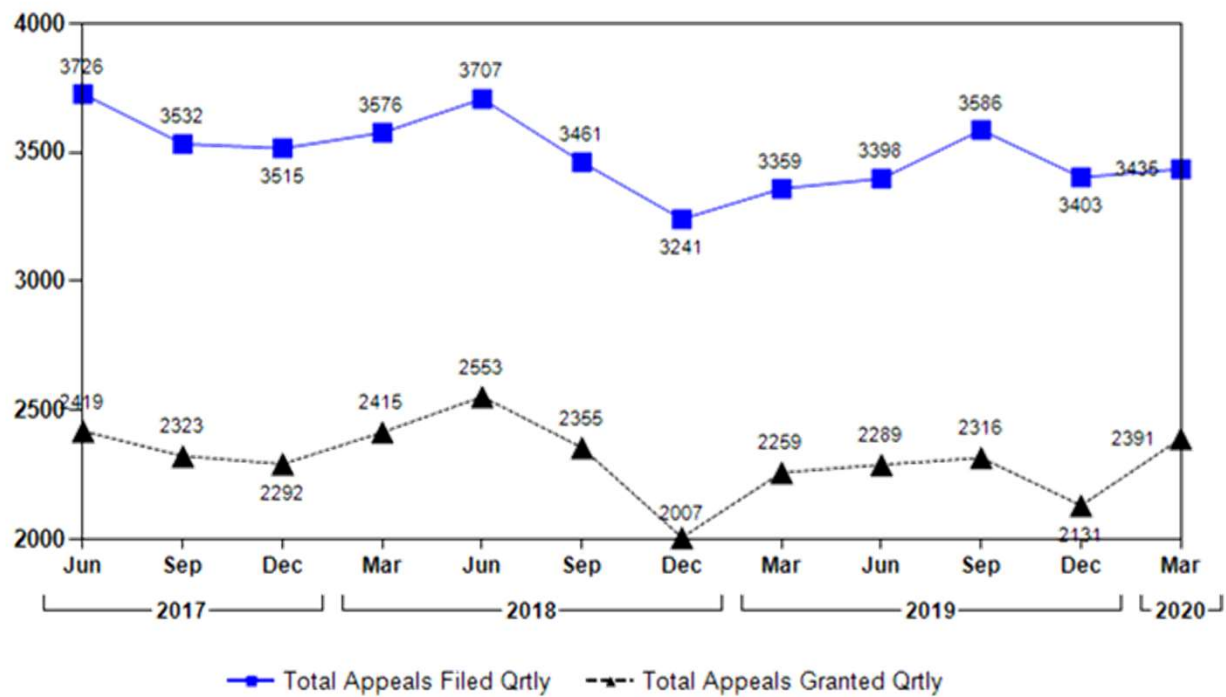
*Average share for most recent 4 quarters.



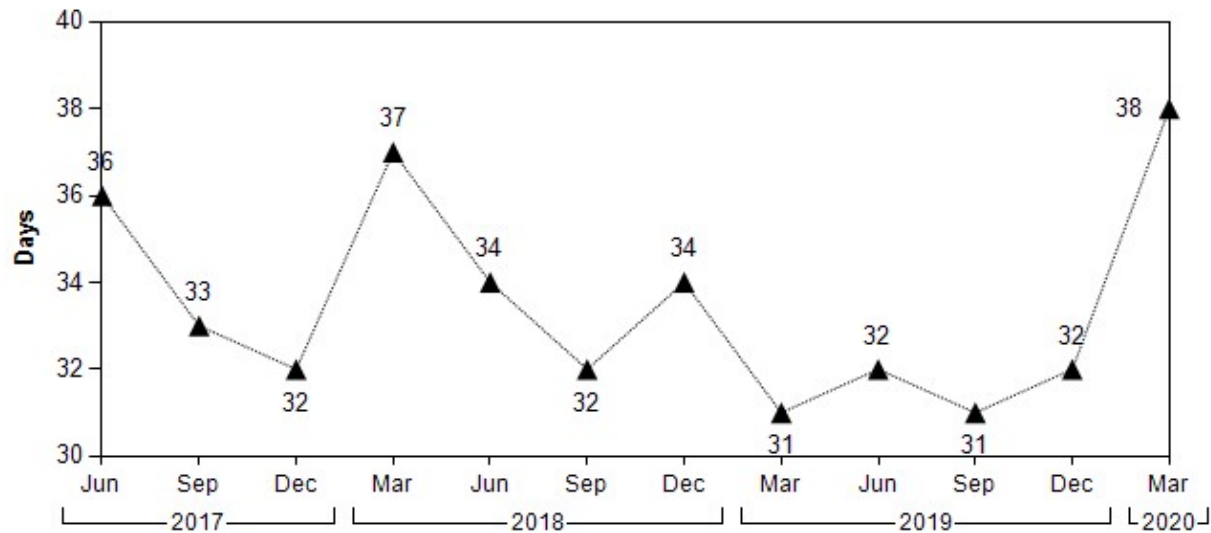
Board of Industrial Insurance Appeals (BIIA) Update

Linda Williams, Chair

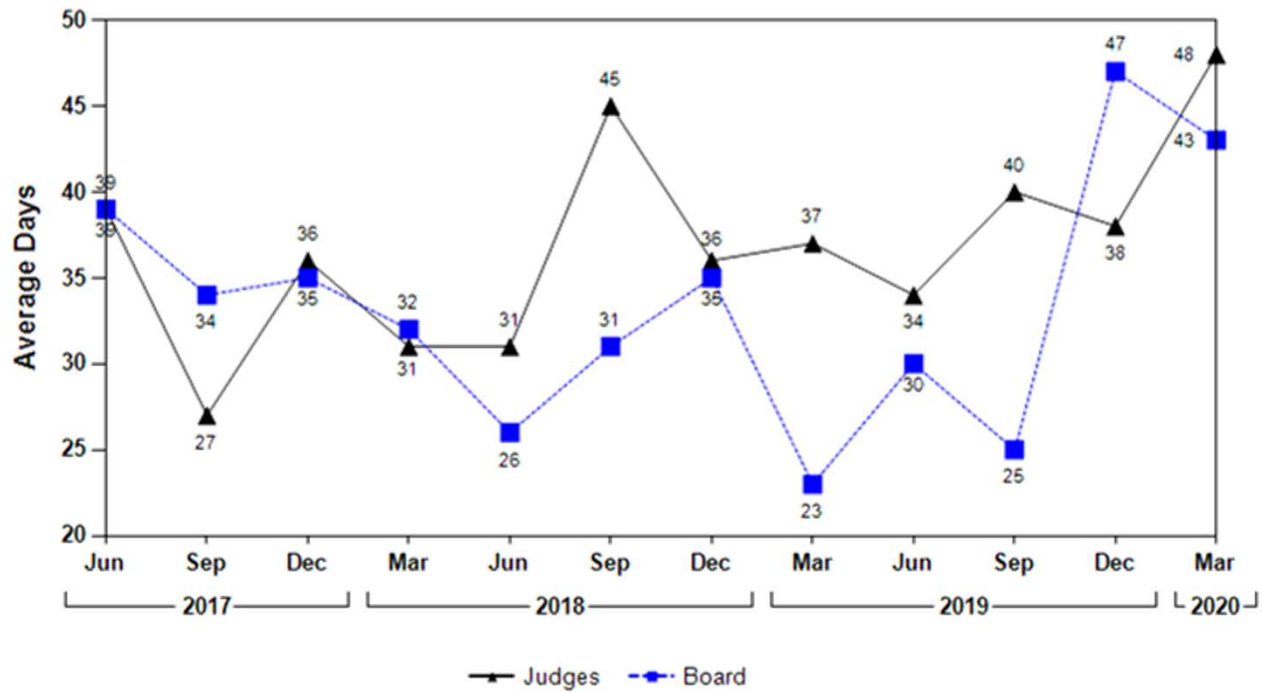
Total Appeals Filed and Granted



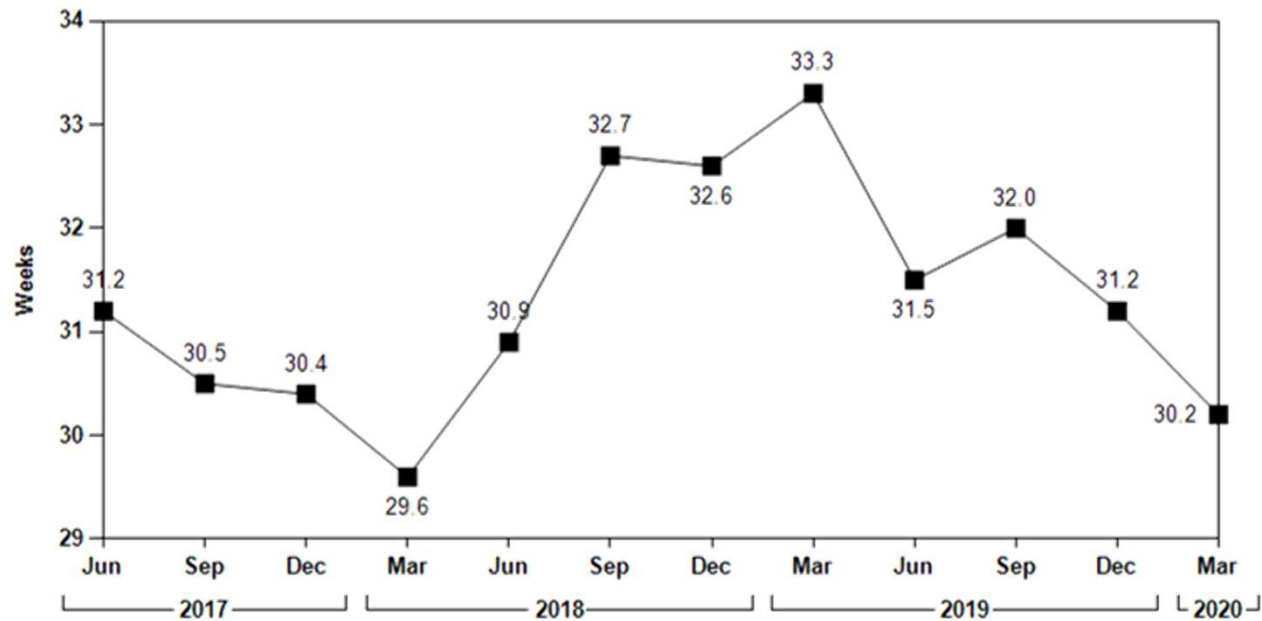
Average PD&O* Time-lag by Quarter for Hearing Judges



D & O* Time-Lag by Quarter

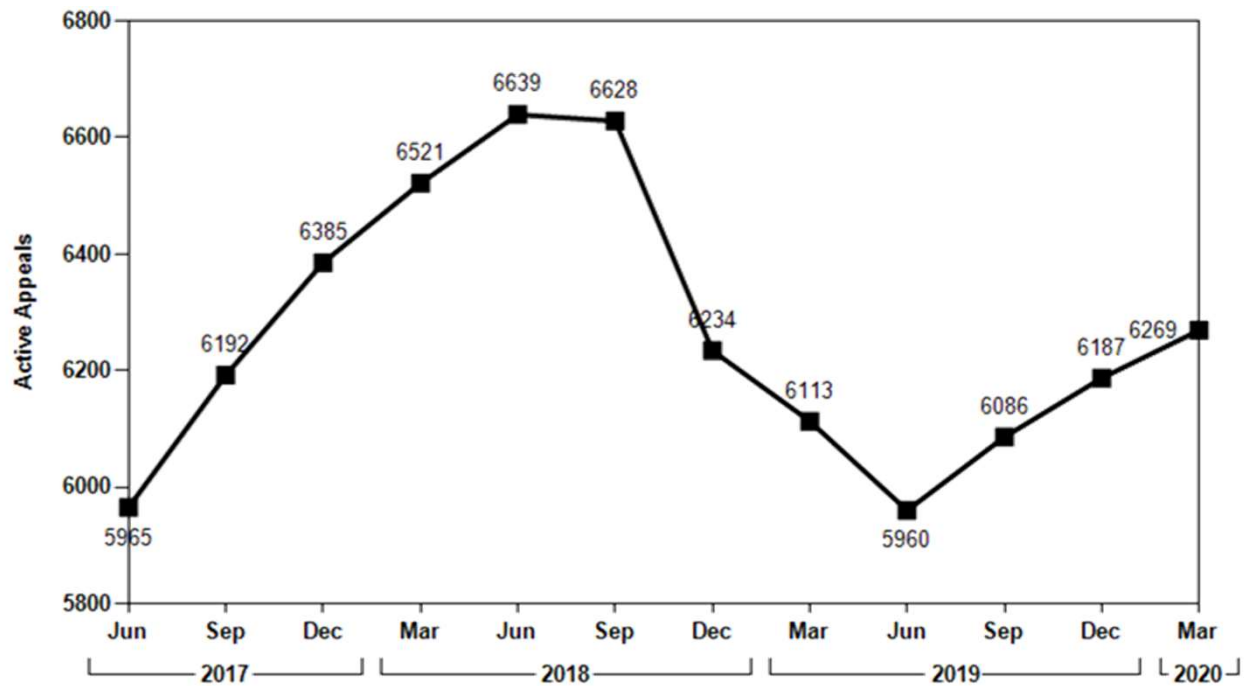


Quarterly Average Weeks to Completion

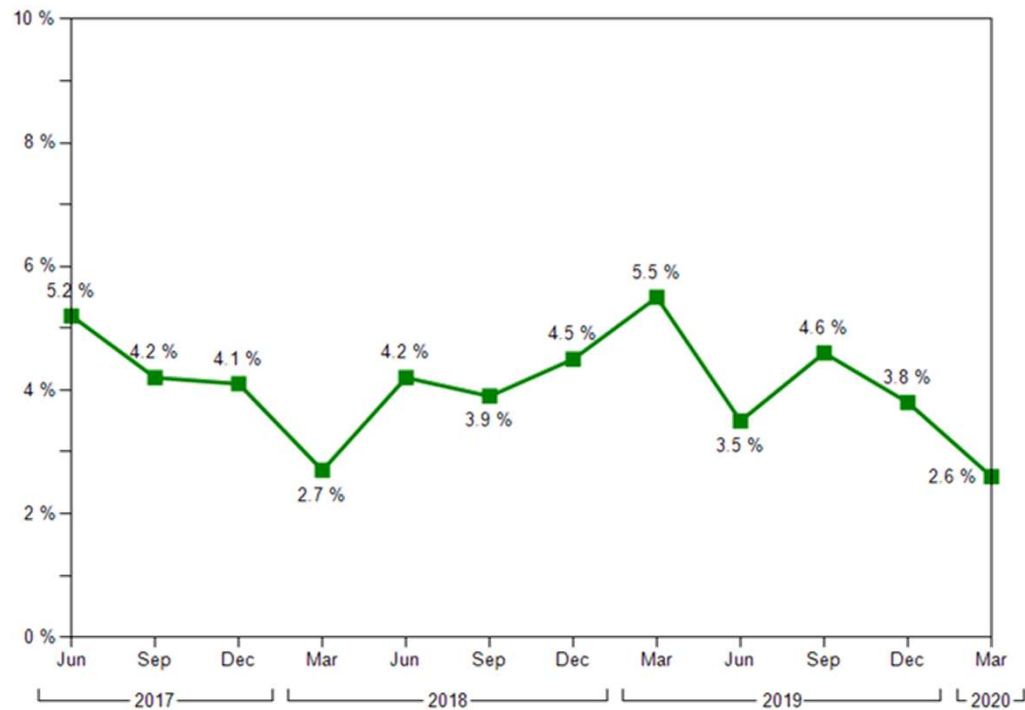


All orders issued by quarter from date filed to date of final order
(Excludes Reassumed and Denied Appeals)

Caseload at End of Quarter



Percentage of Final Orders Appealed to Superior Court - Quarterly





Closing Comments & Adjourn

Vickie Kennedy, Assistant Director for Insurance Services
Joel Sacks, Agency Director