

Workers' Compensation Advisory Committee (WCAC)

Tuesday, December 10, 2019



Agenda

Time	Topic	Presenter(s)
9:00 – 9:20	Welcome <ul style="list-style-type: none"> • Introductions • Motion to approve minutes • Safety message • General updates 	Joel Sacks Vickie Kennedy Jeffrey Killip
9:20 – 9:35	Vocational Recovery Update	Vickie Kennedy
9:35 – 9:50	Master’s Level Therapist Pilot	Zachary Gray
9:50 – 10:30	A Study on Claim Resolution Structured Settlement Agreement	Kevin Hollenbeck
10:30 – 10:40	Break	All
10:40 – 10:50	Board of Industrial Insurance Appeals Update	Linda Williams
10:50 – 11:05	Workers’ Compensation System Modernization	Randi Warick Brian Colker Manoj Verma
11:05 – 11:15	Insurance Services Dashboard	Vickie Kennedy
11:15 – 11:25	Industrial Insurance State Fund Financial Overview	Rob Cotton
11:25 – 11:30	Closing Comments & Adjourn	Vickie Kennedy Joel Sacks

Safety Message

*Jeffrey Killip, DOSH Education and Outreach
Senior Manager*



Workplace Safety Culture Collaboration

- Tacoma Rainiers – an unlikely collaboration
 - [SNACKvideo](#)
[Newsletter](#)



Tacoma Rainiers' Safety Vignettes

- [Fall Protection](#) (1 min)
- [Safety Buddies](#) (30 sec)
- [Water Rest Shade](#) (30 sec)

Tacoma Rainiers' Safety Flyers

BE HEAT SMART
Outdoor Heat Exposure



Heat Related Illness
Warm temperatures, physically demanding work, heavy clothing, and dehydration can put even the healthiest workers at risk for heat exhaustion and life-threatening heat stroke.


Heat Impairment
Heat exhaustion can cause impaired thinking and mobility, making workers more susceptible to falls, equipment-related injuries, and other workplace hazards.

Prevention
Keep yourself and your coworkers safe by knowing how to prevent heat related illness. Make sure you know what the signs are and what to do if someone has this dangerous condition. Shade, rest and hydration are critical.

Visit L&I's *Outdoor Heat Exposure* page for more helpful information.
<http://lni.wa.gov/HeatSmart>


 Washington State Department of
Labor & Industries

WATER, REST, & SHADE
Getting Used to the Heat



Help Workers Adjust to Changing Conditions
As the weather heats up in the summer months it takes time to acclimate to the hotter conditions, so workers should drink more water, take frequent rest breaks, and spend time in the shade to prevent heat-related illness.

Why?
While people can adjust to heat, it takes time. Normally it takes about five to seven days for the body to become more tolerant of heat. However, it can take several weeks to be fully acclimated, so don't overdo it in the early summer months.

 Washington State Department of
Labor & Industries

Tacoma Rainiers' Safety Flyers

FALL PROTECTION

It Can Save Your Life



Falls

are a leading cause of workplace injuries and death. They cause more fatalities in construction than any other hazard. Dangerous falls can be from ground level or higher, like a ladder.

All falls can be prevented. Washington employers have a duty to protect workers from injury or death from falls. The Department of Labor & Industries website — lni.wa.gov — has lots of helpful information, and L&I consultants offer free assistance to help you make your workplace safer.

Stand Down


Every year in May L&I partners with construction companies in our state for the Stand-Down for Safety; any business can participate.

Visit the department's Stand-Down web page for helpful resources and more information.
<http://lni.wa.gov/StopFalls>



Washington State Department of
Labor & Industries

WATCH OUT FOR YOUR BUDDY




The Buddy System

is an effective way to keep workers safe by encouraging them to share the responsibility for one another's safety and well-being. The buddy system can make everyone more aware of safety practices and potential hazards, and it can greatly reduce incidents that could cause injury or death.


Action

- Deploy** - two (minimum) person teams
- Identify** - Your buddy's strengths & weaknesses
- Check** - your buddy's workload & encourage breaks when needed
- Observe** - each other putting on & taking off protective equipment
- Acknowledge** - burnout & tough situations
- Recognize** - accomplishments, even small ones



Washington State Department of
Labor & Industries

L&I CONSULTATION AND ACCIDENT PREVENTION PROGRAMS




Accident Prevention Programs

Washington employers are required to have a written Accident Prevention Program (APP). L&I offers free consultation services that can help develop an effective APP to help businesses identify and fix hazards, identify training needs and help workers and employers build a strong workplace safety culture.

L&I consultants can also help employers understand their legal requirements, reduce industrial insurance costs, and avoid injuries that reduce productivity and profitability.

Contact L&I's safety and health consultation team to schedule a free consultation.
<http://lni.wa.gov/SafetyConsultants>



Washington State Department of
Labor & Industries

Workplace Safety Culture Collaboration

- The creative power of *collaboration and partnership* to promote workplace safety culture

$$1 + 1 = 3!$$

General Updates

Joel Sacks, Agency Director

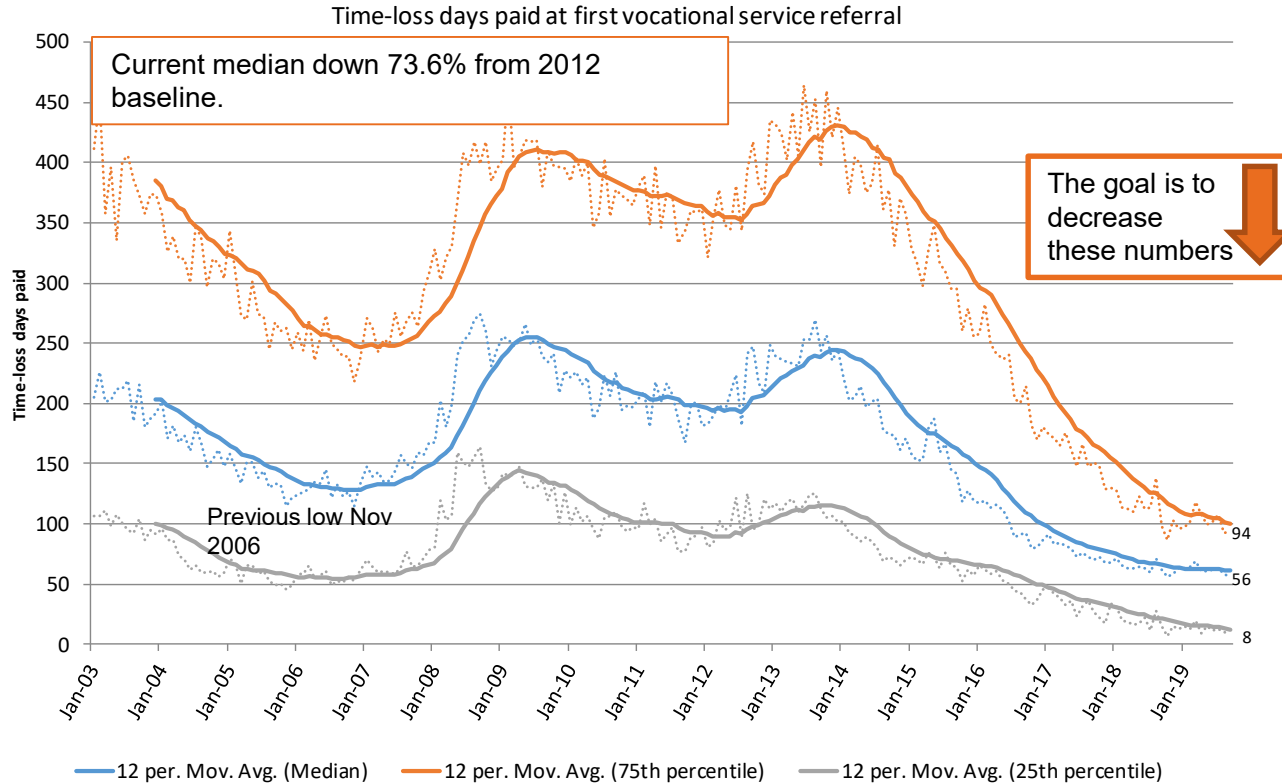


Vocational Recovery Update

*Vickie Kennedy, Assistant Director for Insurance
Services*

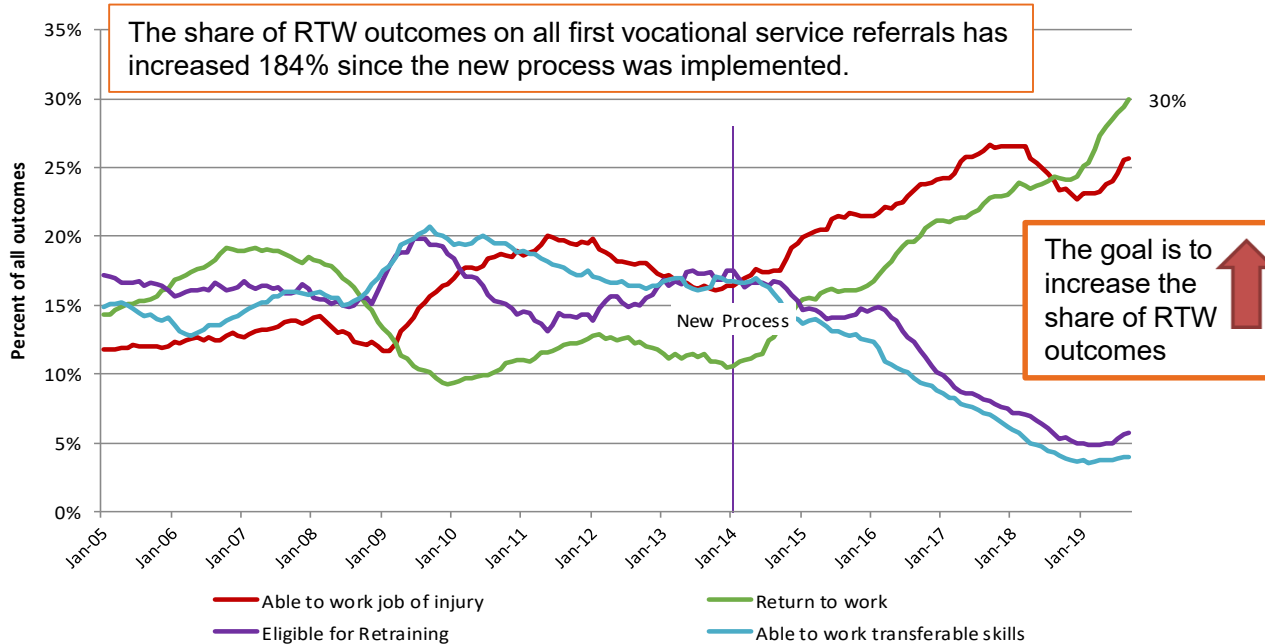


Referrals are now targeted to address the onset of disability



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

Outcome distribution, first vocational service referrals, select outcomes (12-month average)



JLARC Audit Recommendation

Implement RTW standard practices:

“Some vocational service practices need to be tailored to be more effectively utilized in appropriate claims. For example, the AWA is being used as an “adjudicative” tool, but the adjudicative approach is not an effective RTW tool. New practices and interventions need to be defined and put into use, which can become part of a standard RTW practice used to manage claims towards desired outcomes”

Vocational Recovery

Improving outcomes through a worker centric work disability prevention model supported in the law, administrative rules, and administration of vocational services and partnerships

Preventing Work Disability

Preventing work disability

The 4 principles of work disability prevention

1. Prevent unnecessary delays
2. Prevent a confusing process
3. Prevent unnecessary duration
4. Prevent unclear RTW expectations/plans

Used with permission of Centrix Disability Management Services Inc., 2005–2019

Outline of rule provisions

- Define “vocational recovery” – intended to ensure appropriate support is provided to an industrially injured or ill worker so that they return to work, continue to work, or are enabled to become employable...
- Application of work disability prevention best practices
- Using a worker centric approach

Outline of rule provisions, continued

Adds new requirements for vocational firms to receive State Fund referrals

- Firm provider agreements annually
- Practices for distribution of referrals
- Quality assurance plans

Outline of rule provisions, continued

Outlines when a VRC or firm may be subject to corrective action or sanctions

- Criminal background checks
- Sexual misconduct or contact
- Establishes independent peer review panel for permanent sanctions

Questions?

Master's Level Therapist Pilot

Zachary Gray, Epidemiologist



Background

- Most workers experience a physical injury or illness and recover fully. Some workers also receive care for related behavioral or mental health issues.
- L&I's medical provider system includes over 1300 mental health specialty providers.
 - Less than half of these providers have billed for services in the past year.
- Currently, master's level therapists (MLTs) are not allowed to treat under a workers' compensation claim. In 2018, L&I was asked by chairs of the Senate and House policy committees to change its rules and policy to allow MLTs to treat workers
 - MLTs include: Licensed independent clinical social workers (LICSWs), Licensed marriage and family therapists (LMFTs), and Licensed mental health counselors (LMHCs)

MLTs as providers—Potential Benefits to the WC system

- Improved access to Behavioral Health Services focused on supporting improved function and return to work (RTW)
 - Interventions to address barriers that impede recovery from the work-related injury or illness

Behavioral and mental health—What is the difference?

- For the workers' compensation system, it is important to differentiate behavioral health services and mental health conditions
 - Behavioral health
 - How people deal with difficult situations
 - Coping strategies
 - Normal reactions
 - Do not meet clinical necessity for a mental health diagnosis
 - Mental health
 - DSM-5 criteria for mental health diagnosis
 - Adjudicative process of causation, beginning with attending provider referral for appropriate evaluation

Behavioral health services deal with the physical diagnosis

- Treatment must be related to the physical diagnosis on the claim, addressing behaviors that are affecting an injured worker's ability to recover and return to work
- No formal psychological evaluation is required, and diagnosis of a “mental health condition” is not allowed
- Meant to address behaviors, such as fear-avoidance, catastrophic thinking, perceived injustice
- Focused on “situational” coping strategies, and dealing with current issues faced in the claim, not pre-existing/long-term issues such as bi-polar disorder or depression
- Behavioral health services can be delivered by psychologists or MLTs

Master's Level Therapist Pilot Info

Results from the pilot will help shape future policies, training, and administrative processes

- Enrollment phase: Began 11/15
 - Up to 300 MLT providers will be enrolled initially to provide specific services
 - Includes mandatory pilot and workers' compensation specific training prior to enrollment (located on MLT webpage)
- Pilot/treatment phase: Begins January 1, 2020
 - Attending provider referral required to initiate care
 - No authorization needed for first 8 visits
 - Utilization review of functional improvement for additional visits (up to 8 more)

Communication and training

- Communication plan has been developed
- Training has been developed for pilot providers, and internal training is ongoing
- For questions and comments regarding the pilot, email MLT@LNI.wa.gov
- For more information, visit our pilot website at Lni.wa.gov/MLT

A Study of Claim Resolution Structured Settlement Agreements

Kevin Hollenbeck

(Marcus Dillender and Allan Hunt, co-investigators)

W.E. Upjohn Institute for Employment Research

December 10, 2019

A presentation for the Workers Compensation Advisory Committee

Legislative mandate

- In calendar years 2015, 2019, and 2023, the department shall contract for an independent study of claim resolution structured settlement agreements approved by the board under this section. The study must be performed by a researcher with experience in workers' compensation issues. When selecting the independent researcher, the department shall consult with the workers' compensation advisory committee. The study must evaluate the **quality** and **effectiveness** of structured settlement agreements of state fund and self-insured claims, provide information on the impact of these agreements to the state fund and to self-insured employers, and evaluate the outcomes of workers who have resolved their claims through the claim resolution structured settlement agreement process. (RCW 51.04.069) [Emphasis added.]

Presentation Outline

- Study method and data
- Review of application and settlement trends
- Process from worker perspective
- Employers' and attorneys' perspectives
- Findings and recommendations
- Questions and answers

Study Questions and Data Sources

Study Questions (1)

Quality	Effectiveness
<ul style="list-style-type: none">• Results in positive outcomes for claimants• Perceived to be fair/equitable by claimants and employers<ul style="list-style-type: none">➢ Horizontally (i.e., equal treatment for equal circumstances)➢ vertically (i.e., other things equal, more need or more immediacy gets higher level of attention)• Unbiased (non-skewed) participation behavior• Positive outcomes for employers• Minimal unintended consequences	<ul style="list-style-type: none">• Outreach information is accurate and disseminated widely to potential applicants• Processing is timely• Reasonable administrative cost per claim• Wide employer awareness and perception that program reflects employer input• Benefits accrued exceed the costs of the program

Study Questions(2)

- How the CRSSA processes have evolved since our earlier study
- How CRSSAs are effectuated for workers injured while employed by firms that are self-insured (SI)
- How the potential fiscal benefits of CRSSAs compare to the costs

Data Sources

1. Claims data on all eligible workers since program start (n=30,963)
2. Archive of SI structured settlements (n = 381)
3. Mail survey of settlement applicants (n = 128 usable responses; 15.5%)
4. Interviews or focus groups with workers who settled, employers, attorneys, administrative staff

Trends in Applications and Settlements

State Fund applications and settlements

- Since 2016, flow of applications has been steady (approx. 50/month)
- However, rate of settlements has increased
 - In 2016-2017, approximately 240 settlements (10/month)
 - In 2018, total of 210 settlements (15/month)
 - Through September 2019, total of 166 settlements (just under 20/month)

Self-Insured settlements

- Since 2017, flow of settlements has increased
 - Total of 254 settlements between 2012 -- 2017, which equals average of 42/year (presumably greater after *Zimmerman*)
 - In 2018, total of 166 contracts (14/month)
 - Through September 2019, total of 113 (approx. 13/month)

(Reminder, about 25 percent of WA workforce covered by SI employers.)

Process from Workers' Perspective

Motivation

- “to no longer have to deal with workers’ compensation” (at least half of focus group and survey respondents)
- “did not want to go through training” (at least half of focus group and survey respondents)
- “resolve uncertainty about what I would receive for my injury;”
“provide bridge until Social Security;” and “wanted to work.”
(between one quarter and half of survey respondents)

Characteristics of application process (1)

Table 2 Means of Characteristics of Applications from SF Workers

Characteristic	First Applied 2012-2018	First Applied 2012-2015	First Applied 2016-2018
% of applications where agreement is reached	17	17	17
% of applications rejected by department	37	44	28
% of applications that enter negotiations but do not settle	44	36	54
% of applications initiated by department	45	35	59
% with lawyer	25	21	30
Months from claim start to first application	53.0	48.5	59.2
Months from application to agreement	4.8	6.1	3.1
Months from application to rejection	0.6	0.6	0.4
Months from application to negotiations being terminated	0.3	0.4	0.2
Months from application to reaching BIIA	3.3	4.4	1.6
Months from reaching BIIA to agreement	1.6	1.7	1.5
Months from first application to final agreement	9.0	10.9	6.4
Amount of structured settlement (\$)	97,086	98,261	95,500

NOTE: The data come from L&I's data warehouse. The data contain information on the 1,862 structured settlement applications from eligible claims for state-fund employers from 2012 through 2018.

Characteristics of application process (2)

Table 3 25th Percentile, Median, and 75th Percentile of Characteristics of the Application Process for SF Workers

Characteristic	First Applied: 2012-2015			First Applied: 2016-2018		
	25th Percentile	Median	75 th Percentile	25 th Percentile	Median	75 th Percentile
Months from claim start to first application	19.3	33.8	63.1	24.5	42.6	76.6
Months from application to agreement	3.8	5.4	7.3	2.5	2.9	3.5
Months from application to rejection	0.1	0.2	0.7	0.1	0.2	0.5
Months from application to negotiations being terminated	0.0	0.2	0.5	0.0	0.1	0.2
Months from application to reaching BIIA	2.3	3.6	5.4	1.1	1.4	1.9
Months from reaching BIIA to agreement	1.4	1.6	1.9	1.4	1.4	1.6
Months from first application to agreement	5.0	7.1	14.6	2.9	4.4	7.7
Amount of structured settlement (\$)	60,000	90,000	130,000	60,000	88,000	120,000

NOTE: The data come from L&I's data warehouse. The data contain information on the 1,862 structured settlement applications from eligible claims for state-fund employers from 2012 through 2018.

Settlement amounts

Insurer	25 th Percentile	50 th Percentile	75 th Percentile	Mean
State Fund	\$60k	\$88k	\$120k	\$97.1k
Self-Insured (sample)	\$25k	\$48k	\$83k	\$61.0k

Multivariate analysis of applications and settlements

- Correlates of submitting application and receiving settlement:
 - Medical expenses
 - Eligible for vocational rehab plan
 - Have representation

- Negative correlates
 - Received PPD
 - Completed option 1

Post-settlement outcomes (1)

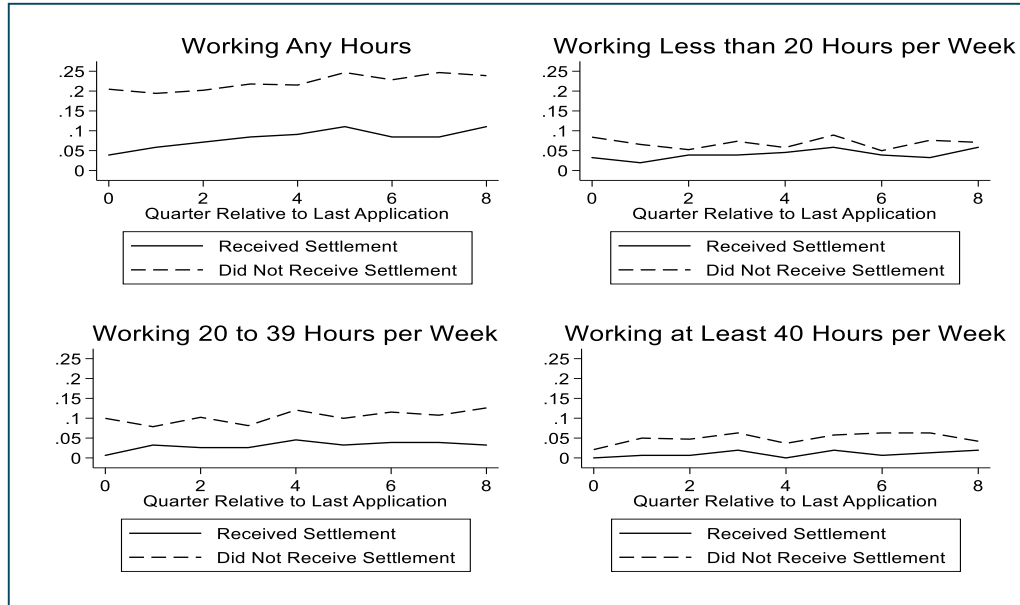
- Expenditures and saving
 - About half indicated using settlement to reduce/payoff debt (survey and focus groups)
 - About half made major expenditure (vehicle, home renovation, or vacation) (survey)
 - Around 15 – 25 percent, increased savings account or invested funds
- Medical expenses
 - About one-third to 40 percent reported large medical expense (not all may have been injury-related)
 - Some evidence that workers with settlement **may** not understand that post-settlement costs associated with injury will be covered, especially SI workers.

Post-settlement outcomes (2)

- Employment (survey data)
 - About 25 percent in labor force (working or looking for work)
 - About 14 percent employed, mostly part-time
 - Employment rate increases slightly with time after settlement (claims data, see figure 1 on next slide)

Post-settlement outcomes (3)

- Employment (claims data)



Employers' and Attorneys' Perspectives

Opinions from Interviews (1)

- Lower age limit to 40 (or less)
- Even after *Zimmerman*, there is still some criticism of BIIA arbitrariness (“communication with workers compensation community could be improved;” “there is an anti-structured settlement agreement philosophy.”)

Opinions from Interviews (2)

- L&I seems to have been more generous when program first started in order to encourage use; offers have declined in value
- Distrust of using claim reserve for making offer
 - Doesn't take into account risk and uncertainty
 - Doesn't take into account costs associated with administering claim
 - May be inaccurate

Employer Characteristics (claims data)

- Relative to employers with workers who applied, employers with workers who received settlements –
 - Are larger employers (more than 500 employees)
 - Have claims with higher medical costs
 - In construction, real estate, health care, and public administration
- Nevertheless, our bottom line –
 - “there is no obvious employer bias in access to structured settlements.” (p. 32)

Impact on SF Premiums (Example data supplied by L&I Actuary)

- Assumption: Rate class 0514 (Garage Door Installation)

Number of employees	Size of settlement	Representative reduction in indemnity payments over life of claim	Reduction in annual total premiums
10 FTEs	\$20,000	\$15,000	\$1,745 (2.7 percent)
50 FTEs	\$20,000	\$15,000	\$3,091 (1.0 percent)
10 FTEs	\$100,000	\$110,000	\$6,716 (10.5 percent)
50 FTEs	\$100,000	\$110,000	\$12,720 (4.0 percent)

Findings and Recommendations

Benefit-to-Cost Analysis

- Total budgetary charges of SSU from SFY 2012 to SFY 2018 = \$5.34 million
- Total savings in claim costs (assuming settlement is 80 percent of reserves) = \$11.16 million
- Estimated benefit-to-cost ratio = 2.1

Recommendations

1. Investigate how “best interest of worker” is determined
 - by SSU analysts for *pro se* SF applicants
 - by BIIA for *pro se* applicants
 - by attorneys for SF and SI applicants with representation
2. Provide more information about CRSSAs to workers
 - 10 percent of applicants did not know they had applied
 - Most often cited complaint about CRSSAs in survey was “L&I did not supply enough information”
 - May be lack of understanding about post-settlement medical costs
3. Investigate why SI settlements are so much less than SF settlements
4. Consider standardization of structured settlement amounts
5. Consider expanding the use of structured settlements

Questions and Answers

Break Time

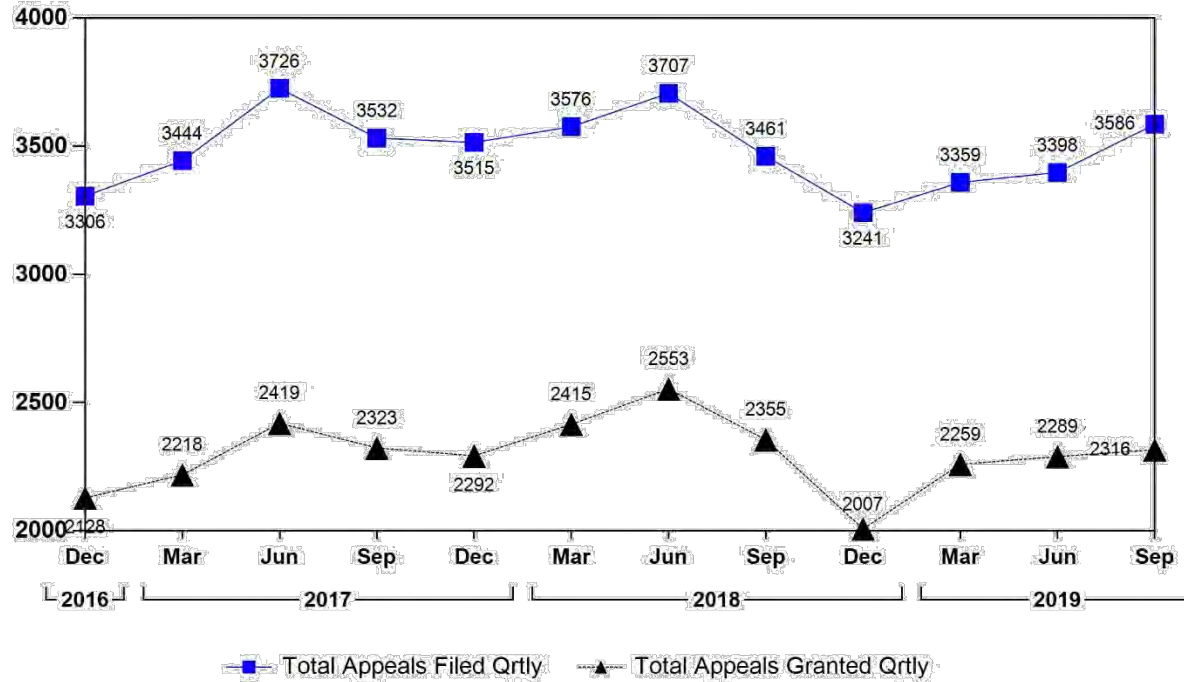


Board of Industrial Insurance Appeals (BIIA) Update

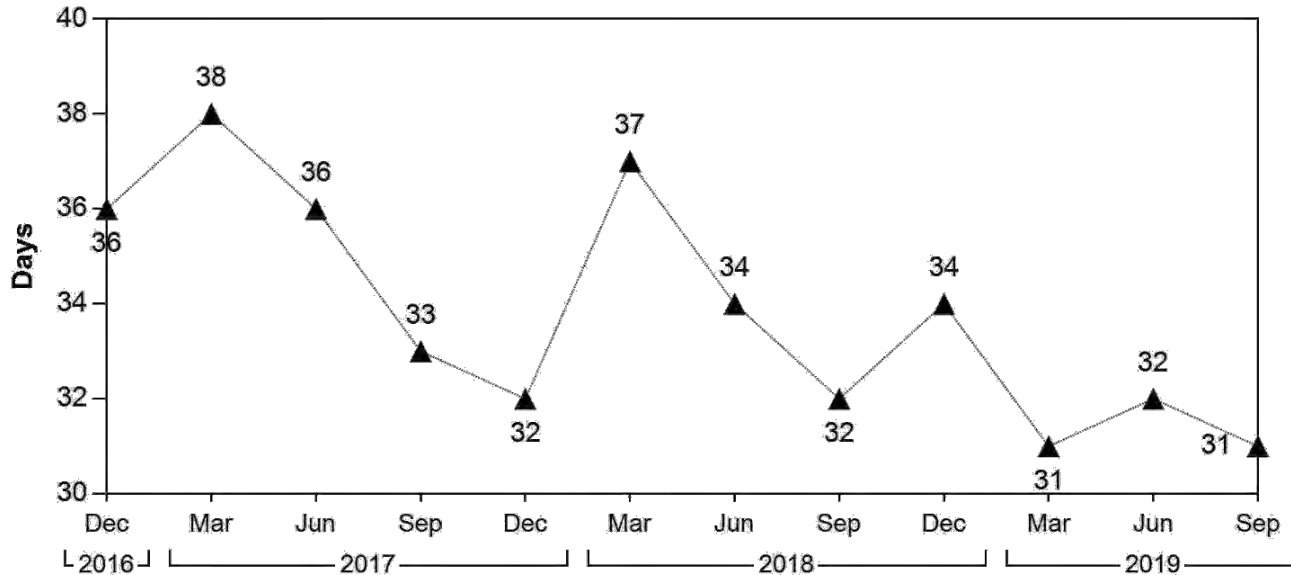
Linda Williams, Chair



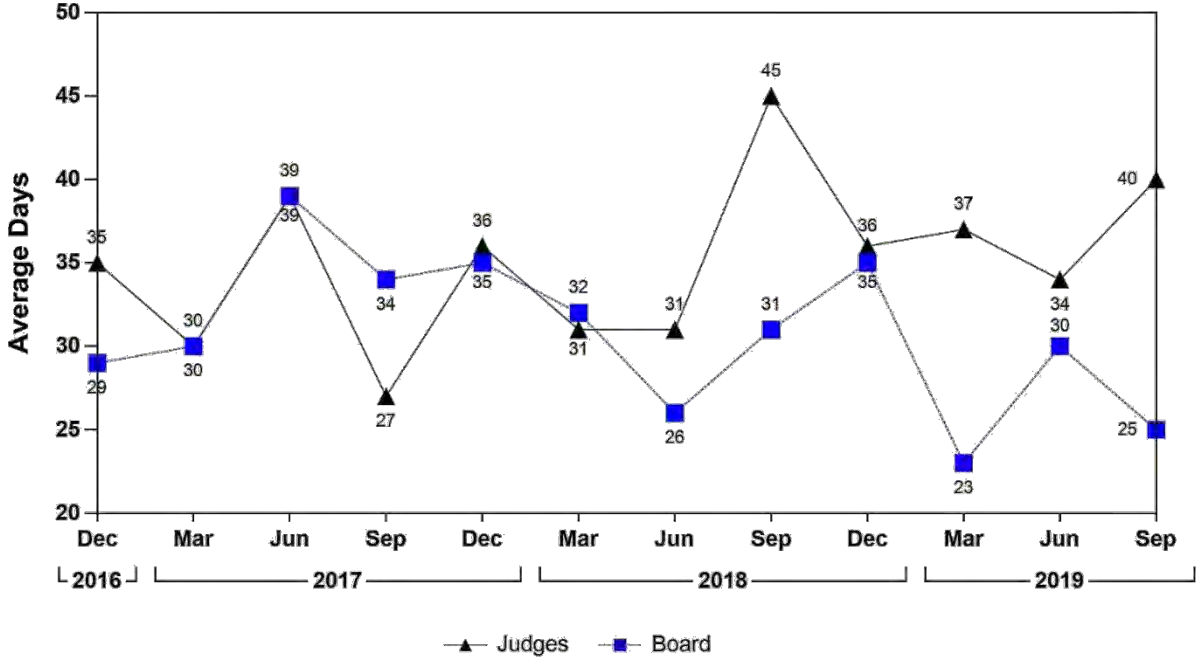
Total Appeals Filed and Granted



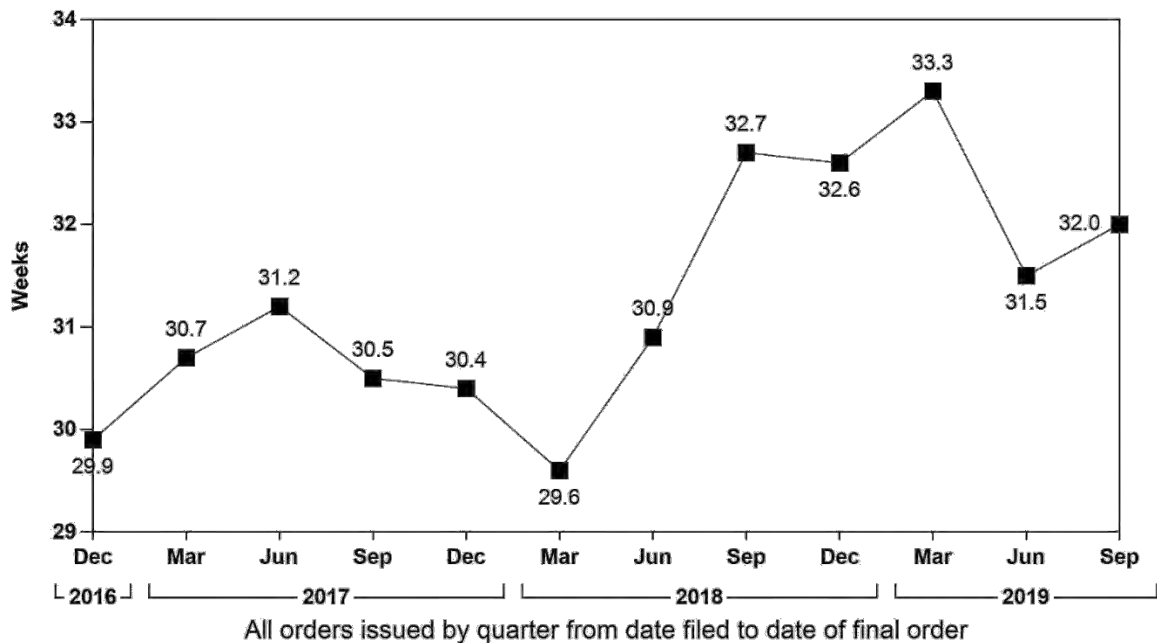
Average PD&O* Time-lag by Quarter for Hearing Judges



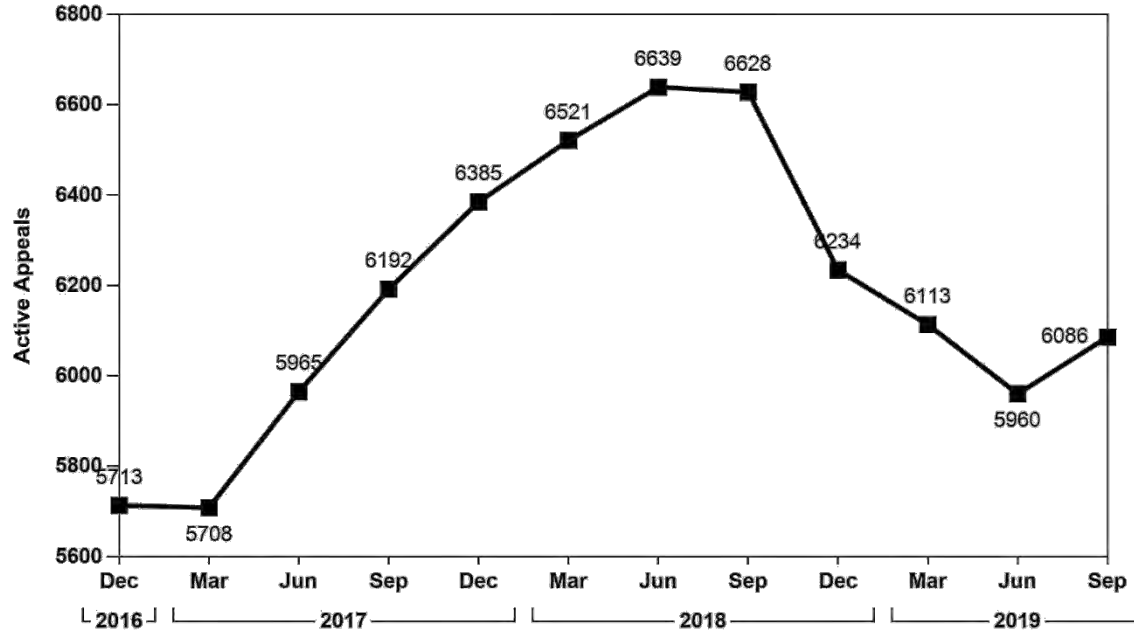
D & O* Time-Lag by Quarter



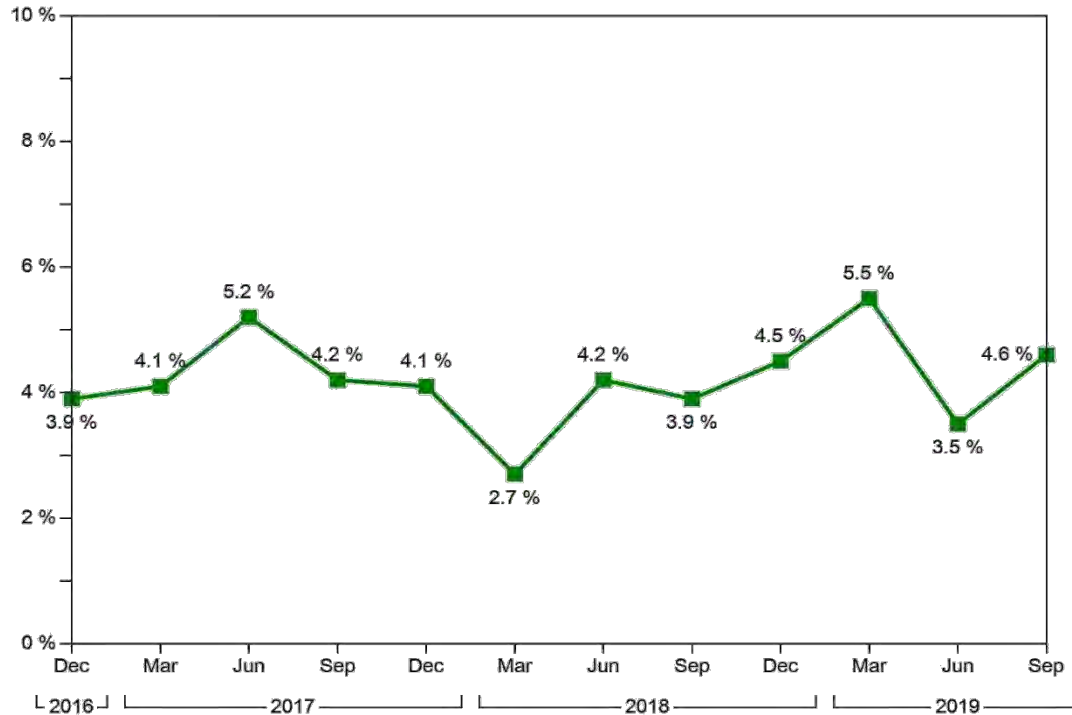
Quarterly Average Weeks to Completion



Caseload at End of Quarter



Percentage of Final Orders Appealed to Superior Court - Quarterly



Workers' Compensation Systems Modernization (WCSM)

Brian Colker, Linea Solutions Inc.

Manoj Verma, Deputy Project Director - Technical



Case Studies – Similar Projects

- L&I researched workers' comp industry to find recent, similar projects for insights on:
 - Size of project (duration, cost, resources, scope)
 - Products and vendors they used
 - What was successful
 - What needed improvement
- Programs in Ohio and Ontario, Canada:
 - Similar to L&I in size and function
 - Recently completed business transformation projects

Organizational Comparison

	Ohio	Ontario	L&I
Number of employees	1,800	3,600	3,040
Number of locations/offices	13	13	19
Number of employers	249,000	313,000	177,000
Premiums	\$1.5B	\$3.75B*	\$2.1B
Benefits paid	\$1.5B	\$2.25B*	\$1.9B

* Expressed in U.S. dollars

Comparison figures based on 2016 annual reports

Project Comparison

	Ohio	Ontario	L&I Differences
Project Scope	Claims, Employers, Financial, Data Warehouse	Claims, Employer, Billing, Data Warehouse	L&I is implementing employer, claims, and benefit payments
Duration	4 years	4 years	L&I duration is expected to be 6+ years as scope is larger

Ohio

Successes	Challenges
Selected software vendor was good fit.	Project size and complexity were more than anticipated.
Successfully converted data from old system to new system internally.	Change management started too late; staff initially resistant to the way the new system worked
Change management prioritized communication to employers/external agents, which worked well.	Business allowed to ‘pave the cow path’ – recreate old processes in the new system
Change management for staff/internal users started late, but ultimately was done well.	Staff lacked confidence in project team after missed dates.
Successfully changed project leadership when project stalled.	Requirements used for procurement not detailed enough, leading to misunderstandings with vendor
Centralized staff for project (‘command center’) , with emphasis on providing support to all offices.	Project originally was run solely by IT; business/IT partnership ultimately needed to be successful

Ontario

Sucesses	Challenges
Dedicated top internal staff to be the subject matter experts.	Purchased software, but customized the product too much (especially claims).
Dedicated change-management staff to the project to help with transition to new way of working.	Focused on implementing Ontario's <u>current</u> business policies, practices and procedures, rather than improving business processes.
Strong executive leadership support.	The project required many more staff members than originally assumed
All other non-essential projects put on hold.	Turnover at CIO level during the project (3 CIOs).
Strong contractual protections in place to make sure they paid for what was delivered.	

Key Takeaways for L&I

Ohio

- L&I's duration will be longer than 4 years because of benefit payment module
- L&I's legacy environment more complex and will need greater IT support during project
- Staff need to be prepared for the changes to their daily work (this is underway)
- Need to engage external customers (like employers) early

Ontario

- Ontario very comparable to L&I in size, but L&I's scope is greater
- Dedicate an internal 'A' team (strongest) to the project
- Be realistic about numbers of L&I staff needed: it's a big project
- Do not overly customize the software – stay on the upgrade path

Market Landscape - Summary

- Workers' comp implementation market has both product vendors and implementation partners that bid on projects.
- Large projects usually have implementation vendors as prime bidders.

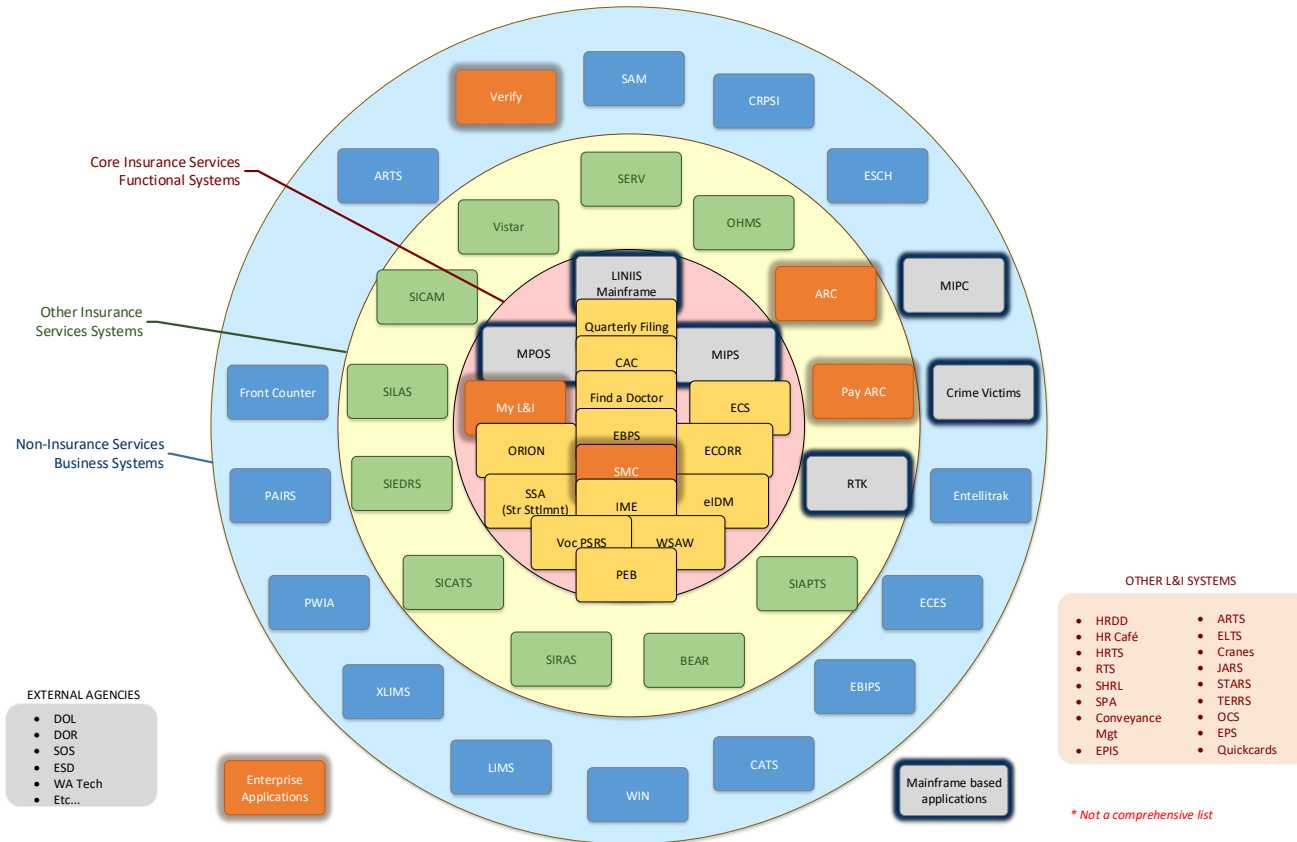
Product Vendors

- Guidewire
- Stone River
- Insurity
- Fineos
- Duck Creek
- Etc.

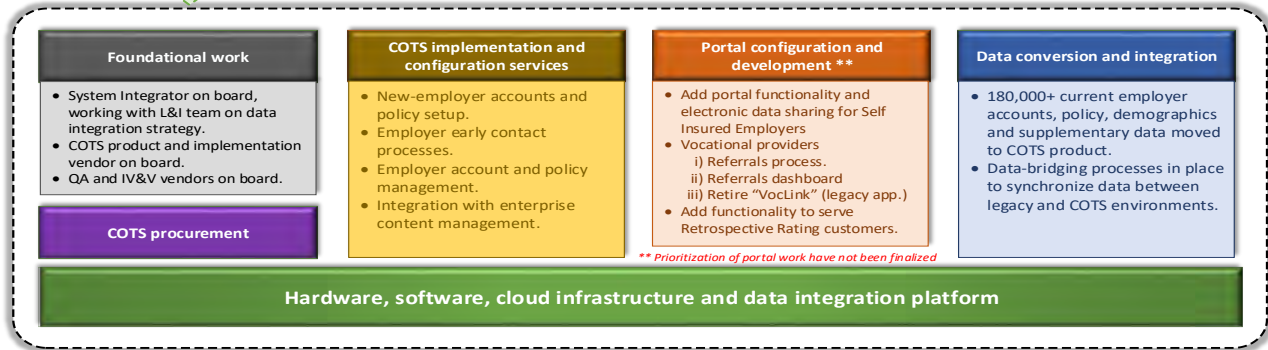
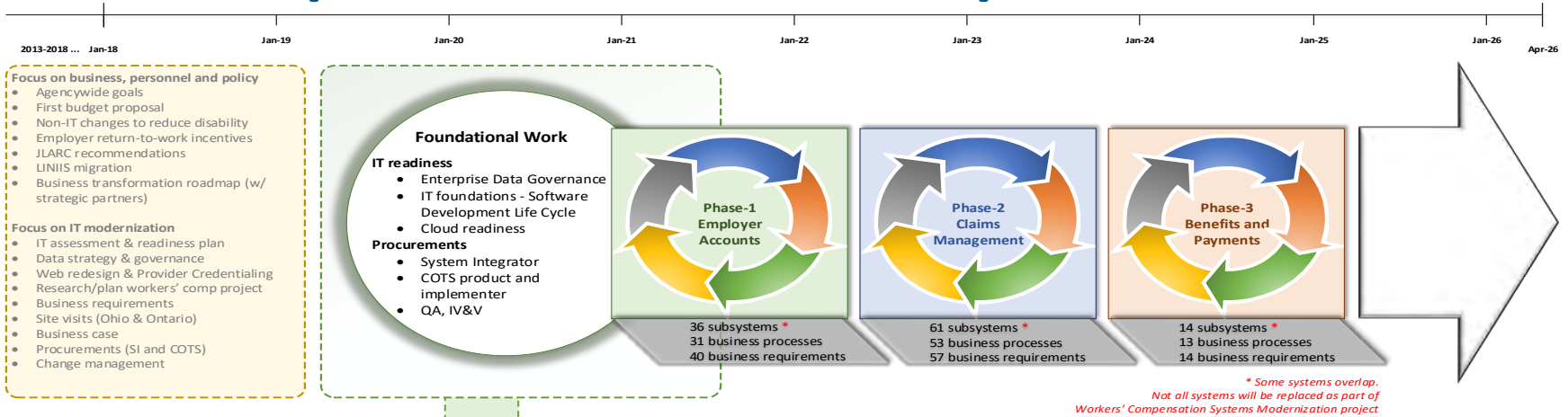
Implementation Vendors

- Ernst & Young (EY)
- Price Waterhouse Cooper (PWC)
- Accenture
- CGI
- Cap Gemini
- Etc.

Workers' compensation existing eco-system



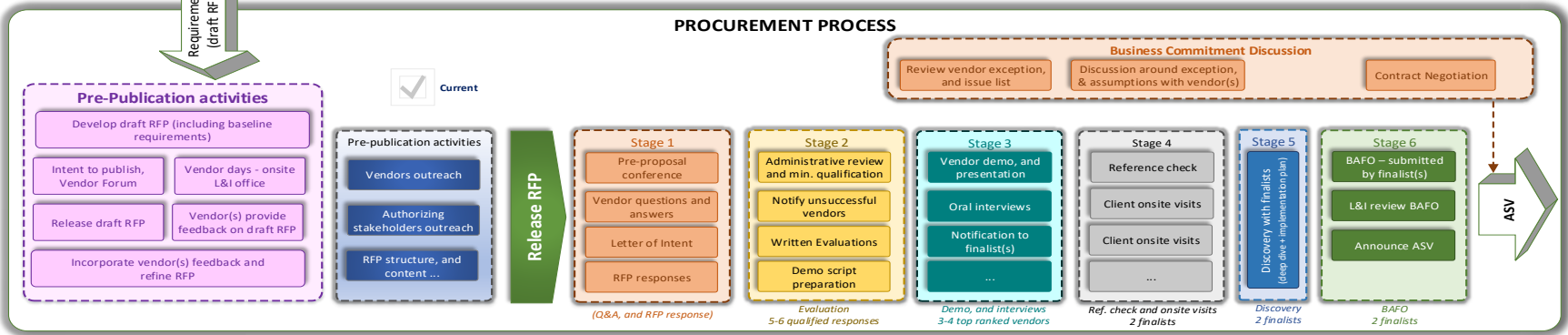
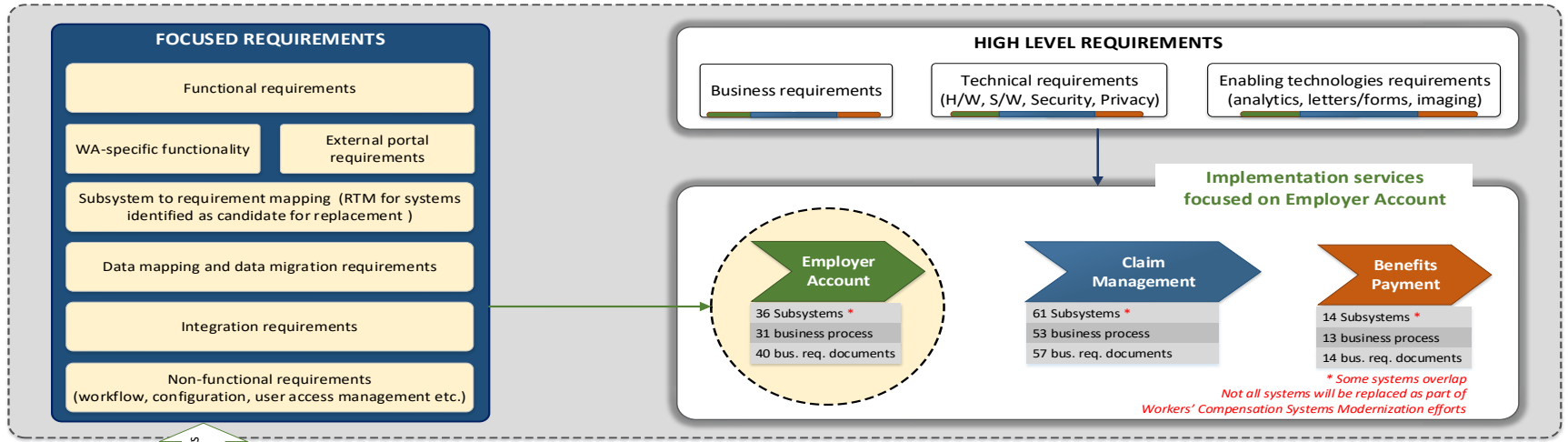
WCSM Implementation Roadmap



Procurement Design for Success

- Use well-defined, multi-staged procurement process that leverages purchasing power during entire procurement process.
- Require vendors to work with L&I contract documents specifically tailored to L&I's requirements (no general templates).
- Require key project documents to be negotiated during the procurement process, when L&I has leverage – not after the contract is signed, when leverage is lost.

COTS Procurement Strategy



Dashboard – Help Injured Workers Heal and Return to Work

*Vickie Kennedy, Assistant Director for Insurance
Services*



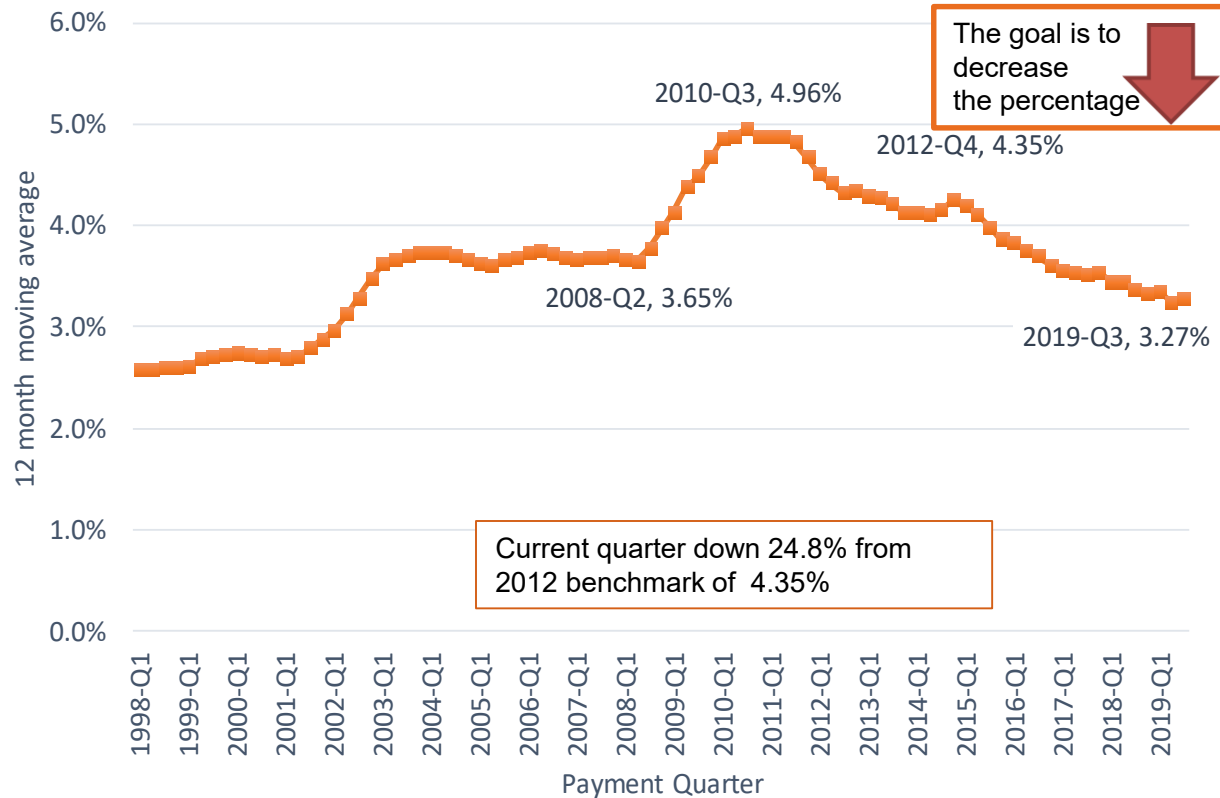
DASHBOARD SUMMARY

Measure	Change from 2012 (unless otherwise noted)		Highlights
Long Term Disability – share that received a TL payment in the 12 month post injury	Down 24.8 %	↓	
Estimated Ultimate Pensions 2004 - 2016	Down 23% (From 2012 Estimates)	↓	
Resolution rate - time-loss claims at 6 months	Down .8%	↓	
Auto adjudication of claims	Up 79.4% from 2014	↑	
High risk claims – share return to work at 12 months	Up 9.0%	↑	
Median time-loss days paid at first vocational service	Down 73.6%	↓	Lowest since 2002*
% RTW outcomes - all first vocational service referrals	Up 184%	↑	
WSAW participation	Steady utilization	↔	
COHE utilization	Up 80.2%	↑	

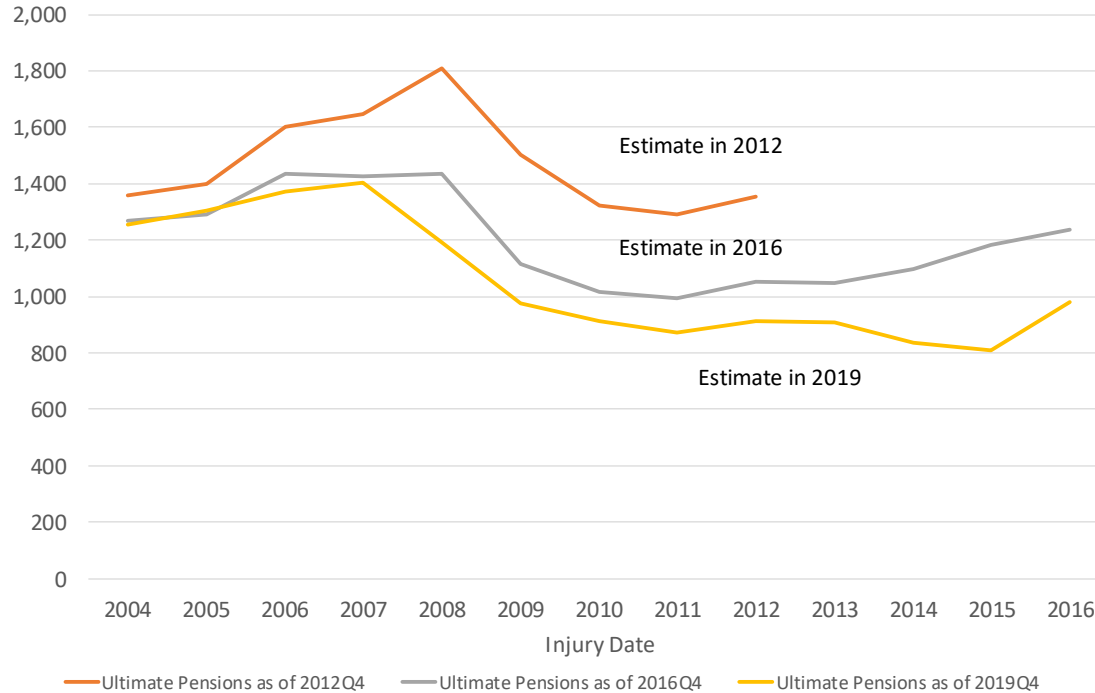
* Earliest year for which measurement is available

Long term disability percent

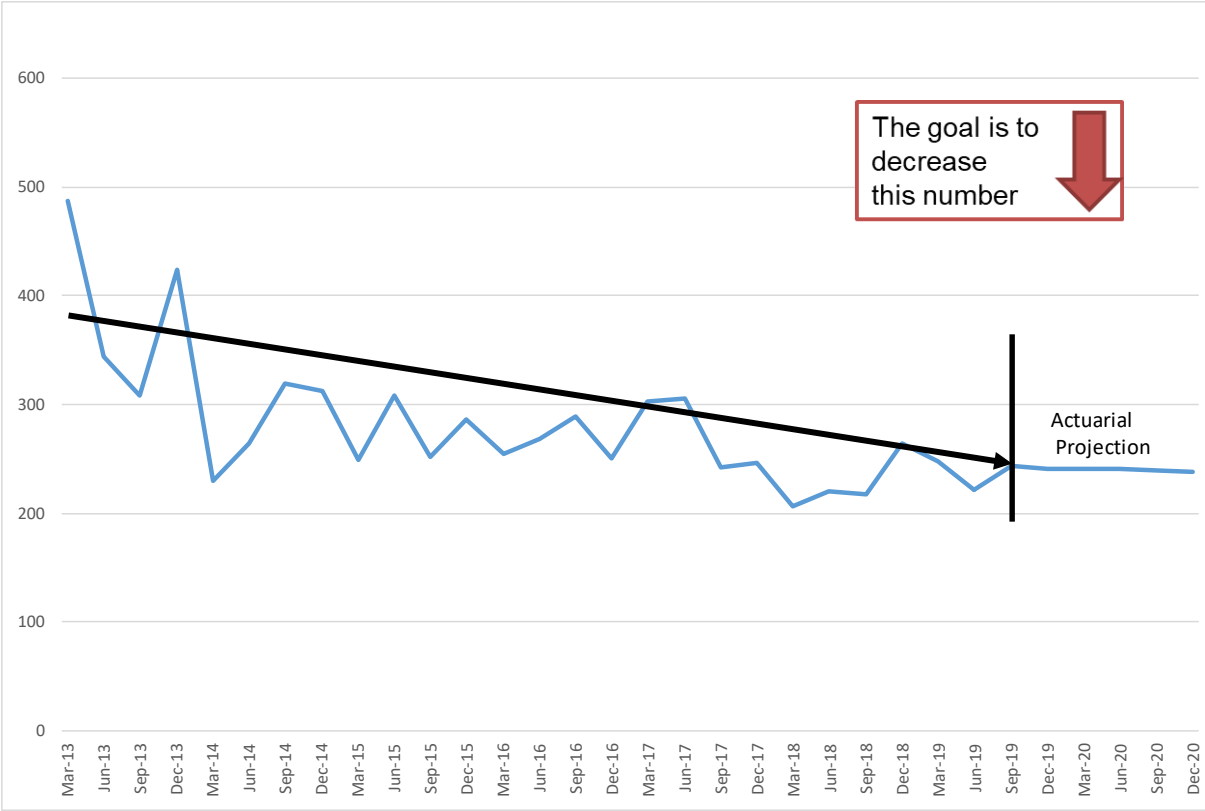
Share of injured workers with time-loss paid in the 12th month post injury: *smaller percentage indicates less long-term disability*



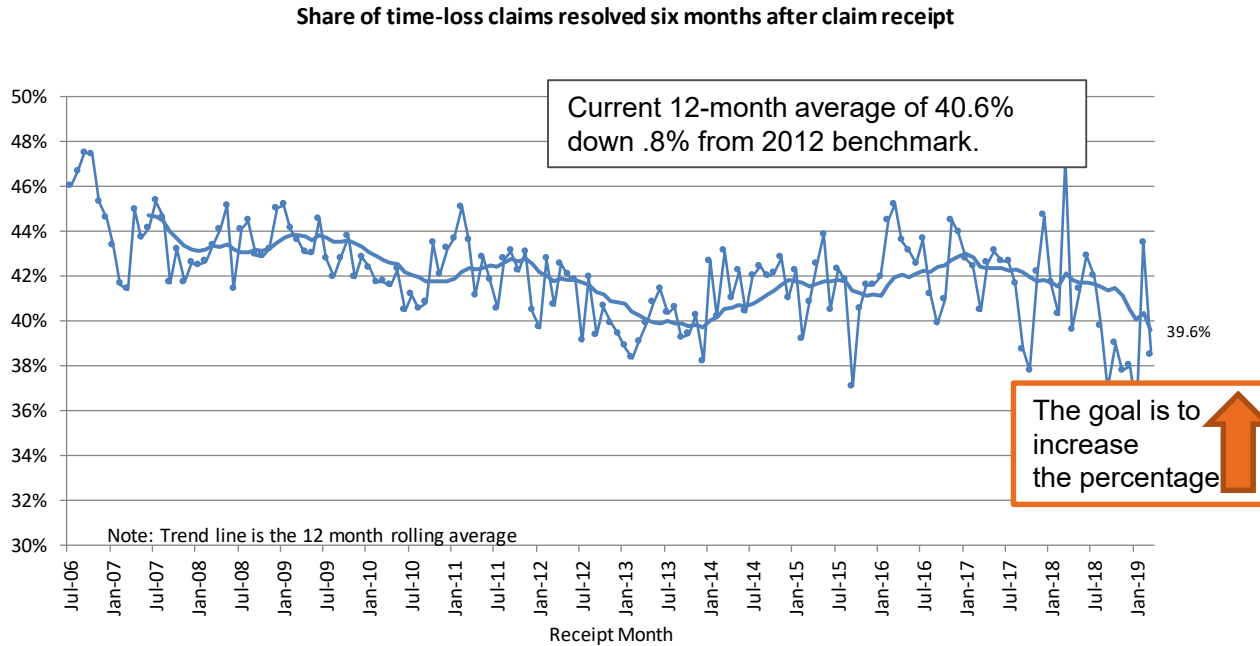
Pensions by accident year, latest estimates compared to prior estimates.



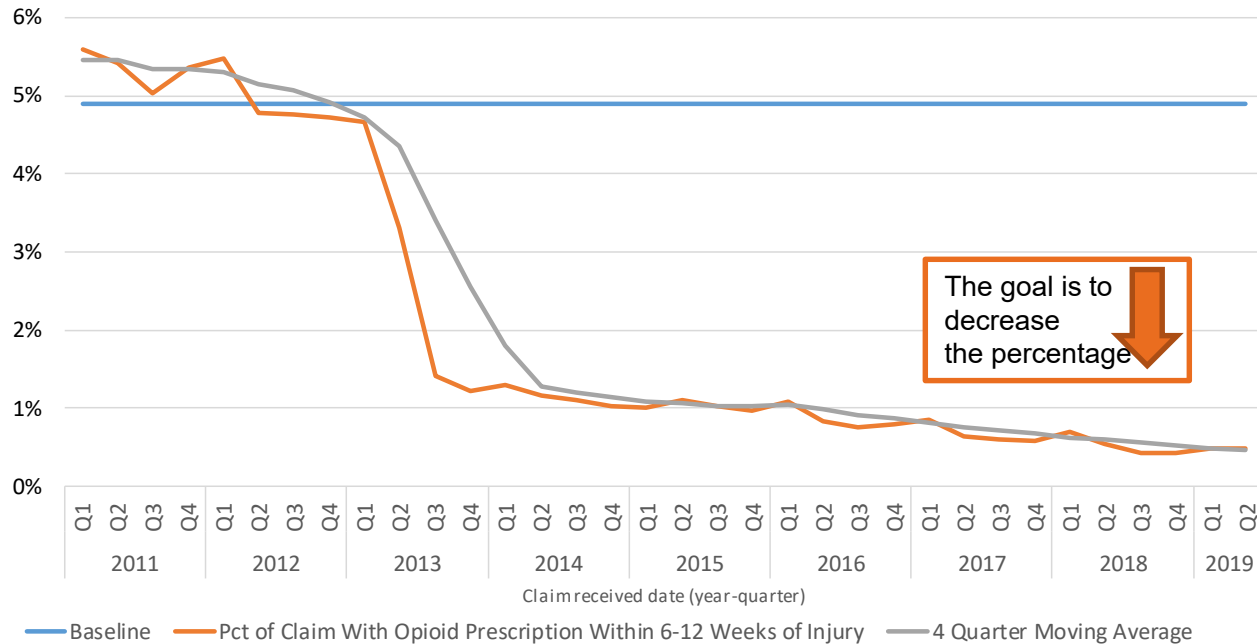
Pensions Granted (note: future periods estimated)



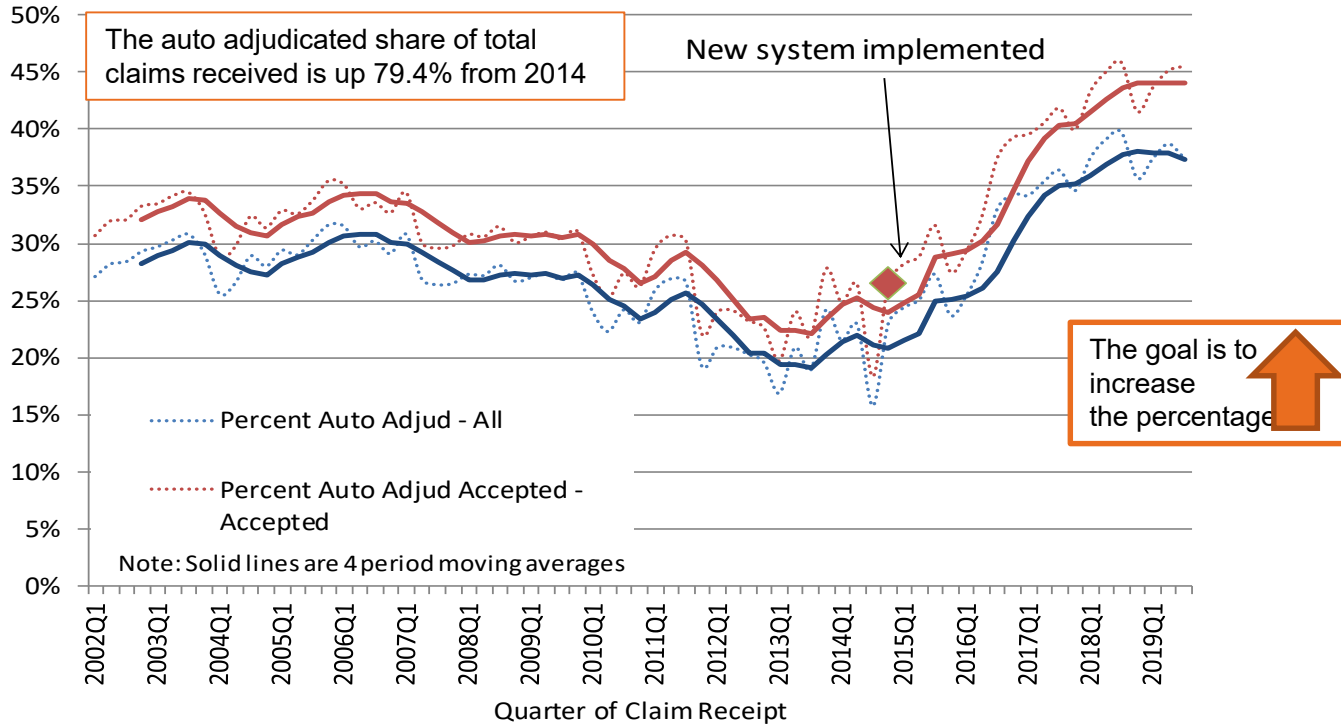
The share of time-loss claims resolved six months after claim receipt



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

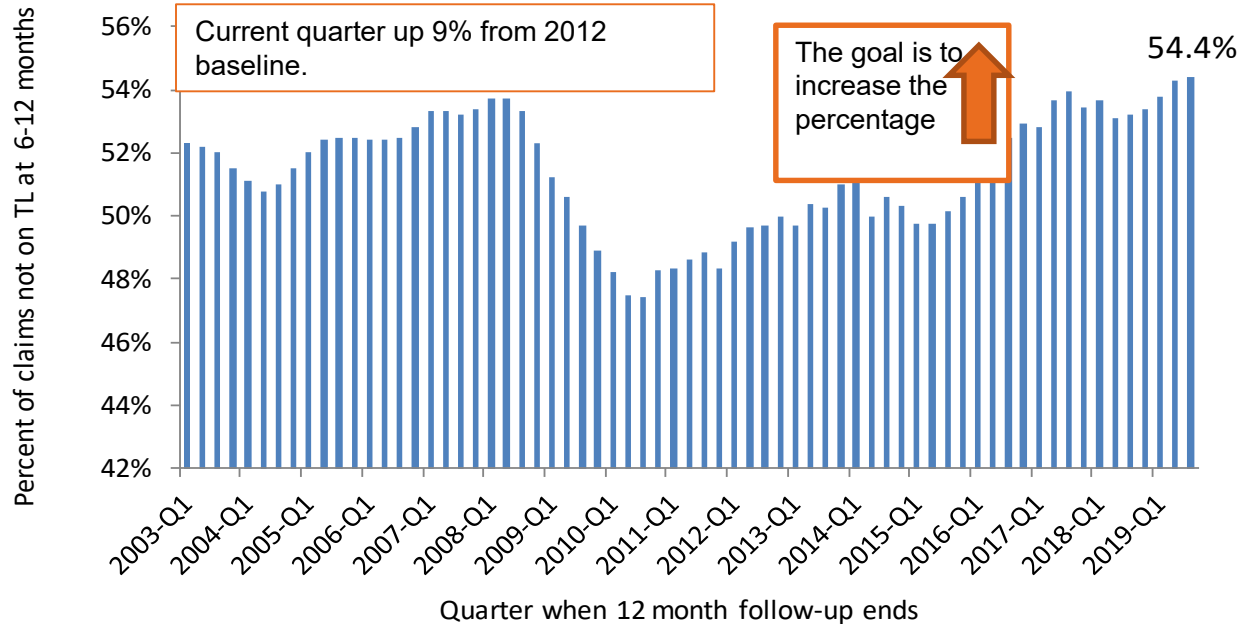


A new auto-adjudication process was implemented in early 2015 and is showing results



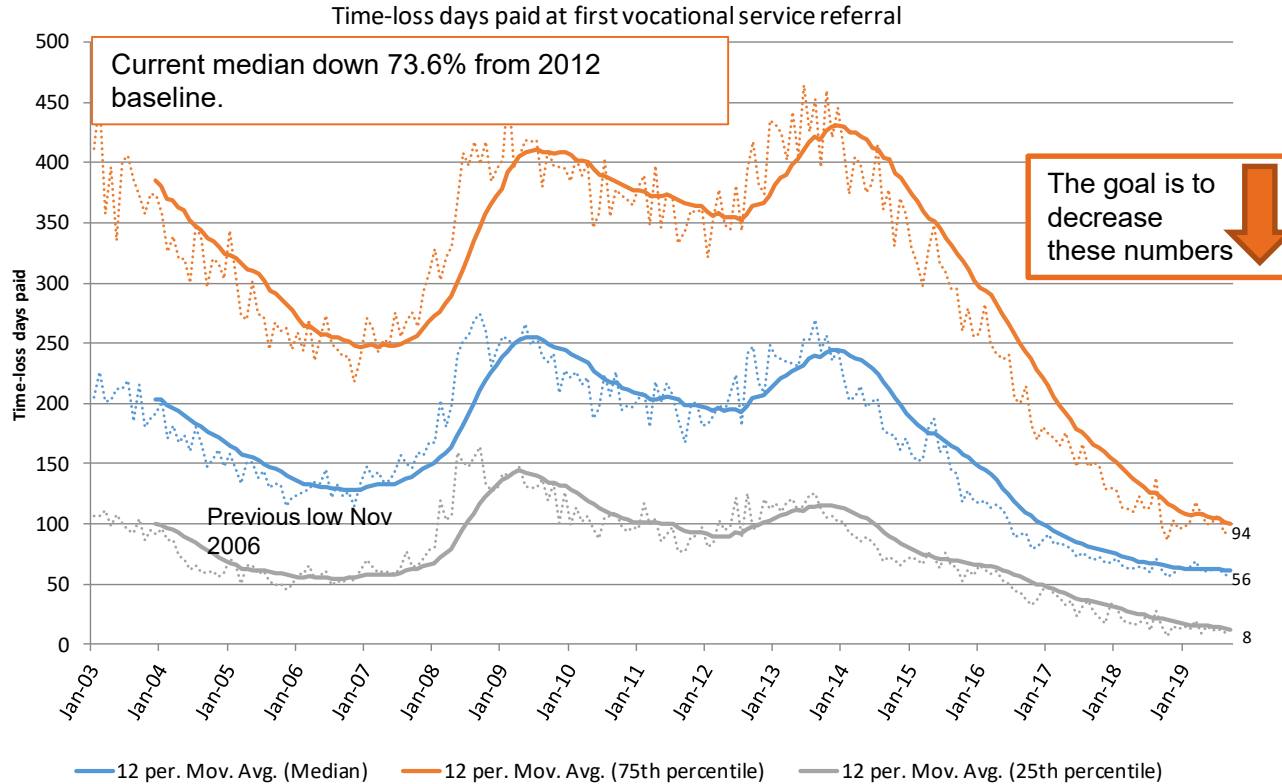
High risk claims – Initiatives in the first year are improving RTW outcomes

The share of injured workers off work 40 days after claim receipt who are likely to have returned to work: Note: 12-month rolling average



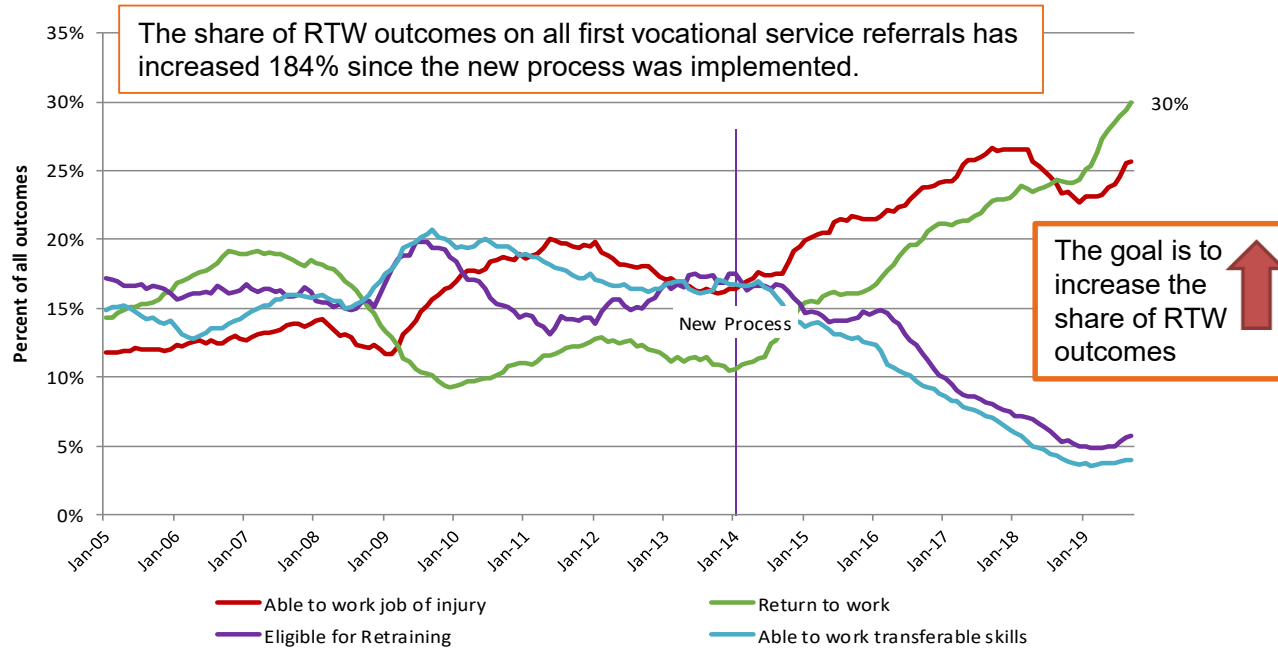
High risk workers are defined as those being disabled on the 40th day following claim receipt, about 1,540 claims per quarter. RTW is defined as the status of not receiving disability benefits between 7 and 12 months

Referrals are now targeted to address the onset of disability

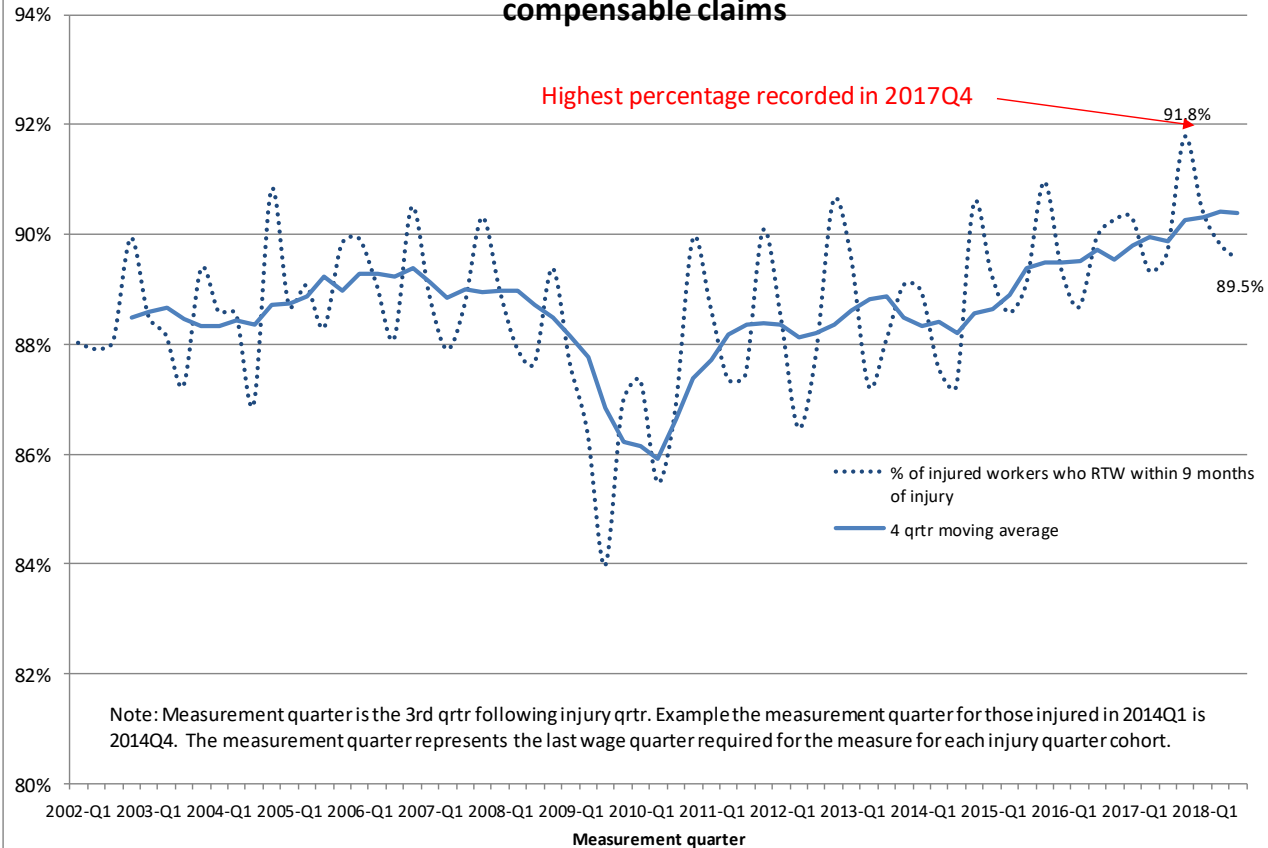


New focus on return to work has increased positive employable outcomes for all first vocational service referrals

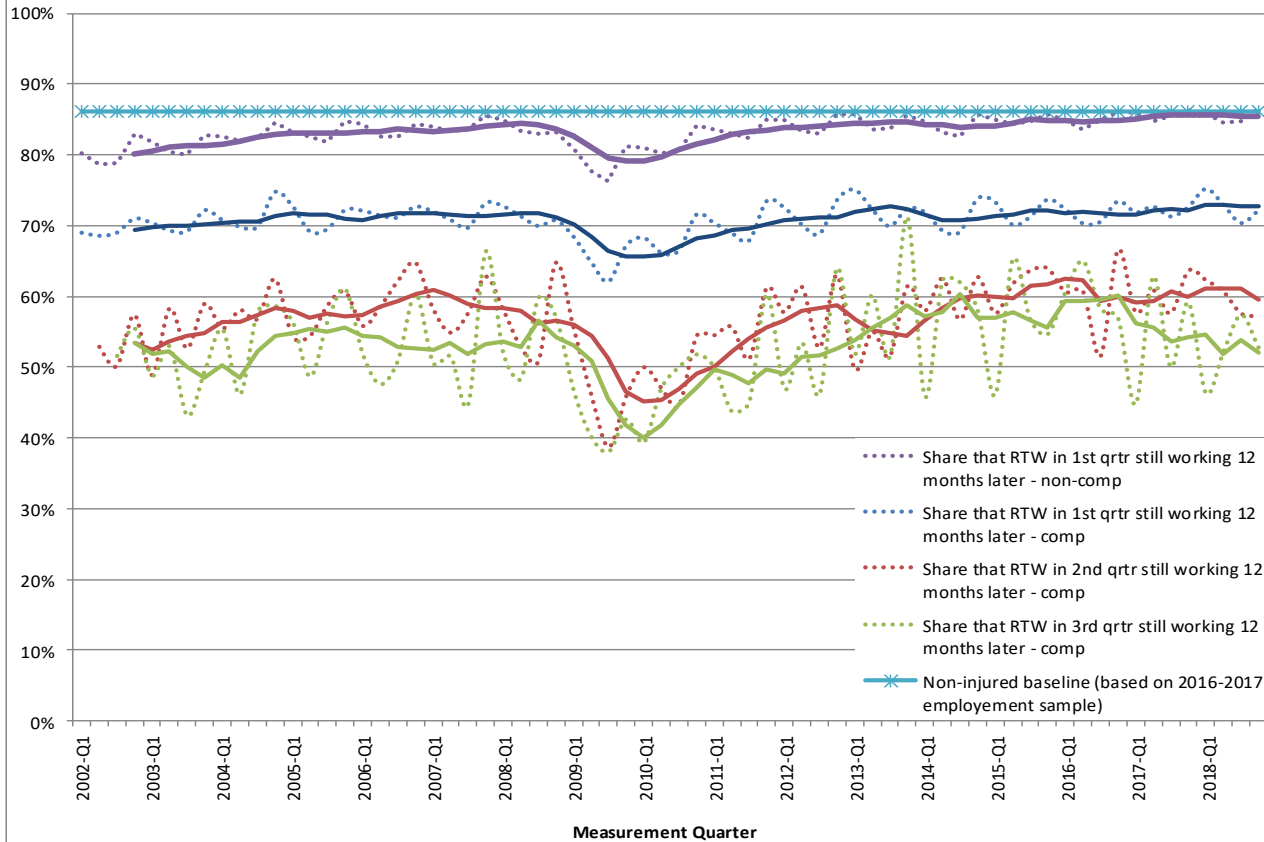
Outcome distribution, first vocational service referrals, select outcomes (12-month average)



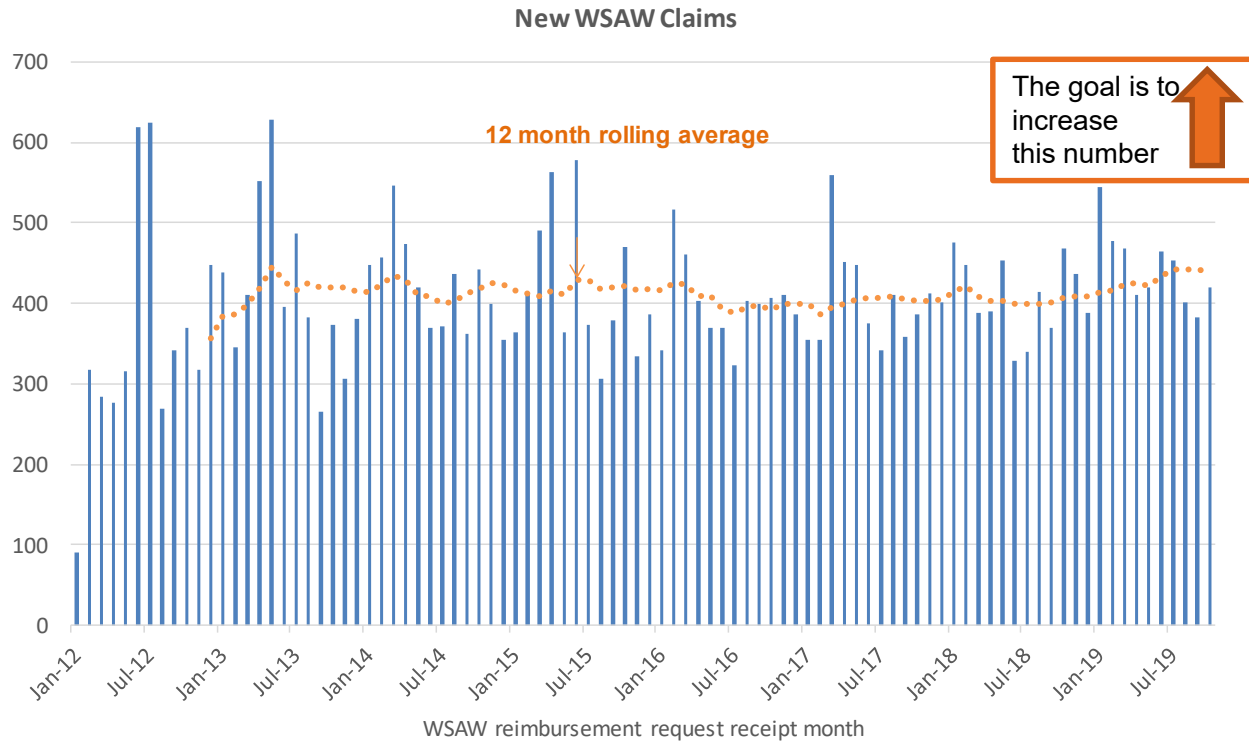
Percent of injured workers who RTW within 9 months of injury, compensable claims



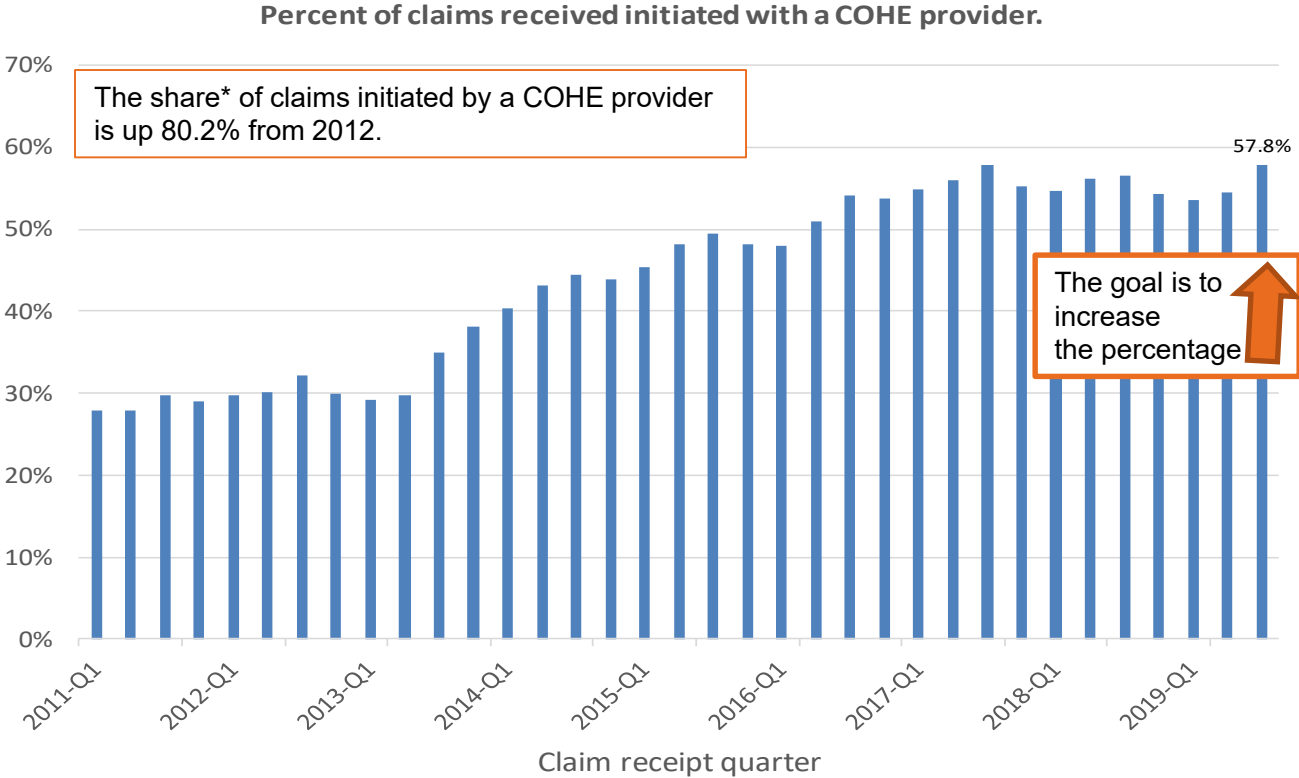
Share still working 12 months later



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



Percentage of claims for injured workers initiated with a COHE provider



Industrial Insurance (State) Fund Financial Overview

Statutory Financial Information, Fiscal Year 2020 through First Quarter
July 2019 – September 2019

Rob Cotton

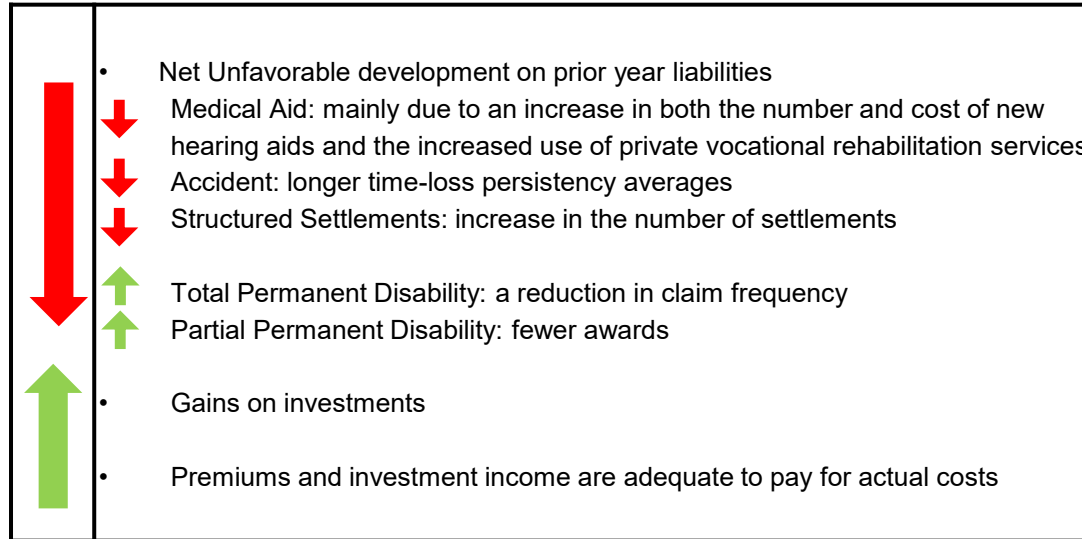
Workers' Compensation Accounting Manager



Significant Financial Highlights

July 2018 through June 2019

The contingency reserve decreased \$16 million, from \$3,954 million on July 1, 2019 to \$3,938 million on September 30, 2019.



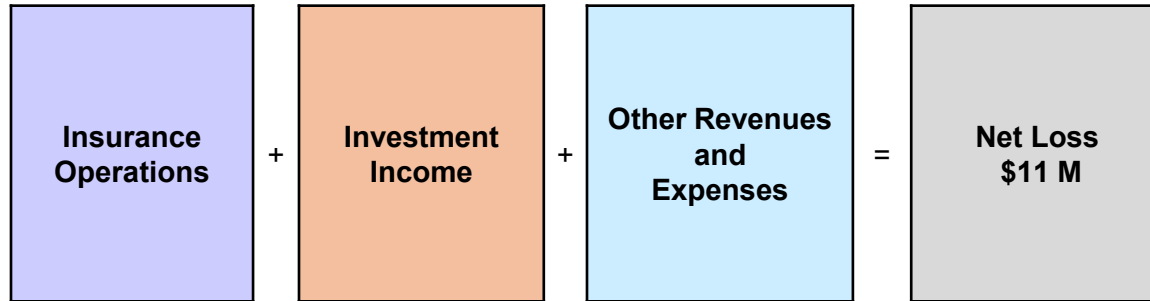
Change in contingency reserve by quarter for fiscal year 2020.

- July 1st to September 30, 2019 – a decrease of \$16 million

State Fund Results

“Net Income”

June 2019 through September 2019



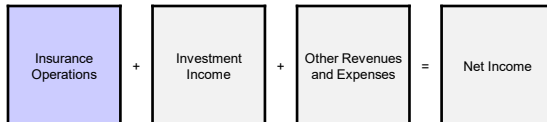
Insurance Operations

July through September 2019
(in millions)

Three Months Ended

		September 30, 2019	September 30, 2018
We took in (Premiums Earned)	+	\$ 515	\$ 561
We spent (Expenses Incurred)			
Benefits Incurred		620	540
Claim Administrative Expenses		74	82
Other Insurance Expenses		24	24
Total Expenses Incurred	-	718	646
Net Income (Loss) from Insurance Operations	=	\$ (203)	\$ (85)

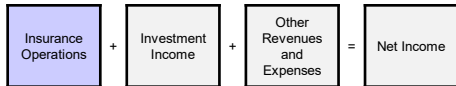
Net loss from insurance operations is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.



Premiums Earned

July through September
(in millions)

	Three Months Ended		Difference
	September 30, 2019	September 30, 2018	
Standard Premiums Collected	\$544	\$574	
Less Retrospective Rating Adjustments	(17)	(10)	
Less Ceded Reinsurance Premiums	(6)	0	
Net Premiums Collected	521	564	
Changes in future Premium Amounts To Be Collected	47	35	
Changes in future Retrospective Rating Adjustment Refunds	(53)	(38)	
Net Premiums Earned	\$ 515	\$ 561	\$ (46)

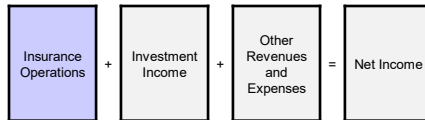


Benefits Incurred

July through September
(in millions)

Three Months Ended

	September 30, 2019	September 30, 2018	Difference
Benefits Paid	\$ 427	\$ 419	\$ 8
Change in Benefit Liabilities	193	118	75
Change in Discount Rate Reduction from 6.1% to 4.5% for State Fund	0	3	(3)
Total Benefits Incurred	\$ 620	\$ 540	\$ 80



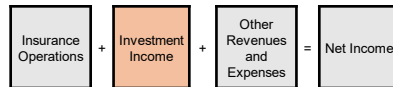
Investment Income

July through September
(in millions)

Three Months Ended

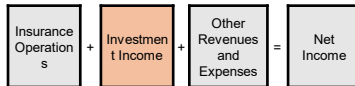
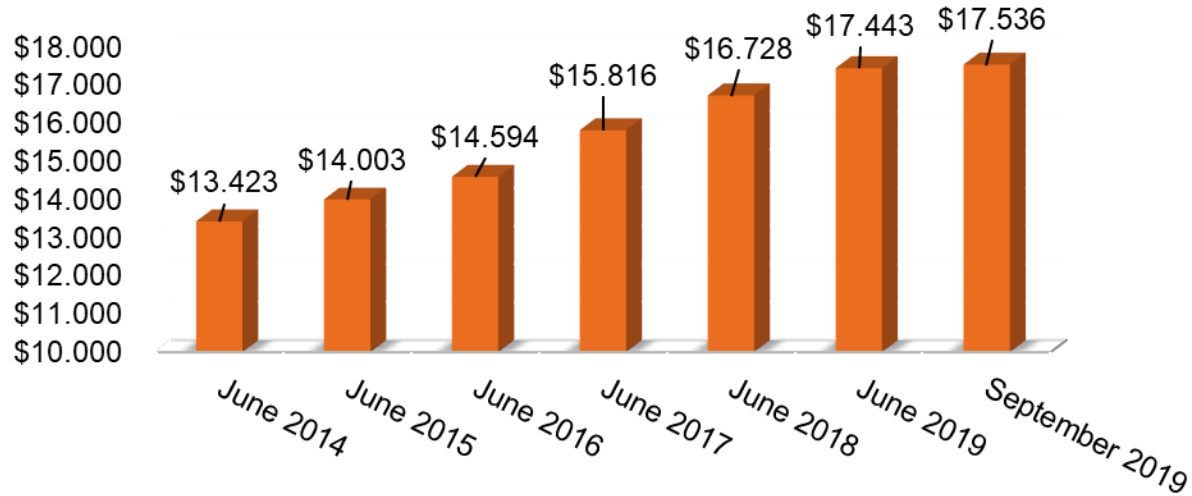
		September 30, 2019	September 30, 2018
Investment Income Earned from Interest on bonds	+	\$ 125	\$ 121
Realized Gain/(Loss) from Fixed Income Investments Sold	+	60 *	2
Realized Gains from Stocks (Equity Investments) Sold	+	3	0
Total Investment Income	=	\$ 188	\$ 123

*The realized gain of \$60M on fixed income resulted from the sale of bonds in order to transfer assets from the accident account to cover the pension reserve deficit that existed at the end of FY19.



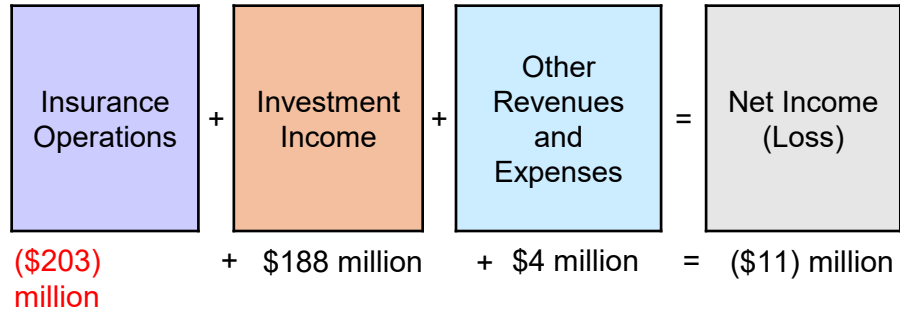
Total Investments

(rounded to billions)



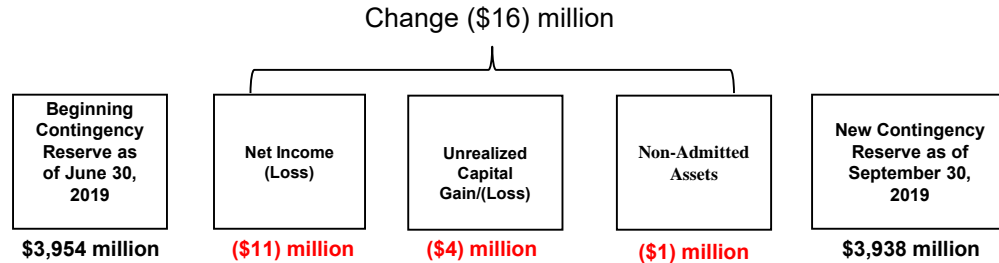
Results of Operations

July 2019 through September 2019



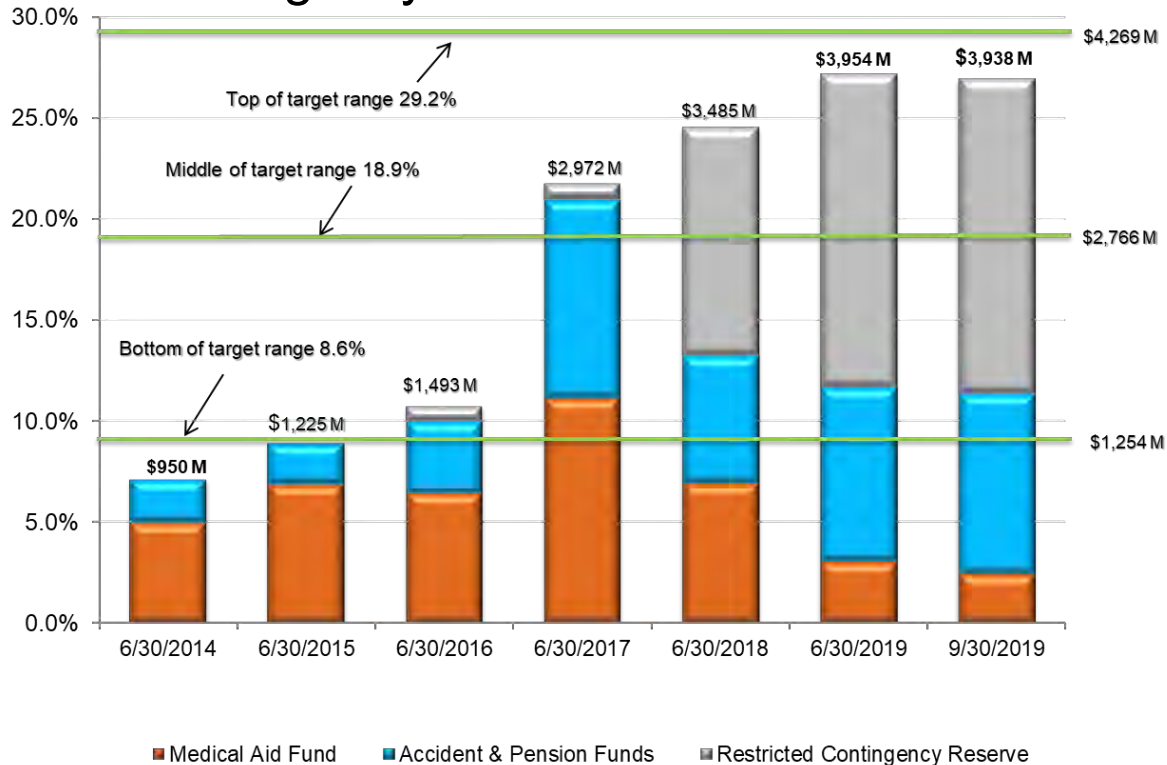
How Did Contingency Reserve Perform?

July 2019 through September 2019



Combined Contingency Reserve vs. Targets

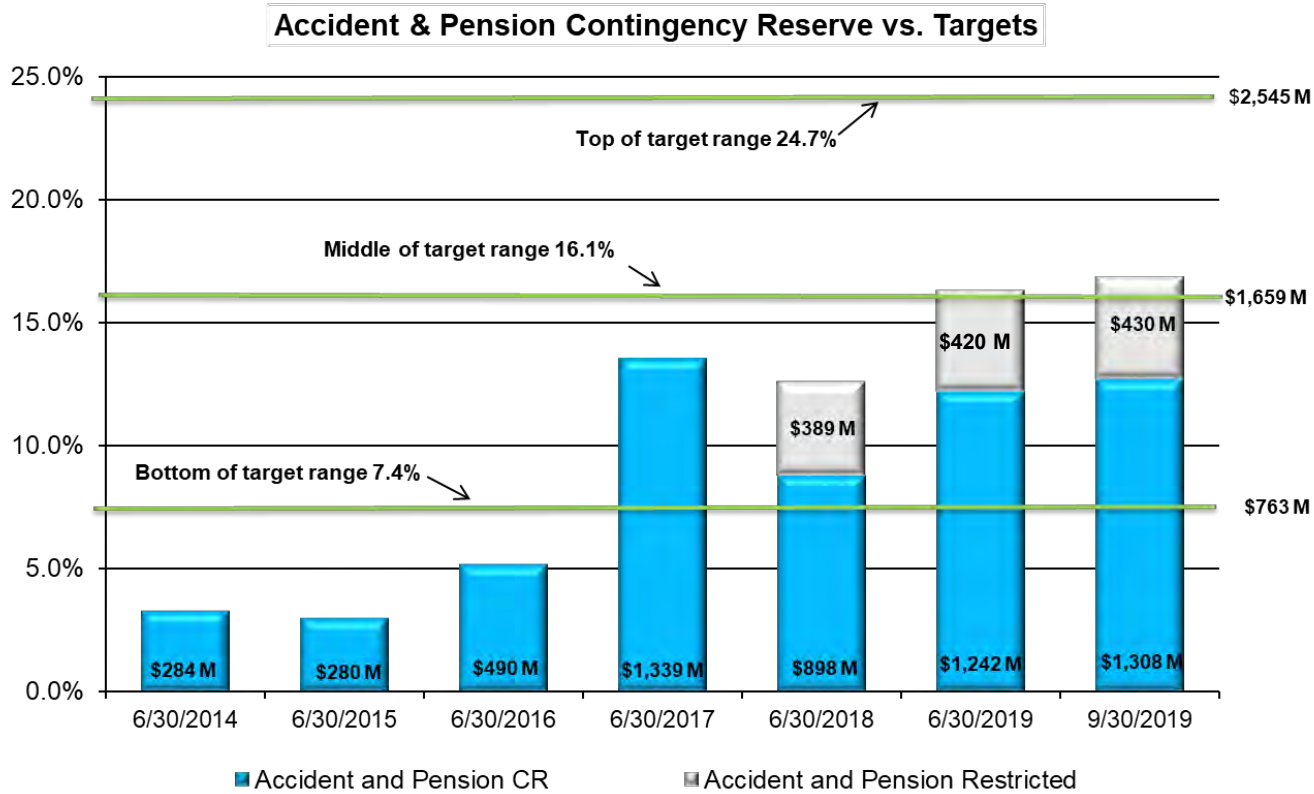
Combined Contingency Reserve is 26.9% of Total Liabilities



Restricted is based on final June 30, 2018 financial information and the change in the value of investments through 9-30-19.

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

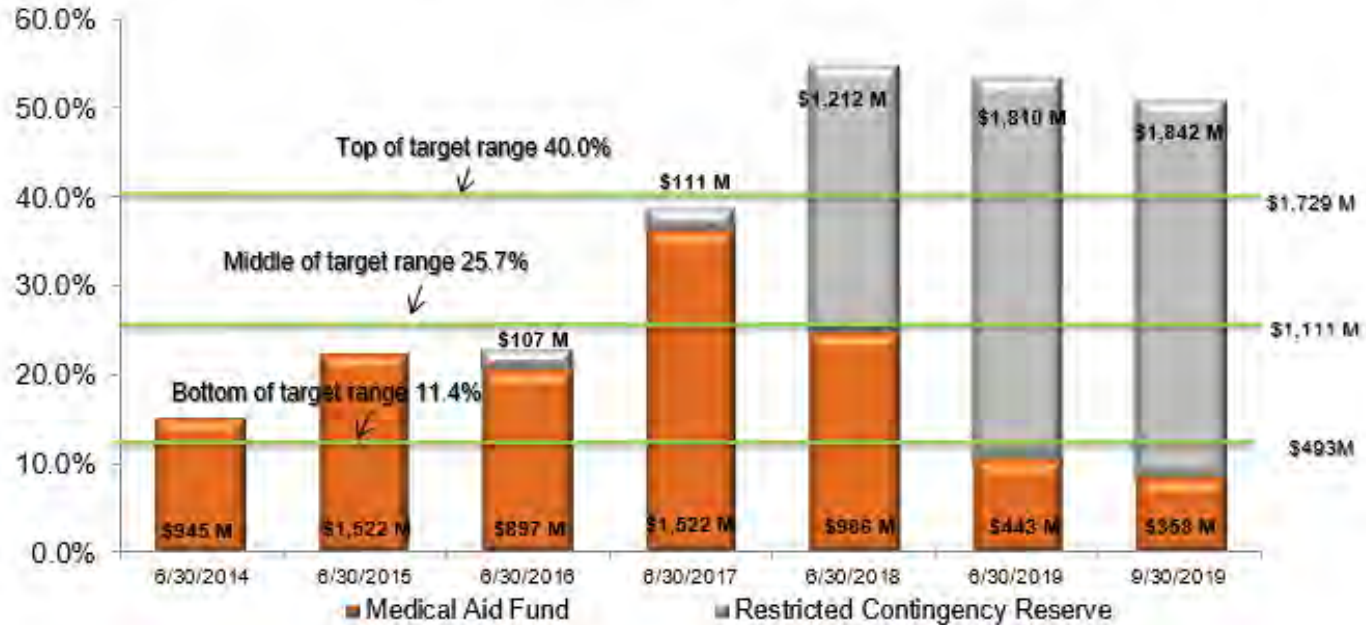
Accident, Pension & Restricted Contingency Reserve is 16.9% of Liabilities



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

Medical Aid & Restricted Contingency Reserve is 50.9% of Liabilities

Medical Aid & Restricted Contingency Reserve vs. Targets



Restricted is based on final June 30, 2018 financial information and investment earnings through 9-30-19.
 The WCAC Target has historically been the midpoint between the bottom and middle target.

Key Financial Ratios

as a percentage of premium earned

Ratios	Quarter Ended September 30, 2019		Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018
	State Fund	Industry Forecast		
Current Year Benefit (Loss Ratio)	85.4%		83.7%	77.8%
Prior Year Benefit (Loss Ratio)	35.1%		4.9%	17.1%
Total Benefit (Loss Ratio)	120.5%	48.5%	88.6%	94.9%
Current Year CAE Ratio	9.6%		10.3%	9.0%
Prior Year CAE Ratio	4.7%		5.9%	2.3%
Total Claim Administration Expense (CAE) Ratio	14.3%	14.5%	16.2%	11.3%
Sub-Total: Benefit and Claim Administration Expense Ratios	134.8%	63.0%	104.8%	106.2%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.6%	26.5%	5.3%	4.6%
Combined Ratio (Industry omits dividends)	139.4%	89.5%	110.1%	110.8%
Investment Income Ratio	24.3%	17.9%	25.9%	22.9%
Operating Ratio	115.1%	71.6%	84.2%	87.9%

Note: a ratio of 100% would indicate that costs = premium for the period.

Questions & Comments

Contact Rob Cotton,

Workers' Compensation Accounting Manager

- Phone: 360-902-6263
- Email: cotr235@lni.wa.gov.

Thank You!

Reconciliation of Change in Benefit Liabilities

(In \$1,000s)

July 1, 2019 Benefit Liability Beginning Balance	\$13,163,053
Prior Year Benefit Payments	(\$400,056)
Prior Year Development and Model Change (Unfavorable)	\$84,757
Self Insurance Prefunded Pension Transfers	\$4,476
Regular reserve discount reduction	\$91,581
Net Total Prior Year Benefit Liability as of September 30, 2019	<u>\$12,943,811</u>
New Current Year Benefit Liabilities	\$412,588
September 30, 2019 Benefit Liabilities Ending Balance	<u>\$13,356,399</u>
Change Between Beginning and Ending Balance	\$193,346

Highlights of Changes in the Contingency Reserve

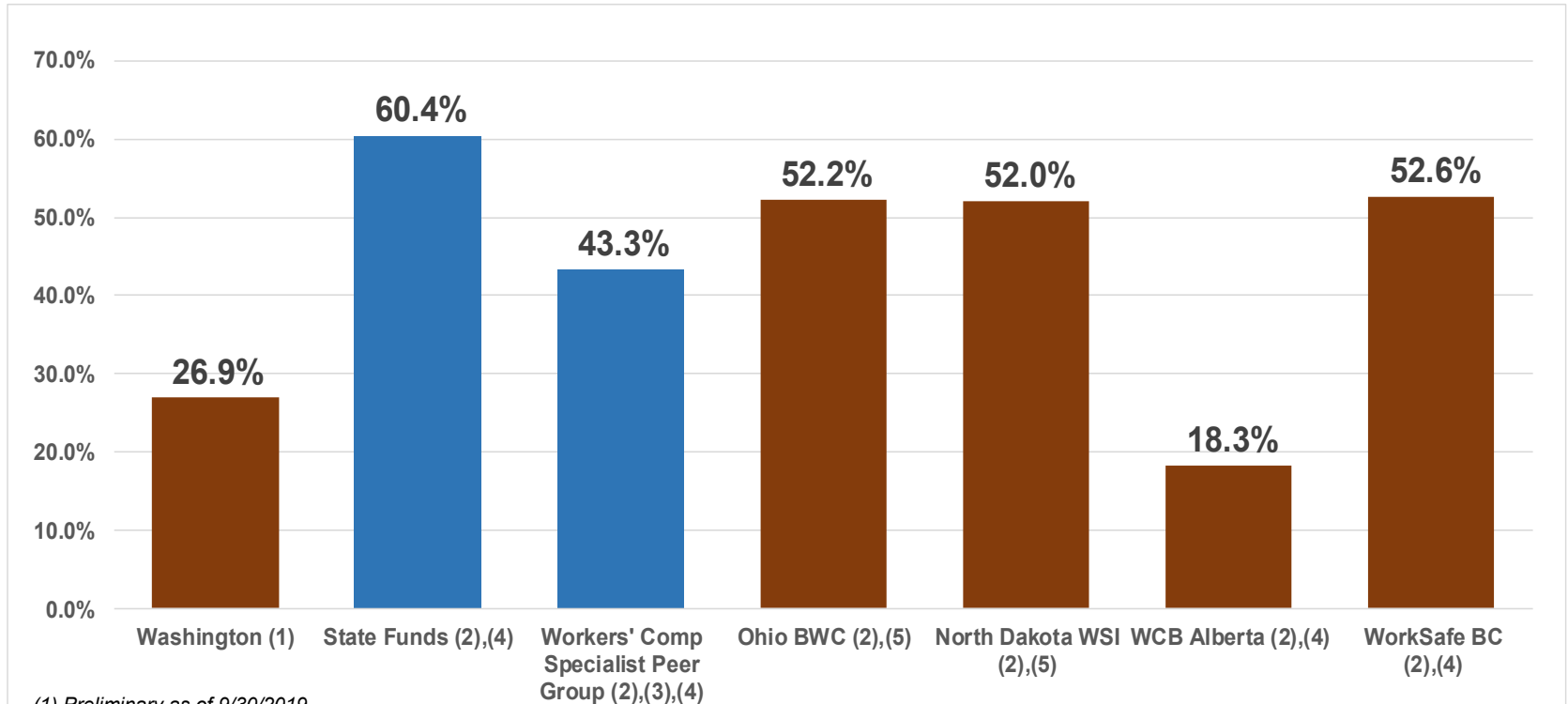
		FY14	FY15	FY16	FY17	FY18	FY19	FY20 Q1	Total
Changes that increased the contingency reserve									
↑	Operational Influences and model changes	\$149 M	\$543 M	\$147 M	\$926 M	\$941 M	\$352 M	(\$85) M	\$2,973 M
	Rate Changes	\$58 M	\$59 M	\$38 M	\$27 M	(\$14) M	(\$120) M	(\$41) M	\$7 M
	Greater than expected changes in the stock market	\$279 M	N/A	N/A	\$411 M	\$199 M	\$50 M	\$35 M	\$974 M
Changes that decreased the contingency reserve									
↓	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	N/A	\$130 M

Operational Influences
 FY14: \$91M
 FY15: \$515M
 FY16: \$136M
 FY17: \$926M
 FY18: \$941M
 FY19: \$327M
 FY20: (\$85)
Total: \$2,851M

*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 9/30/2019

(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 September
(in millions)

As of Quarter Ended September 30,	Insurance Operations	+	Investment Income	+	Other Revenues & Expenses	=	Net Income (Loss)
2019	(203)		188		4		(11)
2018	(85)		123		10		48
2017	175		214		20		409
2016	(168)		128		18		(22)
2015	(194)		184		20		10
2014	(81)		132		16		67
2013	(36)		158		15		137
2012	(11)		144		8		141
2011	(104)		135		18		49

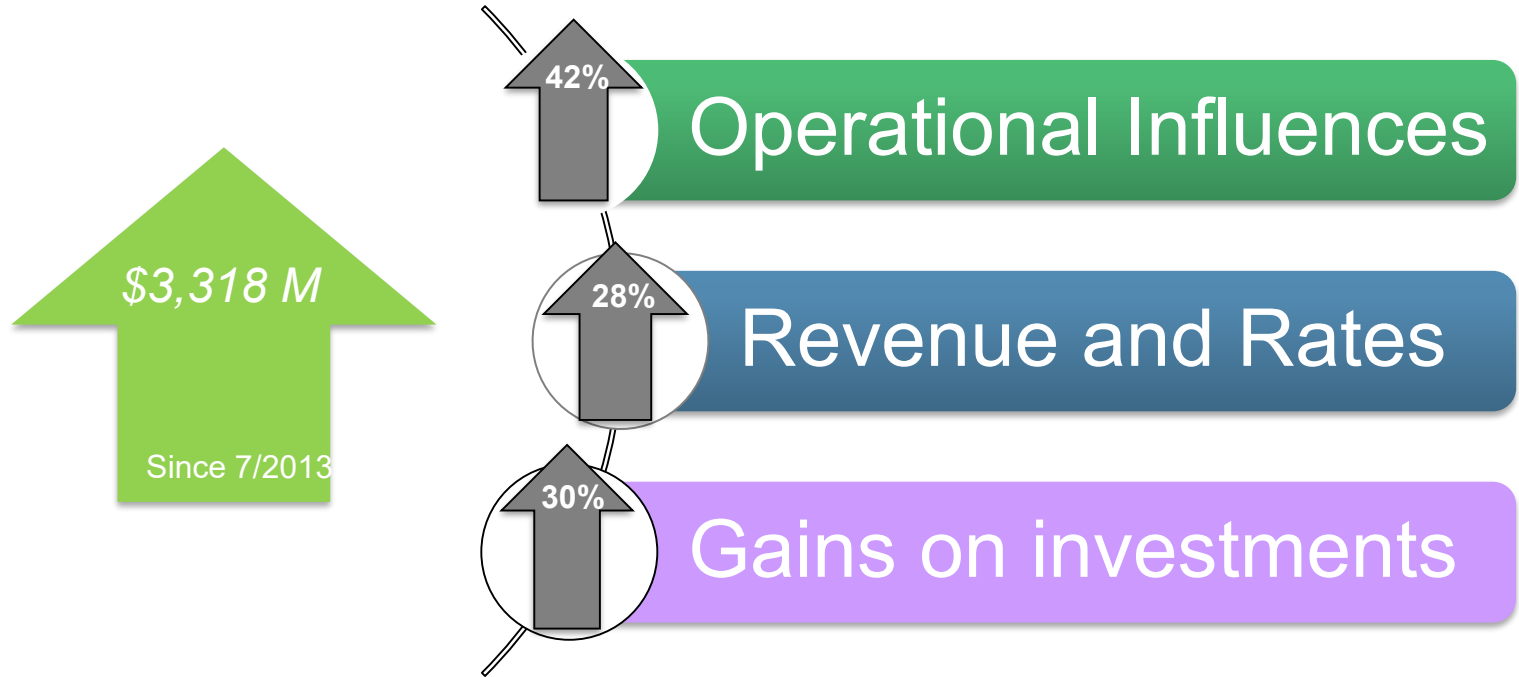
Historical Investment Performance

Fiscal Year Ended

	Quarter Ended September 30, 2018	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Investment Income	125,147,000	498,626,000	481,048,000	478,130,000	498,499,000	493,408,000
Realized Gain (Loss)	62,647,000	(23,498,000)	1,092,446,000	102,540,000	137,988,000	58,660,000
Unrealized Gain (Loss)	(4,265,000)	151,820,000	(812,942,000)*	380,183,000	(181,830,000)	23,691,000
Total Invested Assets	17,575,391,000	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 9/30/2019 the CR is at \$3,938 M.

Closing Comments & Adjourn

Joel Sacks, Agency Director

*Vickie Kennedy, Assistant Director for
Insurance Services*

