

## Insurance for Workers and Employers

### Your Guarantee

Washington State established its workers' compensation system in 1911, the result of a historic compromise that provided mutual protection for workers and employers. Workers gave up their right to sue their employer for a work-related injury or illness in return for sure and certain medical treatment and, when applicable, wage-replacement benefits. In exchange, employers were protected from the cost of extended claims and tort liability that could result from workplace injuries. Over the years, the system has evolved. One of the most significant changes occurred in 1923, when a law passed that made workers responsible for paying a significant portion of the premiums. In 2006, their share averaged 24 percent. Washington is the only state where workers pay a substantial portion of premiums.

### Our Commitment

The Department of Labor and Industries (L&I) will:

- Work with employers and workers to prevent workplace injuries and illnesses.
- Provide prompt and certain relief to workers who suffer a work-related injury or illness.
- Administer the workers' compensation system and its finances in a way that is transparent and maximizes benefits to workers and minimizes costs to employers.
- Eliminate fraud and abuse by workers, employers and health-care providers.
- Listen to and respond to the needs of our customers.

### Responsive Change

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

Finally, we must continue to partner with employers and workers to provide a fair and sound workers' compensation system.

### 2006 Year in Review

For additional copies of the 2006 Year in Review, contact the Labor and Industries office nearest you.

This publication is also available online at [www.LNI.wa.gov/IPUB/200-012-000.pdf](http://www.LNI.wa.gov/IPUB/200-012-000.pdf).

# 2006

## Year in Review

## Washington's Workers' Compensation System



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## 2006 Produced Good Results for Employers

A strong economy and the Department of Labor and Industries' (L&I) success at controlling medical inflation produced a healthy reserve in 2006 that made it possible to lower rates for 2007 and begin planning for how the agency can return about \$315 million in premiums to employers and workers.

As you can see in the financial summary, we finished the fiscal year with more than \$1.7 billion in the contingency reserve – the difference between assets and anticipated liabilities. Most of it, about \$1.1 billion, is concentrated in the Medical Aid Fund.

That is considerably more than we anticipate needing to pay future health-care benefits for injured workers. So in November, with support from Gov. Chris Gregoire, we proposed reducing the Medical Aid Fund premium rate to zero for the second half of 2007. Medical Aid Fund premiums make up about one-third of total workers' compensation premiums. The \$315 million saved would be shared equally by employers and workers because both groups pay equally into that fund. A final decision on the proposal likely will be made in January.

L&I also got a clean bill of health from Tillinghast-Towers Perrin, the outside actuarial consulting firm hired by the Washington State Auditor's Office to review the State Fund's actuarial practices. Its review included the State Fund loss and claims administration expense reserves, 2007 overall break-even rate level, the solvency of the funds and the 2007 changes to the experience rating plan. Without exception, Tillinghast found that L&I followed generally acceptable actuarial practices.

### **A new way of calculating premiums will benefit many small employers**

Encompassed in the recently adopted rates is a change in how L&I sets premiums. The change will benefit small employers who have never had a claim or are experiencing their first claim after many claim-free years.

The vast majority of employers in the State Fund are small and rarely, if ever, have a workplace injury that results in a compensable claim – one where the worker collects disability or wage-replacement benefits. In the past, even one of those claims, no matter how small, would eliminate the employer's claim-free discount and dramatically drive up the employer's rates. Frequently, the increase was 25 percent in a single year.

The new system will more accurately tie the premiums an employer and his or her workers pay for industrial insurance to the cost of claims filed on that employer's account. The change will be phased in so that no employer is negatively impacted in 2007.

### **L&I's Small Business Liaison lends a helping hand**

Changing the way we calculate rates is just one of the many ways we're working to improve service to our customers. In 2006, L&I's Small Business Liaison, Ron Langley, held more than two dozen meetings with business organizations and small and medium-size employers, helping them navigate the workers' compensation system and finding ways to improve services to employers. If you need help, give Ron a call at 360-902-4205.

### **Preventing fraud and abuse**

In fiscal year 2006, our fraud prevention and compliance program recovered \$10.20 for every dollar it spent. We referred 20 cases for prosecution. And in August, the Washington State Attorney General dedicated an attorney, funded by L&I, to prosecuting and supporting local prosecutors on workers' compensation fraud cases. With new positions, we stepped up fraud fighting in construction, and we improved our auditing capabilities. To learn more or to read L&I's latest annual fraud report, go to [www.Fraud.LNI.wa.gov](http://www.Fraud.LNI.wa.gov).

### **Eastern Washington COHE expanding**

We received more good news about L&I's Centers of Occupational Health and Education (COHE). In June, a University of Washington study found that injured workers treated by Eastern Washington doctors participating in the pilot program were 33 percent less likely to go on disability than an injured worker treated by a non-COHE health-care provider. The center has since expanded to include doctors and workers in 16 counties east of the Cascades.

### **More efforts to improve service**

Employers and injured workers dramatically expanded their use of L&I's Online Claim and Account Center in 2006, and improvements in our Vocational Rehabilitation Program are getting injured workers back to work sooner. These are just a few of the initiatives under way. In 2007, we will continue our commitment to improving Washington's workers' compensation system and making it among the best in the nation.



Sincerely,

A handwritten signature in cursive script that reads "Judy Schurke".

Judy Schurke  
Acting Director



A handwritten signature in cursive script that reads "Robert Malooly".

Robert Malooly  
Assistant Director, Insurance Services

# Washington State Workers' Compensation State Fund

The State Fund provides workers' compensation insurance for about 2.4 million employees working for more than 165,000 employers. Premiums paid by employers and workers, and investment earnings, finance the program.

About two-thirds of Washington workers are covered by the state system. The other third work at federal facilities, and some larger companies and local governments who are self-insured. L&I regulates self-insured coverage, ensuring that those workers receive the same rights and benefits as workers in the State Fund.

## Statistics at a Glance

Operating Environment	FY 2006	FY 2005
Employers Insured	165,000	161,000
Workers Covered	2,400,000	2,300,000
Hours Reported	3,200,000,000	3,049,406,000
Premiums Assessed (employers' portion)	\$1,218,046,000	\$1,108,948,000
Premiums Assessed (workers' portion)	\$307,371,000	\$301,506,000
Net Investment Income and Gains	\$723,536,000	\$634,164,000
Benefits Incurred	\$1,414,420,000	\$1,386,587,000

Claim Statistics	FY 2006	FY 2005
Number of Claims Filed	140,887	139,359
Number of Claims Accepted	124,391	121,217
Number of Claims Denied	15,210	15,977
Fatal Pensions Awarded	66	63
Total Permanent Disability Pensions Granted	840	952
Permanent Partial Disability Awards Granted	12,535	13,309
New Time-loss (Wage Replacement) Claims	29,615	28,521
Medical-only Claims Accepted	97,964	96,289
Retraining Plans Completed	1,093	1,058
Total Days Lost from Work	7,480,000	7,240,000

Demographics of Accepted Claims	FY 2006	FY 2005
Male Injured Workers	70%	71%
Female Injured Workers	30%	29%
Average Age of Injured Worker	37	37
Workers Younger than 30	34%	34%
Workers 30 to 50	50%	51%
Workers Older than 50	17%	16%

Most Frequent Injuries	FY 2006	FY 2005
Cut/Abrasion on the Hand/Finger	18,516	16,695
Sprain/Strain Back	14,574	14,804
Sprain/Strain Lower Extremities	7,201	6,564
Eye Injuries	6,127	5,486
Sprain/Strain Trunk	5,535	5,136

Notes: The data are a snapshot of the fiscal year (July 1 - June 30) as of the first week of October. The 2005 injury data could be underreported due to a change in the coding system. Because of rounding, some columns may not add up to 100%.



## Good safety record → lower workers' comp premiums → competitive advantage

How much do you pay per hour for workers' compensation coverage? How much do your competitors pay? Hourly premiums vary widely within an industry and depend on an employer's safety record, claim history and claim management practices. As these three illustrations show, the range can be significant.

### Restaurant and tavern workers



Per-Hour Rate:  
Max = 70 cents



In a labor-intensive industry, 52 cents per hour in higher costs can make the difference between profit and loss.



Min = 18 cents

### Wood frame building construction



Per-Hour Rate:  
Max = \$5.80



Ladder safety and providing eye and fall protection will save you money in the long run. In this risk class the difference in premium is \$4.61 per hour.



Min = \$1.19

### Trucking



Per-Hour Rate:  
Max = \$5.69



In this risk class, there is a \$4.65-per-hour difference in premiums paid. Part of that cost is borne by workers, who pay about a quarter of total premiums.



Min = \$1.04

Putting in place an effective injury and illness prevention program will save you and your workers money, and L&I's safety experts can help. To learn more about workplace safety, or to schedule a consultation, call your nearest L&I office.

If and when you have a claim, its impact on your rates can be minimized by taking steps to avoid or lessen the amount of time the injured worker collects wage-replacement benefits. Your options include keeping the worker on salary while he or she recovers, or finding a light-duty job the worker can safely do. Your injured worker's claim manager, or your L&I account manager, can help you sort through your options.

### What our customers have to say

*"L&I's people worked with us to identify the hazards we had at our factory and they helped us find solutions to the safety problems that we'd been dealing with for years. They came right out every time we called. With their help we cut our injury and illness rate more than in half in one year. We've been in business 30 years. Prior to the consultations, the longest we'd ever gone without a lost-time injury was 78 days. We've gone 100 days now without an injury, for the second time in a year. I couldn't be more pleased."*

– Keith Brossard, Safety Manager, Achilles USA in Everett

*"What impressed me most was that I got free advice from consultants who knew the law well enough to be able to help me comply rapidly and inexpensively. As a bonus, many of their suggestions have actually helped to lower my cost of production. I am happy to recommend L&I's services."*

– Thomas J. Walz, President, Carbide Processors in Tacoma

### Resources:

Workplace safety consultations: [www.SafetyConsultants.LNI.wa.gov](http://www.SafetyConsultants.LNI.wa.gov) or call your nearest L&I office

Claim management know-how: [www.LNI.wa.gov/ClaimsIns/Insurance/](http://www.LNI.wa.gov/ClaimsIns/Insurance/) and click on "Reducing premiums" or call your L&I account manager

## Financial Summary

Accident, Medical Aid and Pension Reserve funds

Summary of Financial Condition		
Year	Ending: 6/30/06	Ending: 6/30/05
<b>Assets</b>		
Cash and Investments	\$10,190,717,000	\$9,501,534,000
Premiums Receivable, Net	\$420,349,000	\$398,054,000
Land, Buildings and Equipment, Net	\$10,946,000	\$17,228,000
Other Assets	\$29,980,000	\$7,503,000
<b>Total Assets</b>	<b>\$10,651,992,000</b>	<b>\$9,924,319,000</b>
<b>Liabilities and Contingency Reserve</b>		
Benefits	\$8,331,966,000	\$8,167,206,000
Claims Administration	\$399,578,000	\$371,732,000
Retrospective Rating Adjustments	\$156,593,000	\$145,761,000
Other Liabilities	\$57,530,000	\$46,754,000
<b>Total Liabilities</b>	<b>\$8,945,667,000</b>	<b>\$8,731,453,000</b>
<b>Contingency Reserve</b>	<b>\$1,706,325,000</b>	<b>\$1,192,866,000</b>
<b>Total Liabilities and Contingency Reserve</b>	<b>\$10,651,992,000</b>	<b>\$9,924,319,000</b>

Summary of Operations and Contingency Reserve		
<b>Revenues</b>		
Net Premiums Earned	\$1,339,597,000	\$1,268,213,000
Net Investment Income	\$499,810,000	\$472,762,000
Investment Gains	\$74,573,000	\$151,171,000
Self-Insured Pension Reimbursements	\$96,582,000	\$70,541,000
Other Income	\$31,033,000	\$15,540,000
<b>Total Revenues Earned</b>	<b>\$2,041,595,000</b>	<b>\$1,978,227,000</b>
<b>Expenses</b>		
Benefits Incurred	\$1,414,420,000	\$1,386,587,000
Claims Administration Expenses Incurred	\$131,835,000	\$112,202,000
Other Administrative Expenses Incurred	\$123,175,000	\$113,252,000
<b>Total Expenses Incurred</b>	<b>\$1,669,430,000</b>	<b>\$1,612,041,000</b>
<b>Net Income</b>	<b>\$372,165,000</b>	<b>\$366,186,000</b>
<b>Change in Non-Admitted Assets</b>	<b>(\$7,859,000)</b>	<b>\$28,260,000</b>
<b>Equity Unrealized Gains</b>	<b>\$149,153,000</b>	<b>\$10,231,000</b>
<b>Change in Contingency Reserve</b>	<b>\$513,459,000</b>	<b>\$404,677,000</b>

Cash Flow Summary		
Operational Revenues Collected	\$1,419,856,000	\$1,326,609,000
Benefits Paid	(\$1,251,364,000)	(\$1,187,616,000)
Administrative Expenses Paid	(\$202,710,000)	(\$209,607,000)
<b>Net Operating Cash Flow</b>	<b>(\$34,218,000)</b>	<b>(\$70,614,000)</b>
Net Investment Income Collected	\$575,761,000	\$488,838,000
Investment Sales / (Purchases)	(\$538,829,000)	(\$421,706,000)
<b>Net Investment and Other Cash Flow</b>	<b>\$36,932,000</b>	<b>\$67,132,000</b>
<b>Net Cash Flow</b>	<b>\$2,714,000</b>	<b>(\$3,482,000)</b>
<b>Beginning Cash</b>	<b>\$629,000</b>	<b>\$4,111,000</b>
<b>Ending Cash</b>	<b>\$3,343,000</b>	<b>\$629,000</b>

Note: Figures rounded to nearest \$1,000

Based on: Statutory Accounting Principles Source: Washington State's Accounting and Financial Reporting System with adjustments for insurance reporting

### An Invitation to Learn More

This 2006 Year in Review is part of our effort to help L&I customers, the Legislature and the public learn more about Washington State's workers' compensation system. For more detailed financial reports, a breakdown on how State Fund monies are spent and average premium rates over the past 10 years, please visit

[www.StateFundFinancial.LNI.wa.gov](http://www.StateFundFinancial.LNI.wa.gov)