

Workers' Compensation Advisory Committee

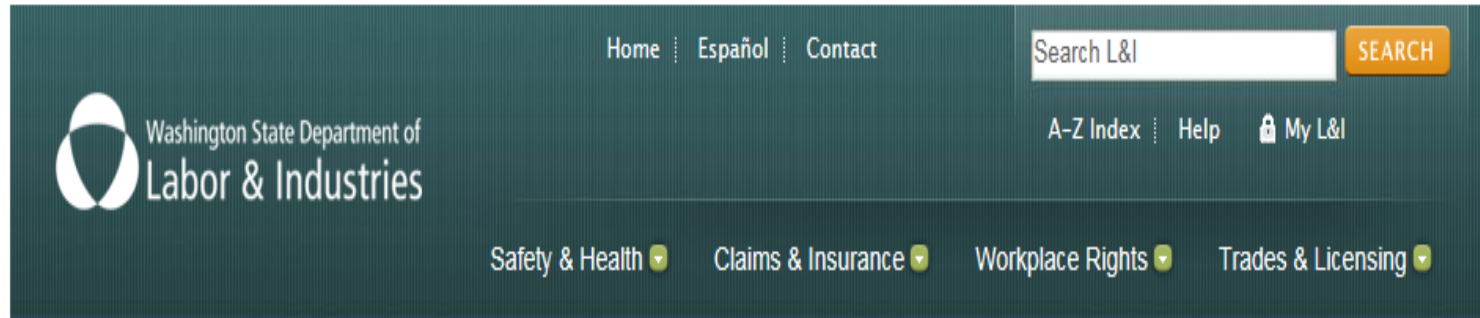
January 4, 2018



Agenda

| Time | Topic | Presenter(s) |
|------------------------|---|---|
| 9:00 – 9:10 (10 min) | Welcome <ul style="list-style-type: none"> • Introductions • Safety message | Vickie Kennedy Joel Sacks Jeff Killip |
| 9:10 – 9:30 (20min) | General Updates <ul style="list-style-type: none"> • Rate announcement • Finance Committee • Re-Insurance Update | Vickie Kennedy Joel Sacks Mike Ratko |
| 9:30 – 10:05 (35 min) | Building partnerships and trust with the worker | Vickie Kennedy |
| 10:05 – 10:40 (35 min) | Connecting with Workers: Business Transformation Requirements Phase Update | Terrane Holt and Mary Anne Walker |
| 10:40 – 10:55 (15 min) | Break | |
| 10:55 – 11:15 (20 min) | Insurance Services Dashboard | Vickie Kennedy |
| 11:15 – 11:45 (30 min) | Industrial Insurance State Fund Financial Overview | Rob Cotton |
| 11:45 – 11:55 (10 min) | Board of Industrial Insurance Appeals Update | Linda Williams |
| 11:55 – 12:00 (5 min) | Closing Comments & Adjourn | Vickie Kennedy Joel Sacks |

Safety Tip



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Washington State Department of Labor & Industries

A-Z Index | Help | My L&I

Safety & Health ▾ Claims & Insurance ▾ Workplace Rights ▾ Trades & Licensing ▾

Eye on Safety Eye On Safety Video training to support your safety & health goals.

| | | | |
|-----------------------|---------------------|-----------------------|---------------------|
| Featured Presentation | Safety in 60 | Investigation Stories | Other Online Videos |
|-----------------------|---------------------|-----------------------|---------------------|

Brief 1-minute videos for awareness about everyday hazards.

Jeff Killip | Sr. Mgr. – DOSH Education & Outreach | jeffrey.killip@lni.wa.gov | office: 360.902.5172
Preventing workplace injury and illness through partnership-based Education & Outreach

➔ We are hungry for candid feedback on how we can better serve our L&I customers!

[Video](#)

Welcome & General Updates

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



Improving the Customer Experience

People, process, and technology





Building partnerships and trust with the worker



What we have done





Encouraging connections between injured workers and employers

- Stay at Work Incentives
- Preferred Worker Enhancements
- Partnership with ESD: Re-employment Specialist and WorkSource
- Early Vocational Assistance

What we are doing



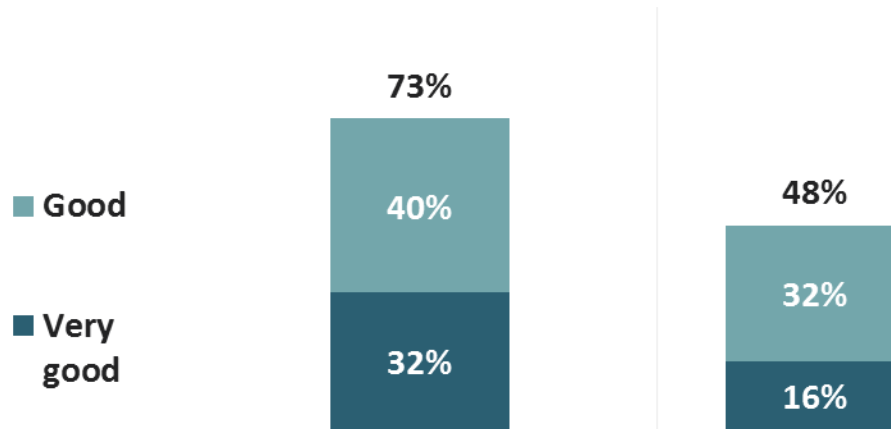
First Contact Calls

Customer experience surveys demonstrate that the Initial Call from a Claims Manager to an injured worker can have a significant impact on the overall experience of L&I customers, and could help to reduce claim duration.

Create an Experience Which Engages the Worker

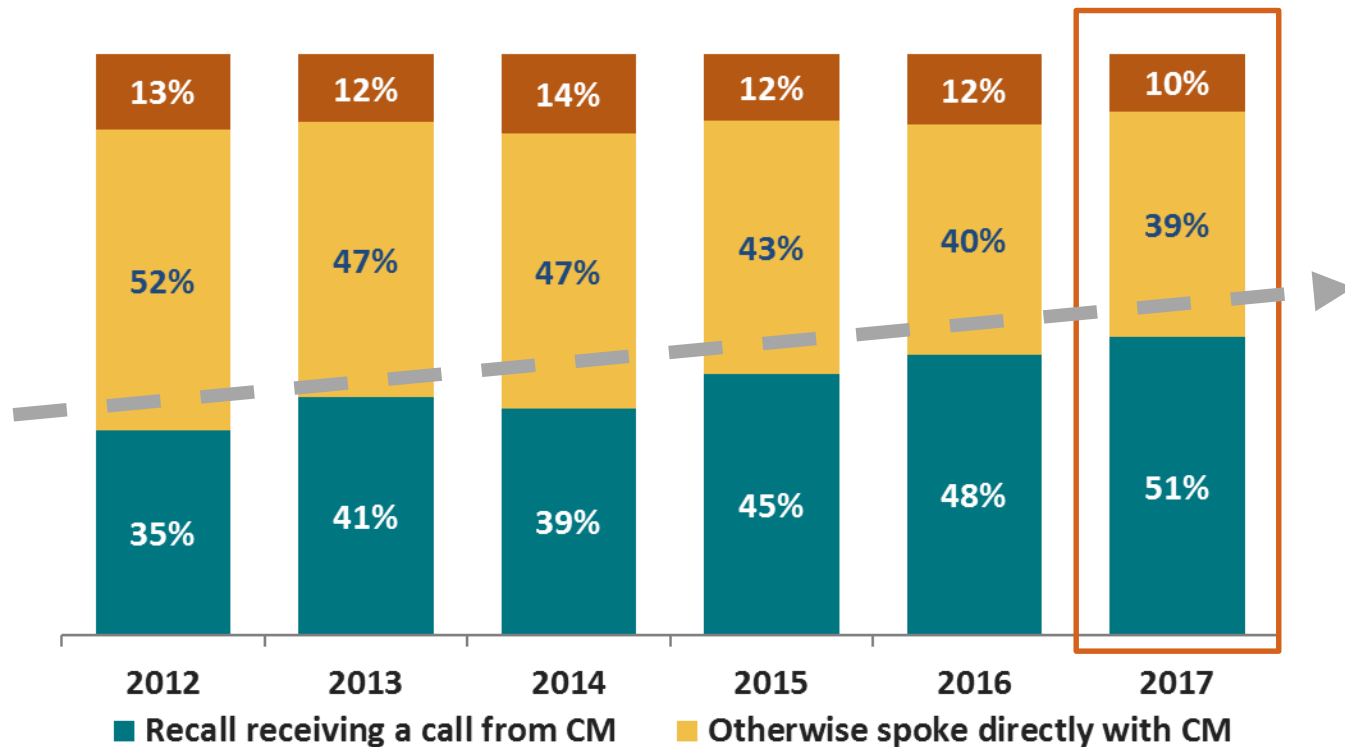
- Make a proactive first contact call
- Answer their questions
- Explain the process
- Discuss the importance of returning to work as soon as medically possible
- Identify potential risk factors and collaborate on next steps
- Demonstrate care and compassion

Workers who recall receiving an initial call are more likely to rate their overall experience as positive.



| | Recall Receiving Telephone Call From L&I Claims Manager (Claims Manager Initiated/Not A Response) | |
|------------|--|-----|
| | Yes | No |
| Average | 18% | 25% |
| Total Poor | 9% | 27% |

More workers recall that their claims manager initiated telephone contact.



First Call and Personal Contact: Workers



Disability Prevention and Management

The sooner we address psychosocial barriers and offer the right services, the more likely we are to reduce workplace disability and help workers heal and return to work.





Claims Strategic Training

- **Strategic thinking**
- **Problem solving**
- **Soft skills**
- **Hiring for the right skills and abilities**

What we are going to do



Business Transformation Requirements Phase Update

Terrane Holt and Mary Anne Walker, Linea Solutions



A Quick Reminder of Who We Are

- We are expert business and technical advisors for transformation projects
- We perform **business analysis & project management** for public sector clients
- Business domain focus: **Benefits/Claims, Pensions, and Insurance**
- Currently working with 19 transformation clients
- Our typical engagement starts with planning, business process analysis, and requirements, progressing through implementation
- We are 100% independent of software providers

An Update on the Requirements Phase

- Document business rules, functional requirements, and desired features and functions
- Engage the solution providers in the industry to understand the potential fit of existing Workers' Comp software
- Help L&I staff understand the future state – what is possible, and what isn't
- Determine how unique L&I is compared to other Workers' Comp & Insurance organizations
- Gathering industry benchmarking and project cost data to put together a realistic estimated budget and implementation plan
- Determine key Return on Investment opportunities

EARLY OBSERVATIONS

Claims Management

Activity Prescription Form

Primary Goal: An Activity Prescription Form (APF) is used by medical providers to report functional progress, capacities, and restrictions for injured workers.

Objectives to be achieved:

- Identify changes in status that may indicate worker is ready for return to work
- Certify and pay time-loss by providing a snapshot in time of medical and work status
- Communicate with employers, claim managers, care coordinators, workers, and other parties to the claim

Challenges to APF in the Current Environment

- L&I receives around 418,000 APFs per year
- Until recently, each APF was manually assessed for important information
- APFs currently have no field level validations other than character length restrictions
- High priority items in APFs can become obscured by the Claims Managers' work load

State Fund Claim:

Department of Labor and Industries PO
 Box 44291 Olympia WA 98504-4291
 Fax to claim file: 360-902-4567



Activity Prescription Form (APF)

Billing Code: 1073M (Guidance on back)

Self-Insured Claims: Contact the Self Insured Employer (SIE)/Third Party Administrator (TPA)
 For a list of SIE/TPAs, go to www.Lni.wa.gov/SelfInsured

Reminder: Send chart notes and reports to L&I or SIE/TPA as required. Complete this form only when there are changes in medical status or capacities, or change in release for work status.

| | | | | |
|--|--|-------------|-----------------|---|
| General info | Worker's Name: | Patient ID: | Visit Date: | Claim Number: |
| | Healthcare Provider's Name (please print): | | Date of Injury: | Diagnosis: |
| Required: Work status | <input type="checkbox"/> Worker is released to the job of injury (JOI) without restrictions (related to the work injury) as of (date): ____/____/____ <i>(If selected, skip to "Plans" section below)</i> | | | |
| | <input type="checkbox"/> Worker may perform modified duty , if available, from (date): ____/____/____ to* ____/____/____ (*estimated date) <input type="checkbox"/> If released to modified duty, may work more than normal schedule | | | Required: Measurable Objective Finding(s) (e.g., positive x-ray, swelling, muscle atrophy, decreased range of motion) |
| | <input type="checkbox"/> Worker may work limited hours : ____ hours/day from (date): ____/____/____ to* ____/____/____ (*estimated date) | | | |
| | <input type="checkbox"/> Worker is working modified duty or limited hours | | | |
| | <input type="checkbox"/> Worker not released to any work from (date): ____/____/____ to* ____/____/____ (*estimated date) | | | |
| <input type="checkbox"/> Poor prognosis for return to work at the job of injury at any date | | | | |

How can we improve service to injured workers by addressing these challenges?

- Make it easier to do business with L&I. Work has already been done with some clinical organizations to submit APFs through health information exchange.
- Implement system to bring certain data from APFs to the top of the claim managers' priority work
- Validations can be programmed to support the forms to ensure that medical providers submit accurate and complete information

How can Business Transformation in Claims Management Improve Service to Injured Workers?

- Workflow and Case Management
- Modeling Business Rules for Verification and Validation
- Single Point of Access to Information
- Management Decision Making Tools

Dashboard – help injured workers heal and return to work

*Vickie Kennedy, Assistant Director
Insurance Services*



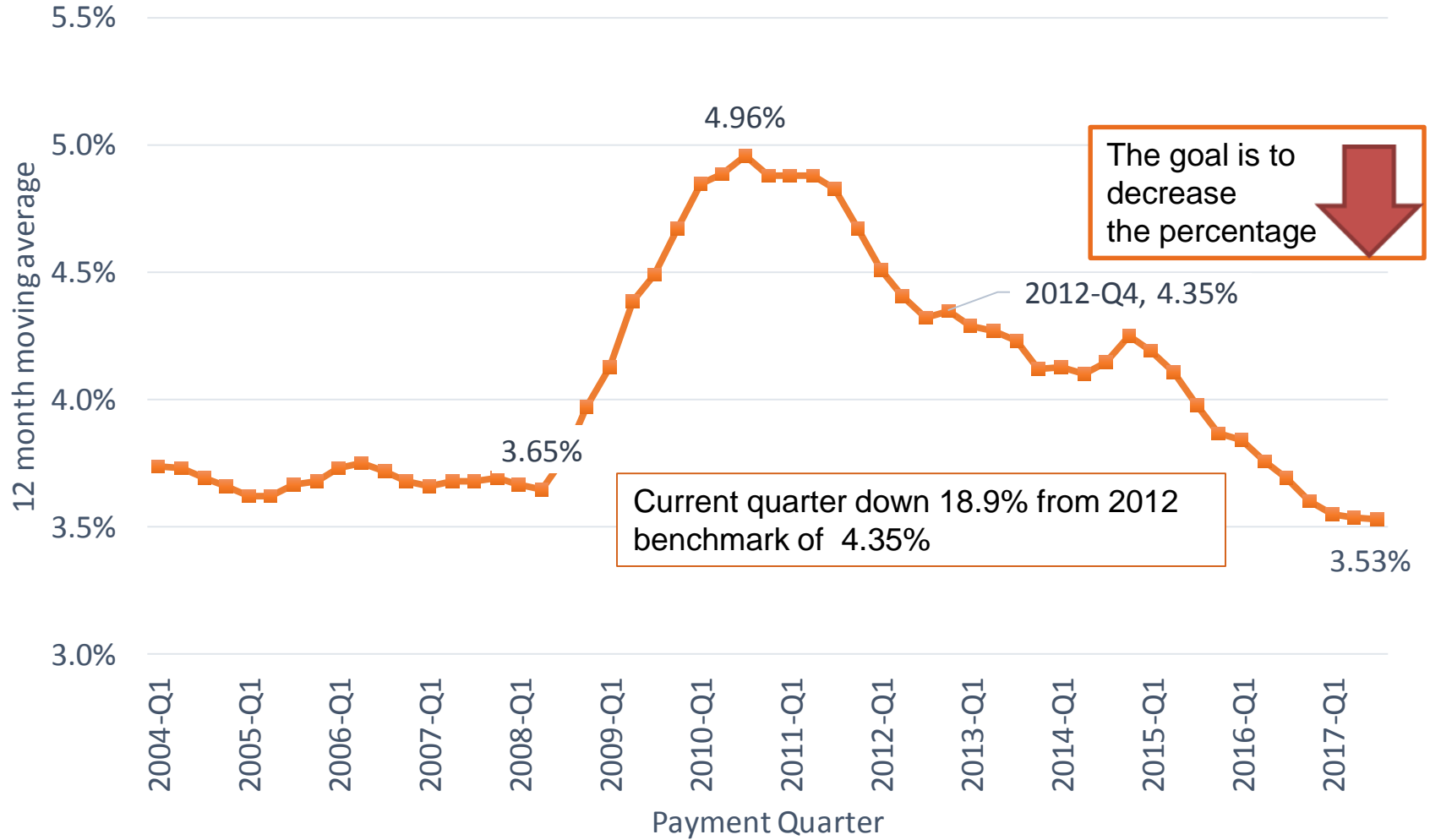
DASHBOARD SUMMARY

| Measure | Change from 2012 (unless otherwise noted) | | Highlights |
|--|--|---|---------------------|
| Long Term Disability – share that received a TL payment in the 12 month post injury | Down 18.9 % | ↓ | 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 5.1 % | ↓ | |
| Resolution rate - time-loss claims at 6 months | Up 6.2% | ↑ | |
| Auto adjudication of claims | Up 72% from 2014 | ↑ | Highest since 2002* |
| High risk claims – share return to work at 12 months | Up 9.0% | ↑ | Highest since 2002 |
| Median time-loss days paid at 1st AWA referral | Down 65.5% | ↓ | Lowest since 2002* |
| % RTW outcomes when 1 st AWA referral made by 90th day of TL | Up 59% since 2014 | ↑ | |
| % RTW outcomes - all first AWAs | Up 117% since 2014 | ↑ | Highest since 2004* |
| WSAW participation | Steady utilization | ↔ | |
| COHE utilization | Up 82.9% | ↑ | Highest since 2002 |

* Earliest year for which measurement is available

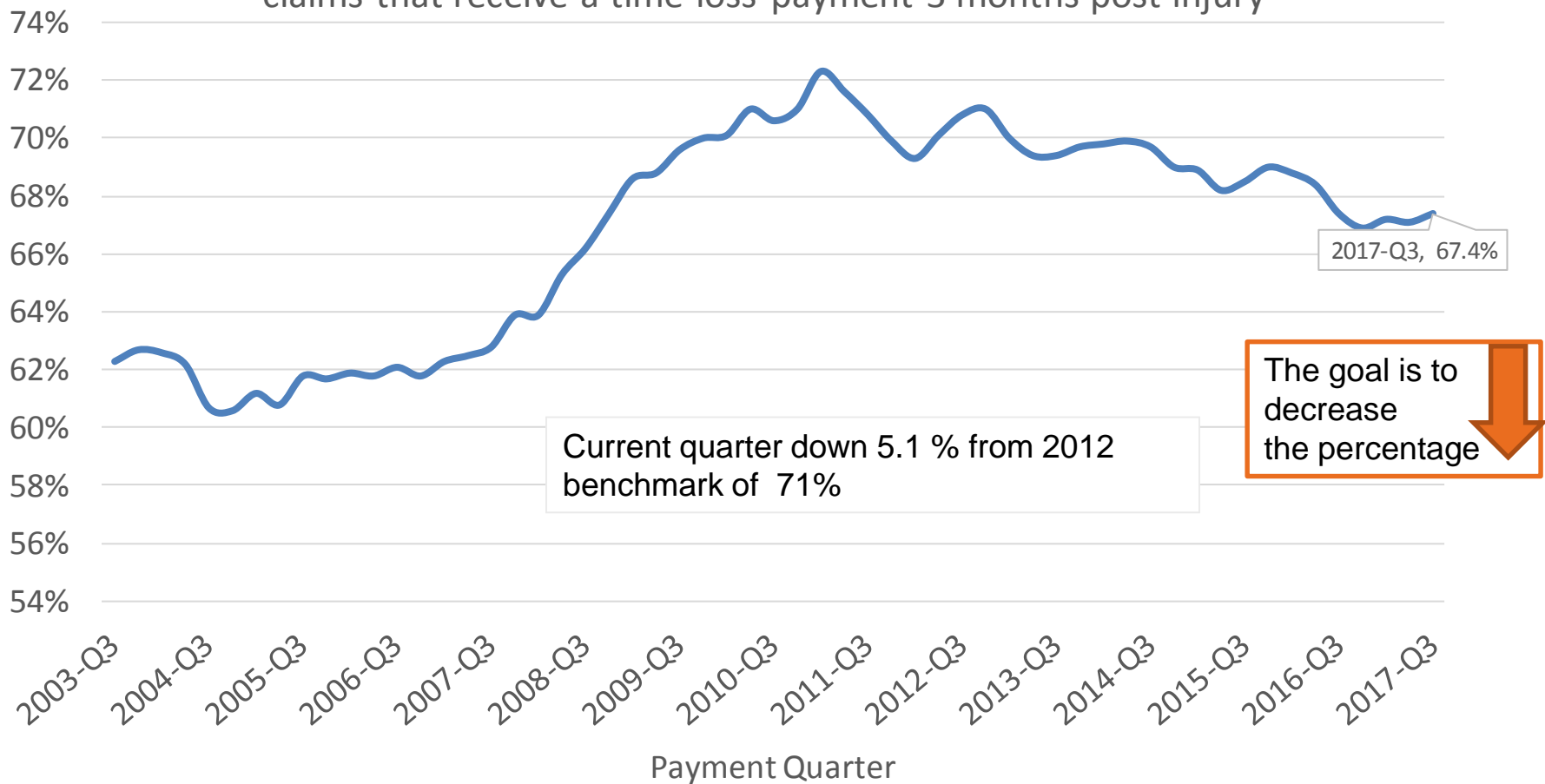
Long term disability percent

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



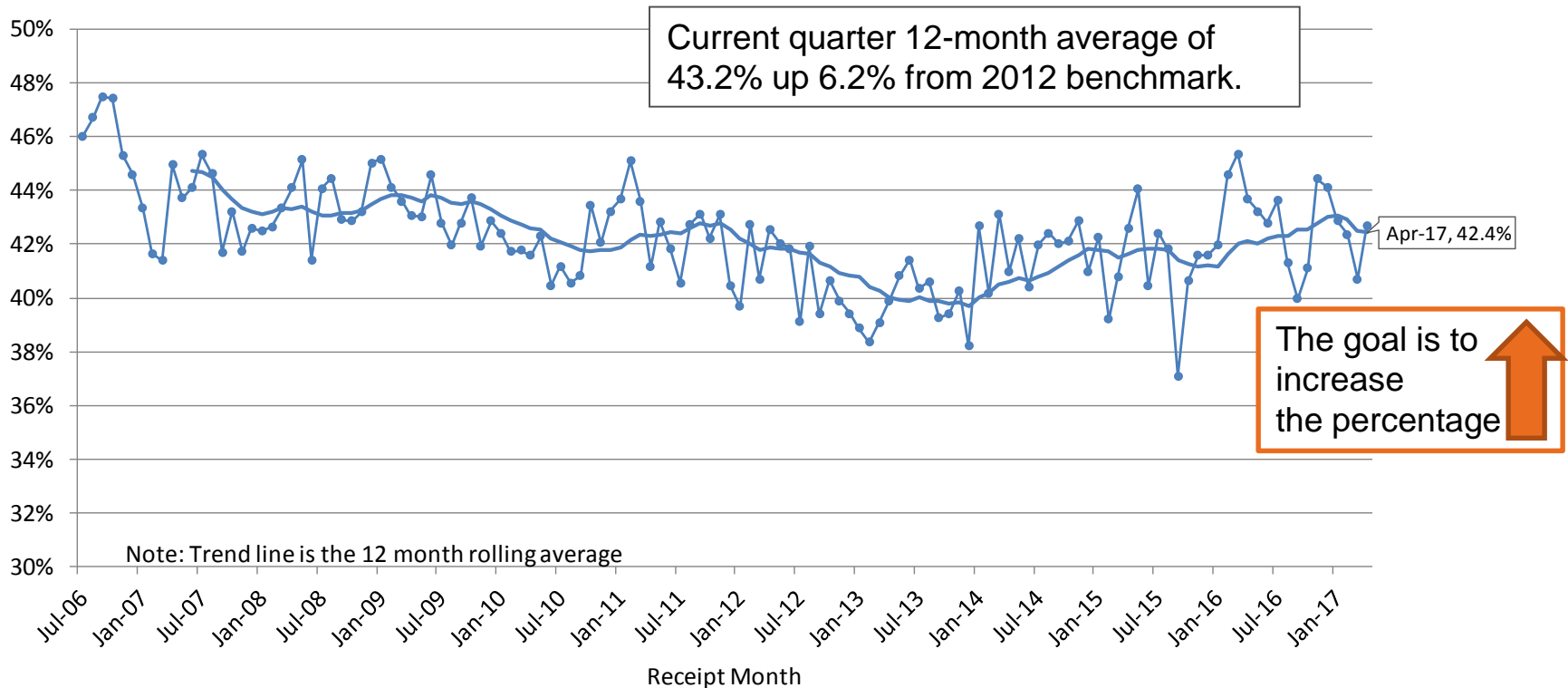
The onset of long-term disability is often measured between three and six months after injury

Claims that receive a time-loss payment 6 months post injury relative to claims that receive a time-loss payment 3 months post injury

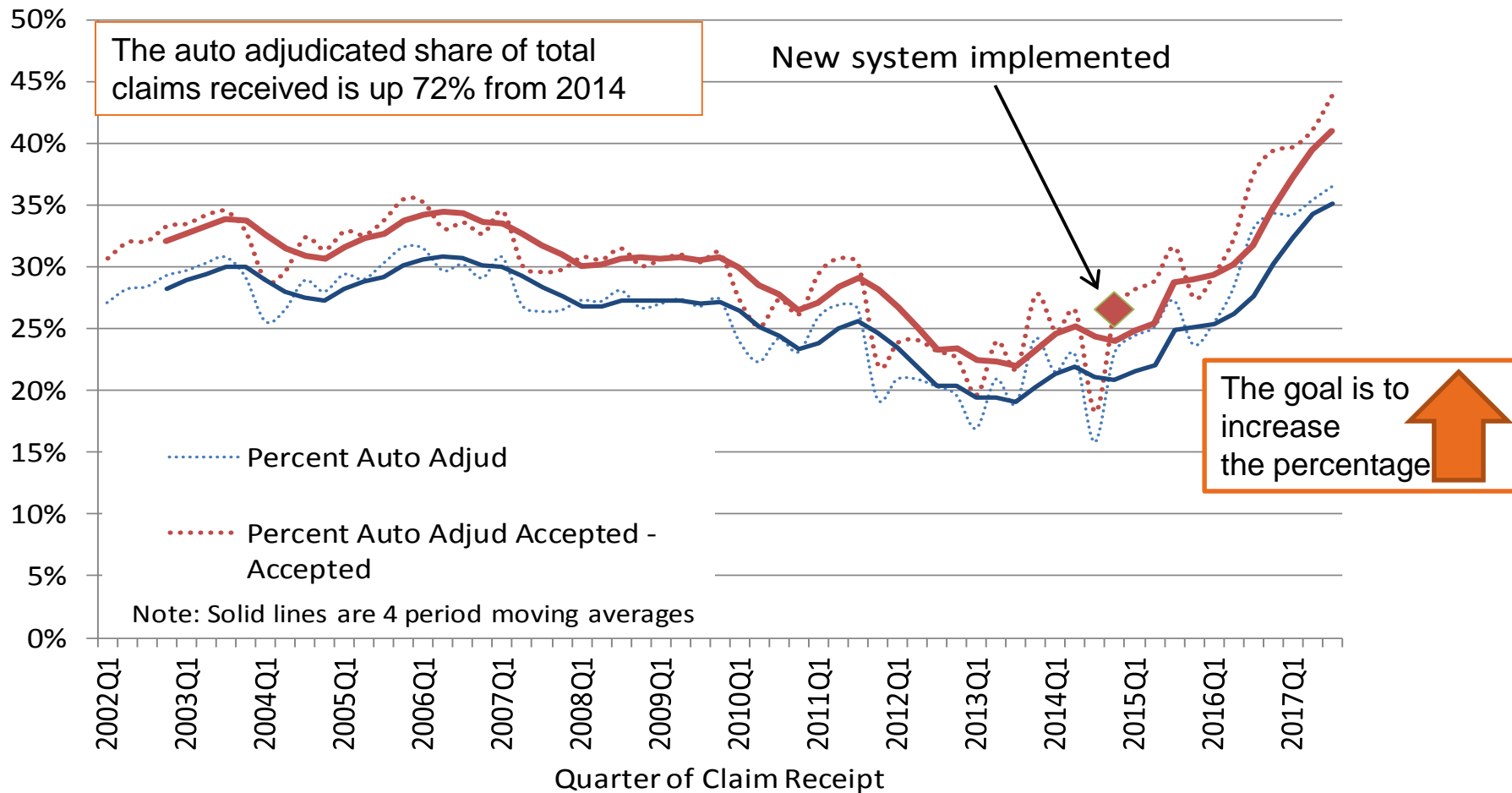


The share of time-loss claims resolved six months after claim receipt - trend has been upward

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



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



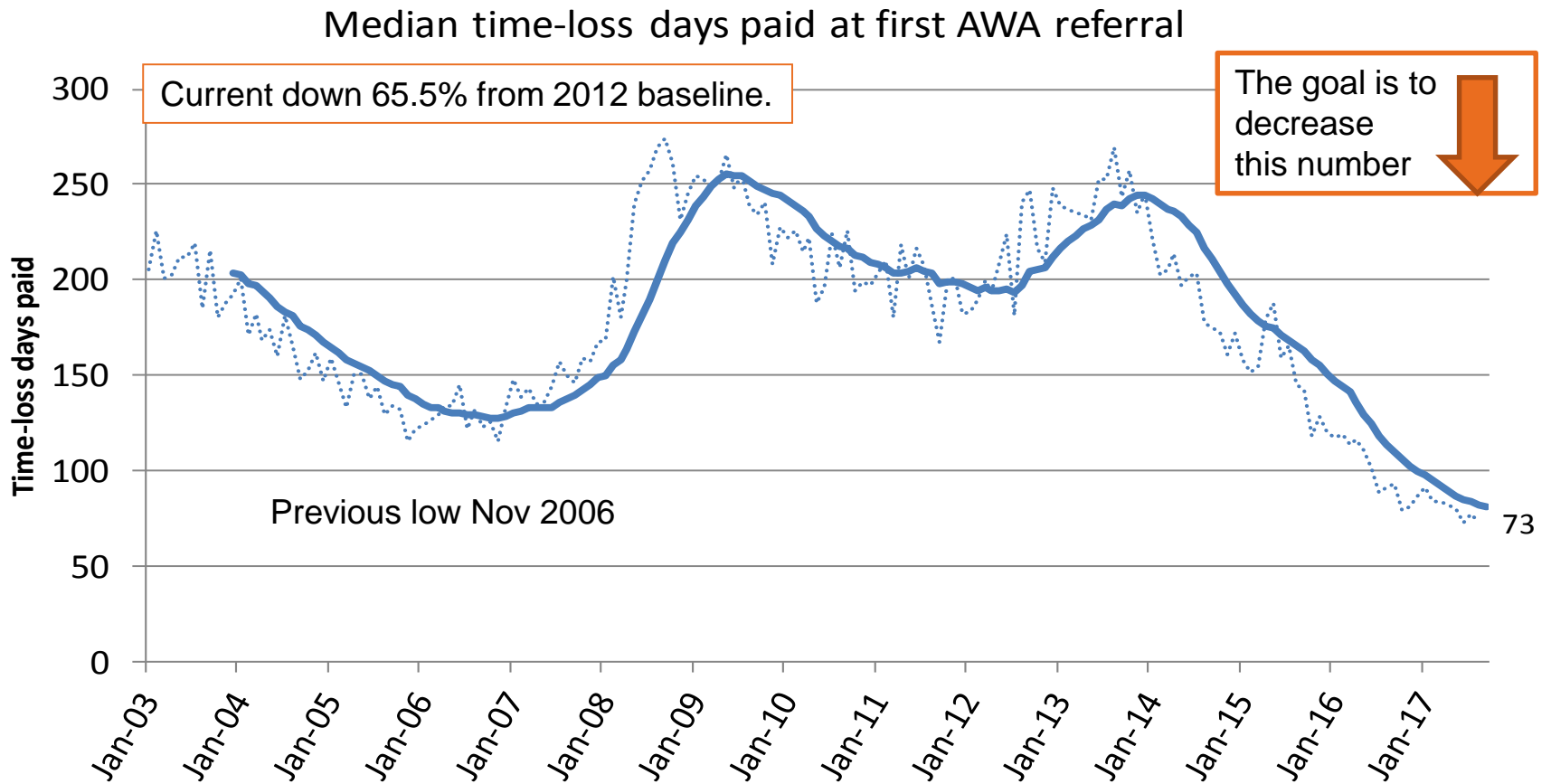
High risk claims — Initiatives such as early AWA, COHEs, opioid guidelines and the RTW score are improving RTW outcomes

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



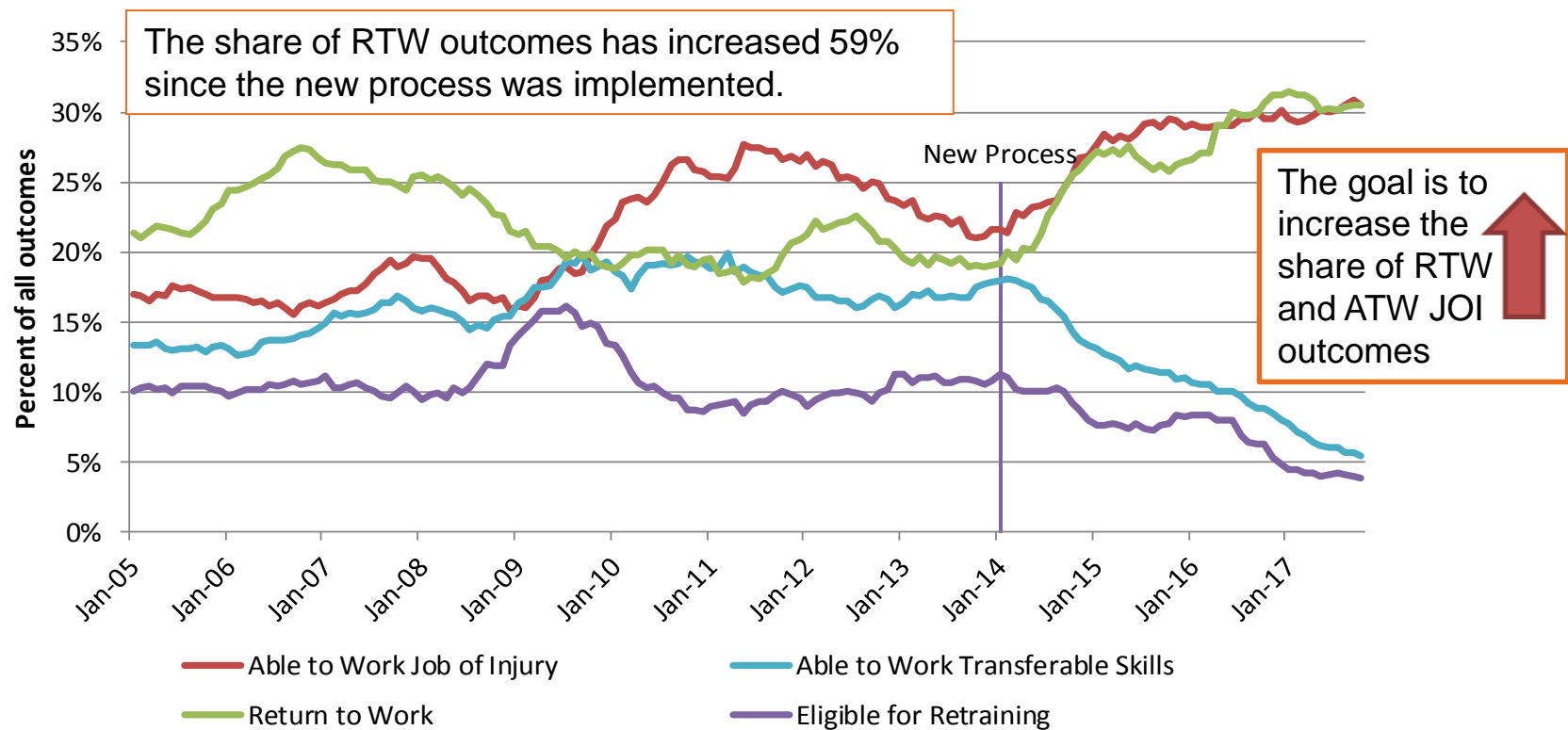
High risk workers are defined as those being disabled on the 40th day following claim receipt, about 1,540 claims per quarter. RTW is defined as the status of not receiving disability benefits between 7 and 12 months

Ability to work assessment referrals are now targeted to address the onset of long-term disability.



New focus on return to work in AWA process has increased positive employable outcomes for early AWAs

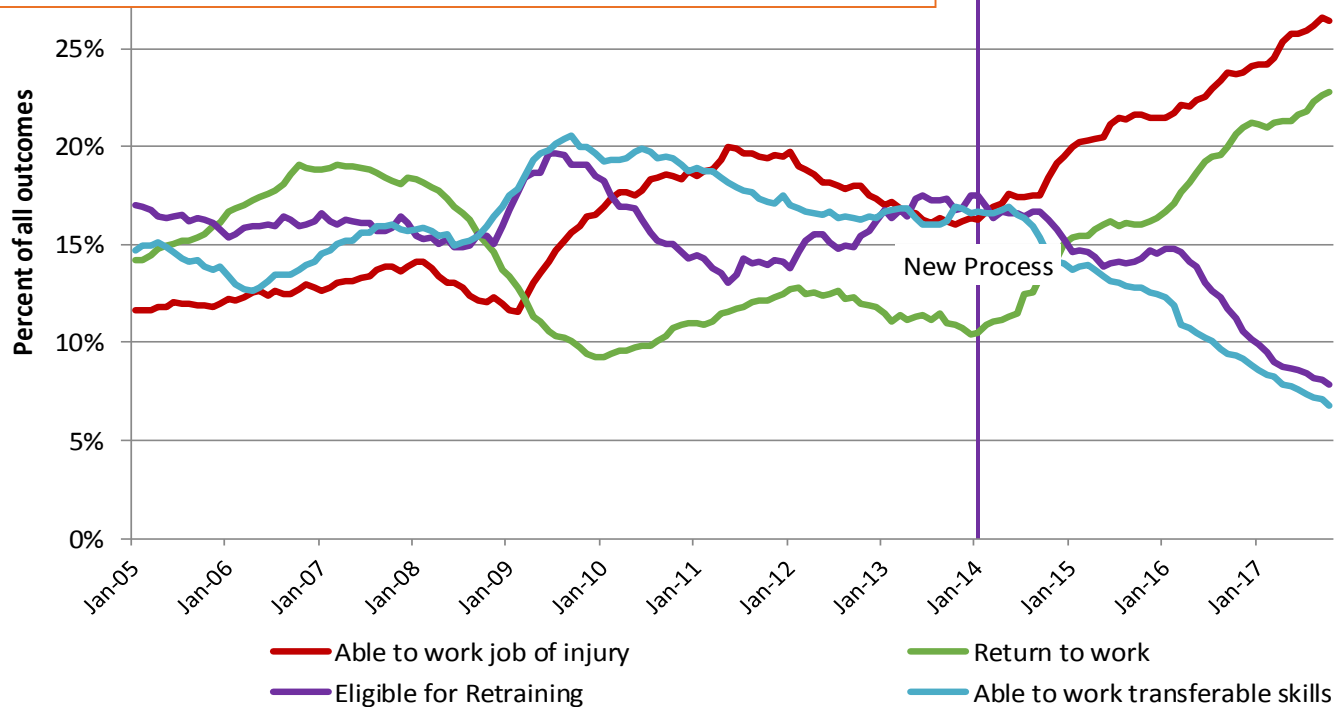
Outcome distribution when first AWA referral made with less than 90 days of time-loss, select outcomes (12-month rolling average)




New focus on return to work in AWA process has increased positive employable outcomes for all first AWAs

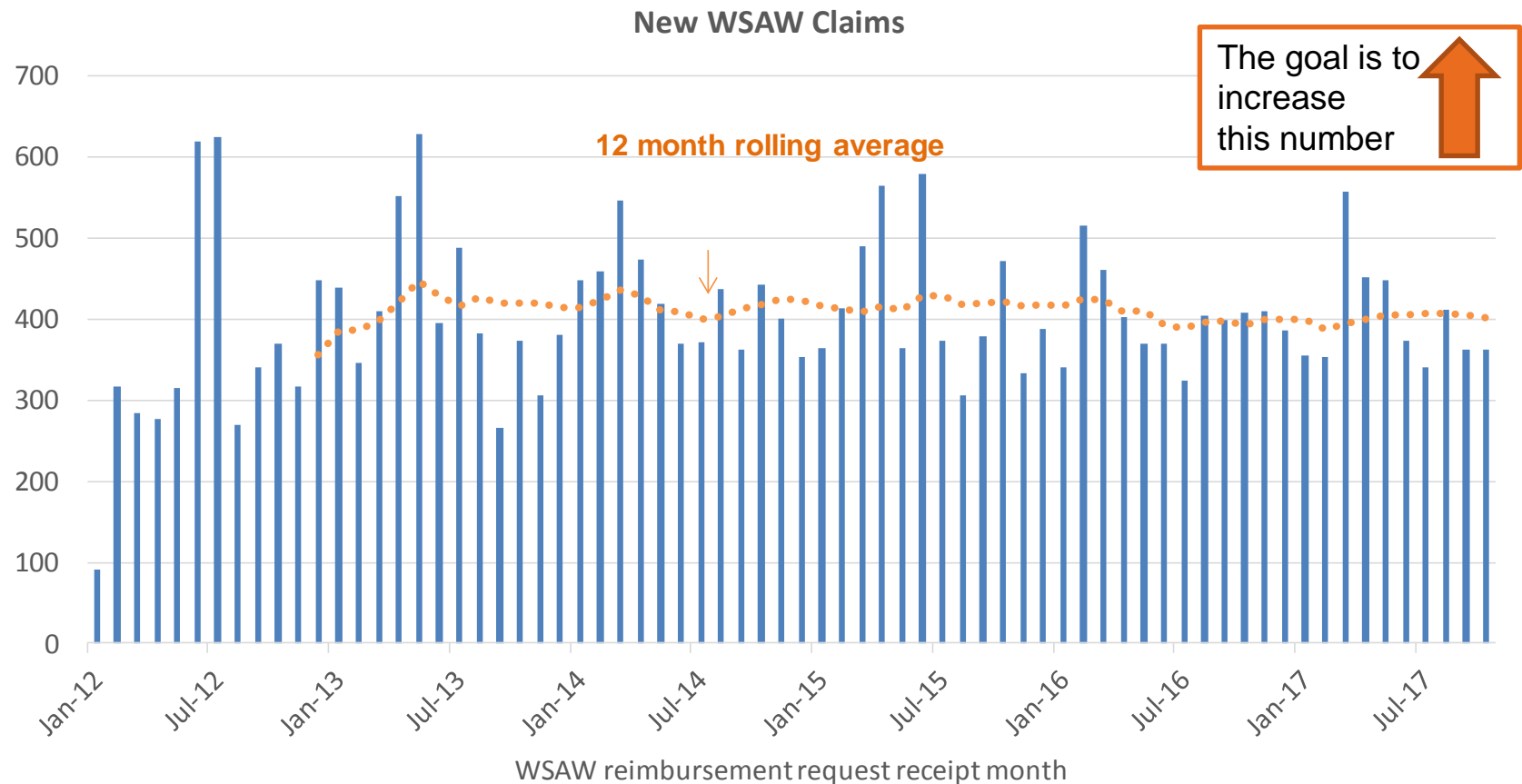
Outcome distribution, first AWA referrals, select outcomes (12-month rolling average)

The share of RTW outcomes on all first AWAs has increased 117% since the new process was implemented.



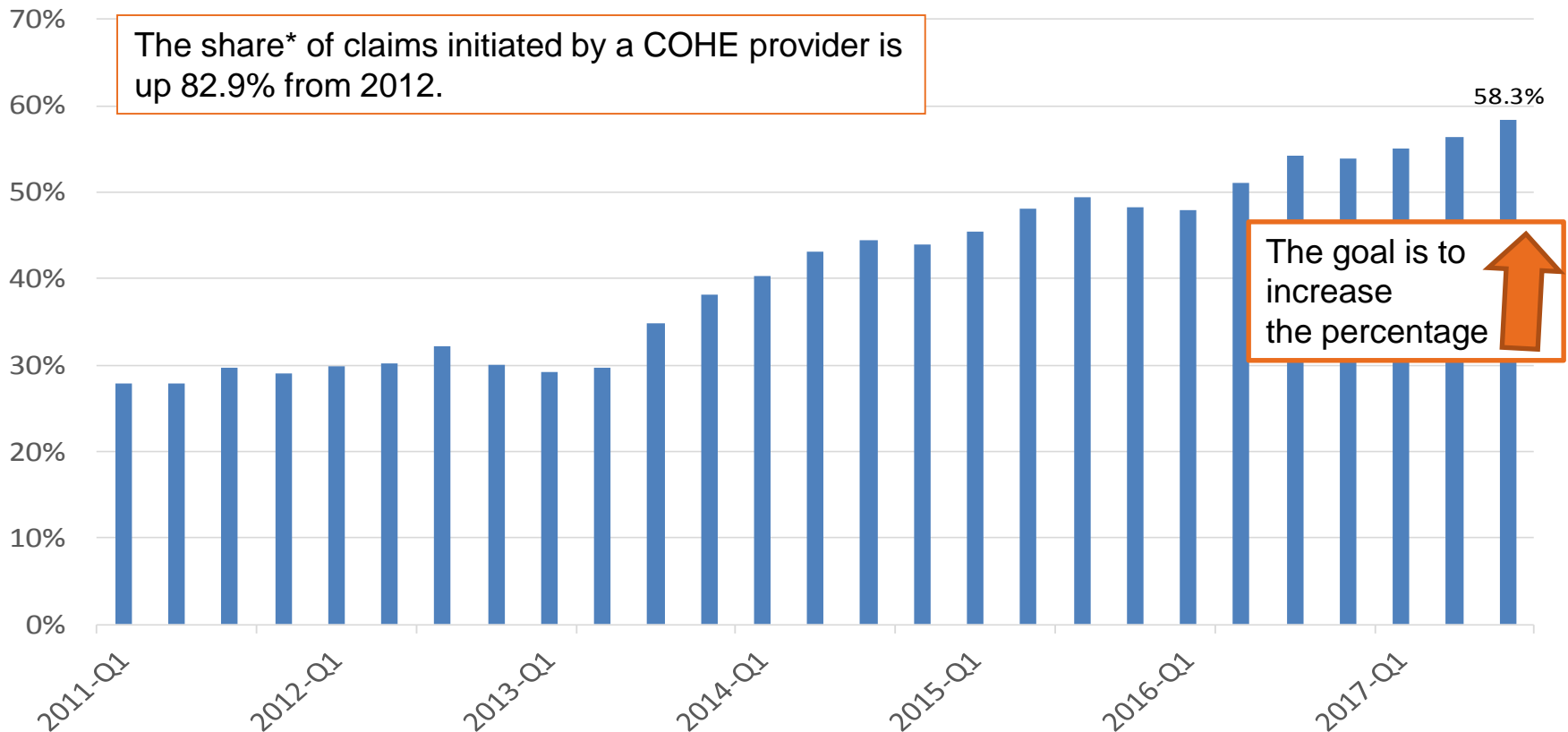
The goal is to increase the share of RTW and ATW JOI outcomes 

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



Percentage of claims for injured workers initiated with a COHE provider continues to increase

Percent of claims received initiated with a COHE provider



*Average share for most recent 4 quarters

Claim receipt quarter

**INDUSTRIAL INSURANCE
(STATE) FUND
FINANCIAL OVERVIEW**

**STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2018 THROUGH FIRST QUARTER
JULY 2017 – SEPTEMBER 2017**



Annual Financial Reports

Fiscal Year 2017 - July 2016 through June 2017



- Annual financial reports are available on L&I's website at: <http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports>
- If you wish to obtain a paper copy of annual financial reports, send an email to Rob Cotton at cotr235@lni.wa.gov.

Unmodified, “Clean” Opinions

Independent Auditors issued unmodified or “clean” opinions on:

- The Workers’ Compensation Program
Comprehensive Annual Financial Report (CAFR)
- The Industrial Insurance Fund Annual Statutory
Financial Information Report
- Review of actuarial estimates

Significant Financial Highlights

July 2017 through September 2017

The contingency reserve increased \$427 million, from \$2,972 million on July 1, 2017 to \$3,399 million on September 30, 2017.



- Favorable development on prior year liabilities accounts for more than half of the contingency reserve increase
 - Medical Aid: lower than expected claim counts, lower than anticipated medical payments, and a continuing decrease in medically active claims
 - Accident: reduction in the number of anticipated active time-loss claims
 - Total Permanent Disability: fewer active older time-loss claims
 - Partial Permanent Disability: lower estimated average award amount and fewer awards
- Gains on investments
- Premiums and investment income are adequate to pay for expected costs

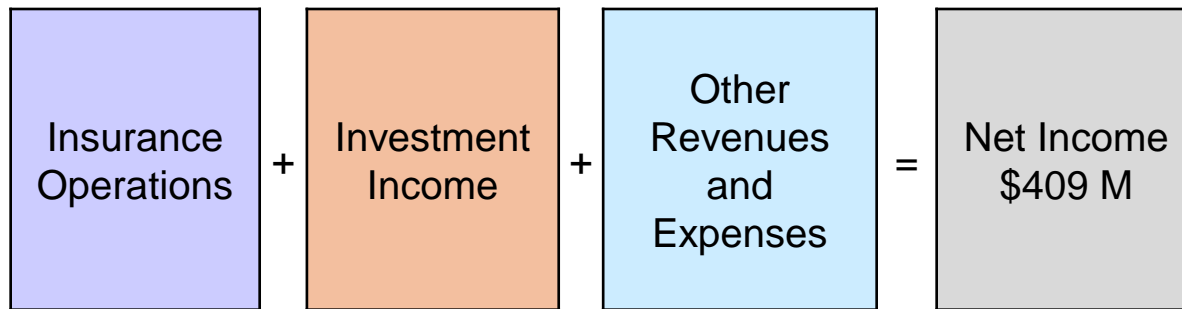
Change in contingency reserve by quarter for fiscal year 2018.

- July 1st to September 30, 2017 – an increase of \$427 million

State Fund Results

“Net Income”

July 2017 through September 2017



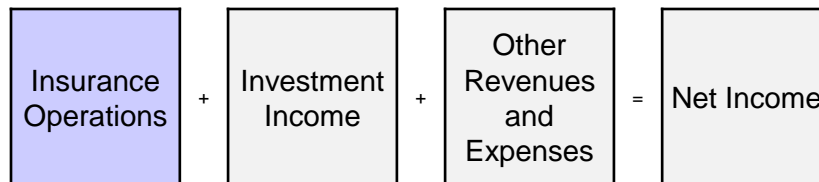
Insurance Operations

July through September 2017
(in millions)

Three Months Ended

| | | September 30, 2017 | September 30, 2016 |
|---|---|--------------------|--------------------|
| We took in (Premiums Earned) | + | \$ 567 | \$ 562 |
| We spent (Expenses Incurred) | | | |
| Benefits Incurred | | 320 | 646 |
| Claim Administrative Expenses | | 50 | 63 |
| Other Insurance Expenses | | 22 | 21 |
| Total Expenses Incurred | - | 392 | 730 |
| Net Income Gain(Loss) from Insurance Operations | = | \$ 175 | \$ (168) |

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

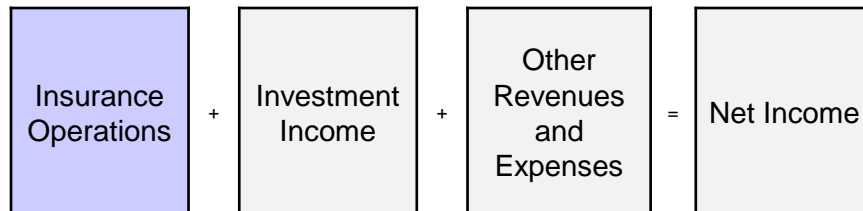


Premiums Earned

July through September
(in millions)

Three Months Ended

| | September 30, 2017 | September 30, 2016 | Difference |
|---|-----------------------|-----------------------|-------------|
| Standard Premiums Collected | \$ 575 | \$549 | |
| Less Retrospective Rating Adjustments | (2) | (9) | |
| Net Premiums Collected | 573 | 540 | |
| Changes in future Premium Amounts To Be Collected | 43 | 37 | |
| Changes in future Retrospective Rating Adjustment Refunds | (49) | (15) | |
| Net Premiums Earned | \$ 567 | \$ 562 | \$ 5 |

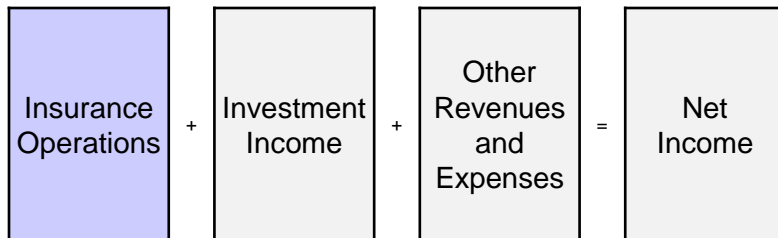


Benefits Incurred

July through September
(in millions)

Three Months Ended

| | September 30, 2017 | September 30, 2016 | Difference |
|-------------------------------------|-----------------------|-----------------------|-----------------|
| Benefits Paid | \$ 409 | \$ 411 | \$ (2) |
| Total Change in Benefit Liabilities | (89) | 235 | (324) |
| Benefits Incurred | \$ 320 | \$ 646 | \$ (326) |



The main reason for the \$326 million decrease in benefits incurred is favorable development on prior year benefit liabilities.

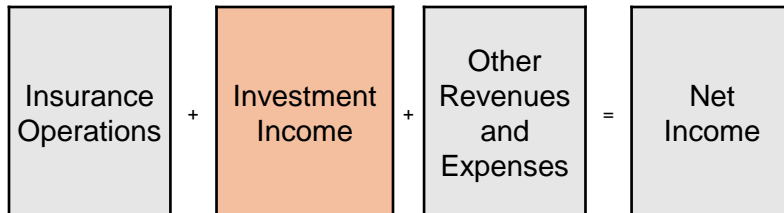
Investment Income

July through September
(in millions)

Three Months Ended

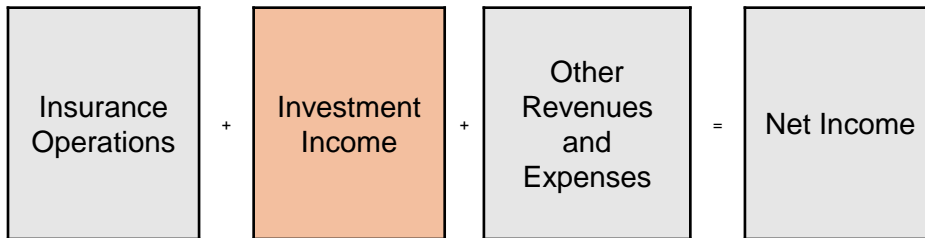
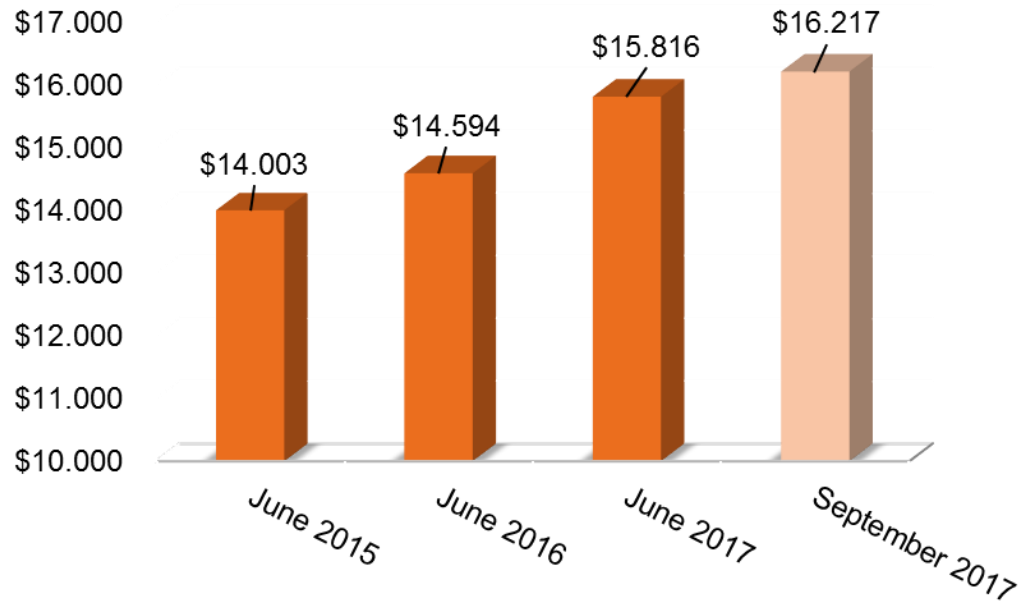
| | | September 30, 2017 | September 30, 2016 |
|---|---|-----------------------|-----------------------|
| Investment Income Earned from Interest on bonds | + | \$ 119 | \$ 120 |
| Realized Gain/(Loss) from Fixed Income Investments Sold | + | (7) * | 8 |
| Realized Gains from Stocks (Equity Investments) Sold | + | 102 * | 0 |
| Total Investment Income | = | \$ 214 | \$ 128 |

*Align with new asset allocation policy.



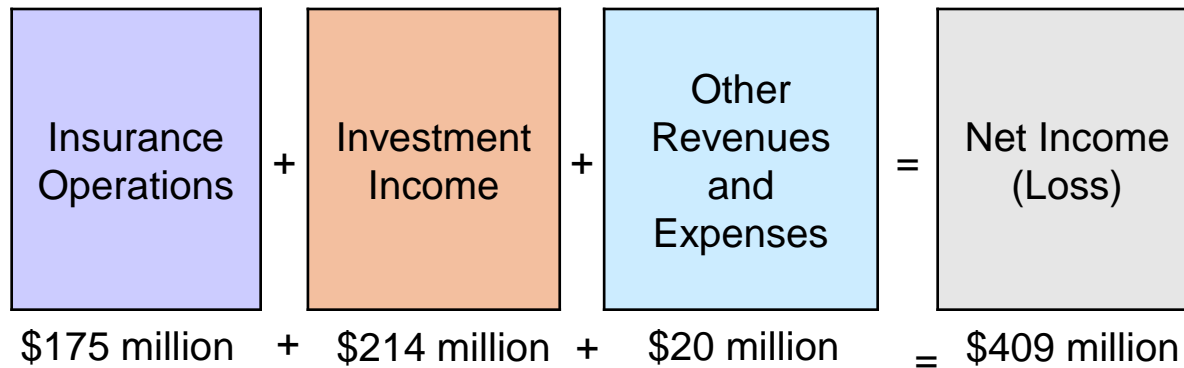
Total Investments

(rounded to billions)



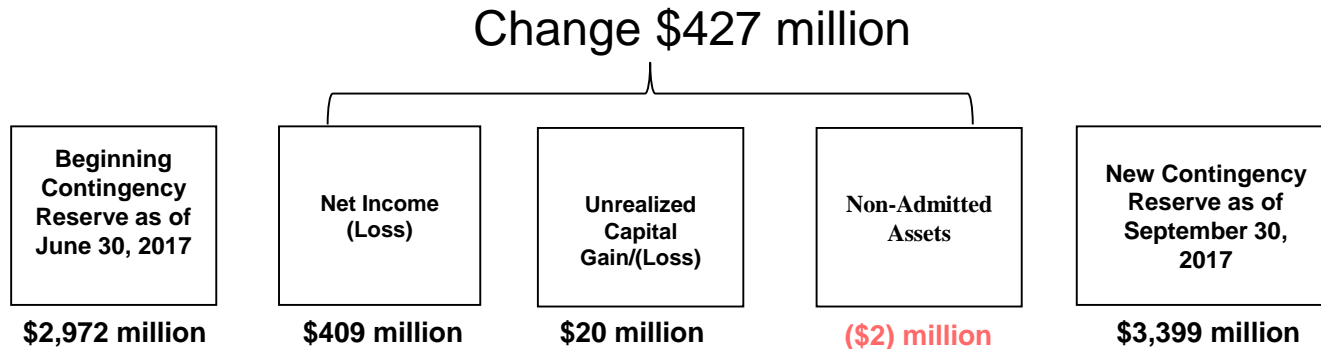
Results of Operations

July 2017 through September 2017



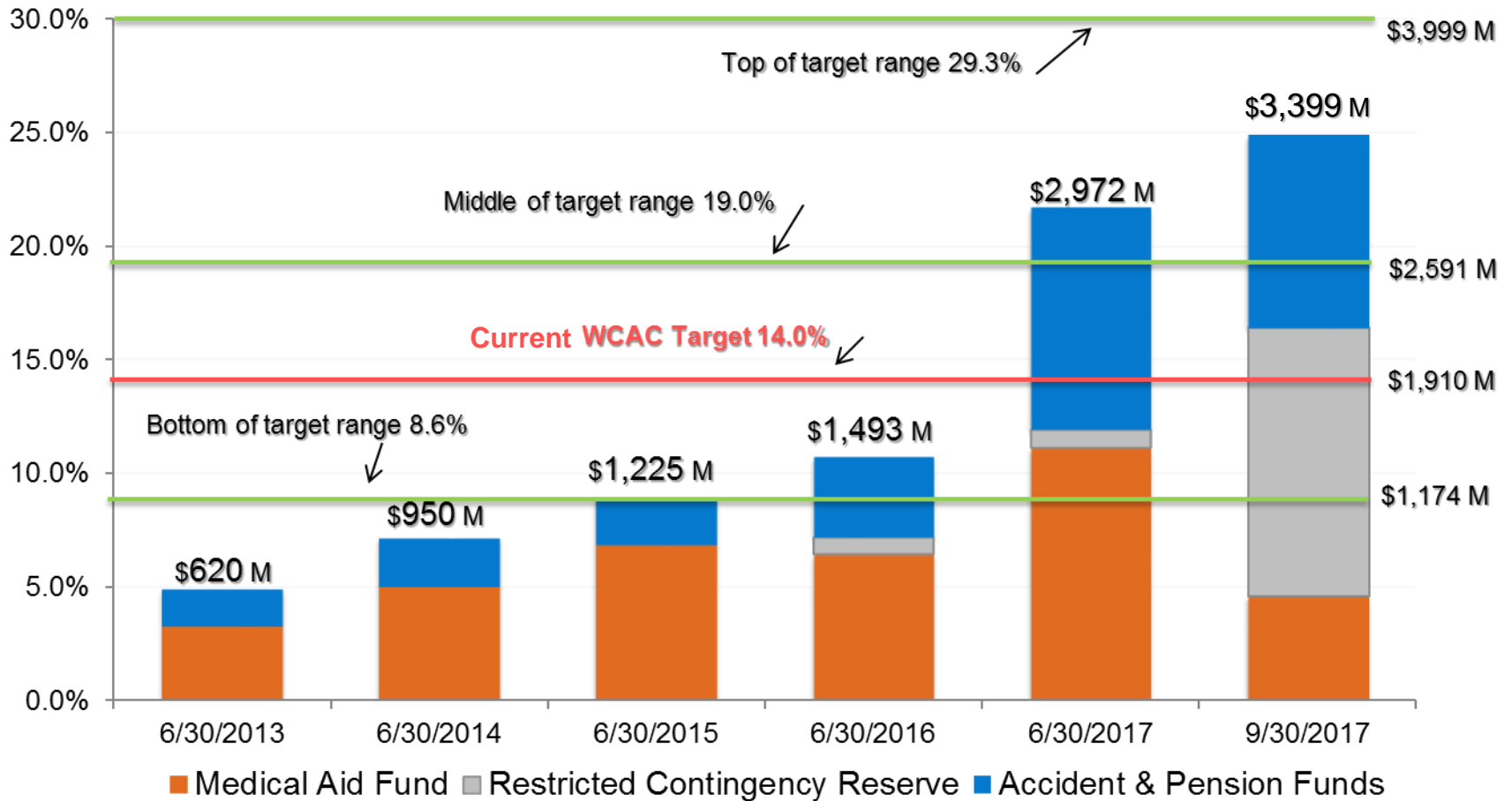
How Did Contingency Reserve Perform?

July 2017 through September 2017



Combined Contingency Reserve vs. Targets

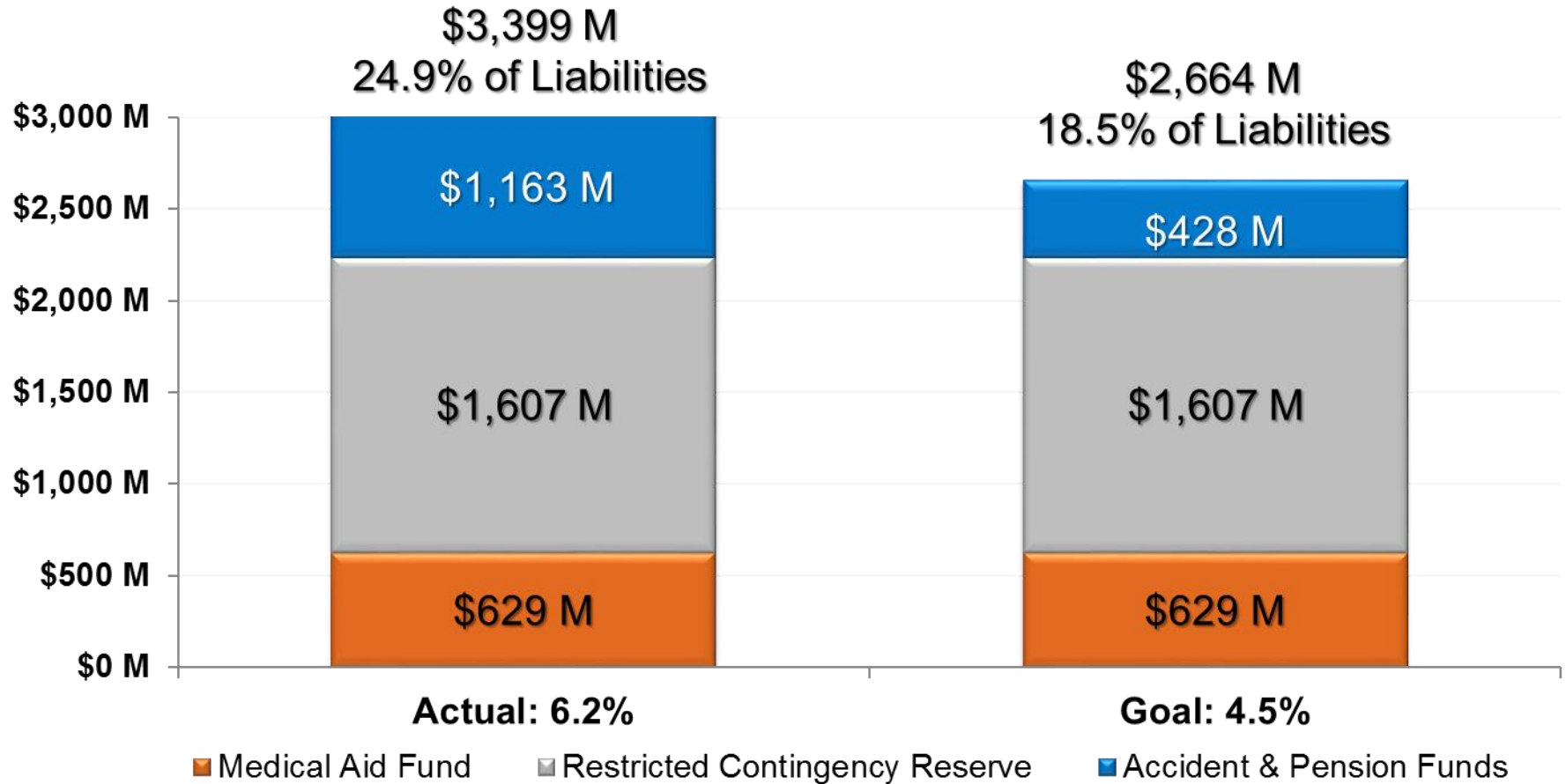
Combined Contingency Reserve is 24.9% of Total Liabilities



Restricted is based on final June 30, 2017 financial information and investment earnings through 9-30-17.

Combined Contingency Reserve At Different Discount Rate Scenarios

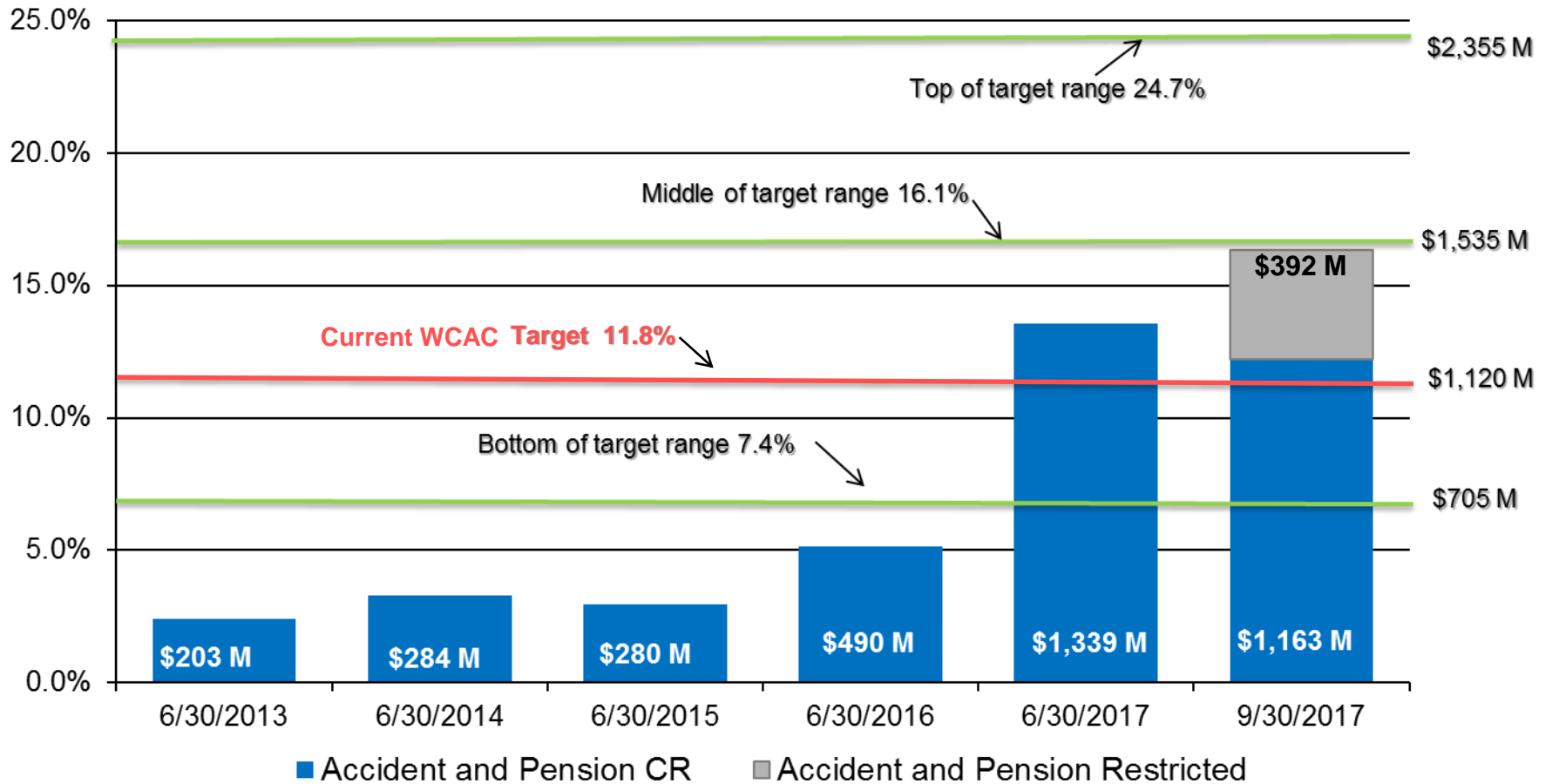
Combined Contingency Reserve at 6.2% and 4.5% Pension Discount Rates



as of 9/30/17

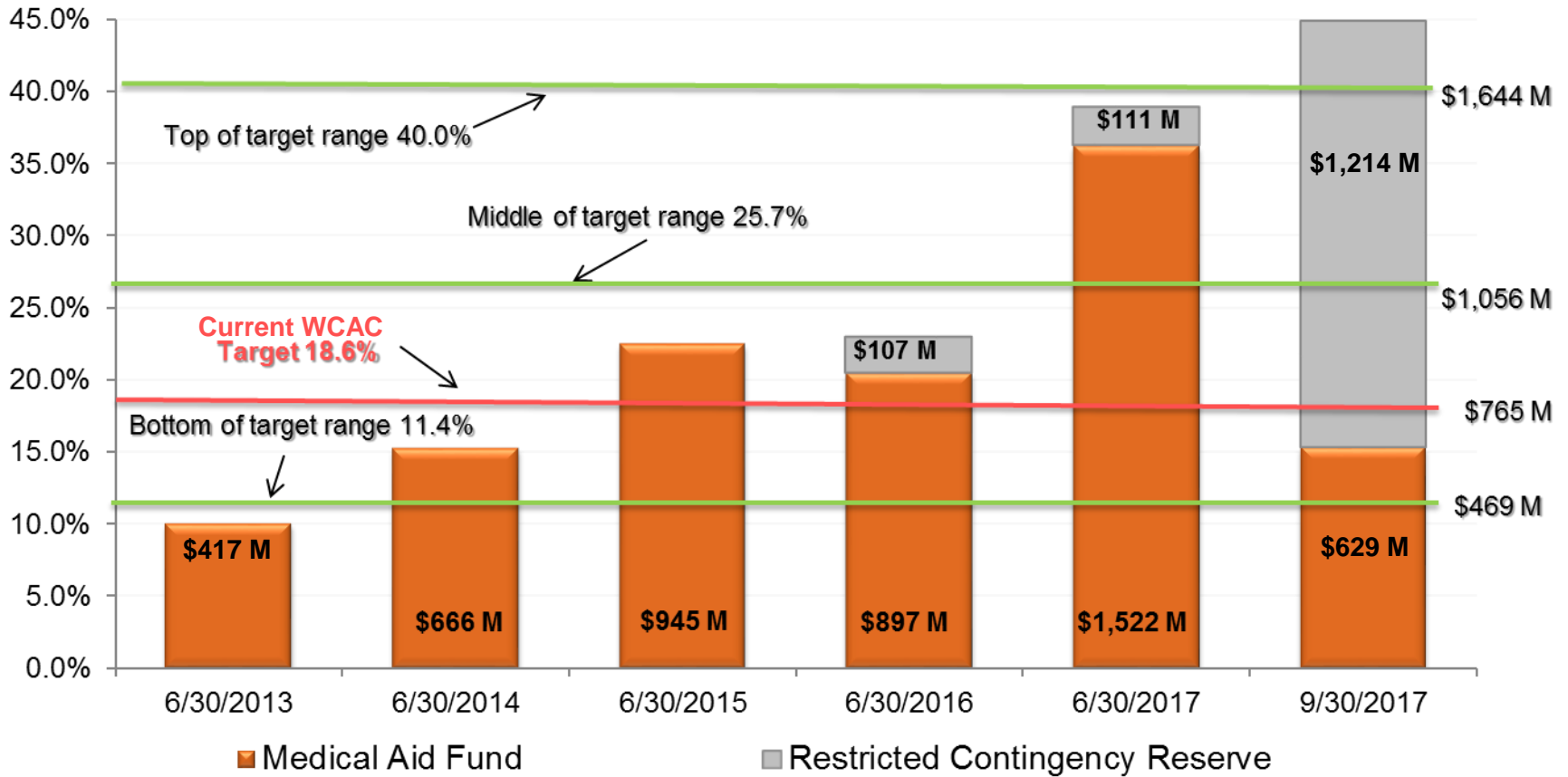
Accident & Pension Contingency Reserve is 16.3% of Liabilities

Accident & Pension Contingency Reserve vs. Targets



Medical Aid & Restricted Contingency Reserve is 44.9% of Liabilities

Medical Aid & Restricted Contingency Reserve vs. Targets



Restricted is based on final June 30, 2017 financial information and investment earnings through 9-30-17.

Key Financial Ratios

as a percentage of premium earned

| Ratios | Fiscal Year Ended Sept 30, 2017 | | Fiscal Year Ended June 30, 2017 | Fiscal Year Ended June 30, 2016 |
|--|------------------------------------|----------------------|--|--|
| | State Fund | Industry Forecast | | |
| Current Year Benefit (Loss Ratio) | 78.6% | | 78.2% | 83.1% |
| Prior Year Benefit (Loss Ratio) | (22.2)% | | (13.1)% | 14.0% |
| Total Benefit (Loss Ratio) | 56.4% | 54.1% | 65.1% | 97.1% |
| Claim Administration Expense (CAE) Ratio | 8.7% | 14.6% | 7.9% | 10.8% |
| Sub-Total: Benefit and Claim Administration Expense Ratios | 65.1% | 68.7% | 73.0% | 107.9% |
| Underwriting Expense Ratio includes all insurance administrative expenses except CAE | 4.0% | 24.8% | 4.4% | 4.5% |
| Combined Ratio (Industry omits dividends) | 69.1% | 93.5% | 77.4% | 112.4% |
| Investment Income Ratio | 20.9% | 17.9% | 23.0% | 25.4% |
| Operating Ratio | 48.2% | 75.6% | 54.4% | 87.0% |

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

| | |
|---|-----------------|
| July 1, 2017 Benefit Liability Beginning Balance | \$12,726,732 |
| Prior Year Benefit Payments | (\$382,927) |
| Prior Year Development (Favorable) | (\$331,046) |
| Self Insurance Prefunded Pension Transfers | \$17,301 |
| Discount | \$187,842 |
| Net Total Prior Year Benefit Liability as of September 30, 2017 | \$12,217,902 |
| First Quarter Net Benefit Liabilities | \$419,886 |
| September 30, 2017 Benefit Liabilities Ending Balance | \$12,637,788 |
| Change Between Beginning and Ending Balance | \$88,944 |

Highlights of Changes in the Contingency Reserve

| | | FY14 | FY15 | FY16 | FY17 | FY18 Q1 | Total |
|---|--|----------|---------|---------|---------|---------|-----------|
| Changes that increased the contingency reserve | | | | | | | |
| ↑ | Operational Influences and model changes | \$149 M | \$543 M | \$147 M | \$926 M | \$331 M | \$2,096 M |
| | Rate Changes | \$58 M | \$59 M | \$38 M | \$27 M | \$(1)*M | \$181 M |
| | Greater than expected changes in the stock market | \$279 M | N/A | N/A | \$411 M | \$96 M | \$786 M |
| Changes that decreased the contingency reserve | | | | | | | |
| ↓ | Mortality table change | \$0 | \$146 M | \$0 | \$0 | \$0 | \$146 M |
| | Adjustments to avoid double counting 2011 reform savings | \$130 M | \$83 M | \$0 | \$0 | \$0 | \$213 M |
| | Discount rate reduction | \$256**M | \$31 M | \$31 M | \$36 M | \$0 | \$354 M |
| | Less than expected changes in the stock market | N/A | \$29 M | \$101 M | N/A | N/A | \$130 M |

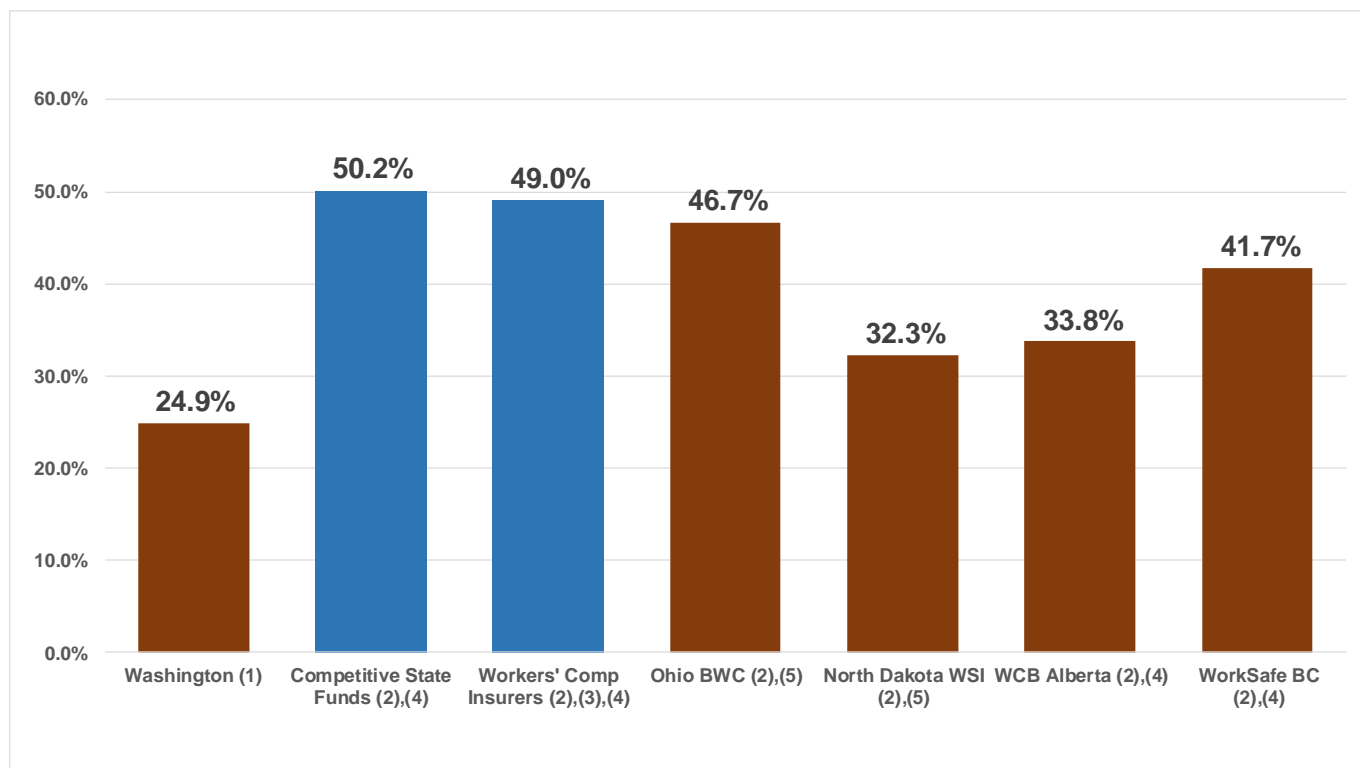
Operational Influences
 FY14: \$91M
 FY15: \$515M
 FY16: \$136M
 FY17: \$926M
 FY18: \$331M
Total: \$1,999M

* Negative due to retrospective rating higher expected refunds and because the 1/1/2017 rate increase was only in the accident account.

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

Washington's contingency reserve is well below other funds as a percent of liabilities

Note: at a 4.5% PDR Washington's CR ratio would be at 18.5%



(1) As of 9/30/2017

(2) Source: Conning Peer Analysis, November 2017 (<http://www.ini.wa.gov/ClaimsIns/Insurance/Learn/StateFund/RelatedInfo/Default.asp>)

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

(4) As of 12/31/2016

(5) As of 6/30/2016

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) |
|--|-------------------------|---|----------------------|---|---------------------------------|---|----------------------|
| 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 | (12) | | 145 | | 8 | | 141 |
| 2011 | (104) | | 135 | | 18 | | 49 |
| 2010 | (99) | | 127 | | 17 | | 45 |

Supplemental Information No. 1

Historical Investment Performance

Fiscal Year Ended

| | Quarter Ended September 30, 2017 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
|------------------------|--|----------------|----------------|----------------|----------------|
| Investment Income | 118,795,000 | 478,130,000 | 498,499,000 | 493,408,000 | 479,774,000 |
| Realized Gain (Loss) | 95,138,000 | 102,540,000 | 137,988,000 | 58,660,000 | 303,184,000 |
| Unrealized Gain (Loss) | 20,611,000 | 380,183,000 | (181,830,000) | 23,691,000 | 200,333,000 |
| Total Invested Assets | 16,216,955,000 | 15,815,997,000 | 14,593,530,000 | 14,003,302,000 | 13,422,957,000 |

Unrealized gain (loss) changes are impacted mostly by stock market results, and are commonly known as “paper” profit or losses which imply that they have not been “cashed in.”

Supplemental Information No. 2

7-Year Reserve Benchmarks

**9-30-17 update: \$3,399 million contingency reserve or 24.9% of total liabilities.
Pension Discount rate at 6.2%.**

| 7-Year Interim Targets | | | |
|---------------------------------|------------------------------------|--|---|
| Year | Contingency Reserve Target (range) | Pension Discount Rate (PDR) Target (range) | Contingency Reserve (CR) Yearly Goal (displays steady growth) |
| | | | dollars in millions |
| Fiscal Year Ended June 2016 | 10.8% | 6.3% | \$1,493 |
| 2014 Target | 5-7% | 6.5 - 6.3% | \$652 to \$902 |
| 2015 Target | 6-8% | 6.3 – 6.2% | \$797 to \$1,032 |
| 2016 Target | 7 - 9% | 6.4 – 6.25% | \$ 884 to \$1,293 |
| 2017-2018 | 8 - 11% | 6.0 – 5.75% | \$ 1,029 to \$1,583 |
| 2019-2020 | 10 - 13% | 5.5 – 5.25% | \$ 1,317 to \$1,879 |
| 2021-2022 | 13 - 15% | 5.0 – 4.5% | \$ 1,753 to \$2,198 |
| 7-Year Contingency Reserve Goal | | | \$2,198 |

Supplemental Information No. 3

When the WCAC developed the 10-year plan in Sept. 2012, the contingency reserve was at \$590M and the PDR was at 6.5%

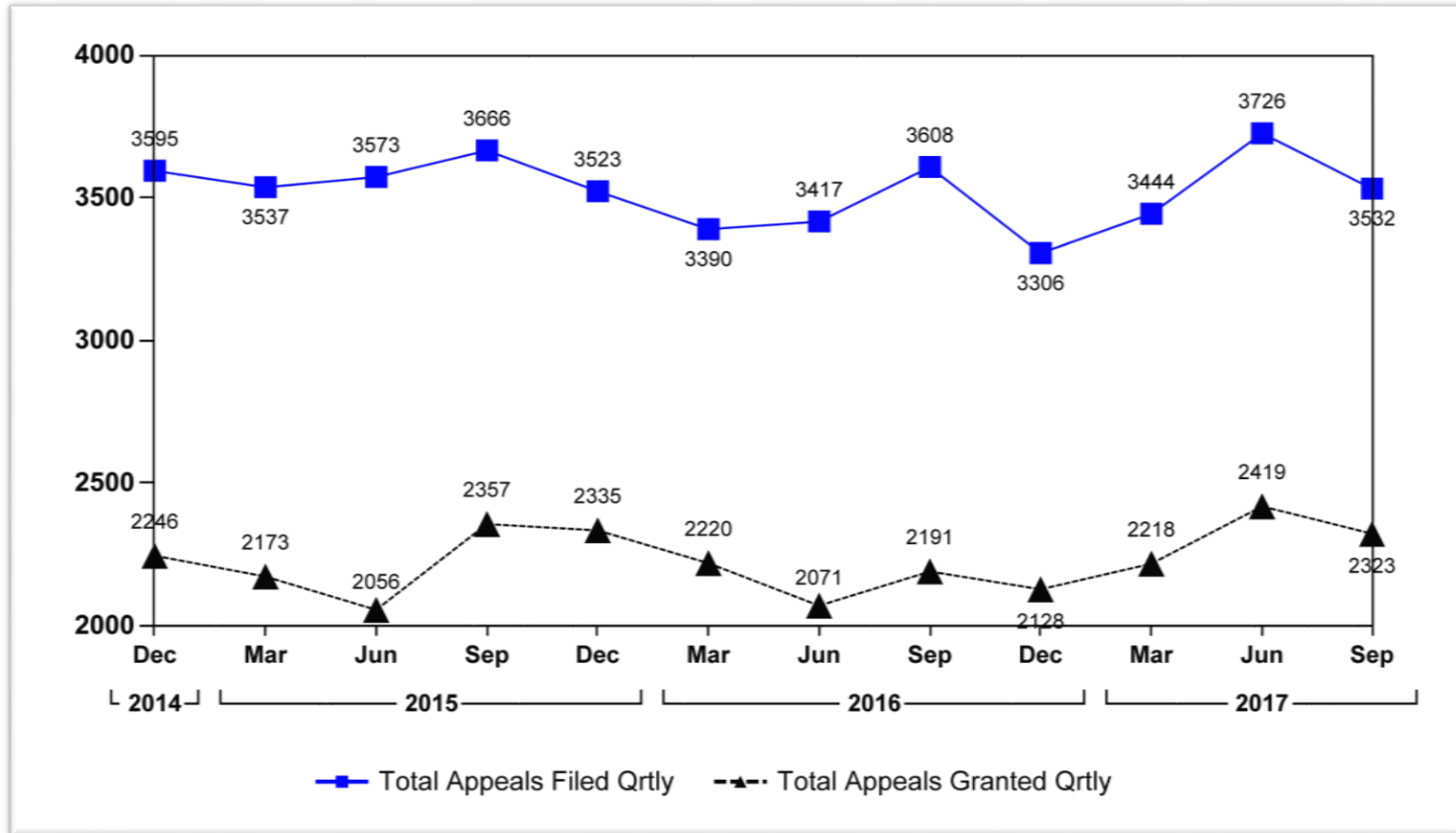
Each tenth of a percent the PDR drops, the CR could reduce between \$29 to \$32 million.

Board of Industrial Insurance Appeals (BIIA) Update

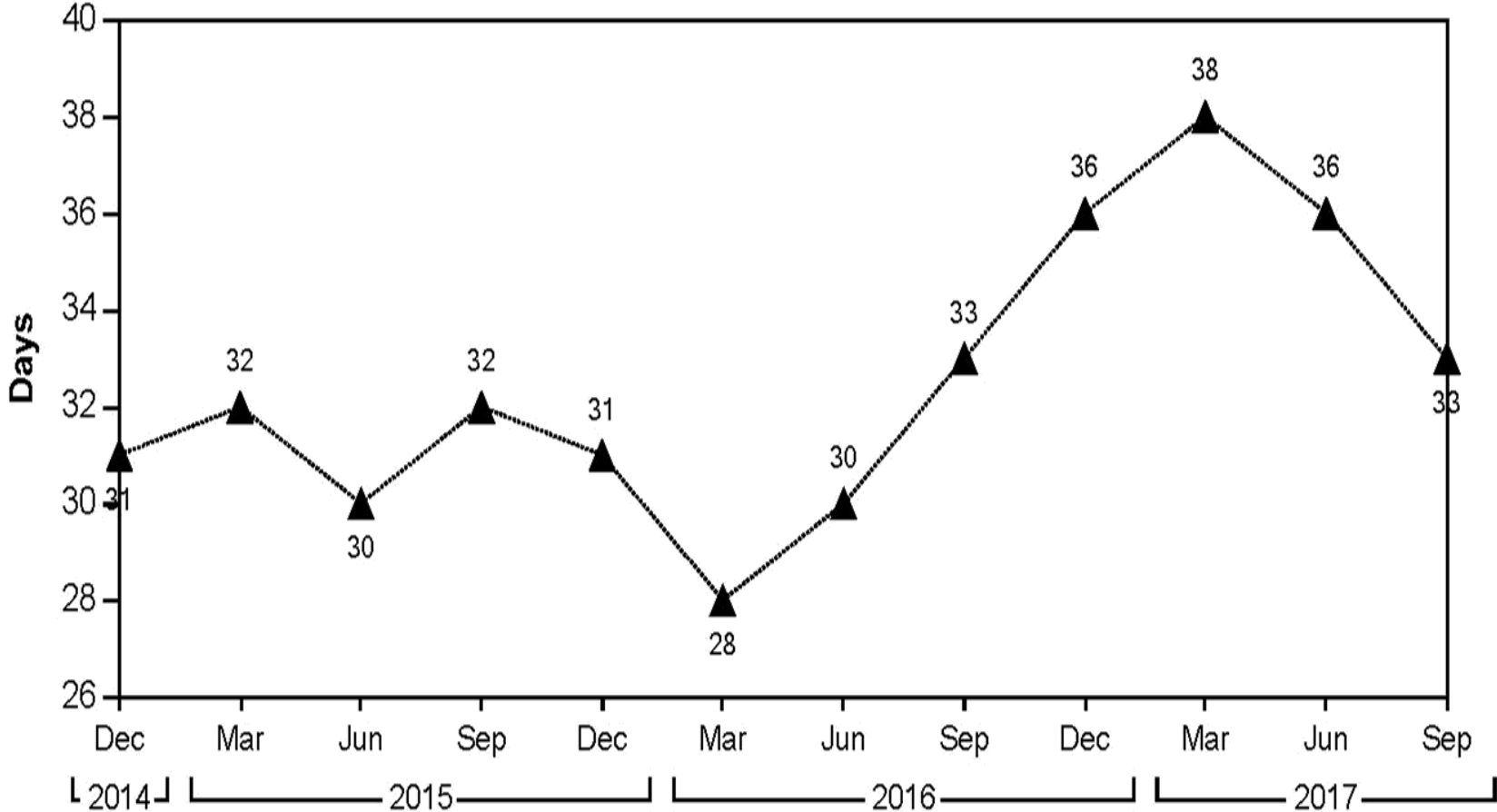
Linda Williams, Chair



Total Appeals Filed and Granted

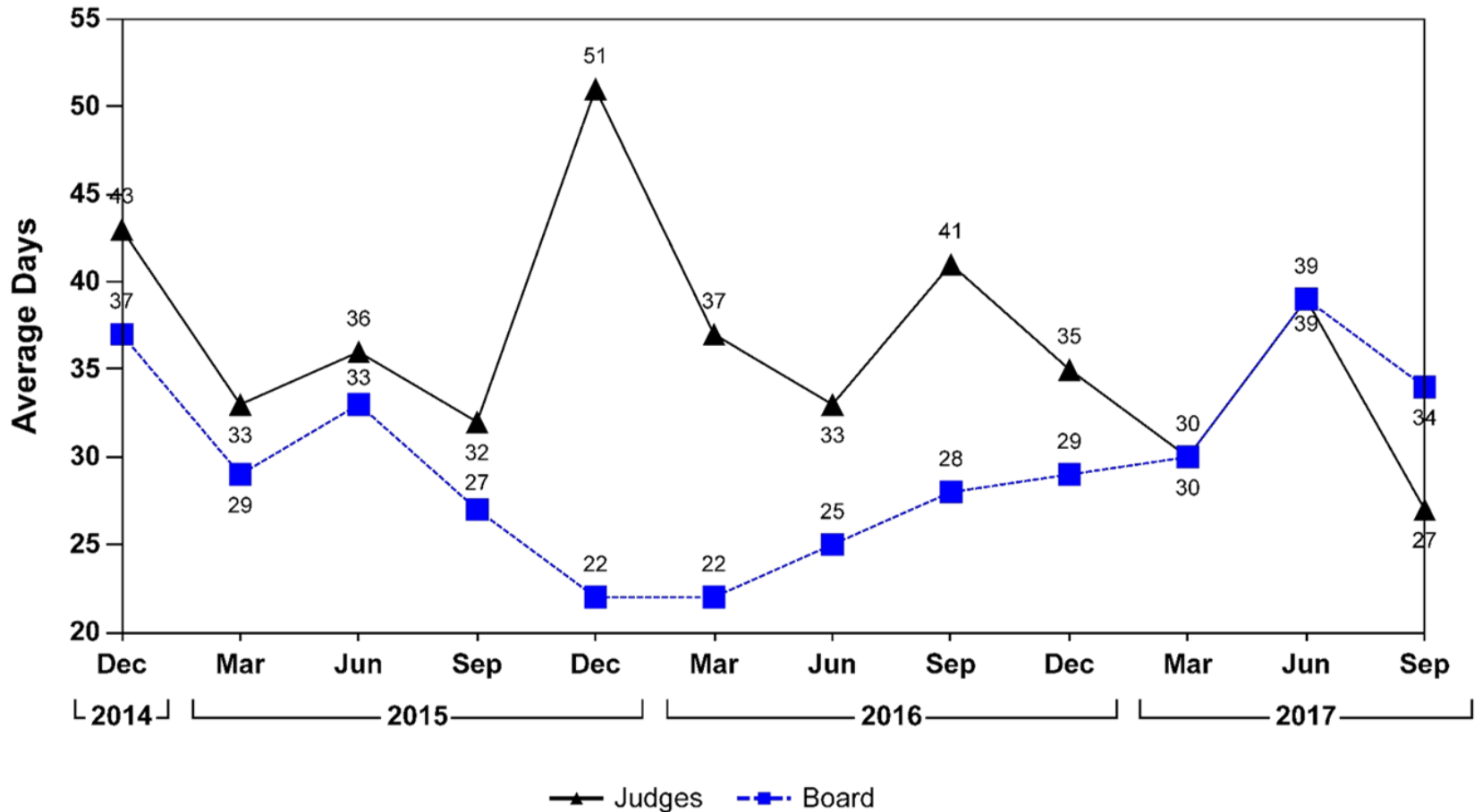


Average PD&O* Time-lag by Quarter for Hearing Judges



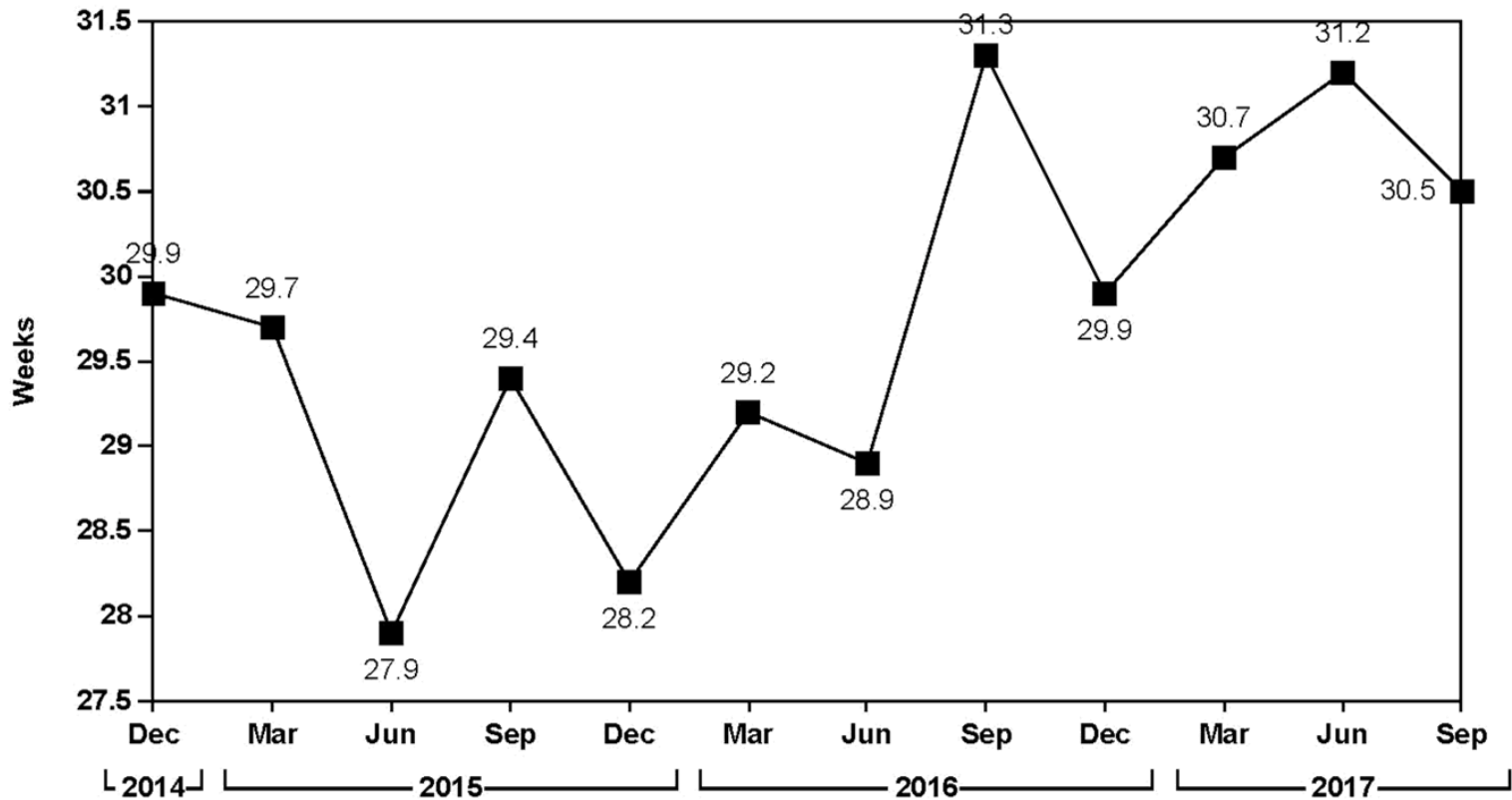
*Proposed Decision and Order

D & O* Time-Lag by Quarter



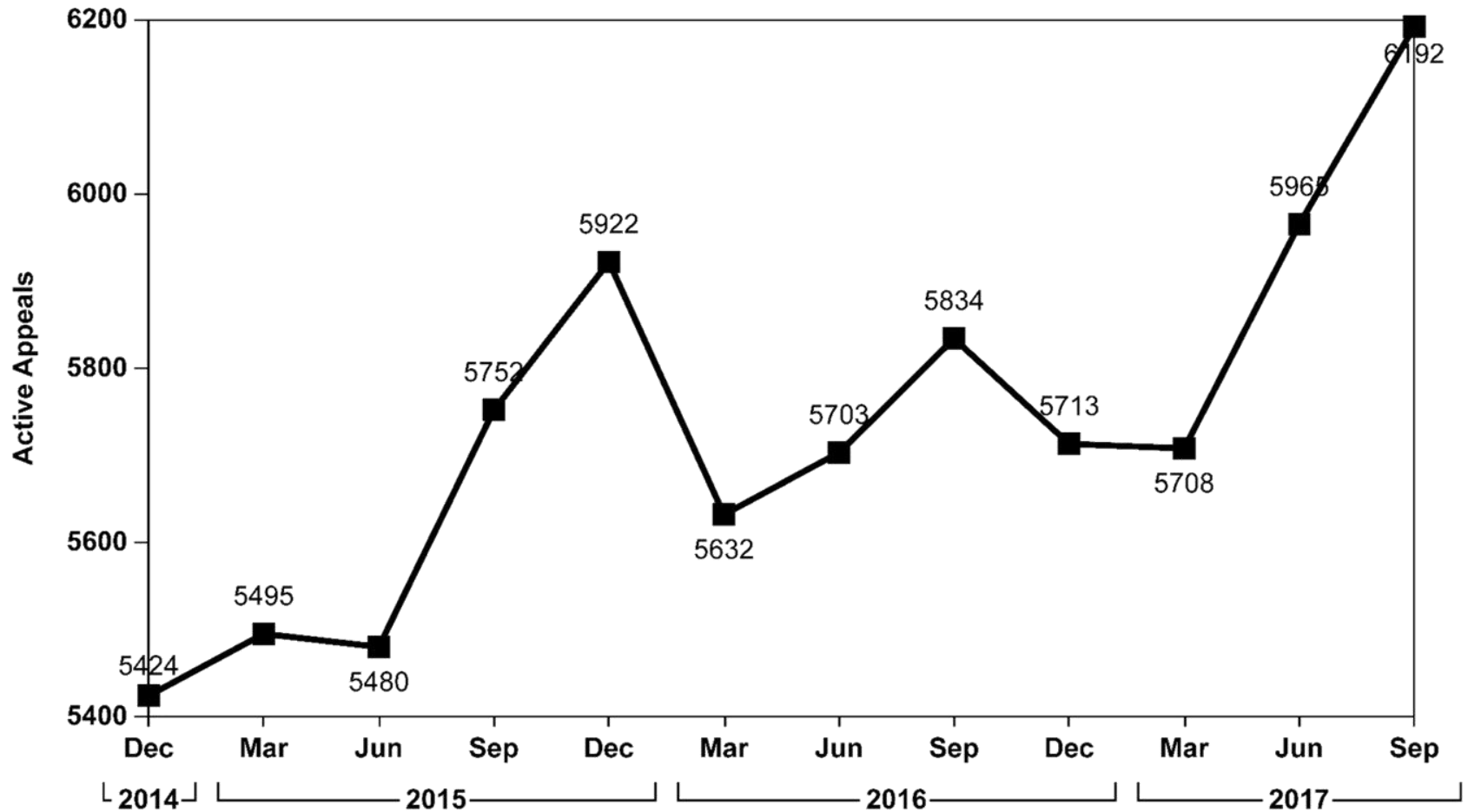
*Decision and Order

Quarterly Average Weeks to Completion

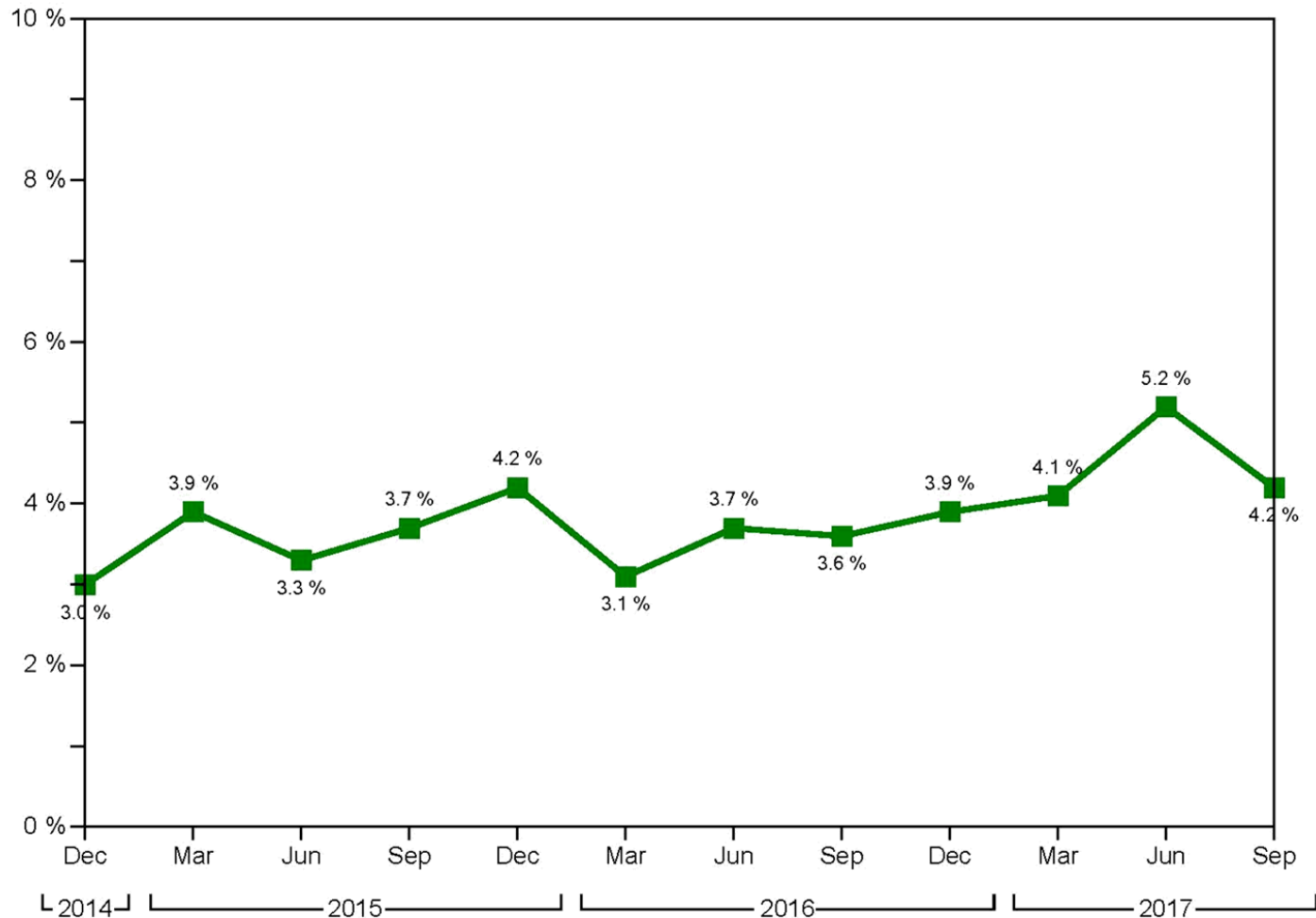


All orders issued by quarter from date filed to date of final order

Caseload at End of Quarter



Percentage of Final Orders Appealed to Superior Court - Quarterly



Closing Comments & Adjourn

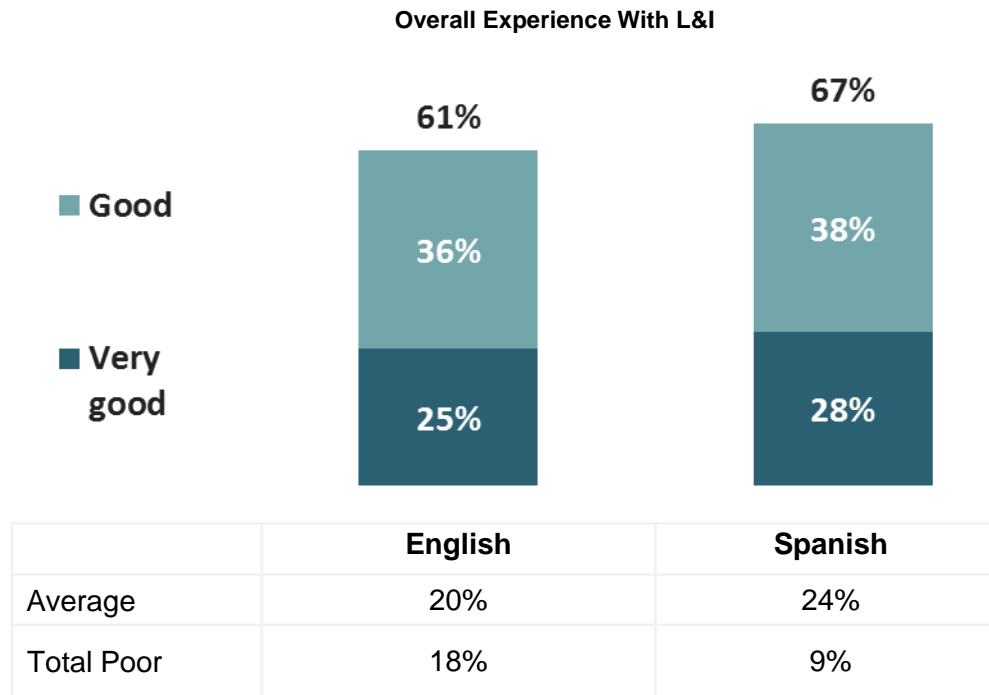
Vickie Kennedy, Assistant Director for Insurance Services
Joel Sacks, Agency Director



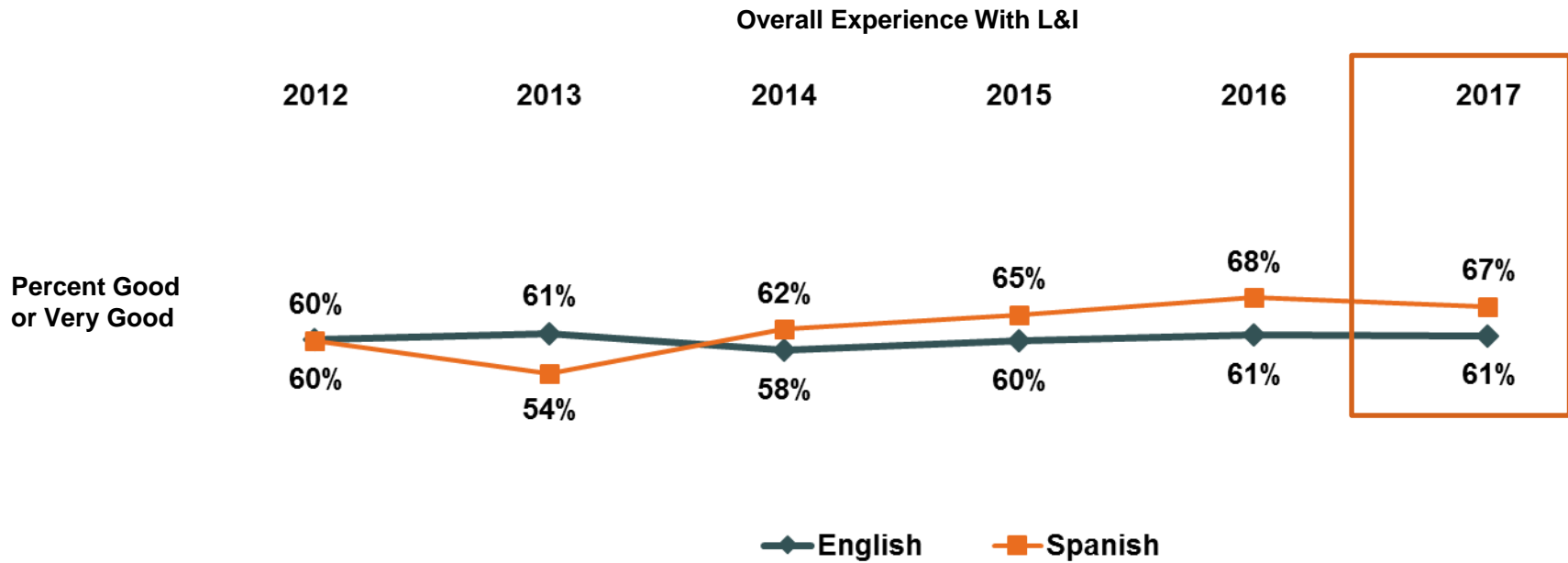
Appendix



Spanish-speaking workers rate their L&I experience more positively than English-speaking workers.



Spanish-speaking workers' overall experience has improved slightly over time, while English-speaking workers' experience has remained steady.



↑ = Sig. Higher than 2017 ↓ = Sig. Lower than 2017