

# Workers' Compensation Advisory Committee (WCAC)

*March 30, 2023*



This meeting is being streamed on TVW

# AGENDA

## Workers' Compensation Advisory Committee (WCAC)

### Quarterly Meeting

Thursday, March 30, 2023

Hybrid – Tumwater Auditorium/Zoom

9:00am – 12:00pm

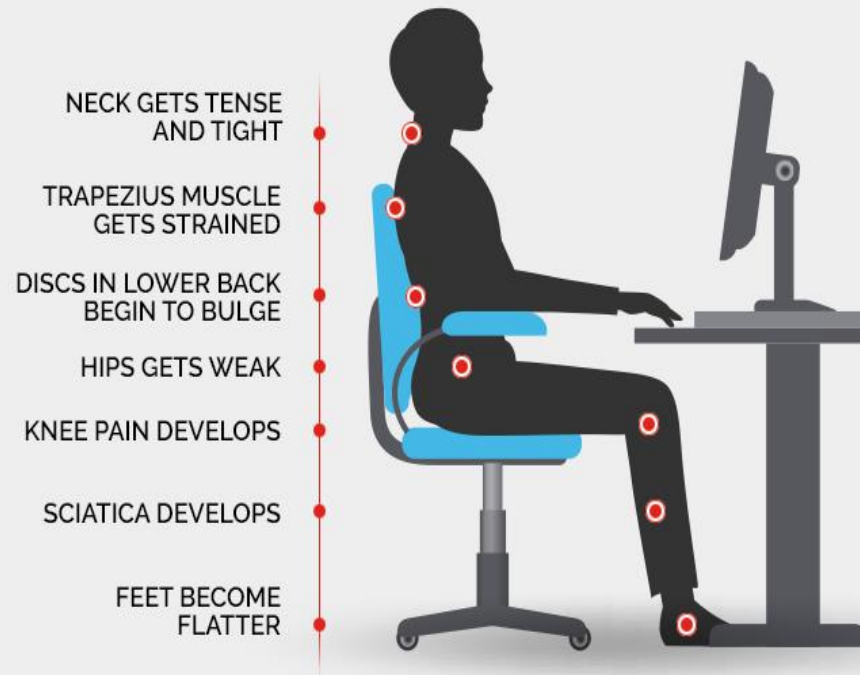
Time	Topic	Presenter(s)
9:00 am - 9:10 am	<b>Welcome</b> <ul style="list-style-type: none"><li>• Introductions</li><li>• Motion to approve minutes</li><li>• Safety Message</li></ul>	Joel Sacks Mike Ratko Cari Anderson
9:10 am – 9:25 am	<b>General Updates</b> <ul style="list-style-type: none"><li>• COVID-19</li><li>• Legislation</li><li>• WCSM</li></ul>	Mike Ratko Brenda Heilman Liz Smith
9:25 am – 9:35 pm	<b>Board of Industrial Insurance (BIIA) Update</b>	Holly Kessler
9:35 am – 10:10 am	<b>Stay at Work Advertising and Outreach Campaign</b>	Tim Church
10:10 am – 10:20 am	<b>Operational Health Dashboard</b>	Mike Ratko
10:20 am – 10:35 am	<b>Break</b>	
10:35 am – 11:00 am	<b>Program Spotlight – Health Services Analysis (HSA)</b>	Karen Jost
11:00 am – 11:25 am	<b>Program Spotlight – Office of the Medical Director (OMD)</b>	Gary Franklin Kim Wallace
11:25 am – 11:55 am	<b>Industrial Insurance State Fund Financial Overview</b> <ul style="list-style-type: none"><li>• Supplemental Pension Fund</li></ul>	Rob Cotton Joel Sacks
11:55 pm – 12:00 pm	<b>Closing Comments &amp; Adjourn</b>	Mike Ratko Joel Sacks

# Safety Message

*Cari Anderson, Deputy Assistant Director, Division of Safety and Health  
(DOSH)*



## HOW SITTING ALL DAY AFFECTS THE BODY



# General Updates

*Mike Ratko, Assistant Director for Insurance Services*

*Brenda Heilman, Deputy Assistant Director for Insurance Services*

*Liz Smith, Deputy Director*



# COVID Claims – received through 2/28/23

	State Fund	Self-Insured	Total
<b>Accepted total</b>	<b>12,310</b>	<b>9,249</b>	<b>21,559</b>
<i>Open</i>	206	571	777
<i>Closed</i>	12,104	8,678	20,782
<b>Rejected</b>	<b>2,239</b>	<b>762</b>	<b>3,001</b>
<b>Pending</b>	<b>115</b>	<b>24</b>	<b>139</b>
<b>Total</b>	<b>14,664</b>	<b>10,035</b>	<b>24,699</b>

## Fatal Claims

State Fund	38
Self-Insured	17
<b>Total</b>	<b>55</b>

Accepted Claims	State Fund	Self-Insured	Total
Time-loss	10,593	8,964	19,557
Medical	796	173	969
KOS	921	112	1,033
<b>Total</b>	<b>12,310</b>	<b>9,249</b>	<b>21,559</b>

	State Fund	Self-Insured	Total
Healthcare related	7,027	4,652	11,679
First responders	2,255	1,575	3,830
Miscellaneous Services	1,780	55	1,835
Government	517	892	1,409
Misc. Professional and Clerical	222	1013	1,235
Schools	86	893	979
Stores	141	18	159
Transportation and Warehousing	62	63	125
Agriculture	99	8	107
Food Processing and Manufacturing	51	21	72
Miscellaneous Manufacturing	13	27	40
Temporary Help	13	13	26
Trades	16	5	21
Other	28	14	42
<b>Total</b>	<b>12,310</b>	<b>9,249</b>	<b>21,559</b>

# Update on Agency Request and WC Bills

- **HB 1197:** Defining attending provider and clarifying other provider functions for workers' compensation claims, and adding psychologists as attending providers for mental health only claims (agency request)
- **2SSB 5454:** Concerning industrial insurance coverage for posttraumatic stress disorders affecting registered nurses.
- **SHB 1068:** Concerning injured workers' rights during compelled medical examinations.
- **SHB 1521:** Concerning the duties of industrial insurance self-insured employers and third-party administrators.
- **SB 5084** - Self Insurance Pension Fund (agency request)
- **ESSB 5217** – Concerning the state's ability to regulate certain industries and risk classifications to prevent musculoskeletal injuries and disorders

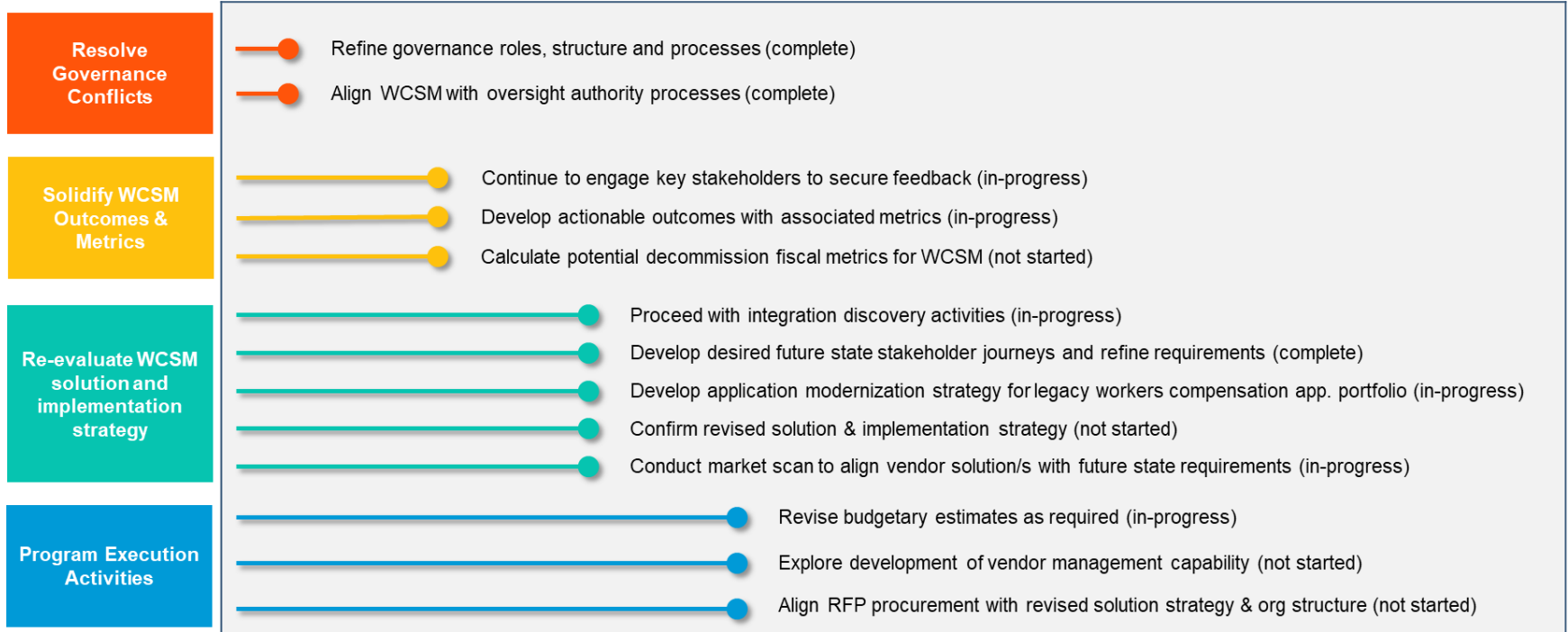


# What is WCSM?

- The project aims to replace L&I's nearly 40-year-old workers' comp computer systems with a modern technical solution(s). This will help streamline and automate business processes, which will lead to more efficiencies and even better return-to-work outcomes for workers.
- We plan to:
  - Simplify the workers' compensation technology architecture.
  - Replace manual and paperwork processes with electronic features.
  - Expand and improve self-service features for customers who expect on-demand services.
  - Free up staff to directly serve the needs of workers and employers.



# Independent Review Recommendations



## Since we last met about WCSM...

- We've invited two external advisors to join the WCSM steering committee.
  - Kendra DePaul (Director of Underwriting, Ohio Bureau of Workers' Compensation)
  - Ken Collins (Chief Information Officer, SAIF)
- Wrapping up our future-state journey mapping and technical deep-dive work. We'll also finish up our modernization strategy and roadmap next month.
- Starting up work on a feasibility study and market analysis.

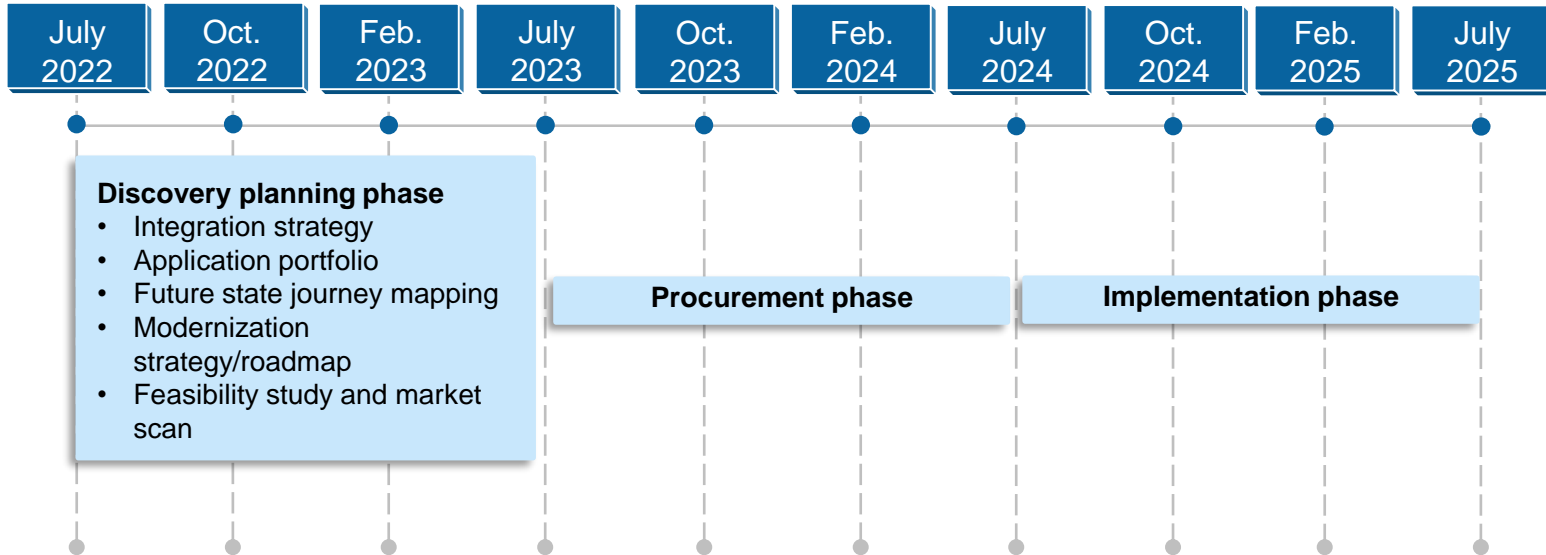
# WCMS timeline

All dates listed are tentative and subject to change

Business Transformation



WORKERS' COMP  
SYSTEMS MODERNIZATION

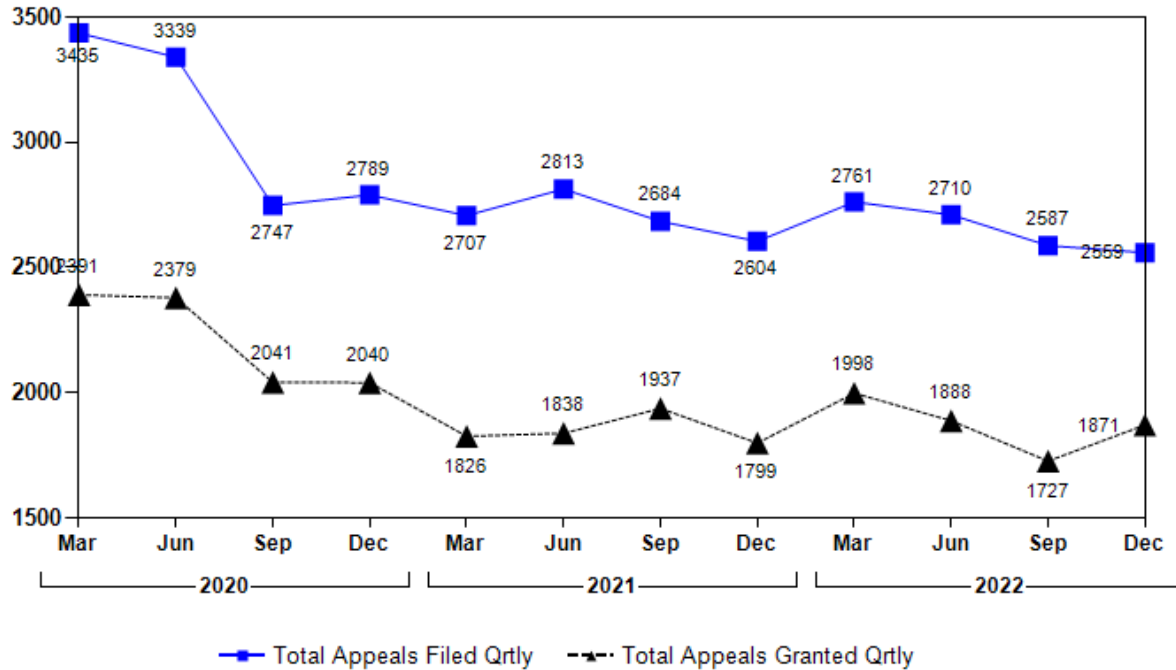


# Board of Industrial Insurance Appeals (BIIA) Update

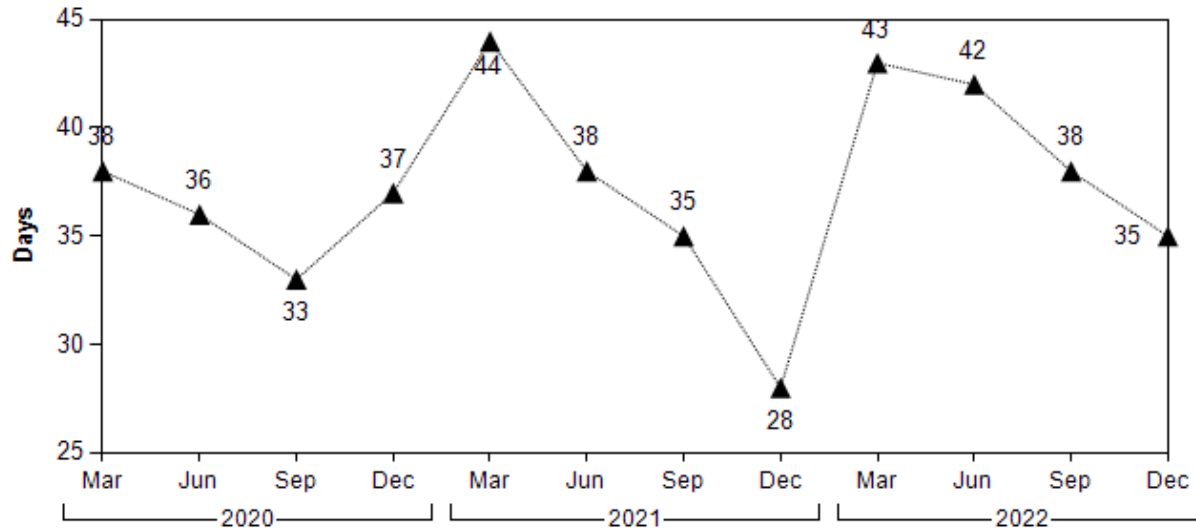
*Holly Kessler, BIIA Chair*



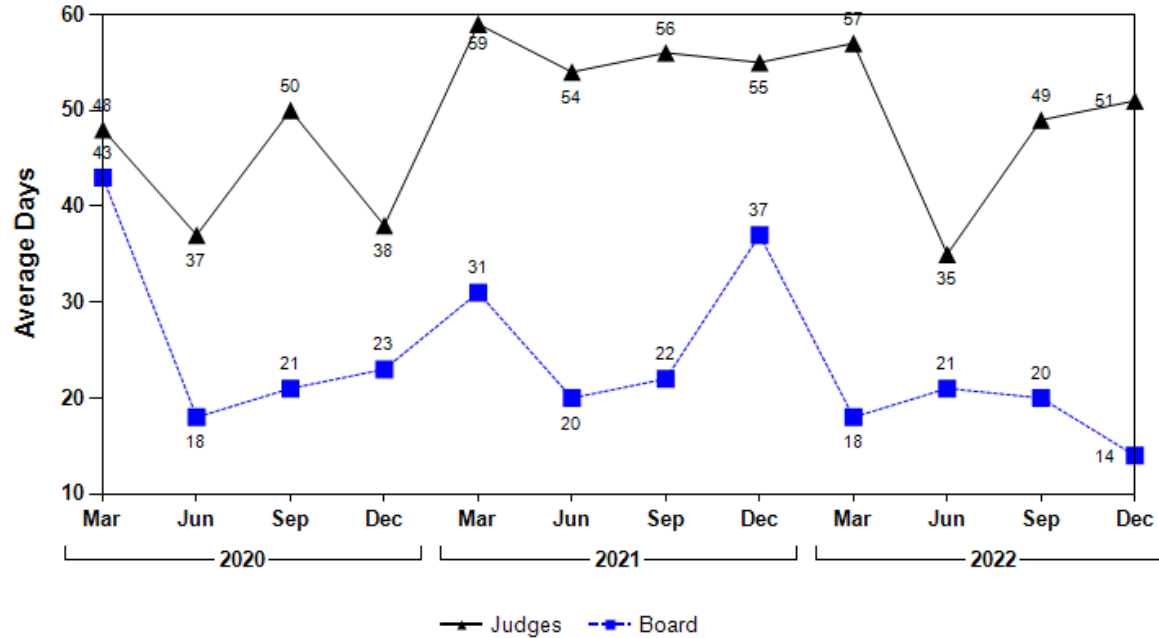
# Total Appeals Filed and Granted



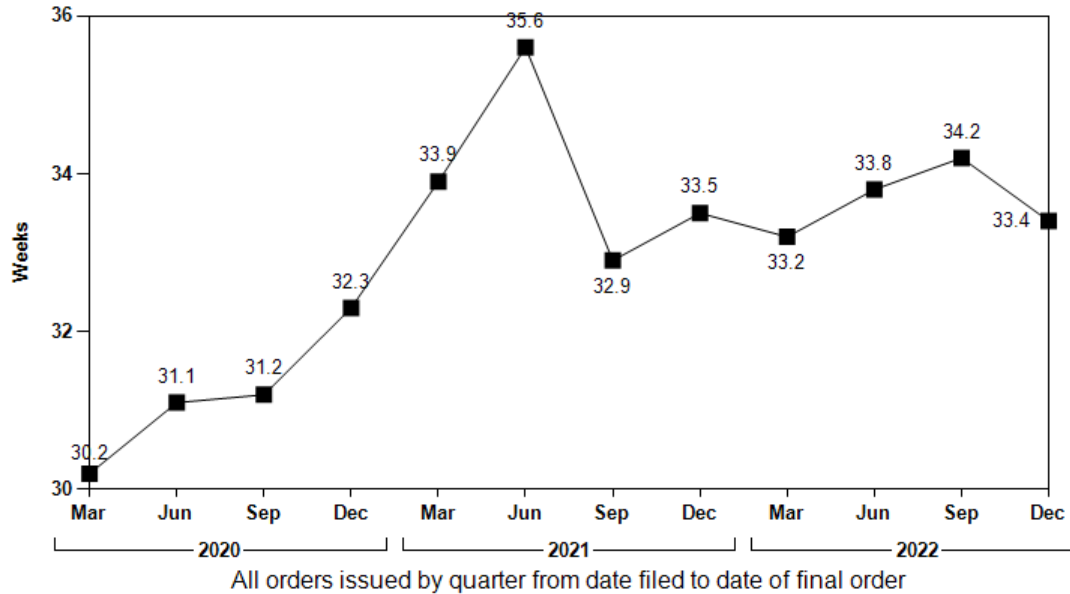
# Average PD&O\* Time-lag by Quarter for Hearing Judges



# D & O\* Time-Lag by Quarter

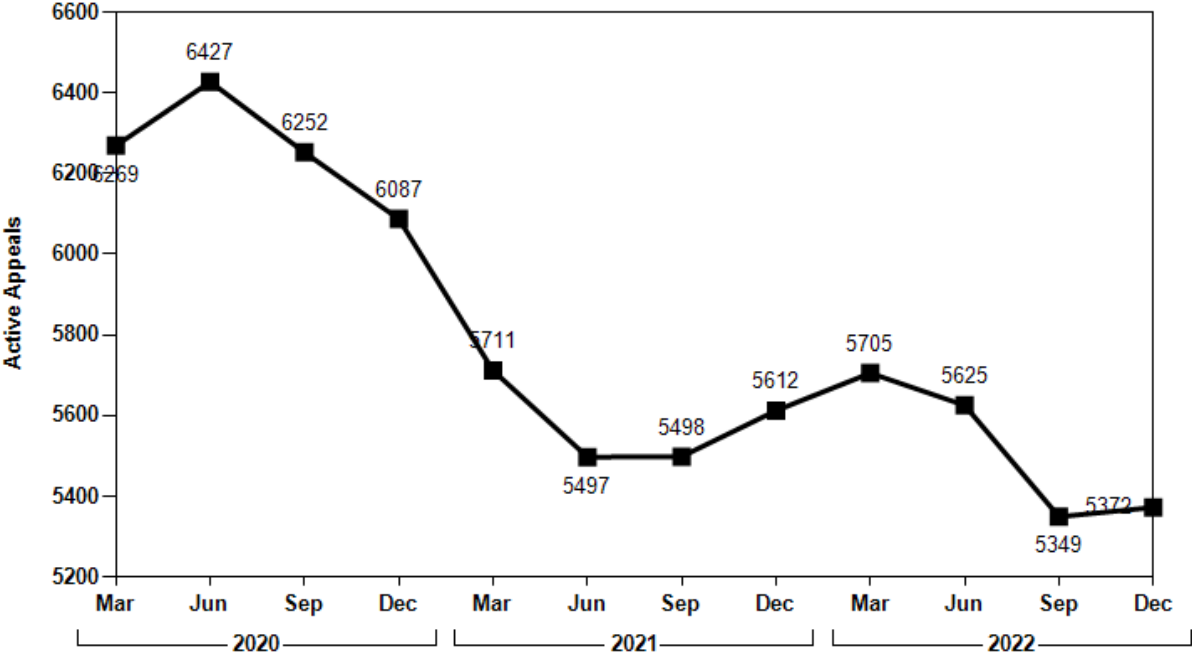


# Quarterly Average Weeks to Completion

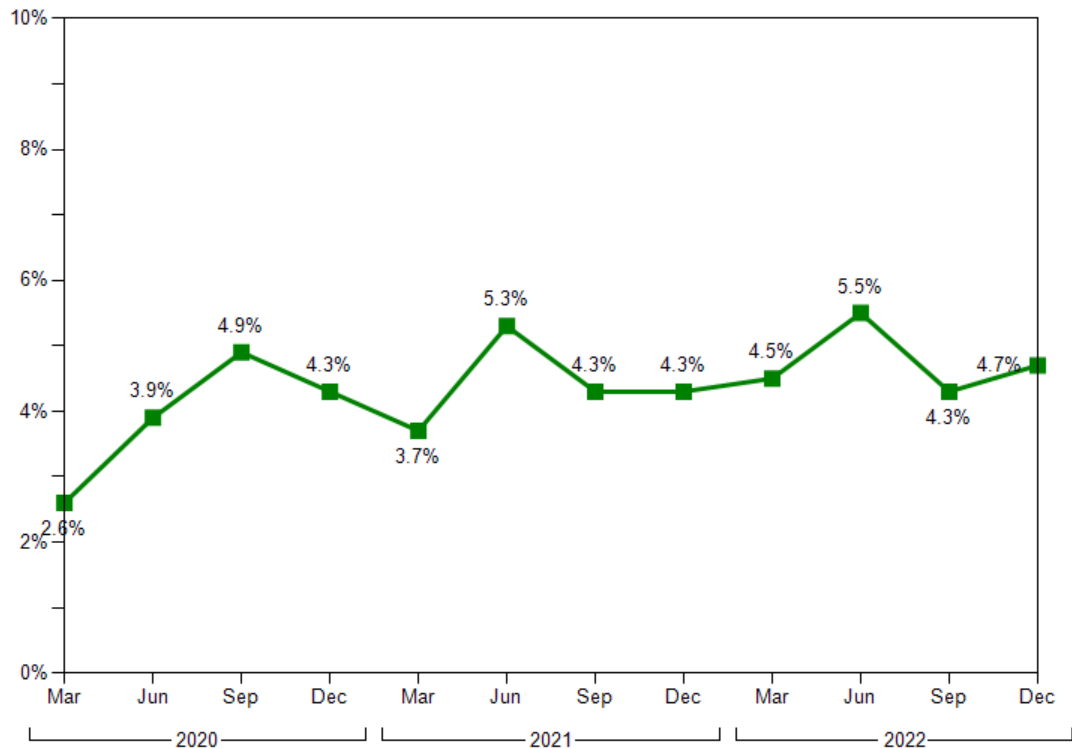




# Caseload at End of Quarter



# Percentage of Final Orders Appealed to Superior Court - Quarterly



# Stay at Work Advertising and Outreach Campaign

*Tim Church, Assistant Director for Web & Communications*



# Advertising and Outreach media campaign

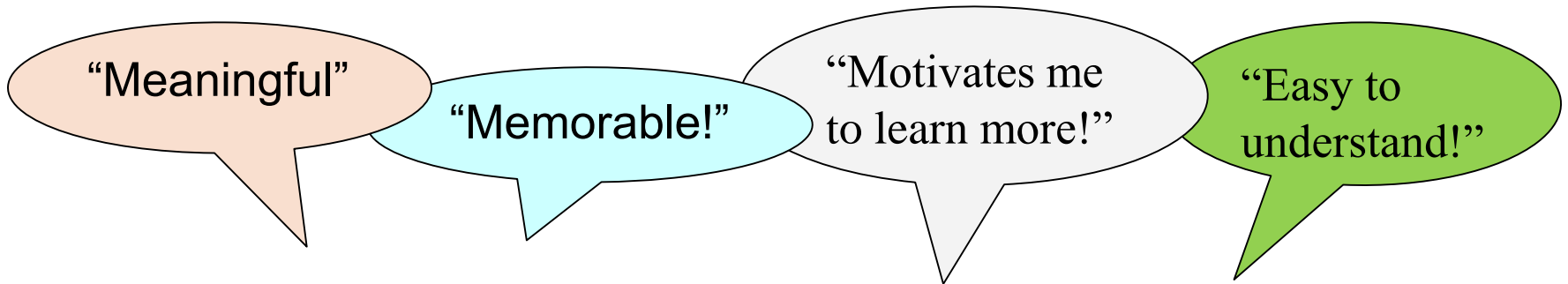
- **Goal:** Boosting awareness and participation in L&I's Stay at Work program
- **Target audiences:**
  - 1) Small- and medium-sized employers: 10-500 employees
  - 2) Workers
- **Ads will run:** Mid-April to Fall 2023

# Audience research

- Focus groups with 30+ employers and workers  
(**Targeted industries:** construction, health care, agriculture, restaurants)
  - **Discussed barriers to participation in Stay at Work:** lack of knowledge; time consuming, complicated; don't have light duty jobs available
  - **Tested messages:**
    - Saving money
    - Helping worker
    - Retaining employee
- **Most effective message:** *Doing right by their employee and ensuring continued full salary for employee.* Ranked even higher than saving money.

# Developed and tested concepts

- Produced three ad concepts for testing
- Used online survey to test concepts with 350+ employers
- Two concepts tested well
- Animated concept tested best: Nearly three-quarters of respondents liked or strongly liked it



# Next steps

- Finish final production on new ad video
- Finalize ad buy. Likely to include TV and radio spots, social media, print, etc., and will include Spanish-language media
- Ads are expected to run into the Fall
- Expect to produce similar spots focusing on other industries
- Assess effectiveness

# Operational Health Dashboard

*Mike Ratko, Assistant Director for Insurance Services*



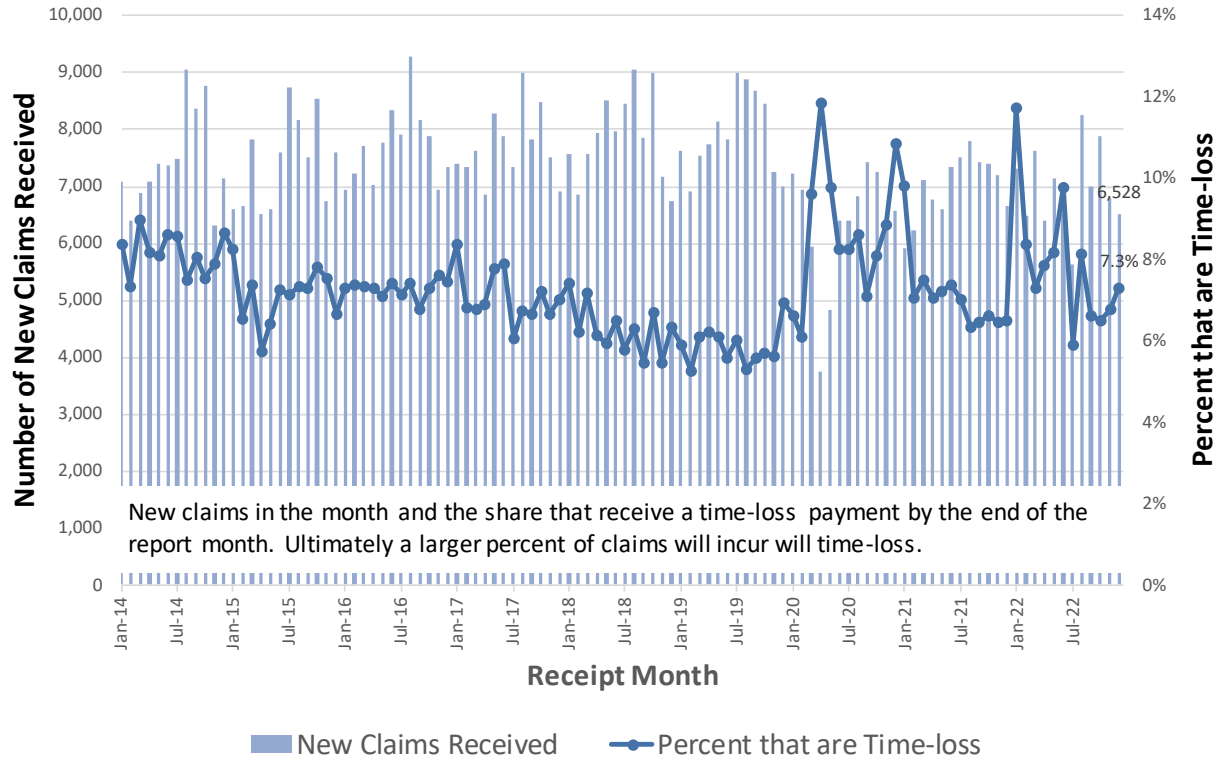


# Operational Health Dashboard

Measure	Trend	Status	Definition
Percent of new claims that are time-loss	increasing	▲	Claims new (received) in the month and percent with a time-loss payment by the end of the month – increase in percent that are time-loss indicates a more severe claim mix.
Long-term disability rate	increasing	▲	Percent of all compensable claims with a time-loss payment 12 months post injury – decrease indicates less long-term disability
Pensions funded	decreasing	●	Number of pensions funded in the quarter – decrease indicates less permanent total disability
Covered hours and claim rate	steady	—	Claims received per 100 FTE indicates the rate of claims considering volume of work - increase indicates higher claim frequency.
Medical cost growth	steady	—	Percent change in medical costs for services performed in the current quarter vs. the same quarter last year – increase means higher costs estimated for the quarter.
Operational efficiency	steady	—	Percent of operational measures meeting target greater than 80 percent– increase indicates more measures exceeding target.

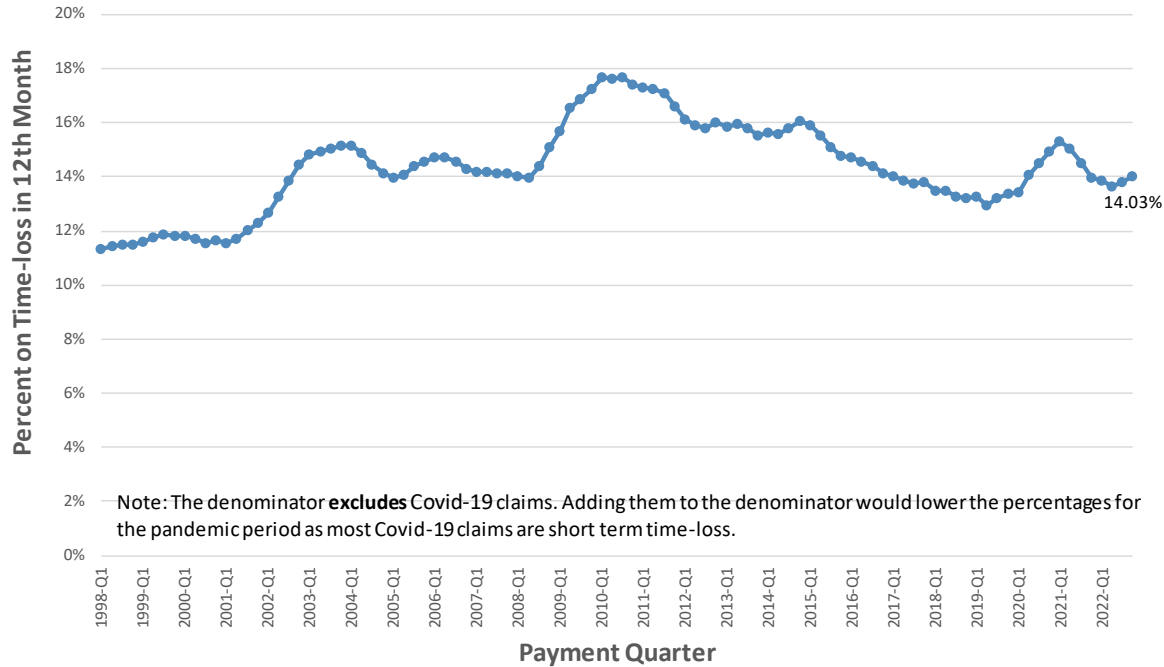
● Right direction — Neutral ▲ Wrong direction

# Number of New State Fund Claims and the Percent that are Time-loss

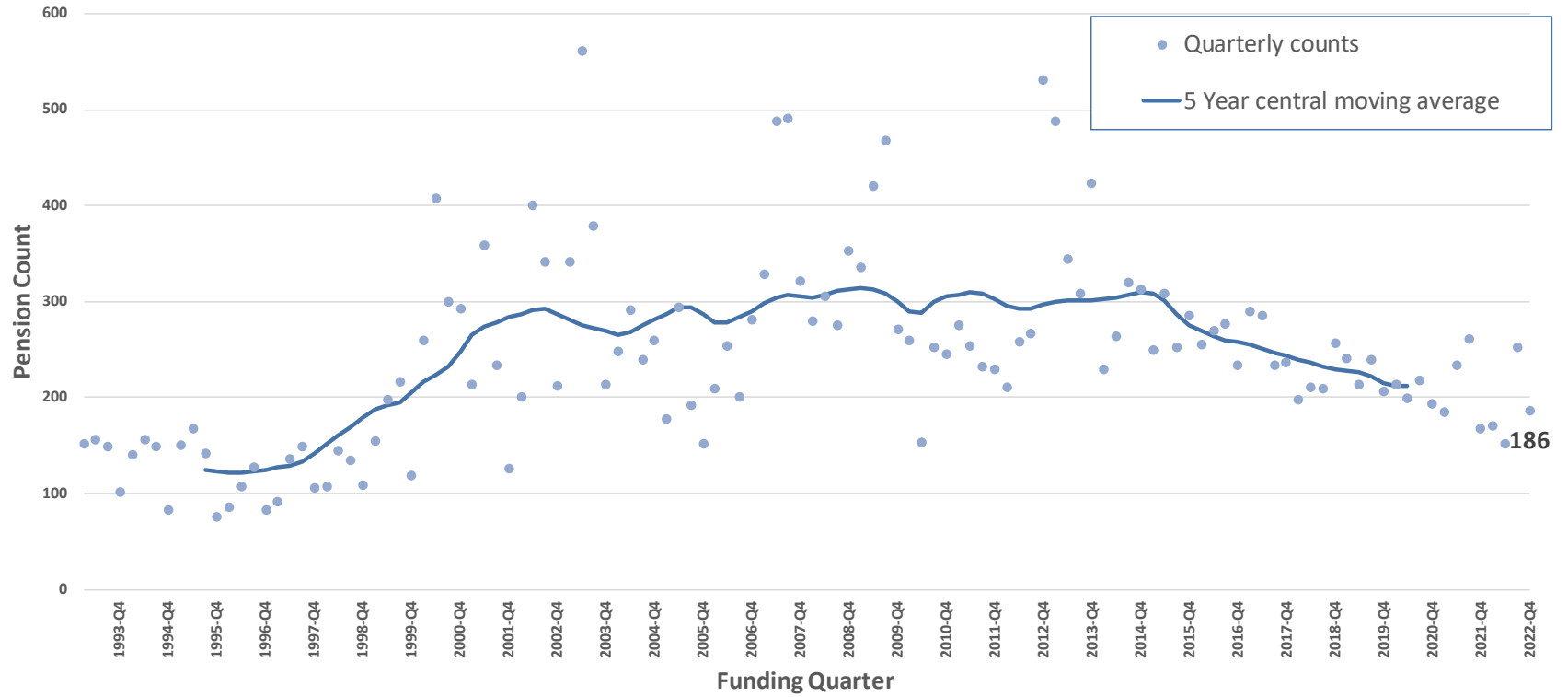


# Long Term Disability Claims

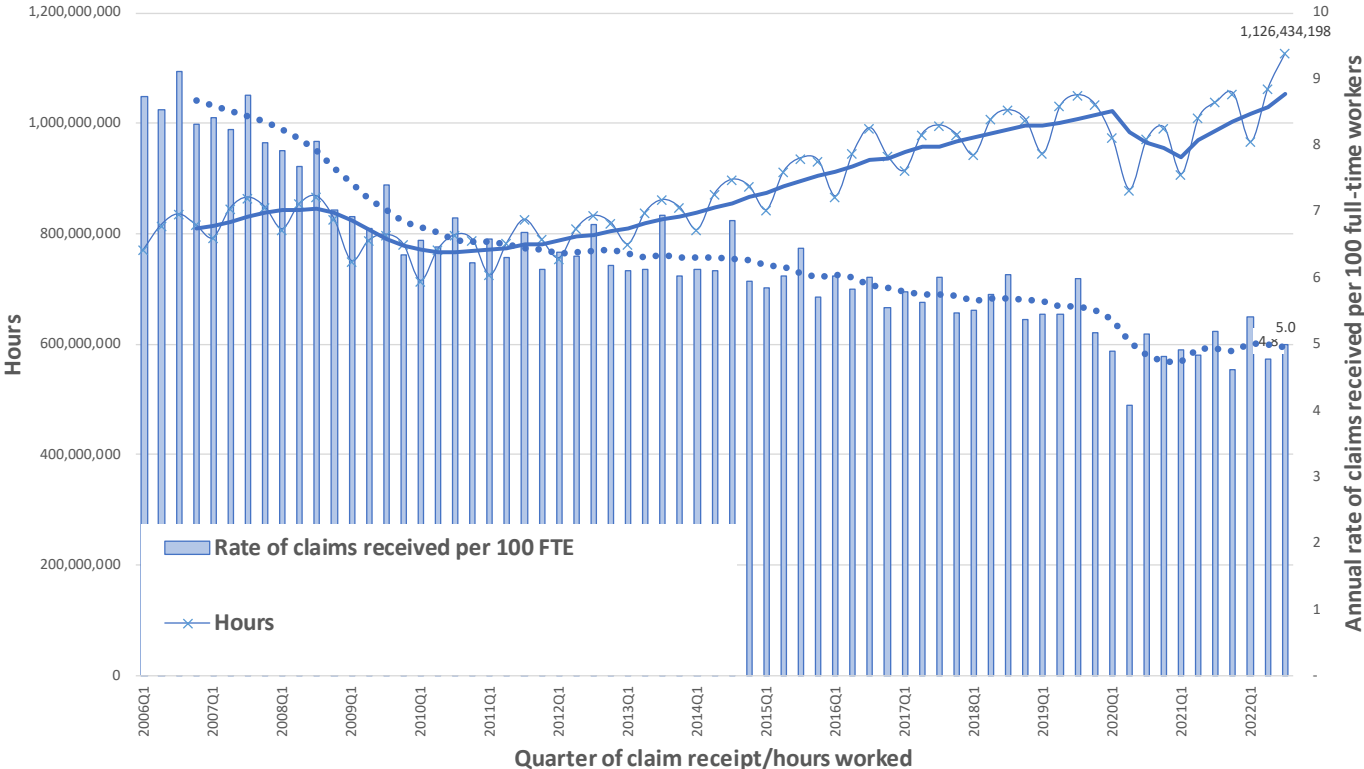
The percent of injured workers with compensable claims that have time-loss paid in the 12th month post injury: *smaller percentage indicates less long-term disability*



# State Fund Total Permanent Disability Pensions Funded per Quarter

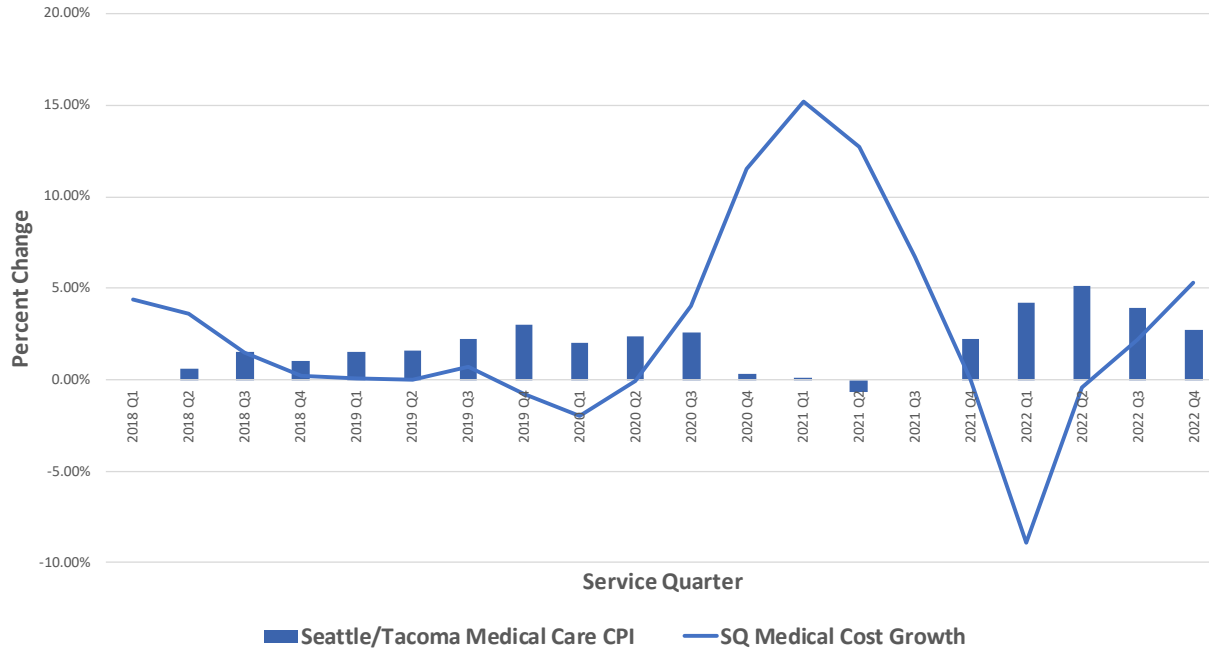


# Covered Hours and the Rate of Claims Received

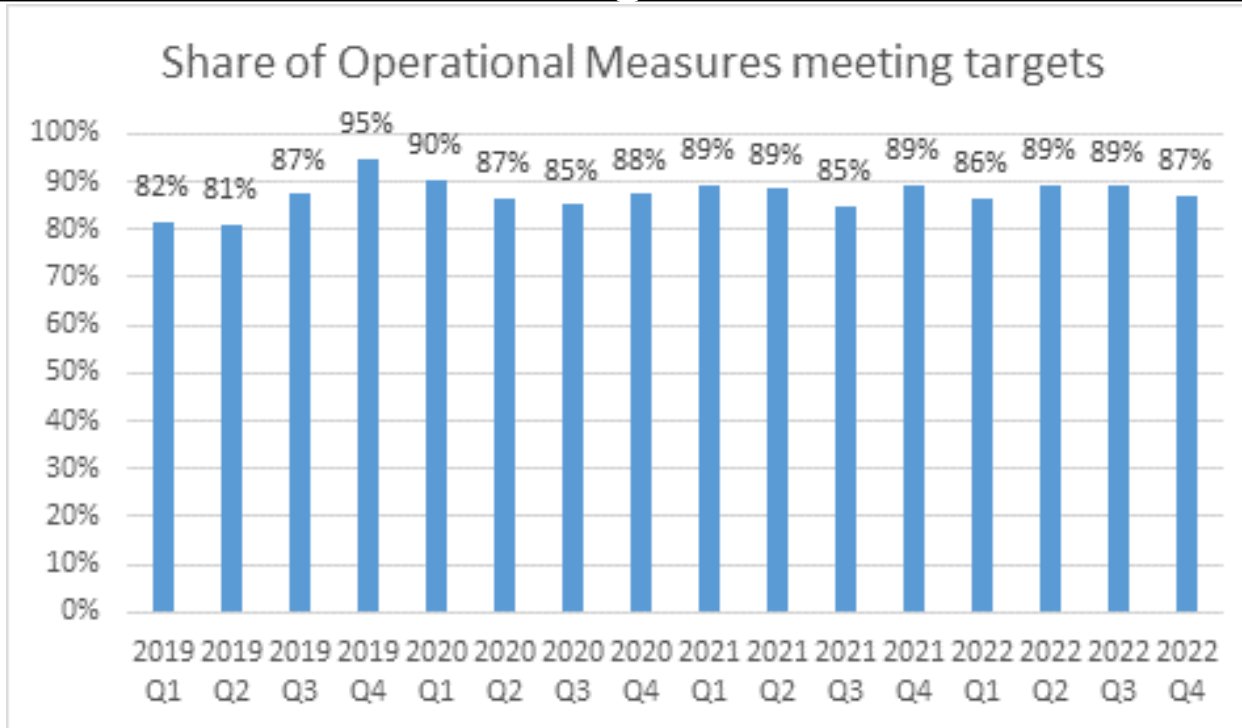


# Annualized Medical Cost Growth

## All Claims Excluding Hearing Loss

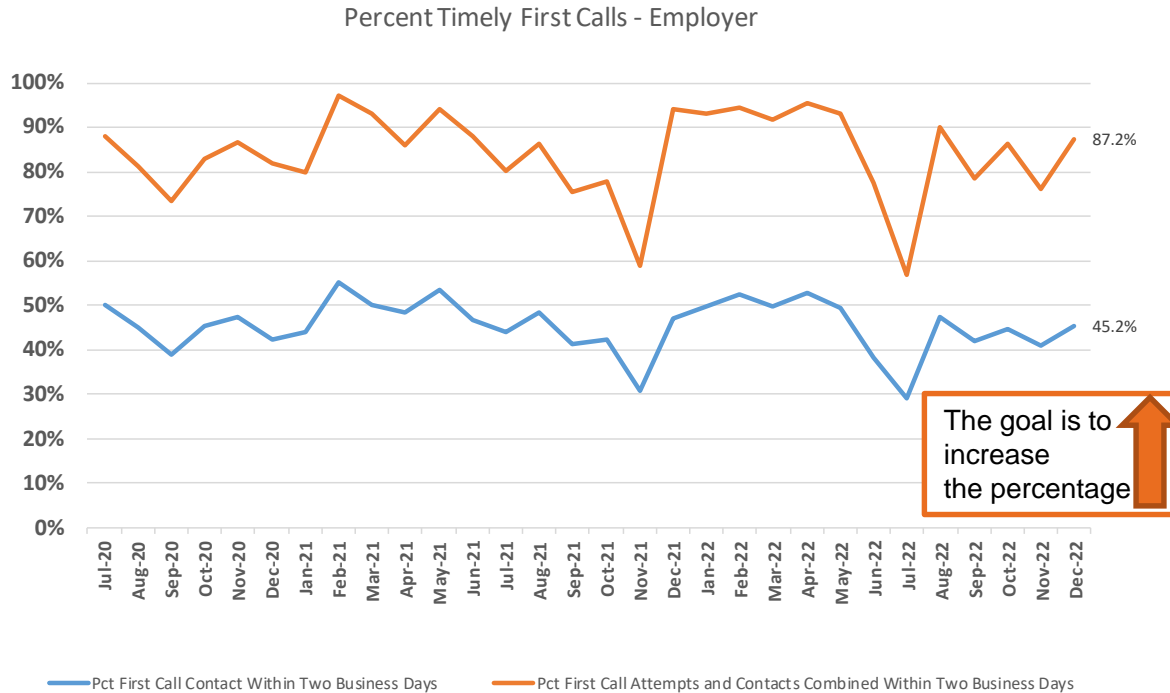


# Percent of Workers' Comp Operational Measures Meeting Target



Currently there are 38 active operational measures in Insurance Services

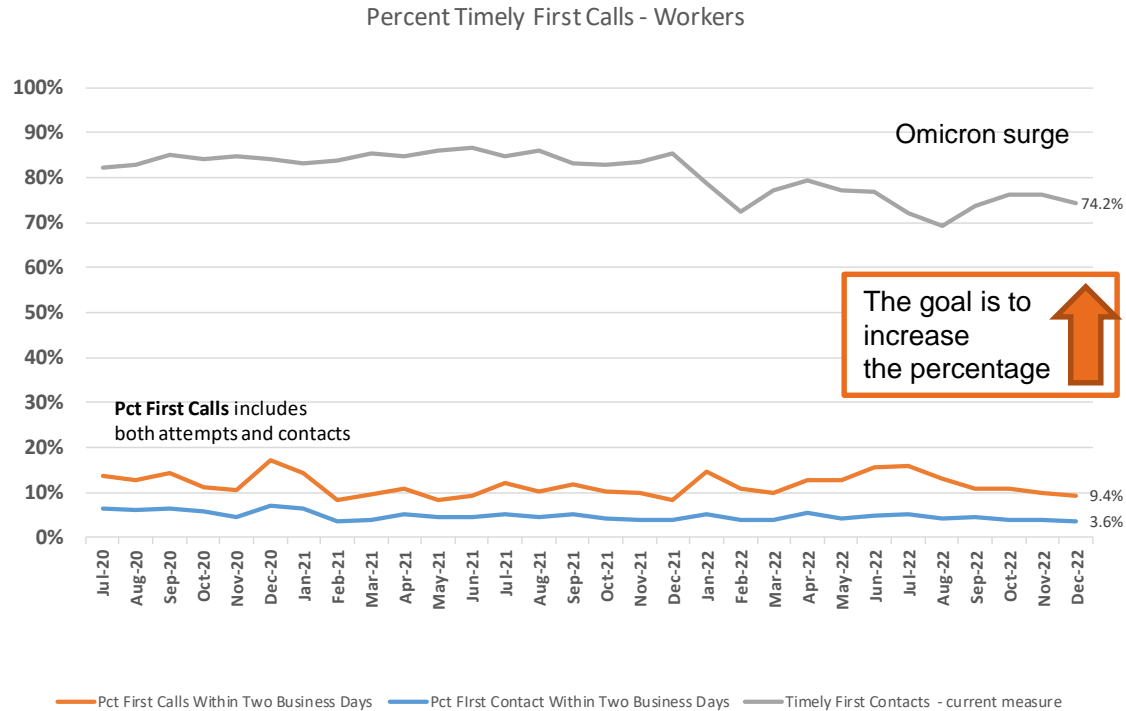
# JLARC recommended employer contact measure



Note: Clock starts when claim is established in the system.



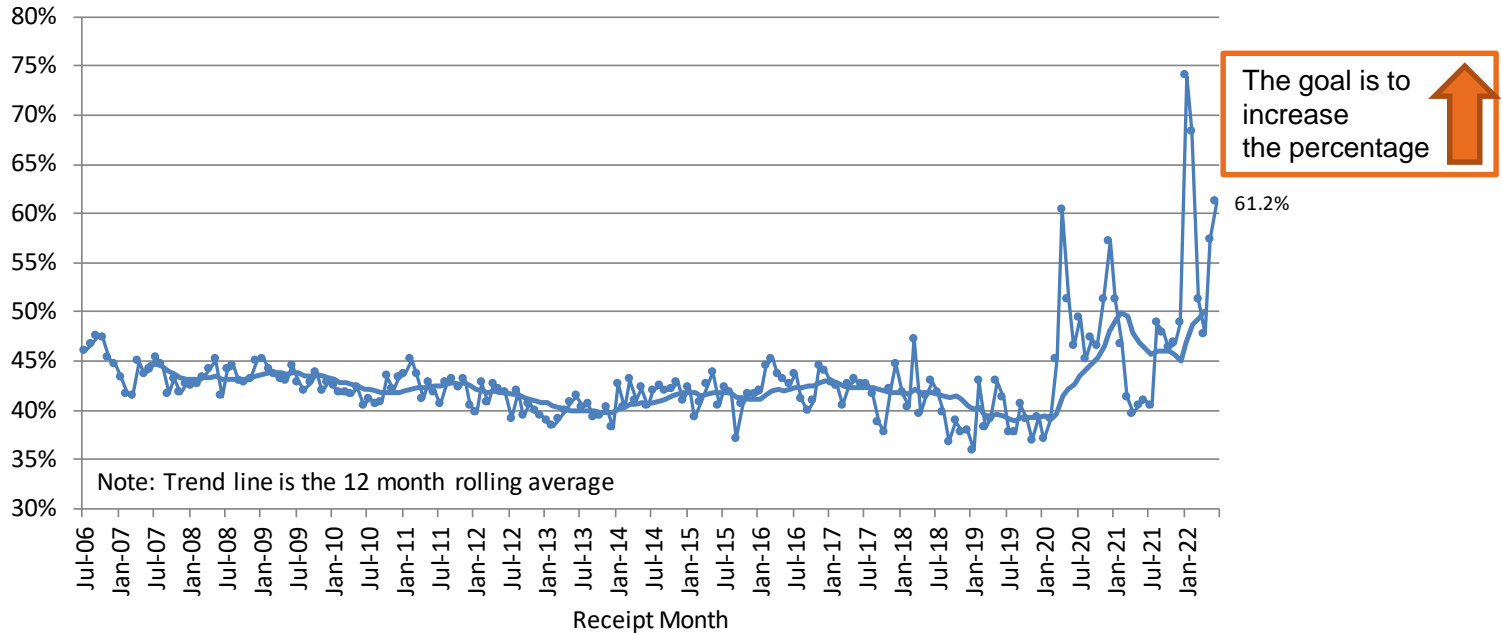
# JLARC recommended worker contact measures & L&I's current measure



Note: Clock starts when firm and class are assigned on the JLARC recommended measure and when time loss is first paid on the current operational measure.

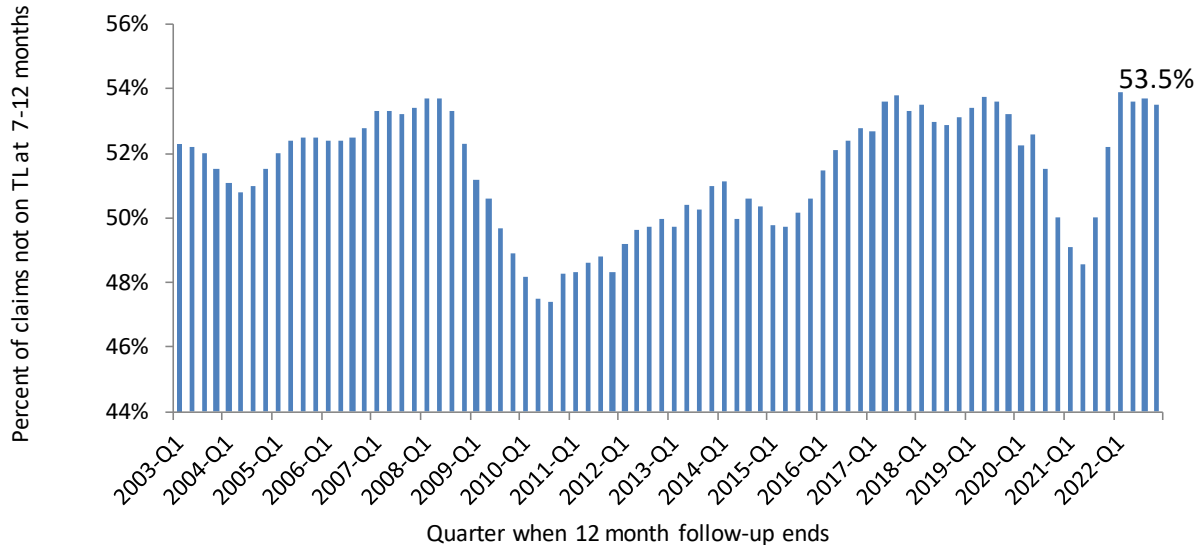
# The share of time-loss claims resolved six months after claim receipt


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



# 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



The goal is to increase the percentage 

High risk workers are defined as those being disabled on the 40th day following claim receipt, about 1,400 claims per quarter. RTW is defined as the status of not receiving disability benefits between 7 and 12 months

# Break Time



# Program Spotlight - Health Services Analysis (HSA)

*Karen Jost, HSA Program Manager*



# Our Team

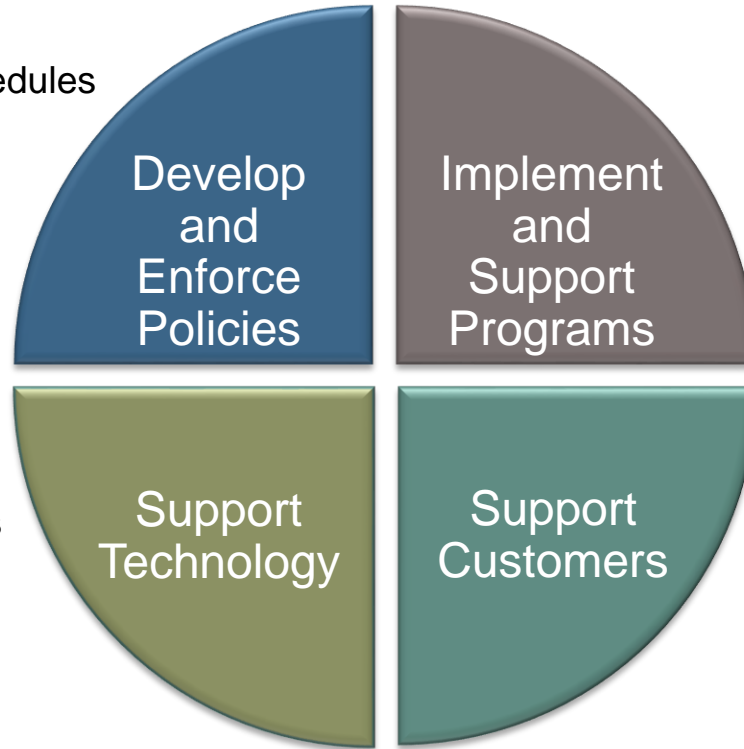
Team	Staff
Administrative (ASU)	10
HSA Technical Operations (HTO)	13
Medical Bill Payment/ Provider Hotline/Preferred Drug Line (MIPS/PHL/PDL)	53
Occupational Health Services (OHS)	11
Payment Policy and Provider Support (PPPS)	15
Provider Accounts and Credentialing (PAC)	20
Provider Quality and Compliance (PQC)	15

# HSA Strategic Plan



# Health Services Analysis Core Functions

- Establish Policy & Fee Schedules
- Adjudicate bills
- Regulate providers
- Analyze legislation
- Rulemaking



- Support technical systems
- Support internal customers
- Systems maintenance
- Technology development
- Data Stewards

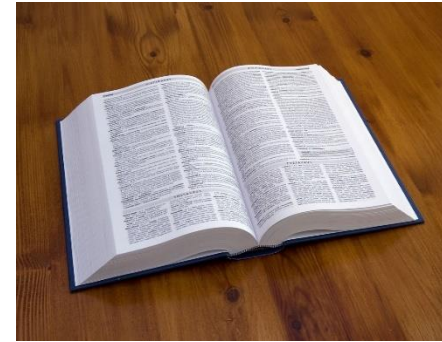
- Implement Occupational Health Best Practices
- IME Programs and IME Steering Committee
- Interpretation Services

- Credential providers
- Provider account maintenance
- Provider support and outreach
- Provider Hotline
- IT Help Desk



# Establish policy and fee schedules

- **Medical Aid Rules and Fee Schedules (MARFS)**
  - Annual payment policy and fee schedule publication that describes how workers' compensation insurers in Washington pay for healthcare and vocational services provided to injured workers and crime victims.
  - 10 pandemic era telehealth policies, 8 now permanent
  - 10 separate fee schedules



MARFS is published annually (July 1 effective date):

<http://lni.wa.gov/patient-care/billing-payments/fee-schedules-and-payment-policies/>

# Adjudicate bills

Medical Aid  
Fund Spend



Approximately  
**\$600 million**  
annually

Bill Adjudication



Adjudicated  
**3,081,660**  
bills in FY2022

Bills adjudicated  
within 30 days



**97%** of bills  
adjudicated  
within 30 days

# Medical Provider Network Impact

- Claim costs are not a factor in the review of provider applications. However, data indicates **low quality providers have worse outcomes and higher-than-average claims costs for injured workers.**
- Projected impact of removing low quality providers when the MPN was launched in 2013
  - **\$16.5 million first year, and \$33 million annually**
- Actual impact
  - **\$34.7 Million Annual**

# Regulate providers

Providers in MPN  
**31,306**

Providers outside of  
MPN (ancillary)  
**48,957**

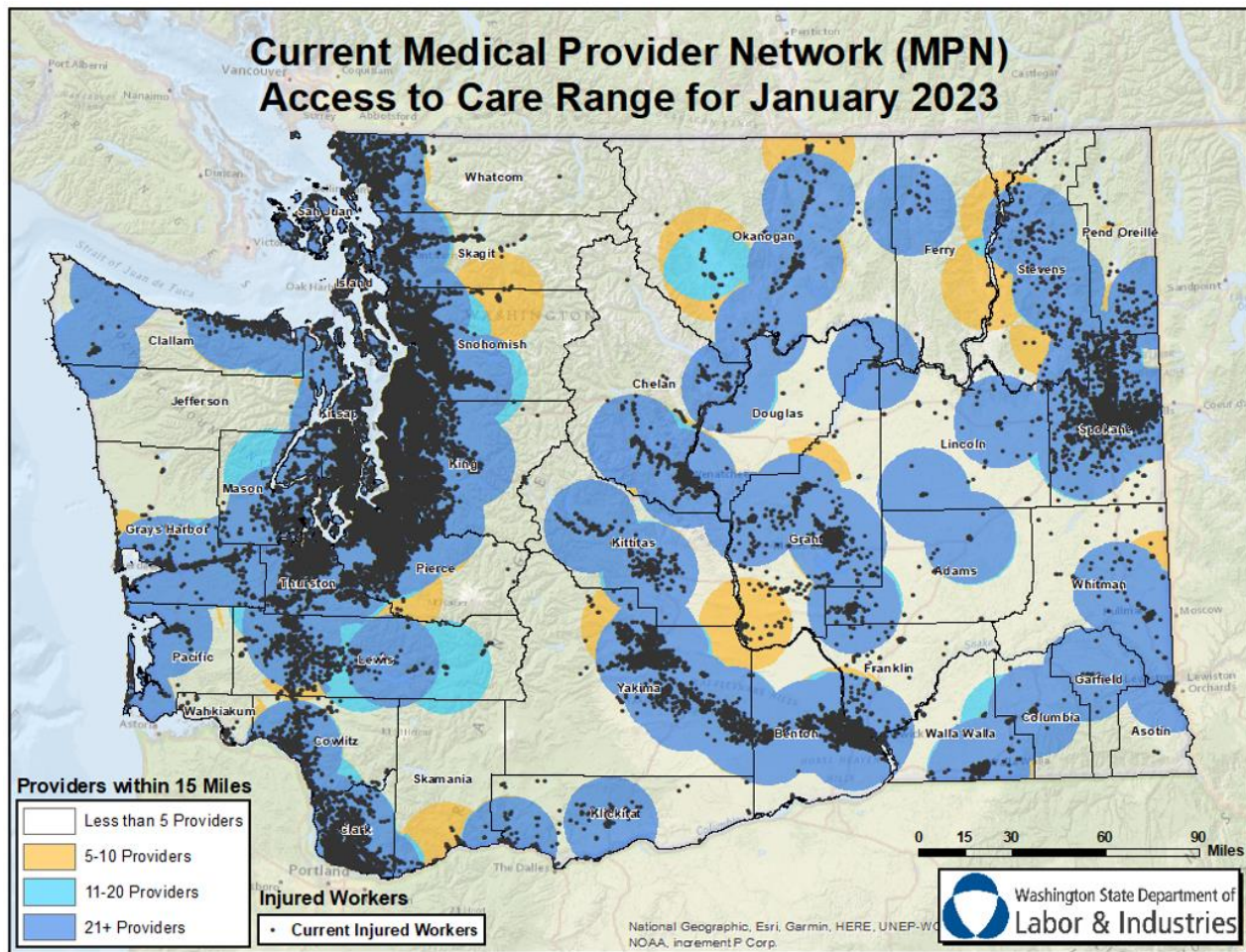
Providers reviewed  
since MPN launch  
**919**

Providers denied  
and/or terminated  
**112**

Audits conducted  
in FY2022  
**91 (\$466,990)**

Develop  
and  
Enforce  
Policies

**98.8%**  
Percent of  
workers with 5  
or more MPN  
providers within  
15 mile radius



Implement  
and  
Support  
Programs

# Centers of Occupational Health & Education (COHEs) across Washington State



UW Medicine | VALLEY MEDICAL CENTER

Implement  
and  
Support  
Programs

# Additional programs we support

## Independent Medical Exams

Average exams per  
month State Fund  
and Self-Insured:  
**1,142**

**342** Examiners

## Interpretation Services

Average Completed  
Monthly  
Appointments:  
**12,184**

## Surgical Best Practices (BP)

Surgeons in BP  
programs:  
**300**

## Physical Medicine Best Practices

Physical Medicine  
Progress Report  
used on **1 in 3**  
claims receiving  
physical medicine  
services

*Fiscal Year 2022*

# Customer Support

## Provider Support and Outreach

**11-15** Healthcare  
conferences  
annually

**4-7** Billing  
workshops annually

Just-in-time provider  
/ clinic consultations

## Provider Hotline

**4,400** customer  
service inquiries per  
month

**3,456** treatment  
authorizations per  
monthly

## Preferred Drug Line

**464** inquiries per  
month

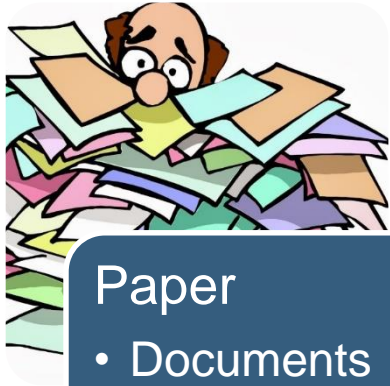


# Technology Systems

- Medical Information Payment System (MIPS)
- Occupational Health Management System (OHMS)
- Provider One
- Health Information Exchange (HIE) and Direct Entry transactions
- Pharmacy Point of Sale (MPOS)



# Transition to Data Exchange



## Paper

- Documents
- Forms
- Images



## Data

- Direct Entry
- Data Exchange

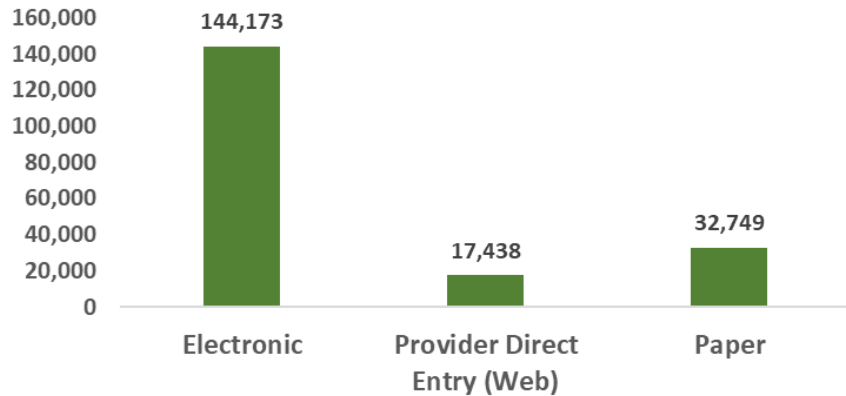


## Decisions

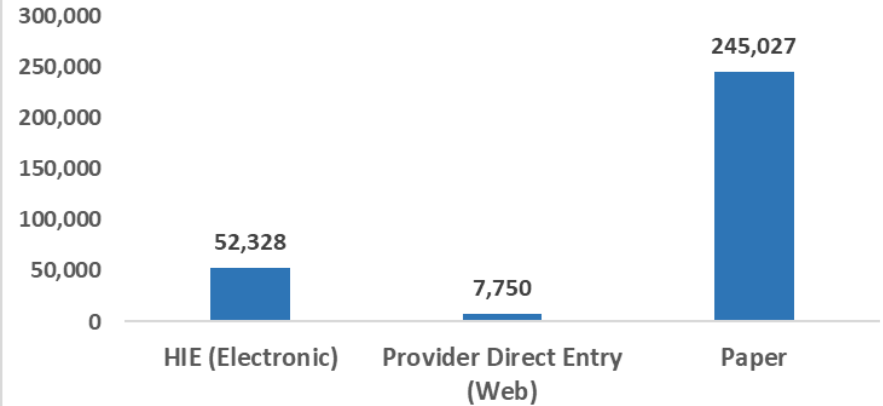
- Well Informed
- Timely

# Electronic Transaction Progress to Date

Incoming Bills Processed  
January 2023



Incoming Activity Prescription Forms  
FY 2022



# Challenges



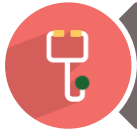
Technology & resources



Managing workload



Access to providers



Healthcare environment

# Opportunities



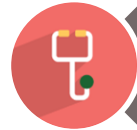
Modernizing technology



Focus on prioritizing work



Decision Package



Keep engaging, opportunities to improve

# Q&A



Karen Jost, HSA Program Manager

360-790-2682

[karen.jost@LNI.wa.gov](mailto:karen.jost@LNI.wa.gov)

## Program Spotlight – Office of the Medical Director (OMD)

*Gary Franklin, MD, MPH*  
*Medical Director*

*Kim Wallace, MBA, BS*  
*Medical Administrator*



# OMD Mission and Purpose

## Mission:

To prevent and reduce long-term disability by ensuring workers receive safe, effective, and cost-effective medical care.

## Purpose:

To provide clinical and scientific leadership

Lead development of evidence-based health policy

Provide clinical expertise for claim issues

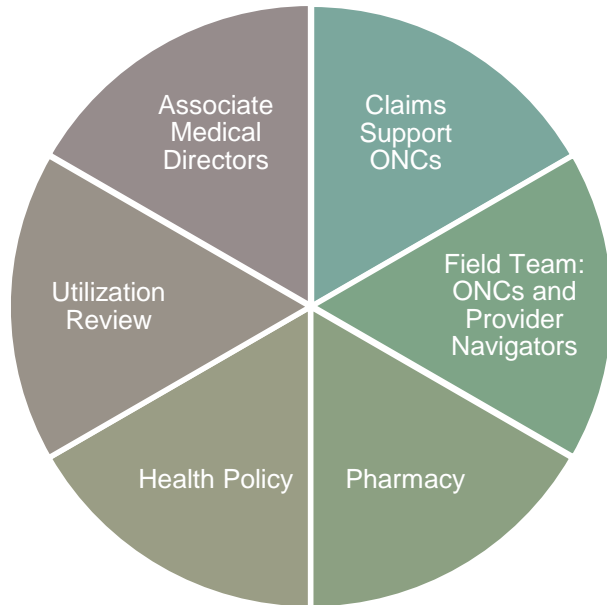
Act as a community-based clinical resource across the state

Facilitate partnerships with the provider community

Advise on development of occupational health best practices

Conduct and utilize research to support and inform evidence-based medical decision making

# The Work of OMD



Staff across the work units include:

- Medical Director and Medical Administrator
- Associate Medical Directors
- Pharmacists
- Nurse Practitioners
- Registered Nurses/ Occupational Nurse Consultants
- Epidemiologist
- Health Technology Specialist
- Legislative and Regulatory Analyst
- Medical Program Specialists
- Administrative Support Staff



# Associate Medical Directors (AMDs)

Under the leadership of the Medical Director, the seven AMDs:

Advise claims staff and ONCs on medically complex claims issues.

Convene critical discussions to resolve differences so workers get proper and necessary care.

Provide medical expertise to inform sound policy development.

Represent workers' compensation in health care policy making and planning discussions across the state.

Provide clinical expertise in the development of occupational health best practices.

Provide medical leadership to help improve the workers' comp system and services.

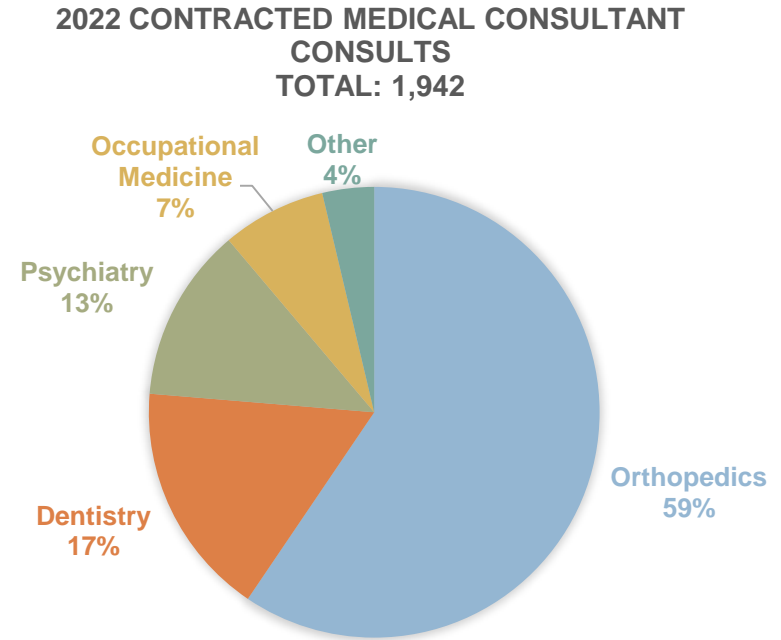
Lead provider credentialing review and decision making process.

Develop provider education and outreach resources.

*Important note:* We are recruiting for a new full-time Associate Medical Director for Psychology.

# Claims Support ONCs and Medical Consultants

- ONCs completed 31,970 consults in 2022
  - Respond to requests from claims staff to clarify clinical issues such as causation, appropriate treatment, impairment ratings, and reopening/worsening.
  - Assess ongoing healthcare needs of workers to facilitate plan of care, including intensive support for 33 workers who were catastrophically injured at work in 2022.



# Field Team: ONCs and Provider Navigators

Live and work in communities across the state.

- Currently 11 staff.
- Field ONCs assist providers on a daily basis.
- Provider navigators made 187 distinct outreach contacts in 2022.

Support workers and providers to promote appropriate, timely health care.

Promote access to health services in high need areas through engagement with providers.

47 new providers in 2022 in high need areas.

Problem solve claim issues.

Connect workers to providers in their communities.

Train and support providers to improve health care delivery.

# Pharmacy

L&I is a national leader in managing drug spending and opioid utilization.

- Drug spend is 2% of total medical costs compared to the national average estimated at 14.5%.
- In the past decade, over 80% decrease in the rate of workers starting on chronic opioids, resulting in a decrease in opioid-related disability.

Our goal is to ensure safe, effective, and quality care.

- Manage the Outpatient Drug Formulary and participate in joint pharmacy purchasing through the Washington Prescription Drug Program, including the evidence-based Preferred Drug List.
- Support claims staff by reviewing drug therapy for relatedness and medical appropriateness.
- Develop evidence-based drug policies and treatment guidelines.
- Support the medical provider network through risk of harm analysis and identifying low quality care.

# Health Policy Unit (HP)

Develop evidence-based health policies and coverage decisions.

Develop and deploy provider education and training, including offering CME credits.

Lead OMD rulemaking and legislative support.

Lead health technology assessment to inform policy development and coverage decisions.

Staff advisory committees/subcommittees, policy committees, and stakeholder groups.

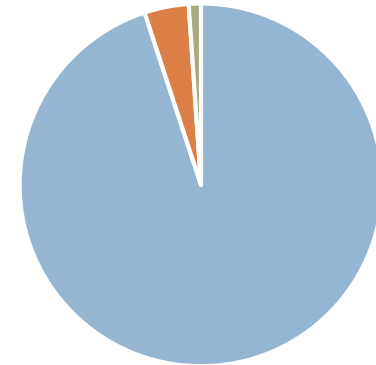
- Industrial Insurance Medical Advisory Committee (IIMAC)
- Industrial Insurance Chiropractic Advisory Committee (IICAC)
- Health Technology Assessment Program (HTA)
- Washington Self-Insurers Association (WSIA)
- Advisory Committee on Healthcare Innovation and Evaluation (ACHIEv)

# Utilization Review (UR)

## Implementing evidence-based care

- Review required:
  - Inpatient hospitalizations (Exceptions: Chemical dependency, Sub-acute)
  - Outpatient surgical procedures (e.g. shoulder arthroscopy, carpal tunnel release, lumbar laminectomy)
  - Physical therapy, occupational therapy, work rehabilitation
  - Advanced imaging studies
  - Spinal Injections
- MD-to-MD discussion is available for denials and partial approvals.
- Application of evidence-based treatment guidelines.
- Comagine Health performs initial reviews and makes recommendations to approve or deny.
- OMD UR team verifies initial reviews before sending results to Claims staff.

## UR Reviews in 2022 Total: 51,673



■ Prior Authorization ■ Retrospective ■ Continued Stay

# University of Washington Research

- Conduct policy-relevant research consistent with OMD mission.
- Focus on disability prevention research, including:
  - D-RISC study
  - program evaluation, e.g., Centers for Occupational Health and Education (COHE), ARNPs as Attending Providers
  - opioids, e.g., \$5 million PCORI project (Patient-Centered Outcomes Research Institute) comparing Ohio and WA opioid review programs
  - lumbar fusion outcomes
  - carpal tunnel syndrome
- Provide training for PhD level occupational health services researchers.



# Challenges and Opportunities

- **Modernize mental health and behavioral health** – Approach to behavioral and mental health services, e.g. new Associate Medical Director for Psychology.
- **Engage business and labor leadership** – ACHIEv advisory committee and activities related to health care innovations.
- **Strengthen regional health care support** – Field ONCs, provider navigators, AMDs.
- **Address opioid-related issues** – mCOT project, opioid settlement funds.
- **Integrate services for chronic pain care** – including work rehabilitation guideline.
- **Address changing health care landscape** – including issues such as consolidation and role of private equity.
- **Incentivize participation in health care innovation programs** – including focus on smaller provider practices.



# Questions?

**Gary Franklin, MD, MPH**  
[Gary.Franklin@lni.wa.gov](mailto:Gary.Franklin@lni.wa.gov)

**Kim Wallace, MBA, BS**  
[Kim.Wallace@lni.wa.gov](mailto:Kim.Wallace@lni.wa.gov)

## Industrial Insurance (State) Fund Financial Overview

**Statutory Financial Information**  
**Fiscal Year 2023**  
**July 2022 – December 2022**

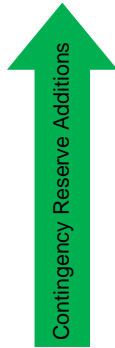
*Rob Cotton, Chief Accounting Officer*



# Significant Financial Highlights

July 2022 through December 2022

The contingency reserve increased **\$53 million**, from \$4,314 million on July 1, 2022 to \$4,367 million on December 31, 2022.



- Favorable Development
  - Medical Aid Account
  - CAE
  - Retro Liabilities
- Net Realized/Unrealized Gain on Investments
- Unfavorable Development
  - Accident Account
  - Pension Account
- Expected revenue less than projected costs (Premium Inadequacy)



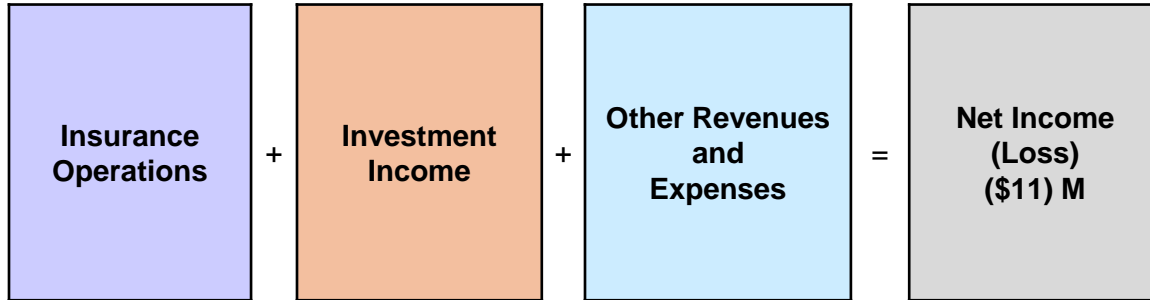
## Change in contingency reserve by quarter for fiscal year 2023.

- July 1 to September 30, 2022 – a decrease of \$176 million
- October 1 to December 31, 2022 – an increase of \$229 million

# State Fund Results

“Net Income”

July 2022 through December 2022



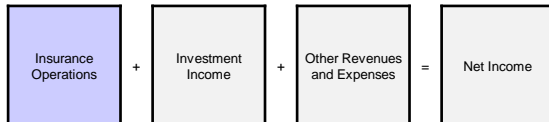
# Insurance Operations

July through December 2022  
(in millions)

## Six Months Ended

		December 31, 2022	December 31, 2021
We took in (Premiums Earned)	+	\$ 1,023	\$ 1,020
We spent (Expenses Incurred)			
Benefits Incurred		1,109	748
Claim Administrative Expenses		112	99
Other Insurance Expenses		49	46
Total Expenses Incurred	-	1,270	897
Net Income (Loss) from Insurance Operations	=	\$ (247)	\$ 127

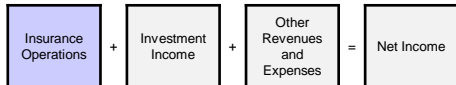
Net loss from insurance operations is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.



# Premiums Earned

July through December 2022  
(in millions)

	Six Months Ended		Difference
	December 31, 2022	December 31, 2021	
Standard Premiums Collected	\$1,080	\$1,027	
Less Retrospective Rating Adjustments	(41)	(54)	
Less Ceded Reinsurance Premiums	(7)	(7)	
Net Premiums Collected	1,032	966	
Changes in future Premium Amounts To Be Collected	38	102	
Changes in future Retrospective Rating Adjustment Refunds	(48)	(48)	
Net Premiums Earned	\$ 1,022	\$ 1,020	\$ 2

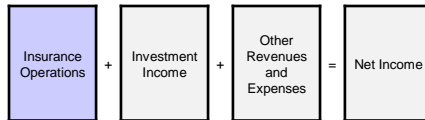


# Benefits Incurred

July through December 2022  
(in millions)

## Six Months Ended

	December 31, 2022	December 31, 2021	Difference
Benefits Paid	\$ 867	\$ 831	\$ 36
Change in Benefit Liabilities	242	(83)	325
<b>Total Benefits Incurred</b>	<b>\$ 1,109</b>	<b>\$ 748</b>	<b>\$ 361</b>

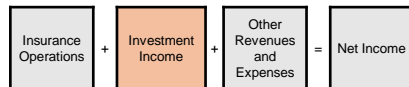


# Investment Income

July through December 2022  
(in millions)

## Six Months Ended

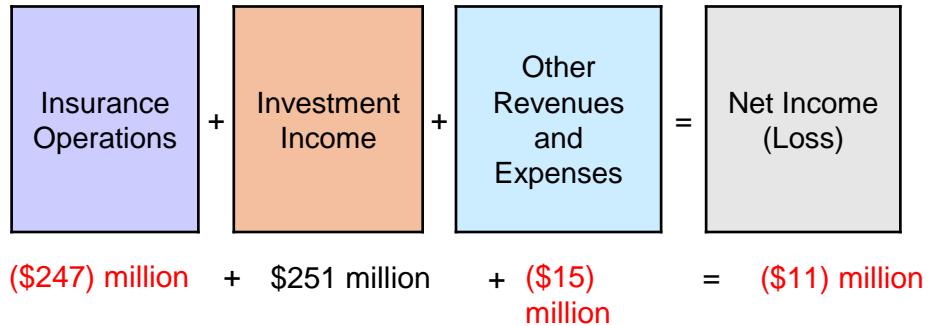
		December 31, 2022	December 31, 2021
Investment Income Earned from Interest on bonds	+	\$244	\$ 228
Realized Gain/(Loss) from Fixed Income Investments Sold	+	(7)	64
Realized Gains from Stocks (Equity Investments) Sold	+	14	66
<b>Total Investment Income</b>	<b>=</b>	<b>\$ 251</b>	<b>\$ 358</b>





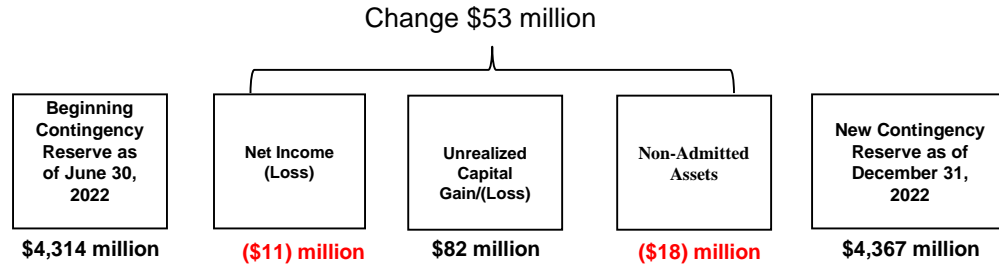
# Results of Operations

July 2022 through December 2022



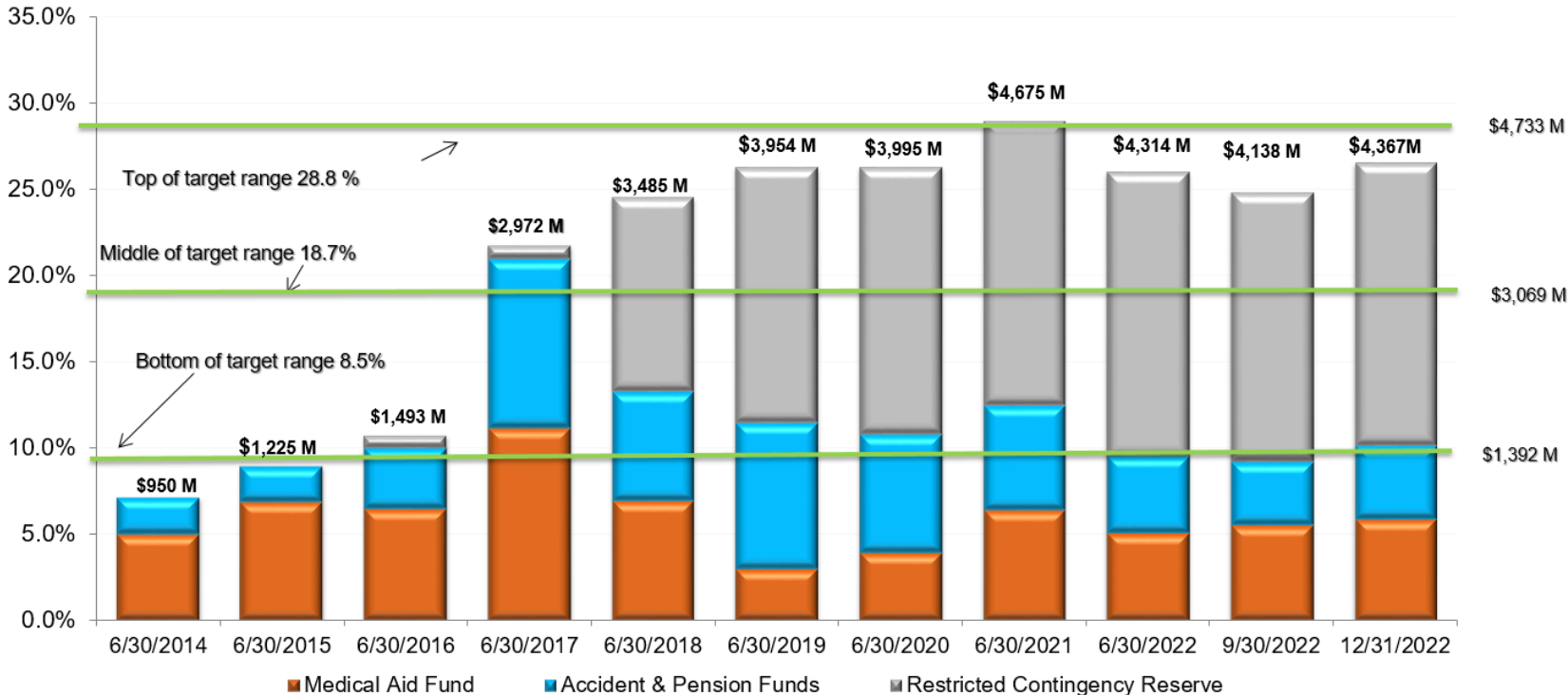
# How Did Contingency Reserve Perform?

July 2022 through December 2022



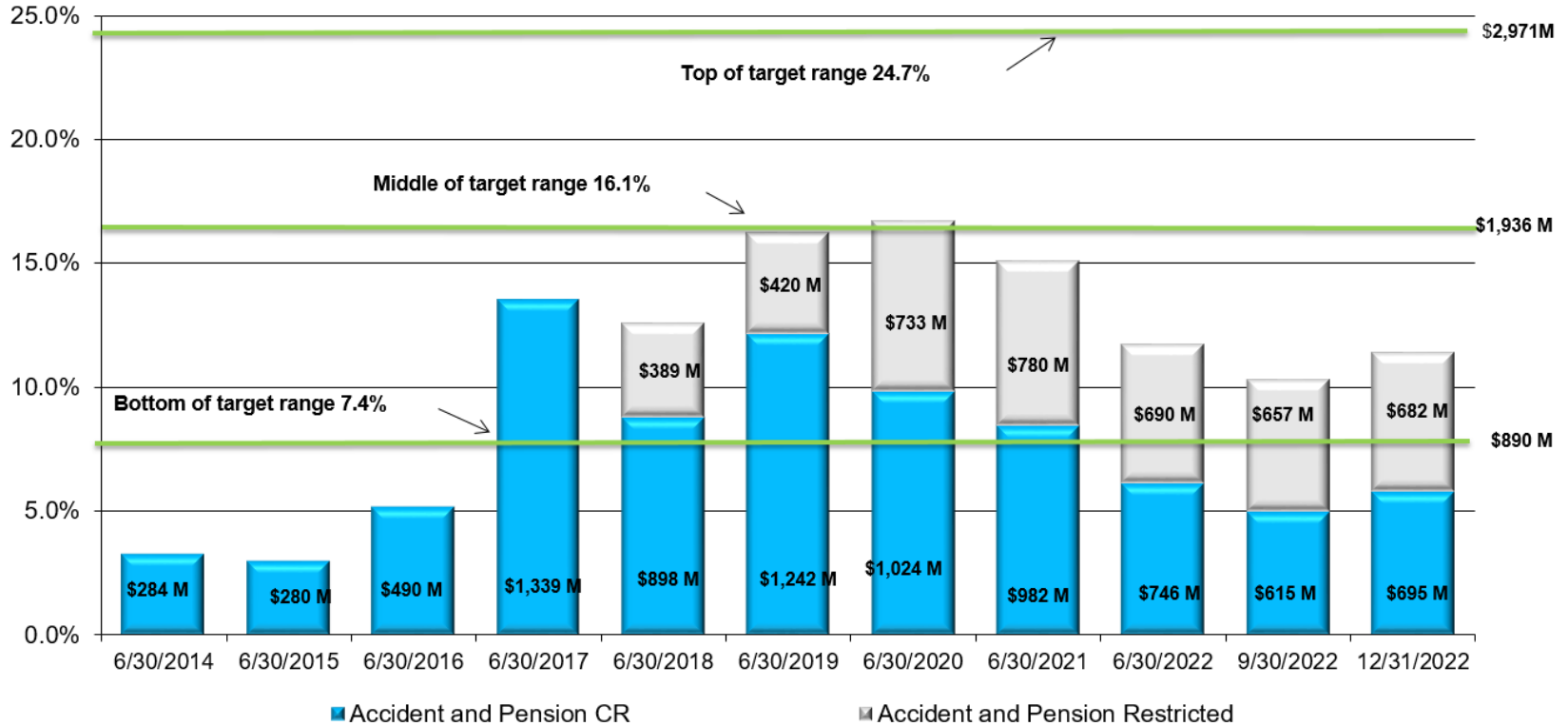
# Combined Contingency Reserve vs. Targets

## Combined Contingency Reserve is 26.6% of Total Liabilities



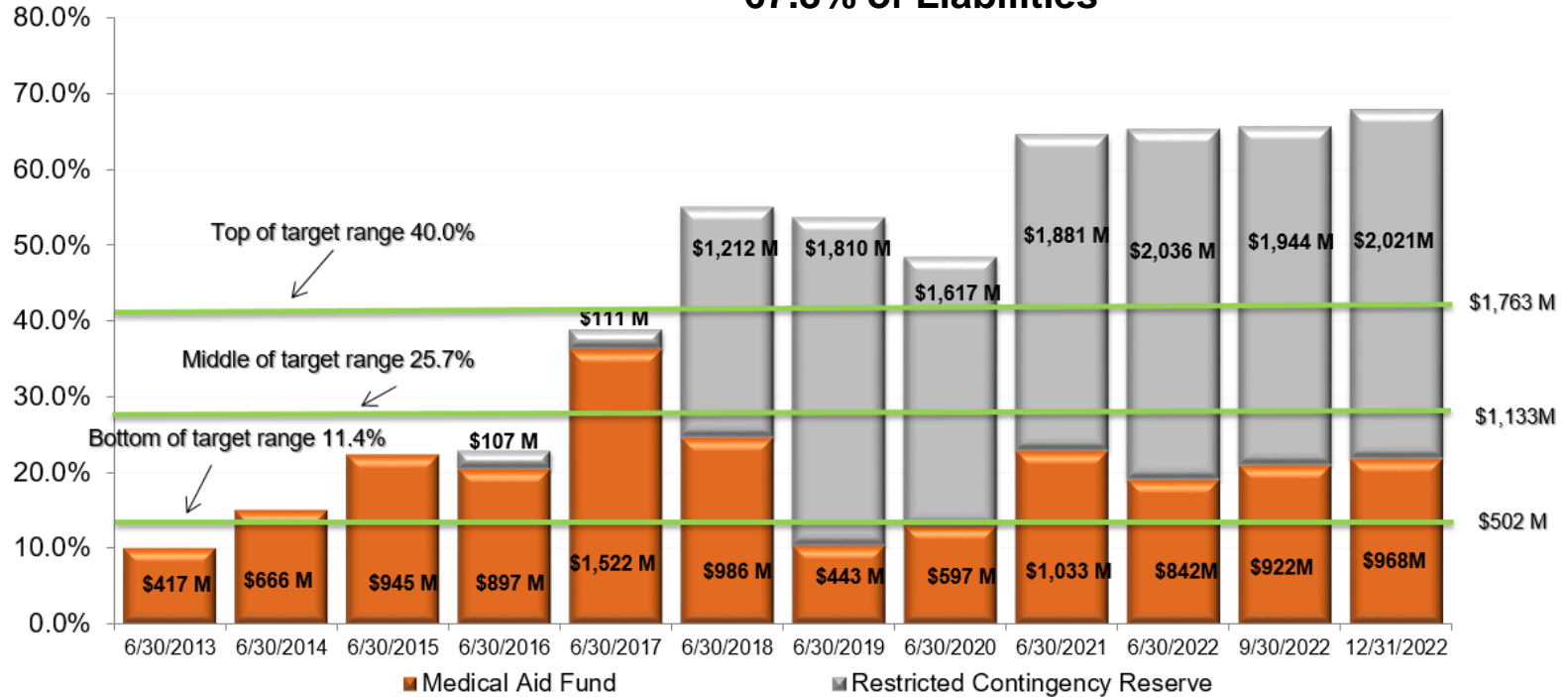
*Restricted is based on final December 31, 2022 financial information and the change in the value of investments through 12-31-22.  
 The WCAC Target has historically been the midpoint between the bottom and middle target.*

## Accident, Pension & Restricted Contingency Reserve is 11.5% of Liabilities



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

## Medical Aid & Restricted Contingency Reserve is 67.8% of Liabilities



*Restricted is based on final December 31, 2022 financial information and investment earnings through 12-31-22*

*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 December 31, 2022		Fiscal Year Ended June 30, 2022	Fiscal Year Ended June 30, 2021
	State Fund	Industry Forecast		
Current Year Benefit (Loss Ratio)	98.5%		104.3%	117.1%
Prior Year Benefit (Loss Ratio)	9.9%		(9.2)%	30.0%
<b>Total Benefit (Loss Ratio)</b>	<b>108.4%</b>	<b>50.3%</b>	<b>95.1%</b>	<b>147.1%</b>
Current Year CAE Ratio	11.9%		12.5%	14.4%
Prior Year CAE Ratio	(1.0)%		(1.5)%	1.8%
<b>Total Claim Administration Expense (CAE) Ratio</b>	<b>10.9%</b>	<b>13.1%</b>	<b>11.0%</b>	<b>16.2%</b>
Sub-Total: Benefit and Claim Administration Expense Ratios	119.3%	63.4%	106.1%	163.3%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.8%	27.6%	5.0%	6.1%
<b>Combined Ratio (Industry omits dividends)</b>	<b>124.1%</b>	<b>91.0%</b>	<b>111.1%</b>	<b>169.4%</b>
Investment Income Ratio	23.8%	18.7%	24.7%	28.9%
<b>Operating Ratio</b>	<b>100.3%</b>	<b>72.3%</b>	<b>86.4%</b>	<b>140.5%</b>

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

# Questions & Comments

Contact Rob Cotton,  
Chief Accounting Officer

- Phone: 360-902-5743
- Email: [rob.cotton@lni.wa.gov](mailto:rob.cotton@lni.wa.gov)

Thank You!

# Reconciliation of Change in Benefit Liabilities

(In \$1,000s)

July 1, 2022 Benefit Liability Beginning Balance	\$14,768,690
Prior Year Benefit Payments	(\$780,152)
Prior Year Development and Model Change (Unfavorable)	(\$64,444)
Self Insurance Prefunded Pension Transfers	\$0
Regular reserve discount reduction	\$166,307
Net Total Prior Year Benefit Liability as of December 31, 2022	<u>\$14,090,401</u>
New Current Year Benefit Liabilities	\$920,081
December 31, 2022 Benefit Liabilities Ending Balance	<u><u>\$15,010,482</u></u>
<b>Change Between Beginning and Ending Balance</b>	<b>\$241,792</b>



# Highlights of Changes in the Contingency Reserve

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	Q2 FY23
Actuarial Development <sup>1</sup>	\$149M	\$543M	\$147M	\$926M	\$941M	\$352M	\$(197)M	\$287M	\$526M	\$64
Rate Changes	\$58M	\$59M	\$38M	\$27M	\$(14)M	\$(120)M	\$(110)M	\$(44)M	\$(29)M	-
Greater (less) than expected changes in the stock market	\$279M	\$(29)M	\$(101)M	\$411M	\$199M	\$50M	\$340M	\$1,263M	\$(639)M	\$51
Mortality table change	-	\$(146)M	-	-	-	-	-	-	-	-
Adjustments to avoid double counting 2011 reform savings	\$(130)M	\$(83)M	-	-	-	-	-	-	-	-
Discount rate reduction	\$(256)M <sup>2</sup>	\$(31)M	\$(31)M	\$(36)M	\$(646)M <sup>3</sup>	-	\$(90)M <sup>4</sup>	\$(384)M <sup>5</sup>	\$(6)M <sup>6</sup>	-

1. Includes numerous, offsetting factors including model changes, operational influences, and the state of the economy.

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

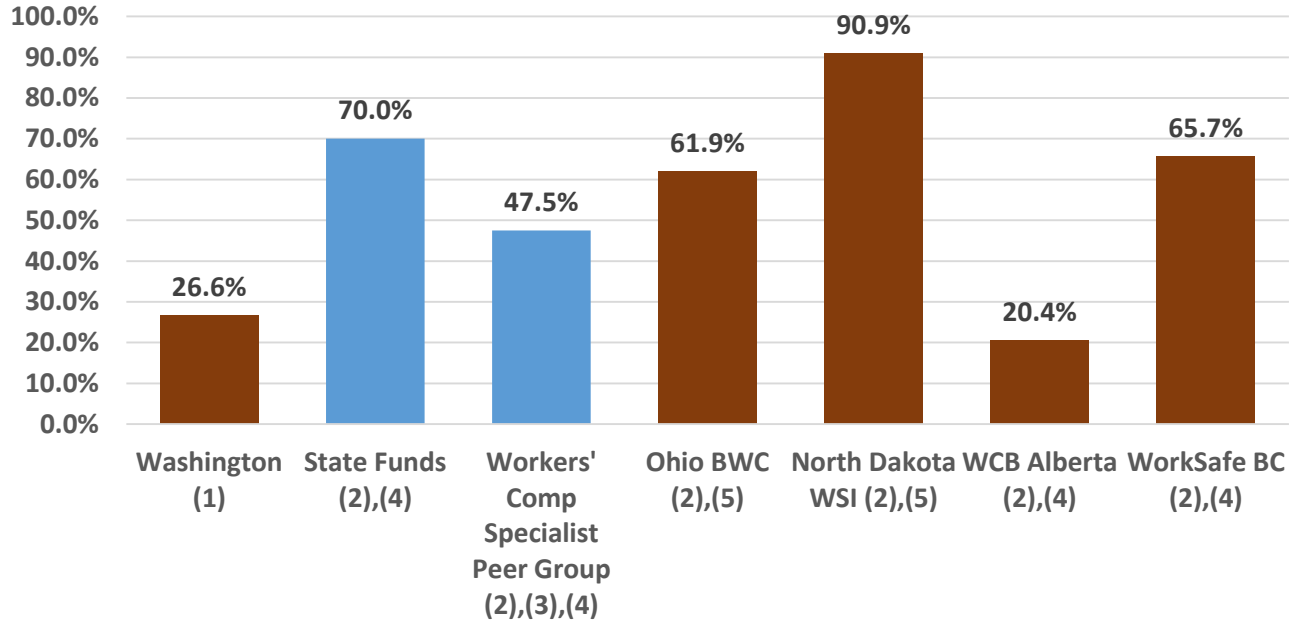
3. Pension Discount Rate reduction from 6.2% to 4.5%

4. Non-Pension Discount Rate reduction from 1.5% to 1.0%

5. Proposed Pension Discount Rate 4.5% to 4.0%

6. Self-insurance prefunded rate reduction from 5.8 to 5.7%

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



(1) Preliminary as of 12/31/2022

(2) Source: Conning Peer Analysis, August 17, 2022

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

(4) As of 12/31/2021

(5) As of 9/30/2021

# Historic Results of Operations

July through December

(in millions)

As of Quarter Ended December 31,	Insurance Operations	+	Investment Income	+	Other Revenues & Expenses	=	Net Income (Loss)
2022	(247)		251		(15)		(11)
2021	127		358		(10)		475
2020	(506)		487		(20)		(39)
2019	(299)		343		(9)		35
2018	(70)		245		10		185
2017	423		351		28		802
2016	172		268		30		470
2015	(274)		313		30		69
2014	(196)		262		26		92
2013	(108)		273		26		191
2012	(70)		305		15		250
2011	(352)		274		36		(42)

# Historical Investment Performance

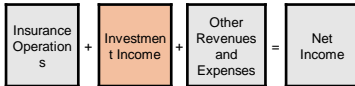
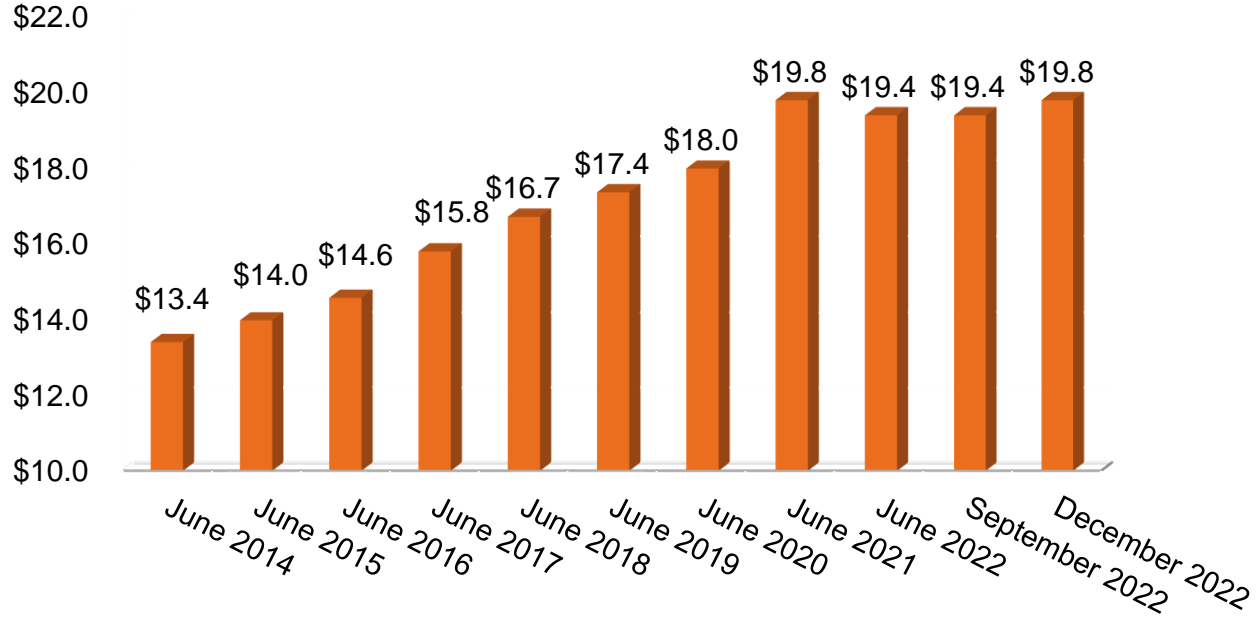
## Fiscal Year Ended

	Quarter Ended December 31, 2022	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2019	June 30, 2018
Investment Income	243,461,000	456,375,000	462,700,000	496,981,000	498,626,000	481,048,000
Realized Gain (Loss)	7,675,000	141,857,000	299,787,000	272,266,000	(23,498,000)	1,092,446,000
Unrealized Gain (Loss)	82,305,000	(676,444,000)	1,069,560,000	161,264,000	151,820,000	(812,942,000)*
Total Invested Assets	19,764,974,000	19,420,354,000	19,793,907,000	17,992,984,000	17,443,448,000	16,728,166,000

**\*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.**

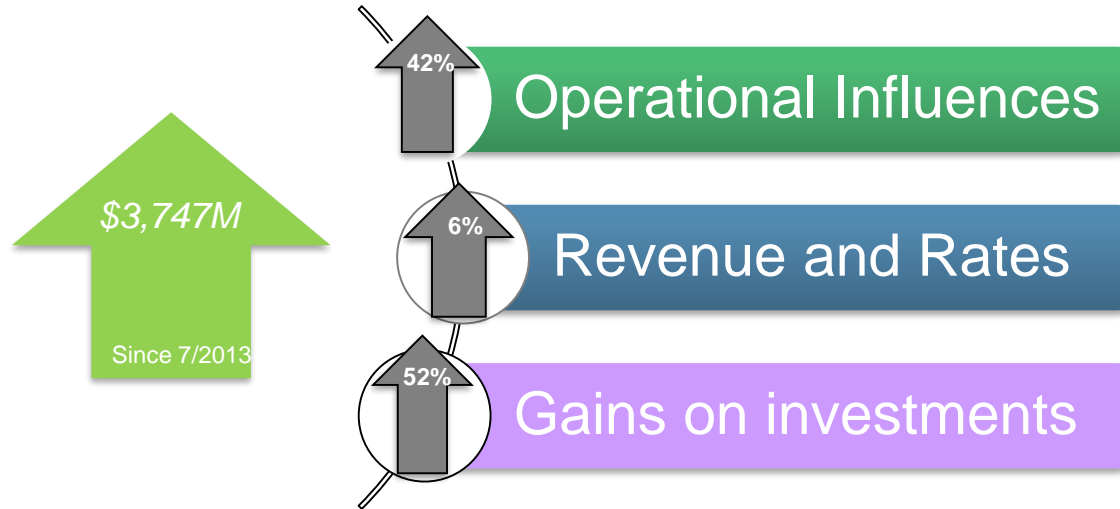
# Total Investments

(rounded to billions)



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## Contingency Reserve Drivers



As of 12/31/2022 the CR is at \$4,367M.

# Benefit Liability History

(in thousands)

	<b>Benefit Liabilities</b>	<b>\$ Increase/ (Decrease)</b>	<b>% Increase/ (Decrease)</b>
December 31, 2022	\$ 15,010,482	241,792	1.6%
June 30, 2022	14,768,690	146,597	1.0%
June 30, 2021	14,622,093	728,107	5.2%
June 30, 2020	13,893,986	730,933	5.6%
June 30, 2019	13,163,053	71,245	0.5%
June 30, 2018	13,091,808	365,076	2.9%
June 30, 2017	12,726,732	(251,425)	(1.9%)
June 30, 2016	12,978,157	317,999	2.5%
June 30, 2015	12,660,158	287,485	2.3%
June 30, 2014	12,372,673	566,601	4.8%
June 30, 2013	11,806,072	603,117	5.4%

# Supplemental Pension Fund

*Joel Sacks, Agency Director*





# Cash Flow Challenge In The SPF

## ■ **Temporary Cash Flow Shortfall**

- Experienced a temporary cash shortfall of approximately \$55 million for the 4<sup>th</sup> quarter of 2022.
- Took a short-term interfund loan of \$80 million from the Pension Reserve Fund to cover the January 2023 monthly benefit payments without delay.
- The loan, plus interest, was repaid in full on March 10<sup>th</sup>.

## ■ **Factors Contributing To The Shortfall**

- The shortfall was caused by a series of compounding issues. Significant contributing factors include:
  - Reduction in hours due to the COVID-19 Pandemic;
  - Rising expenditures due to changes in the State average wage and increasing COLAs;
  - Revenue volatility related to a billing delay within the Self-Insurance program; and,
  - Rate inadequacy caused by multiple years of adopting rates below break even indication.
- This series of events led to the erosion of the three month asset balance and created a cash flow challenge.

# Impacts and Long-Term Needs

## ■ Impacts of Taking Loan

- There will be no impact to premium rates for the remainder of the 2023 rating year for State Fund or Self-Insured workers and employers as a result of taking the loan.
- There will be a negligible impact on rates for rating year 2024 as a result of the accrued interest expense from the loan.

## ■ Long-term Needs Within The Fund

- Incrementally rebuild the SPF asset balance to an adequate target reserve level, beginning in rating year 2023.

## ■ Prior History of Cash Flow Challenges

- L&I took a similar interfund loan from the Pension Fund into the Supplemental Pension Fund in April 2010.
- The loan plus interest was repaid incrementally between May 2010 and May 2011.

# SPF Rating Strategy

- We adopted rates below the break even indication for rating years 2021, 2022 and 2023.
- Under current approach, we will remain below our three month target until the end of 2024.

Rating Year	2020	2021	2022	2023
Indicated % Increase	9%	33%	28%	14%
Adopted % Increase	9%	12%	14%	7%

# Longer-term Solutions

- Continue current plan to incrementally rebuild the SPF to three month target level.
- Explore increasing target asset level beyond three month level.
- Secure automated system for Self-Insurance.
- Discuss possible long-term strategies to address risk associated with the SPF.

# Closing Comments & Adjourn

*Mike Ratko, Assistant Director for Insurance Services*

*Joel Sacks, Agency Director*



# Next Meeting

- June 15, 2023
- 9:00-12:00
- Location TBD