

# Workers' Compensation Advisory Committee (WCAC)

*Tuesday, March 31, 2020*



# Agenda



# Safety Message

*Jeff Killip*

*DOSH Education & Outreach Senior Manager*

## DOSH Education & Outreach Priorities

- *Prevention-focused*
- Strategic partnership with *influencers*
- Promote *workplace safety culture*
- Messaging content: *snackable, shareable, sharp, and humanized*

## **DOSH Education & Outreach - Consultation Testimonial Campaign -**



## DOSH Consultation

- *Free!*
- Promote workplace safety culture
- Strengthen your brand
- Attract and keep the best employees
- *Save on worker's compensation!*
- Enhance your bottom line
- *= Competitive business advantage!*

# Take a Chance on DOSH Consultation!



# Kudos

Work Force Development Center - Everett

Vince Ynzunza, videography – DOSH E&O

Steven Jones, videography/animation – DOSH E&O

Justin Taylor, multimedia manager – L&I

Paul Marsh, webmaster – DOSH E&O

DOSH Consultation:

Lou Flores, Manager

[flos235@lni.wa.gov](mailto:flos235@lni.wa.gov)

360-902-5237



# General Updates

*Joel Sacks, Agency Director*





# Vocational Recovery Update

*Vickie Kennedy, Assistant Director for Insurance Services*





# Break Time





# Board of Industrial Insurance Appeals (BIIA) Update

*Linda Williams, Chair*



# Workers' Compensation Systems Modernization (WCSM)

*Brian Colker, Linea Solutions Inc.*

*Manoj Verma, Deputy Project Director - Technical*



## Dashboard – Help Injured Workers Heal and Return to Work

*Vickie Kennedy, Assistant Director for Insurance  
Services*



# 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*





# Annual Financial Reports



- Annual financial reports are available on L&I's website at: <https://lni.wa.gov/agency/state-fund-financial-reports>

# Significant Financial Highlights

The contingency reserve increased \$279 million, from \$3,954 million on July 1, 2019 to \$4,227 million on December 31, 2019.

	<ul style="list-style-type: none"> <li>• Net Unfavorable development on prior year liabilities           <ul style="list-style-type: none"> <li>↓ Medical Aid: mainly due to an increase in both the number and cost of new hearing aids and the increased use of private vocational rehabilitation services</li> <li>↓ Accident: longer time-loss persistency averages</li> <li>↓ Structured Settlements: increase in the number of settlements</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>• Total Permanent Disability: a reduction in claim frequency</li> <li>• Partial Permanent Disability: fewer awards</li> <li>• Premiums and investment income are adequate to pay for actual costs</li> <li>• Gains on investments</li> </ul>

However, if we were looking at investments today, we would have an unrealized loss.

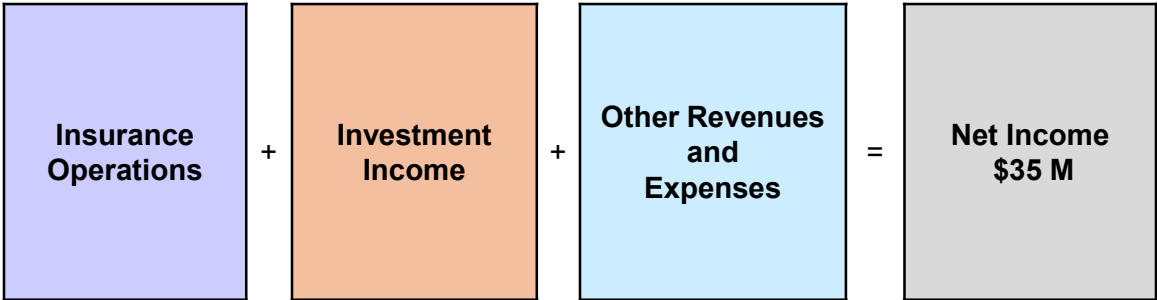
**Change in contingency reserve by quarter for fiscal year 2020.**

- July 1<sup>st</sup> to September 30, 2019 – a decrease of \$16 million
- October 1<sup>st</sup> to December 31, 2019 – an increase of \$289 million

# State Fund Results

“Net Income”

July 2019 through December 2019



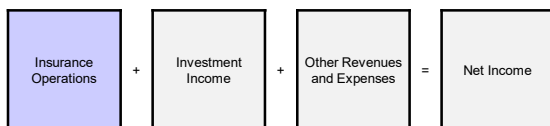
# Insurance Operations

July through December 2019  
(in millions)

## Six Months Ended

		December 31, 2019	December 31, 2018
We took in (Premiums Earned)	+	\$ 1,018	\$ 1,049
We spent (Expenses Incurred)			
Benefits Incurred		1,147	940
Claim Administrative Expenses		123	131
Other Insurance Expenses		47	48
Total Expenses Incurred	-	1,317	1,119
Net Income (Loss) from Insurance Operations	=	\$ (299)	\$ (70)

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  
(in millions)

	Six Months Ended		Difference
	December 31, 2019	December 31, 2018	
Standard Premiums Collected	\$1,108	\$1,167	
Less Retrospective Rating Adjustments	(54)	(35)	
Less Ceded Reinsurance Premiums	(6)	0	
<b>Net Premiums Collected</b>	<b>1,048</b>	<b>1,132</b>	
Changes in future Premium Amounts To Be Collected	31	(3)	
Changes in future Retrospective Rating Adjustment Refunds	(61)	(80)	
<b>Net Premiums Earned</b>	<b>\$ 1,018</b>	<b>\$ 1,049</b>	<b>\$ (31)</b>

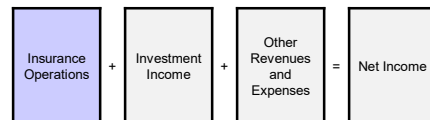


## Benefits Incurred

July through December  
(in millions)

### Six Months Ended

	December 31, 2019	December 31, 2018	Difference
Benefits Paid	\$ 859	\$ 818	\$ 41
Change in Benefit Liabilities	*288	*115	173
Change in Discount Rate Reduction from 6.1% to 4.5% for State Fund	0	7	(7)
<b>Total Benefits Incurred</b>	<b>\$ 1,147</b>	<b>\$ 940</b>	<b>\$ 207</b>



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

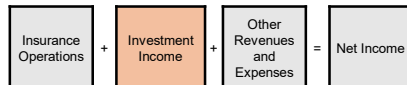
## Investment Income

July through December  
(in millions)

### Six Months Ended

		December 31, 2019	December 31, 2018
Investment Income Earned from Interest on bonds	+	\$ 252	\$ 248
Realized Gain/(Loss) from Fixed Income Investments Sold	+	88 *	(3)
Realized Gains from Stocks (Equity Investments) Sold	+	3	0
<b>Total Investment Income</b>	<b>=</b>	<b>\$ 343</b>	<b>\$ 245</b>

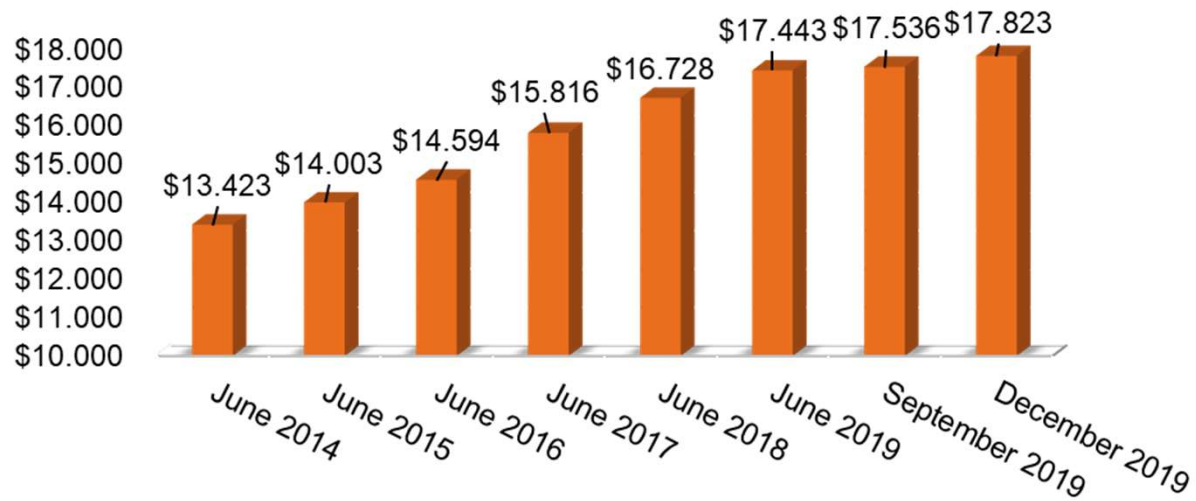
\*Mainly resulted from the sale of bonds in order to transfer assets from the accident account to the pension reserve account to cover the pension reserve deficit that existed at the end of FY19.





## Total Investments

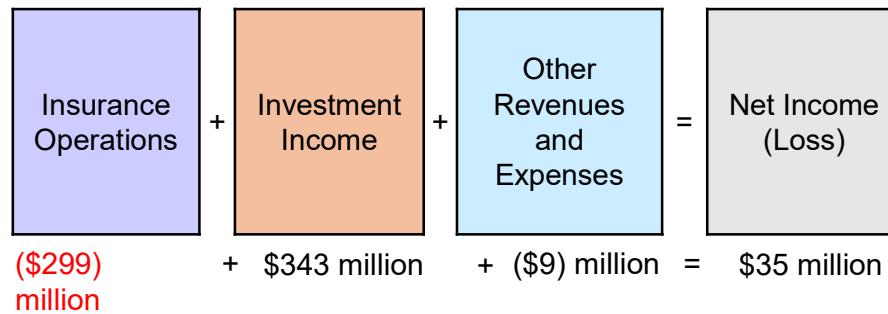
(rounded to billions)



Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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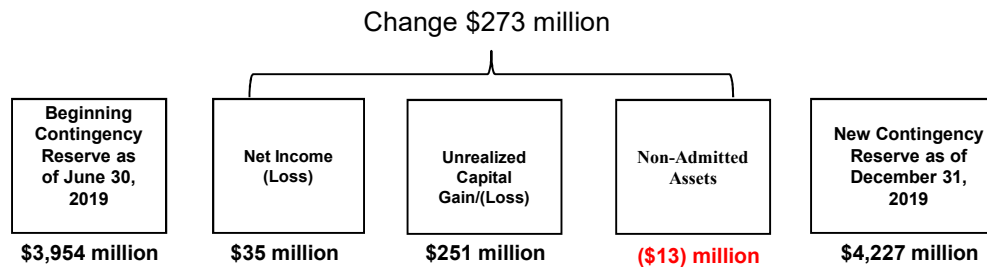
## Results of Operations

July 2019 through December 2019



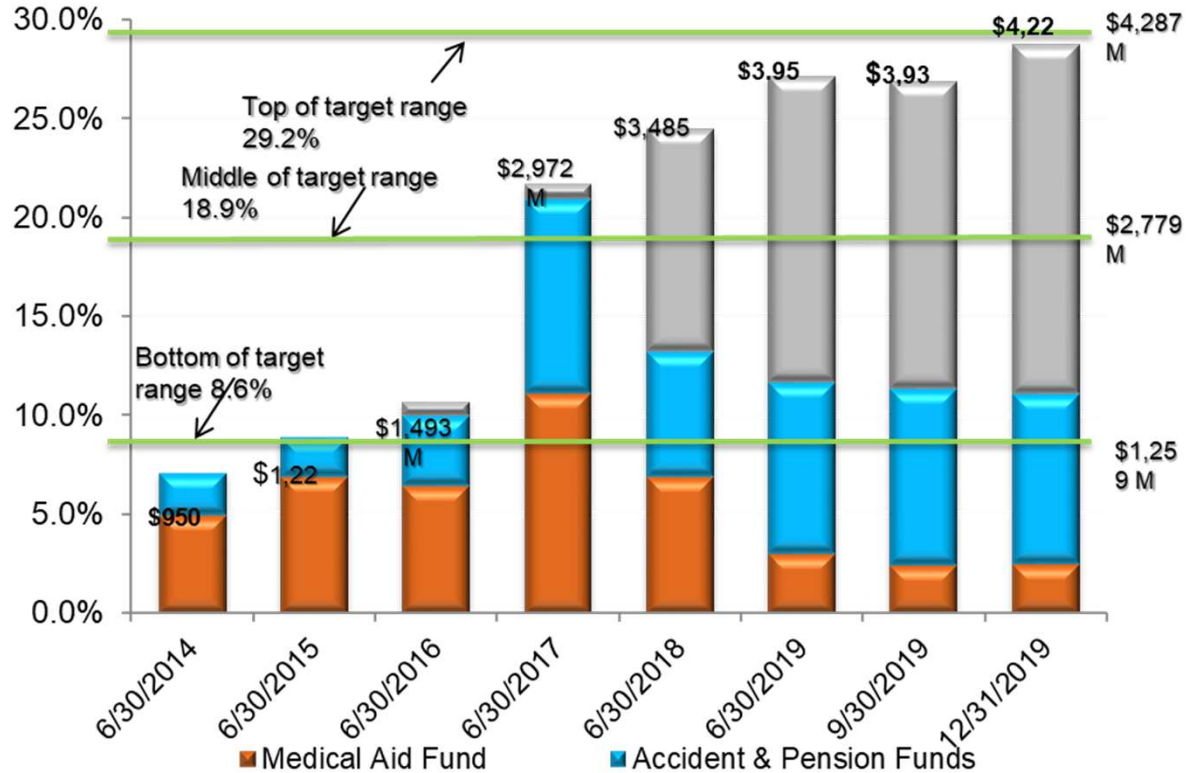
# How Did Contingency Reserve Perform?

July 2019 through December 2019



## Combined Contingency Reserve vs. Targets

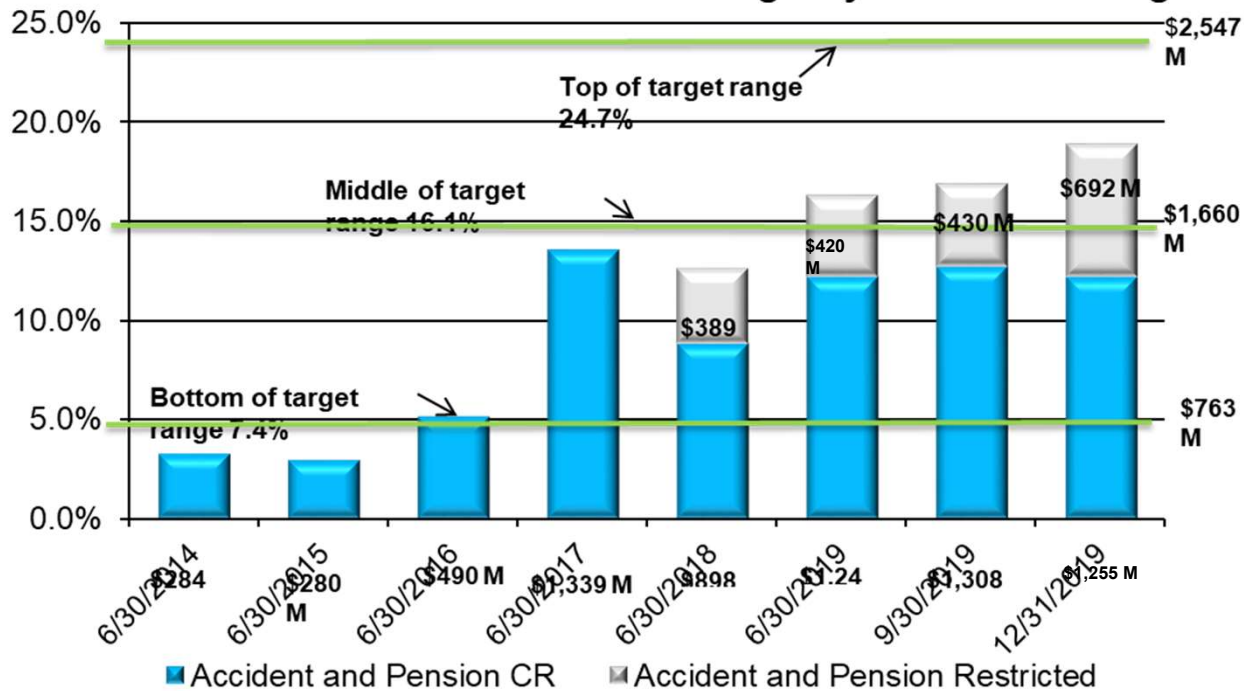
### Combined Contingency Reserve is 28.8% of Total Liabilities



*Restricted is based on final June 30, 2019 financial information and the change in the value of investments through 12-31-19.  
The WCAC Target has historically been the midpoint between the bottom and middle target.*

## Accident, Pension & Restricted Contingency Reserve is 18.9% of Liabilities

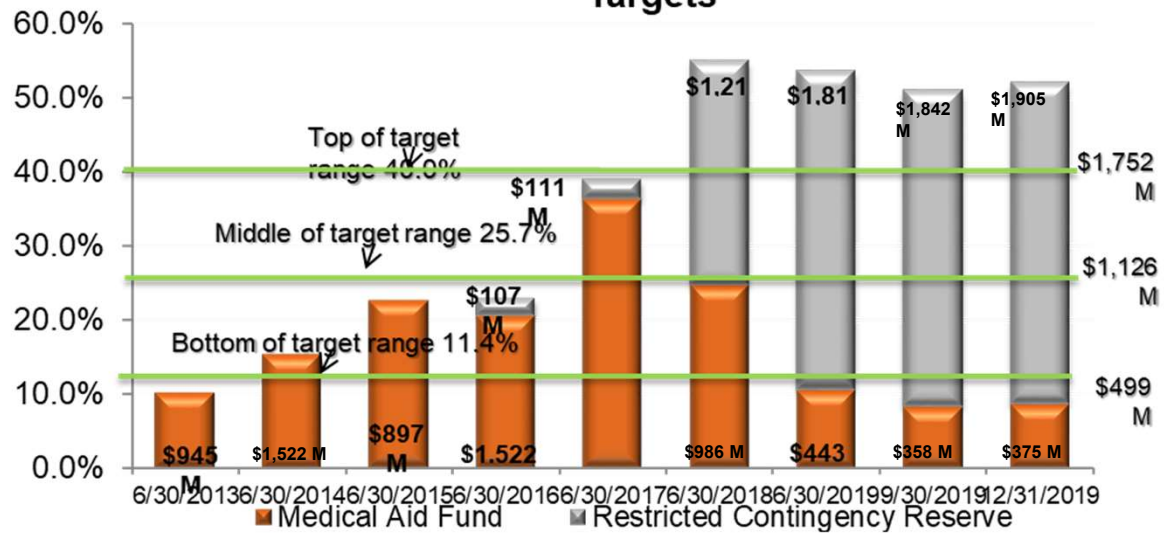
### Accident & Pension Contingency Reserve vs. Targets



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

## Medical Aid & Restricted Contingency Reserve is 52.1% of Liabilities

### Medical Aid & Restricted Contingency Reserve vs. Targets



*Restricted is based on final June 30, 2019 financial information and investment earnings through 12-31-19.*

*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 December 31, 2019		Fiscal Year Ended June 30, 2019	Fiscal Year Ended June 30, 2018
	State Fund	Industry Forecast		
Current Year Benefit (Loss Ratio)	83.9%		83.7%	77.8%
Prior Year Benefit (Loss Ratio)	28.8%		4.9%	17.1%
<b>Total Benefit (Loss Ratio)</b>	<b>112.7%</b>	<b>46.9%</b>	<b>88.6%</b>	<b>94.9%</b>
Current Year CAE Ratio	9.8%		10.3%	9.0%
Prior Year CAE Ratio	2.3%		5.9%	2.3%
<b>Total Claim Administration Expense (CAE) Ratio</b>	<b>12.1%</b>	<b>14.1%</b>	<b>16.2%</b>	<b>11.3%</b>
Sub-Total: Benefit and Claim Administration Expense Ratios	124.8%	61.0%	104.8%	106.2%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.6%	26.5%	5.3%	4.6%
<b>Combined Ratio (Industry omits dividends)</b>	<b>129.4%</b>	<b>87.5%</b>	<b>110.1%</b>	<b>110.8%</b>
Investment Income Ratio	24.8%	18.0%	25.9%	22.9%
<b>Operating Ratio</b>	<b>104.6%</b>	<b>69.5%</b>	<b>84.2%</b>	<b>87.9%</b>

# Questions & Comments

Contact Rob Cotton,  
Chief Accounting Officer

- Phone: 360-902-5743
- Email: [cotr235@lni.wa.gov](mailto: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	(\$761,495)
Prior Year Development and Model Change (Unfavorable)	\$100,450
Self Insurance Prefunded Pension Transfers	\$9,720
Regular reserve discount reduction	\$183,405
Net Total Prior Year Benefit Liability as of December 31, 2019	<u>\$12,695,133</u>
New Current Year Benefit Liabilities	\$755,998
December 31, 2019 Benefit Liabilities Ending Balance	<u><u>\$13,451,131</u></u>
<b>Change Between Beginning and Ending Balance</b>	<b>\$288,078</b>

# Highlights of Changes in the Contingency Reserve

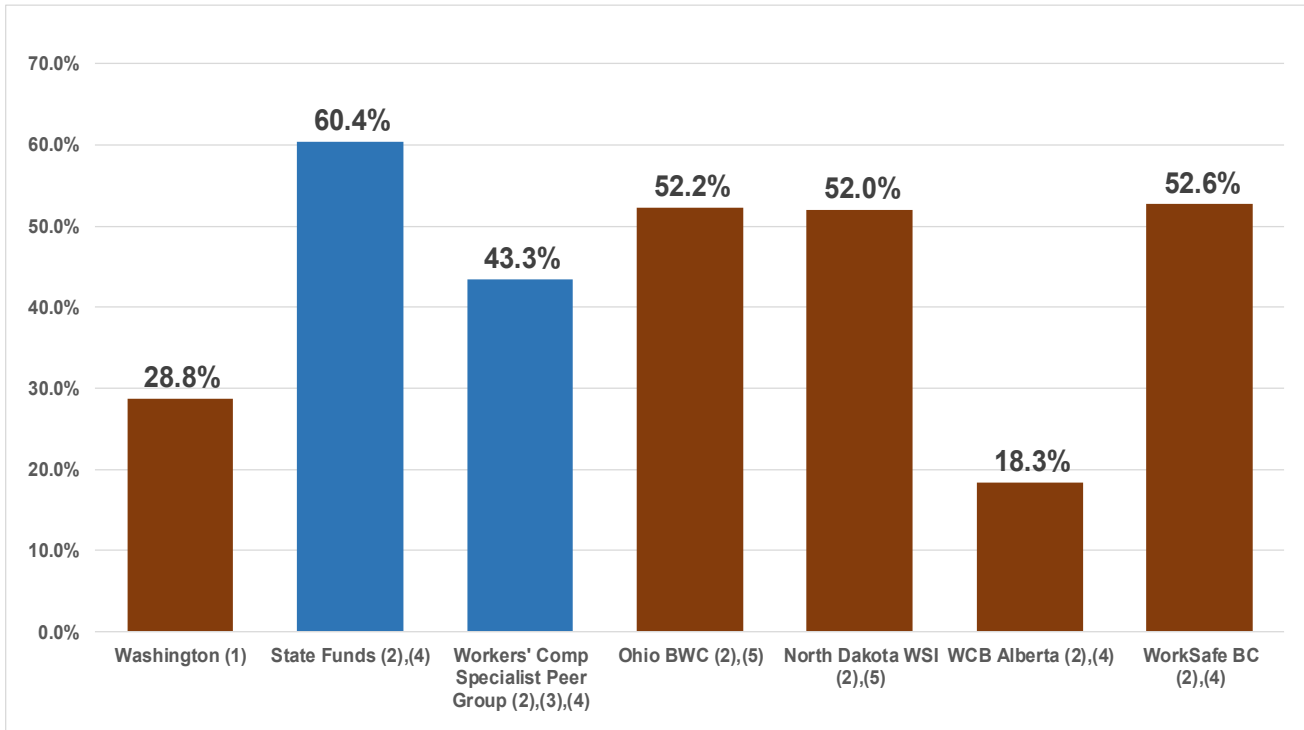
	FY14	FY15	FY16	FY17	FY18	FY19	FY20 Q2	Total	
<b>Changes that increased the contingency reserve</b>									
↑	Operational Influences and model changes	\$149 M	\$543 M	\$147 M	\$926 M	\$941 M	\$352 M	(\$101) M	\$2,957 M
	Rate Changes	\$58 M	\$59 M	\$38 M	\$27 M	N/A	N/A	N/A	\$182 M
	Greater than expected changes in the stock market	\$279 M	N/A	N/A	\$411 M	\$199 M	\$50 M	\$294 M	\$1,233 M
<b>Changes that decreased the contingency reserve</b>									
↓	Rate Changes	N/A	N/A	N/A	N/A	\$14 M	\$120 M	\$80 M	\$214 M
	Mortality table change	\$0	\$146 M	\$0	\$0	\$0	\$0	\$0	\$146 M
	Adjustments to avoid double counting 2011 reform savings	\$130 M	\$83 M	\$0	\$0	\$0	\$0	\$0	\$213 M
	Discount rate reduction	\$256*M	\$31 M	\$31 M	\$36 M	\$646 M**	\$0	\$0	\$1,000 M
	Less than expected changes in the stock market	N/A	\$29 M	\$101 M	N/A	N/A	N/A	N/A	\$130 M

**Operational Influences**  
 FY14: \$91M  
 FY15: \$515M  
 FY16: \$136M  
 FY17: \$926M  
 FY18: \$941M  
 FY19: \$327M  
 FY20: (\$106)  
**Total: \$2,830M**

\*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



## 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)
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	(69)		305		14		250
2011	(353)		274		36		(43)

# Closing Comments & Adjourn

*Joel Sacks, Agency Director*

*Vickie Kennedy, Assistant Director for  
Insurance Services*

