

Workers' Compensation Advisory Committee

December 9, 2016

Agenda

Time	Topic	Presenter(s)
9:00 am - 9:10 am	Welcome <ul style="list-style-type: none"> • Introductions • Motion to approve minutes • Safety Message 	Vickie Kennedy/ Joel Sacks
9:10 am – 9:50 am	General Updates <ul style="list-style-type: none"> • Finance Committee <ul style="list-style-type: none"> ○ Pension Discount Rate ○ Investment Strategy ○ Reinsurance • Rate Hearing Updates 	Vickie Kennedy Joel Sacks Mike Ratko
9:50 am – 10:10 am	Insurance Services Dashboard	Vickie Kennedy
10:10 am – 10:25 am	Break	
10:25 am – 11:25 am	L&I Decision Packages <ul style="list-style-type: none"> • JLARC • Business Transformation • Limited English Proficiency 	Vickie Kennedy/ Joel Sacks
11:25 am – 11:40 am	Industrial Insurance State Fund Financial Overview	Rob Cotton
11:40 am – 11:50 am	Board of Industrial Insurance (BIIA) Update	Linda Williams
11:50 am – 12:00 pm	Closing Comments & Adjourn	Vickie Kennedy/ Joel Sacks



SAFETY TIP





WELCOME & GENERAL UPDATES

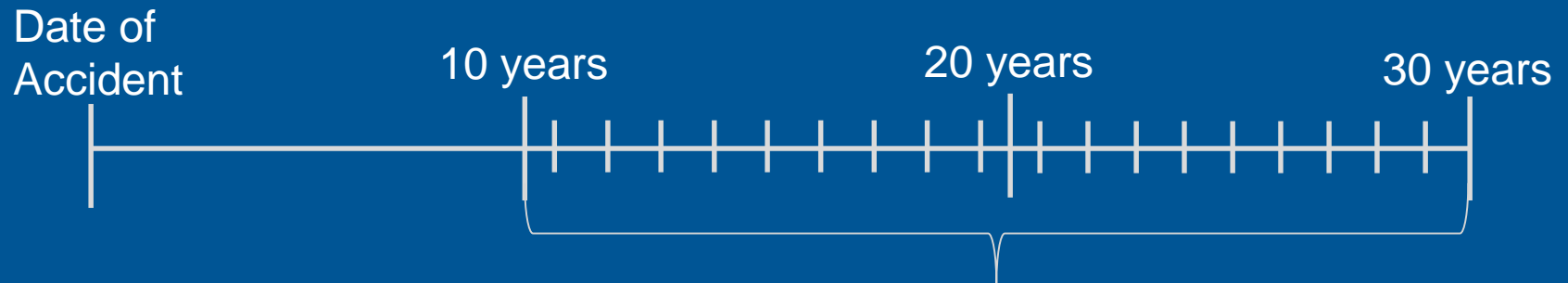
Vickie Kennedy, Assistant Director for Insurance Services
Joel Sacks, Agency Director

WCAC FINANCE COMMITTEE

Goals of Committee

- Pension Discount Rate Advice
- Investment Strategy Advice
- Explore Reinsurance

What is the Pension Discount Rate?



1) Project Benefit Payments

2) Discount Future Payments

How much money we need to collect.

Investments

Continuing Plan to Reduce the Pension Discount Rate

- In September 2012, WCAC developed a 10-year plan to increase the contingency reserve to 14% of liabilities and reduce the pension discount rate from 6.5% to 4.5%

Year	Pension Discount Rate
2014	6.5%
2015	6.4%
2016	6.3%

Proposed Pension Discount Rate Reduction

- Decrease the discount rate from 6.3% to 6.2%
- Effective April 1, 2017
- Estimated impact:

State Fund Contingency Reserve	Self-Insured 2 nd Injury Fund	Self-Insured Cash Funded Pensions
\$29 M	\$5 M	\$1 M

Next Steps on Pension Discount Rate

- Finance Committee will continue to discuss the long-term target

Investment Strategy Advice

- Current portfolio is about 87% fixed income and 13% public equities
- Investment income from bonds is declining
- We explored other asset classes and different mixes of assets
 - Considered other asset classes that SIB invests in
 - Learned from best practices from other workers' comp funds

How did we get here?

- Educational sessions:
 - Where and how SIB invests state pension funds
 - How other workers' compensation funds invest
 - Types of investment asset classes
- Strategic Asset Allocation Study performed by workers' compensation investment consultant, Conning with help from SIB

Recommendations for L&I's Investment Strategy

1. Invest in real estate and shift portion of the Accident & Medical Aid Fund's investments from bonds to stocks
2. Increase the target ranges for each asset class
3. Change the duration targets on fixed income

1. Invest in real estate and shift portion of the Accident & Medical Aid Fund's investments from bonds to stocks

	Fixed Income (Bonds) Allocation		Public Equities (Stock) Allocation		Real Estate Allocation	
Account	Current	Recommended	Current	Recommended	Current	Recommended
Accident	90%	80%	10%	15%	0%	5%
Medical Aid	85%	75%	15%	20%	0%	5%
Pension	90%	85%	10%	10%	0%	5%



2. Increase the ranges for each asset class

- Provides SIB additional investing flexibility
- Will develop ranges based on input from Conning and SIB

3. Change the duration targets on fixed income

Account	Change in Duration	Reasoning
Accident	Decrease	Reduce interest rate risk
Medical Aid	Decrease	Reduce interest and inflation risks
Pension Reserve	Increase	Match the long-term payout of the liabilities

WCAC Motion to Implement Recommendations

- WCAC moves to approve the recommendation from the WCAC Finance Committee to implement changes to L&I's investment strategy

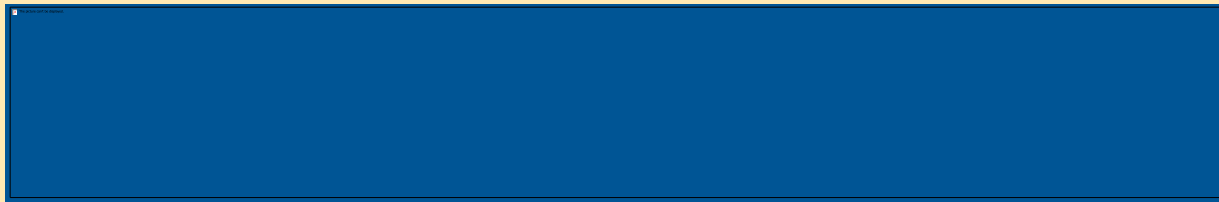
Considering Reinsurance

- Taking steps to explore the purchase of catastrophic reinsurance for perils such as earthquake and terrorism
- Drafting a Request for Qualifications and Quotations (RFQQ) to bring a broker on board

Note: no cost if we ultimately decide to not purchase

Reinsurance Next Steps

- Finalize and post the RFQQ and convene an evaluation team to review bids
- Broker will bring us options, which we will bring to the Finance Committee
- Update WCAC as we proceed



INSURANCE SERVICES DASHBOARD

HELP INJURED WORKERS HEAL AND RETURN TO WORK

Vickie Kennedy, Assistant Director for Insurance Services



Our ultimate goal is to reduce the number of injured workers who experience long-term disability.

Long-term disability is the share of ultimate claims that receive a time-loss payment 12 months from Injury

The goal is to
decrease
this number





The decline in long-term disability beginning in 2011 is the largest and longest decline in almost 20 years



Initiatives such as early AWA, COHEs and the RTW score are improving RTW outcomes

The goal is to
increase
this number




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

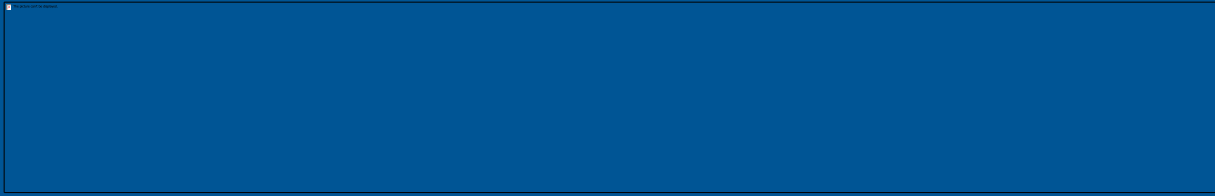
The goal is to
decrease
this number



The share of time-loss claims resolved six months after claim receipt is increasing – current level is the highest in 10 years

The goal is to increase this number





Ability to Work Assessment referrals are now targeted to address the onset of long-term disability.

The goal is to decrease this number



Previous low Nov 2006 at 115 days.

New low 79 days - October 2016!



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

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

New focus on return to work in AWA process has also increased positive employable outcomes for later AWAs – but the impact is less pronounced

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.

The goal is to
increase
this number



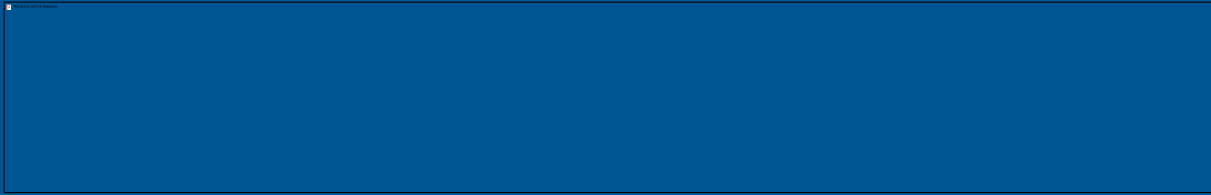
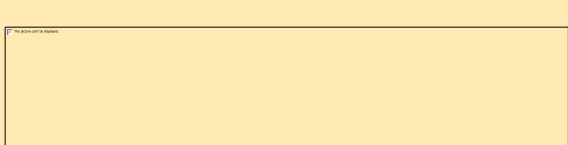


Injured workers whose claims are initiated with a COHE provider, on average, have better outcomes and lower claim costs.



The goal is to
increase
this number

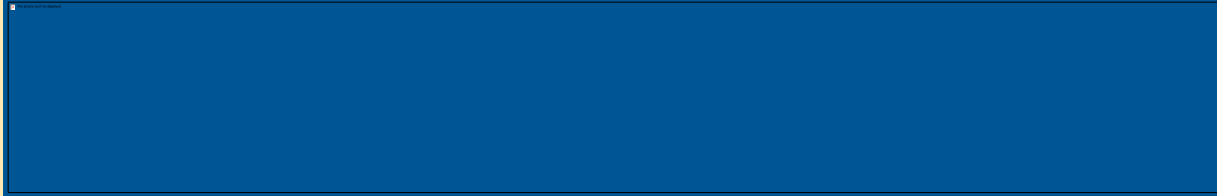




A new auto-adjudication process was implemented in early 2015 and is showing results



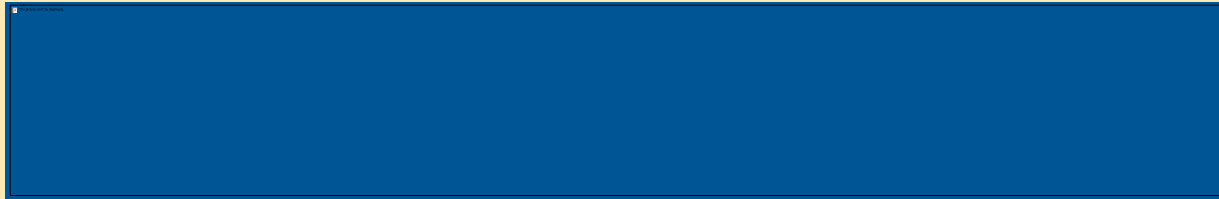
The goal is to increase this number 



BREAK

JLARC DECISION PACKAGE

Vickie Kennedy, Assistant Director



JLARC Decision Package

Goal	Details
Modernize training and coaching	Curriculum development and change management consulting services <ul style="list-style-type: none">• Develop strategic training approach• Emphasize analytical and soft skills• Research how other jurisdictions train claim staff
Technology that supports new processes	<ul style="list-style-type: none">• First call software• Work checking technology
Lower caseloads to industry average	<ul style="list-style-type: none">• Hiring additional claim staff• Phased in approach



Modernize Training and Coaching

- Teach claims management strategies to effectively resolve claims
 - Reduce teaching the process – currently driven by technology limitations
 - Significant relationship to Business Transformation
 - Focus on disability prevention; customer-centric management
 - Early identification of worker and employer needs; proactive resource engagement; relentless focus on improved worker health and RTW



Technology That Supports New Processes

- “First Call” software
 - Track and report on first calls to workers and employers
 - JLARC recommends significant improvement in contacting both parties early in claims
- “Work-Check” software
 - Workflow system to verify accuracy and timeliness of apprentice work
 - Apprentices must achieve 80% accuracy on certain actions to achieve journey status

Lower Caseloads to Industry Average

- Average caseload per JLARC consultant report: 141 - L&I caseloads average about 250
- Budget request phased approach
 - Equivalent of one claims unit per year beginning in FY2019
 - Allows for implementation of strategic training changes first
 - Continued evaluation of caseload numbers
 - Impact of current initiatives on caseloads: RTW means greater likelihood of successful claim resolution
 - State's economy and more work hours may increase new claims

BUSINESS TRANSFORMATION

Joel Sacks, Director

Where are we going

To achieve our aspirations we must do two things extraordinarily well...

- We must prevent those things that threaten the lives and livelihoods of the people who live and work in Washington from ever happening, and...
- We must assure remediation and recovery when they do – striving to make individuals, workplaces, and communities whole again.

How will we get there?

Step 1

- Enterprise Vision / Set the Stage

Step 2

- Foundational activities & Integration

Step 3

- Process Improvements

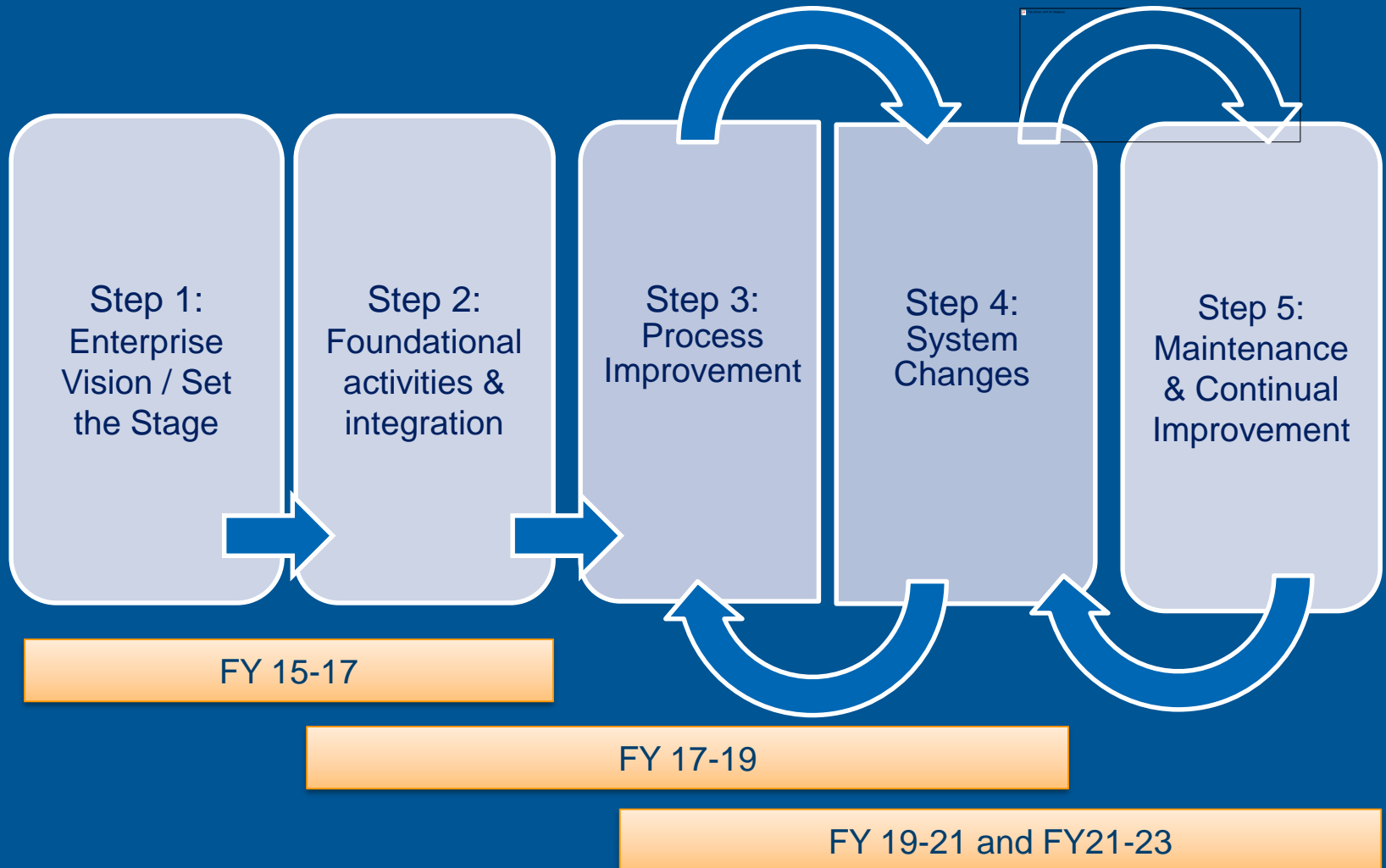
Step 4

- System Changes

Step 5

- Maintenance & Continual Improvements

Transformation Timeline



Business Transformation Decision Package

Plan for the replacement of the Workers' Compensation claims management, employer policy and related systems: Analyze existing systems' abilities, gaps and unique features; if and how to leverage COTS system/s.

- *Goal: Take the next steps toward creating a modern, integrated technology infrastructure to flexibly support the needs of L&I and its customers far into the future*



Business Transformation Decision Package

Replace provider credentialing system: Replace current provider-credentialing system, which is being phased out by its vendor.

- *Goal:* Provide timely, accurate processing of payments to authorized medical providers.



Business Transformation Decision Package

Redesign L&I's website: Rebuild the site to make it easier for customers to find and understand the information they need – on any device.

- *Goal: Rebuild website to make it easier to do business with L&I.*

Business Transformation Decision Package

IT assessment: Identify gaps in L&I's technology; create strategy for future technology; examine capability to adopt IT best practices for procurement.

- *Goal: Reduce time and cost for continual improvement and address modern computing capabilities.*



Business Transformation Decision Package

Information/data strategy: Develop strategy to guide L&I's long-term data design and management decisions.

- *Goal: Consolidate multiple databases; improve alignment of similar data throughout L&I.*



Business Transformation Decision Package

Business Transformation Office: Core team to provide project management, systems integration, business architecture, change management, tracking/reporting and risk-management/QA.

- *Goal: Provide leadership and support to ensure L&I's Business Transformation is successful.*

LIMITED ENGLISH PROFICIENCY

Joel Sacks, Director



Current Efforts

- Language access
- Improving the claims process
- Civil-rights complaint process
- Healthcare providers
- Education & outreach



What we're requesting

- Translation & interpreter services
 - Improve customer-facing communication for LEP customers
- Claims management
 - Dedicated bilingual staff to assist LEP injured workers
- Worker navigators
 - Bilingual staff dedicated to help LEP customers connect to needed L&I programs
 - Contract with patient navigators

What we're requesting

- Civil-rights
 - Dedicated staff to provide information and outreach on language-access rights & investigate complaints
 - Internal staff training on civil rights & cultural competency
- Medical providers
 - Dedicated staff to assist providers provide culturally and linguistically appropriate services
- Research with University of Washington

INDUSTRIAL INSURANCE (STATE) FUND

FINANCIAL OVERVIEW

STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2017 THROUGH FIRST QUARTER
JULY 2016 – SEPTEMBER 2016

Rob Cotton

Workers' Compensation Accounting Manager

WCAC Meeting

Significant Financial Highlights

July 2016 through September 2016

The contingency reserve increased \$93 million, from \$1,493 million on July 1, 2016 to \$1,586 million on September 30, 2016.



- Premiums and investment income are adequate to pay for expected costs
- Gains on investments



- Increase in prior years' Medical Aid Account benefit liabilities

Change in contingency reserve by quarter for the last fiscal year.

- July 1st to September 30, 2015 – a decrease of \$269 million.
- October 1st to December 31, 2015 – an increase of \$120 million.
- January 1st to March 31, 2016 – an increase of \$193 million.
- April 1st to June 30, 2016 – an increase of \$186 million.

State Fund Results

“Net Income”

July 2016 through September 2016

Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

=

Net Loss
(\$22 M)

Insurance Operations

July through September
(in millions)

		Three Months Ended	
		September 30, 2016	September 30, 2015
We took in (Premiums Earned)	+	\$ 562	\$ 518
We spent (Expenses Incurred)			
Benefits Incurred		646	615
Claim Administrative Expenses		63	75
Other Insurance Expenses		21	21
Total Expenses Incurred	-	730	711
Net Loss from Insurance Operations	=	\$ (168)	\$ (193)

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

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
----------------------	---	-------------------	---	-----------------------------	---	------------

Premiums Earned

July through September
(in millions)

Three Months Ended

	September 30, 2016	September 30, 2015	Difference
Standard Premiums Collected	\$ 549	\$519	
Less Retrospective Rating Adjustments	(9)	(7)	
Net Premiums Collected	540	512	
Changes in future Premium Amounts To Be Collected	37	40	
Changes in future Retrospective Rating Adjustment Refunds	(15)	(34)	
Net Premiums Earned	\$ 562	\$ 518	\$ 44

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
-------------------------	---	----------------------	---	--------------------------------------	---	---------------



Benefits Incurred

July through September
(in millions)

Three Months Ended

	September 30, 2016	September 30, 2015	Difference
Benefits Paid	\$ 411	\$ 394	\$ 17
Total Change in Benefit Liabilities	234	221	13
Benefits Incurred	\$ 645	\$ 615	\$ 30

Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

=

Net Income

Investment Income

July through September
(in millions)

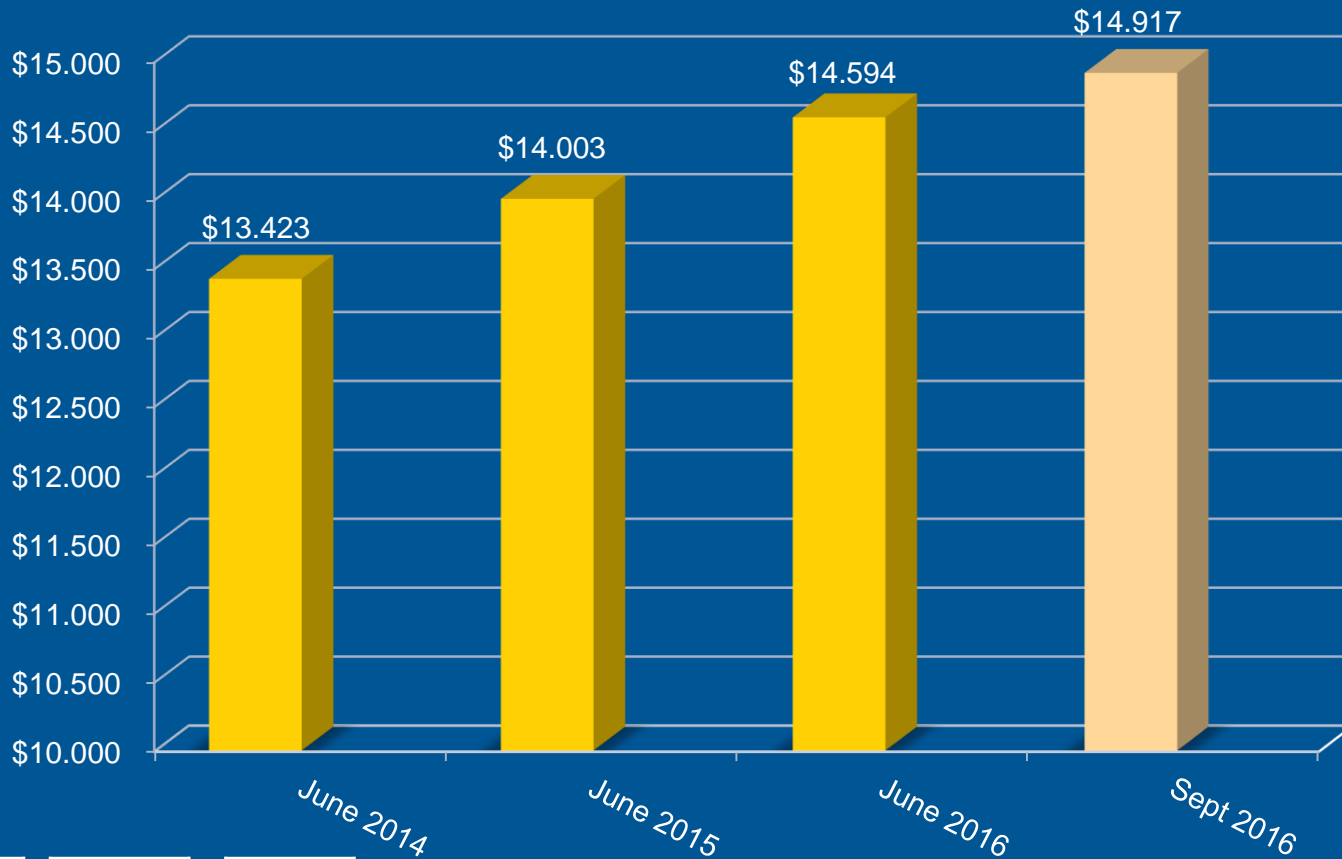
		Three Months Ended	
		September 30, 2016	September 30, 2015
Investment Income Earned from Dividends and Interest	+	\$ 120	\$ 124
Realized Gains from Fixed Income Investments Sold	+	8	4
Realized Gains from Stocks (Equity Investments) Sold	+	0	56 *
Total Investment Income	=	\$ 128	\$ 184

*Rebalanced the investment portfolio.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
-------------------------	---	----------------------	---	--------------------------------------	---	------------

Total Investments

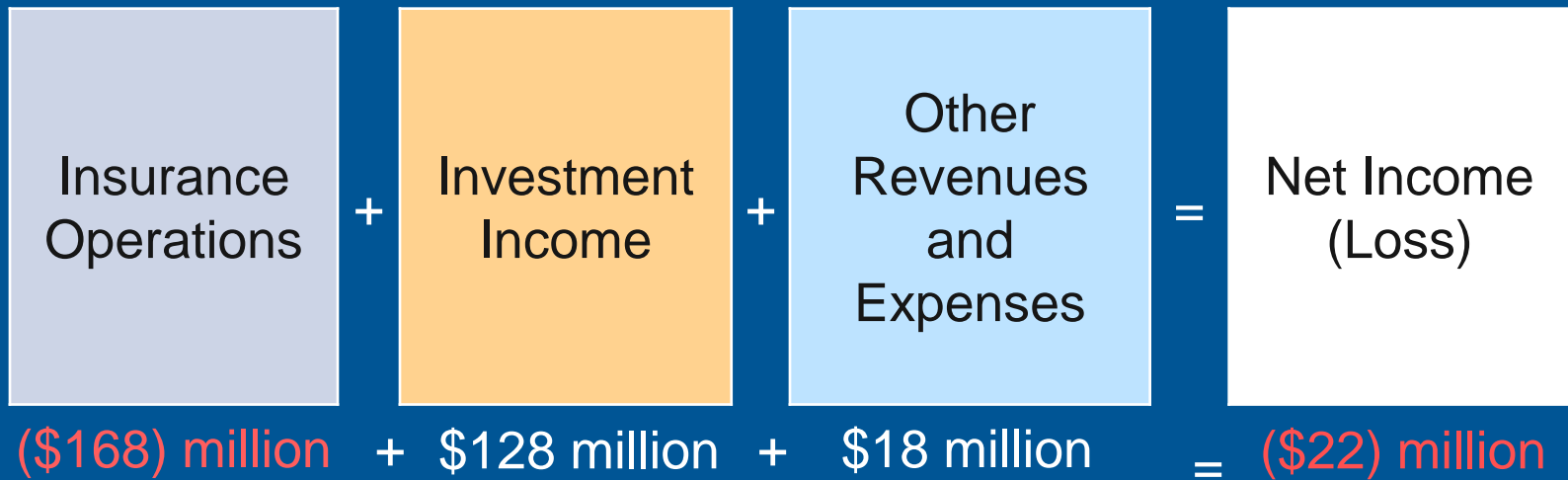
(rounded to billions)



Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
----------------------	---	-------------------	---	-----------------------------	---	------------

Results of Operations

July 2016 through September 2016



How Did Contingency Reserve Perform?

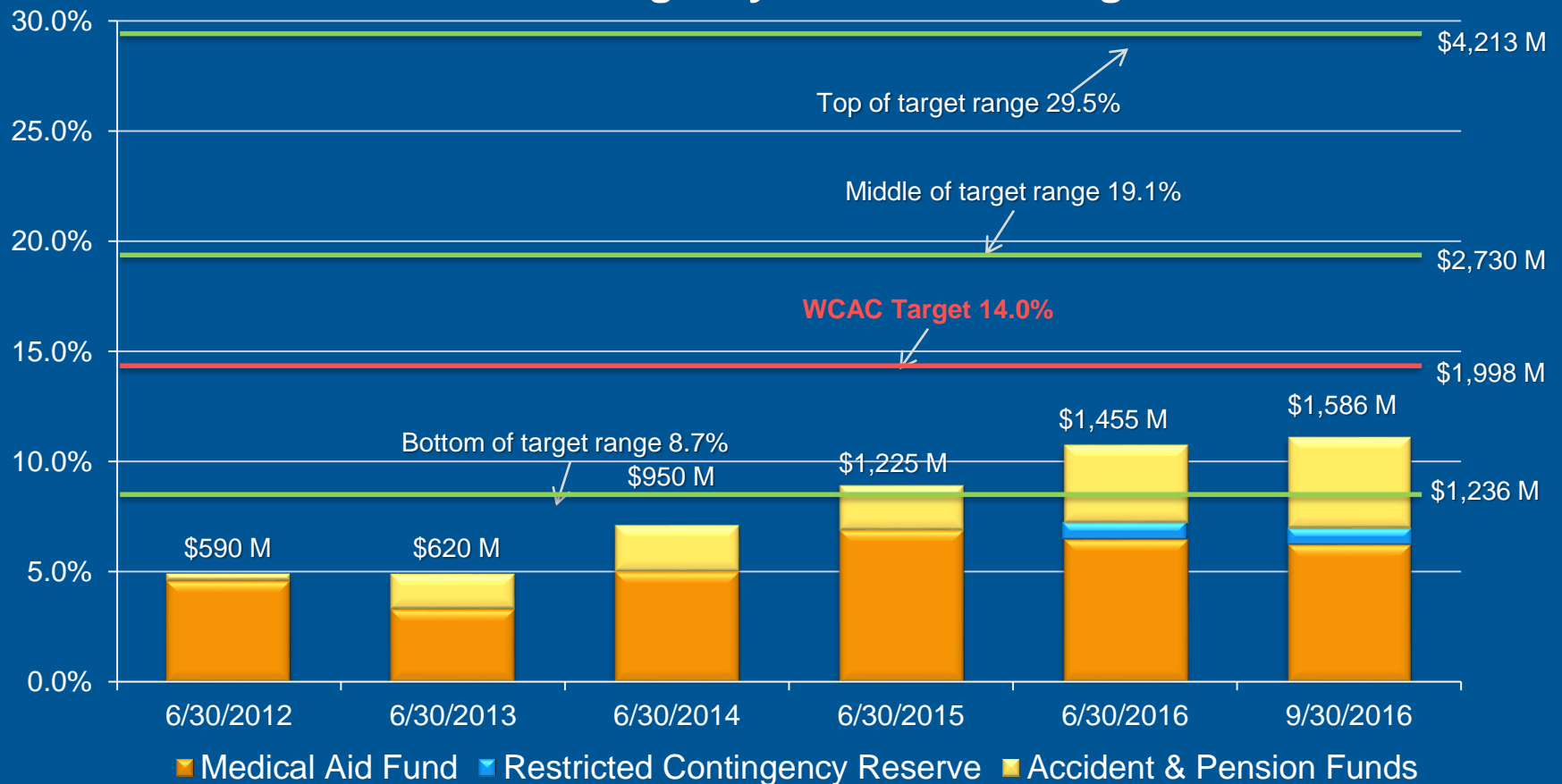
July 2016 through September 2016

Change \$93 million

Beginning Contingency Reserve as of June 30, 2016	+	Net Income (Loss)	+	Unrealized Capital Gain/(Loss)	+	Non-Admitted Assets	=	New Contingency Reserve as of September 30, 2016
\$1,493 million	+	(\$22) million	+	\$118 million	+	(\$3) million	=	\$1,586 million

Contingency Reserve is 11.1% of Liabilities

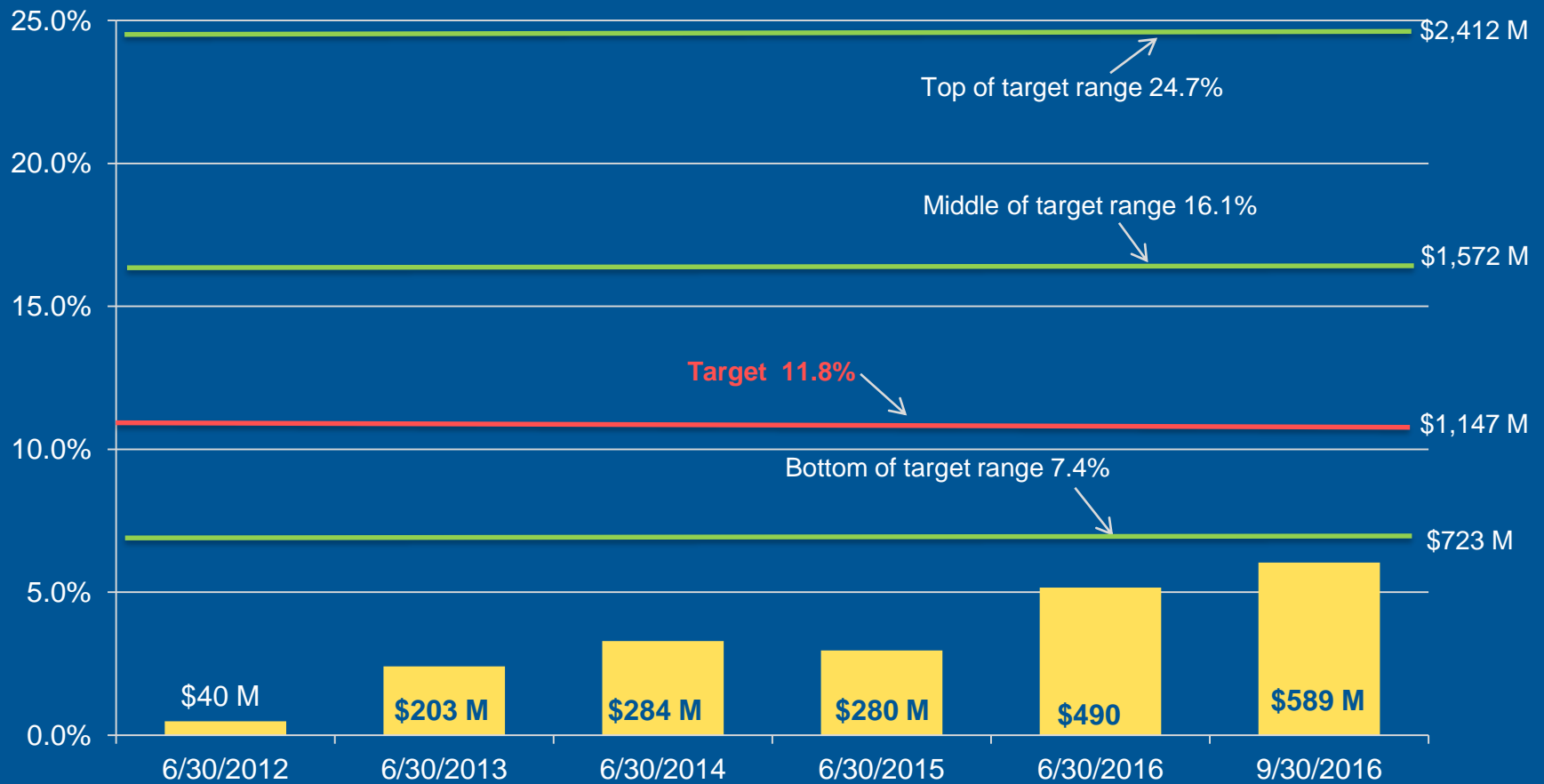
Combined Contingency Reserve vs. Targets



Restricted is based on final June 30, 2016 financial information

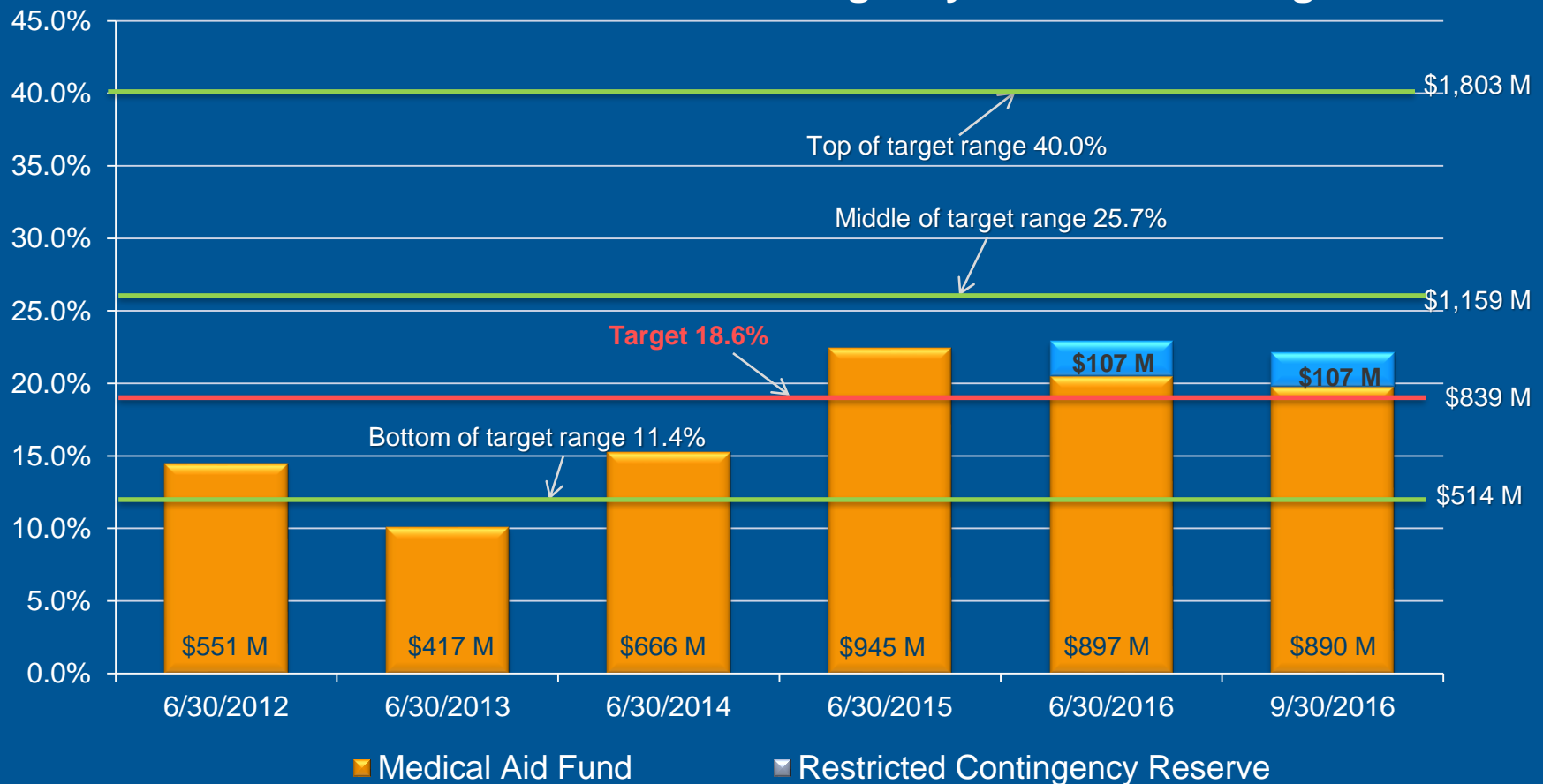
Accident & Pension Contingency Reserve is 6.0% of Liabilities

Accident & Pension Contingency Reserve vs. Targets



Medical Aid Contingency Reserve is 22.1% of Liabilities

Medical Aid & Restricted Contingency Reserve vs. Targets



Restricted is based on final June 30, 2016 financial information

Key Financial Ratios as a percentage of premium earned

Ratios	Quarter Ended September 30, 2016		Quarter Ended September 30, 2015	Fiscal Year Ended
	State Fund	Industry Forecast		June 30, 2016
Current Year Benefit (Loss Ratio)	81.1%		87.6%	83.1%
Prior Year Benefit (Loss Ratio)	33.7%		31.3%	14.0%
Total Benefit (Loss Ratio)	114.8%	56.4%	118.9%	97.1%
Claim Administration Expense (CAE) Ratio	11.2%	13.0%	14.5%	10.8%
Sub-Total: Benefit and Claim Administration Expense Ratios	126.0%	69.4%	133.4%	107.9%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	3.8%	23.7%	4.1%	4.5%
Combined Ratio	129.8%	93.1%	137.5%	112.4%
Investment Income Ratio	21.3%	17.1%	24.0%	25.4%
Operating Ratio	108.5%	76.0%	113.5%	87.0%

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

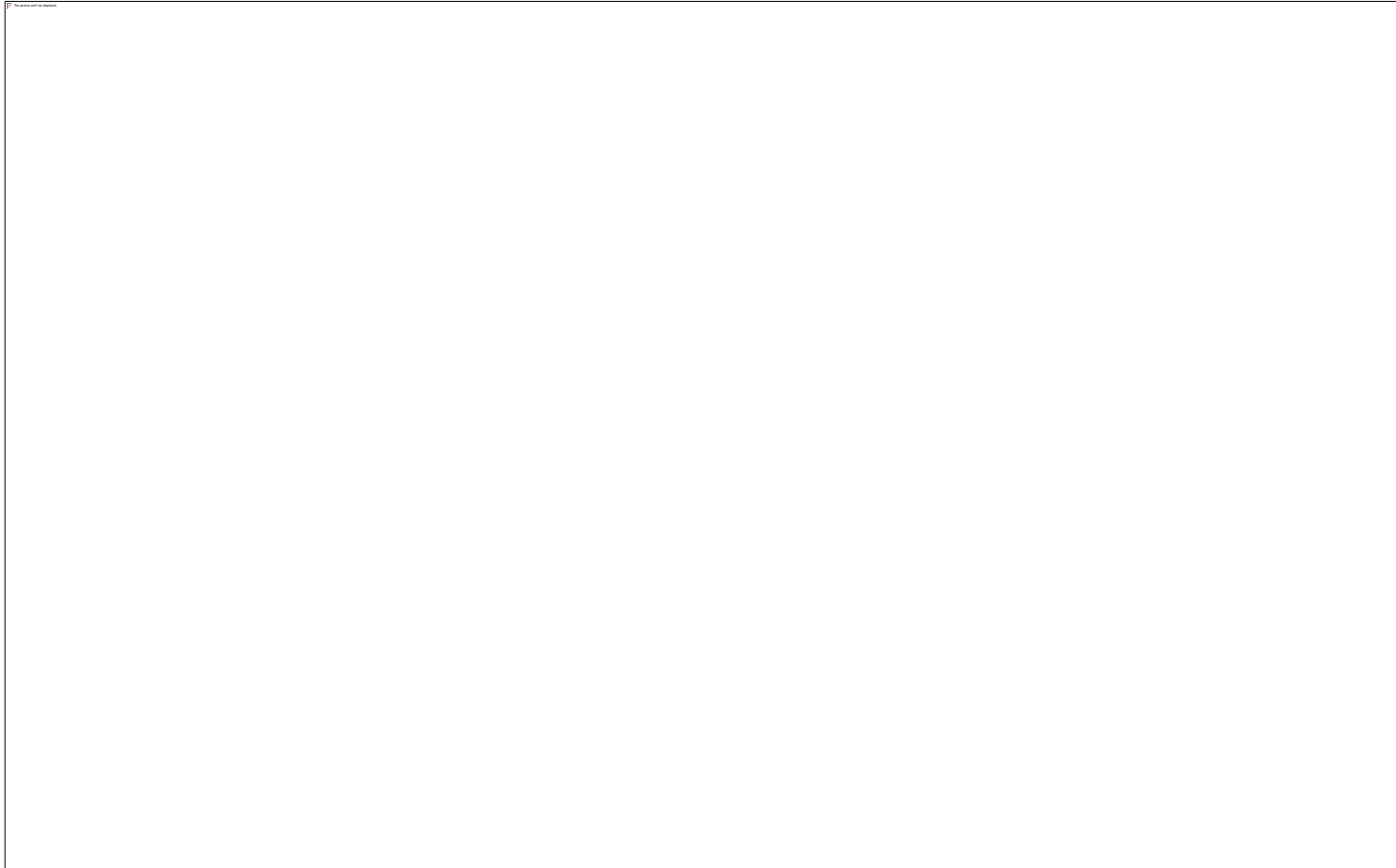
Questions & Comments

Contact Rob Cotton,
Workers' Compensation Accounting Manager
Phone: 360-902-6263
Email: cotr235@lni.wa.gov.

Thank You!

Historic Results of Operations

July through September (in millions)



Historical Investment Performance

	Three Months Ended		Fiscal Year Ended			
	September 30, 2016	September 30, 2015	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Investment Income	119,851,000	124,508,000	498,499,000	493,408,000	479,774,000	465,868,000
Realized Gain (Loss)	7,834,000	59,504,000	137,988,000	58,660,000	303,184,000	87,405,000
Unrealized Gain (Loss)	118,585,000	(275,793,000)	(181,830,000)	23,691,000	200,333,000	266,041,000
Total Invested Assets	14,916,651,000	13,981,950,000	14,593,530,000	14,003,302,000	13,422,957,000	12,550,887,000

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.”

7-Year Reserve Benchmarks

9-30-16 update: \$1,586 million contingency reserve or just above 11.1% of total liabilities.

7-Year Interim Targets

Year	Contingency Reserve Target (range)	Pension Discount Rate (PDR) Target (range)	Contingency Reserve (CR) Yearly Goal (displays steady growth) <small>dollars in millions</small>
<i>Fiscal Year Ended June 2016</i>	10.8%	6.3%	\$1,493
<i>2014 Target</i>	5-7%	6.5 - 6.3%	\$652 to \$902
<i>2015 Target</i>	6-8%	6.3 – 6.2%	\$797 to \$1,032
<i>2016 Target</i>	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

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

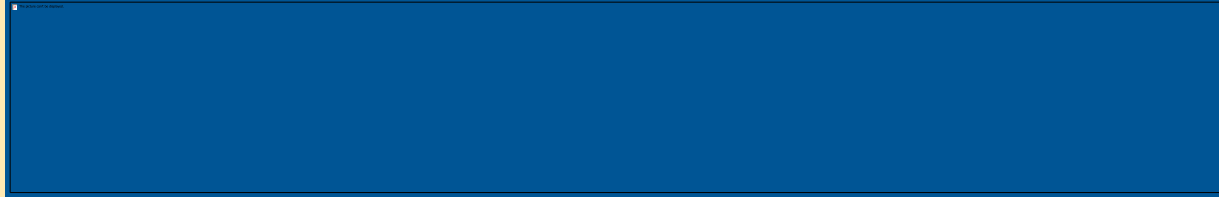
Total Appeals Filed and Granted

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



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