

Washington State Workers' Compensation Reserving

CLRS Philadelphia
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Overview


- Washington State Fund size and recent insurance activity
- Unique reserving features
- Medical losses
- Indemnity losses
- Reserve analysis process
- Appendix – links, rating, claim type structure



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Washington State Workers' Compensation insurance Fiscal year 2016

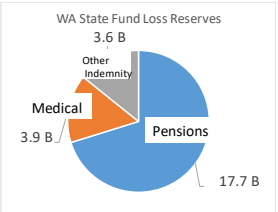
- ❑ \$2.4 Billion of state fund premiums earned (as the exclusive carrier)
 - 177,000 employers and 2.8M workers covered by state fund
 - 25% of workforce covered by 350 Self-Insured employers
- ❑ 300+ risk classification – 900+ risk subclasses
- ❑ All employers with past experience are experience rated
- ❑ \$156 M of net retrospective rating refunds earned
- ❑ Administered by Washington State Department of Labor and Industries
- ❑ Not regulated by NAIC or Office of the Insurance Commissioner
- ❑ State fund pays no federal or state income taxes



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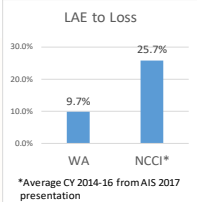
Washington State Workers' Compensation insurance Fiscal accident year 2016

- ❑ 93,000 ultimately accepted claims
 - 24,000 lost-time claims
 - 1,200 PTD pension claims
- ❑ \$25.2 Billion - total discounted loss reserves
 - \$17.7 Billion in pension reserves
\$1.2 B for self-insured pensions
 - \$ 3.6 Billion in other indemnity reserves
 - \$ 3.9 Billion in medical loss reserves
- ❑ Liability discount rates:
 - non-pension and COLA 1.5%
 - pensions 6.3%
- ❑ Low LAE to Losses incurred ratios:
 - 9.7% over the last 6 years



WA State Fund Loss Reserves


Category	Amount
Pensions	17.7 B
Medical	3.9 B
Other Indemnity	3.6 B



LAE to Loss

Entity	LAE to Loss Ratio
WA	9.7%
NCCI*	25.7%

*Average CY 2014-16 from AIS 2017 presentation



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Unique Reserving features:

Reserving done by benefit type:

- Medical
 - Vocational rehabilitation providers
 - Hearing loss
 - Other Health care
- Indemnity (non-COLA)
 - Temporary Total Disability
 - Permanent Partial Disability
 - Permanent Total Disability
 - Survivor benefits of fatalities
 - Voluntary Structured Settlements (non-pension)
 - Misc. Indemnity
- COLA (TTD and pensions)

Note: COLA is not prefunded (reserve = \$12 Billion)



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Unique Reserving features:

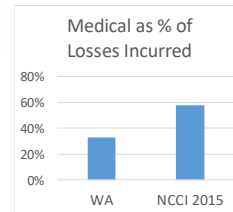
- Case reserving from 9 months to 7 years of claim age only –
 - For rating purposes only
 - Reserved by case reserve specialists
- Washington state Pension tables
 - Workers – mortality based on WA. state workers comp experience
 - Dependents – mortality based on general population experience
- Premiums are not collected in advance (no UEPR)
- Reserve for retrospective rating net refunds
- Actuaries estimate the overall premiums receivable



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Washington State Fund Claims Medical

- Medical losses - one third of total losses incurred
- Medical cost containment –
 - Fee schedule
 - Treatment guidelines
 - Drug formularies
 - Provider network
 - including preferred network
 - External medical advisory committee (IIMAC)
- Drugs - small % of total medical costs
- Mid 2013 opioid guidelines changed-
 - Significantly reducing severity of opioid usage
 - Helped cause drugs to go from 5% of total medical to 3%
- Claims filed to the Department by claimant's health care provider



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Washington State Fund Claims Indemnity

- Low fatality rate
 - 2.1% of non-COLA incurred indemnity benefits
- Average compensable claim frequency (with 3 day waiting period)
- TTD - 20,200 claims with TTD benefits
 - Long TTD average duration: 295 days in 2016
 - 45% of non-COLA incurred indemnity benefits
 - TTD ends when worker is medically fixed and able to obtain gainful employment
- High PTD claim frequency – 1,200 claims -- 5% of compensable claims
 - Median time to PTD pension allowance – 7 years
 - 36% of non-COLA incurred indemnity benefits
- Compensation rate - based on wages, marital status, number of dependents and monthly health care premiums provided by employer at the time of injury



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Washington State Fund Claims Indemnity

- PPD awards – 8,800 claims
 - 14% of non-COLA incurred indemnity benefits
 - Award based solely on worker's physical condition
- Stay at work program-- 4,300 claims
 - Reimburse employers 50% of wages up to 66 days when workers with disability brought back to work and engaging in productive work
- Kept on salary claims – 3,750 claims
 - Injured workers not eligible for TTD when employer pays worker their full salary
- Vocational rehabilitation retraining – 1,500 claims
 - Option 1) 900 claims- 2 years of vocational training w/TTD, or
 - Option 2) 600 claims- claim closed with an award of 9 months of TTD and potential future vocational training and job placement counseling
- Structured settlements (not PTDs) – 80 claims
 - Only settles the indemnity portion



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Washington State Fund Reserve Analysis

- Performed by actuarial services staff quarterly
 - No case reserves used (except for pension annuities)
- Reviewed by executive staff
- Discounted reserves on financial statements
- Reviewed annually by actuarial consultants to State Auditor
- COLA losses are not included in statutory financial statements



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Questions and Discussion



Appendix - Interesting links:

2016 WA. State Fund Statutory financial information

<http://www.lni.wa.gov/ClaimsIns/Files/StateFundFinancial/2016SapRpt.pdf>

Ten year WA. State Fund financial history

<http://www.lni.wa.gov/ClaimsIns/Files/StateFundFinancial/2016TenYearSummaryFinInfo.pdf>

WA. 2013 opioid guidelines:

<http://lni.wa.gov/ClaimsIns/Files/OMD/MedTreat/FINALOpioidGuideline010713.pdf>

Industrial Insurance Medical Advisory Committee (IIMAC):

<http://www.lni.wa.gov/ClaimsIns/Providers/ProjResearchComm/PAC/default.asp>

History of WA. State Fund average premium rates

<http://www.lni.wa.gov/ClaimsIns/Insurance/RatesRisk/Check/RatesHistory/default.asp>

2015 Joint Legislative Audit and Review Committee report:

<http://leg.wa.gov/jlarc/reports/2015/WorkersCompPhase2/p/default.htm>

2016 Oregon rate ranking study

<http://www.oregon.gov/DCBS/reports/Documents/general/prem-rpt/16-2083.pdf>

WA. Retrospective Rating

<http://www.lni.wa.gov/ClaimsIns/Insurance/Reduce/Qualify/About/>

Safety and health research at Labor and Industries

<http://www.lni.wa.gov/Safety/Research/?F=M>

2008 Upjohn pension study

http://research.upjohn.org/cgi/viewcontent.cgi?article=1028&context=up_technicalreports



Appendix: Washington State Rating Features

- ❑ Experience and retrospective rating plan model based on WA. experience
 - Group Retrospective rating as well as individual firm retrospective rating
 - Claim free discount a part of the experience rating plan (for small employers)
 - All employers with any past experience are experience rated
- ❑ Premium rates for (TTD and PTD) COLAs are the same for all risk classes and for self-insureds and not experience rated; is a pay-as-you-go program
- ❑ 25% of premiums collected from workers through payroll deductions
- ❑ Class plan unique to WA. state
- ❑ Exposure base – hours worked (option: 480 per quarter per full time worker)
- ❑ Quarterly reporting and payment of premiums for all employers
- ❑ No premium size discount nor scheduled rating
- ❑ For rating, claim type medical & indemnity discounted LDFs based on future transition between claim types



Appendix:

Discounted Incurred Loss by Claim Type by Benefit Type													
Accident Year ending 6/30/2016 claims at 2017 Benefit Levels													
as of 9/30/2016													
Claim Benefit Type:													
Claim TYPE:	Count	Fatal Pension	PTD Pension	PPD Award	TTD	Misc. Indemnity	Health Care	Voc Counseling	Med Hearing Loss	SAW	COLA	TOTAL	% of Total
Fatalities	71	\$ 19.4 M		\$ 0.002 M	\$ 0.5 M	\$ 0.4 M	\$ 3.3 M				\$ 11.9 M	\$ 35.5 M	1.8%
PTD Pension	1,257		\$ 340.2 M	\$ 8.8 M	\$ 260.6 M	\$ 0.4 M	\$ 272.2 M	\$ 162 M		\$ 1.6 M	\$ 207.7 M	\$ 1,107.6 M	57.0%
PPD > 12 mos TTD (no Hear. Loss)	1,771			\$ 40.1 M	\$ 74.7 M	\$ 25.5 M	\$ 116.0 M	\$ 22.7 M		\$ 2.2 M	\$ 28.8 M	\$ 309.8 M	15.9%
TTD > 12 months (no PPD)	507				\$ 13.5 M	\$ 1.7 M	\$ 18.2 M	\$ 3.3 M		\$ 0.6 M	\$ 5.2 M	\$ 42.6 M	2.2%
subtotal Long-term disability	3,607	\$ 19.4 M	\$ 340.2 M	\$ 49.0 M	\$ 349.3 M	\$ 27.9 M	\$ 409.6 M	\$ 42.2 M	\$ 0.0 M	\$ 4.4 M	\$ 253.5 M	\$ 1,495.5 M	76.9%
	3.87%												
Hearing Loss PPD	497			\$ 6.3 M			\$ 0.5 M		\$ 15.3 M			\$ 22.0 M	1.1%
PPD < 12 months TTD	6,527			\$ 78.2 M	\$ 45.7 M	\$ 6.3 M	\$ 73.1 M	\$ 1.8 M		\$ 0.7 M		\$ 205.9 M	10.6%
KOS+TTD < 12 months (no PPD)	13,887				\$ 36.2 M	\$ 0.6 M	\$ 68.8 M	\$ 2.2 M		\$ 1.5 M		\$ 109.3 M	5.6%
sub-total R 12 months TTD	20,911	\$ 0.0 M	\$ 0.0 M	\$ 84.5 M	\$ 81.9 M	\$ 6.8 M	\$ 142.4 M	\$ 4.1 M	\$ 15.3 M	\$ 2.2 M	\$ 0.0 M	\$ 337.2 M	17.4%
subtotal Compensable	24,518	\$ 19.4 M	\$ 340.2 M	\$ 133.5 M	\$ 431.2 M	\$ 34.7 M	\$ 552.1 M	\$ 46.2 M	\$ 15.3 M	\$ 6.6 M	\$ 253.5 M	\$ 1,832.7 M	94.3%
non-compensable MHL	357						\$ 0.5 M		\$ 6.9 M			\$ 7.3 M	0.4%
Med only exMHL	68,426						\$ 97.0 M	\$ 2.1 M		\$ 4.4 M		\$ 103.6 M	5.3%
Grand Total Cost	93,300	\$ 19.4 M	\$ 340.2 M	\$ 133.5 M	\$ 431.2 M	\$ 69.4 M	\$ 649.5 M	\$ 48.4 M	\$ 22.2 M	\$ 11.0 M	\$ 253.5 M	\$ 1,943.7 M	100%

