

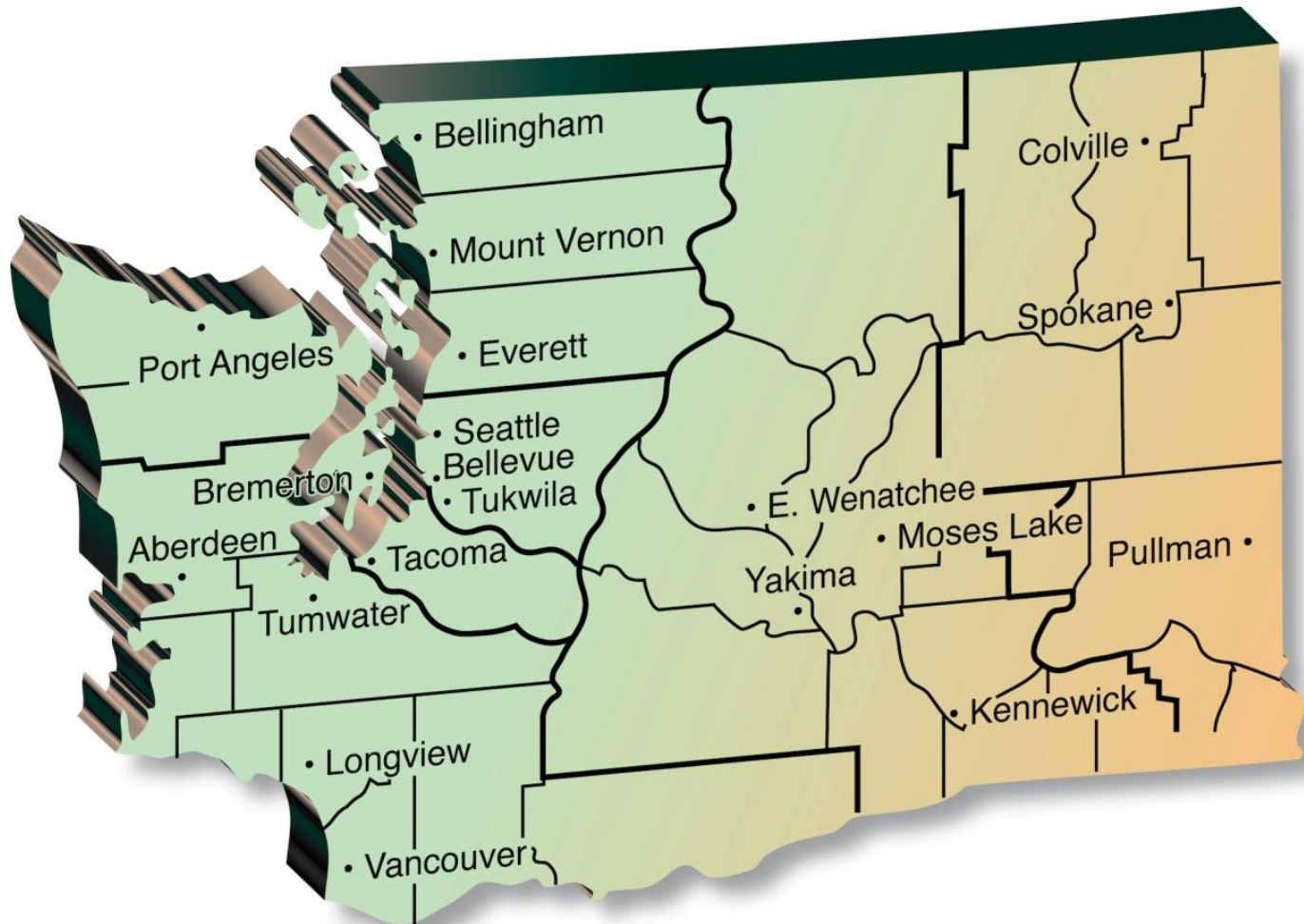
# The benefits of a workers' compensation insurance fund administered by a state agency

*Spring CAS meeting  
May 2013*



# Department of Labor and Industries

- Administers the Washington State Fund
- 20 service locations statewide:



# Department of Labor & Industries

- 2,750 employees
- 20 regional offices
- **Additional services for:**
  - Crime Victim Compensation Program
  - Register apprentices & construction contractors
  - Certify plumbers
- **Work with other state agencies**
  - State investment Board
  - Office of the Attorney General
  - University of Washington
  - Health Care Authority
  - Dept. of Health

# Department of Labor & Industries

- 2,750 employees
- 20 regional offices
- **Department regulatory activity:**
  - Self-insured employers (workers' compensation)
  - Medical fee schedule (workers' compensation)
  - Occupational Safety and Health compliance inspections
  - Labor laws
  - Specialized inspections
- **Interaction with regulatory state agencies:**
  - Industrial Insurance Appeals Board
  - State Auditor's Office
  - (not regulated by Office of Insurance Commissioner)

# Washington State\* Workers Compensation Insurance

Insurance options for companies:

Insurance through the state fund

- 166,000 employers insured
- 2.4 Million workers

Self-insurance

- 365 employers self-insured
- 0.9 Million workers

44% of premiums for employers that voluntarily participate in Retrospective Rating

- 92% through insurance groups
- \$2.3 Billion refunded net of assessments to date (since 1980)

Self-insured groups only for:

- School districts
- Hospitals

\*through the Washington State Title 51 RCW

# Washington State Fund

- 102 years old
- 7th largest Workers' Compensation insurer in US
- Third largest state fund after Ohio and New York
  - \$12.9 Billion - Assets
  - \$12.0 Billion - Discounted Loss and LAE Liabilities
  - \$ 1.5 Billion - Net Earned Premiums 2012
  - \$ 1.4 Billion in discounted losses incurred AY 2012
  - 88,000 accepted claims AY 2012
- Low Administrative expenses
  - 7.9% LAE to Loss (21% for industry)
  - 7.6% Other administrative expenses to Premiums Earned (23% for industry)

# Cost structure

- **High indemnity benefits**
  - High pension claim frequency
- **Efficient medical management**
  - Medical fee schedule
  - Medical provider network
  - Occupational medicine centers
- **Longer than average payout pattern**
- **Low administrative expenses**
  - About 1/3<sup>rd</sup> of industry ratios
- **No federal tax on investment income**

# Workers pay roughly a quarter of the premiums

- Half of medical, COLA, and stay-at-work premiums
- Through payroll deductions
- Worker premiums not used to fund net retrospective rating program refunds
- Workers are thus customers from the premiums side
- Complicates dividend issuance





# Rate Stabilization

- **Surplus (contingency reserve)**
  - is needed to help stabilize rates
  - not regulated by Insurance Commissioner
  - interim goal to increase surplus to 14% of liabilities
  - longer term goal to increase surplus to 19% of liabilities
  - compare to 2011 insurance industry surplus ratio of 55%
  - reduced rates, issued dividends, and had rate holidays to reduce surplus to goal levels

# Simplicity

- Single source of insurance
- No assigned risk plan
- No significant underwriting
- Electronic billing and payment
- Quarterly billing w/anniversary dates on first day of each quarter
- Premium = base rate X experience factor
- One incentive plan: Retrospective rating
- Experience rating: Most insureds are claim-free



# Labor and Business cooperation

Cooperation creates opportunity for law changes

2011 WC reforms

## Workers' Comp Advisory Committee

health care subcommittee

medical advisory committee

chiropractic advisory committee

vocational subcommittee

financial subcommittee

retrospective rating subcommittee

## Centers of Occupational Health & Education(COHE)

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

# Level playing field

## Collection of late premiums and fines

Ability of government to collect debts  
Large auditing staff  
Fraud predictive modeling

## Discussion of Industry issues

Construction  
Reforestation  
Wallboard  
Taxi  
Logging

## Safety compliance and consultation

# Department Quality Improvement

## Lean management


- Lean culture and skill set development
- Kaizen promotion office

## Customer research

- IPSOS Research
- Usability testing for e-business
- Claimant and employer surveys

## E-Commerce

- Electronic forms submission
- Electronic payment
- Online claim information



# World class workplace injury research

## Safety & Health Assessment & Research for Prevention (SHARP)

<http://www.lni.wa.gov/Safety/Research/About/default.asp>

### Top research areas:

- musculoskeletal disorder
- temporary worker
- employer recognition of occupational injury/illness
- workplace violence

## UW Dept. of Environmental & Occupational Health Sciences

<http://deohs.washington.edu/>

### Top research areas:

- Occupational health services outcomes improvement
- Targeted workplace hazard and intervention
- Application of toxicology and clinical findings to industry or workplace-level studies (biomarkers of exposure; gene-environment factors; novel agents)
- Safety culture, organizational approaches of workplace health and safety
- Health care program evaluation

*Both are partially funded through insurance premiums and self-insured assessments*

# Role of actuaries at the State Fund

- Reserving and support of other department functions: **Corporate** actuaries
- Rating: **Rating Bureau** actuaries
- Regulatory: **Regulatory** actuaries



# Good Data Credibility

- Single state insurance program
- 88,000 accepted claims in latest accident year
- Not subject to substantial changes in distribution of customers
- Similar to other states, we do have some low volume classes



# Questions?

