

Insurance for Workers and Employers

Your Guarantee

Washington State established its workers' compensation program in 1911, the result of a historic compromise that provided mutual protection for workers and employers. Workers gave up their right to sue their employer for a work-related injury or illness in return for sure and certain medical treatment and, when applicable, wage-replacement benefits. In exchange, employers were protected from the cost of extended claims and tort liability that could otherwise result from workplace injuries. Over the years, the system has evolved. One of the most significant changes occurred in 1917, when a law passed that made workers responsible for paying a significant portion of the premiums. In the first half of 2007, their share averaged 25.7 percent. During the rate holiday, July through December, workers' share of premiums dropped to 11 percent.

Our Commitment

The Department of Labor & Industries administers the workers' compensation system to serve the interests of injured workers and their employers. Our commitment:

- Work with employers and workers to prevent workplace injuries and illnesses.
- Provide prompt and certain relief to workers who suffer a work-related injury or illness.
- Administer the program and its finances in a way that is transparent and maximizes benefits and minimizes costs.
- Eliminate fraud and abuse by workers, employers and health-care providers.
- Listen to and respond to the needs of our customers.

Responsive Change

To fulfill this commitment, L&I will continue to look for opportunities to improve the system and be open to new ideas and change. Our administration of workers' compensation will evolve as new proven technologies become available. We will closely monitor medical advancements, authorizing those that improve an injured worker's condition and resisting those that provide little or no relief. We will manage claims effectively, encourage return-to-work options and minimize the financial impact of a claim. No one benefits when a claim lasts longer than it should.

Finally, we will continue to partner with employers and workers to improve this vital and vigorous workers' compensation system.

2007 Year in Review

For additional copies, contact the Labor & Industries office nearest you.

This publication is also available online at www.Lni.wa.gov/IPUB/200-013-000.pdf.

Other formats for persons with disabilities are available on request. Call 1-800-547-8367. TDD users, call 360-902-5797. L&I is an equal opportunity employer.

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2007 Year in Review

Washington's Workers' Compensation System



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Washington State Department of
Labor & Industries

Workers' Compensation Services

2007 highlighted by a 'rate holiday' and lower rates

In many ways, 2007 was a banner year for Washington's workers' compensation system. Employers and workers benefited from lower rates and a partial rate holiday that saved them \$346 million in premiums.

Last December, we changed how we determine an employer's experience modification factor to ensure that employers and their workers are assessed the proper level of premiums. We listened to employers' concerns and delayed any increase associated with the change, giving employers with increased rates time to adjust.

Also during the year, an independent auditor hired by the Washington State Auditor's Office gave the Department of Labor & Industries (L&I) a clean opinion of its 2007 rate-setting and FY06 reserving assumptions. The auditor also agreed with the new formula for calculating an employer's experience factor.

Controlling health-care costs

Health-care inflation in our system is low at 5.9%, compared with a 7.7% average annual increase for all workers' compensation insurers. L&I is managing costs in a number of ways.

We closely monitor prescription drug use and use financial incentives to encourage doctors to prescribe from the state's Preferred Drug List. Those two efforts alone saved the State Fund over \$8.5 million in FY2007.

The safety of injured workers, including those whose injuries result in chronic pain, is a priority for L&I. This is why we are working with our treating physicians to ensure safe use of prescription narcotics.

L&I also saves money by offering financial incentives to doctors who use occupational health best practices. And while we pay for services that help an injured worker recover, we don't pay for unsafe treatments or ineffective treatments that don't enhance a worker's chances for recovery and return to meaningful work.

In central and eastern Washington, L&I expanded its Center of Occupational Health and Education (COHE), which is training hundreds of doctors in occupational health best practices.

Together, these efforts have reduced worker disability and saved the State Fund millions of dollars in claim costs.

Anti-fraud program

In Fiscal Year 2007, L&I recovered more than \$139 million in unpaid premiums and overpayments to providers and workers (plus more than \$4 million in avoided costs). This is up from \$97.8 million in 2004. To help local prosecutors, we are funding an assistant attorney general who is dedicated to prosecuting fraud cases. L&I investigations resulted in 13 cases referred for criminal prosecution.

For a more complete look at fraud prevention accomplishments in 2007, look inside this brochure or go to www.Fraud.Lni.wa.gov.

Contributing to the state's business climate

Washington continued to offer high benefits (5th in the nation, according to the most recent study by the National Academy of Social Insurance) while maintaining base rates that were in the bottom third of all states. As a percentage of payroll, Washington's rates have dropped 24 percent since 1990. And with considerable help from the Washington State Investment Board, the State Fund finished the fiscal year with nearly \$750 million in realized investment income and gains. These earnings are used to lower the cost of workers' compensation insurance in Washington. The FY2007 financial summary is located inside this brochure.

When 2007 ends, the rate holiday ends too.

To get a payroll insert for your employees, go to:

www.RateHoliday.Lni.wa.gov

December 2007

New customer-tested annual rate notice

Your enclosed rate notice looks different this year! Though it contains exactly the same information as before – plus more – we've tried to make it easier to read and understand, particularly for new businesses. A number of new and existing businesses helped test this document and told us what they wanted. Here are some examples of new features: It's easier to see if you have earned a claim-free discount. Instructions and ratemaking explanations are clearer. And, at your request, we created an extra column so we could clearly show both your contribution and your workers' to the total premium you pay.

A partnership with business and labor

Considerable credit for our success goes to the vast majority of Washington employers and workers who focused on safety and avoided injuries, and to L&I's Division of Occupational Safety and Health, which provides workplace-safety consultations to employers.

For more information about workplace-safety consultations, visit www.SafetyConsultants.Lni.wa.gov or call your nearest L&I office.

Our goal is to run one of the best workers' compensation systems in the nation. We are committed to working with our customers to achieve that goal and ensure mutual protection for workers and employers.



Sincerely,

Judy Schurke
Director



Robert Malooy
Assistant Director, Insurance Services

Washington State Workers' Compensation State Fund

The State Fund provides workers' compensation insurance for about 2.5 million employees working for more than 168,000 employers. Premiums paid by employers and workers, and investment earnings, finance the program.

Washington's industrial insurance system also covers an additional 830,000 workers – approximately a third of the state's workforce – whose employers self-insure. L&I ensures that those workers receive equal rights, protections and benefits under the state's workers' compensation laws.

Statistics at a Glance

Operating Environment	FY 2007	FY 2006
Employers Insured	168,000	165,000
Workers Covered	2,500,000	2,400,000
Hours Reported	3,287,000,000	3,200,000,000
Premiums Assessed (employers' portion)	\$1,259,000,000	\$1,218,000,000
Premiums Assessed (workers' portion)	\$296,000,000	\$307,000,000
Benefits Incurred	\$1,770,168,000	\$1,413,139,000

Claim Statistics	FY 2007	FY 2006
Number of Claims Filed	140,308	140,887
Number of Claims Accepted	121,769	124,391
Number of Claims Denied	15,171	15,210
Fatal Pensions Awarded	54	66
Total Permanent Disability Pensions Granted	1,557	840
Permanent Partial Disability Awards Granted	12,621	12,535
New Time-loss (Wage Replacement) Claims	29,416	29,615
Medical-only Claims Accepted	96,505	97,964
Retraining Plans Completed	1,763	1,093
Total Days Paid for Lost Work	7,540,000	7,480,000

Demographics of Accepted Claims	FY 2007	FY 2006
Male	70%	70%
Female	30%	30%
Average Age	37	37
Younger than 30	35%	34%
Age 30 to 50	48%	50%
Older than 50	17%	17%

Most Frequent Injuries*	FY 2007	FY 2006
Traumatic injuries to muscles, tendons, ligaments, joints, etc. of back, including spine, spinal cord (includes sprains, strains, etc.)	15,236	N/A
Open wounds of finger(s), fingernails (includes cuts and lacerations, and amputation of fingertip or finger)	13,186	N/A
Surface wounds and bruises of face (includes splinter or other foreign body in eye, and bruises or contusions of the forehead)	6,261	N/A
Multiple traumatic injuries and disorders of multiple body parts (includes bruises, sprains or fractures affecting more than one body part)	4,456	N/A
Traumatic injuries to muscles, tendons, ligaments, joints, etc. of leg(s) (such as knee or thigh)	4,042	N/A

Notes: The data are a snapshot of FY2007 (July 1 – June 30) as of the first week of October. Because of rounding, some columns may not add up to 100%.

Provisional Claims: Number of Claims Accepted plus Number of Claims Denied do not equal Number of Claims Filed as there are claims in "provisional" status where the decision to accept or deny has yet to be made.

Increase in Pensions: The increase in Total Permanent Disability Pensions Granted is a result of our efforts to eliminate backlogs in this area.

*Injury categories are different than those listed in the 2006 Year in Review because L&I has adopted the new national coding system.

Protecting Your Investment

What we accomplished

Employers:

L&I has collected millions of dollars in unpaid premiums from employers who had not opened an account, underreported premiums, or attempted to operate under the table by deliberately not registering or paying the premiums they owe. Left unchecked, these employers have a competitive advantage and shift the cost of the workers' compensation system to honest employers.



Workers:

L&I's emphasis is on verifying a claim's legitimacy early on, to prevent the payment of undeserved benefits. L&I conducted hundreds of validity and activity investigations, saving the workers' compensation system well over \$4 million in 2007.



Providers:

L&I spends over half a billion dollars annually on health-care services. In 2007, we recovered \$523,989 from providers who over-billed for services to injured workers. Four investigations of providers were sent to prosecutors. L&I's goal is to work with the best health-care providers to minimize over-billing.



How you can help

As an employer, you can help protect your investment in the workers' compensation system, ensuring that premiums are spent wisely.

Here's how:

- Fill out the employer's portion of the Report of Accident form and mail it to us promptly. Let the claim manager know if you have doubts about a claim's legitimacy.
- Look for ways to safely return the worker to a job he or she is capable of doing. Return-to-work information is available on our web site. Go to www.Lni.wa.gov/ClaimsIns/Insurance/Reduce/Manage/ and click on "Early Return to Work."
- Report your new hires. You can help custodial parents recover court-ordered child support and reduce fraud by reporting new employees at www.dshs.wa.gov/newhire
- Make sure your subcontractors are registered and paying the premiums they owe, at www.PremiumStatus.Lni.wa.gov
- Report employers that operate under the table, and workers who fraudulently collect benefits. Let others know how they can report fraud. Your leads will help L&I track down and stop fraud.

L&I fraud reporting hotline:
1-888-811-5974

L&I fraud reporting web site:
www.Fraud.Lni.wa.gov

Financial Summary

Accident, Medical Aid and Pension Reserve Funds

Summary of Financial Condition		
Fiscal Year Ending	June 30, 2007	June 30, 2006
Assets		
Cash and Investments	\$11,113,223,000	\$10,190,717,000
Premiums Receivable, Net	383,037,000	420,349,000
Land, Buildings and Equipment, Net	13,685,000	10,946,000
Other Assets	62,263,000	29,980,000
Total Assets	\$11,572,208,000	\$10,651,992,000
Liabilities and Contingency Reserve		
Benefits*	\$8,794,375,000	\$8,328,981,000
Claims Administration	414,332,000	399,578,000
Retrospective Rating Adjustments	159,748,000	156,593,000
Other Liabilities	110,041,000	57,530,000
Total Liabilities*	9,478,496,000	8,942,682,000
Contingency Reserve*	2,093,712,000	1,709,310,000
Total Liabilities and Contingency Reserve	\$11,572,208,000	\$10,651,992,000

Summary of Operations and Contingency Reserve		
Revenues		
Net Premiums Earned*	\$1,294,870,000	\$1,338,983,000
Net Investment Income Earned	529,987,000	499,810,000
Investment Gains	219,078,000	74,573,000
Self-Insured Pension Reimbursements*	68,091,000	97,196,000
Other Income	58,455,000	31,033,000
Total Revenues Earned	2,170,481,000	2,041,595,000
Expenses		
Net Benefits Incurred*	1,770,168,000	1,413,139,000
Claims Administration Expenses Incurred*	136,456,000	141,835,000
Other Administrative Expenses Incurred	135,233,000	123,175,000
Total Expenses Incurred*	2,041,857,000	1,678,149,000
Net Income*	128,624,000	363,446,000
Equities & TIPS Unrealized Gains	272,396,000	149,153,000
Change in Non-Admitted Assets*	(16,618,000)	3,845,000
Change in Contingency Reserve*	\$384,402,000	\$516,444,000

Cash Flow Summary		
Operational Revenues Collected*	\$1,448,968,000	\$1,443,759,000
Benefits Paid	(1,304,775,000)	(1,251,364,000)
Administrative Expenses Paid*	(249,159,000)	(226,613,000)
Net Operating Cash Flow	(104,966,000)	(34,218,000)
Net Investment Income Collected	736,121,000	575,761,000
Investment Sales / (Purchases)	(624,835,000)	(538,829,000)
Net Investment and Other Cash Flow	111,286,000	36,932,000
Net Cash Flow	6,320,000	2,714,000
Beginning Cash	3,343,000	629,000
Ending Cash	\$9,663,000	\$3,343,000

Note: Figures rounded to nearest \$1,000. FY2007 amounts are preliminary; final amounts and any changes will be reflected on the L&I Web site.
* 2006 items restated to reflect final amounts and changes in reporting.

Based on: Statutory Accounting Principles.

Source: The Washington State Agency Financial Reporting System with adjustments for insurance reporting.

An Invitation to Learn More

This 2007 Year in Review is part of our effort to help L&I customers, the Legislature and the public learn more about Washington State's workers' compensation system. For more detailed financial reports, a breakdown on how State Fund monies are spent and average premium rates over the past 10 years, please visit www.StateFundFinancial.Lni.wa.gov.

