

2007-2011 Business Plan

State of Washington Workers' Compensation Insurance



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Executive Summary

Washington's workers' compensation system covers 2.3 million workers and 161,000 employers and pays out \$1.2 billion each year in benefits. Administered by the Washington Department of Labor and Industries, it is the tenth largest workers' compensation insurer in the nation.

Washington's workers' compensation system is a no-fault insurance system that pays medical expenses and partially replaces lost wages for workers who suffer job-related injuries or illnesses.

The money for these benefits comes from three sources:

- Quarterly premiums paid by employers,
- Payroll deductions from workers and
- Investment income.

Customer attitudes: Polls indicate most employers and workers are satisfied with current customer service provided by L&I. Customers say three factors are most important:

- Fairness of the claims process
- Speed in which claims services are delivered
- Clarity of information they receive about their claims

Competition: All employers in Washington are required to purchase workers' compensation insurance from L&I, except for certain large self-insured employers. Competitive pressure is applied by:

- Comparisons to other states and private workers' compensation companies
- Legislative oversight
- Customer access and influence

How the state compares: Washington's workers' compensation system compares favorably with other states:

- Washington provides some of the **highest benefits** to injured workers.
- Washington charges **lower premiums** than the majority of other states.
- Washington's **administrative costs are less than half** of other insurers.

Strategy for change: Despite its positive performance, the administration of the workers' compensation system must change substantially in order to increase value to injured workers and employers. We are concentrating on three major objectives to increase our ability to meet the needs of workers and employers. They are:

Prevent long-term disability through strategies to:

- Identify claims with indicators of potential long-term disability and intervene early in the claim process.
- Help injured workers recover and return to work as soon as possible.
- Improve results obtained from vocational evaluations and services.
- Recruit and retain the best medical providers.

Improve injured workers' access to appropriate and quality health care and control costs through strategies to:

- Increase physicians' use of occupational health best practices.
- Expand use of evidence-based medicine.
- Reduce administrative complexities for providers and improve bill-payment processes.
- Control the rate of growth in workers' compensation medical benefits.

Maintain low, stable and fair insurance rates and enhance services to employers through strategies to:

- Customize claim management, premium and loss-control services for small- and medium-size employers.
- Increase the number of transactions employers can make using the online Claim and Account Center.
- Improve the reliability of the online system for filing quarterly reports, and extend online quarterly report filing to self-insured employers.

Marketing strategy: L&I's marketing plan focuses on partnering with customers to help implement the agency's top priorities. Specifically:

- Raising employer awareness of **workplace safety** concerns and directing them to informational resources they can use to reduce workplace injuries and illnesses.
- Informing employers and workers of the benefits of **returning to work quickly** and directing them to resources they can use.
- Informing employers and workers of the parts they can play in **making claims processes move forward quickly**.
- Enlisting employers, workers and providers in helping identify **fraud and abuse**.
- Informing customers of existing communications channels and educating them on **new ways they can communicate** with the agency and each other.

Business Description

Business Mission

Administer one of the premier workers' compensation organizations in the nation in quality of service, benefits and costs.

Make Washington a safer place to work.

Business Description

Washington's workers' compensation system is a no-fault insurance system that covers medical expenses and partially replaces lost wages for workers who are injured on the job.

When a worker is injured, his or her doctor notifies the Department of Labor and Industries. L&I pays the medical treatment costs for the injury. If the worker is off work more than three days, then L&I also pays the worker time-loss benefits to partly offset lost wages until he or she can return to work. Pensions are also paid to workers whose injuries or illnesses preclude ever returning to work and to survivors of workers who die as a result of work-related injuries or illnesses. L&I is now conducting a pilot project testing allowing employers to also report worker injuries as occurs in most other states.

Most Washington employers are required to provide workers' compensation insurance through the state system. About two-thirds of Washington workers are covered by the state system. The other third are workers at federal facilities and large employers who are self-insured.

If L&I were a private workers' compensation insurance company, it would be the 10th largest in the country. Washington's workers' compensation system covers 2.3 million workers and 161,000 employers and pays out \$1.2 billion each year in benefits.

The money for these benefits comes from three sources:

- Quarterly premiums paid by employers
- Payroll deductions from workers
- Investment income

Each employer is charged based on how hazardous their industry is and their own accident record. Washington is the only state that also includes a significant worker contribution – historically, 24 to 27 percent of the total cost. The worker's share is collected through payroll deductions.

The benefits are paid from five funds:

Accident Account – This fund pays time-loss benefits directly to injured workers to partially compensate for lost wages. The fund also pays one-time awards for injuries that cause permanent damage, such as loss of a finger. Only employers pay premiums to fund this account.

Medical Aid Account – This fund pays for the cost of injured workers’ medical treatment and vocational rehabilitation services. Revenues for this fund are provided by equal contributions from employers and employees.

Accident Reserve Account – This fund is frequently called the Pension Reserve Fund. It pays benefits to permanently disabled pensioners and survivors of workers who died as a result of workplace injuries or illnesses. This includes pensioners and survivors from self-insured employers. Revenues for this fund are provided out of the Accident Account and from self-insured firms.

Supplemental Pension Account – This fund provides cost-of-living adjustments to workers receiving temporary and permanent total disability benefits. The revenues for this fund come from employer assessments, payroll deductions from workers and penalties associated with WISHA violations.

Second Injury Account – This fund is used to pay pension costs for permanent total disabilities that result from a combination of a pre-existing condition and a new injury. Revenues come from employer premiums and from self-insured firms.

The State of Washington has provided workers’ compensation insurance since 1911, based on an agreement between business and labor. Injured workers, their families and survivors receive “sure and certain relief” in the form of paid medical bills and partial wage replacement or pensions. In return, employers may not be sued by injured workers. Workers’ compensation is the “sole remedy” for these workers.

A major charge in connection with the workers’ compensation system is the state’s workplace safety program, called the Division of Occupational Safety and Health (DOSH). It formerly was known as the WISHA Services Division after its enabling act, the Washington Industrial Safety and Health Act. DOSH staff develop and enforce rules and provide expert worker safety advice to employers, all aimed at protecting workers from hazardous job conditions. The DOSH program has a significant impact on the reduction of workers’ compensation costs by helping employers and employees to prevent injuries, illnesses and fatalities.

Each year, our safety and health consultants conduct about 2,900 free, on-site safety and health consultations for employers who request help in complying with the rules specific to their individual workplaces. Our training and outreach staff develop and deliver training resources, such as workshops, online training, publications and videos, to safety

and health customers. Our inspectors visit about 7,200 workplaces each year and cite businesses that violate health and safety rules.

About 74 percent of DOSH funding comes from the Accident and Medical Aid accounts. The remaining costs are funded by federal grants provided through the Occupational Safety and Health Administration.

How the state compares

Washington's workers' compensation system compares favorably with the rest of the states:

- Washington provides some of the **highest benefits** to injured workers.
 - Washington ranks fourth in the nation, according to the National Academy of Social Insurance.
- Washington charges **lower premiums** than the majority of other states.
 - The State of Oregon Department of Consumer and Business Services develops a comparison of average premium rates for all the states every two years.
 - In the 2004 Oregon report, Washington ranked 35th in the nation. The 2006 report is not yet available, but estimates are that Washington would rank in the lower half of the states.
 - It is important to note that, since Washington workers pay historically about 24 to 27 percent of workers' compensation premiums, employer costs in Washington are actually lower than those shown in the Oregon report.
- Washington's **administrative costs are less than half** those of other workers' compensation insurers.
 - Washington's administrative costs are 12.6 percent of benefits versus 33 percent average administrative costs for U.S. workers' compensation insurance companies for the 10-year period from 1993 to 2003.

Washington State can pay high workers' compensation benefits and charge low premiums because the State Fund doesn't have many of the costs private insurers must pay such as profits for investors, advertising, commissions paid to brokers, and federal, state and local taxes.

Washington's annual costs are about \$755 million lower than what a typical insurer pays out in administration and overhead for similar amounts of benefits. According to A.M. Best's "Aggregates & Averages for 2003," the U.S. workers' compensation industry spent 67 percent of its premiums on benefits between 1993 and 2003. The benefits L&I paid out during that same time period represented 141 percent of net premiums earned. This is high due to both low expenses and high investment earnings, which help offset costs. The agency also returned \$2 billion to rate payers through refunds and less-than-breakeven rates.

Strategies for change

Despite its positive performance, the management of the workers' compensation system must continue to make changes to increase the value offered to injured workers and employers. We are concentrating on three major objectives to increase our ability to meet the needs of workers and employers. They are:

Prevent long-term disability.

- 1. Identify claims with indicators of potential long-term disability and intervene early in the claim process.** Early management of new time-loss claims is crucial to preventing long-term disability. The total number of claims for injuries has been decreasing. However, there has been a significant increase in the percentage of claims with long-term disability issues related to increased psychiatric care, use of opiates for non-acute pain management, and occupational diseases related to lifelong exposures to repetitive and heavy work. It is important to be able to identify factors in claims that could result in long-term disability early in the process. This information allows claim managers to assist in developing plans to help workers, employers and health-care providers understand the barriers and importance of returning to work as soon as medically appropriate. Preventing long-term disability improves outcomes for injured workers and helps control costs – 8 percent of all claims represent 92 percent of the costs.
- 2. Help injured workers recover and return to work as soon as possible.** The number of time-loss (wage-replacement) claims opened longer than six months has been increasing in recent years. To better serve injured workers and reverse this trend, we are providing return-to-work (RTW) services earlier in the claims process. Return-to-work services help speed recovery, prevent long-term disability and control claim costs.

In March 2004, we created early return-to-work teams (ERTW) in our local offices. The team members – vocational specialists and occupational nurse and therapist consultants – work with injured workers, employers and health-care providers to assess return-to-work options. Currently, 34 percent of claims assigned to the ERTW teams result in the worker returning to work sooner. We expect this rate to go up as we work with more employers and health-care providers and, if funded, increase staffing to serve the heavily populated areas of Everett, Seattle, Spokane and Tacoma.

- 3. Improve results obtained from vocational evaluations and services.** When informal ERTW services are not the appropriate course of action, we use private vocational-services providers to assess eligibility for vocational rehabilitation, such as retraining. However, when to use these services and the timing of the decision to use them are critical. In the next biennium, we expect to improve outcomes from vocational evaluations and services in several ways:
 - Improve the quality of medical and vocational information available to claim managers so they can make decisions at the earliest possible point in the claim.

- Perform quality reviews on vocational recommendations before taking adjudicative actions.
- Eliminate delays in the provision of vocational rehabilitation services.

Improve injured workers' access to appropriate and quality health care and control costs.

1. **Increase physicians' use of occupational health best practices.**

Best practices in occupational health emphasize prompt reporting of work-related injuries and illnesses by health-care providers who treat injured workers; accurate diagnosis; improved communication among health-care providers, employers and workers; and timely and appropriate treatment. Our approach to increasing occupational health best practices includes:

- Providing physicians with education, support and incentives in use of occupational health best practices through our Centers of Occupational Health and Education (COHE). More than 500 physicians are currently enrolled in the two centers, one in Renton and one in Eastern Washington. The participating physicians are expected to provide care to more than 20,000 injured workers a year. With funding from the 2005 Legislature, we expanded the center in Eastern Washington from the original three counties to 16 counties.
- Piloting incentive payments for occupational health best practices with specialty physicians.
- Conducting peer reviews on problem health-care providers with harmful care practices, so that continuing medical education and/or appropriate corrective action can occur.
- Developing guidelines and methods for reducing inappropriate use of opiates.

2. **Expand use of evidence-based medicine.** A key strategy for containing health-care costs is to apply evidence-based medicine principles to avoid inappropriate use of prescription drugs, physical and occupational therapy and unproven procedures. We have already reduced pharmacy and physical therapy costs by \$4 million a year while improving quality and patient safety. With additional resources, we could identify more claims that may be continuing longer than the condition warrants. More importantly, we can improve patients' safety and their ability to successfully return to work.

3. **Reduce administrative complexities for providers and improve bill payment processes.** Some of the best health-care providers have been opting out of the workers' compensation system due, in part, to the administrative burden. At the same time, injured workers in some parts of the state are having difficulty locating providers. Steps we are taking to encourage providers to treat injured workers include:

- Improving payment for paperwork unique to the L&I system.
- Reducing delays in medical authorizations.

- Simplifying correspondence and reducing the volume of mail that providers receive.
- Speeding up bill payment.
- Providing information and training on our billing requirements and the time-saving benefits of our e-business services.

4. Control the rate of growth in workers' compensation medical-benefit costs.

Washington State already has a national reputation for state-of-the-art management of workers' compensation health care. Nationally, workers' compensation medical costs are growing 8 percent annually, while medical costs for Washington's state-operated workers' compensation system have grown less than 5 percent annually. Despite sound management, medical costs continue to increase faster than inflation due to growth in service costs, increased use of services, and more expensive procedures, tests, drugs and technologies. The aging workforce will also extend recovery times for injured workers and increase use of medical care. We will continue to evaluate our health-care purchasing methods to identify cost-saving actions and coordinate payment systems with the other state agencies that purchase health-care services.

Maintain low, stable and fair insurance rates and enhance services to employers.

Preventing long-term disability, improving injured workers' access to appropriate and quality medical care, and controlling medical costs are major factors in maintaining low, stable and fair insurance rates. Investment earnings from State Fund reserves also play a role in holding down rates. Other key factors include:

- Preventing fraud and abuse. (See Goal 3.)
- Providing information and assistance to our customers to help them use workplace safety, risk management and claims management practices to control their rates.
- Investigating innovative approaches, such as a tiered rating system, that would provide greater rate equity for those who pay into our system.

We are also continuing to improve the quality and value of the services we provide to employers:

1. Customize claim management services for small- and medium-size employers.

In 2004 and 2005, we made some changes in claims management that improved service for employers who pay the highest premiums. However, 90 percent of our customers have 20 or fewer employees. While some small companies have more frequent contact with us because of the hazardous nature of the work – construction, for example – most seldom have time-loss claims. When they do, they may not realize how a single time-loss claim can dramatically impact their future premiums.

We are currently assessing options for improving the delivery of service to small business. We want to make sure these employers understand the basics of workers' compensation, the importance of safety, and the steps they can take to limit impacts

on their workers' compensation rates. In addition, we are developing industry-specific analyses of rates and the factors that influence those rates to help employers identify where to focus their injury-prevention activities.

- 2. Increase the number of transactions employers can make using the online Claim and Account Center.** With additional funding, we would build on the successful Claim and Account Center (CAC) that has transformed the way injured workers, employers and health-care providers access claim information and communicate with us. Based on customer requests, we will increase customers' ability to conduct business using the CAC – for example, creating loss runs and “what-if” scenarios that help employers see the impact of a claim and the value of improving safety and pursuing return-to-work options.

- 3. Improve the reliability of the online system for filing quarterly reports, and extend online quarterly report filing to self-insured employers.** Since 2001, when we launched an online system for filing quarterly reports and paying workers' compensation premiums online, significant advances in the technology of online business applications have taken place. This application needs to be updated because:
 - Usability improvements will help us keep existing customers and attract new customers to the service.
 - Enhancements will make filing more attractive to large accounting firms that file quarterly reports for thousands of employers and currently find the system too difficult to use.
 - The assessment and payment process for self-insured businesses could be incorporated into an updated version of this application instead of developing a separate application.
 - We are losing vendor support for the older technologies used in this application.

The time-saving benefits of online reporting will only be achieved if significant numbers of employers have confidence that the service is easy to use and reliable.

Operational Production Plan

Facilities assessment

The department staff and equipment associated with the administration of the workers' compensation system are chiefly housed in the Department of Labor and Industries headquarters building in Tumwater. Additional space is leased at 20 other field offices located throughout the state. Most of the buildings are filled to capacity. The agency does not anticipate extensive growth in staff.

Key equipment and technology requirements

The Department of Labor and Industries administers the workers' compensation system in many ways like a private workers' compensation carrier. It blends standard and technologically sophisticated business processes, ranging from dealing with hundreds of thousands of claim documents mailed to the agency to electronic commerce transactions.

The agency receives about 139,000 claims each year, filed on a paper form called a Report of Industrial Injury or Occupation Disease. L&I staff enter this information into the industrial insurance mainframe database within hours of receipt to ensure claim information is available to claim managers as quickly as possible.

In addition to the accident form, the agency receives an average of 7.2 million paper documents annually related to workers' compensation claims. High-speed and desktop scanning equipment are used to convert these paper documents to electronic images, allowing claim managers to access the documents as needed. They also receive more than 10,000 phone calls per day and about 32,000 pieces of correspondence daily.

Sophisticated data processing systems are used to:

- Enroll employers for workers' compensation insurance coverage and calculate the correct premium rate each employer must pay, based on the type of work being done and the employer's claims experience.
- Review and process the 120,000 medical bills submitted each month by doctors and other providers for treatment of injured workers.
- Manage claims to determine eligibility for benefits and appropriate treatment.
- Process time-loss payments to an average of 36,000 claimants each year, as well as pension payments to an average of 20,000 pensioners each year.
- Allow electronic commerce applications where feasible, such as online payment of premiums.

The workers' compensation system uses a 20-year-old mainframe computer system that is complex and cumbersome both to use and modify. Over the next year, we will be making information-system changes to begin providing web-based capabilities to claim managers that are simple and easy to use. However, hundreds of complex tasks will continue to be performed in the old system. We need to continue to develop additional

tools for our claim managers and, at the same time, develop a comprehensive approach for moving to a modern, efficient claims management system over the next several years.

This approach is consistent with the LIFT (L&I Future Technology) strategy that is guiding our information technology priorities and capital investments.

Labor requirements

The agency requires many skills to operate successfully, including but not limited to:

- Workers' compensation claims adjudicators (claim managers) who authorize medical and rehabilitation services, determine the extent of disabilities and compensate workers for wages lost while off work or any permanent disabilities.
- Information services staff who are involved in all of the many facets of information services. This could include installation and maintenance of information technology, networks and telecommunications systems, programming, system architecture and security administration and telephone systems.
- Health professionals who provide many vital health-related services, including occupational nurse consultants who provide consultation to secure and maintain health care for injured workers.
- Safety and health inspectors and consultants who work with employers to be sure they understand and follow safety regulations and have information on the latest safety techniques.
- Insurance industry professionals such as actuarial staff who recommend premium rates for workers' compensation insurance coverage and establish liabilities and reserve amounts required to pay benefits.
- Researchers who address emerging health and safety concerns in Washington, with expertise in occupational medicine and nursing, economics, epidemiology, ergonomics, industrial hygiene, safety, toxicology and computer systems.

Management requirements

The state's workers' compensation system requires managers who are skilled in directing staff in a number of areas, including:

- Claims management
- Workplace safety
- Health care and vocational rehabilitation
- Insurance actuarial principles
- Information technology
- State agency budgeting
- Audit and fraud investigation

Quality-control requirements

The agency uses a number of methods to ensure quality in the workers' compensation system, including:

- Performance standards in most areas such as claims management;
- Service performance audits and improving the quality of services by identifying, evaluating and modifying work processes.
- Monitoring of medical services to ensure that medical care received by injured workers is of the highest quality, that it meets national and community standards, that medical care is being utilized appropriately, and costs are controlled.
- Analysis of bill payment and claims data regarding medical providers, including periodically conducting extensive program evaluations of providers.
- Performing field audits for verification of correct employer reporting and payment of premiums. Program staff also investigate employer/employee relationship for claims initiation, and provide education to employers about their workers' compensation insurance reporting responsibilities.

Special workforce plans/programs

The Online Reporting and Customer Access Project (ORCA) continues efforts to revolutionize customer access to workers' compensation information and provide faster, more effective ways to do business with the agency. It responds to customer requests for access online via the Internet to claims-related information and images. Customers also want the ability to file information and conduct other business with L&I via the Internet.

The ORCA project includes:

- Customized Internet web pages that allow workers, employers and providers to view workers' compensation information.
- A new content management system that includes imaging for claims staff and external customers.
- Several two-way transaction systems that allow customers and providers to conduct business on the Internet.

The agency has a special project under way in conjunction with the University of Washington and Valley Medical Center in Renton and St. Luke's Rehabilitation Institute in Spokane. This project, called the Centers of Occupational Health and Education, or COHE, are testing whether new procedures can help workers return to work more quickly. More than 400 doctors are participating, doing such things as:

- Sending L&I reports of accidents faster – within two days of the worker's first visit – and receiving a \$12 bonus.
- Using a standardized form to document medical restrictions and discuss best ways to recover.
- Increasing doctor calls to employers, which aids with return to work.

With funding from the 2005 legislature, are expanding the center in eastern Washington from three to 16 counties.

We are increasing the knowledge all Insurance Services employees have about other parts of the division. We believe this awareness-building will help us prevent long-term disability and help injured workers return to work. For example, we are training claim managers on employer-specific services and incentives, such as retrospective rating, risk management and claims-free discount. They are also learning about the importance of proper risk classifications and how that impacts premiums. Staff that primarily works with employers or health-care providers are learning about the claim management process. This training will help them provide information from a claims perspective to employers and providers. We want to ensure a common understanding for all disciplines in the workers' compensation system so that outcomes for employers, injured workers and providers will be improved.

Outline of daily operations

Here's what a typical day at L&I might look like:

- Nearly 800 injured-worker claims are received in the mail and their information is put into the electronic system.
- 28,600 documents are received and scanned into the electronic imaging system.
- The new claims are routed to Employer Services, which determines if the worker is eligible for workers' compensation benefits. About 85 claims are rejected each day.
- Claim managers review individual claims to determine if the injury/illness is covered and what benefits will be allowed.
 - 170 injured workers are ruled eligible each day to receive a time-loss check to replace lost wages.
 - Medical bills are paid for 1,000 injured workers.
 - \$4 million is paid out in medical bills and time-loss claims.
- 150 new employers are signed up, joining the 160,000 employers covered by the State Fund.
- Citizens have contact with L&I staff in many other ways each day, such as:
 - Letters and other documents mailed to them
 - Phone calls
 - Front-counter interactions
 - Safety inspections and safety consultations for employers
 - Audits conducted to ensure employers are paying their fair share

Meanwhile, staff are working on other projects that occur periodically, such as the quarterly mailing of premium notices to employers, the annual setting of premium rates, or a schedule of workplace safety workshops being held around the state.

Significant changes, challenges or opportunities related to business operations

Limiting the number and cost of workplace injuries – We want to limit numbers and costs of workplace injuries through several efforts, including:

- Better management of medical treatment.
- Prevention of workplace injuries and illnesses through education and consultation with employers and workers.
- Increasing the speed of claims decisions so medical decisions can be made and treatment can begin sooner.
- Removing hazards through enforcement, where necessary.
- Returning injured workers to their jobs as soon as possible.

Competing for claim managers – Claim managers undergo an extensive on-the-job training process that allows them to make appropriate decisions on both medical and legal aspects of claims. Pay scales for claim managers remain below private-sector salaries. We have a continuing challenge with our top claim managers being recruited and hired by third-party administrators, retrospective rating associations and self-insured employers.

Using electronic commerce and communication – Where possible, we are replacing paper transactions with electronic commerce. Several barriers exist, however. Most doctors treat only a handful of injured workers each year and they have been slow to embrace electronic filings of report-of-accident forms. Many injured workers do not have access to the Internet, although numbers are increasing. Employers have shown the most interest in electronic commerce.

Judicial decisions and legislative changes – Court decisions in the past have had considerable impact on the operations of the workers’ compensation system. Changes in benefits, for instance, can require extensive calculations and cause delays in claim management and/or increases in cost.

Communicating with an increasing Hispanic population

Washington’s Hispanic population nearly doubled between 1990 and 2000, and now represents 7.5 percent of the total population. In Yakima County, 36 percent of the population is Hispanic, in Chelan County, 19 percent, and in Okanogan County, 14 percent. While many of Washington’s Hispanic residents live in Central Washington, King County has the largest number of Hispanic residents – more than 95,000.

This growing Hispanic population is driving the need for more Spanish-speaking staff, particularly claim managers and positions in local offices that help Spanish-speaking workers understand their workplace rights. L&I has already intensified its recruitment efforts to find and hire Spanish-speaking employees into these areas and will continue to see this as a priority.

Operating Environment

The workers’ compensation system operates in a political environment where diverse and competing interests seeks to influence our decisions. A statutorily mandated advisory committee with employer and worker membership, the Workers’ Compensation Advisory Committee, provides input into ratemaking and other proposed changes.

We must also be cognizant of national policy debates, economic indicators such as stock market performance, and demographic factors such as the growing population of our state. All may impact our services, but are largely beyond our control. One exception is the aging workforce. Older workers tend to work safely, but they require significantly longer recovery times when they are injured on the job, which directly affects the cost of claims. Our strategic planning addresses this issue.

Two specific issues that will affect the operation of the workers' compensation system are employer reporting and legislative action.

Employer reporting

In 2006, Governor Gregoire signed legislation to explore a new way of reporting workplace-injury claims. Washington is the only state where injured workers file their claims through their health-care provider, who sends us the *Report of Industrial Injury or Occupational Disease*. Delays are common. The legislation sets up a pilot project where the employees of participating companies have the option of filing a claim through their physician or their employer. In the next two years, we will evaluate the claims in this pilot program to determine if worker outcomes improved compared with those filed through the regular process. If they are, we may seek to expand the program.

Many of our stakeholders have argued that allowing employer filing would be better for workers as well as for employers. The argument is that employers who know about a claim early are more likely to keep an injured worker on salary or offer light-duty during recovery and to help the worker receive timely and quality medical treatment.

Many studies have indicated that the best indicator of whether an injured worker will recover quickly is how the worker-employer relationship is handled right after the accident. The closer the connection, the quicker the worker returns to his or her job.

Legislative actions

We also are meeting with representatives of business and labor and other interested parties regarding our plans to seek legislative changes to the workers' compensation system. Areas of concern include pension trends, the current cumbersome system of calculating wages and benefits, and the inadequate level of compensation for certain types of benefits. Legislative action may also be needed as we make improvements to vocational rehabilitation services for injured workers.

Performance Assessment

L&I uses a number of performance measures to assess the status of its activities. For example, several performance measures are included in the agency's budget submittal to the Office of Financial Management. Here is a discussion of three of those measurements:

Keeping medical costs down

L&I pays more than 3.1 million medical provider bills each year at a cost in excess of \$450 million. Controlling the rate of growth in medical costs is important to minimize premium increases. Among the ways the agency controls costs are:

- Auditing health-care providers to recover inappropriate payments.
- Developing, implementing, and evaluating innovative service delivery programs for provision of cost-effective medical services to injured workers.
- Providing targeted utilization review of 15,000 high cost inpatient and outpatient procedures each year to support quality and value-based purchasing.
- Preventing inappropriate use of prescription drugs.
- Developing medical treatment guidelines and health technology assessments to ensure health care is high quality and evidence-based. The agency's drug utilization review saves approximately \$4 million per year while improving patient safety.

Among the measurements used is a goal to maintain the annual growth of medical aid fund costs at or below 7% to stabilize workers comp rate increases. The most recent figures show the growth at 4.8%.

Combating fraud and abuse

Combating fraud and abuse is one of L&I's top priorities. We perform more than 3,800 audits yearly to ensure compliant reporting and payment. We investigate over 3,000 claims each year to ensure that benefits are paid properly. We collect delinquent funds from more than 35,000 employers, claimants and providers.

In Fiscal Year 2005, we recovered and collected more than \$104.9 million in overpayments to workers and providers and delinquent premiums.

Total hazards addressed

This measure looks at workplace safety hazards identified and fixed. It includes the total combined results of workplace safety compliance inspections and consultation visits. Washington State's performance compares favorably with federal OSHA's and with the other 26 states that operate their own workplace safety/health programs. Washington continues to be one of the top three producers among State Plan states. Factors contributing to this difference in performance include a much longer history of being a state-run program (experience), and the use of advanced equipment and technology (knowledge).

Our performance at this point is slightly ahead of our projections. There is no gap or deficiency in this performance measurement to date. Procedures are in place through joint federal-state monitoring to address performance issues if any are identified.

L&I's DOSH program regularly sets annual performance goals directed at improving (and where appropriate, increasing) performance. We also set annual goals for implementing and measuring the results of new initiatives directed at emerging issues. Details are included in DOSH's annual performance plan and five-year strategic plans.

Prompt and accurate claims processing

L&I processes 139,000 claims filed annually and our staff are managing over 55,000 open claims at any given time. This involves monitoring the provision of over \$540 million paid out annually for medical treatment, in addition to lost wages replacement benefits, and awards for permanent physical impairment amounting to over \$520 million annually. The agency also provides return-to-work or vocational services to approximately 14,500 workers each year who are not able to return to work within 14 days of their disability.

Among measurements used for this activity are keeping track of the number of days from the date of receipt of a claim to the allowance or rejection decision. The most current figure is 21.3 days, well below our goal of 28 days.

We also measure the number of injured workers who are returned to work with the employer of injury through the Department's Early Return-to-Work Program. The most current number is only slightly below the agency's goal.

Analysis of L&I Customer Base

As mentioned earlier, all employers in Washington are required to purchase workers' compensation insurance from the Department of Labor and Industries, with the exception of certain large employers who are self-insured.

As a result, L&I's State Fund customer base is made up of small and medium-sized employers and their workers in all different types of employment settings and locations. Many employers and workers rarely have contact with L&I because they have few work-related injury claims. Other employers and workers, such as the construction industry, have extensive contact because of the hazardous nature of their work.

Some 400 businesses employing about 30 percent of Washington's workforce are self-insured in Washington. They are required to provide workers' compensation benefits at least equal to benefits from the State Fund. Self-insured firms are regulated by L&I. Workers may appeal decisions made by their self-insured employers to L&I.

Polls indicate most employers and workers are satisfied with current customer service provided by L&I. The department contracted with a Seattle-based polling firm, Gilmore Research Service, to conduct a series of customer satisfaction surveys of employers and workers who are covered by the State Fund.

The last survey, in June 2003, had the following results:

- 75 percent of employers were satisfied with L&I customer service;
- 87 percent of injured workers receiving medical benefits were satisfied with L&I customer service; and
- 74 percent of injured workers receiving time-loss payments were satisfied with L&I customer service.

Employer satisfaction levels have held steady since the first Gilmore survey in 1998. Worker satisfaction has increased during the same period.

Both employers and workers indicated three factors most important to them in terms of customer service:

- Fairness of the claims process
- Speed in which claims services are delivered
- Clarity of information they receive about their claims

Competition

Although state law doesn't allow direct competition for the services provided by the State Fund, there are a number of ways that competitive pressure is applied.

Comparisons to other states and private workers' compensation companies – Other states allow private insurance companies to offer workers' compensation coverage. Some states also have a government-operated system that competes with private companies. Although each state's system is somewhat unique, there are ways to compare Washington's services and premium rates with those in other states.

Legislative oversight – The Legislature sets the laws and the budget under which the Department of Labor and Industries operates. The Legislature holds the agency accountable through performance planning and monitoring for providing a system that is fair, efficient and cost-effective.

Customer access and influence – Unlike private companies, annual premium rate decisions and any substantive changes in the workers' compensation system must be publicly announced. The public is given an opportunity to comment on the proposed rates and changes at public hearings held around the state. In addition, a statutorily mandated advisory committee with employer and worker membership, the Workers' Compensation Advisory Committee, provides input into rate-making and other proposed changes.

Marketing strategy

The State Fund's marketing strategy differs from many private companies' marketing strategies. Our goal is not to increase market share – state law provides for a complete market share. Our goal also isn't to increase our product sales – we already “sell” all the insurance that's possible. Our goal is not to use marketing to increase profits – our goal is to operate at zero profit while providing maximum value to employers and employees.

In some ways, Washington's insurance system resembles a cooperative with its customers, employers and workers owning it in common. Marketing goals must reflect that situation and be aimed at partnering with customers/owners to:

- Improve processes to provide timely benefits
- Control or reduce costs
- Ensure fairness

L&I plans specific marketing strategies to help implement the three major objectives for the workers' compensation program.

- Prevent workplace injuries and thus reduce both human suffering and workers' compensation costs.
 - Marketing strategies will be aimed at raising employer awareness of workplace-safety concerns and by directing them to informational resources they can use to reduce workplace injuries and illnesses.
- Return injured workers back to their jobs as soon as safely and medically possible. This will reduce economic hardship for workers and costs for employers, as well.

- Marketing strategies will aim at informing employers and workers of the benefits of returning to work quickly and directing them to resources they can use.
- Attracting and retaining medical providers.
 - Marketing strategies will aim to encourage the best medical providers to treat injured workers.
- Manage workers' compensation claims processes as efficiently as possible. This will result in more timely benefits and also reduced costs.
 - Marketing strategies will inform employers and workers what they can do to make claims processes move forward quickly.
- Combat fraud and abuse in the system. This will result in reduced costs.
 - Marketing strategies will aim at enlisting employers, workers and providers in helping identify possible fraud and abuse cases.
- Increase communication channels among employers, workers, providers and the department.
 - Marketing strategies will inform customers of existing communications channels and educate them on new ways they can communicate with the agency and each other.

Demand forecast

L&I's customer base – the number of employers and workers – has been steadily growing with the state's population. We anticipate that demand for workers' compensation insurance will continue to increase in parallel with population growth.

Key changes in market trends or opportunities

The past few years have shown some improvements in outlook for the workers' compensation industry in general. Some states, like California, have taken action to reduce costs and many private workers' compensation companies are reporting improved revenues. A major concern remains the skyrocketing costs of health care in general.

It is difficult to anticipate major factors in demand forecast for workers' compensation in Washington State. The factors include:

- The number and costs of workplace injury and illness claims
- Increases in medical treatment costs
- Judicial rulings and changes in workers' compensation laws

The number of workplace injuries and illnesses has been steadily declining for the past decade. This is a result of improved workplace-safety efforts, as well as declines in certain types of hazardous industries. We anticipate that the decline in injuries and illnesses will continue and that our joint efforts in promoting injury prevention will help accelerate this decline.

We anticipate that L&I's medical costs will not increase as fast as the national rate because of the impact of L&I efforts to keep costs down. Our goal to maintain the annual growth of medical aid fund costs at or below 7%. The most recent figures show the growth at 5.4%.