

## Insurance for Workers and Employers

### Your Guarantee

Washington State established its workers' compensation system 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 result from workplace injuries. Over the years, the system has evolved. One of the most significant changes occurred in 1917, when a law was passed that made workers responsible for paying a significant portion of the premiums. In 2005, their share averaged 27.6 percent. Washington is the only state where workers pay a substantial portion of premiums.

### Our Commitment

The Department of Labor and Industries (L&I) will:

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

### Responsive Change

To fulfill this commitment, L&I will 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 must continue to partner with employers and workers to provide a fair and sound workers' compensation system.

#### 2005 Year in Review

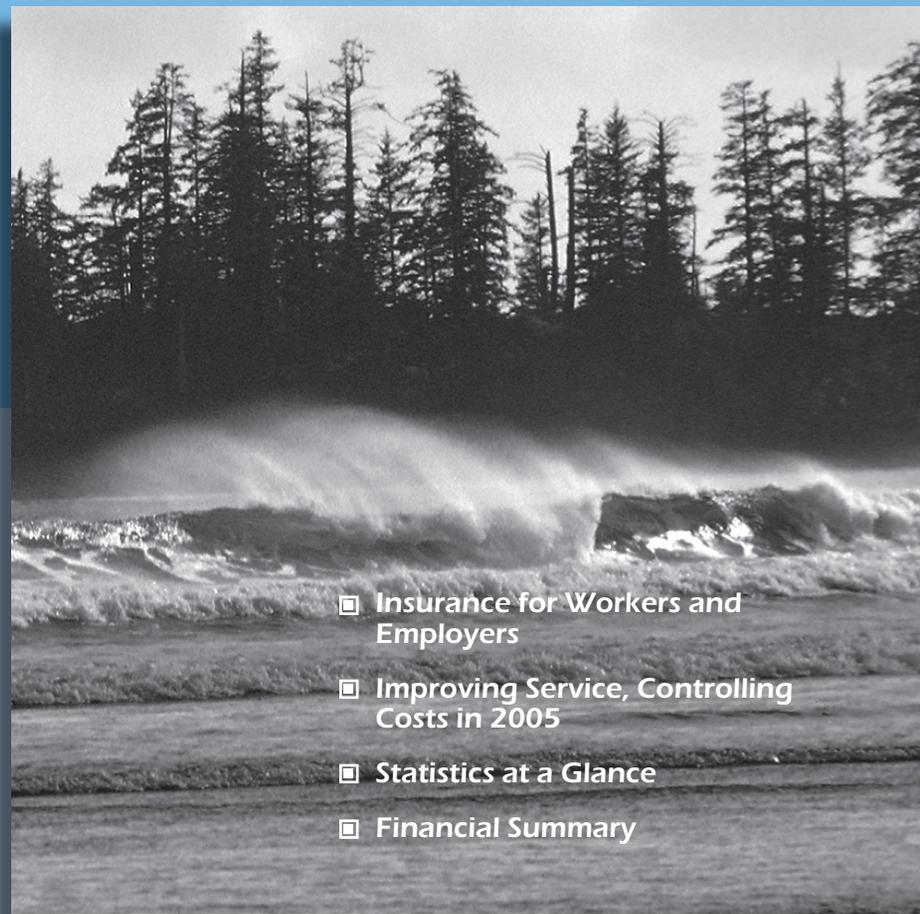
For additional copies of the 2005 Year in Review, contact the Labor and Industries office nearest you.

This publication is also available online at [www.LNI.wa.gov/IPUB/200-009-000.pdf](http://www.LNI.wa.gov/IPUB/200-009-000.pdf).

# 2005

## Year in Review

### Washington's Workers' Compensation System



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## Improving Service, Controlling Costs in 2005

We want to focus this year's message on some of our successes, which could not have been accomplished without the support of our customers and providers, and the dedication and hard work of L&I staff.

### No General Rate Increase for 2006

In many ways, 2005 was a very successful year for our workers' compensation system. Thanks to good investment earnings, we are in a stronger financial position and ended the fiscal year with a contingency reserve in excess of \$1.1 billion. We've continued to be successful at controlling medical costs, and administrative changes at L&I are beginning to improve how we manage claims and get injured workers back to their job. *As a result, we did not have a general rate increase in 2006.*

### Centers of Occupational Health and Education (COHE)

L&I launched the centers in Renton and Spokane on the premise that injured workers would recover more quickly if their health-care providers understood and had access to occupational-health best practices. A recent study by the University of Washington showed positive outcomes. By doing the right things for injured workers sooner, the State Fund saved nearly \$6 million in claim costs in one year. You can view the entire study at [www.LNI.wa.gov/ClaimsIns/Providers/Research/OHS/](http://www.LNI.wa.gov/ClaimsIns/Providers/Research/OHS/).

The COHEs have proven so successful that the Legislature recently gave L&I additional money to expand the Spokane center to include virtually all of central and eastern Washington.

### Assigned Claim Managers for 1,000 Employers

In 2005, we built on a program that began in 2004. The 1,000 employers who pay the highest premiums were assigned their own claim manager. This action has multiple advantages. At the top of that list is that employers find it easier to deal with a single claim manager who understands their industry and the return-to-work opportunities that may exist in that industry.

### Help for Small Employers

Having found a way to better serve large employers, we set out to build a new business model that better serves small and medium-sized employers. With input from business groups, that redesign process is under way.

In addition, L&I has appointed a liaison to help serve the needs of small employers. If you need help getting an L&I issue resolved or just need some quick information, contact Ron Langley by e-mail at [SmallBusiness@LNI.wa.gov](mailto:SmallBusiness@LNI.wa.gov) or call 360-902-4205.

### Fraud Prevention and Compliance

A year ago, L&I surveyed employers, asking them to rate our performance. One of the things business told us was they wanted L&I to do more to combat fraud. Combating fraud and abuse is one of L&I's top priorities. In fiscal year 2005, we collected more than \$104.9 million in delinquent employer premiums and overpayments to workers and providers.

We also laid the groundwork for an effective and ongoing fraud-prevention program. We are working closely with other state and federal agencies to identify workers who collect benefits while working, providers who overbill for their services and employers who operate in the underground economy.

To find out how you can assist us in this effort, and for a more complete look at our efforts to combat fraud and abuse, please go to [www.Fraud.LNI.wa.gov](http://www.Fraud.LNI.wa.gov).

### L&I Online Claim and Account Center

We moved into the modern age with the opening of the online center – [www.ClaimInfo.LNI.wa.gov](http://www.ClaimInfo.LNI.wa.gov). Employers already had the option of opening accounts and paying premiums online. Now most workers' compensation business can be conducted electronically, from 4 a.m. to midnight.

Despite these successes, we know there's a lot more work that needs to be done. In 2006, we are continuing to make improvements in how we serve our customers.



Sincerely,

Gary Weeks  
Director

Robert Malooly  
Assistant Director, Insurance Services

# Washington State Workers' Compensation State Fund

The State Fund provides workers' compensation insurance for about 2.3 million employees working for more than 161,000 employers. Premiums paid by employers and workers, and investment earnings, finance the program.

In addition to administering the State Fund, the Department of Labor and Industries also ensures that about 830,000 workers employed by companies that self-insure receive the same level of workers' compensation benefits provided by the State Fund.

## Statistics at a Glance

Operating Environment	2005	2004
Employers Insured	161,000	157,000
Workers Covered	2,300,000	2,200,000
Hours Reported	3,049,406,000	2,911,954,000
Premiums Assessed (employers' portion)	\$1,108,948,000	\$974,823,000
Premiums Assessed (workers' portion)	\$301,506,000	\$265,822,000
Net Investment Income and Gains	\$623,933,000	\$868,041,000
Benefits Incurred	\$1,386,587,000	\$1,584,660,000

Claim Statistics	2005	2004
Number of Claims Filed	139,359	137,835
Number of Claims Accepted	121,217	121,201
Number of Claims Denied	15,977	16,050
Fatal Pensions Awarded	63	73
Total Permanent Disability Pensions Granted	952	967
Permanent Partial Disability Awards Granted	13,309	14,612
New Time-loss (Wage Replacement) Claims	28,521	29,500
Medical-only Claims Accepted	96,289	94,003
Retraining Plans Completed	1,058	1,042
Total Days Lost from Work	7,240,000	7,190,000

Demographics of Accepted Claims	2005	2004
Male Injured Workers	71%	70%
Female Injured Workers	29%	30%
Average Age of Injured Worker	37	37
Workers Younger than 30	34%	33%
Workers 30 to 50	51%	52%
Workers Older than 50	16%	16%

Most Frequent Injuries	2005	2004
Cut/Abrasion on the Hand/Finger	16,695	17,693
Sprain/Strain Back	14,804	16,342
Sprain/Strain Lower Extremities	6,564	7,018
Eye Injuries	5,486	6,090
Sprain/Strain Trunk	5,136	5,629

Note: The fiscal year is July 1 through June 30. FY 2005 statistics are not final.



## Why Washington State can afford high benefits to workers while keeping premiums lower than most states

Because it's a government agency, Washington's workers' compensation system saves money in a number of ways that benefit both employers and their workers. Washington's system doesn't pay taxes or commissions and brokerage fees, has no advertising budget, has dramatically lower administrative costs and doesn't need to make a profit for investors. Conning Asset Management estimates that Washington's State Fund has expenses and profit that are \$779 million below the national average for workers' compensation insurers. Those savings are passed on to our customers, allowing Washington's State Fund to pay a high level of benefits while keeping premium costs lower than most states.

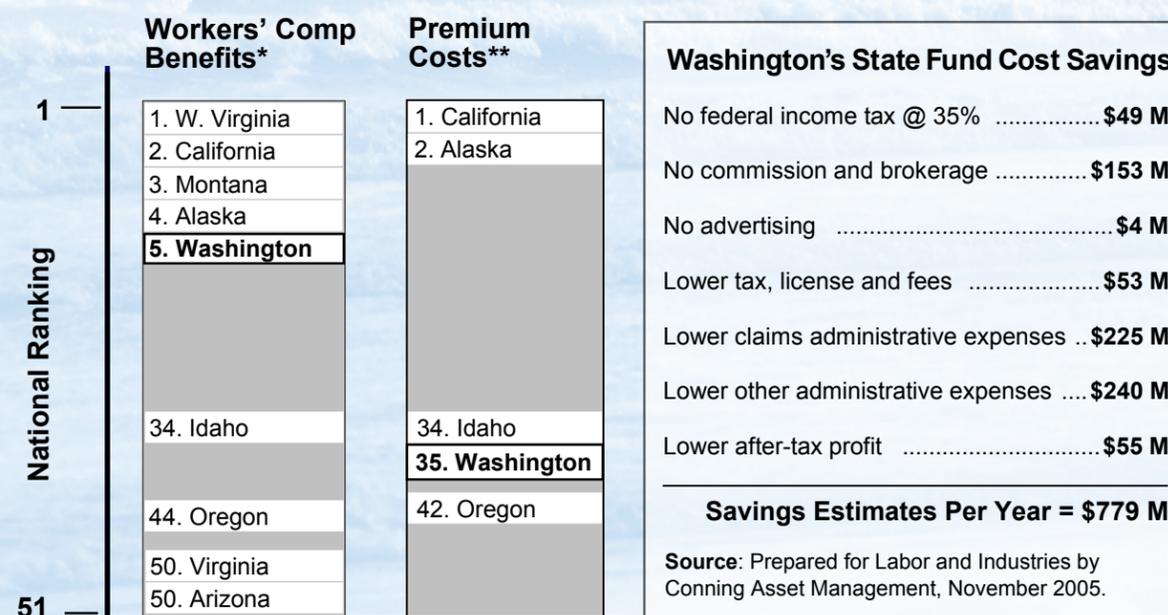
### High benefits

In benefits paid to injured workers, Washington ranks 5th in the nation (most recent ranking by the National Academy of Social Insurance 2003).

### Low costs

In the 2004 Oregon national study, Washington ranked 35th in the nation in premiums per payroll dollar, which in Washington is shared by employers and workers (Oregon Department of Consumer & Business Services, "2004 Oregon Workers' Compensation Premium Rate Ranking"). The entire study and state-by-state rankings, along with a 10-year history of rates and a breakdown of where that money goes, can be found at [www.StateFundFinancial.LNI.wa.gov](http://www.StateFundFinancial.LNI.wa.gov).

## Washington's Ranking



\*National Academy of Social Insurance  
 \*\*2004 Oregon Workers' Compensation Premium Rate Ranking

## Financial Summary

Accident, Medical Aid and Pension Reserve funds

Summary of Financial Condition		
Year	Ending: 6/30/05	Ending: 6/30/04
<b>Assets</b>		
Cash and Investments	\$9,464,216,000	\$8,916,310,000
Premiums Receivable, Net	\$398,054,000	\$344,205,000
Land, Buildings and Equipment, Net	\$17,228,000	\$11,509,000
Other Assets	\$7,503,000	\$19,775,000
<b>Total Assets</b>	<b>\$9,887,001,000</b>	<b>\$9,291,799,000</b>
<b>Liabilities and Contingency Reserve</b>		
Benefits	\$8,167,206,000	\$7,968,235,000
Claims Administration	\$371,732,000	\$377,903,000
Retrospective Rating Adjustments	\$145,761,000	\$111,037,000
Other Liabilities	\$46,754,000	\$46,435,000
<b>Total Liabilities</b>	<b>\$8,731,453,000</b>	<b>\$8,503,610,000</b>
<b>Contingency Reserve</b>	<b>\$1,155,548,000</b>	<b>\$788,189,000</b>
<b>Total Liabilities and Contingency Reserve</b>	<b>\$9,887,001,000</b>	<b>\$9,291,799,000</b>

Summary of Operations and Contingency Reserve		
<b>Revenues</b>		
Net Premiums Earned	\$1,268,213,000	\$1,126,673,000
Net Investment Income	\$472,762,000	\$432,389,000
Investment Gains	\$151,171,000	\$435,652,000
Self-Insured Pension Reimbursements	\$70,541,000	\$67,647,000
Other Income	\$15,540,000	\$17,650,000
<b>Total Revenues Earned</b>	<b>\$1,978,227,000</b>	<b>\$2,080,011,000</b>
<b>Expenses</b>		
Benefits Incurred	\$1,386,587,000	\$1,584,660,000
Claims Administration Expenses Incurred	\$112,202,000	\$31,697,000
Other Administrative Expenses Incurred	\$113,252,000	\$90,873,000
<b>Total Expenses Incurred</b>	<b>\$1,612,041,000</b>	<b>\$1,707,230,000</b>
<b>Net Income</b>	<b>\$366,186,000</b>	<b>\$372,781,000</b>
<b>Change in Non-Admitted Assets</b>	<b>\$1,173,000</b>	<b>\$(41,190,000)</b>
<b>Change in Contingency Reserve</b>	<b>\$367,359,000</b>	<b>\$331,591,000</b>

Cash Flow Summary		
Operational Revenues Collected	\$1,326,609,000	\$1,157,205,000
Benefits Paid	\$(1,187,616,000)	\$(1,166,104,000)
Administrative Expenses Paid	\$(209,607,000)	\$(175,111,000)
<b>Net Operating Cash Flow</b>	<b>\$(70,614,000)</b>	<b>\$(184,010,000)</b>
Net Investment Income Collected	\$488,838,000	\$472,991,000
Investment Sales / (Purchases)	\$(421,706,000)	\$(258,448,000)
<b>Net Investment and Other Cash Flow</b>	<b>\$67,132,000</b>	<b>\$214,584,000</b>
<b>Net Cash Flow</b>	<b>\$(3,482,000)</b>	<b>\$30,533,000</b>
<b>Beginning Cash</b>	<b>\$4,111,000</b>	<b>\$(26,422,000)</b>
<b>Ending Cash</b>	<b>\$629,000</b>	<b>\$4,111,000</b>

Note: Figures rounded to nearest \$1,000

Based on: Statutory Accounting Principles Source: Washington State's Accounting and Financial Reporting System with adjustments for insurance reporting

## An Invitation to Learn More

This *2005 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](http://www.StateFundFinancial.LNI.wa.gov)