

To our State Fund members:

This past year has been a time of economic challenge and intense analysis. We managed investments carefully to preserve income, used new strategies to manage medical costs, expanded online services, and increased the use of occupational health best practices. We will continue our cost-cutting measures, as outlined in this *2009 Year in Review*, by re-engineering the claim filing process, involving employers sooner, and fighting fraud.

We urge you to take advantage of the seven things **you** can do to affect your premiums, included in this report. These proven strategies are your surest way to control costs, more important than ever during difficult economic times.

Washington's workers' compensation program has many advantages. Our benefits protect injured workers and their families at premium rates that are lower than half the other states. We're the only state where employees pay a significant portion of the premium, 27%, which cuts employer costs while maintaining these benefits. We give a claim-free discount to 70% of employers. We cover everyone, we won't cancel anyone, and we won't be out of business tomorrow.

These advantages, along with ongoing improvements and further changes in 2010, reinforce our commitment to provide workers and employers with a premier workers' compensation program.



Sincerely,

Judy Schurke
Director



Robert J. Malooly
Assistant Director,
Insurance Services

Protection for employers and workers

The Department of Labor & Industries (L&I) administers Washington's workers' compensation system. "Workers' comp" pays medical expenses for workers who suffer job-related injuries or illnesses, and when they are unable to work due to these conditions, partially replaces their lost wages. Employers pay about 73% of the premiums and workers contribute the remaining 27%.

This no-fault system protects employers from lawsuits that could otherwise result from job-related injuries and illnesses.

Customer-service goals

Our goals are to provide:

- Prompt and responsive service.
- High-quality claim services.
- High-quality insurance services to employers.

We are also committed to:

- Making Washington's workplaces safer. Our services include free on-site consultations for employers, Web-based information and educational materials.
- Increasing injured workers' access to appropriate, quality medical care and controlling costs.
- Setting premium rates that are fair, stable and as low as possible for State Fund employers and their employees.

2009 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/200-017-000.pdf.

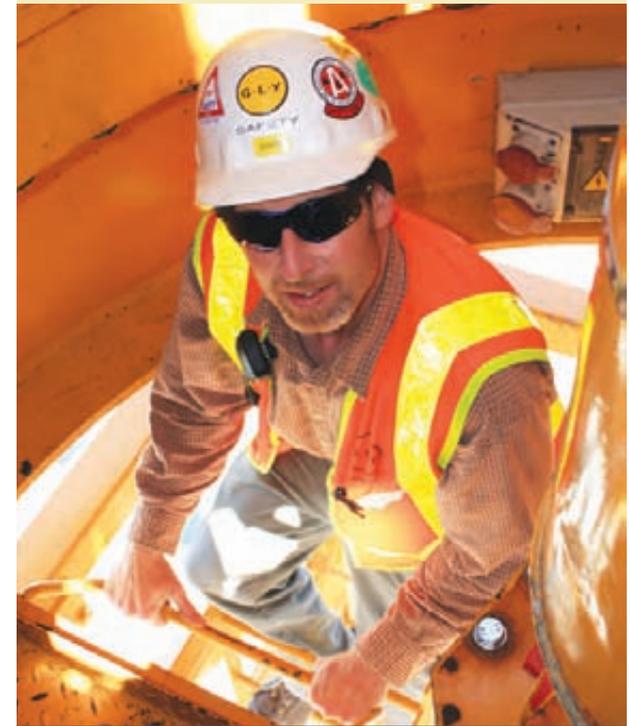
Other formats for persons with disabilities are available on request. Call 1-800-547-8367. TDD users, call 360-902-5797. L&I is an equal opportunity employer.

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Washington State Department of
Labor & Industries

Workers' Compensation Services



2009 Year in Review

*Washington's Workers'
Compensation System*



5 things we've done to control costs

1. Managed investments carefully.

Early in 2008, the Department of Labor & Industries (L&I) sold about a billion dollars of equities and bought treasury inflation-protected securities (TIPS), which reduced our equity market exposure and avoided \$300-\$400 million in investment losses.

2. Controlled medical costs.

Our strategies include closely monitoring prescription drug use, encouraging use of generic drugs, auditing medical bills, and requiring preauthorization for longer-term physical or occupational therapy services. We also review requests for surgical services to ensure that we are paying for the most appropriate care.

3. Expanded services online.

The online Claim & Account Center now offers more self-service features. You can review your account information and file your quarterly reports online. If one of your employees has filed a claim, you can:

- Submit the Employer's Report of Accident.
- Review claim documents, and exchange secure messages with the claim manager.
- Protest a claim decision.

It all adds up to getting answers faster and taking action sooner. (And that translates into cost savings all around.)

4. Increased the use of occupational health best practices.

More than 25% of injured workers covered by the State Fund receive treatment from health-care providers aligned with Centers for Occupational Health and Education (COHEs). These centers mentor and reward providers for using proven best practices—prompt reporting of job-related injuries and illnesses; improved communication with the worker and employer; timely and appropriate treatment; and assist with return-to-work options when appropriate.

5. Improved bill-payment processes.

We fixed delays that made health-care providers less willing to treat workers' comp claimants. We simplified correspondence, reduced the number of forms they must complete, provided assistance to reduce billing hassles, and completed medical authorizations sooner. We increased the percentage of provider bills paid within 30 days from 77% to 94% in the last two years.

5 more changes that will protect your money

1. Re-engineer the claim filing process.

Industry research shows that claims cost less and injured worker outcomes improve when claims are filed quickly. We are working to remove delays that impact early return-to-work, treatment authorization and first payment of time-loss. For example, we pay health-care providers in pilot programs an additional fee to fax the report of accident within two days. We are also in the early stages of developing telephone and Web-based systems for filing the report of accident.

2. Provide better service to employers.

We've redefined the role of our employer account managers. Starting in 2010, they will be calling more employers to make sure they know about services L&I offers, especially employers paying premiums higher than average for their risk classification. They'll also explain the claim-free discount, steps to reduce the impact claims have on premiums, and the importance of reporting hours in the correct risk classification.

3. Bring occupational health 'know-how' to more communities.

The Centers for Occupational Health and Education (COHE) have increased occupational health know-how among health professionals treating injured workers. We are planning for further COHE expansion by 2013.

4. Never let up on fraud.

With legislative support, we're going after the underground economy. Watch for education campaigns that show the public how unregistered construction contractors harm consumers and unfairly compete with honest companies. This latest campaign builds on five years of fraud-fighting work within the agency. Return on investment in 2008 was \$7.60 for every \$1 spent.

5. Count, check, measure—and keep getting better.

We have adopted business-process improvement methods that companies such as Toyota and Boeing have used with great success. Our focus is reducing extra steps in internal processes so we provide service faster.

The State Fund provides workers' compensation insurance for about 2,460,000 employees working for 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 2009	FY 2008
Employers Insured	168,000	171,000
Workers Covered	2,460,000	2,570,000
Hours Reported	3,232,000,000	3,380,000,000
Premiums Assessed (employers' portion)	\$1,151,000,000	\$1,255,000,000
Premiums Assessed (workers' portion)	\$ 312,000,000	\$ 319,000,000
Benefits Incurred	\$2,348,838,000	\$1,918,808,000

Claim Statistics	FY 2009	FY 2008
Number of Claims Filed	116,616	136,791
Number of Claims Accepted	102,440	119,788
Number of Claims Denied	14,964	15,748
Fatal Pensions Awarded	42	63
Total Permanent Disability Pensions Granted	1,612	1,109
Permanent Partial Disability Awards Granted	12,684	12,316
New Time-loss (Wage Replacement) Claims	26,295	28,593
Medical-only Claims Accepted	80,171	95,052
Retraining Plans Completed	1,142	1,694
Total Days Paid for Lost Work	7,926,800	7,488,000

Demographics of Accepted Claims	FY 2009	FY 2008
Male	68%	70%
Female	32%	30%
Average Age	38	37
Younger than 30	32%	34%
Age 30 to 50	48%	47%
Older than 50	21%	19%

Most Frequent Injuries	FY 2009		FY 2008	
	Rank & # of Claims		Rank & # of Claims	
Back, spine, and spinal cord: Traumatic injuries to muscles, tendons, ligaments, and joints <i>(includes sprains and strains)</i>	1	13,486	1	16,192
Finger(s): Open wounds of finger(s), fingernails <i>(includes cuts and lacerations, and amputation of fingertip or finger)</i>	2	10,837	2	12,871
Face: Surface wounds and bruises <i>(includes splinter or other foreign body in eye, and bruises or contusions of the forehead)</i>	3	5,020	3	6,153
Leg(s): Traumatic injuries to muscles, tendons, ligaments, joints, etc., such as knee and thigh <i>(excludes ankle and hip)</i>	4	4,356	4	4,460
Shoulder: Traumatic injuries to muscles, tendons, ligaments, joints, etc. including clavicle, scapula <i>(injuries to muscles, tendons, and ligaments that are not specifically otherwise classified)</i>	5	4,053	5	4,235

Notes: The data are a snapshot of FY2009 (July 1 – June 30) as of the first week of October 2009. Because of rounding, some columns may not add up to 100%.

Counts of accepted and denied claims reflect actions in that year regardless of when claim was filed.

Counts of new time-loss (wage replacement) claims reflect claims with first time-loss payments, regardless of year claim was accepted.

Washington State Workers' Compensation State Fund

7 things you can do to affect your premiums

1. Find hazards and hidden costs.

Call us. An L&I consultant can visit your business and provide free assistance in any of these areas:

- Worker safety—to evaluate hazards and clarify the safety-and-health requirements for your business.
- Ergonomics—to identify ways to reduce risk of sprains, strains and other injuries that hurt your workers, productivity and profits.
- Risk management—to provide data and analysis specific to your business and show you how workers' compensation claims can affect the premiums you pay.

Go to www.SafetyConsultants.Lni.wa.gov or call the nearest L&I office.

2. Involve your employees in workplace safety.

Your employees see conditions firsthand that could be hazardous, so you'll want to listen to their safety ideas. Fixing hazards sometimes improves efficiency too. At a minimum, conduct safety meetings at least monthly (smaller businesses) or establish a safety committee (larger companies). Learn more: www.Lni.wa.gov/wisha/rules/corerules/HTML/296-800-130.htm.

3. Verify that you're paying the right premium.

If you've changed the nature of your business or the work your employees do, you could be paying too much or too little for your workers' compensation coverage. Your L&I account manager can assist you. Call the phone number on your quarterly report or 360-902-4817.

4. Protect your claim-free discount.

You'll lose your claim-free discount if a serious workplace injury results in lost time from work. If you have your discount, take steps to protect it – stay focused on safety and, if a claim occurs, know

what to do (see #5). You can regain your discount after three years without a time-loss or disability claim. The discount can range from 10% to 40% off the base premium rate. Get the details: www.ClaimFreeDiscount.Lni.wa.gov.

5. Know what to do if an injury occurs.

Your first priority is medical attention for your injured employee. Keep this important fact in mind: Research shows that prompt medical treatment and claim filing can reduce disability and time off work.

It makes good business sense to file the Employer's Report of Accident right away and stay informed about the claim. If appropriate, consider options such as keeping your worker on salary or creating a light-duty job. A risk management consultant can tell you more (see #1) or read the *Employer's Return-to-Work Guide*: www.Lni.wa.gov/IPUB/200-003-000.pdf.

6. Find out if Retro is right for you.

Retrospective Rating (Retro) is L&I's optional financial incentive program. It allows participating employers to recover a portion of their premiums if they reduce their workplace injury rate and lower associated claim costs. Read about Retro: www.Retro.Lni.wa.gov.

7. Fight fraud.

You pay your share, shouldn't everyone? As with any insurance provider, fraud can drive up workers' compensation costs. Contact L&I if you see signs of fraud:

- Other employers not paying premiums or underreporting hours.
- Construction contractors who haven't registered.
- Employees working while collecting time-loss benefits from L&I.
- Health-care providers overcharging L&I for medical services.

Go to www.Fraud.Lni.wa.gov or call 1-888-811-5974.

Financial Summary

Accident, Medical Aid and Pension Reserve Funds

Audited numbers, along with a 10-year history of our financials, will be available on the L&I Web site after January 31, 2010 at www.StateFundFinancial.Lni.wa.gov.

Summary of Financial Condition	Rounded to nearest thousands	
Fiscal Year Ending	June 30, 2009 (Unaudited)	June 30, 2008 (Audited)
Assets		
Cash and Investments	\$ 10,921,003,000	\$ 11,074,110,000
Premium Receivables, Net	358,912,000	415,309,000
Land, Buildings, and Improvements, Net	18,282,000	15,935,000
Other Assets	46,570,000	19,862,000
Total Assets	\$ 11,344,767,000	\$ 11,525,216,000
Liabilities and Contingency Reserve		
Benefits*	\$ 10,156,721,000	\$ 9,330,953,000
Claims Administration	464,068,000	419,411,000
Retrospective Rating Adjustments	116,909,000	124,054,000
Other Liabilities	56,848,000	48,852,000
Total Liabilities*	10,794,546,000	9,923,270,000
Contingency Reserve*	550,221,000	1,601,946,000
Total Liabilities and Contingency Reserve	\$ 11,344,767,000	\$ 11,525,216,000

Summary of Operations and Contingency Reserve		
Revenues		
Net Premiums Earned*	\$ 1,360,533,000	\$ 1,123,824,000
Net Investment Income Earned	517,863,000	537,559,000
Investment Gains	(41,466,000)	347,144,000
Self-Insured Pension Reimbursements*	114,403,000	95,511,000
Other Income	54,614,000	53,196,000
Total Revenues Earned	2,005,947,000	2,157,234,000
Expenses		
Net Benefits Incurred*	2,348,838,000	1,918,808,000
Claims Administration Expenses Incurred*	185,980,000	130,197,000
Other Administrative Expenses Incurred	220,260,000	192,398,000
Total Expenses Incurred*	2,755,078,000	2,241,403,000
IT Tech Pool Transfer	2,770,000	
Net Income (Loss)*	(751,901,000)	(84,169,000)
Equities & TIPS Unrealized Gains (Loss)	(361,649,000)	(428,765,000)
Change in Non-Admitted Assets*	61,825,000	21,168,000
Change in Contingency Reserve*	\$ (1,051,725,000)	\$ (491,766,000)

Cash Flow Summary		
Operating Revenues Collected*	\$ 1,530,146,000	\$ 1,158,663,000
Benefits Paid	(1,523,070,000)	(1,382,230,000)
Administrative Expenses Paid*	(273,750,000)	(255,721,000)
Net Operating Cash Flow	(266,674,000)	(479,288,000)
Net Investment Income Collected	480,018,000	894,374,000
Investment Sales / (Purchases)	(173,610,000)	(452,293,000)
Net Investment and Other Cash Flow	306,408,000	442,081,000
Net Cash Flow	39,734,000	(37,207,000)
Beginning Cash	(27,544,000)	9,663,000
Ending Cash	\$ 12,190,000	\$ (27,544,000)

Note: Figures rounded to nearest \$1,000; FY 2009 amounts are final unaudited.

*2008 items restated to reflect final audited amounts.

Source: The Washington State Agency Financial Reporting System with adjustments for Statutory Basis of Accounting.

An Invitation to Learn More

This *2009 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.