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Washington Pension System Review

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Washington Pension System Review

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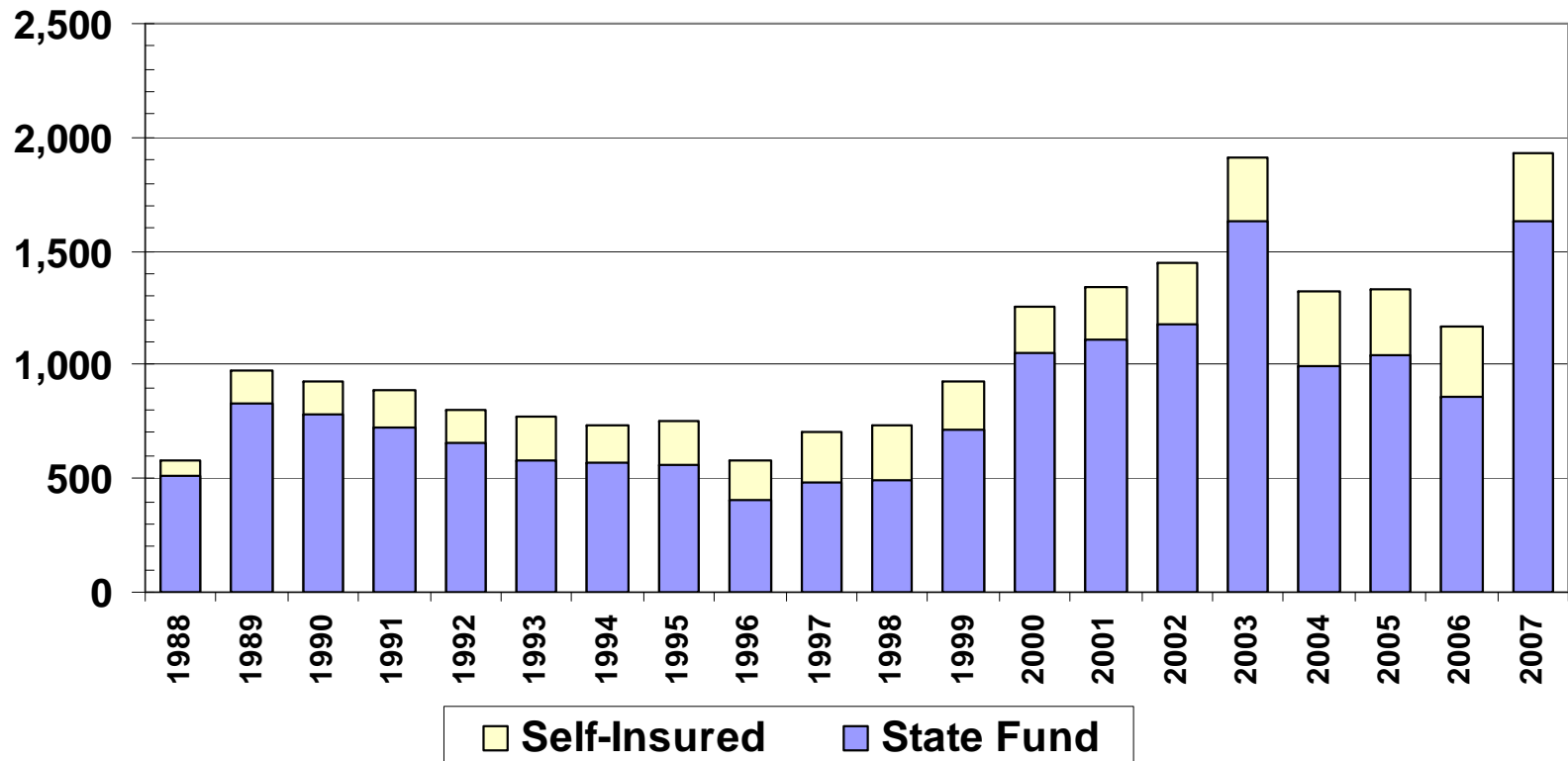
Heather Grob, St. Martins University

Henry Harder, University of Northern British Columbia

Michael Silverstein, University of Washington

Pensions Awarded 1988–2007

Number of TPD Pensions Awarded by Fiscal Year



Source: L&I Research and Data Services

Plan of the Presentation

- Overview of project
- How does Washington compare?
- Factors that might explain the increase
- The claim file review
- Predictive model



Elements of Upjohn Project

- Interviews with informed observers
- Review of L&I administrative data
- Benchmarking Washington system
- Claim file review conducted
- Comparative analysis, 1977 and 2002 TPD
- Predictive model for TPD awards



Benchmarking Washington TPD

Comparison Limitations & Difficulties

- WA workers pay some of the costs directly
- No compromise and release agreements
 - Comparability of data issues result
 - What is PPD vs TPD?
 - Statutory vs administrative TPD
- Self-insured employers always excluded from NCCI data
- Estimated employment base in WA

Where Does Washington Rank? (1)

- Time-loss claims per 100K workers
 - Top 3 are AK, CA, HI all over 2,500
 - Washington (ranks 10th) about 1,750
- TPD claims per 100K workers
 - Top 3 are CA, MT, FL about 20 to 40
 - With some development issues remaining
 - Washington (ranks 1st) up to 65 per 100K

Where Does Washington Rank? (2)

- TPD Claims per 1,000 time-loss claims
 - Top 3 are CA, FL, MT all over 13
 - Washington (ranks 1st) about 38
- TPD claims per 100 PPD claims
 - Top 3 are FL, MT, MI all over 3.5
 - Washington (ranks 1st) about 11

Where Does Washington Rank? (3)

- TPD Total cost per claim
 - Top 4 are ID, AZ, DE, OR
 - Washington (below average)
 - Based on actuarial projections
 - Compromise and release impact
 - Discount rate for future benefits
 - Washington spousal annuity option



Sources of the Pension Increase

Possible Sources of the Pension Increase (1)

- Overall level of occupational injuries and illnesses during this time period
- Severity of injuries sustained from accidents
- Degree to which claims are of very long duration
- The probability that long duration time-loss claims wind up as pensions
- Changing demographics in Washington including the age and gender of the workforce
- The composition of impairments with a focus on back injuries and psychiatric involvement and possible causes due to changing treatments

Possible Sources of the Pension Increase (2)

- Impact of legislative and regulatory changes as well as notable judicial decisions
- Increasing appeals to the BIIA
- Role of the second-injury fund
- The strength or weakness of the labor market
- Contributions of vocational rehabilitation programs

Changing Incidence or Severity of Injuries and Illnesses

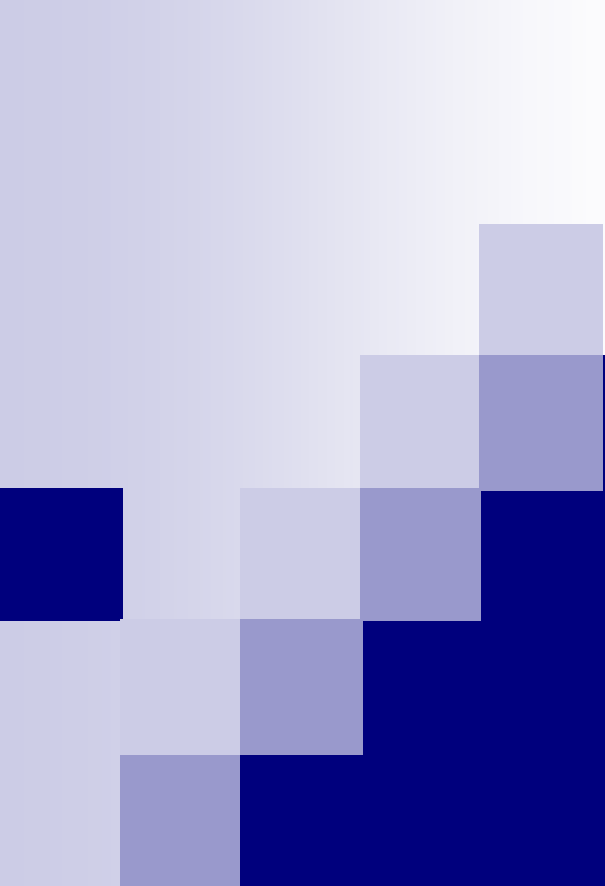
- Lost time rate per 100 FTE from BLS declining
 - 1996 3.05 per 100 FTE
 - 2006 2.14 per 100 FTE
- Fatalities and fatality rate both declined
- Average disability award rates
 - non-pension recipients median—declining
 - pension recipients median—constant
- Pensions as a % of time-loss claims—increasing

Changing Labor Market Conditions (1)

- Excellent employment growth 1990–2000 (33.2% for WA and 21.5% for the U.S.)
- Weakness in employment, 2000–2004
- Unemployment rate in WA above the U.S. 1991–2006, but for 1992
- WA ranked 48, 50, and 49 among states for worst unemployment rates in the country

Changing Labor Market Conditions (2)

- Ratio of pensions to time loss higher in distressed counties than balance of the state 1995–2000
 - 50 percent higher for self insured
 - 76 percent higher for the state fund
- Ratio of pensions to time loss in high minority population counties than balance of the state 1995–2000
 - 47 percent higher



Steps to Shorten Duration and/or Close Claims

Paths to Closure

- Determination of maximum medical improvement
- Return to work
- Determination of employability following MMI
- Continued inability to work not related to the injury or illness for which the claim was allowed
- PPD award
- Determination of total and permanent disability leading to pension award

Three Observed Conditions...

- A build-up of very long duration time-loss claims
- A high probability that a long duration time-loss claim will evolve into a pension case
- A concerted push to clear out the long duration time-loss claims



The Claim File Review

Summary of Claim Review Findings of TPD Claims, 2002 vs 1997

- Higher age at injury
- Lower proportion married
- Lower number of hospital admissions and surgical procedures
- More likely to demonstrate opioid use
- More have preexisting conditions
- From economically distressed counties
- Fewer attempts at return to work

Summary of Claim Review Findings on State Fund Time-Loss Claims

- Less likely to involve back injury
- Lower hospital admission and fewer surgical treatments
- Older and more likely to have H.S. degree
- Less opioid use, less likely to have used a pain clinic, less psych involvement
- Less likely to have preexisting conditions
- Less likely to show a return-to-work attempt
- More likely to have had their claim contested but less likely appeal to BIIA



Predictive Model

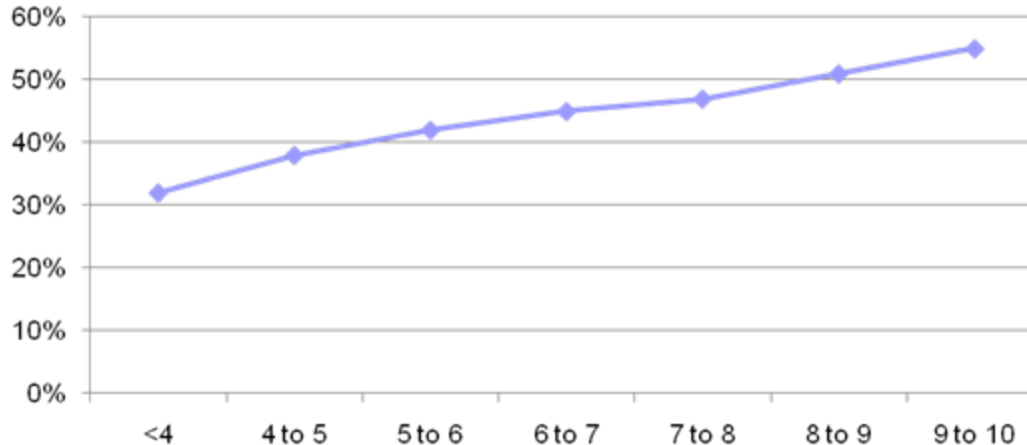
Predictive Model Differs from Actuarial Model

- We used a binomial logit model expressed in odds ratios (likelihood of event occurring versus not occurring)
- Intent was to complement work done by actuaries at L&I
- Our model does not directly relate to total number of TPDs, pension costs, or future premium rates

Time Loss is the Most Important Factor in TPD Likelihood

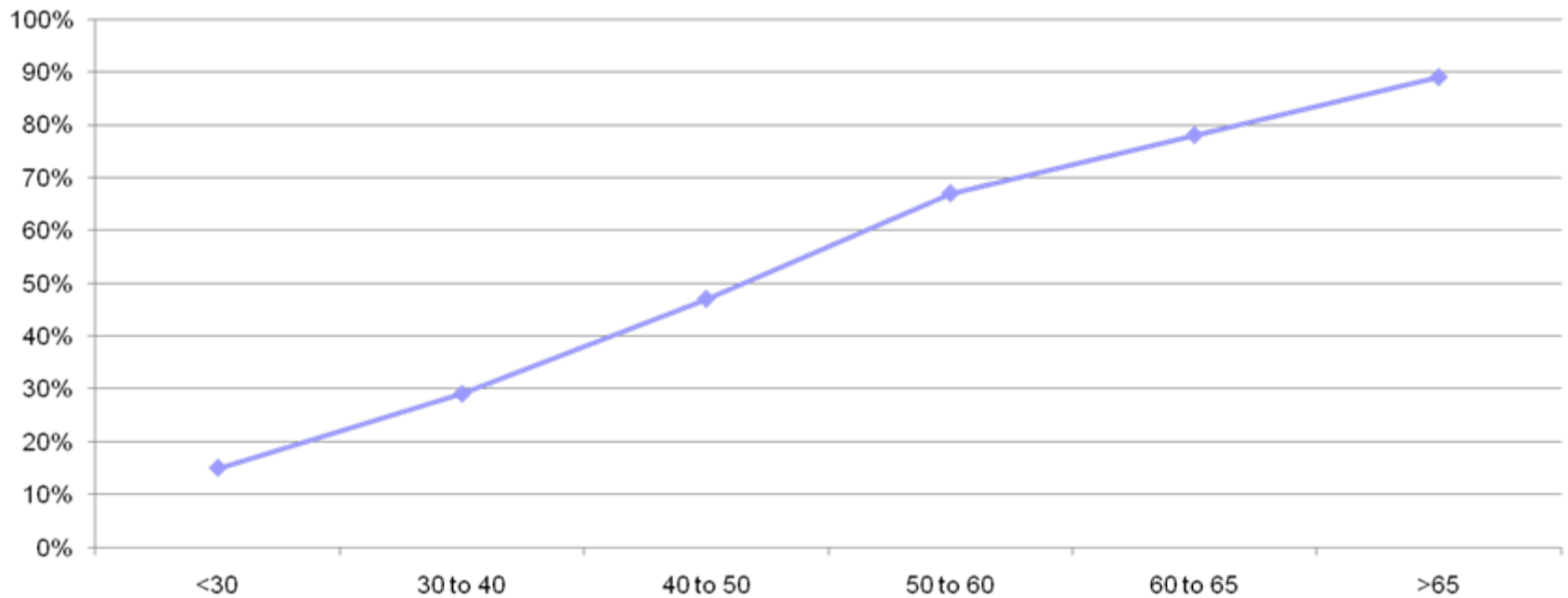
- Each year after injury increases odds of TPD by about 30%

Predicted probability of TPD based on time loss years



Age at Injury Predicts TPD

Predicted probability of TPD based on age of injured worker at injury



Other Factors Included in the Model Affecting TPD

- Gender: men (+)
- Average TL (and wage) payments (+)
- Economically distressed areas (+)
- Psychological treatment (+)
- Accepted back/neck injury (+)
- Opioid cases (+)
- VR plan approved (-)
- SSO provisions (+)
- PPD award (-)
- Industry/agriculture (+)
- Appeals (+)



Washington is Unique

Arrangements for Permanent Disability Compensation among State Workers' Compensation Systems

Limits on lump-sum settlements for indemnity benefits for permanent disability	Permanent partial disability benefits based solely on impairment (unscheduled injuries)	Permanent total disability benefits paid only for conditions listed in the statute	Permanent total disability benefits paid based on impairment or on lost wage earning capacity
Delaware	X	X	
Indiana	X		
Nevada	X		X
New Mexico		X	
Tennessee			
Texas	X	X	
Washington	X		X
West Virginia	X		

SOURCE: Barth and Niss

Washington is Unique (1)

- Combining several aspects of the system makes Washington unique and vulnerable to high levels of TPD pensions
- Consider only pensions **not** based on statutory TPDs
- 1. Benefits for permanent **partial** disability are paid strictly for (medically determined) impairment. This is not unusual. Severe impairments, higher benefits, relatively minor impairments, lower indemnity benefits

Washington is Unique (2)

- 2. Essentially no compromise and release settlements can be used; flexibility is reduced
- 3. TPD pensions awarded based on **disability not on impairment**

(Disability reflects the economic loss and is evaluated on the basis of employability)

The result:

The impairment benefit for PPD may clearly undercompensate by most criteria

Washington is Unique (3)

- The absence of alternatives means that there is no way to pay more than the impairment (PPD) award
- Adjudicators are left with an all (pension) or nothing (or little) choice
- We believe this leads to more TPD awards
- There are other alternatives