

**Workers'
Compensation
Claims
Management:
Evaluation Design
Briefing**

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STATE OF WASHINGTON
JOINT LEGISLATIVE AUDIT AND
REVIEW COMMITTEE

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Why Is JLARC Providing this Briefing?

This briefing document is to inform the Committee about a future performance audit of workers' compensation claims management. The 2011 Legislature enacted a number of major reforms to the state's workers' compensation system in EHB 2123. The Legislature also directed JLARC to conduct a performance audit of the state's workers' compensation claims management system, including self-insured claims.

Workers' Compensation Protects Workers and Employers

Workers and employers in Washington have had workers' compensation insurance since 1911. The Department of Labor and Industries (L&I) administers the workers' compensation insurance program, which offers injured and ill workers medical treatment and financial help when they are hurt or become ill on the job. In exchange for these benefits, workers cannot sue their employers for work-related injuries and illnesses, and employers are protected from potentially costly lawsuits.

Washington is one of four states in which workers' compensation is only provided from a state-operated insurance program, commonly referred to as the "State Fund." In most other states, workers' compensation insurance is also available through private vendors. The only alternative to the State Fund in Washington is for an employer to obtain the authority to self-insure. Some large employers who meet specific financial and other criteria are eligible to pay their own losses. About 73 percent (2.4 million) of the workforce in Washington is covered by the State Fund and 27 percent (855,000) is covered by self-insured employers.

In Fiscal Year 2011, total benefits paid by the State Fund, including medical care, wage replacement, disability and pension benefits, was approximately \$1.5 billion. Self-insured employers paid \$422 million for medical care, wage replacement and disability benefits to their employees.

Labor and Industries Manages Most Claims

Staff at L&I are responsible for managing State Fund claims and regulating self-insured employers. L&I's claims managers determine eligibility for medical care costs and wage replacement, and coordinate with medical providers, employers, and vocational rehabilitation counselors to help injured and ill employees return to paid employment. For the self-insured, these tasks are performed by the employer's own claims managers or third party administrators. All workers, whether covered by the State Fund or self-insured employers, are entitled to the same level of workers' compensation benefits.

JLARC to Audit Workers' Compensation Claims Management

EHB 2123 (2011) directs JLARC to conduct a performance audit of the state's workers' compensation claims management system, including self-insured claims. The Legislature directed JLARC to address the following topics:

1. Fairness and timeliness of **decision-making**;
2. Fairness, timeliness, and effectiveness of **complaint and dispute resolution**;
3. Timeliness, responsiveness, and accuracy of **communication** with employers and workers;
4. Efficiency of current claims management **organization and service delivery models**;
5. **Differences** in claims organization and service delivery **for retrospective rating plan participants and non-participants** and how those differences might impact rating plan refunds. The retrospective rating plan is a program available to State Fund employers that allows participants to earn a partial refund on insurance premiums if they reduce injuries and lower claim costs; and
6. Whether **current initiatives** improve service delivery, meet the needs of current and future workers and employers, improve public education and outreach, and are otherwise measurable.

The Legislature asked JLARC to identify administrative changes that potentially could improve efficiency and address system costs, while maintaining high levels of quality service.

JLARC Is Identifying Methods for Evaluating Claims Management

JLARC staff is conducting this audit in two phases. The first phase focuses on developing methods and cost estimates for evaluating each of the topics listed above. A consultant with expertise in workers' compensation claims management is assisting JLARC staff in determining appropriate methods for evaluating elements of the claims management system.

Depending on costs and available resources, JLARC staff will then select methods identified in this first phase of the audit to evaluate the claims management system in the second phase.

Next Steps

- By December 2012, JLARC staff will present a progress report that includes proposed methods for evaluating aspects of claims management and their estimated costs.
- The Legislature may consider these costs during the 2013 Legislative Session and budget process.
- By December 2013, JLARC staff will present a second progress report to the Legislature on the status of the audit.
- By June 2015, the final audit results will be presented to the Legislature.

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