

# 21-03 FINAL REPORT: Follow-Up on Workers' Compensation Claim Management for State Funded Claims

## LEGISLATIVE AUDITOR'S CONCLUSION:

Although L&I took steps to improve processes for state funded workers' compensation claims, the 2016 recommendations remain partially implemented. Some return to work measures have improved since 2014.

June 2021

## Executive Summary

A [2016 JLARC report](#) found that the Department of Labor and Industries (L&I) was not following some best practices for workers' compensation processes that can help improve workers' prompt and safe return to work. The Legislative Auditor recommended that L&I improve return to work outcomes by instituting standards for early phone contact and consistent case file documentation, and integrating predictive analytics into the claim management process. L&I concurred with the 2016 report's recommendations (Appendix A).

### Workers' Compensation in Washington

L&I manages workers' compensation claims paid by the state industrial insurance fund.

There are two major types of claims:

- Medical only: L&I pays only for medical expenses related to the injury.
- Time loss: The worker is unable to work due to the injury. L&I pays for both medical expenses and a portion of the workers' lost wages.

## L&I partially implemented the recommendations

In 2019, the Joint Legislative Audit and Review Committee (JLARC) directed its staff to provide an update on L&I's implementation of recommendations intended to improve the effectiveness of L&I's workers' compensation claim management processes. While L&I has made efforts to address the recommendations, they have not been fully implemented.

L&I adopted new standards and technology for early phone contact and claim documentation. However, few injured workers and employers receive a call within two business days.

Recommended Action	Completed by L&I	Not Completed
Make phone contact with the injured worker and employer within 2 business days after receiving a time loss claim.	✓ L&I added staff, set standards, updated technology and provided training for early phone contact.	<p>✗ 4% of workers and 22% of employers were contacted within 2 business days of time loss claim assignment.</p> <p>✗ L&amp;I has not established routine data collection or reporting to determine if its standard is met.</p>
Institute claim management planning and standardize claim file documentation.	✓ L&I updated its software and templates to standardize its claim documentation and planning.	✗ L&I has not measured whether claim planning and documentation improved across the claims management division.

## L&I does not plan to incorporate predictive analytics into claim management processes pending updates to its computer system

The Legislative Auditor also recommended in 2016 that L&I expand its use of predictive analytics to identify claims that may have a long duration and high cost. L&I could use the analytics to help prioritize its claims management resources for those cases. L&I continues to use the analytics that were in place in 2016. The agency is implementing a long-term project to replace its legacy system and stated that it plans to wait until the new computer system is further developed before revisiting this recommendation. It is currently unknown if or when L&I will incorporate these uses into the new system.

### Predictive analytics

Predictive analytics refers to mathematical models used to inform or improve claim management.

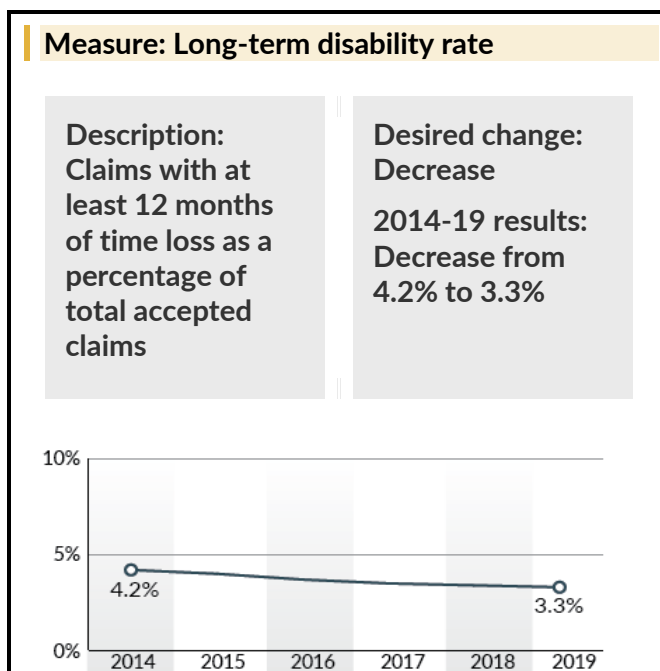
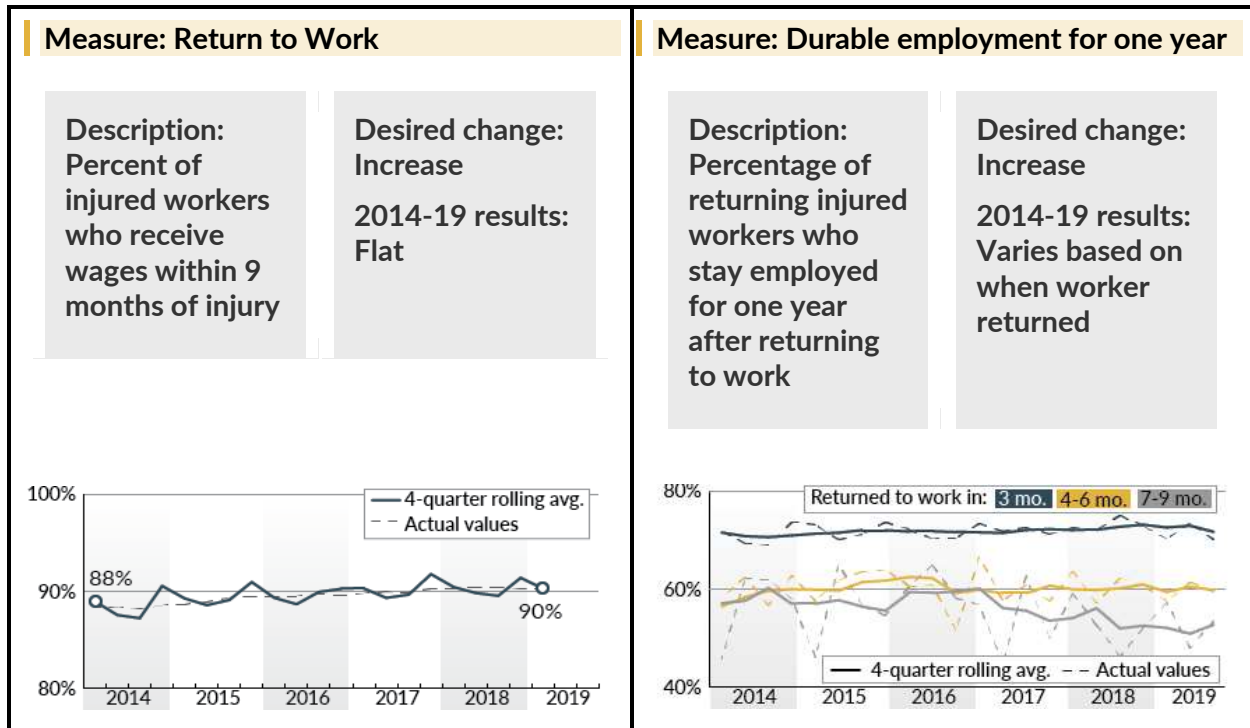
## Some return to work measures have improved from 2014 through 2019

L&I established return to work goals in its strategic plans. It reports performance measures and other indicators including those shown in the graphic below, to the Workers' Compensation Advisory Committee<sup>1</sup>.

JLARC staff found that measures for return to work and long-term disability have improved. The third indicator, durable employment, showed varied results based on when a worker returned to work.

<sup>1</sup>Created in [RCW 51.04.110](#).

Determining the cause of return to work outcomes is complicated and can be influenced by L&I, employers, employees, and the general economy. As a result, it is unclear how L&I's efforts to implement the 2016 recommendations by itself may have affected workers' outcomes.



Source: L&I data presented to the Workers' Compensation Advisory Committee.

## Early data indicates that L&I's vocational services program increased return to work outcomes for participants

When an injured worker expresses concerns about returning to work or if there are indications of barriers to returning to work, L&I may refer the worker to a private vocational recovery counselor. The counselor helps the injured worker, medical provider, and employer explore options for returning to work. Outcome data for vocational services shows that the percentage of workers who return to work following a vocational service referral increased from 11% in 2014 to 32% in 2019. This improvement occurred despite the fact that overall return to work figures increased by 2% during this time.

## No new Legislative Auditor recommendations

This is the last year of planned recommendation follow-up by JLARC staff. The Legislative Auditor asserts that the 2016 recommendations remain valid for helping to improve return to work outcomes.

Agency responses: [L&I](#) and [OFM](#).

View the [Legislative Auditor's response](#) to agency comments.

## Committee Addendum

The Committee notes that the Legislative Auditor's 2016 recommendation to make phone contact with injured workers and employers within two days continues to be an industry best practice. As noted by industry experts in the 2016 report, this early contact can improve return to work outcomes.

The Department of Labor and Industries agreed with the recommendation in 2016 and has adopted two-day call standards and supporting technology. However, while L&I has undertaken these improvements, it is not regularly monitoring how often it meets this specific best practice standard. The Committee recognizes that meeting this standard is an aspirational goal that is challenging to accomplish for all cases but is nonetheless an important standard to monitor. The JLARC staff demonstrated that data exists in L&I's systems to track and report on performance against this standard.

Consequently, the Committee requests that L&I regularly measure the percentage of employers and workers successfully contacted by phone within two days of claim assignment on time loss claims. L&I should report this information to the Workers' Compensation Advisory Committee in addition to other measures of early contact it deems important.

Committee addendum available on the [Recommendations & Responses Tab](#).

## Committee Action to Distribute Report

On June 15, 2021 this report was approved for distribution by the Joint Legislative Audit and Review Committee. Action to distribute this report does not imply the Committee agrees or disagrees with Legislative Auditor recommendations.

### REPORT DETAILS

#### 1. Previous recommendations from 2016

##### 2016 JLARC report issued recommendations to improve workers' compensation claim management at the Department of Labor and Industries

##### Department of Labor and Industries manages state-funded claims for workers' compensation

The Washington Department of Labor and Industries (L&I) manages the state's workers' compensation system. Workers' compensation insurance protects workers and employers when injuries or illnesses happen on the job. With few exceptions, employers in Washington must provide this coverage to all their workers.

- Most employers provide workers' compensation coverage for their employees by paying premiums that cover claims through the state industrial insurance fund (State Fund). L&I directly manages and pays claims out of the State Fund. In 2019, L&I managed approximately 95,000 claims.
- Washington also allows some employers to provide their own workers' compensation insurance. This is called self-insurance. This study does not address self-insured claims because the recommendations issued to L&I in 2016 focused on its management of State Fund claims.

Claim management aims to help the worker recover and return to work promptly and safely. It involves the worker, employer, L&I claim manager, medical professionals, and others. In general, L&I manages two types of claims: medical only and time loss.

- Medical only: L&I pays for medical expenses related to the injury.
- Time loss: The worker is unable to work due to the injury for more than three days. L&I pays for both medical expenses and a portion of the workers' wages.

## 2016 JLARC report recommended processes to help L&I improve its efforts to help workers return to work promptly and safely

As part of workers' compensation reform legislation passed in 2011 ([EHB 2123](#)), the Legislature directed JLARC to evaluate the Washington Department of Labor and Industries' (L&I) workers' compensation claim management system. The resulting [JLARC report](#) concluded that L&I could improve outcomes if its processes were more focused on prompt and safe return to work. The report made two recommendations to improve return to work processes and promote more timely decisions of State Fund claims. L&I concurred, and established a plan to implement the following recommendations:

1. L&I should institute standards for early phone contact, claim management planning, and clear documentation in claim management.
2. L&I should expand its pilot programs and enhance its claim management support systems (training, performance measures, and technology) with a focus on return to work.

The full recommendation text is in Appendix A.

In its annual progress reports, L&I reported that it has partially or fully implemented the recommendations. This report focuses on L&I's efforts to implement three specific actions identified in the 2016 recommendations:

- Institute a standard for claim managers to make phone contact with the injured worker and the employer within two business days after receiving a time loss claim (one likely to involve three or more days away from work).
- Institute claim management planning and standardize claim file documentation.
- Develop a plan to integrate predictive analytics into claim management processes.

This is the last year of planned recommendation follow-up by JLARC staff. The Legislative Auditor asserts that the 2016 recommendations remain valid for helping to improve return to work outcomes.

### REPORT DETAILS

## 2. Early phone contact & claim documentation partially implemented

**L&I adopted new standards and technology for early phone contact and claim documentation. However, few injured workers and employers receive a call within two business days.**

Industry best practice recommends that claim managers contact injured workers and employers within two business days of receiving a time loss claim<sup>2</sup>. The initial phone conversation can improve communication, provide insight into case risks and issues, and set expectations for return to work. The call also helps the claim manager gather the information needed to evaluate the claim and begin planning.

The 2016 JLARC study found that the Department of Labor and Industries (L&I) did not adhere to this best practice. Further, it could not distinguish between attempted and actual phone contact. The Legislative Auditor recommended that L&I follow industry best practice for time loss claims and institute a standard for claim managers to make phone contact with the worker and employer within two business days after receiving the claim.

## **L&I set standards, updated technology, and provided training for early phone contact**

When L&I receives and processes a time loss claim, the claim is routed to the Early Contact Team to verify the worker's employment and injury. Next, the claim is transferred to Claims Administration, where it is assigned to a claim manager who helps injured employees return to work by making accurate and timely decisions on payments and services.

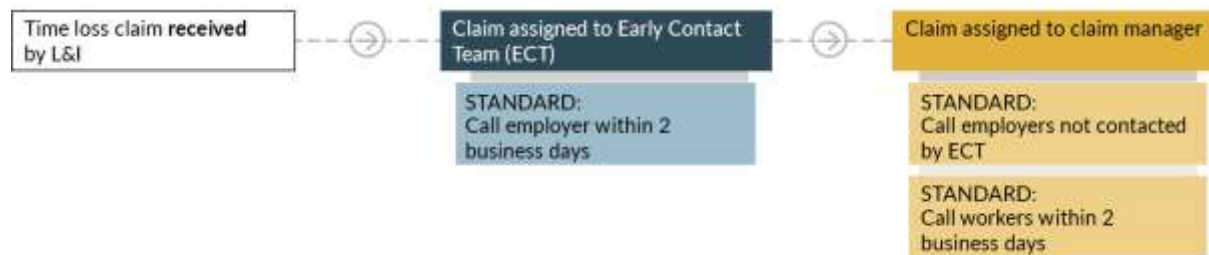
L&I has taken the following steps to support early phone contact in this process:

- Added Early Contact Team staff in 2016 following legislative approval to increase the number of calls to employers.
- Implemented new software to document calls to workers and employers. The software includes a phone call script and data entry fields that help claim managers gather information. Since October 2019, the software distinguishes between attempted and actual phone contact. L&I provided training to staff on how to use the software.
- Developed standards that require claim managers to contact workers and the Early Contact Team to contact employers within two business days of claim assignment for time loss claims.
  - As shown in Exhibit 2.1, L&I set its call standard based on the date the claim is assigned to a claim manager, which happens after the agency receives the claim. For example, in 2019, claim assignment occurred an average of four days after claim receipt.

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<sup>2</sup>Claim with 3+ days away from work.

## Exhibit 2.1: L&I's claims process includes standards that workers and employers should be called within two business days of claim assignment



Source: JLARC staff summary of L&I process and standards.

### Few workers and employers are called within two days for time loss claims. L&I does not measure compliance with its standards.

Despite the standards, technology, and training, few workers and employers are called within two business days of claim assignment.

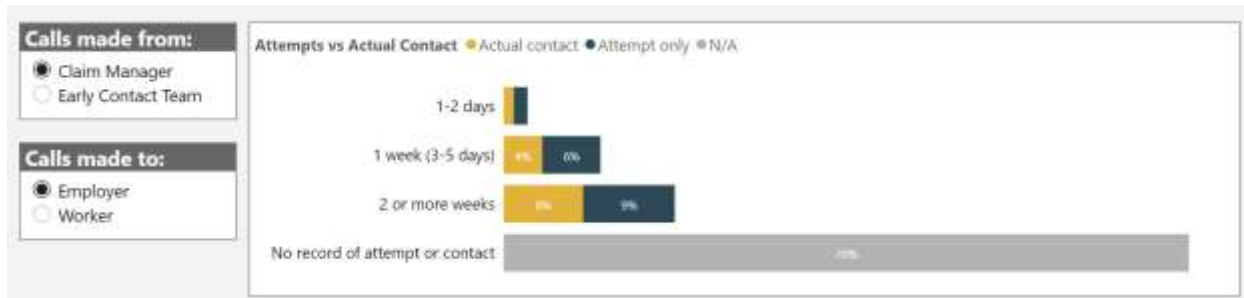
For time loss claims received from October 2019 through April 2020:

- Claim managers contacted 4% of workers and attempted to contact another 2% within two business days of claim assignment.
- The Early Contact Team contacted 22% of employers and attempted to contact another 20% within two business days of claim assignment. The 2016 report noted that contacting the employer immediately may not be necessary if the accident report and contact with the worker indicate that prompt return to work is likely.
- In cases where the Early Contact Team did not contact employers before claim transfer, claim managers contacted or attempted to contact 2% of employers within two business days of claim assignment.



## Exhibit 2.2: L&I contacts few injured workers and employers within two business days of claim assignment for time loss claims

Click the image below to open an interactive report.



Source: JLARC staff analysis of L&I call data, October 2019 through April 2020.

### L&I does not evaluate whether employers or workers are contacted within two business days

- **Calls to employers:** While L&I has the relevant data, it does not routinely use it to evaluate compliance with its standard (calls made within two business days of claim assignment).
- **Calls to workers:** Rather than measuring its two-day standard, L&I measures timeliness based on whether a call was attempted before or within three days of the first payment of time loss benefits. Based on the nature of the claim, the first payment may occur later in the claim process (e.g., a worker may stay on the job pending surgery and then receive time loss payments). For example, between October 2019 and April 2020, the first payment was made an average of 25 days after the claim was assigned to claim manager.

## L&I introduced new technology for claim management planning and documentation, but there are not processes to measure whether plans and documentation have improved across the claims management division

In connection with the phone contact standard outlined above, case planning and file documentation are industry best practices for effective claim management. The 2016 JLARC report noted that only 15% of claim files had documented plans and actions designed to resolve the claim and overcome barriers to return to work.

Since then, L&I revised an interface in its computer system to provide a template for documenting claim activities, such as the timing of interventions and expected dates to evaluate progress. L&I provided training to claim managers for using the software to document first contact calls, actions taken on the claim, and plans for return to work.

While L&I has taken steps to improve technology and training for claim management planning and documentation, the 2016 recommendation remains partially implemented. L&I implemented new protocols ("work checking") that supervisors and trainers use to review the work of new claim managers. The agency also expects supervisors to review the work of individual claim managers. However, the agency does not measure whether claim planning and documentation improved across the claims management division. For example, the agency has not determined whether more than 15% of claim files<sup>3</sup> now have documented plans and actions.

### Claim management planning and documentation

A **claim management plan** describes a pathway for returning to work, timing of interventions (e.g., vocational services), desired outcomes, and expected dates to evaluate progress. **Claim management documentation** identifies the actions taken to advance the claim toward the desired outcomes. It also allows supervisors to review claim handling or transfer claims.

## REPORT DETAILS

### 3. L&I has not implemented the recommendation to expand its use of predictive analytics

**L&I does not plan to incorporate predictive analytics into claim management processes until it updates its computer system**

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<sup>3</sup>Figure reported in 2016 JLARC study.

## 2016 report recommended L&I expand its use of predictive analytics to improve outcomes and balance caseloads

JLARC's 2016 report noted that the Department of Labor and Industries (L&I) used some predictive analytics in claim management. For example, L&I built an auto-adjudication model to review new claims and automatically pay or deny benefits if specific criteria are met. L&I also used analytics to estimate future claim costs<sup>4</sup> and determine the need for specific vocational services. L&I continues to use these tools.

### Predictive analytics

Predictive analytics refers to mathematical models used to inform or improve claim management.

The Legislative Auditor previously recommended that L&I expand its use of predictive analytics to identify claims that may have a long duration and high cost. Such early identification would allow L&I to establish a plan for these cases and allocate claim managers' efforts to more complex claims. L&I concurred with the recommendation.

## L&I does not intend to implement the recommendation pending a new computer system

In its 2017 and 2018 implementation progress reports to JLARC, L&I reported efforts to determine how it could use predictive analytics to identify claims with higher risk of extended time away from work and to balance caseloads among claim managers. However, L&I reported in 2019 that it does not plan to develop new predictive models to assist with case workload and prioritization until a new computer system for claim management is in place.

## L&I currently anticipates the new computer system will be complete in 2029

L&I is replacing its workers' compensation computer systems. The Legislature approved funding for the first phase of the project in the 2019-21 operating budget. At that time, L&I anticipated that the project would be completed by 2027. L&I's 2021-23 budget request includes the next phase of development and a revised completion date of 2029.

L&I's technical requirements for the new computer system describe how it would like to use predictive analytics (e.g., prioritizing work, identifying claims that need specialized services and resources). It is currently unknown if or when L&I will incorporate these uses into the new system.

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<sup>4</sup>L&I calls this early case reserving.

## REPORT DETAILS

### 4. Some improvement in return to work measures

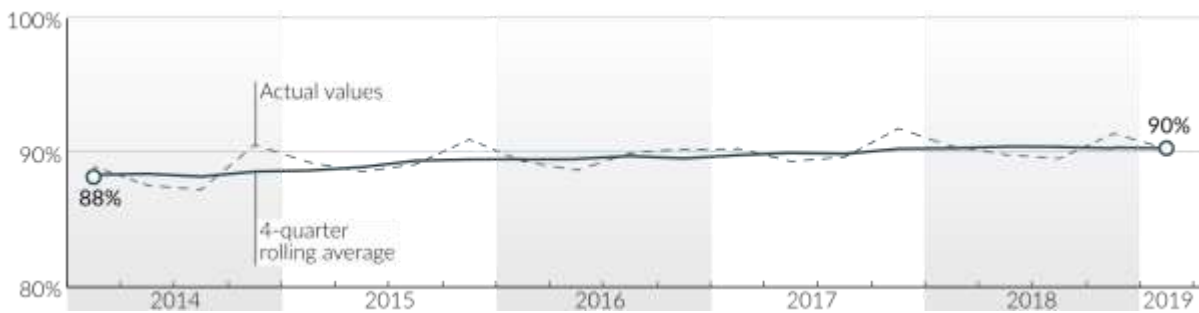
#### The percentage of injured workers who return to work increased by 2% since 2014

Recommendations in the 2016 JLARC report were intended to improve return to work outcomes. The accompanying consultant's report suggested several measures for return to work that the Department of Labor and Industries (L&I) could use to evaluate stakeholder needs. Since 2014, L&I has included return to work goals and performance measures in its strategic plans. Some are consistent with the consultant's recommendations. The following is a synopsis of return to work measures that L&I monitors and reports to the [Workers' Compensation Advisory Committee](#)<sup>5</sup>.

#### Percentage of injured workers who return to work within nine months increased from 88% to 90%

L&I's return to work measure is the percentage of workers with [time loss claims](#)<sup>6</sup> who receive wages at least once within nine months of filing a claim. The rolling average, which accounts for seasonal variation in the data, shows that the percentage of workers who received wages at least once within nine months of injury increased from 88% to 90% since 2014. It is unclear how L&I's efforts impacted this change, because many factors impact return to work measures, including actions by employees, employers, and the general economy.

#### Exhibit 4.1: Rolling average shows 2% increase in workers who return to work within nine months of injury



Source: L&I data matched by L&I to Employment Security Department (ESD) records, presented to the Workers' Compensation Advisory Committee.

<sup>5</sup>Created in [RCW 51.04.110](#). Members represent employers, labor, and the Board of Industrial Insurance Appeals (BIIA).

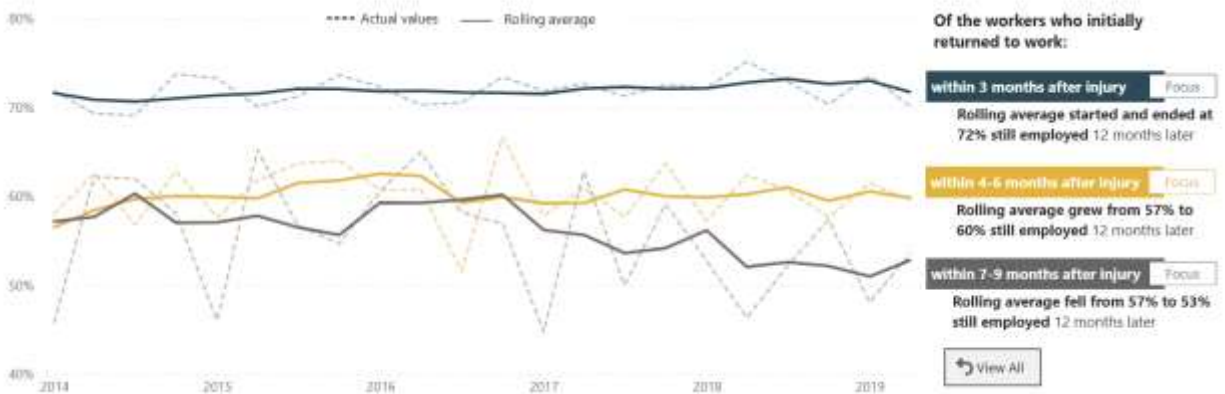
<sup>6</sup>Claim with 3+ days away from work.

## The percentage of workers with time loss claims who have durable employment varies based on how quickly the worker initially went back to work

L&I's durable employment measure is the percentage of workers with time loss claims<sup>7</sup> who are employed for 12 months after their initial return to work. Employment is durable if the worker receives wages in four consecutive quarters. Since 2014, the percentage of workers with durable employment has remained between 45% and 75%, depending on how quickly the worker initially returned to work. A rolling average, which accounts for seasonal variations, shows a flat trend in durable employment for workers who return within three months, an increase for those who return within four to six months, and a decline for those who return within seven to nine months after injury.

### Exhibit 4.2: The percentage of workers with time loss claims who have durable employment varies based on how quickly the worker initially went back to work

Click the image below to open an interactive report. Click the focus boxes or legend to view select data.



Source: L&I data matched by L&I to Employment Security Department (ESD) records, presented to the Workers' Compensation Advisory Committee.

## Early data indicates that L&I's vocational services program increased return to work outcomes for participants.

If there are indications that a worker has concerns or barriers to returning to work, L&I may refer the worker to a private vocational recovery counselor. The counselor helps the injured worker,

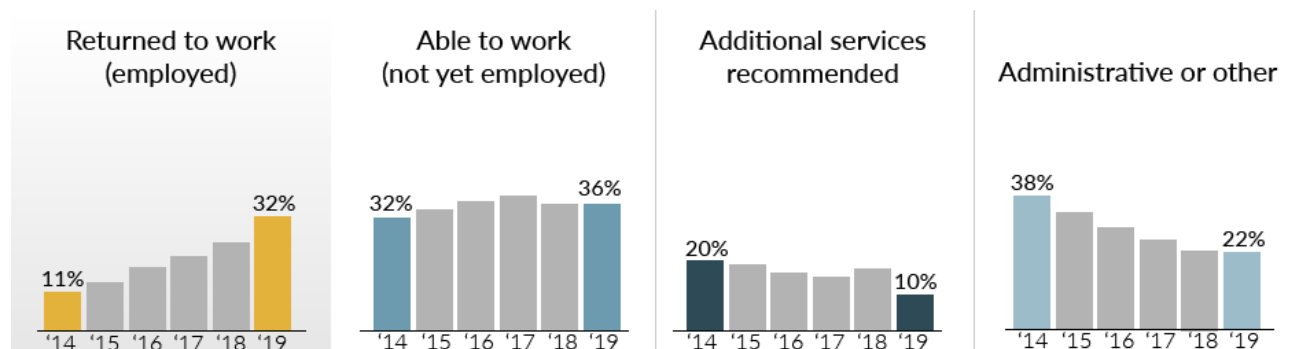
<sup>7</sup>Claim with 3+ days away from work.

medical provider, and employer explore options for returning to work. From 2014 through 2019, L&I made an average of 9,900 referrals per year (some claims receive more than one referral).

When the worker either returns to work or vocational services end, the claim manager closes the referral and assigns a vocational services outcome code to the claim. The outcome codes are based on information and recommendations from the counselor and can be summarized as follows:

- **Return to work:** The worker has returned to work, either permanently or temporarily.
- **Able to work:** The worker is medically able to work or has transferable skills (e.g., from education or experience) to perform an identified job. This does not mean that the worker was able to find employment or wants to return to work.
- **Additional services recommended:** Vocational recovery is complete and the worker is eligible for an ability to work assessment<sup>8</sup>. The worker may be eligible for retraining.
- **Administrative or other:** In 2019, the most common administrative or other closures were referrals made in error, unavailable counselors, and the worker being unable to continue participation for medical reasons.

**Exhibit 4.3: Return to work outcomes for closed vocational service referrals increased from 11% to 32%**



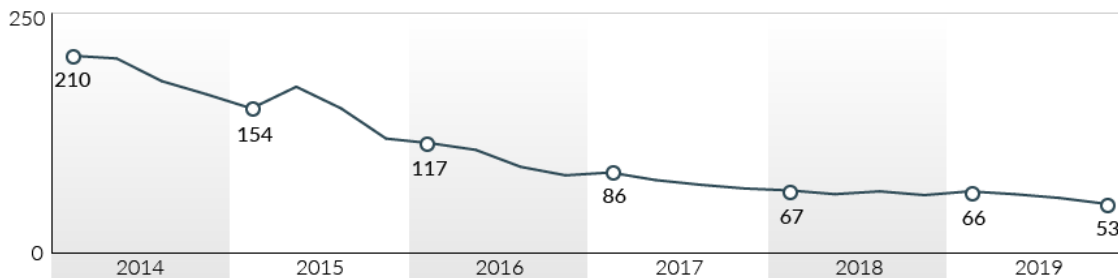
Source: L&I data presented to the Workers' Compensation Advisory Committee.

### L&I improved timing for vocational services referrals

The 2016 report noted that providing vocational services earlier in the claim management process could help workers return to work sooner. Since then, L&I has made process changes and reduced the number of time loss days before referral to a vocational recovery counselor from 210 days to 53 days.

<sup>8</sup>Evaluation of employability or eligibility for vocational rehabilitation plan.

#### Exhibit 4.4: L&I reduced the number of time loss days before making a vocational service referral



Source: L&I data presented to the Workers' Compensation Advisory Committee.

### The rate of long-term disability claims (12 months or more) declined

Studies show that the longer a worker is off the job, the less likely they are to return to work. Prolonged absences from work can be related to poor health, increased risk for additional injury, and income loss.

L&I's 2014-2020 strategic plan measures also included the percentage of injured workers who are on time loss 12 months after injury. L&I aims to decrease this percentage. A decrease indicates that proportionally fewer injured workers collect disability benefits and may be returning to the workplace sooner.

#### Exhibit 4.5: L&I reports a reduction in long-term disability rates

Measure	Description	2014	2015	2016	2017	2018	2019
Long-term disability rate	Claims with at least 12 months of time loss as a percentage of total accepted claims	4.2%	4.0%	3.7%	3.5%	3.4%	3.3%

Source: L&I data presented to the Workers' Compensation Advisory Committee.

## REPORT DETAILS

### Appendix A: 2016 JLARC Recommendations

A 2016 JLARC report included two recommendations with multiple actions directed to L&I

Link to [Report 15-4, Workers' Compensation Claims Management](#)

**Recommendation #1: L&I should institute standards for early phone contact, claim management planning, and clear**

**documentation in claim management. L&I should provide a plan to JLARC for how and when it will achieve the standards and provide annual progress reports describing actions taken to complete the plan.**

For the subset of claims that will likely involve more than 3 days away from work, institute a standard for claim managers to make phone contact with the injured worker and the employer within 1-2 business days after receiving the claim

Based on research supporting the importance of making phone contact within 1-2 business days, the Department of Labor and Industries (L&I) should implement strategies for separating claims based on the level of contact needed: one level for claims that can be easily and swiftly resolved; and a more proactive level of contact for those with a higher risk of extended time away from work. Contacting the employer immediately may not be necessary if the accident report and contact with the worker indicate that prompt return to work is likely.

**Institute claim management planning and standardize claim file documentation**

The initial phone call and claim information should provide the basis for a claim management plan that includes an individual return to work plan, timing of planned interventions, targeted outcomes, and planned dates to evaluate progress. Claim managers should document the actions taken to advance the claim toward the desired outcomes.

**Recommendation #2: L&I should expand its pilot programs and enhance its claim management support systems (training, performance measures, and technology) with a focus on return to work. L&I should provide a plan to JLARC for how and when it will expand pilot programs and enhance support systems and should provide annual progress reports describing actions taken to complete the plan.**

**Implement return to work programs as standard operating practice rather than pilot programs**

Employing vocational services to achieve return to work as quickly and safely as possible is a principle that L&I recognizes. L&I has made positive steps with its pilot programs for the use of score-based referrals to the Early Return to Work program and Early Ability to Work Assessment, and initial results are promising. L&I should make return to work programs like



these standard practice for all claims involving time away from work, while continuing to measure outcomes and adjust procedures.

## Develop a plan to integrate predictive analytics into claim management processes

Other workers' compensation systems use mathematical and statistical models (data analytics) to help identify claims that could have a long duration and high costs. If these claims are identified early, claim managers can focus their efforts and interventions to improve outcomes on the more challenging claims. L&I has started to use data analytics for early return to work referrals, but it should expand its use to improve outcomes, balance caseload, and plan interventions.

## Connect return to work goals, performance measurement, and training

Return to work is one of L&I's strategic goals. Both the agency and executive managers have performance measures that are designed to assess the Department's progress toward improving return to work. Units responsible for claim management have a multitude of measures and reports, but these do not clearly relate to return to work goals. The return to work performance measures should extend to work units and individual claim managers so that it is clear how standard work practices contribute to the agency's return to work goal. Claim managers should receive ongoing training in activities that will lead to better claim outcomes (e.g., communication techniques and claim management skills). L&I has recently implemented a training program for claim managers that appears well-designed for this purpose. This training should become standardized across all claim units and follow-up training should be conducted.

## Design new technology systems to support data analytics, claim management planning and documentation, and internal information sharing

L&I received funding in the 2015-17 budget to begin updating its core technology system. The Department reports that this is the first step in a process designed to rebuild technology support for all of its business processes, including claim management. L&I should ensure that future systems integrate the claim management process with data analytics, support planning and documentation, and provide tools for claim managers such as planning templates, dashboards, and alerts. Further, the system should support appropriate internal information sharing about potential barriers to return to work and solutions.

## RECOMMENDATIONS & RESPONSES

### No new Legislative Auditor recommendation

#### The Legislative Auditor makes no new recommendations

This is the last year of planned recommendation follow-up by JLARC staff. The Legislative Auditor asserts that the 2016 recommendations remain valid for helping to improve return to work outcomes.

Agency responses: [L&I](#) and [OFM](#).

View the [Legislative Auditor's response](#) to agency comments.

# RECOMMENDATIONS & RESPONSES

## Department of Labor & Industries Response



STATE OF WASHINGTON  
**DEPARTMENT OF LABOR & INDUSTRIES**

*PO Box 44100 • Olympia, Washington 98504-4100*

April 2, 2021

Keenan Konopaski  
Joint Legislative Audit & Review Committee  
Post Office Box 40910  
Olympia, Washington 98504-0910

Re: JLARC Final Report

Dear Mr. Konopaski:

Thank you for the opportunity to provide L&I's response to JLARC's report, "Follow-up on Workers' Compensation Claim Management for State Funded Claims." We appreciate the work of the JLARC staff during this review.

As we pointed out in our technical review of the preliminary draft of this report in December, 2020, some of the analysis and conclusions do not fully capture L&I's successful implementation of several elements of the 2016 JLARC recommendations and our adoption of many of the observations in the more detailed 2015 consultant's report that was a key element of the original study. Our comments below are focused on two issues that we believe we have made substantial progress on since the 2016 JLARC review.

1. Timeliness in contacting employers and workers
2. Success in helping injured workers return to work

Our implementation plans evolved since the 2016 report was issued, reflecting our ongoing data analysis and identification of new, more appropriate measures as well as lessons learned through our implementation work. We have and continue to use the consultant's report as a critical resource to help us design our implementation strategies. We reference some of the consultant statements in our comments below.

### **Early phone contact with workers and employers**

The 2016 report recommended that L&I make contact with the injured worker and employer within 2 business days after receiving a time loss claim. JLARC's follow-up report states that early phone contact & claim documentation are partially implemented:

*"L&I adopted new standards and technology for early phone contact and claim documentation. However, few injured workers and employers receive a call within two business days."*

# RECOMMENDATIONS & RESPONSES

## Department of Labor & Industries Response

April 2, 2021  
Keenan Konopaski  
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The report goes on to say “The Legislative Auditor recommended that L&I follow industry best practice for time loss claims and institute a standard for claim managers to make phone contact with the worker and employer within two business days after receiving the claim.” We believe we have addressed this recommendation, while aligning it with our claims system and its limitations. We established expectations for claim managers that prioritized calls based on the level of contact needed. This approach is supported by the 2015 expert consultant’s report which suggested not all claims require early contact and that L&I should implement strategies for separating claims based on the level of contact needed:

*“Based on research supporting the importance of making phone contact within 1-2 business days, L&I should implement strategies for separating claims based on the level of contact needed: one level for claims that can be easily and swiftly resolved; and a more proactive level of contact for those with a higher risk of extended time away from work. Contacting the employer immediately may not be necessary if the accident report and contact with the worker indicate that prompt return to work is likely.”<sup>1</sup>*

The prioritization of claims needing early calls means that **claim managers were not expected to call when the claim was first received in approximately one third of cases that ultimately received time-loss benefits.** This is because the worker was not expected to be off work long enough to be eligible for time loss when the claim was initially received and adjudicated. In addition, for claims prioritized for calls to the worker, L&I has worked with a consultant to identify three distinct early contact call types. The call types expand the questions asked of the worker to ensure the level of engagement identifies those at increased risk of long-term disability (and most likely to need interventions or services).

In reviewing our data sets with the call prioritization in mind, our internal analysis shows the following:

- For employers—L&I created an Early Contact Team in response to the 2016 JLARC report. This team is expected to attempt to reach the employer within 24 hours after they receive a case. From October 2019 through April 2020, **they attempted calls in 99% of these claims and successfully reached employers in 50% of the calls.**
- For workers—When looking at data on claim manager calls made for time-loss claims received from October 2019 through April 2020, the claim manager first **attempted to contact and/or reached 65% of workers prior to or within 3 days of the first payment of time-loss benefits.** (Measuring prior to or within 3 days allows for weekends and holidays in our data analysis.)

Concerning performance management, it is also important to note that L&I’s measurement is from the date a claim is assigned to the appropriate staff, rather than when the claim is filed. Washington is unique from other jurisdictions because state fund claims start with the medical provider rather than

<sup>1</sup> From Recommendation #1 (available at <https://leg.wa.gov/ilarc/reports/2015/WorkersCompPhase2/f/default.htm#Recommendations>) based on pages 1-15 through 1-17 of the Washington State Department of Labor and Industries Claims Management Performance Audit completed by WorkComp Strategies LLC in June 2015 (available at [https://leg.wa.gov/ilarc/reports/2015/WorkersCompPhase2/f/doc/WCS\\_FullReport.pdf](https://leg.wa.gov/ilarc/reports/2015/WorkersCompPhase2/f/doc/WCS_FullReport.pdf))

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the employer. This means the first step upon claim receipt is to identify the appropriate employer. We believe the industry best practice of making the call in two days is premised on the insurer knowing the employer, since they likely filed the claim. While our statutorily driven model has many advantages, it also means there is additional processing time to initiate the claim. Our performance measure is intended to take that into account, in addition to aligning with the JLARC consultant's recommendation.

### Return to work efforts

On page 4, the report discusses return to work:

*"The percent of injured workers who return to work increased by 2% since 2014...Early data indicate that L&I's vocational services program has increased return to work outcomes for participants."*

**The return-to-work measure mentioned in the report reflects aggregate data rather than focusing on the specific group of workers that need the most attention—those that are less likely to return to work without additional support/interventions.** Within the workers' compensation system, the majority of workers who are hurt will return to work on their own with no need for additional interventions. By using the percent of all workers with time-loss claims who return to work in nine months as a performance indicator, the impact of L&I's efforts are masked. Regardless of the agency's efforts, the total percentage of workers returning to work within nine months of injury will not move in a dramatic manner. However, **the agency focuses on the percentage of workers who receive a vocational intervention and return to work** because these services can have a tremendously positive impact on those most in need of assistance, resulting in significant savings for the workers' compensation funds.

L&I believes the measures we should use to track return to work and drive performance improvements include:

- The overall return-to-work rate for time-loss claims with vocational services; this rate has increased from 11% to 32% during the period covered by the report; more recently it has increased to 40%.

This data represents the results of the agency's efforts to help injured workers heal and return to work by transforming vocational services from an adjudication tool to focus on helping injured workers recover vocationally. We appreciate the JLARC report's recognition that L&I has implemented its return-to-work programs as standard operating practice. We believe that close to tripling the percentage of workers who successfully return to work is an excellent measure of the agency's improvements in the past few years.

- The rate of long-term disability, which dropped by more than 20%

A claim with time-loss benefits for less than a year (short-term time-loss) costs on average \$15,500 while a claim with more than a year (long-term disability) will cost on average more than \$325,000. Decreasing the percentage of workers who face long-term disability by more than 20% (from 4.2 to 3.3) has had a significant impact on both system costs and workers' lives.

- The impact on the state fund's financial conditions due to operational efficiencies.

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Improvements in return to work reduce the expected duration of claims and the expected cost of both existing and new claims. Reduced duration causes favorable development in the agency's reserves and improves its financial position. Between 2014 and 2020, the agency's contingency reserve increased from under a billion dollars to almost four billion dollars, going from less than 8% of liabilities to over 28% of liabilities. Lower claim durations significantly contributed to the improved financial position of the state fund and enabled L&I to keep rates stable even during the global pandemic.

To avoid misperceptions, we believe it is important to point out that the follow-up report highlights two other indicators that we do not believe are as useful in assessing L&I's return-to-work efforts. While we have historically shared these measures with our advisory committee as general context, they were never intended to serve as performance measures of the agency's improvement efforts.

- The percentage of workers who return to work within nine months of injury – As mentioned above, this includes all time-loss claims and therefore does not help add insight into the agency's specific efforts. Additionally, both this and the durable employment measure discussed below rely on data from the Employment Security Department which does not include all workers.
- The percentage of workers who have durable employment post return-to-work. While the expert consultants' 2015 report mentions durable employment, it defines it as employment of at least 90 days' duration, while the data used in the report and shared with our advisory committee looks at the status at 12 months. This is not an appropriate measure of the workers' compensation system's performance and to the best of our knowledge is not used as a performance indicator by any workers' compensation system.

### **Additional issues raised in the report**

Finally, implementation of the recommendation to expand use of predictive analytics is discussed:

*"L&I does not plan to incorporate predictive analytics into claim management processes until it updates its computer system. 2016 report recommended L&I expand its use of predictive analytics to improve outcomes and balance caseloads."*

As the report notes, L&I does use predictive analytics. Since 2016, we have expanded how we use mathematical models to inform or improve claims management. However, our current opportunities are limited to those requiring minimal technology changes or that can rely on manual processes. As the report indicates, a comprehensive use of predictive analytics needs to wait for replacement of L&I's legacy technology systems.

In closing, Washington has become a leader in providing evidence-based, informed return-to-work services to injured workers. These services have helped thousands return to work successfully since 2014 and have not only improved the lives of these workers, but have contributed to reduced costs for employers and improved the financial stability of the workers' compensation system.

Thank you for the opportunity to provide feedback and some additional context to this final report on Washington's claims management practices for State Fund workers' compensation claims.

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Sincerely,



Vickie Kennedy, Assistant Director for Insurance Services  
Department of Labor and Industries

Cc: Joel Sacks, Director

## RECOMMENDATIONS & RESPONSES

### Office of Financial Management Response

The Office of Financial Management (OFM) was given an opportunity to comment on this report. OFM responded that it does not have any comments.

## RECOMMENDATIONS & RESPONSES

### Legislative Auditor's Response to Agency Comments

I appreciate the response from the Department of Labor and Industries, as well as the steps the agency has taken to respond to the 2016 recommendations.

The agency's response highlights certain measures of call timeliness and return to work. I understand the agency's interest in highlighting these activities, which are intended to improve outcomes for workers and employers.

However, I do want to clarify that we focused this follow up report on recommendations from the 2016 report. JLARC staff calculated the percent of actual call contact made within two days of claim assignment using time loss claim data that was provided by L&I but had not been previously reported. I believe L&I should report on these measures, as well as other call timeliness measures it prioritizes. In addition, the return to work indicators in the JLARC report were measures publicly reported by L&I.



Keenan Konopaski  
Legislative Auditor

## RECOMMENDATIONS & RESPONSES

### Committee Addendum

#### Addendum approved at June 15, 2021 JLARC meeting

The Committee notes that the Legislative Auditor's 2016 recommendation to make phone contact with injured workers and employers within two days continues to be an industry best practice. As noted by industry experts in the 2016 report, this early contact can improve return to work outcomes.

The Department of Labor and Industries agreed with the recommendation in 2016 and has adopted two-day call standards and supporting technology. However, while L&I has undertaken these improvements, it is not regularly monitoring how often it meets this specific best practice standard. The Committee recognizes that meeting this standard is an aspirational goal that is challenging to accomplish for all cases but is nonetheless an important standard to monitor. The JLARC staff demonstrated that data exists in L&I's systems to track and report on performance against this standard.



Consequently, the Committee requests that L&I regularly measure the percentage of employers and workers successfully contacted by phone within two days of claim assignment on time loss claims. L&I should report this information to the Workers' Compensation Advisory Committee in addition to other measures of early contact it deems important.

## MORE ABOUT THIS REVIEW

### Audit Authority

The Joint Legislative Audit and Review Committee (JLARC) works to make state government operations more efficient and effective. The Committee is comprised of an equal number of House members and Senators, Democrats and Republicans.

JLARC's non-partisan staff auditors, under the direction of the Legislative Auditor, conduct performance audits, program evaluations, sunset reviews, and other analyses assigned by the Legislature and the Committee.

The statutory authority for JLARC, established in [Chapter 44.28 RCW](#), requires the Legislative Auditor to ensure that JLARC studies are conducted in accordance with Generally Accepted Government Auditing Standards, as applicable to the scope of the audit. This study was conducted in accordance with those applicable standards. Those standards require auditors to plan and perform audits to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. The evidence obtained for this JLARC report provides a reasonable basis for the enclosed findings and conclusions, and any exceptions to the application of audit standards have been explicitly disclosed in the body of this report.

### Committee Action to Distribute Report

On June 15, 2021 this report was approved for distribution by the Joint Legislative Audit and Review Committee. Action to distribute this report does not imply the Committee agrees or disagrees with Legislative Auditor recommendations.

# MORE ABOUT THIS REVIEW

## Study Questions



### PROPOSED STUDY QUESTIONS Follow-Up on Workers' Compensation Claims Management at L&I

State of Washington Joint Legislative Audit and Review Committee

April 2020

#### 2016 JLARC report recommended that L&I improve its efforts to help workers return to work promptly and safely

Workers' compensation is a form of insurance that protects workers and employers when injuries or illnesses happen on the job. The Department of Labor and Industries (L&I) manages workers' compensation claims covered by the state.

A 2016 JLARC report concluded that claims outcomes could be improved if L&I's systems increased focus on prompt and safe returns to work. The report recommended that L&I institute standards for early phone contact, improve claims management and documentation, and integrate predictive analytics into its claims management processes. Each recommendation was designed to align L&I's practices with national best practices in workers' compensation. L&I concurred with these recommendations.



JLARC report 15-4, January 2016

In July 2019, JLARC directed its staff to review L&I's implementation of these recommendations.

#### Study questions will assess L&I's implementation of the recommendations to improve its management of state fund claims

1. What actions has L&I taken to implement the Legislative Auditor's recommendations to:
  - a. Implement early phone contact for claims that may involve three or more days away from work?
  - b. Institute claim planning and standardize claim file documentation?
  - c. Integrate predictive analytics into the claims management processes?
2. What measures does L&I use to evaluate progress for any recommendations that are not yet fully implemented?

#### Study Timeframe

Preliminary Report: January 2021

Proposed Final Report: May 2021

#### Study Team

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#### JLARC Study Process



JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE  
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## MORE ABOUT THIS REVIEW

### Methodology

The methodology JLARC staff use when conducting analyses is tailored to the scope of each study, but generally includes the following:

- **Interviews** with stakeholders, agency representatives, and other relevant organizations or individuals.
- **Site visits** to entities that are under review.
- **Document reviews**, including applicable laws and regulations, agency policies and procedures pertaining to study objectives, and published reports, audits or studies on relevant topics.
- **Data analysis**, which may include data collected by agencies and/or data compiled by JLARC staff. Data collection sometimes involves surveys or focus groups.
- **Consultation with experts** when warranted. JLARC staff consult with technical experts when necessary to plan our work, to obtain specialized analysis from experts in the field, and to verify results.

The methods used in this study were conducted in accordance with Generally Accepted Government Auditing Standards.

More details about specific methods related to individual study objectives are described in the body of the report under the report details tab or in technical appendices.

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