Deloitte.

Deloitte Consulting LLP
555 W 5th Street
Los Angeles, CA 90013
USA

Tel: +1 213 688 0800
Fax: +1 213 688 0100
www.deloitte.com

October 2, 2023

Mr. Steve Wendling
Audit Manager
Washington State Auditor's Office
3200 Capitol Boulevard
P.O. Box 40031
Olympia, WA 98504

RE: Premiums Receivable as of June 30, 2023

Dear Mr. Wendling,

Deloitte Consulting LLP ("Deloitte Consulting") has completed its review of the State of Washington Department of Labor & Industries' ("the Department") actuarial methodologies, processes, and assumptions used in estimating the amount to record for its Premiums Receivable as of June 30, 2023. This letter summarizes the findings and conclusions of our review.

The Deloitte Consulting team appreciates the time and effort dedicated by the Department's actuarial team to help us understand their premiums receivable estimation process, as well as the resources devoted to providing us with the appropriate data needed to perform our review.

Executive Summary

Based on our review of the Department's methodology for estimating the Premiums Receivable, and subject to the limitations and reliances discussed below in *Distribution and Limitations*, it appears that the Department's process is consistent with actuarial standards of practice as issued by the Actuarial Standards Board. Therefore, we conclude that the Department's estimated Premium Receivable asset is reasonable.

The Department's estimated assets as of June 30, 2023 for its Premiums Receivable for the Accident Fund, Medical Aid Fund, and Supplemental Pension Fund are presented in the table below. The Premiums Receivable asset has been selected by Department management based on internal analyses performed by the Department's actuarial team.

Fund	$000's
Accident Fund	$373,438
Medical Aid Fund	197,089
Supplemental Pension Fund	186,135
Total	$756,662

We note that the Stay-at-Work premium receivable is estimated to be $5.9 million and is included within the Medical Aid Fund premium receivable shown in the chart above.

Process Overview – Estimating Premiums Receivable Assets

Workers' compensation premiums in the state of Washington are not due until 30 days after the end of each exposure quarter and, as such, are collected in arrears. To recognize unpaid premiums, the Department accrues a Premiums Receivable asset on its balance sheet based on an analysis prepared by its actuarial team. The following is a brief description of the analyses performed as of June 30, 2023.

1. *Estimate ultimate premium for the Accident Fund and the Medical Aid Fund*

   Written premiums as of June 30, 2023 for the Accident Fund and the Medical Aid Fund, excluding premium attributable to the Stay-at-Work Program, are converted to estimated ultimate premiums. This premium conversion is based on an analysis of historical premium development patterns, the application of those patterns to the written premiums, and examination of written premiums relative to underlying exposures. Estimated ultimate premium conversion is first performed on a combined basis for both the Accident Fund and Medical Aid Fund and is then allocated to the two funds based on historical ratios.

2. *Estimate ultimate premium for the Stay-at-Work Program*

   The Stay-at-Work Program began in 2012 as one component of the workers' compensation reforms passed by the 2011 state legislature. The Stay-at-Work Program is administered through the Medical Aid Fund. Therefore, although the estimated ultimate premium for the Stay-at-Work Program is calculated separately, it is ultimately included with the estimated ultimate premium for the Medical Aid Fund.

   Estimated ultimate premiums for the Stay-at-Work Program are calculated using the results of Step #1. The Stay-at-Work ultimate premiums for the most recent quarter are based upon a selected ratio of Stay-At-Work to Accident Fund ultimate premiums. The Stay-at-Work ultimate premiums for the prior exposure quarter are estimated by applying the average Accident Fund and Medical Aid Fund premium development factors to the reported Stay-at-Work premiums due. We note that this approach is consistent with the prior year.

3. *Estimate ultimate premium for the Supplemental Pension Fund*

   Estimated ultimate premiums for the Supplemental Pension Fund ("SPF") are calculated using the results of Step #1. The SPF provides for the cost-of living-adjustment adjustments ("COLA") on workers' compensation time loss and pension benefit payments. The actuarial team derives the relationship between the average SPF rate and the average rate for the combined Accident Fund and Medical Aid Fund. Using the 2023 rates, the SPF ultimate premium is estimated to be 33.0% of the total estimated ultimate Accident Fund and Medical Aid Fund premiums combined, which is an increase from the SPF ultimate premium using 2022 rates of 31.4%. The increase in 2023 follows increased SPF premium levels relative to those of the Accident Fund and Medical Aid Fund. We note this is most likely due to the difference in the underlying trends of each fund, with the SPF trend likely outpacing the other trends. The Accident Fund trend generally increases with average worker wages, though is tempered by maximum benefits in place for certain benefit types. The Medical Aid Fund trend generally increases with changes to underlying medical inflation. The SPF trend would tie directly to the selection of estimated future COLA adjustments, which by statute, are based on the annual calendar year change to the states' average wages. We note that the COLA adjustment for fiscal year 2023, which represents the change in calendar year 2021 wages, was 7.51%, and the COLA adjustment for fiscal year 2024, which represents the change in calendar year 2022 wages, is 2.01%.

4. *Estimate premiums collected*

Actual premiums are collected on a combined basis for all funds and are then allocated to the four separate funds based on the relationship between the average 2023 rates for each fund. An adjustment is made to match the incremental quarterly collected premiums to the annual cash flow statement. This is done to ensure that the data used in this analysis matches the annual cash flow data.

5. *Estimate Premiums Receivable Asset*

The Premiums Receivable asset is derived from the most recent two quarters' ultimate premiums for the Accident Fund, Medical Aid Fund, Stay-at-Work Program, and the Supplemental Pension Fund (e.g., 1st quarter and 2nd quarter 2023 premiums for the asset as of June 30, 2023). Premiums associated with periods prior to the two quarters considered in the receivable calculation are greater than 90 days in arrears. We understand that the department does not consider these premiums in their calculations to exclude balances greater than 90 days old in their total estimate.

The premium receivable asset is calculated by subtracting the adjusted premiums collected by fund (Step #4) from the estimated ultimate premium by fund (Steps #1-#3).

Our process review entailed reviewing the internal actuarial analysis and calculation for estimating the Premiums Receivable performed by the Department's actuarial group. The internal analysis was comprised of a series of Excel worksheets as well as a brief description of the Department's analysis and assumptions used. Both the internal review work papers and write-up were provided to us directly by the Department.

Our review was supplemented with information obtained through discussions with Bill Vasek, the Department's chief actuary, and other members of the Department's actuarial team. In addition, we performed reasonability checks on the calculations/formulas shown in the Department's internal analyses and found no apparent errors in their calculations.

Conclusion

We have reviewed the Department's Premiums Receivable analyses and believe that the Department used appropriate actuarial methods and reasonable factors and assumptions in its analyses and that the Department's estimated Premiums Receivable appears consistent with actuarial standards of practice as issued by the Actuarial Standards Board. Furthermore, we found no apparent errors in their calculations. Therefore, we conclude that the Department's estimated Premium Receivable asset appears reasonable.

Distribution & Limitations

This letter has been prepared for the internal use of the State Auditor's Office and the Department solely for the purpose of evaluating the appropriateness of the Premiums Receivable asset estimated by the Department actuaries. It is neither intended nor necessarily suitable for any other purpose. We have prepared this letter for use by individuals who have a degree of technical competence in insurance matters. This letter should be studied in its entirety before any judgments are made about the conclusions in the letter. It is our intention that this letter be used in its entirety, as a whole, and not segmented for other purposes. Deloitte Consulting personnel are available to discuss any questions or concerns regarding this letter.

To the extent that this report is requested and distributed beyond the State of Washington as required by law, we request a listing of those receiving the report. Deloitte Consulting shall have no liability, regardless of form, to any person or entity other than the State of Washington for any action taken or omitted to be taken by such parties in respect to this report. Third parties should recognize that the furnishing of this letter is not a substitute for their own due diligence and may not place any reliance on this letter or data contained herein that would result in the creation of any duty or liability by Deloitte Consulting to any third party.

Deloitte Consulting has relied upon data provided by the Department for this analysis. A specific audit to verify the accuracy or completeness of the data is beyond the scope of this letter. While we have reviewed the data with regard to its reasonableness and consistency, we have relied on such data without audit or verification and our conclusions are based on the assumption that it is accurate and complete. In addition, Deloitte Consulting reviewed the process, calculations, and assumptions underlying the Premium Receivable analysis prepared by the actuarial team of the Department. If the underlying information provided is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

The services we performed throughout this engagement do not constitute an audit, review, examination, or other form of attestation as those terms are defined by the American Institute of Certified Public Accountants ("AICPA"). Any use of the word "review" within this letter should be interpreted in the common use of that term, and not in the definition of "review" promulgated by the AICPA.

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Please contact us at the following numbers if you would like to discuss any aspect of this letter or have any questions or comments.

Michael Green is an Associate of the Casualty Actuarial Society. Rod Morris and Matthew Crotts are Fellows of the Casualty Actuarial Society. All are Members of the American Academy of Actuaries. These organizations have professional standards that, among other provisions, require an actuary perform only assignments for which they are qualified. Michael Green, Rod Morris, and Matthew Crotts meet their qualification standards for rendering the opinions in this letter. They have also attested compliance with the Casualty Actuarial Society's Continuing Education Policy as of December 31, 2022 to perform services in 2023.

Sincerely,

Michael Green, ACAS, MAAA
Principal
Deloitte Consulting LLP
(312) 486-3075

Rod Morris, FCAS, FSA, MAAA
Specialist Leader
Deloitte Consulting LLP
(213) 688-3374

Matthew Crotts, FCAS, MAAA
Specialist Leader
Deloitte Consulting LLP
(213) 688-1883