

November 5, 2003

Mr. Thomas W. Kwieciak  
Administrator, Insurance Programs  
Building Industry Association of Washington  
Post Office Box 1909  
111 21<sup>st</sup> Avenue NW  
Olympia, WA 98501

Dear Mr. Kwieciak:

The Washington State Department of Labor and Industries (L&I) has recently proposed a 19.4 percent increase in workers' compensation rates effective January 1, 2004. PricewaterhouseCoopers LLP has been retained by the Building Industry Association of Washington to review various issues related to this proposed rate increase.

The purpose of this review is to provide information regarding concerns about the rate change proposed by L&I. PwC has not performed an independent calculation of indicated rates.

## MAJOR FINDINGS

**1. The reported "contingency reserve" of L&I is a key factor in the proposed rate increase.**

The "contingency reserve" is basically the reported equity position of L&I's balance sheet. L&I actuaries project the rate levels necessary for the State Fund to break-even on 2004 policies. If the projected year-end 2003 contingency reserve is in the target range, then "break-even" rates are proposed. If the contingency reserve is above the target range, then rates below "break even" are proposed (medical aid fund) or dividends are considered (accident fund). Presumably, if the contingency reserve is below the target range, then rates would be set to correct for the shortfall.

**2. L&I's current estimates indicate that the reported reserves in the published financial statements have been overstated nine out of the past nine years.**

L&I estimates of required reserves that form the basis of its financial statements have been consistently adjusted downward over time. For example, current L&I estimates indicate that total reserves as of June 30, 1994 should have been 27% lower than reserves booked at that time. There has been a consistent pattern of over-reserving in the past nine years.

**3. Overstating the reserves reported in the financial statements results in an understatement of the contingency reserve and thus has an impact on the rate decision.**

If the historical bias is projected into the future, various measures of the understatement of the current contingency reserve range from \$2.1 billion to \$3.2 billion. Based on L&I's funding policy, such a contingency reserve level would result in rate setting below the break-even level and/or dividends.

**4. Compared to the private insurance industry, a lack of transparency exists at L&I regarding how reserve levels are determined and rates are established.**

The reports supporting the reserve levels and rate levels were not consistent with industry standards. This concern was noted in the Worker's Compensation Performance Audit performed in 1998. This observation is consistent with the lack of external financial controls on L&I's reserving and rate setting practices.

### OVERALL L&I RATE SETTING POLICY

RCW 51.16.035 states that L&I premium rates shall be *"the lowest necessary to maintain actuarial solvency of the accident and medical aid funds in accordance with recognized insurance principles."*

Per our discussions with L&I, L&I's interpretation of this mandate is that each policy year should be funded at a break-even rate level scenario (premium is set at the expected costs of the program). In other words, they interpret "actuarial solvency" primarily as an income statement concept, rather than a balance sheet concept, and apply it to the projected revenues and expenses.

Based on this interpretation, L&I has the following policy:

1. L&I actuaries project the rate levels necessary for the State Fund to break-even for a policy year. At the break-even rate level, L&I actuaries estimate that the State Fund will neither make nor lose money, after all expenses and sources of revenue, e.g., premiums, interest earnings, etc. are considered.
2. The level of the contingency reserve (equity) is also considered in the rate setting process.
  - a. The break-even rates are then proposed if the projected year-end contingency reserve is within a target range. L&I has established a target range of between 0% and 10% of the State Fund's claim liabilities (loss reserves). It was unclear exactly how this target range was determined.
  - b. If the contingency reserve is above this target range, then L&I proposes rates below the break-even level (medical aid fund) or dividends are considered (accident fund).
  - c. If the contingency reserve is below 0%, then presumably L&I would propose rates above the break-even level in order to move the contingency reserve toward the target range.

As of June 30, 2003, unaudited financial statements report a contingency reserve of \$456 million compared to total liabilities of \$8,186 million, or 5.6%. Accordingly, L&I is proposing their break-even rate scenario which is a 19.4% increase from current rates.

### **KEY ISSUES TO CONSIDER**

Three key issues to consider when assessing the appropriateness of L&I's proposed rate increase include:

1. Consistency between L&I's rate setting policy and RCW 51.16.035.
2. Calculation of the break-even rate level.
3. Calculation of the contingency reserve.

#### **Issue 1: Consistency between L&I's rate setting policy and RCW 51.16.035**

The RCW does not define the term "actuarial solvency" or how it is to be applied. While L&I interprets solvency primarily as an income statement issue (profit or loss on operations in the projected year), the typical use of the word solvency applies to the balance sheet (comparison of total assets against total liabilities). L&I's interpretation of RCW 51.16.035 has a significant impact on the rates being charged to employers and employees in the State.

For purposes of this review, we have assumed that L&I's rate setting policy is legitimate. However, we recommend that there be a public policy discussion to clarify the legislative intent of the RCW.

**Recommendation:** There should be a public policy discussion to clarify the legislative intent of the RCW and provide clearer guidance to L&I regarding their rate setting and contingency reserve policies. Such a discussion should consider the risks inherent with insurance and the context in which L&I operates.

#### **Issue 2: Calculation of the break-even rate level**

Another important consideration of the proposed rates is the projection of expected future costs. This forms the basis for the calculation of the rates required to cover these costs (break-even rates). As part of this study, we have not performed extensive testing of the assumptions used in this calculation.

It is important to note that the break-even rate level is an estimate. As such, it is possible that the estimate has a conservative or optimistic bias. To the extent conservative assumptions were used to develop the break-even rate scenario, the need for a rate increase is overstated. Likewise, if optimistic assumptions were used, then the break-even rate level is understated. A schedule showing the historical accuracy of the projected rate indications would be useful in assessing whether a bias exists.

**Recommendation:** The historical accuracy of the L&I break-even rate scenario projections should be monitored. Any consistent bias should be investigated and the projection methodology should be adjusted accordingly.

During our review, we did note that L&I uses a different set of cost estimates in its rate calculations as compared to its reserve calculations. The reserve calculations present undiscounted loss estimates that are more than \$900 million higher than those used in the rate calculations. This inconsistency may have an impact on the rate setting decision.

**Recommendation:** There should be an investigation of the appropriateness of using different sets of cost estimates depending on whether L&I is setting rates or setting reserve levels.

**Issue 3: Calculation of the contingency reserve.**

The final matter to consider is the calculation of the contingency reserve. L&I rate decisions are dependent on the level of the contingency reserve relative to the target range of 0% to 10% of total liabilities. The contingency reserve is a direct function of the estimate of total liabilities (reserves). For example, a \$1 billion decrease in the reserve estimate results in a \$1 billion increase in the contingency reserve assuming no other resulting changes in the balance sheet. If the reserve estimate is overstated, then the contingency reserve is understated. Likewise, if the reserve estimate is understated, then the contingency reserve is overstated. The reserve level is an estimate and is accordingly subject to estimation bias.

The table below illustrates the impact of various changes in L&I's reserve estimates for the Accident and Medical Aid Funds.

<b>Effect of Change in Reserve Estimates Based on L&amp;I Rate Setting Policy (Amounts in Millions)</b>					
<b><u>Percentage Change in Reserves</u></b>	<b><u>Resulting Dollar Change</u></b>	<b><u>Revised Total Liabilities</u></b>	<b><u>Revised Contingency Reserve</u></b>	<b><u>Revised Contingency Reserve %</u></b>	<b><u>Resulting Rate Action</u></b>
<b>0%</b>	\$0	\$8,186	\$456	5.6%	Break-Even
<b>-5%</b>	(282)	7,904	738	9.3%	Break-Even
<b>-10%</b>	(564)	7,622	1,020	13.4%	Decrease/Refund
<b>-15%</b>	(846)	7,340	1,302	17.7%	Decrease/Refund
<b>-20%</b>	(1,128)	7,058	1,584	22.4%	Decrease/Refund
<b>-25%</b>	(1,410)	6,776	1,866	27.5%	Decrease/Refund

For example, if reserves were lowered 10%, reported liabilities would decrease, the contingency reserve would therefore increase, and instead of the break-even rate level being proposed, the rate action would be a decrease and/or refund. Accordingly, it is critical to test whether L&I's reserve estimates are reasonable and unbiased.

To test reserve adequacy, three aspects of the reserve calculation were reviewed:

- A. Actuarial Reserve Estimation Process
- B. Provision for Adverse Deviation
- C. Discount Rate

A. Actuarial Reserve Estimation Process

To assess this portion of the reserve calculation, L&I's reserve estimates for each accident year at different points in time (June 30 accounting dates) were gathered. By adding the payments reported through each accounting date, one can construct a history of L&I's loss estimates.

A review of these loss estimates provides a hindsight look at the accuracy of the reserve estimates underlying their financial statements. For example, reserves booked at June 30, 1994 are based on losses estimated as of that accounting date. By looking at current estimates for losses through June 30, 1994, the "hindsight" change in reserves over the past 9 years can be calculated. This hindsight change in reserves is referred to as "reserve runoff." The runoff was calculated for each of the past 9 years.

<b>L&amp;I Reserve Runoff</b>				
<b>Medical Aid + Accident Funds</b>				
<b>Undiscounted and Excluding Margin</b>				
<b>(Amounts in Millions)</b>				
<u>Accounting</u> <u>Date</u>	<u>Original</u> <u>Estimate</u>	<u>Jun-03</u> <u>Estimate</u>	<u>Reduction</u>	<u>Percentage</u> <u>Change</u>
Jun-94	6,307	4,614	1,693	-27%
Jun-95	6,506	4,898	1,608	-25%
Jun-96	6,719	5,203	1,516	-23%
Jun-97	7,188	5,575	1,613	-22%
Jun-98	7,210	5,969	1,241	-17%
Jun-99	7,425	6,417	1,009	-14%
Jun-00	7,840	6,860	980	-13%
Jun-01	7,846	7,316	530	-7%
Jun-02	8,183	7,858	324	-4%

The original estimate forms the basis for the contingency reserve reported in the financial statements. The June 2003 estimate is a hindsight look at the accuracy of the original estimate.

The table reveals a consistent bias, whereby reserves are initially overstated and reduced as claims mature. There is no indication that the reductions stop after nine years. We understand that there have been no major changes in L&I's reserving approach during the past nine years.

If current reserve estimates follow the same pattern as the past nine years, then the reported reserves are overstated, and the contingency reserve is understated. If a standard actuarial development approach is applied to L&I's historical estimates, the projected reserve bias is 26% to 48%, or \$1.5 billion to \$2.7 billion.

**Recommendation:** L&I loss estimates should be monitored over time in order to check for inherent bias in the reserving calculations. Any such bias should be removed from the reserve calculation in order to provide better information as the basis for decisions.

**B. Provision for Adverse Deviation (Margin)**

L&I also books a "provision for adverse development," which is a 4% load added to their reserve calculations. Booking explicit margins is not allowed under generally accepted accounting principles (GAAP) or governmental accounting standards. Eliminating this margin would result in a \$217 million increase to the reported contingency reserve.

**Recommendation:** Investigate the appropriateness of adding a 4% margin to reserve estimates, in the context of reported financial statements.

**C. Discount Rate**

Given the time delay between when accidents occur and when the claims are ultimately settled, the time value of money is an important consideration with workers' compensation reserve levels. The information provided suggests L&I discounts its reserves (reflects the time value of money) using an interest rate assumption which is lower than both recent and projected yields.

	<u>AF</u> <u>Book Yield</u>	<u>MAF</u> <u>Book Yield</u>
June 30, 1999	7.27	6.82
June 30, 2000	7.47	7.65
June 30, 2001	6.91	6.37
June 30, 2002	7.32	6.89
<b>Projected – from L&amp;I Rate Calculations</b>	<b>6.53</b>	<b>5.52</b>
<b>Selected – for L&amp;I Reserve Calculations</b>	<b>4.00</b>	<b>4.00</b>

Using the projected yields, consistent with L&I's break-even rate calculations, would result in an additional \$749 million increase to the reported contingency reserve.

**Recommendation:** There should be an investigation into the appropriateness of using different investment yield assumptions depending on whether L&I is setting rates or setting reserve levels.

### **Overall impact of three areas reviewed**

Adjusting for projected downward development of reserve estimates, the 4% margin, and using L&I's projected investment yield could result in lower reported reserves by 38% to 57%. This corresponds to a \$2.1 billion to \$3.2 billion increase to the reported contingency reserve, to \$2.6 billion to \$3.7 billion. As a percentage of total liabilities, the contingency reserve would then be 43% to 74% of total liabilities.

Such a change would be expected to have an impact on the rate decision, as the contingency reserve would be from \$2.0 billion to \$3.2 billion over L&I's 10% threshold.

## **OTHER ISSUES NOTED**

### **Financial Controls**

The booked reserve level of an insurance entity has a tremendous impact on its reported financial condition. By changing the booked reserve level, an insurance entity could change the outward appearance of their financial health. Since decisions are often based on information presented in the financial statements, it is important that the booked reserves are presented in accordance with the applicable standards.

To address this risk, various controls exist in the insurance industry to ensure reserves are presented in accordance with the applicable standards. It is common to have multiple reviews of the reasonableness of an insurance company's reserve levels by various stakeholders such as:

- Management
- Board of Directors
- Independent Auditor
- Insurance Department
- Internal Revenue Service
- Rating Agencies
- Policyholders

The controls imposed upon L&I regarding the reserve level are much less rigorous than those imposed upon private insurance companies. Based on our understanding, L&I staff performs a reserve analysis and they retain an independent firm (Milliman USA) to review their calculations. The Board of Directors (or L&I's equivalent) does not independently retain an outside firm. Unlike the private industry, the independent auditor does not have its own actuarial resources available to test the reasonableness of the reserve levels. L&I is not subject to regulation by the insurance department. Also, L&I indicated they have not been subject to any regular reviews by other stakeholders.

### **Documentation**

The level of documentation provided by L&I in support of its rates and reserves is less than that typically provided in the private insurance industry. Actuarial Standards of Practice state:

*“an actuarial report should identify the data, assumptions, and methods used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary’s work as presented in the actuary’s report.”*

The lack of comprehensive actuarial reports, either produced by L&I or its consulting actuaries, was a concern noted in the recent performance audit (Joint Legislative Audit and Review Committee – Worker’s Compensation System Performance Audit – Report 98-9). Reports with this level of detail are common in the insurance industry and facilitate review by various stakeholders.

### **DATA AND CALCULATIONS**

The data and calculations reviewed in this report were provided by L&I. This data included Excel spreadsheets that contained L&I’s calculations of reserves as of June 30, 2003 and indicated rates effective January 1, 2004. In addition, actuarial reports from L&I’s independent actuarial consultant, Milliman USA, were provided, as well as financial statements.

### **LIMITATIONS**

This review was limited to booked reserves and proposed rates for the Medical Aid and Accident Funds. The data used in this review was provided by L&I, and was not audited by PwC.

The purpose of this review was to provide information regarding concerns about the rate change proposed by L&I. The proposed rate change was evaluated in the context of the RCW, L&I’s rate setting policy, and L&I’s financial statements. PwC has not performed an independent calculation of loss reserves or rates. PwC is not advocating a particular position regarding the adequacy of the proposed rates or the appropriate level of a contingency reserve for L&I. The amounts presented in this document are meant only to illustrate the potential magnitude of the concerns raised.

Mr. Thomas W. Kwieciak  
November 5, 2003  
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We appreciate this opportunity to be of service to Building Industry Association of Washington.  
Please contact us at (206) 398-3518 with any questions.

Sincerely,



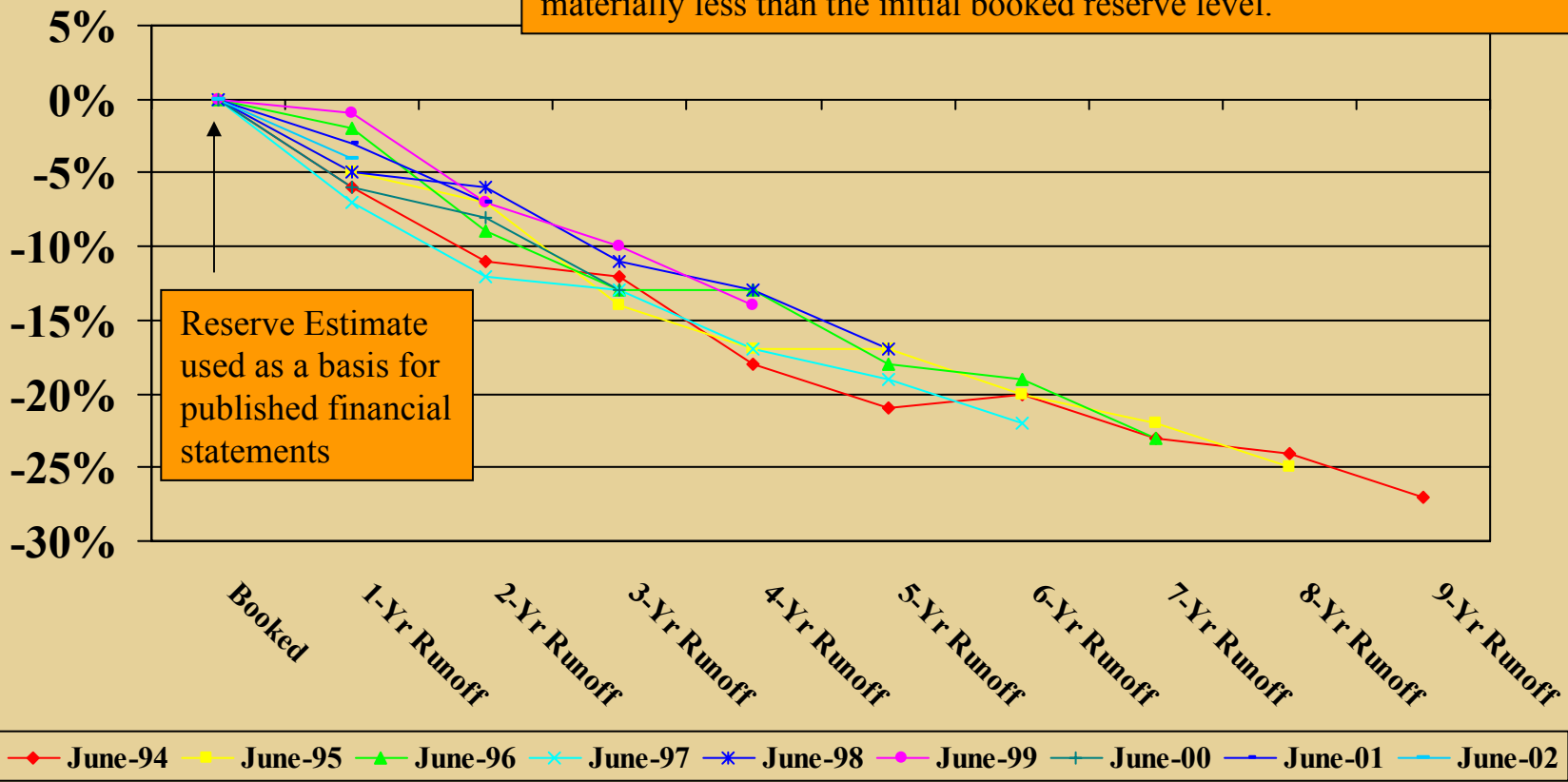
Kevin L. Wick, FCAS, MAAA  
Principal Consultant



Craig J. Scukas, FCAS, MAAA  
Principal Consultant

# L&I Reported Reserve Redundancy

Expectation is “runoff” reserve requirements will sometimes be higher and sometimes less than the initial booked reserves. In contrast, L&I has a pattern where the “runoff” reserve requirements are consistently materially less than the initial booked reserve level.



Department of Labor and Industries  
 Medical Aid + Accident Funds  
 Reserve Runoff Test  
 (Undiscounted Before Margin)

Reserve Date	Ultimate Loss									
	Original	1 Yr Later	2 Yrs Later	3 Yrs Later	4 Yrs Later	5 Yrs Later	6 Yrs Later	7 Yrs Later	8 Yrs Later	9 Yrs Later
Jun-94	14,364	13,989	13,701	13,622	13,210	13,027	13,107	12,894	12,822	12,671
Jun-95	15,266	14,938	14,825	14,373	14,148	14,182	13,941	13,843	13,658	
Jun-96	16,210	16,095	15,586	15,315	15,304	15,024	14,907	14,695		
Jun-97	17,427	16,890	16,567	16,510	16,192	16,053	15,814			
Jun-98	18,247	17,904	17,798	17,433	17,274	17,006				
Jun-99	19,291	19,180	18,752	18,579	18,282					
Jun-00	20,642	20,182	19,983	19,662						
Jun-01	21,660	21,459	21,131							
Jun-02	22,997	22,673								
Jun-03	24,237									

Reserve Date	Reserves									
	Original	1 Yr Later	2 Yrs Later	3 Yrs Later	4 Yrs Later	5 Yrs Later	6 Yrs Later	7 Yrs Later	8 Yrs Later	9 Yrs Later
Jun-94	6,307	5,932	5,644	5,565	5,153	4,970	5,050	4,837	4,765	4,614
Jun-95	6,506	6,178	6,065	5,613	5,388	5,422	5,180	5,083	4,898	
Jun-96	6,719	6,604	6,095	5,823	5,812	5,532	5,416	5,203		
Jun-97	7,188	6,652	6,328	6,272	5,954	5,815	5,575			
Jun-98	7,210	6,868	6,762	6,396	6,237	5,969				
Jun-99	7,425	7,315	6,887	6,713	6,417					
Jun-00	7,840	7,380	7,181	6,860						
Jun-01	7,846	7,645	7,316							
Jun-02	8,183	7,858								
Jun-03	8,278									

Reserve Date	Reserve Runoff									
	1-Yr Runoff	2-Yr Runoff	3-Yr Runoff	4-Yr Runoff	5-Yr Runoff	6-Yr Runoff	7-Yr Runoff	8-Yr Runoff	9-Yr Runoff	
Jun-94		-6%	-11%	-12%	-18%	-21%	-20%	-23%	-24%	-27%
Jun-95		-5%	-7%	-14%	-17%	-17%	-20%	-22%	-25%	
Jun-96		-2%	-9%	-13%	-13%	-18%	-19%	-23%		
Jun-97		-7%	-12%	-13%	-17%	-19%	-22%			
Jun-98		-5%	-6%	-11%	-13%	-17%				
Jun-99		-1%	-7%	-10%	-14%					
Jun-00		-6%	-8%	-13%						
Jun-01		-3%	-7%							
Jun-02		-4%								
Jun-03										

1. Amounts are in millions.

Department of Labor and Industries  
 Medical Aid + Accident Funds  
 Ultimate Loss  
 (Undiscounted Before Margin)

Accident Year	Accounting Date									
	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
1974	1,191	1,180	1,183	1,182	1,152	1,149	1,179	1,167	1,168	1,162
1975	216	215	216	216	211	211	215	213	213	212
1976	241	240	241	241	235	235	240	238	238	238
1977	270	269	270	271	265	264	270	267	266	265
1978	316	315	315	315	308	308	315	312	312	311
1979	418	417	418	418	409	409	418	414	414	411
1980	449	446	446	445	436	436	445	443	441	439
1981	472	471	472	471	463	463	470	465	465	462
1982	506	504	503	503	494	494	502	498	498	494
1983	587	582	581	582	570	571	581	574	575	570
1984	607	606	595	594	584	584	594	588	590	584
1985	631	630	626	619	609	612	623	617	620	614
1986	629	622	621	611	586	586	595	590	591	583
1987	690	681	678	677	656	645	654	646	650	640
1988	804	783	766	755	742	727	735	717	722	711
1989	941	916	878	867	842	832	836	824	817	803
1990	1,060	1,063	996	984	944	921	925	909	899	877
1991	1,101	1,113	1,074	1,063	1,015	981	967	950	937	926
1992	1,203	1,124	1,087	1,089	1,035	1,000	988	956	945	936
1993	1,319	1,173	1,122	1,121	1,076	1,041	1,019	984	956	944
1994	712	1,282	1,225	1,200	1,153	1,119	1,069	1,044	1,011	977
1995		637	1,251	1,206	1,175	1,123	1,081	1,049	1,032	997
1996			647	1,334	1,251	1,210	1,162	1,117	1,097	1,076
1997				664	1,357	1,293	1,250	1,221	1,194	1,162
1998					678	1,382	1,326	1,261	1,247	1,222
1999						696	1,438	1,378	1,363	1,331
2000							742	1,481	1,445	1,427
2001								737	1,507	1,510
2002									784	1,574
2003										778
Total	14,364	15,266	16,210	17,427	18,247	19,291	20,642	21,660	22,997	24,237

1. Amounts in millions.

Department of Labor and Industries  
 Medical Aid + Accident Funds  
 Reserves  
 (Undiscounted Before Margin)

Accident Year	Accounting Date									
	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
1974	176	160	159	153	117	109	133	114	110	99
1975	33	30	30	29	23	22	25	22	21	19
1976	41	38	37	36	29	27	31	28	27	26
1977	47	44	44	42	35	32	36	32	30	28
1978	58	54	53	51	42	39	45	39	37	34
1979	82	75	72	69	57	54	60	54	51	47
1980	88	81	78	74	63	59	64	57	54	50
1981	98	92	88	84	73	68	71	63	60	55
1982	115	107	101	95	81	76	79	71	68	62
1983	142	129	121	116	99	94	98	86	83	75
1984	169	158	140	132	116	109	112	98	96	85
1985	195	181	167	151	132	127	129	114	110	97
1986	216	196	186	166	133	126	127	113	109	95
1987	259	233	215	202	170	149	149	131	127	111
1988	350	306	271	244	217	190	185	154	149	129
1989	463	409	347	315	269	242	227	199	180	153
1990	571	532	435	397	334	291	274	239	215	178
1991	651	607	528	483	405	345	305	262	232	202
1992	823	668	579	542	456	391	350	291	258	228
1993	1,062	792	663	609	523	456	398	334	279	242
1994	668	1,018	826	724	621	545	456	396	337	274
1995		595	976	803	694	588	501	425	374	306
1996			602	1,051	829	707	596	495	433	366
1997				620	1,063	854	715	612	531	442
1998					629	1,080	870	705	622	531
1999						645	1,117	889	771	650
2000							688	1,144	932	784
2001								678	1,160	970
2002									728	1,219
2003										723
Total	6,307	6,506	6,719	7,188	7,210	7,425	7,840	7,846	8,183	8,278

1. Amounts in millions.

Department of Labor and Industries  
Medical Aid + Accident Funds  
Payments

Accident Year	Accounting Date									
	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03
1974	1,015	1,020	1,024	1,029	1,035	1,040	1,046	1,053	1,058	1,063
1975	184	185	186	187	188	189	190	191	192	192
1976	200	202	203	205	206	208	209	210	211	212
1977	223	224	227	228	230	232	234	235	236	237
1978	258	261	262	264	266	268	271	273	275	277
1979	336	342	345	349	352	355	358	361	363	365
1980	360	365	368	370	374	377	381	385	387	389
1981	374	379	383	387	390	395	398	402	405	408
1982	391	397	403	408	413	417	422	427	430	433
1983	445	453	460	466	471	477	483	488	492	495
1984	438	447	456	462	469	475	483	490	494	499
1985	436	448	458	468	477	485	494	503	510	517
1986	413	425	435	444	453	460	468	477	482	488
1987	431	448	463	475	486	496	505	516	522	529
1988	455	477	495	511	525	537	550	563	573	582
1989	478	507	532	551	573	590	608	626	638	650
1990	489	530	561	587	610	630	651	670	684	698
1991	450	506	546	580	610	636	662	688	705	725
1992	380	455	509	547	579	609	638	665	687	707
1993	257	381	459	512	553	585	621	650	678	703
1994	44	264	398	476	532	574	614	648	674	704
1995		42	275	403	481	535	581	624	658	692
1996			45	283	422	503	567	622	664	710
1997				45	294	439	535	608	664	721
1998					48	302	457	555	625	691
1999						51	321	489	592	682
2000							54	338	513	643
2001								59	347	540
2002									57	355
2003										55
Total	8,057	8,760	9,492	10,239	11,037	11,866	12,802	13,815	14,814	15,960

1. Amounts in millions.





Department of Labor & Industries  
Medical Aid + Accident Funds  
As of June 30, 2003

Exhibit 5

(Part 3)

Ultimate Loss Development

<u>Accident Year</u>	<u>318-330</u>	<u>330-342</u>	<u>342-Ult</u>
1975	0.999	0.995	
1976	0.999		
1977			





Department of Labor & Industries  
Medical Aid + Accident Funds  
As of June 30, 2003

Exhibit 6

(Part 3)

L&I Ultimate Loss

<u>Accident Year</u>	<u>318</u>	<u>330</u>	<u>342</u>
1975	213	213	212
1976	238	238	
1977	265		

1. Amounts are in millions.

Department of Labor & Industries  
 Difference in Cost Estimates  
 Ratemaking Estimates vs. Reserving Estimates  
 As of June 30, 2003

<u>Accident Year</u>	<u>Ultimate Loss from</u>		<u>Difference</u>
	<u>Rates</u>	<u>Reserves</u>	
2003	703	807	103
2002	1,444	1,623	179
2001	1,404	1,549	145
2000	1,339	1,459	119
1999	1,258	1,357	99
1998	1,164	1,243	80
1997	1,114	1,180	66
1996	1,039	1,090	52
1995	975	1,010	35
1994	976	988	12
1993	943	954	11
Total	12,360	13,260	900

1. Amounts are in millions and reserving ultimate losses include margin.

## Data Sources

<u>Source</u>	<u>Coverage</u>	<u>Data</u>
PTD_MXV.xls MXV_032.xls	Medical Medical	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_VOC.xls VOC_032.xls	Voc Rehab Voc Rehab	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_FTL.xls FTL_032.xls	Fatal Fatal	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_TLO.xls TLO_032.xls	Time Loss Time Loss	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_PPD.xls PPD_032.xls	PPD PPD	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_TPD.xls TPD_032.xls	TPD TPD	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
PTD_MIS.xls MIS_032.xls	Misc AF Misc AF	Payment Triangle Jun-03 Undiscounted Reserves Jun-03 Discounted Reserves Jun-03 Discounting Calculation
Milliman USA Reports June 30, 1994 through 2002	All Coverages	Jun-94 through Jun-02 Undiscounted Reserves