



Washington State Auditor's Office

CONTRACT NO. K636-C-1912

AMENDMENT 3

CONTRACT FOR PROFESSIONAL SERVICES

BETWEEN

WASHINGTON STATE AUDITOR'S OFFICE

AND

DELOITTE CONSULTING LLP

This Contract Amendment is made and entered into by and between the WASHINGTON STATE AUDITOR'S OFFICE (SAO) and the below named CONTRACTOR ("Contractor").

Deloitte Consulting LLP

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Washington State UBI Number: 602356799

Federal ID Number: 06-1454513

This amendment is effective on the date of last signature of the parties and amends the scope of work, the deliverables, period of performance, and compensation in Contract NO. K636-C-1912 (the "Contract") for the June 1, 2023 to June 30, 2024 contract year as set forth herein.

Item 1: Section 3 of the Contract is hereby amended to add the following deliverables:

3. **DELIVERABLES**

For contract year June 1, 2023 to June 30, 2024:

- Deliverable #1: Calculation of classification code relative base rates of the Medical Aid Fund and Accident Fund and Stay at Work rates – **August 25, 2023**
- Deliverable #2: Opinion on experience rating plan changes – **September 1, 2023**
- Deliverable #3: Opinion on premium receivable estimates – **October 2, 2023**
- Deliverable #4: Opinion on retrospective rating adjustment premium liability - **October 2, 2023**
- Deliverable #5: GAAP Statement of Actuarial Opinion on the Accident, Medical Aid and Pension Fund Loss and Loss Adjustment Expense Liabilities - **October 13, 2023**
- Deliverable #6: SAP Statement of Actuarial Opinion on the Accident, Medical Aid and Pension Fund Loss and Loss Adjustment Expense Liabilities – **October 13, 2023**
- Deliverable #7: GAAP Statement of Actuarial Opinion on supplemental pension fund liabilities - **October 13, 2023**
- Deliverable #8: Review of Early Case Reserves Predictive Model – **October 2, 2023**
- Deliverable #9: Analysis of unpaid loss and loss adjustment expense liabilities – **October 9, 2023**
- Deliverable #10: Analysis of the Department's indicated breakeven rate level changes of the Accident Fund and Medical Aid Fund, including the Stay at Work Account as of June 30, 2023 – **December 1, 2023**
- Deliverable #11: Assessment of the financial impact of adopted rate level changes on the actuarial solvency of the Accident Fund, Medical Aid Fund and Pension Reserve Fund – **December 1, 2023.**

Item 2: Section 4 of the Contract is deleted in its entirety and replaced with the following:

4. **PERIOD OF PERFORMANCE**

The period of performance shall begin on June 1, 2020, or date of execution, whichever is later, and end on June 30, 2024. Amendments extending the period of performance, if any, will be at the sole discretion of the State Auditor's Office. The State Auditor's Office reserves the right, at its discretion, to extend the contract for up to two additional-years.

Item 3: The first paragraph of Section 5 of the Contract is deleted in its entirety and replaced with the following:

Compensation for the contract year June 1, 2020 to June 30, 2021 shall not exceed Three Hundred and Fifty Thousand and Seventy Eight Dollars (\$350,078). Compensation for the contract year June 1, 2021 to June 30, 2022, shall not exceed Three Hundred and Sixty-Four Thousand and two Hundred and Sixty-One Dollars (\$364,261). Compensation for the contract year June 1, 2022 to June 30, 2023, shall not exceed Three Hundred and Seventy-Eight Thousand and Nine Hundred and Twelve Dollars (\$378,912). Compensation for the contract year June 1, 2023 to June 30, 2024, shall not exceed Three Hundred and Ninety-Three Thousand and Seven Hundred and Fifty-Three Dollars (\$393,753). Total compensation for the contract period shall not exceed One Million Four Hundred Eighty-Seven Thousand and Four Dollars (\$1,487,004). The contractor's compensation for services rendered will be based on the schedule set forth in Attachment A. If the State Auditor's Office decides to modify the final Performance Statement of Work, including deleting tasks, after completing the planning process or at critical points during the course of the contract, the parties will negotiate in good faith whether to make an adjustment to the compensation set forth in Attachment A.

Item 4: Exhibit 1 to this Amendment 3, titled "Attachment A: Amended Statement of Work Contract Year June 1, 2023 to June 30, 2024 Updates", attached hereto and incorporated herein, is hereby added to Attachment A – Statement of Work of the Contract, and sets forth the services that Contractor will provide for the contract year June 1, 2023 to June 30, 2024.

THIS CONTRACT AMENDMENT, is executed by the persons signing below who warrant that they have the authority to execute this contract amendment.

A copy of this amendment, consisting of ten pages, shall be attached to/and incorporated into, the Contract. Any reference in that Contract to the "contract" shall mean "contract as amended." All other items and conditions of the Contract or prior amendments shall remain in full force and effect.

Deloitte Consulting LLP

Washington State Auditor's Office

Signature  5/10/2023
Michael Green Date
Title: Principal

Signature  5/15/2023
Sadie Armijo Date
Title: Director of State Audit

APPROVED AS TO FORM:
Assistant Attorney General
Date: May 5, 2023

Exhibit 1 to Amendment 3

**Attachment A: Amended Statement of Work
Contract year June 1, 2023 – June 30, 24 updates**

This figure is an overview of the proposed staff, with a summary of the key team members following:



As shown in the chart above, Mike Green will be overall Lead Engagement Principal for this engagement and will have the prime responsibility and final authority for the work.

While Mike Green will be the overall Lead Engagement Principal for this engagement and will have the prime responsibility and final authority for the work, Rod Morris will be the designated lead who the SAO management can work with to resolve any problems, issues, or concerns.

Project Approach / Methodology

Opinion on experience rating plan changes

Deloitte Consulting will review L&I's experience rating plan for premium rates effective January 1, 2024 and specifically the changes to the parameters of the 2024 experience rating plan to assess whether the changes made are reasonable and consistent with actuarial standards of practice as issued by the Actuarial Standards Board and whether they attempt to limit unreasonable fluctuations in premium rates. Contractor's review will include all underlying assumptions, including the maximum claim value, the medical only claim deductible, the maximum primary and excess loss, and the load factor selected by L&I. Additionally Contractor will review the underlying parameters of the experience rating plan itself, including the split point between primary and excess components, the credibility used for each piece, the expected losses for individual employers, and the targeted average experience modification factor.

Review of Early Case Reserves Predictive Model

Deloitte Consulting will perform an actuarial review of the Early Case Reserve (ECR) model as provided by the L&I based on the industry best practices and modeling standards. The model review will be an update to the Deloitte ECR model review performed in 2021 and will include commentary on the data preparation, modeling methodology, variables tested and used, quality control approach, model results and potential future considerations. Deloitte Consulting will work with L&I personnel to understand enhancements and modifications to the model since the 2021 review with a focus on the accuracy and effectiveness of the model through working sessions and a review of existing documentation to be provided by L&I.

The ECR model review will consist of three steps and is expected to be conducted over a period of approximately three (3) weeks, as outlined in the table that follows.

Step	Description	Estimated Timeframe
Step I	Project Kick-off and Information Request	Week 1: 2-3 days
Step II	Working Sessions and Follow-Up Discussions	Week 2: 1-2 days
Step III	Preparation of Insights and Findings	Week 3: 3-4 days

Step I: Project Kick-off and Information Request

In this step, Deloitte Consulting will conduct a planning meeting to gain consensus on the key activities and coordinate working sessions logistics and agenda. Deloitte Consulting will also request advance documents for its review ahead of the working sessions and provide a list of questions regarding the model to be addressed by L&I.

Step II: Working Sessions and Follow-Up Discussions

Deloitte Consulting will conduct and facilitate working sessions and follow-up discussions with appropriate L&I personnel, to provide the professional services in support of the actuarial review of the ECR model. Its review will be performed based on mutually agreed upon criteria and may include, but not be limited to, enhancements/modifications since the 2021 model review in data preparation, modeling approach, variables used, results validation, predictive power, quality control procedures, business reasonability and additional opportunities to derive more value from the models.

Deloitte Consulting will also review historical model validation results performed by L&I as well as potential production results since the 2021 model review. This comparison will include, but not be limited to, considerations of accuracy, complexity, volatility and responsiveness to change.

Step III: Preparation of Insights and Findings

In this step, Deloitte Consulting will synthesize the information gathered during the previous steps and summarize the insights and findings from the working sessions and model documentation review. Deloitte Consulting will prepare and deliver a consolidated document that outlines procedures, findings and recommendations for future model enhancements. The document will focus on model enhancements and modifications since the 2021 model review and include, but not be limited to:

- Commentary on analysis processes and modeling methodologies
- Evaluation of model predictive power
- Evaluation of quality control procedures
- Review of performance monitoring and model maintenance approaches
- Review of L&I's plan for future model recalibration
- Recommendations for potential future enhancements of any of the model aspects reviewed, including (but not limited to) model inputs, methodology, testing, validation, and quality control procedures.

The proposed ECR model review timeline may change after further discussions between L&I and Deloitte Consulting and depending on L&I's ability to schedule the requisite resources and provide the requisite information for the model review. The scheduling sequence will be defined and agreed upon at the initial kick-off and planning meetings.

June 1, 2023 to June 2024 Project Schedule

The Contractor will participate in significant planning and effective communication with the SAO. The following table displays the detailed schedule of the project and deliverables for performance of the actuarial reviews:

Phase of Work	Proposed Date of Completion
1. Kick-off meeting	June 2023
2. Submit June 30, 2023 Data Request	June 2023
3. Receipt of data for rate review	July 2023
4. Rate Level Review Performed	August 2023
5. Report for Classification Code Relative Base Rates	August 25, 2023
6. Receipt of data for reserve review	August 2023
7. Reserve Review performed	September 2023
8. Opinion on Experience Rating Plan changes	September 1, 2023
9. Opinion on Premium Receivable Estimates	October 2, 2023
10. Opinion on methodology for estimating retrospective premium liabilities	October 2, 2023
11. GAAP and Statutory Statement of Opinion on Loss Reserves	October 13, 2023

12. Opinion on Supplemental Pension Fund Liabilities	October 13, 2023
13. Review of Early Case Reserves Predictive Model	October 2, 2023
14. Report for Unpaid Loss and Loss Adjustment Expenses	October 9, 2023
15. Report on indicated rate level change and calculation of classification code adopted base rates	December 1, 2023
16. Financial Modeling to assess the impact of proposed rate level changes	December 1, 2023

Deliverables

The Contractor shall submit the following deliverables:

1. Report for Classification Code Relative Base Rates for the Accident Fund, Medical Aid Fund, and Stay at Work rates

This report will summarize Contractor's review and conclusions as to the reasonableness of L&I's recommended classification relative base rates for the Accident Fund, Medical Aid Fund, and Stay at Work rates. The report will include Contractor's view as to whether the classification rates and relativities recommended by L&I meet the criteria of being fair and not excessive, inadequate, or unfairly discriminatory.

2. Opinion on proposed changes to experience rating plan

This opinion letter will state whether the changes to the parameters of the experience rating plan are reasonable based on generally accepted actuarial principles and whether they attempt to limit unreasonable fluctuations in premium rates.

3. Opinion for methodology to estimate premium receivable

This opinion letter will state whether the amount recorded by L&I for premium receivables is appropriate, and if the methodology used by L&I is consistent with generally accepted actuarial principles.

4. Opinion for methodology to estimate retro premium liabilities

This opinion letter will state whether the amount booked by L&I for retro premium liabilities is appropriate, and if the methodology used by L&I is consistent with generally accepted actuarial principles.

5. GAAP Statement of Opinion on Loss Reserves

This opinion letter will be in the standard format as required to be submitted with the GAAP financial statements.

6. Statutory Statement of Opinion on Loss Reserves

This opinion letter will be in the standard format as required to be submitted with the Statutory and GAAP financial statements.

7. Loss Reserve Opinion on the Supplemental Pension Fund

This opinion letter will state whether the reserves in the Supplemental Pension Fund were prepared in accordance with actuarial standards of practice.

8. Report summarizing findings of the Actuarial review of the Predictive Model used for Early Case Reserves

This report will summarize Contractor's assessment of the actuarial soundness of the early case reserving predictive model, including recommendations for future model enhancements.

9. Report for Unpaid Loss and Loss Adjustment Expenses

This report will summarize Contractor's independent review of the reasonableness of L&I's unpaid loss and loss adjustment expenses for the Medical Aid Fund, Accident Fund, and the Pension Reserve Fund.

10. Report for Indicated Breakeven Rate Level Changes of the Accident Fund and the Medical Aid Fund, including the Stay at Work account

This report will summarize Contractor's independent actuarial analysis performed to estimate the rate level change for the upcoming underwriting year for the Accident Fund and the Medical Aid Fund. This report will also summarize Contractor's findings regarding the appropriateness of the procedures used by L&I in determining the upcoming classification code rates and relativities.

11. Report summarizing the financial impact of proposed rate level changes

This report will summarize Contractor's assessment of the financial impact of the rate change proposed by L&I on the actuarial solvency risk for the funds.

SAO shall approve each Deliverable that conforms in all material respects to the requirements therefor set forth in this SOW. Approval of a Deliverable shall be deemed given by SAO if SAO has not delivered to Contractor a notice that such Deliverable does not conform with the foregoing within five days of delivery.

It is mutually agreed that Deloitte Consulting's deliverables are estimates and advice only, and that comparison of said deliverables to other estimates from other parties, and any associated actions taken are the sole responsibility of Client.

Cost Breakdown Fixed-Priced Cost Proposal

Contractor's fees will be based on the hourly rates of the professional staff assigned to an engagement and, per the RFP, include labor, travel, lodging, per diem, administrative and all incidentals necessary to complete the performance of the proposed contract.

Based on the scope of services, the Contractor's fixed fees for professional services and expenses is set forth by Deliverable in the "Fees" column of the table below, and will not exceed \$393,753 for the June 1, 2023 to June 30, 2024 contract year. If the contract is extended beyond June 30, 2024, the Rates per Hour will increase by 4% each year thereafter, and will be used for purposes of pricing the additional services to be performed during the extension periods.

Deliverable Number	Rate Per Hour *					Hours	Fees
	\$480	\$440	\$385	\$350	\$240		
	Principal	SMA's	Specialist Leader	Manager	Staff Consultant		
Deliverable #1	8	4	20	8	40	80	25,700
Deliverable #2	0	0	8	12	0	20	7,280
Deliverable #3	2	0	10	15	5	31	11,043
Deliverable #4	0	0	8	12	0	20	7,280
Deliverable #5	0	0	6	12	0	18	6,510
Deliverable #6	0	0	6	12	0	18	6,510
Deliverable #7	0	0	6	12	0	18	6,510
Deliverable #8	5	10	0	120	40	175	58,400
Deliverable #9	12	4	88	104	172	380	119,080
Deliverable #10	14	8	63	90	124	299	95,755
Deliverable #11	8	8	31	45	61	153	49,685
Total	49	34	246	442	442	1,212	393,753

NOTE:

- Deliverable #1 Calculation of classification code relative base rates of the Medical Aid Fund and Accident Fund and Stay at Work Rates
- Deliverable #2 Opinion letter on proposed changes to L&I's 2023 experience rating plan
- Deliverable #3 Opinion on premium receivable estimates
- Deliverable #4 Opinion on retrospective rating adjustment premium liabilities
- Deliverable #5 GAAP Statement of Actuarial Opinion on Reserves
- Deliverable #6 Statutory Statement of Opinion on Reserves
- Deliverable #7 GAAP Statement of Actuarial Opinion on the Supplemental Pension Fund Liabilities
- Deliverable #8 Review of Early Case Reserves Predictive Model
- Deliverable #9 Analysis and Report on Unpaid Loss and Loss Adjustment Expenses
- Deliverable #10 Report on Independent analysis of the indicated rate change and calculation of the proposed classification code adopted base rates
- Deliverable #11 Financial Modeling Analysis and Report

* Rate includes the professional fees plus the cost of all expenses including travel expenses