

**The Medicare Tsunami  
Driving Medical Claim Reserves**

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Lake Buena Vista, Florida

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**Workers Compensation  
Other Risk Factors**

- Court Decisions
- Legislative Changes
- Medical Inflation
- Economic Conditions
- Administrative Law Judge (“ALJ”) Changes—Impact on Tail
- Long-Term Pension Cases

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**Court Decisions –Kentucky**

- Assisted Living Compensable under KY Workers Compensation (KY Farm Bureau vs. Senninger 2009)
- Change Required Impairment Rating from 1% to 0% Impairment for Lifetime medical benefits (FEI Installation 2007)
- Eliminate subrogation recoveries for workers compensation (AIK vs. Bush 2008)

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## Legislative Changes

- Federal Black Lung changes
  - Due to Health Care Reform Act
  - Liberalized Thresholds
  - Senate Version Modifies Eligibility Retroactive to 2005, if Employed for 15 Years
  - Liberalization of presumption of Eligibility for Widows Under Miner Death
  
- Results: +44% Surface and Underground Mining in West Virginia

Source: InsuranceNewsnet.com May 21, 2010 Black lung premiums expected to soar: Changes to federal program could hike insurance premiums as much as 40 percent [Charleston Daily Mail, W.Va.]

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## Medical Inflation

- NCCI Findings:
  - Decreasing WC frequency (-4% 2009)
  - Offset by increasing Severity (+5% to 5.5%)
  
- Increased Severity due to
  - Medical Inflation
  - Changes in Utilization
  - More Treatments per Claim (decreasing in more recent period analyzed)
  - Longer Life Expectancies
  - Use of Higher Cost Surgeries, Prescription Drug Costs

Source: NCCI May 6, 2010 News Release and July 16, 2010 Medical Update

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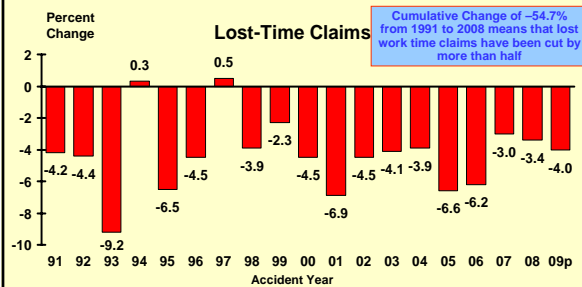
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## Workers Comp Lost-Time Claim Frequency Down More than 50% Since 1991



Source: NCCI Annual Issues Symposium May 6, 2010  
 2009p: Preliminary based on data valued as of 12/31/2009  
 1991-2008: Based on data through 12/31/2008, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

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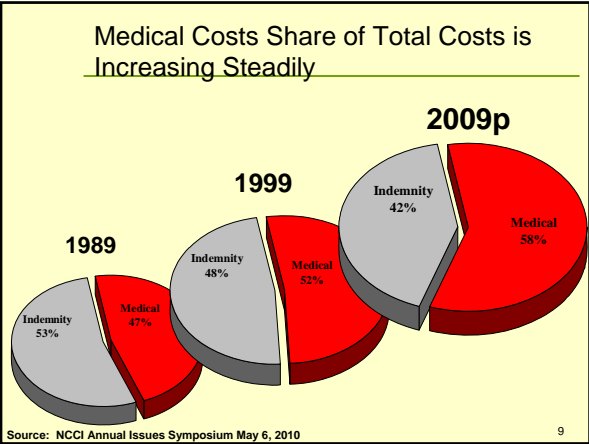
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### Economic Conditions

- Mixed Findings Due to “Great Recession”
  - Some spikes observed
  - In other cases, lack of job opportunities lead to cautious filing of workers compensation claims

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### Impact of Financial Crisis on WC

<ol style="list-style-type: none"> <li>1. Layoffs</li> <li>2. High unemployment, eliminated positions, future jobs to return to, fewer light duty jobs to perform until ready to return to post position</li> <li>3. Mergers &amp; Acquisitions</li> <li>4. Reduced State Budgets for Appeals</li> <li>5. Reduced Company Budget for Risk Management</li> <li>6. Increased Collateral Costs</li> </ol>	<ol style="list-style-type: none"> <li>1. Reduced payroll &amp; audit premium</li> <li>2. Continued trend in reduced frequency</li> <li>3. Decreased Return to Work Programs</li> <li>4. Longer wait for claims to be adjudicated, longer time on claim, increased cost</li> <li>5. Longer time on claim, slower closure rates</li> <li>6. Fewer Risk Management resources, more work for Risk Managers</li> <li>7. Increase in Collateral requirements</li> </ol>
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## Administrative Law Judge Changes—Effect on Tail

- 2003-2007, More Conservative ALJ's in KY favor insurance industry
- Reported KY Tails Decrease
- With Shift in 2008 Kentucky Governor, Tails may increase again

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## Kentucky NCCI 8<sup>th</sup>:Ult. Reported Tail

Accident Year	Indemnity	Medical	Combined		
1996	1.112	1.932	1.479		
1997	1.072	1.615	1.337		
1998	1.030	1.441	1.234		
1999	1.035	1.260	1.151		
2000	1.026	1.246	1.144		

Source: NCCI 2010 Statistical Bulletin

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## Long-Term Pension Cases

- Probability of increases for long-term pension cases increase due to pressure on WC system
- Can be significant risk factor for WC

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