



# **Title: Workers' Compensation Reserve Cycle: Looking Beyond the Medical CPI**



Presented by

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## Agenda

- ◆ Limitations of using medical CPI for workers' compensation
- ◆ Outside the CPI: Historical cost drivers
- ◆ Utilization rates
- ◆ Severity varies
  - ❖ By industry
  - ❖ By state
  - ❖ By changes in SIR/Deductibles
- ◆ Claim frequency
- ◆ Outside the CPI: Historical cost drivers



# Limitations of Using Medical CPI

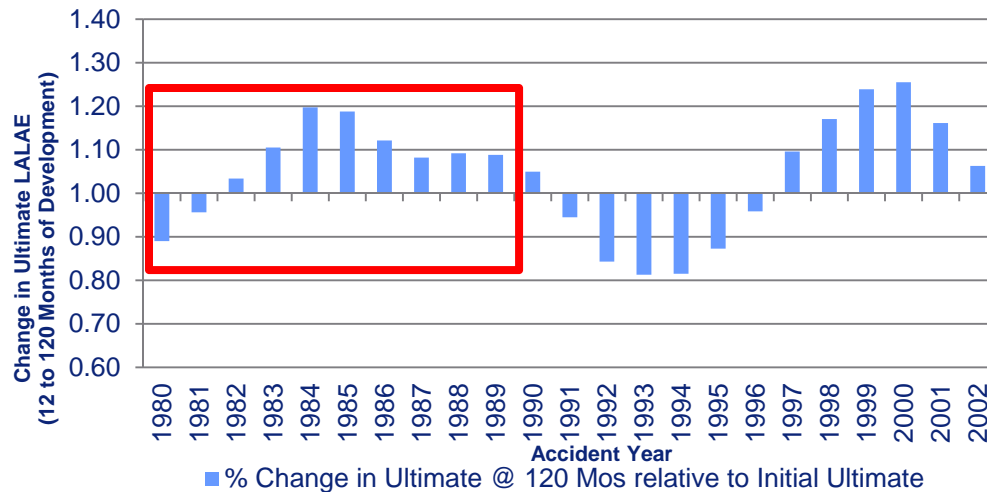
## Fundamental Differences Between Group Health and Workers' Compensation Systems

| Concept                               | Group Health  | Workers' Compensation  |
|---------------------------------------|---|--|
| <b>Incidence of illness/injury</b>    | <ul style="list-style-type: none"><li>◆ Highly predictable in large populations</li><li>◆ Minimal employer role in affecting rates of incidence</li></ul>   | <ul style="list-style-type: none"><li>◆ Very unpredictable</li><li>◆ Major employer role in affecting rates of incidence</li></ul>   |
| <b>Gatekeeper tool</b>                | <ul style="list-style-type: none"><li>◆ Primary care physician</li><li>◆ Reliance on internist or general practitioner</li></ul>  | <ul style="list-style-type: none"><li>◆ Need fully-equipped, trained, accessible point-of-entry facilities</li><li>◆ Trauma or initial care orientation</li></ul>  |
| <b>Diagnosis/treatment philosophy</b> | <ul style="list-style-type: none"><li>◆ Progressive</li><li>◆ Return to work not an issue</li></ul>   | <ul style="list-style-type: none"><li>◆ Aggressive</li><li>◆ Return to work an objective</li></ul>   |
| <b>System financing</b>               | <ul style="list-style-type: none"><li>◆ Predictable utilization</li><li>◆ Employer experience not a major determinant of cost</li><li>◆ Leads to risk sharing or transfer</li><li>◆ Closed end for cases</li><li>◆ Cause of injury/illness irrelevant</li></ul> | <ul style="list-style-type: none"><li>◆ Unpredictable utilization</li><li>◆ Employer experience major cost determinant</li><li>◆ Does not lead easily to risk sharing or transfer</li><li>◆ Possible lifetime costs</li><li>◆ Cause of injury critical</li></ul> |

Source: The Vincam Group, as quoted in "Workers' Comp – Can Managed Care Fix It?" by Jean Lawrence, *Managed Care*, April 1997.



## Outside the CPI: Cost drivers in the 1980's

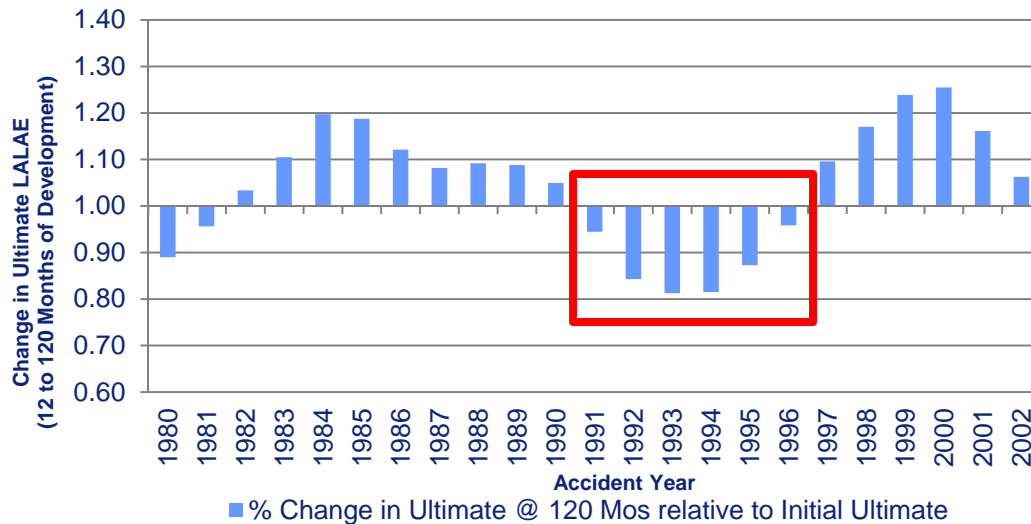


- ◆ Growth in medical component of WC claims in lost time cases
  - ❖ 13% annual growth rate from 1980-89
  - ❖ Possible cost shifting by medical providers
- ◆ 10% annual increase in indemnity claims
  - ❖ Increase in benefits as a percentage of average weekly wage
  - ❖ Increased attorney involvement due to erosion of exclusive remedy doctrine
- ◆ Fraud: estimates range as high as 10% of total claims

Source: NCCI, Schedule P Data, Conning Research & Analysis



## Outside the CPI: Improvement in the early 1990's

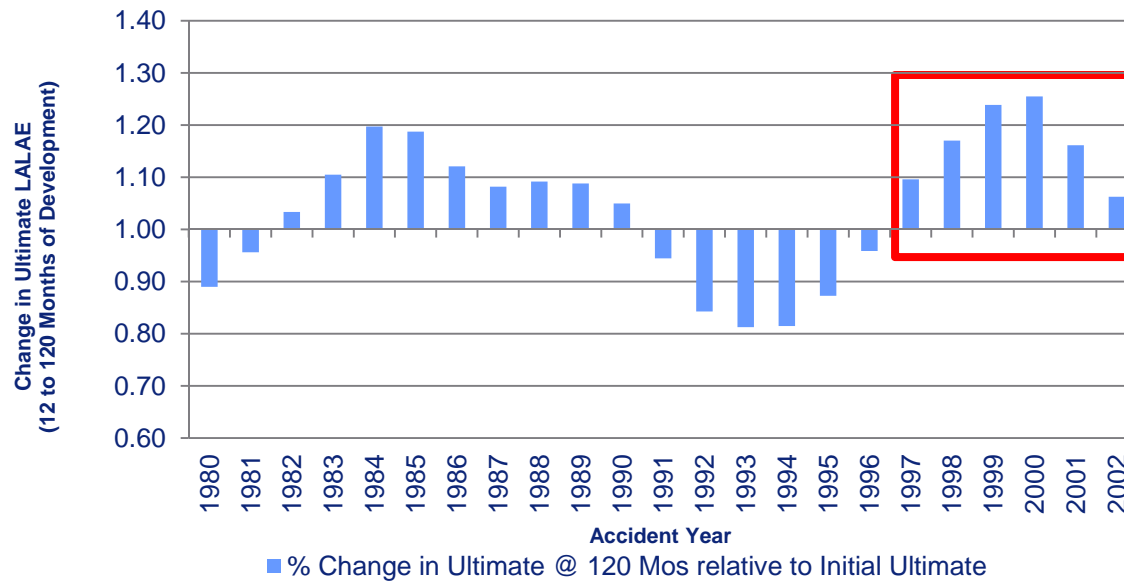


- ◆ Establishment of medical fee schedules
- ◆ Limitations on indemnity payments for temporary disability
- ◆ Judicial reforms and limitations on attorney fees
- ◆ Managed care initiatives
- ◆ Reforms in 19 states in 1992-93
  - ❖ Savings of \$800 million
  - ❖ Savings equal to 2.5% of countrywide L/R
- ◆ Deductibles permitted or increased in many states

Source: NCCI, Schedule P Data,  
Conning Research & Analysis



## Outside the CPI: Deterioration in the late 1990's and early 2000's



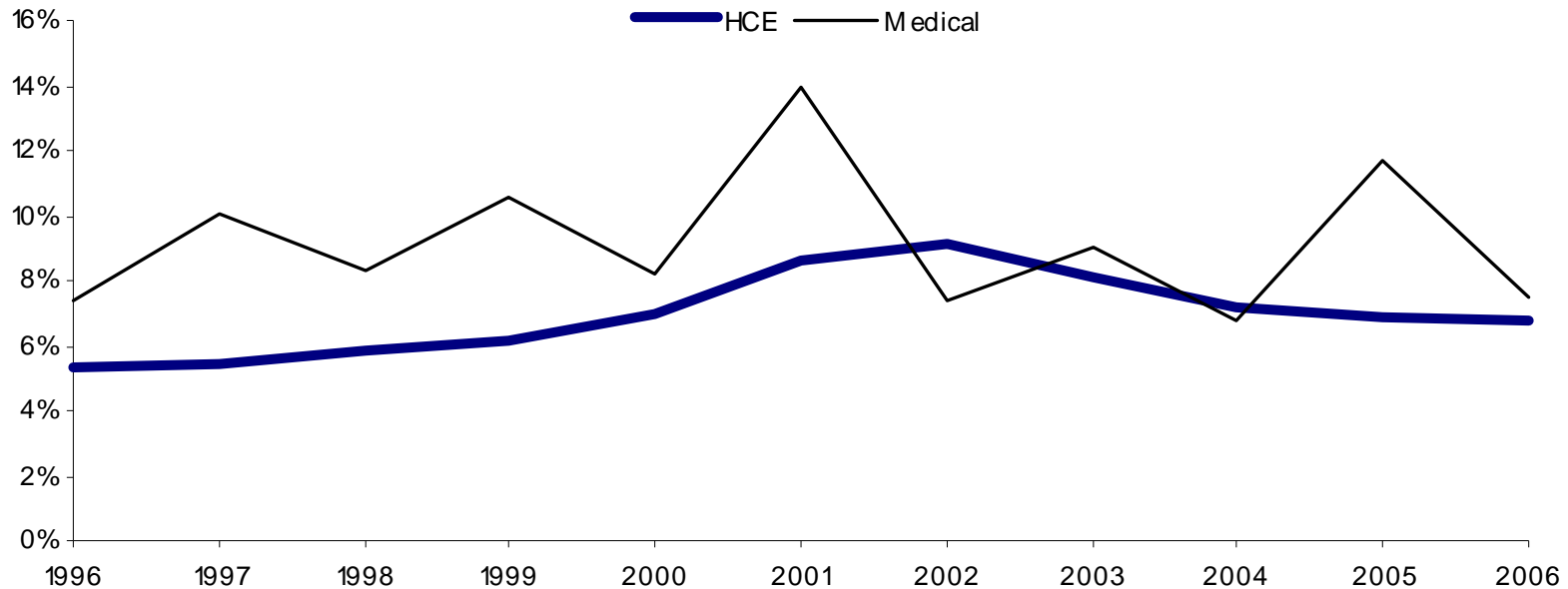
- ◆ 25% increase in medical costs per claim from 1994-98
- ◆ LAE grew from 13% in 1991 to 25% in 1997
  - ❖ Expanded use of cost-containment programs and case management
- ◆ Insurance fraud
  - ❖ 1998 study by American Insurance Association estimated fraud losses of \$3 billion annually (10% of claims paid)
  - ❖ National Insurance Crime Bureau doubled the AIA estimate

Source: NCCI, Schedule P Data, Conning Research & Analysis



## Utilization Rates

### Change in Workers' Compensation Medical Costs versus Private Health Care Costs (Per Capita)



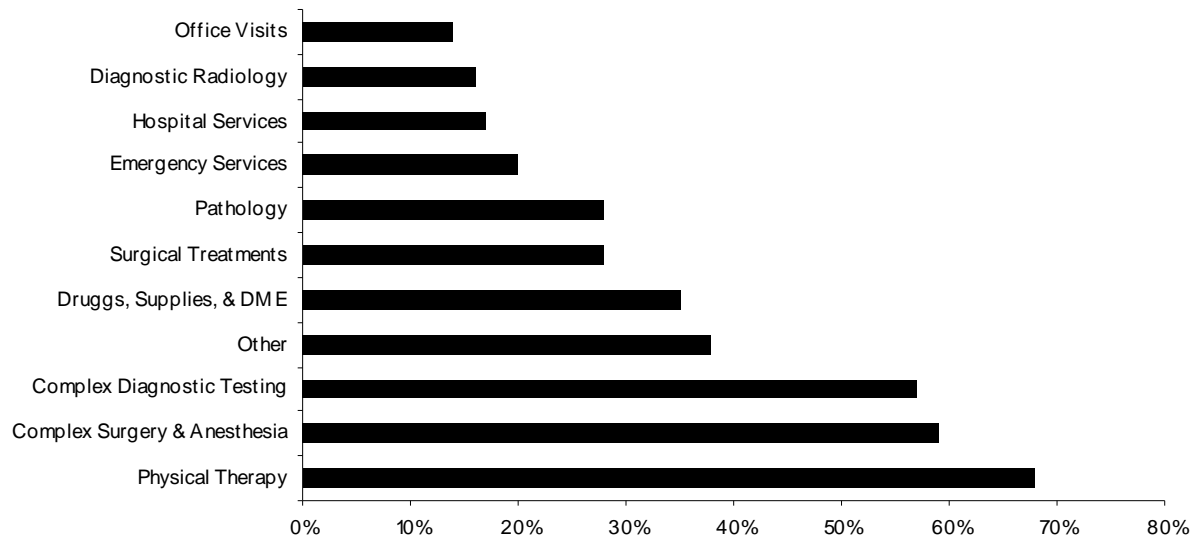
Source: National Council on Compensation Insurance, Centers for Medicare and Medicaid Services, Conning Research & Analysis

- 9.1% average annual change for workers' compensation
- 6.9% average annual change for health care expenditures in the U.S.



## Utilization Rates

- ◆ **Increase in Number of Treatments for All Diagnosis Codes by Service Category, Accident Years 2001-2002 Over 1996-1997**



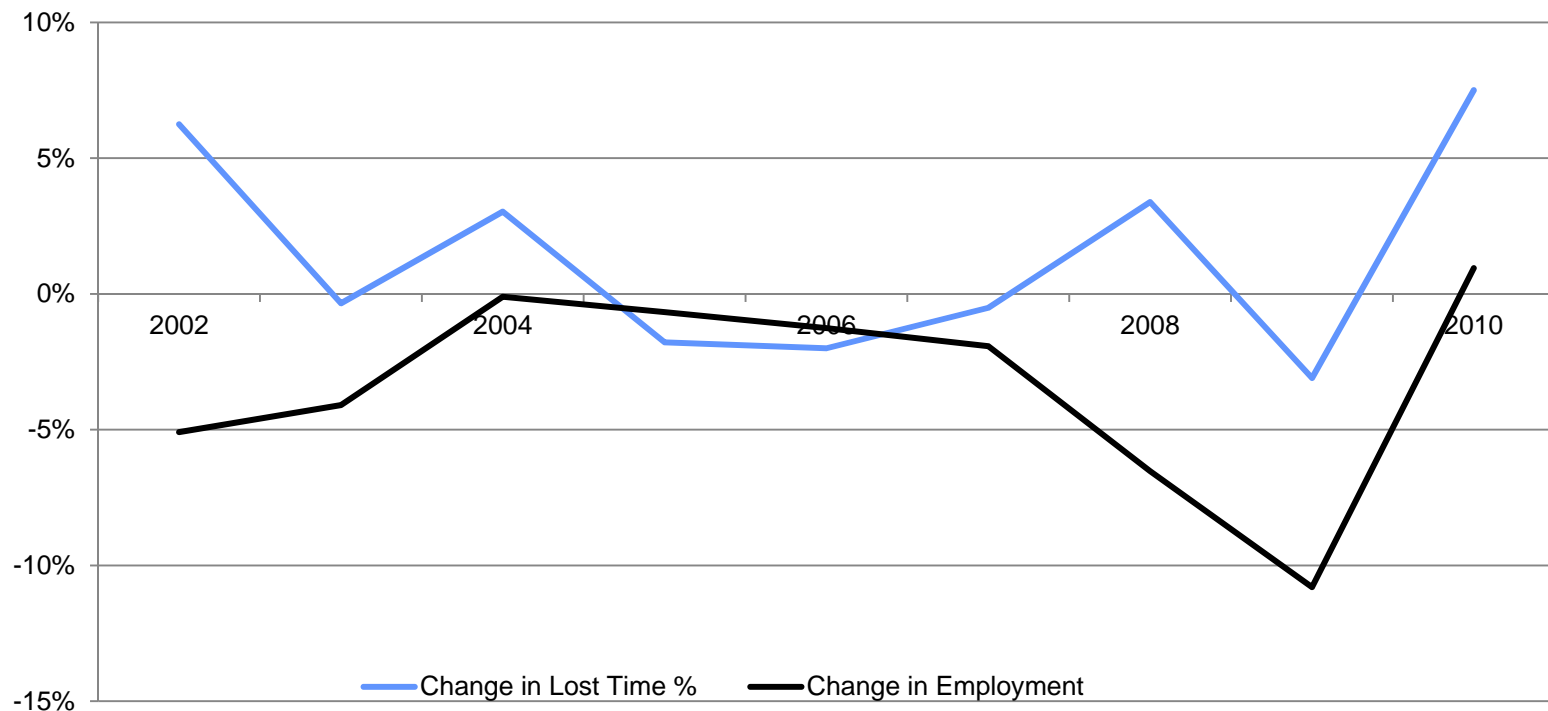
Source: National Council on Compensation Insurance

Possible changing mix of injury types



## Severity varies by industry

### Manufacturing: Change in Portion of Lost Time Claims

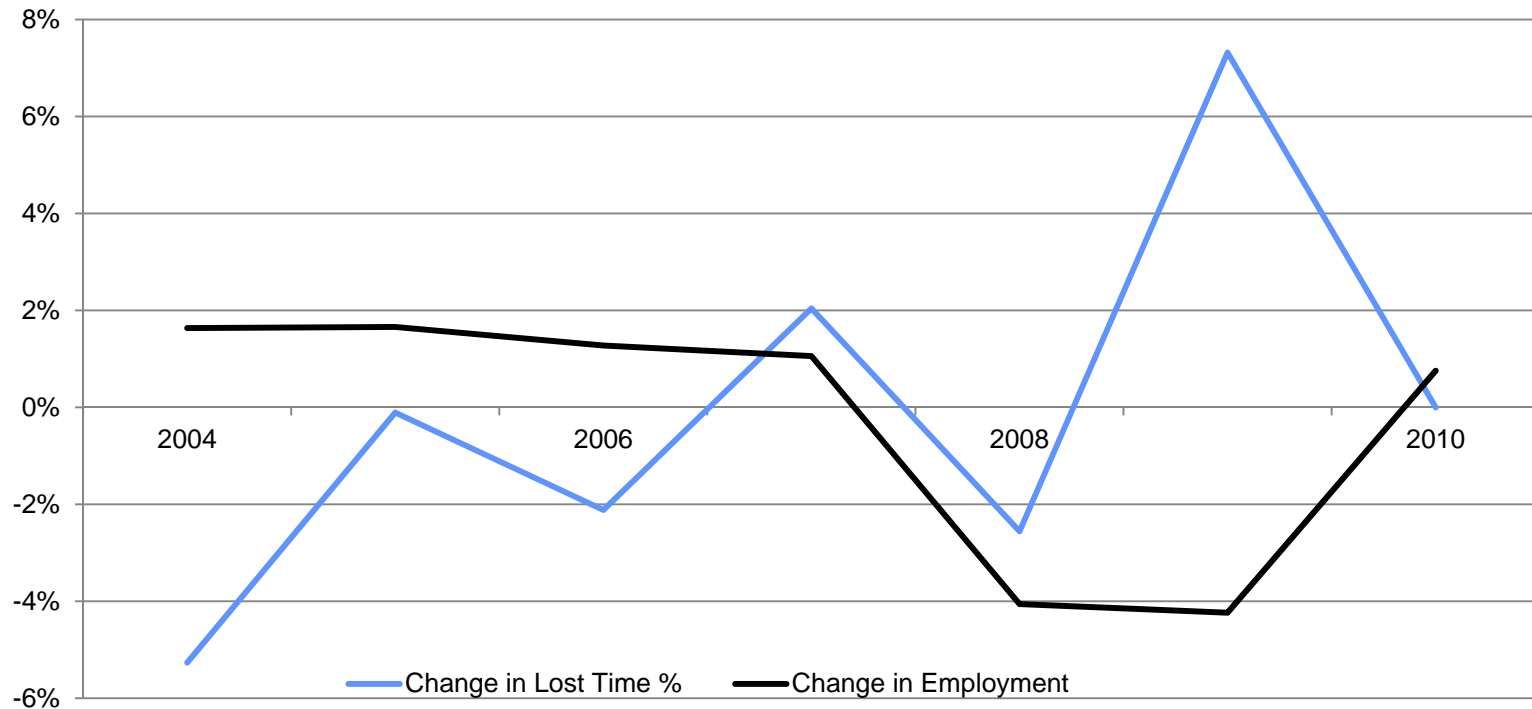


- Ratio of lost time incidence rates (per 100 workers) to total non-fatal incidence rates
- NCCI estimates that lost time claim severity is about 4 times overall claim severity

Source: Bureau of Labor Statistics, Conning Research & Analysis

## Severity varies by industry

Transportation: Change in Portion of Lost Time Claims

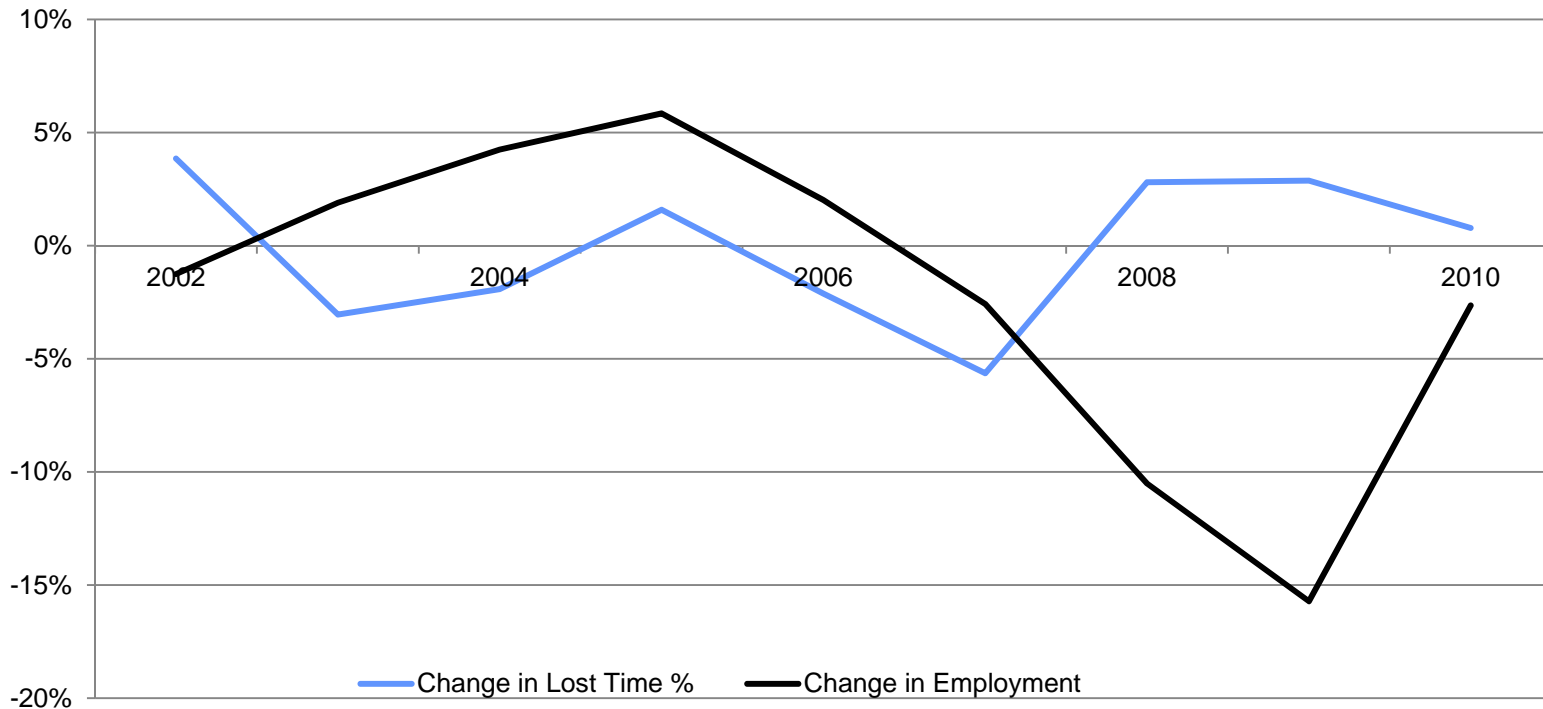


- Manufacturing: Modest positive correlation between employment and lost time claims
- Transportation: Modest negative correlation between employment and lost time claims

Source: Bureau of Labor Statistics, Conning Research & Analysis

## Severity varies by industry

### Construction: Change in Portion of Lost Time Claims



Increase in severity during recession suggests that construction companies may be more careless in a weak economy.

Source: Bureau of Labor Statistics, Conning Research & Analysis

## ◀ Severity Differs by State

### Average Cost per Case, Medical and Indemnity (Lost Time Only)

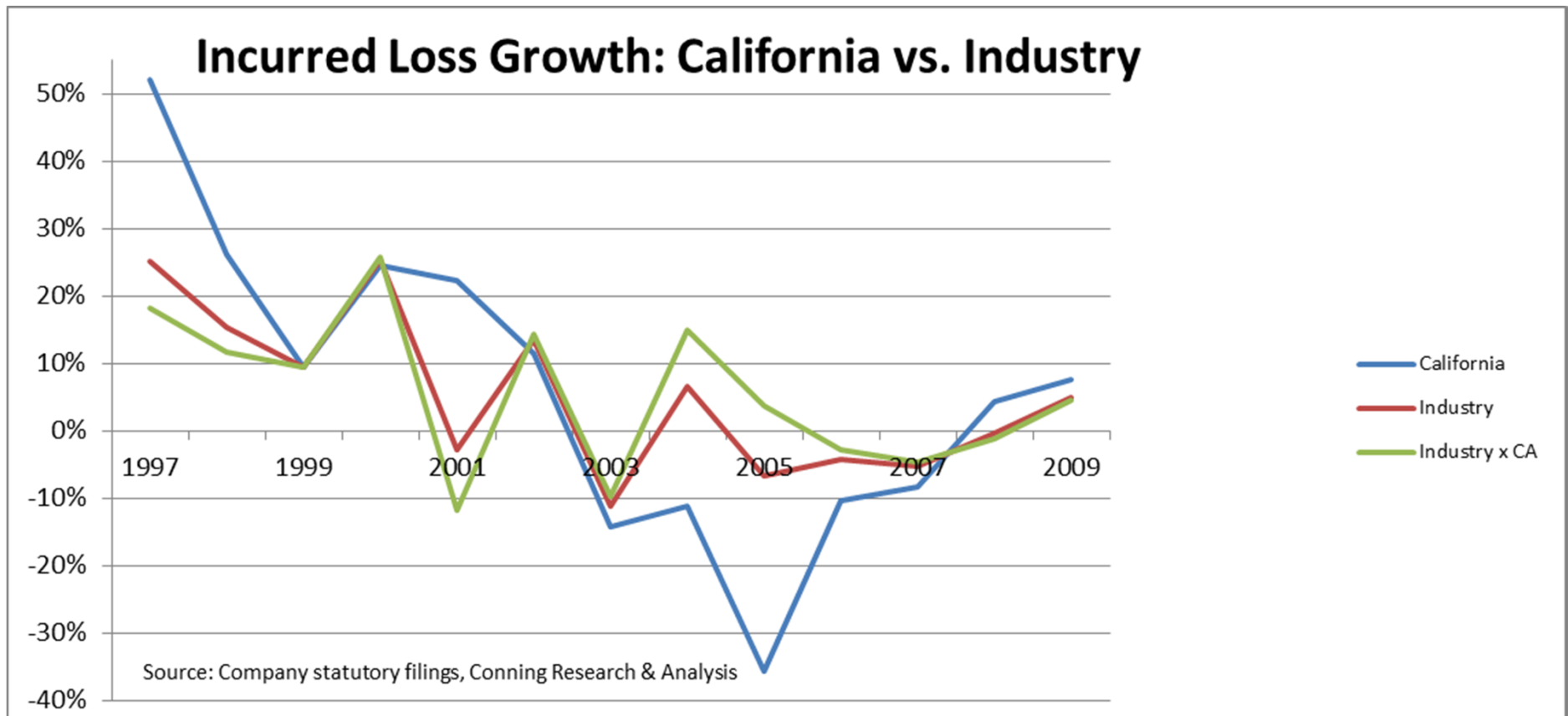
#### Top 6 Premium States

(\$ in thousands)

| State        | 2005<br>Premiums | 2003 Cost | 2004 Cost | 2005 Cost | 2003-04<br>%<br>Change | 2004-05<br>%<br>Change | Average<br>Change |
|--------------|------------------|-----------|-----------|-----------|------------------------|------------------------|-------------------|
| California   | \$14,576,765     | \$51.2    | \$59.9    | \$47.2    | 17.0%                  | (21.2%)                | (2.1%)            |
| Florida      | 3,704,867        | 39.0      | 41.3      | 43.9      | 5.9%                   | 6.3%                   | 6.1%              |
| Texas        | 2,713,703        | 41.7      | 47.3      | 50.0      | 13.4%                  | 5.7%                   | 9.6%              |
| Illinois     | 2,512,059        | 29.1      | 33.4      | 38.9      | 14.8%                  | 16.5%                  | 15.6%             |
| Pennsylvania | 2,148,308        | 35.9      | 39.9      | 43.6      | 11.1%                  | 9.3%                   | 10.2%             |
| New York     | 2,045,824        | 41.7      | 42.6      | 50.4      | 2.2%                   | 18.3%                  | 10.2%             |

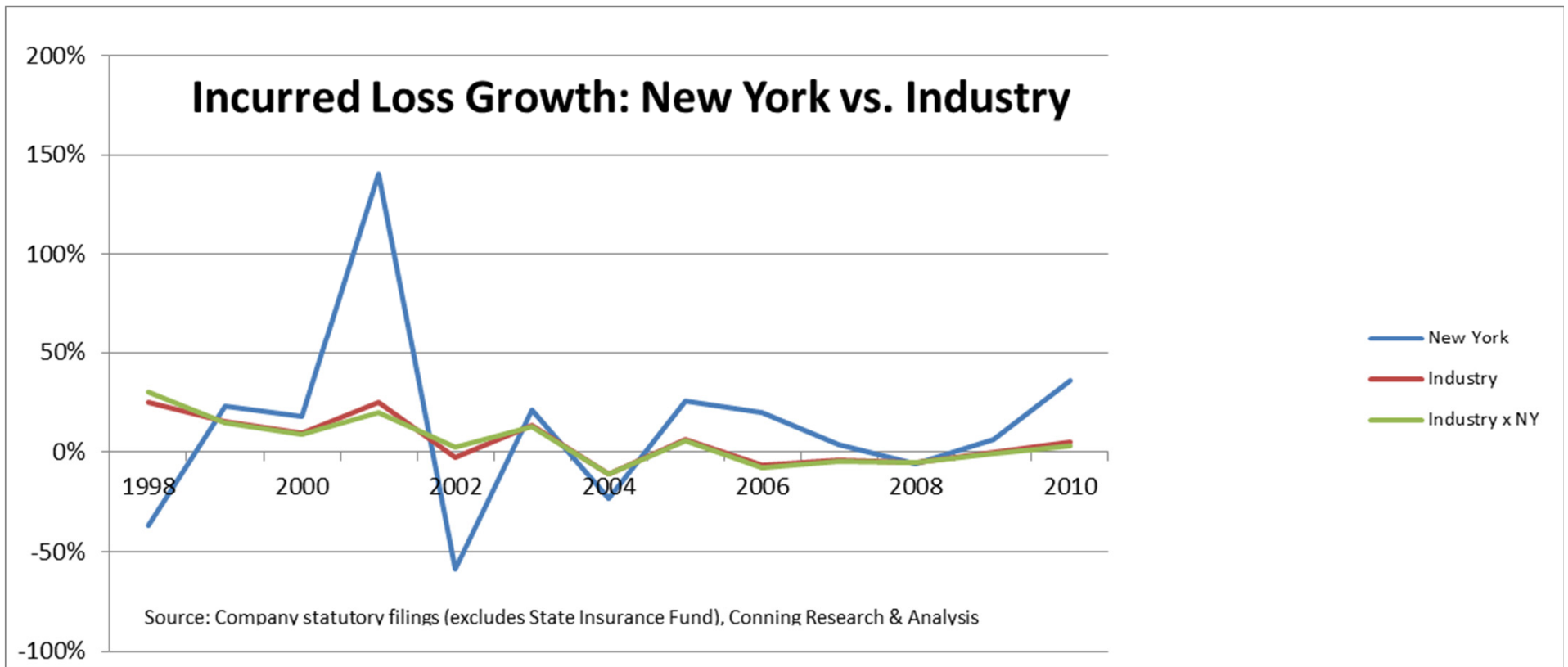
Source: National Council on Compensation Insurance

## Severity varies by state



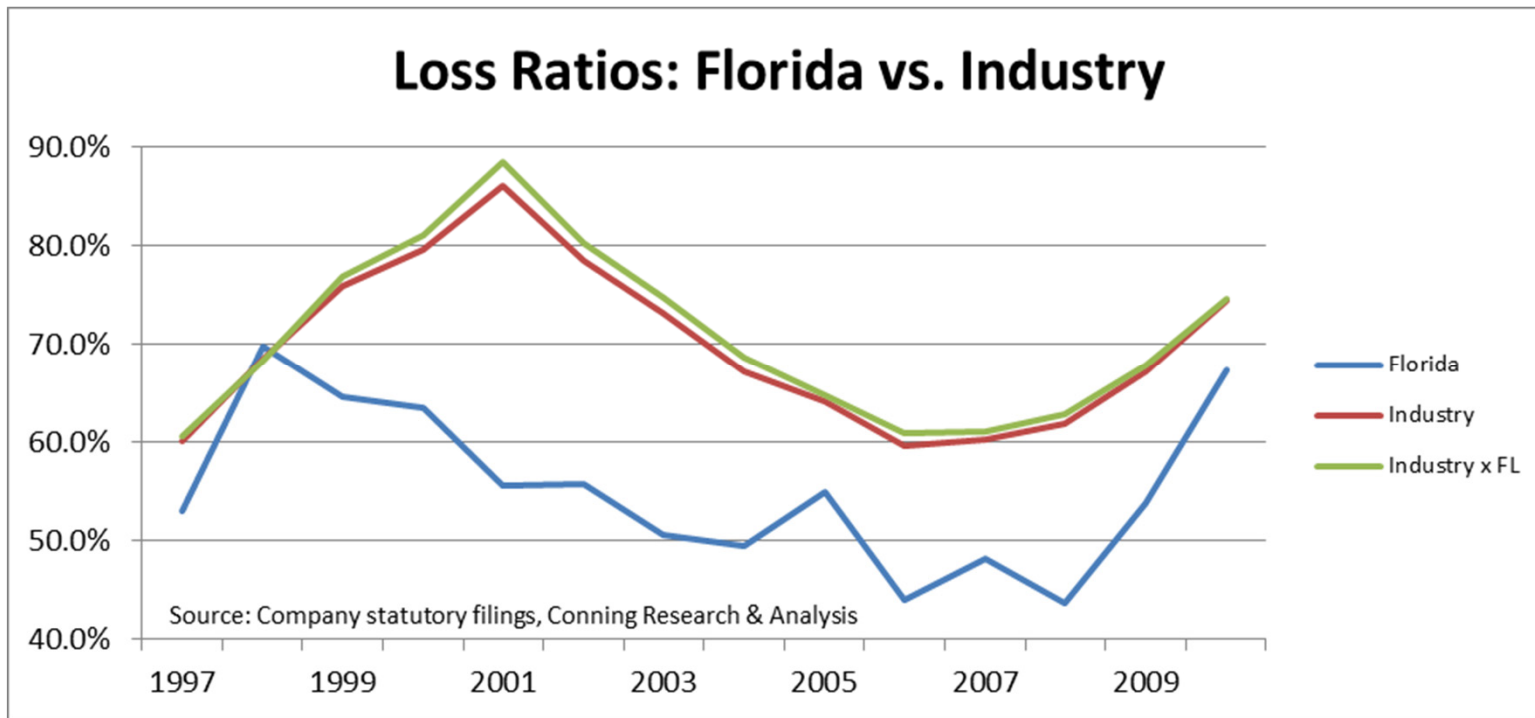
- ◆ Reforms in 2003-05 pushed incurred losses down
- ◆ As a result of reforms, premiums were reduced as well
- ◆ Reduced premiums resulted in CA losing market share in U.S., from 33% to 17%
- ◆ Erosion of reforms and rise of prescription drug costs led to declining profitability

## Severity varies by state



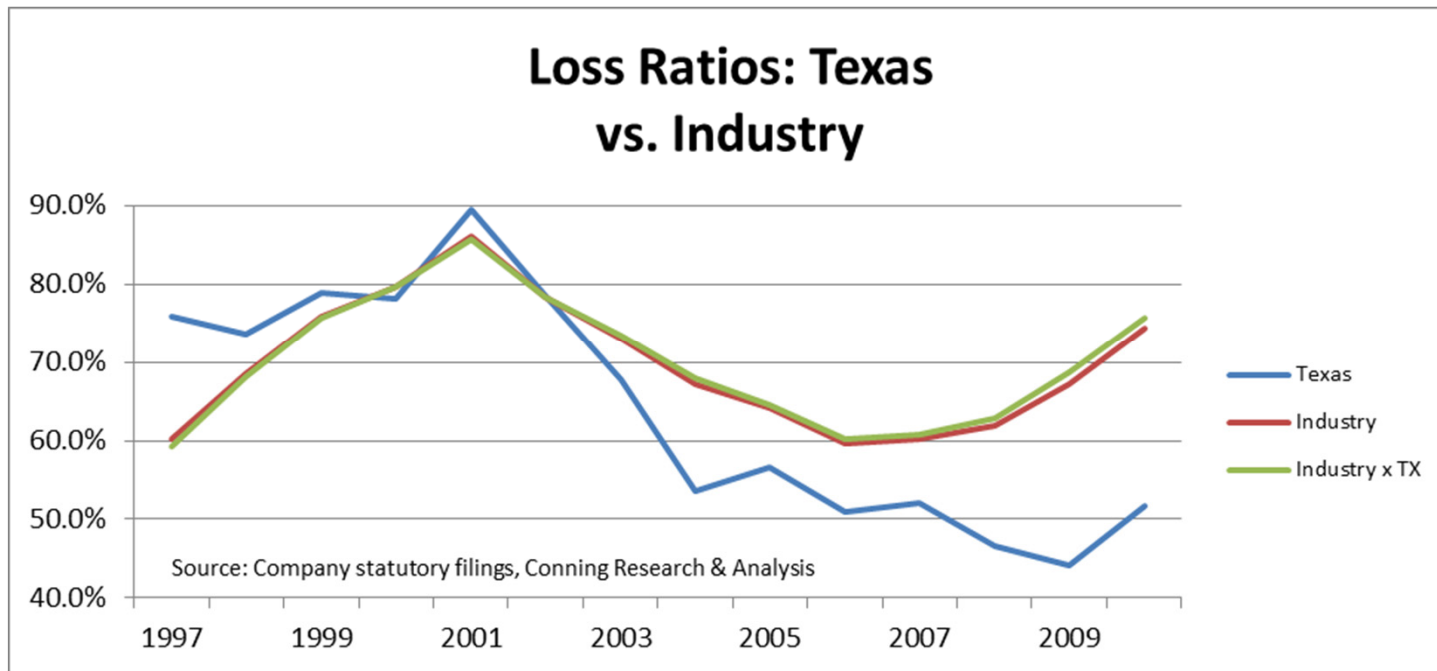
- ◆ Results spiraling out of control
- ◆ Driven largely by AIG and State Fund
- ◆ Insurers requested rate increase in 2012, governor denied it

## Severity varies by state



- ◆ Florida had 2<sup>nd</sup> highest premium rates in the U.S. in 2002
- ◆ Reforms in 2003 included limits on attorney's fees and second opinions
- ◆ Florida still outperforms the national average despite having the 12<sup>th</sup> lowest premium rate in 2010

## Severity varies by state

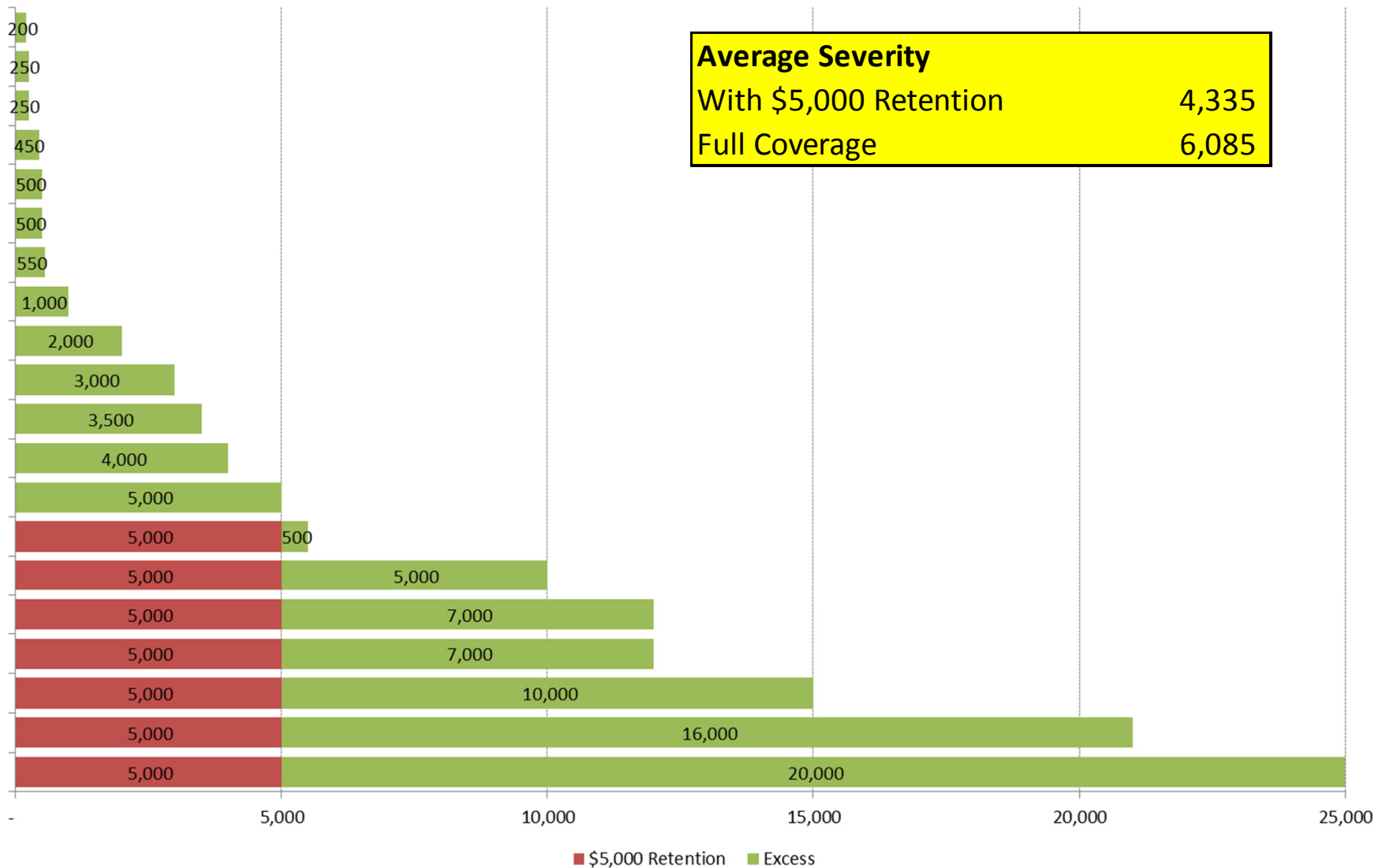


- ◆ Reform package in 2001 was one of the most successful ever implemented
  - ❖ Approved list of certified doctors
  - ❖ Regional networks
  - ❖ Pre-authorization requirements
- ◆ Currently the only state to allow companies to opt out



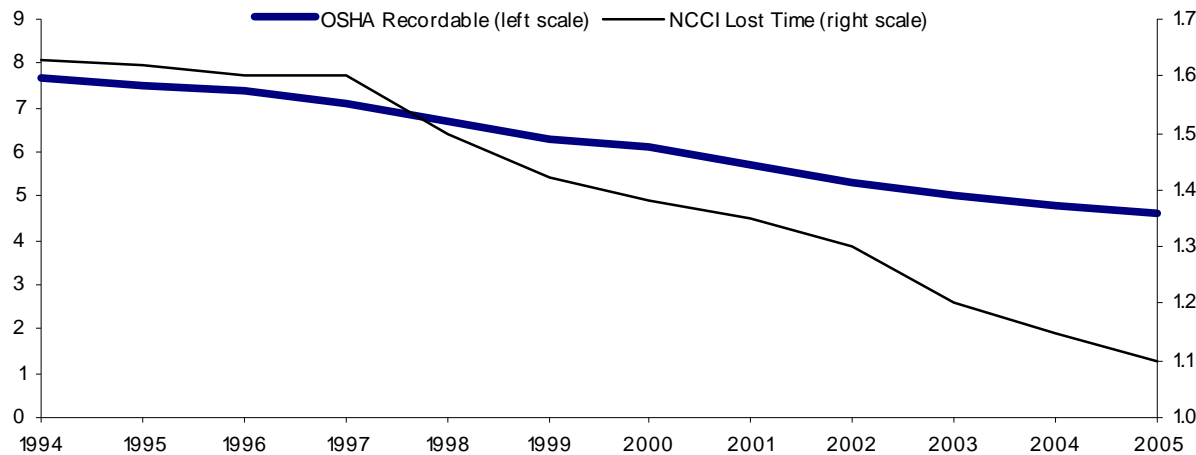


# Severity Varies by Changes in SIR/Deductibles



# Claim Frequency

## Workplace Injury Loss Frequency Trends Injuries and Illnesses per Full-Time Worker per Year



## Possible Factors Behind Decreasing Loss Frequency

- ◆ continued emphasis on workplace safety
- ◆ increased use of robotics, modular design, and construction techniques
- ◆ increased use of power-assisted processes
- ◆ advances in ergonomic design
- ◆ proliferation in cordless tools
- ◆ more and better job training

Source: OSHA, National Council on Compensation Insurance, Conning Research & Analysis



## Claim Frequency

- ◆ Frequency in 2010 increased by 3% - first increase since 1997
- ◆ Possible causes
  - ❖ New hires getting adjusted to new jobs
  - ❖ Workers less hesitant to file claims
  - ❖ Medical-only cases becoming lost time cases because of limited light-duty work available



## Outside the Medical CPI: Current Issues

- ◆ Increased utilization of opioids prompting FDA intervention
  - ❖ CT report shows that more than 1 in 3 high-prescribing doctors get pharmaceutical perks
  - ❖ ACA will require public disclosure of pharmaceutical company payments to physicians by September 2013
- ◆ Doctor-dispensed drugs driving up costs in states such as FL
- ◆ NICB reports 13% increase in questionable claims for WC in 2011
  - ❖ Duplicate billing +207%
  - ❖ Inflated medical billing +113%

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