

Understanding Workers Compensation in New York

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About Us

- Oliver Wyman Actuarial Consulting
- Office in Melville, NY
- 25+ Clients with significant workers compensation exposures in New York
 - Healthcare
 - Telecommunications
 - Public Entities
 - Educational Institutions
 - Self-Insured Groups
 - etc.

Where is Melville?

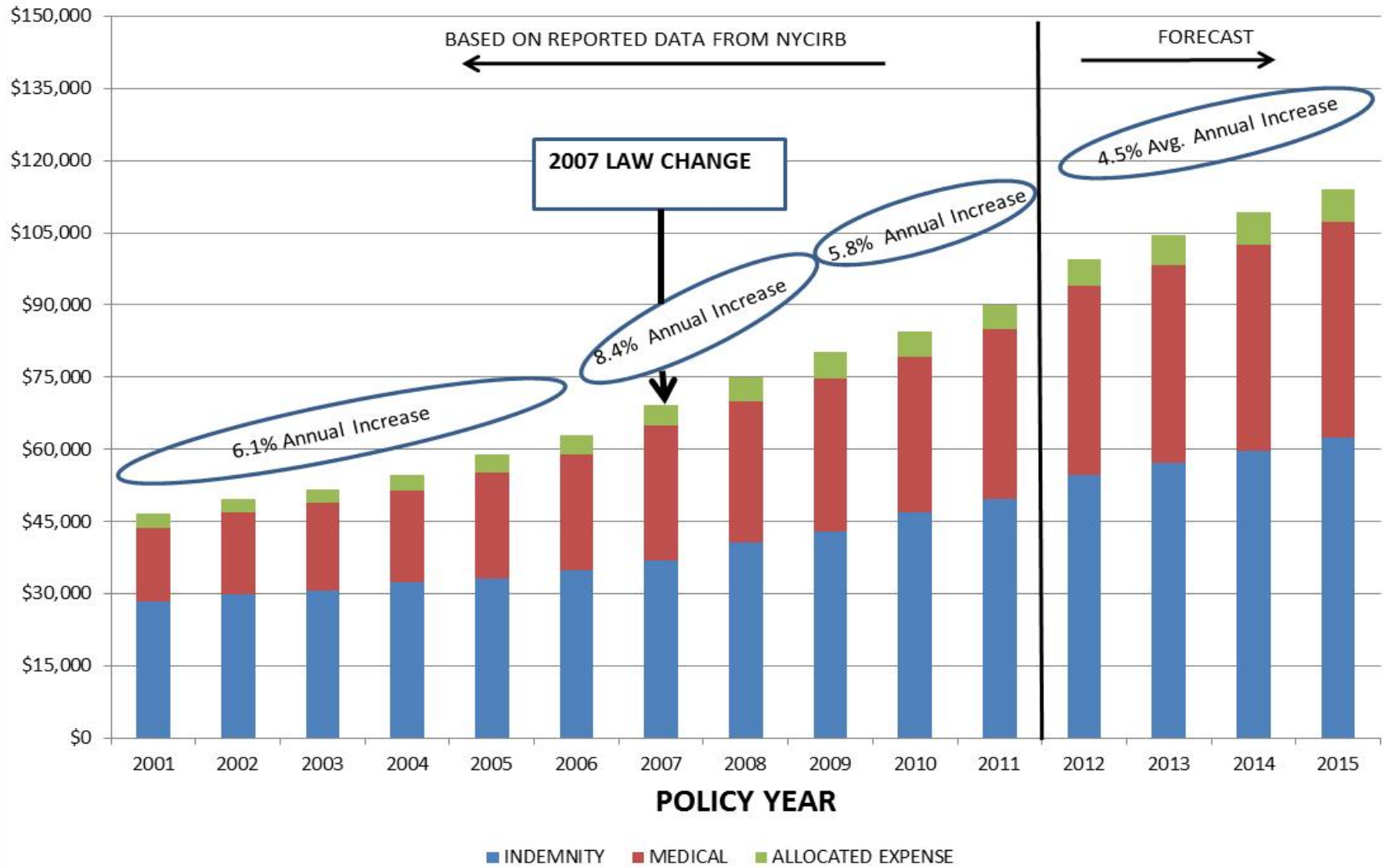


About 35 miles from mid-town Manhattan

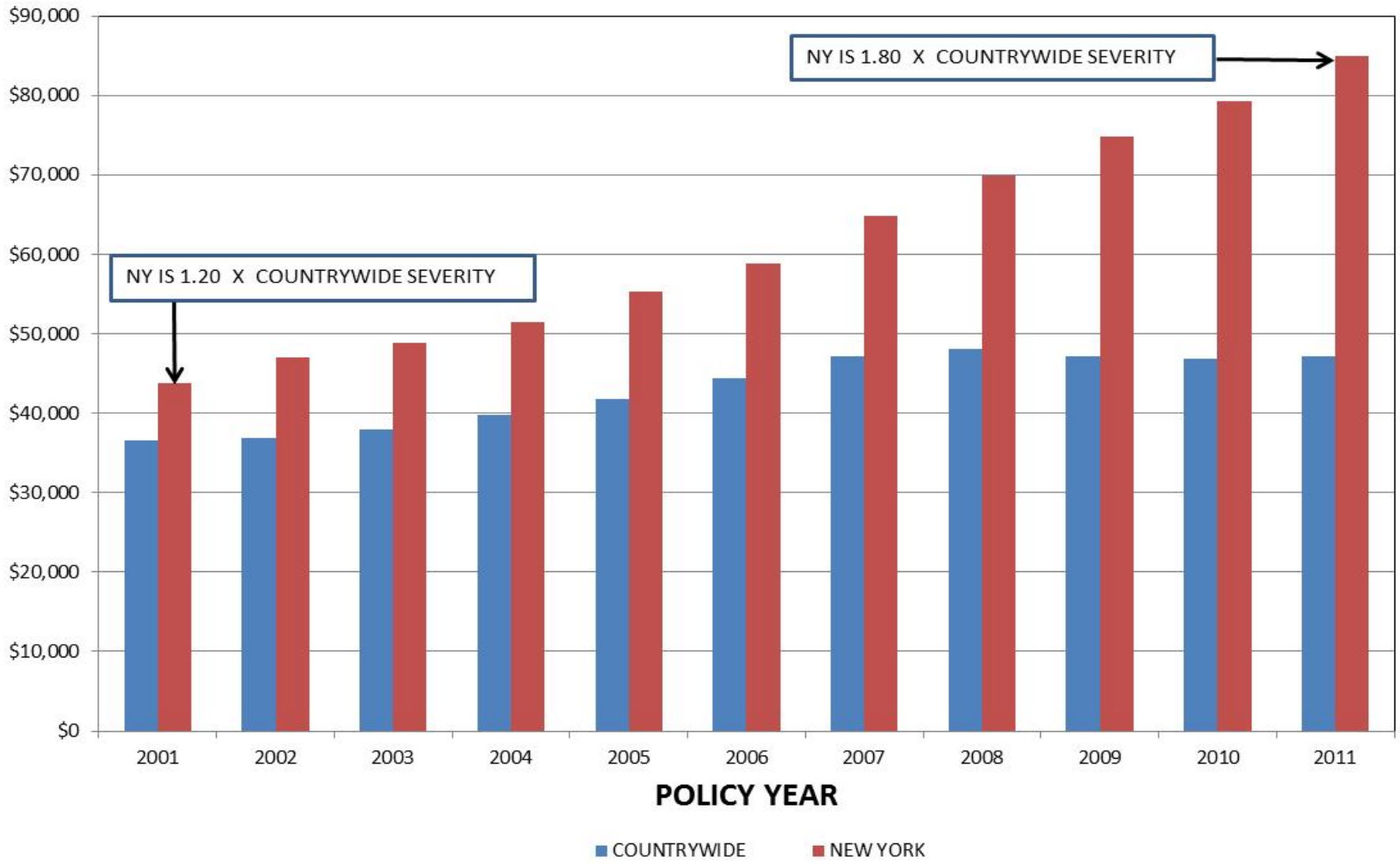
What Are We Going to Discuss?

AVERAGE LOST TIME CLAIM COST IN NEW YORK

Medical, Indemnity, Allocated Expense



LOST TIME CLAIM COST: MEDICAL AND INDEMNITY BENEFITS New York and Countrywide Data



VERY ROUGH STATE WORKERS COMPENSATION COST RANKING

Indemnity and Medical Cost per \$100 payroll

Common payroll distribution by classification

Study is about two years old – currently updating

Major Leagues: ~2.75 to ~3.25 per \$100 payroll

NY CA

Minor Leagues: ~1.75 to ~2.00 per \$100 payroll

OK NJ MT CT AK IL NH

Amateurs: ~0.75 to ~1.75 per \$100 payroll

Everyone Else

Approved Lost Cost Changes by Effective Date in New York

| Effective Date | Approved Change | Cumulative Change | |
|----------------|-----------------|-------------------|--|
| 9/30/2007 | 0.00% | 0.00% | |
| 10/1/2007 | -18.40% | -18.40% | |
| 10/1/2008 | -6.40% | -23.62% | |
| 10/1/2009 | 4.50% | -20.19% | |
| 10/1/2010 | 7.70% | -14.04% | |
| 10/1/2011 | 9.10% | -6.22% | |
| 10/1/2012 | 0.00% | -6.22% | Filed Increase was +11.5% |
| 10/1/2013 | 9.50% | 2.69% | Filed Increase was +16.9% |
| 10/1/2014 | 0.00% | 2.69% | Filed Increase was +6.8% Actuarial Indication was +17.4% |

Loss Cost: Indemnity + Medical + Claim Adjustment Expense

Outline of Discussion

- Conditions Prior to 2007
- Assessments
- 2007 Law Change and Expectations
- What Actually Happened
- Assessments and the 2013 Law Change
- Where We Are Today

Some Information about New York

- Independent Rating Board

New York Compensation Insurance Board

www.nycirb.org

- Competitive Rating State

Published loss costs provide for indemnity, medical, and all LAE

- Competitive State Insurance Fund

~45% market share that has been growing

Source Information

- New York Compensation Insurance Board
www.nycirb.org
- National Council on Compensation Insurance
Current and prior editions of Statistical Bulletin
Countrywide Experience as defined in Statistical Bulletin
NCCI States Excluding CA, NY, NJ, PA, DE, MA, etc.
- Current Client New York Loss Experience

Conditions Prior to 2007

Conditions Prior to 2007

Benefit Levels had been unchanged since 1992

- Maximum weekly benefit at \$400 per week since July 1, 1992
- Minimum weekly benefit at \$40 per week since July 1, 1992

Conditions Prior to 2007

Claim Frequency Declined from 2001 through 2006

- NY LT claim frequency declined by ~22%
Somewhat greater decline than the countrywide decrease of ~18%
- NY PP claim frequency declined by ~11%
Somewhat lower decline than the countrywide decrease of ~14%
- NY PP as % of LT Claims increased from 41% to 45%
Somewhat greater increase (absolute and percentage) than countrywide increase from 34% to 37%

| NEW YORK CLAIM FREQUENCY per 100,000 workers | | | | COUNTRYWIDE CLAIM FREQUENCY per 100,000 workers | | | |
|---|-----------------|-------------------|------|--|-----------------|-------------------|------|
| Policy Year | Total Lost Time | Permanent Partial | PP % | Policy Year | Total Lost Time | Permanent Partial | PP % |
| 2001 | 1219 | 494 | 41% | 2001 | 1,275 | 430 | 34% |
| 2002 | 1142 | 456 | 40% | 2002 | 1,218 | 422 | 35% |
| 2003 | 1108 | 440 | 40% | 2003 | 1,179 | 423 | 36% |
| 2004 | 1030 | 419 | 41% | 2004 | 1,124 | 404 | 36% |
| 2005 | 988 | 416 | 42% | 2005 | 1,075 | 384 | 36% |
| 2006 | 953 | 425 | 45% | 2006 | 1,041 | 382 | 37% |

Conditions Prior to 2007

Lost Time Claim Severity Increased from 2001 through 2006

- Average LT claim cost increased 35% in New York
Much greater increase than countrywide increase of 21%

| Average Lost Time Claim Costs Policy Years 2001 through 2006 New York versus Countrywide Medical and Indemnity Benefits Only | | |
|---|----------|-------------|
| Policy Year | New York | Countrywide |
| 2001 | 43,763 | 36,580 |
| 2002 | 47,053 | 36,850 |
| 2003 | 48,852 | 37,933 |
| 2004 | 51,452 | 39,788 |
| 2005 | 55,304 | 41,764 |
| 2006 | 58,919 | 44,440 |
| 5-Year Change | 34.6% | 21.5% |
| Avg. Annual Change | 6.1% | 4.0% |

Conditions Prior to 2007

Claim Severity Increased from 2001 through 2006

Reasons for Increase to NY LT Claim Severity

- Larger Shift to PP Claims as Portion of Total LT Claims in NY
NY: 41% to 45%
Countrywide: 34% to 37%
- PP Claims in NY increased in cost materially more than countrywide claims

| Permanent Partial Average Claim Costs Policy Years 2001 through 2006 New York versus Countrywide Medical and Indemnity Benefits Only | | |
|---|----------|-------------|
| Policy Year | New York | Countrywide |
| 2001 | 90,719 | 71,258 |
| 2002 | 97,505 | 68,136 |
| 2003 | 103,666 | 70,059 |
| 2004 | 107,142 | 67,170 |
| 2005 | 113,457 | 69,772 |
| 2006 | 114,395 | 72,789 |
| 5-Year Change | 26.1% | 2.1% |
| Avg. Annual Change | 4.7% | 0.4% |

Conditions Prior to 2007

Claim Severity Increased from 2001 through 2006

Reason for Increase to NY PP Claim Severity:

MEDICAL, MEDICAL, MEDICAL

| Permanent Partial Average Claim Costs Policy Years 2001 through 2006 New York Component Medical and Indemnity Costs | | | |
|--|---------|-----------|---------|
| Policy Year | Medical | Indemnity | Total |
| 2001 | 29,917 | 60,802 | 90,719 |
| 2002 | 33,035 | 64,471 | 97,505 |
| 2003 | 36,647 | 67,019 | 103,666 |
| 2004 | 38,436 | 68,706 | 107,142 |
| 2005 | 43,714 | 69,743 | 113,457 |
| 2006 | 45,186 | 69,209 | 114,395 |
| 5-Year Change | 51.0% | 13.8% | 26.1% |
| Avg. Annual Change | 8.6% | 2.6% | 4.7% |

Conditions Prior to 2007

Claim Severity Increased from 2001 through 2006

Why Medical

- Average disability rating of non-scheduled PP awards were increasing
- Medical services were being utilized by claimants to achieve a non-scheduled award or to increase the disability rating
- Opinion of some claim administrators was that this activity was likely done to partially offset the low maximum weekly benefit of \$400

Conditions Prior to 2007

Scheduled versus Non-Scheduled PP Claims

Scheduled PP claims provide for benefits for specific durations

| Maximum Possible Compensation Scheduled Loss of Use Awards | |
|---|------------------------------|
| Member Lost | Weeks of Compensation |
| Arm | 312 |
| Leg | 288 |
| Hand | 244 |
| Foot | 205 |
| Eye | 160 |
| Thumb | 75 |
| First Finger | 46 |
| Second Finger | 30 |
| Third Finger | 25 |
| Fourth Finger | 15 |
| Great Toe | 38 |
| Other Toe | 16 |

Scheduled PP claims had not been the problem

Conditions Prior to 2007

Non-Scheduled PP Claims

Non-Scheduled PP claims were for “duration of disability”
Duration of Disability = Lifetime benefits

| Non-Scheduled Indemnity Permanent Partial Claim Costs Pre-2007 Distributions New York | | | |
|---|-------------------------------------|--|-------------------------------------|
| | As % of PP Indemnity Benefits | As % of Total Indemnity Benefits | As % of Total Benefits |
| Death | | 2.5% | 1.6% |
| PT | | 4.4% | 2.8% |
| Non-Scheduled PP | 70.8% | 61.3% | 39.2% |
| Scheduled PP | 14.3% | 12.4% | 7.9% |
| PP Healing Period | 14.9% | 12.9% | 8.3% |
| TT | | 6.6% | 4.2% |
| | 100.0% | 100.0% | 64.0% |
| | | | Medical as % of Total Benefit Costs |
| | | | 36.0% |

The indemnity cost component of non-scheduled PP claims in NY accounted for **~40% of TOTAL** NY workers compensation benefit costs

Conditions Prior to 2007

PP Claims in New York Were Expensive to Start

In 2001 the average PP claim in NY was \$91,000.
This compares to a countrywide value of \$71,000

1) Lifetime permanent partial disability awards

NY was one of a small number of jurisdictions with lifetime PP claims

Nevada (currently until age 70)

Michigan (period of wage loss)

Arizona (duration of disability)

FECA (duration of disability)

USL&H (duration of disability)

(Based after NYS Act)

2) Significantly higher average disability rating in NY

Countrywide: 80% of ratings were below 40%

New York: 80% of ratings were above 40%

Conditions Prior to 2007

Aggregate Trust Fund

- Applied to death and PTD claims
- Applied only to private carriers
 - Not to self-insureds
 - Not to State Insurance Fund
- Present value of benefits deposited into ATF
 - ATF pays claim or settles
- Impacted small portion (<5%) of system costs
 - Death and PTD claims are expensive, but they are only a very small portion of total lost time claims and overall system costs

Conditions Prior to 2007

Other Cost Drivers

- High litigation rate
- Antiquated, complex, inefficient system
- Low settlement rates
 - Law passed in 1990s that permitted settlements
 - Settlement rates in NY were still very low
- Large and costly second injury fund
- Large and costly reopened claim mechanism

Conditions Prior to 2007

New York State Second Injury Fund-AKA 15-8

- Five Year Waiting Period
- If accepted, fund will pay a portion or 100% of all benefit costs
- Claim is still responsibility of insurer or self-insured employer
- Once accepted, annual request for reimbursements required
- Funded by annual assessments ultimately paid by employers

Conditions Prior to 2007

New York State Reopened Claim Fund – AKA 25-A

- Condition for 25-A Relief
 - Minimum of 7 years have passed since date of loss
 - Minimum of 3 years have passed since last compensation payment
 - Claim for compensation (medical or indemnity) was originally denied and claim is reopened resulting in benefit payments
 - Certain death claims
- If accepted:
 - 25-A assumes responsibility for 100% of all future costs
 - 25-A assumes responsibility for claim management
 - Insurer or self-insurer closes claims
- Funded by annual assessments ultimately paid by employers

Conditions Prior to 2007

Huge Increase to Assessments

| | <u>15-8</u> | <u>25A</u> | <u>Other</u> | <u>Total</u> |
|-------------|-------------|------------|--------------|--------------|
| 2001 | \$375M | \$60M | \$290M | \$725M |
| ⋮ | ⋮ | ⋮ | ⋮ | ⋮ |
| 2006 | \$500M | \$110M | \$378M | \$988M |

Reflect much greater utilization of 15-8 and 25-A funds

In 2007, assessment rates were

15-8 18.3% per indemnity dollar or standard premium equivalent

25-A 4.1% per indemnity dollar or standard premium equivalent

These two assessments added ~13% to average benefit costs in NY

$$60\% \times 22.4\% = 13.4\%$$

assuming indemnity costs are 60% of total benefit cost

Conditions Prior to 2007

Summary

- Low maximum and minimum weekly benefits in place for 15 years
- LT claim frequency declining at rate similar to countrywide average
- LT claim costs increasing at rate greater than countrywide average
 - Driven by increasing PP claim cost
 - Higher medical costs for permanent partial claims
- Lifetime non-scheduled PP claims extraordinarily expensive in NY to start
 - Increasing at a large annual rate
- Low settlement rates
- Inefficient and litigious system
- Accelerating assessment costs
 - Large second injury and reopened claim funds

Assessments

Assessments

- 15-8 → Special Disability Fund
- 25-A → Re-opened Claim Fund
- 50-5 → Self-Insurers Assessment (Self-Insured Employers Only)
- IDP → Interdepartmental Expense
- 151 → WCB Administration

Assessments

- Method of Charging Varied by Type of Insurance Program
 - Insured Employer
 - Guarantee Cost Large Deductible Retrospective Plan
 - Charge is a percentage of standard premium
 - Pass through from insurer
 - Single annual charge with no future obligation to insurer or employer

Assessments

- Method of Charging Varied by Type of Insurance Program
 - Qualified Self-Insured Employer or Self-Insured Group
 - Charge is a percentage of prior or current year indemnity payment
 - 15-8 and 25-A
 - Assessment in CY 2010 based on prior indemnity pymts.
 - 4/1/09 through 3/31/10
 - Single assessment bill for each fund
 - 50-5, WCB, IDP
 - Assessment in CY 2010 based on estimated indemnity pymts.
 - 4/1/10 through 3/31/11
 - Four quarterly bills in 2010
 - Final “true-up” based on actual payments in early 2012
 - Total of five bills for each assessment program

Assessments

- Method of Charging Varied by type of Insurance Program
 - Qualified Self-Insured Employer or Self-Insured Group
 - Indemnity payment base created need for balance sheet accrual
 - Assessments are paid as long as indemnity payments are made
 - Run-off of self-insurance programs include assessment obligations
 - Assessment base is GROSS of excess insurance protection
 - Net of all other recoveries
 - Unpaid assessments = Expected Future Assessment Percentage
X Unpaid Unlimited Indemnity Losses
 - Real money in a state where 60% of benefit costs are indemnity

Assessments

- 2007 Assessment Summary

| | | 2007 Self Insured Assessment % | 2007 Total Collections |
|--------|-----------------------------|--------------------------------------|------------------------------|
| – 15-8 | → Special Disability Fund | 18.3% | \$603 million |
| – 25-A | → Re-opened Claim Fund | 4.1% | \$137 million |
| – 50-5 | → Self-Insurers Assessment | 0.3% | \$8 million |
| – IDP | → Interdepartmental Expense | 1.9% | \$63 million |
| – 151 | → WCB Administration | 6.9% | \$229 million |

\$1.040 *billion* collections in 2007

Note: In 2007, 50-5 assessment was not based on indemnity pymts.
This began in 2009/2010.

2007 Law Change

2007 Law: The Changes

Summary of Principal Elements of the Law Change

- Increased Maximum and Minimum Weekly Benefit
- Duration Caps on all but the most serious of non-scheduled PP claims
- Closed the Second Injury Fund
- Expanded Aggregate Trust Fund to include PP claims
- Implemented Medical Treatment Guidelines

2007 Law: The Changes

Increase to maximum and minimum weekly benefits

- Minimum increased from \$40 to \$100 effective July 1, 2007
- Maximum increased from \$400 to 2/3 SAWW according to following schedule:

June 30, 2007 and prior: \$400 per week

| Effective Date | Maximum Weekly Benefit |
|----------------|-------------------------|
| 1-Jul-07 | \$500 |
| 1-Jul-08 | \$550 |
| 1-Jul-09 | \$600 |
| 1-Jul-10 | 2/3rds of AWW: \$739.83 |
| 1-Jul-11 | \$772.96 |
| 1-Jul-12 | \$792.07 |
| 1-Jul-13 | \$803.21 |
| 1-Jul-14 | \$808.65 |

IMPACT – MATERIALLY INCREASE COSTS

2007 Law: The Changes

Duration limits on non-scheduled permanent partial claims

- Eliminates lifetime awards for all but most serious claims
 - “Hardship Clause”
 - If disability rating is greater than 80%, claimant can apply for hardship and lifetime benefits, essentially becoming a permanent total disability claim.
- 225 weeks to 525 weeks
- Effective March 13, 2007

IMPACT – MATERIALLY DECREASE COSTS

Grand Bargain – Increase to benefit levels will be more than offset by elimination of lifetime PP awards.

2007 Law: The Changes

Close the Second Injury Fund

- Viewed as inefficient
- Closed to claims with dates of loss on or after July 1, 2007
- Five year waiting period – last claims entered June 30, 2012
 - Large backlogs that have since be cleared
 - Fund is in run-off
- Closing fund shifts claim costs back to employers/insurers
 - In theory, net impact of 0 over long term as assessments will go to 0.

BUT

- Savings expected due to more efficient claims management because financial responsibility shifted back to employers/insurers
- Assessments for run-off of fund must still be paid
 - “intergenerational shifting”

IMPACT – SHORT TERM COST INCREASES

COST SAVINGS OVER THE LONG TERM

2007 Law: The Changes

Expand Aggregate Trust Fund to permanent partial disability claims

- Material change in that now ATF includes most claims
- Still applies only to private carriers

IMPACT - POSSIBLY INCREASE COSTS

2007 Law: The Changes

Medical Treatment Guidelines

- Goals
 - Establish common standard of medical care for injured workers
 - Get injured workers the medical care they need more quickly
 - Get injured workers back to work more quickly
 - Reduce disputes over treatments
 - Reduce costs
- Applies to all claims regardless as to date of loss
- Use of guidelines is mandatory

2007 Law: The Changes

Medical Treatment Guidelines

- Primary Changes
 - As long as medical treatment is consistent with the MTGs, no pre-authorization is needed
 - Prior to MTGs being established, pre-authorization was needed for any medical procedure costing more than \$1,000
 - If additional treatment is required, medical providers can apply for a variance
 - May pertain to a procedure not included in the MTGs or specifically identified as not recommended in the MTGs
 - May pertain to treating for a duration longer than specified in the MTGs when injured worker continues to show improvement as a result of the treatment
 - If medical provider can document an exacerbation to condition, no variance is required.

2007 Law: The Changes

Medical Treatment Guidelines

- First set of MTGs introduced in December 2010
 - Guidelines covered medical services for the following body parts:
 - Back
 - Neck
 - Shoulder
 - Knee
 - 60% of medical costs can be attributed to these body parts
 - Limited physical therapy and chiropractic care.
 - Before MTGs, it was very difficult to cut off treatment – an IME stating no further treatment was needed.
- Carpal Tunnel MTGs were introduced in 2013
- Pain Management MTGs are currently being drafted
 - Expected to help control prescription drug costs

2007 Law: The Changes

Loss Costs decreased by 18.4% Effective October 1, 2007

What Actually Happened

2007 Law: What Actually Happened

Approved Lost Cost Changes by Effective Date in New York

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| 9/30/2007 | 0.00% | 0.00% | |
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| 10/1/2014 | 0.00% | 2.69% | Filed Increase was +6.8% Actuarial Indication was +17.4% |

Loss Cost: Indemnity + Medical + Claim Adjustment Expense

What went wrong?

2007 Law: What Actually Happened

- Utilization
 - Utilization reflects the willingness to utilize the system either by filing a claim or increasing duration of disability
 - OW Clients: As a result of the law change
 - “More people are using the system for longer periods of time”

2007 Law: What Actually Happened

- Utilization and Claim Frequency

| NEW YORK CLAIM FREQUENCY per 100,000 workers | | | | COUNTRYWIDE CLAIM FREQUENCY per 100,000 workers | | | |
|---|-----------------|-------------------|------|--|-----------------|-------------------|------|
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| 2004 | 1030 | 419 | 41% | 2004 | 1,124 | 404 | 36% |
| 2005 | 988 | 416 | 42% | 2005 | 1,075 | 384 | 36% |
| 2006 | 953 | 425 | 45% | 2006 | 1,041 | 382 | 37% |
| 2007 | 939 | 451 | 48% | 2007 | 996 | 378 | 38% |
| 2008 | 927 | 489 | 53% | 2008 | 925 | 369 | 40% |
| 2009 | 926 | 509 | 55% | 2009 | 882 | 361 | 41% |
| 2010 | 943 | 537 | 57% | 2010 | 874 | 344 | 39% |
| 2011 | 941 | 552 | 59% | 2011 | 866 | 329 | 38% |

2007 Law: What Actually Happened

- Utilization and Duration
 - Duration on temporary total disability prior to receiving impairment rating increased materially subsequent to law change
 - WCB: Prior to 2007 → 4.8 years
 - Post 2007 → 6.4 years
 - At \$600 per week, this adds \$50,000 to the cost of a claim
 - Why?
 - Economically feasible for claimant to remain on disability with higher maximum benefit
 - PP duration limit clock starts at impairment rating
 - PP durations do not include healing period
 - Claimant attorneys acting to delay impairment rating

2007 Law: What Actually Happened

- Duration Caps
 - In place and functioning
 - Savings have been more than offset by:
 - Increase of frequency of PP claims
 - Higher LT frequency trend relative to countrywide data
 - Increase to duration of healing period by 1.6 years
 - Impact of expansion of the ATF
 - **HARDSHIP CLAUSE IS UNTESTED**

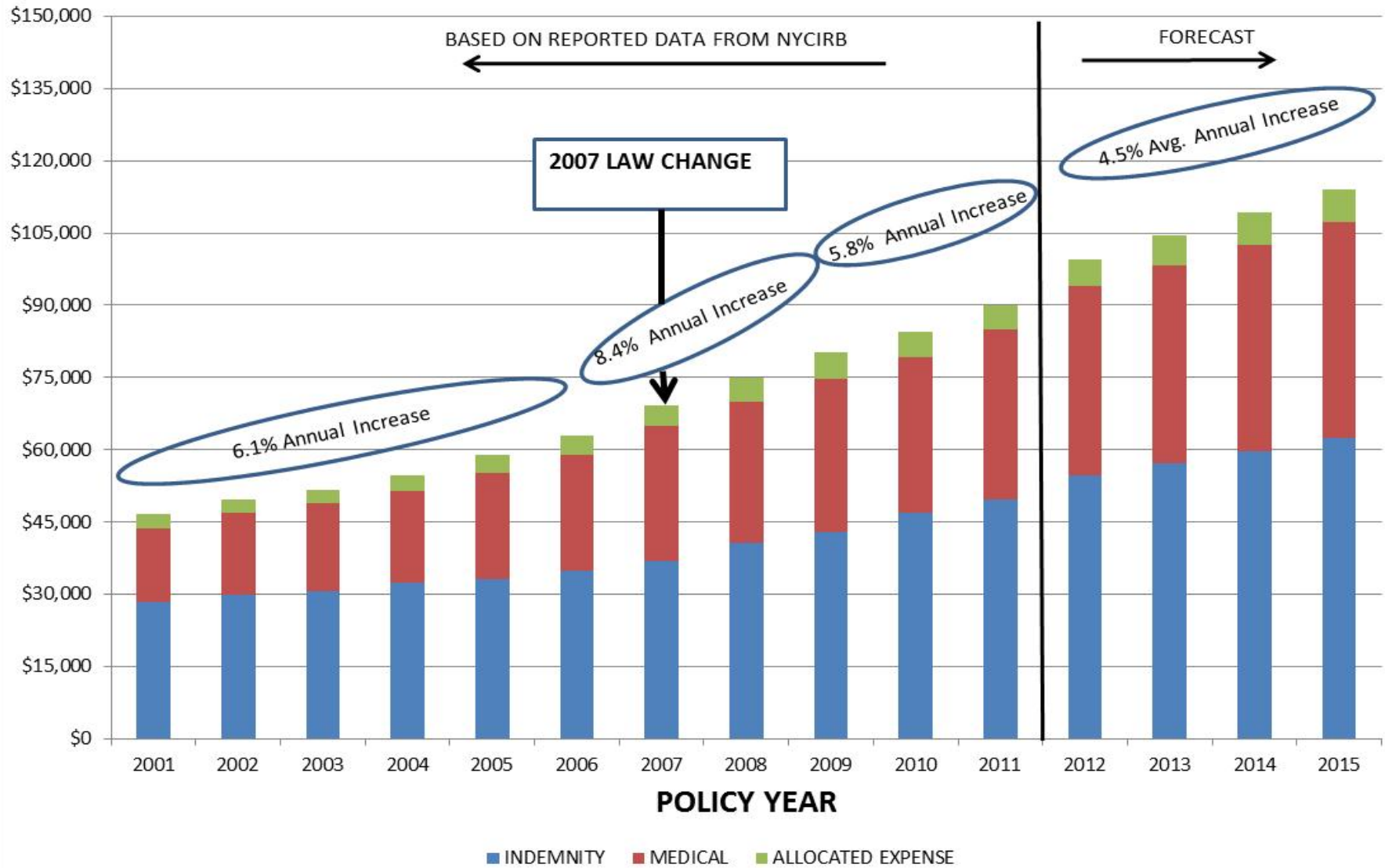
3. § 35(3) – Extreme Hardship Redetermination –
In cases where the loss of wage-earning capacity is greater than eighty percent, a claimant may request, within the year prior to the scheduled exhaustion of indemnity benefits under [§ 15(3)(w)] that the board reclassify the claimant to permanent total disability or total industrial disability due to factors reflecting extreme hardship.

- **525 week maximum award will start to be tested ~2016**

2007 Law: What Actually Happened

- Summary
 - Greater number of more expensive claims
 - Maximum weekly benefit materially increased utilization and cost
 - Lost time frequency on a whole is increasing
 - Permanent partial percentage is growing
 - 1.6 years added to healing period
 - ATF increases claimant leverage
 - Duration caps not yet tested

AVERAGE LOST TIME CLAIM COST IN NEW YORK Medical, Indemnity, Allocated Expense



Assessments Revisited and the 2013 Law Change

Assessments and the 2013 Law Change

| ASSESSMENT YEAR | CLAIM RELATED | | | OTHER | | | ALL ASSESSMENTS |
|--------------------|---------------|-------------|---------------|------------|-------------|------------|--------------------|
| | 15-8 | 25-A | 15-8 and 25-A | IDP | 151 | 50-5 | |
| 2001 | 375,000,000 | 60,000,000 | 435,000,000 | | | | |
| 2002 | 379,000,000 | 64,000,000 | 443,000,000 | | | | |
| 2003 | | | | | | | |
| 2004 | 495,000,000 | 96,000,000 | 591,000,000 | | | | |
| 2005 | 538,000,000 | 102,000,000 | 640,000,000 | | | | |
| 2006 | 500,000,000 | 110,000,000 | 610,000,000 | | | | |
| 2007 | 602,747,649 | 137,239,465 | 739,987,114 | 63,188,412 | 229,404,962 | 8,086,616 | 1,040,667,104 |
| 2008 | 675,773,477 | 148,945,842 | 824,719,319 | 68,686,660 | 228,656,027 | 8,419,334 | 1,130,481,340 |
| 2009 | 750,236,152 | 271,841,361 | 1,022,077,513 | 71,632,038 | 232,090,199 | 19,046,273 | 1,344,846,023 |
| 2010 | 914,115,003 | 401,889,339 | 1,316,004,342 | 78,394,341 | 243,590,525 | 33,068,833 | 1,671,058,041 |
| 2011 | 852,778,219 | 469,628,120 | 1,322,406,339 | 87,636,293 | 237,505,281 | 14,157,624 | 1,661,705,537 |
| 2012 | 912,928,459 | 368,957,493 | 1,281,885,952 | 86,183,537 | 249,468,312 | 25,644,033 | 1,643,181,834 |

Assessments and the 2013 Law Change

- Closure of 15-8 sensitized industry
 - Initial expectations with bill pricing was no impact or slight decrease
 - Unrealistic
 - Surge of applications for 15-8
- Surge of applications for 25-A
 - Possibly due to economic conditions
- Increase to 50-5 was due to insolvency of self-insured groups

Assessments and the 2013 Law Change

Assessment as percentages of indemnity payments for self-insureds

Insured employers paid similar rates but with standard premium as base

| Summary of Assessment Rates | | | | | | | |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| 15-8 | 18.3 | 19.3 | 20.6 | 23.2 | 21.8 | 22.5 | 21.1 |
| 25-A | 4.1 | 4.2 | 7.4 | 10.1 | 12.2 | 9.1 | 10.2 |
| 151 | 6.9 | 6.8 | 5.8 | 6.3 | 5.5 | 6.7 | 5.7 |
| IDP | 1.9 | 2.0 | 2.2 | 2.1 | 1.9 | 1.9 | 1.8 |
| 50-5 | 0.3 | 0.3 | 3.9 | 5.3 | 7.1 | 7.2 | 7.2 |
| | | | | | | | |
| TOTAL | 31.5 | 32.6 | 39.9 | 47.0 | 48.5 | 47.4 | 46.0 |

Assessments and the 2013 Law Change

- Embedded in 2013/2014 NYS Budget Proposal
 1. Eliminate Aggregate Trust Fund – not passed
 2. Increase minimum weekly benefit from \$100 to \$150 – passed
 3. Change the Assessment Process – passed
 - a) Common base for all employers
 - b) Eliminate need for balance sheet accrual for self-insureds
 - c) 13.8% of Standard Premium (Insured Employers) or Standard Premium Equivalent (Self-Insured Employers)
 4. Close 25-A – passed

Assessments and the 2013 Law Change

- Closing 25-A
 - Closed to all Applications as of January 1, 2014
 - Prior to any other issue, cost of running 25-A increased by a factor of 3 since 2006/2007
 - 2006: \$110 million
 - 2007: \$137 million
 - 2008: \$149 million
 - 2009: \$272 million
 - 2010: \$402 million
 - 2011: \$469 million
 - 2012: \$369 million
 - This is before consideration of unintended consequence of 2007 law

Assessments and the 2013 Law Change

- Closing 25-A
 - Conditions for 25-A relief
 - 7 years from date of loss
 - Minimum of 3 years since last indemnity payment
 - 25-A provides primarily for medical benefits
 - Prior to 2007 law, bulk of workers compensation cost associated with non-scheduled permanent partial claims
 - Lifetime disability payment
 - Did not qualify for 25-A
 - Since 2007, indemnity portion of claims are being settled and closed
 - Creates huge pool of potential 25-A claims
 - 25-A could grow in cost to levels exceeding 15-8

Assessments and the 2013 Law Change

- Closing 25-A
 - Impact
 - One time case reserve adjustments for claims reserved for potential 25-A relief
 - Impact ranged from <1% to ~8% for OW clients
 - Statewide impact ~6%
 - Assessments will continue for 40+ years, just like 15-8

Where are we today

Where We Are Today

- Published Loss Costs are 15% to 20% below indication

Approved Lost Cost Changes by Effective Date in New York

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| 10/1/2009 | 4.50% | -20.19% | |
| 10/1/2010 | 7.70% | -14.04% | |
| 10/1/2011 | 9.10% | -6.22% | |
| 10/1/2012 | 0.00% | -6.22% | Filed Increase was +11.5% |
| 10/1/2013 | 9.50% | 2.69% | Filed Increase was +16.9% |
| 10/1/2014 | 0.00% | 2.69% | Filed Increase was +6.8% Actuarial Indication was +17.4% |

Loss Cost: Indemnity + Medical + Claim Adjustment Expense

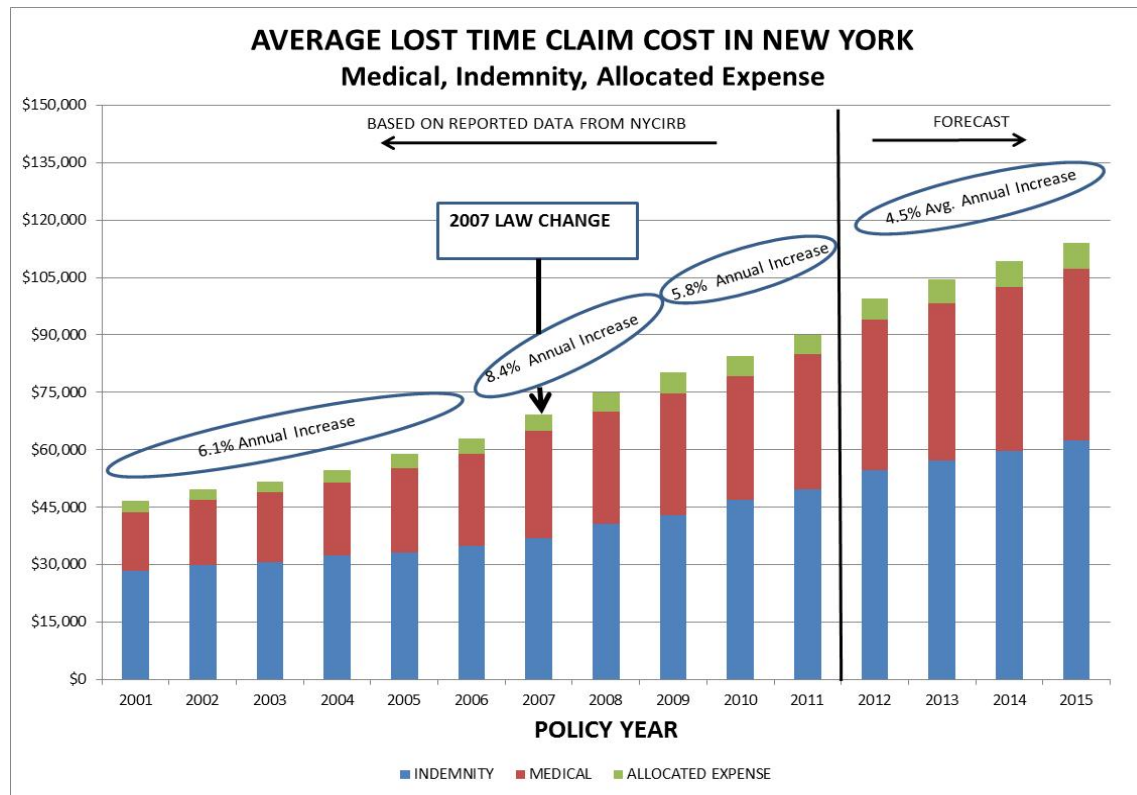
Where We Are Today

- Claim Frequency is Increasing
- Permanent Partial Percentage is Increasing

| NEW YORK CLAIM FREQUENCY per 100,000 workers | | | | COUNTRYWIDE CLAIM FREQUENCY per 100,000 workers | | | |
|---|-----------------|-------------------|------|--|-----------------|-------------------|------|
| Policy Year | Total Lost Time | Permanent Partial | PP % | Policy Year | Total Lost Time | Permanent Partial | PP % |
| 2001 | 1219 | 494 | 41% | 2001 | 1,275 | 430 | 34% |
| 2002 | 1142 | 456 | 40% | 2002 | 1,218 | 422 | 35% |
| 2003 | 1108 | 440 | 40% | 2003 | 1,179 | 423 | 36% |
| 2004 | 1030 | 419 | 41% | 2004 | 1,124 | 404 | 36% |
| 2005 | 988 | 416 | 42% | 2005 | 1,075 | 384 | 36% |
| 2006 | 953 | 425 | 45% | 2006 | 1,041 | 382 | 37% |
| 2007 | 939 | 451 | 48% | 2007 | 996 | 378 | 38% |
| 2008 | 927 | 489 | 53% | 2008 | 925 | 369 | 40% |
| 2009 | 926 | 509 | 55% | 2009 | 882 | 361 | 41% |
| 2010 | 943 | 537 | 57% | 2010 | 874 | 344 | 39% |
| 2011 | 941 | 552 | 59% | 2011 | 866 | 329 | 38% |

Where We Are Today

- Current Lost Time Claim Severity is expected to be almost 75% higher than Pre-2007 Values



Where We Are Today

- 15-8 and 25-A Run-Off will be expensive and long term
 - Unpaid cost associated with these funds is potentially in the 10 to 20 billion dollar range
 - Current unified assessment of 13.8% against standard premium does not provide for the full value of annual fund costs and will likely increase in 2015.

