

Workers' Compensation Claim Closure Project A Case Study

Casualty Loss Reserving Seminar

September 6, 2018
Anaheim, CA



Workers' Compensation Claim Closure Project A Case Study

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- Esther Becker, Oliver Wyman
- Martin King, Kaiser Permanente
- Ryan Purcell, Kaiser Permanente



Poll #1

**Go to sli.do on the web, and
type in poll code **#U193****

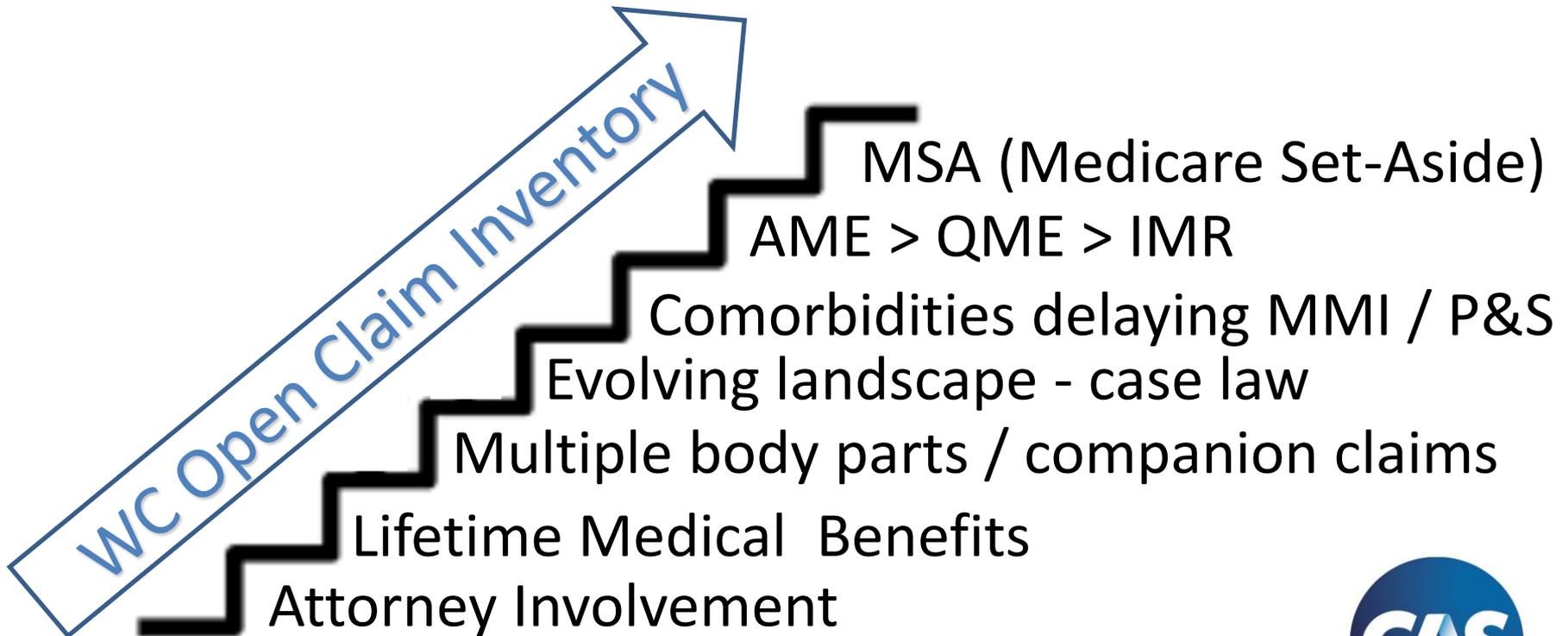
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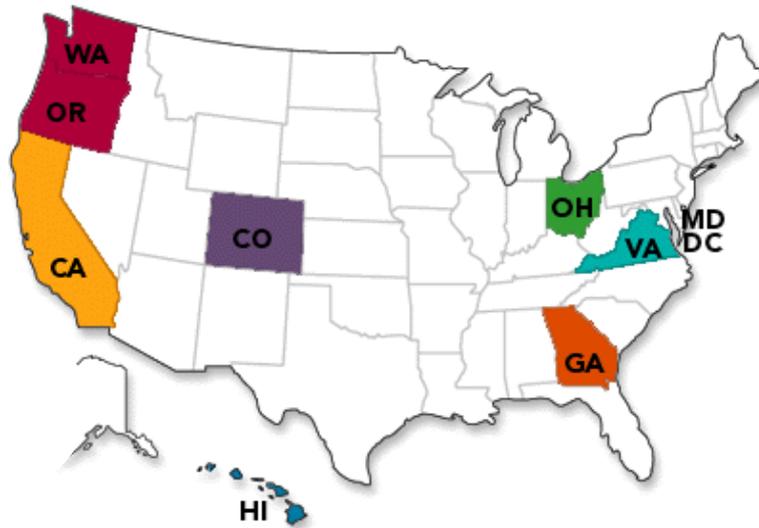
Claim Closure Projects

C I W - Claim Inventory Workout

Legacy Claims Closure Initiative



What is Kaiser Permanente?



Largest “*Integrated*” Healthcare Org.
(Hospitals – Physicians – Health Plan)

12 million members

West Coast / California

200,000 employees

7,000 open WC claims



Kaiser Permanente Workers' Comp Landscape

Self-Administered

6,400 Open Claims
44 Claims Examiners
145 Caseload

Sedgwick

8,000 Open Claims
48 Claims Examiners
165 Caseload

Case Reserves

\$250 million

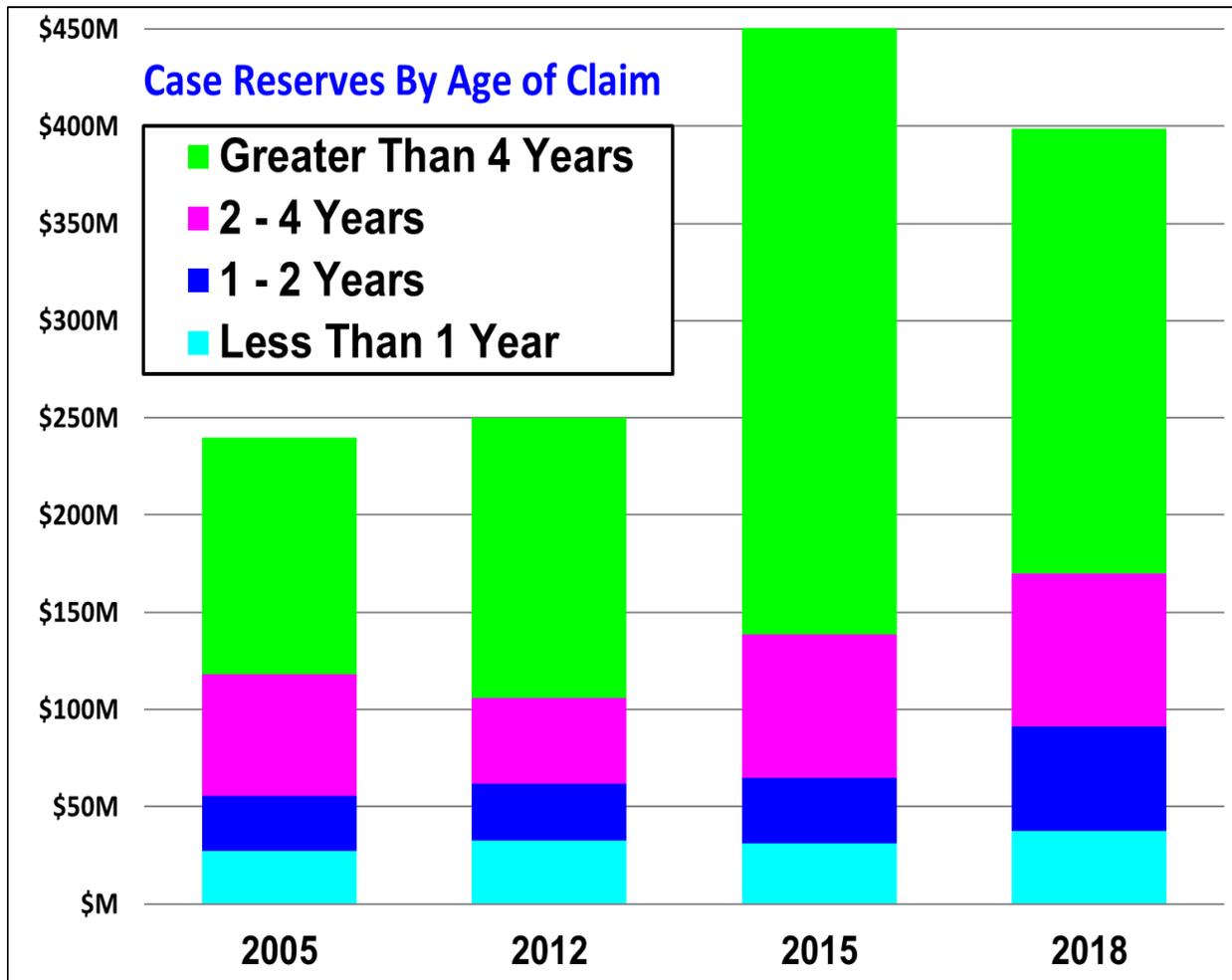
Case Reserves

\$450 million

SIP
Compliant



Kaiser Permanente Workers' Comp Landscape

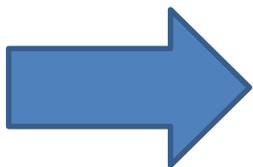


Case Reserve Increase Impact on Ultimates

IBNR as a Percentage of 12/31/2012 Estimated Ultimate Losses

2012

Kaiser IBNR “looks like” Industry IBNR for insured programs.



By 2015

Case reserve increases blew away the IBNR estimates from 2012.



Accident Year	Kaiser		WCIRB	
	Reported Losses as of 12/31/2012	Reported Losses as of 12/31/2015	Reported Losses as of 12/31/2012	Reported Losses as of 12/31/2015
1998	3%	-8%	5%	4%
1999	3%	-6%	6%	5%
2000	5%	-2%	7%	7%
2001	7%	-1%	8%	7%
2002	8%	-1%	11%	10%
2003	9%	-4%	15%	13%
2004	11%	-4%	19%	17%
2005	8%	-15%	20%	16%
2006	10%	-16%	17%	12%
2007	11%	-13%	17%	10%
2008	17%	-3%	20%	11%
2009	23%	4%	19%	6%
2010	30%	-1%	26%	8%
2011	43%	9%	40%	12%
2012	63%	20%	63%	15%



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Program Management

- 3 Claims Professionals
- Programmer and Operations Person
- Director



Closing Workers' Comp Claims

**What's the
Rush ??**



Real Life Horror Stories

Legacy Claim



Recent Claim



Kaiser Workers' Comp Pre-CIW Landscape



Finding Resources to Close Claims

Internally:

- Hire, Train, Ramp up

Contract out:

- “Instant” seasoned claims professionals
- Increase bandwidth
- Train young (and seasoned) examiners



Claim Closure Projects

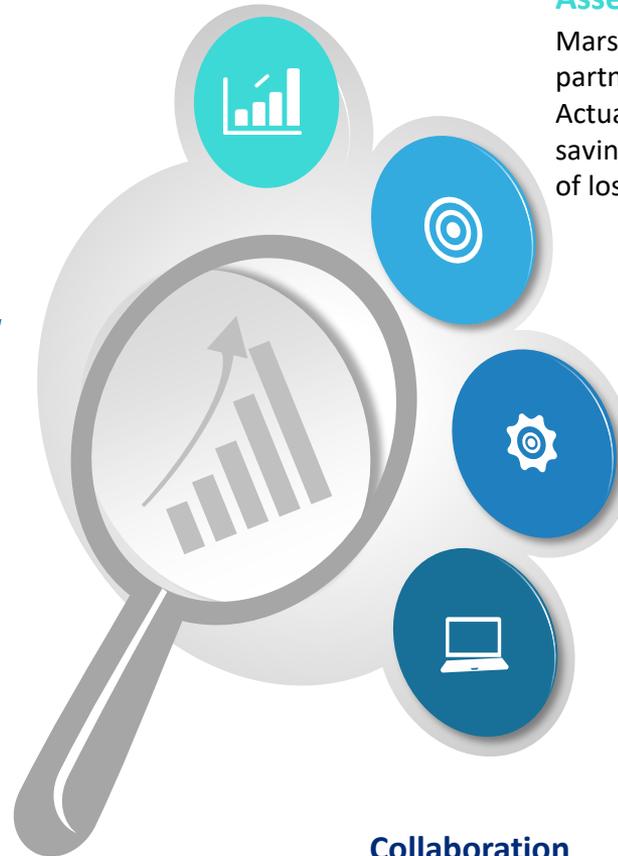
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Marsh's Claim Inventory Workout (CIW)

A focused approach to streamlining claim resolution to reduce legacy liabilities, impact collateral requirements, and improve the fiscal condition of an organization's program, working with the existing claim infrastructure and key business partners to facilitate resolution

- Nearly \$8 billion of incurred workers' compensation claim dollars reviewed
- Closure rate in excess of 50% (all jurisdictions)
- On average, around 25% reduction in outstanding liabilities (all jurisdictions)



Assessment.

Marsh Risk Consulting has partnered with Oliver Wyman Actuarial Consulting to forecast savings potential through analysis of loss data and actuarial reporting

Approach and Performance

Moving away from diary-driven management and toward focus areas of improvement

Reporting & Analytics.

Weekly FLASH reporting and regular performance metrics reviewed along with strategic closure discussions

Collaboration

Partnering with employer, TPA, defense firms, MSA vendors, structured brokers, and applicants' attorneys



CIW Project Objectives & Outcomes

Additional Benefits

- Insight into strengths and weaknesses of the claim program
- Hands-on support to adjuster
- Knowledge transfer (Average Marsh tenure 20+ years)
- Remaining open inventory on trajectory for lower development
- Lower caseloads per adjuster
- ***Sustained program improvements***



Kaiser's CIW Program

Discovery & Forecasting

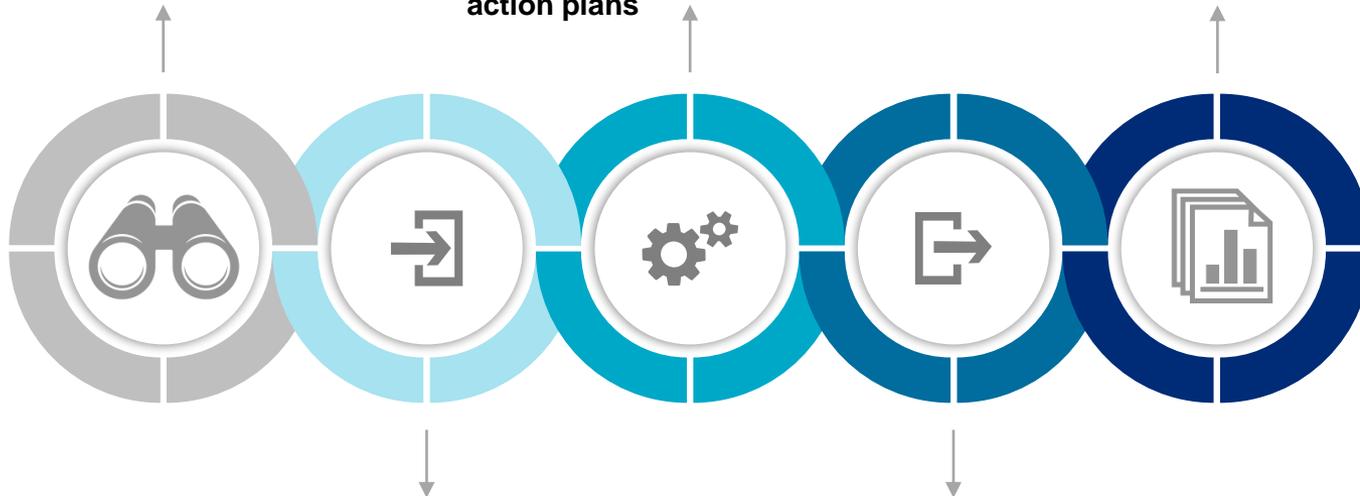
- Present CIW program
- Discuss current claim program
- Model potential savings
- Agree and execute SOW

Triage & Claim Disposition

- Review all qualifying open claims
- Identify barriers to closure
- Stratify barriers to identify disposition
- Review with adjusters & develop action plans

Measurement & Reporting

- Regular reporting
- Quarterly Stewardship
- Actuarial recognition reports
- Custom reports as needed



Project Planning & Implementation

- Assign project team
- Notify Sedgwick and obtain access
- Develop triage plans
- Agree project timeline
- Agree final success metrics

Claim Oversight

- Agree on action plans & target dates
- Strategic consultancy to reduce exposure
- Focus on adjuster training and culture change
- FASTrack settlement conferences
- Responsible settlement offers
- Onsite litigation conferences



Poll #2

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Business Case to Invest in a CIW

- Staff Reduction
- Loss Savings
 - Marsh / Oliver Wyman
 - Kaiser Internal



Staff Reduction

Caseload (open claims per examiner)

- Indemnity Examiner: 130
- Future Medical: 230

Every 200 claims reduced = 1 Examiner
\$140,000 / year



Staff Reduction

Inventory Reduction = 1,200 claims = **6 Examiners**



\$140K



\$140K



\$140K



\$140K



\$140K



\$140K

\$840,000 / year...

NPV = **\$8 million**



Skeptics of a CIW

**Is the closure effort
“buying”
claim closures ?**



Impact on incurred loss...



Impact on Incurred Loss

Examples: Experience Post-CIW

Company	Actual vs. Expected Incurred	Ultimate Difference	Age of Project In Months	Total Number of Claims
	(1)	(2)	(3)	(4)
Telecommunications	(19,015,400)	(32,109,931)	66	1587
Pharmaceutical	(15,111,072)	(26,902,887)	32	1511
Food & Beverage	(2,260,225)	(4,977,355)	35.5	476
Retail	(6,898,377)	(7,378,094)	86	224
Building/Security	(458,197)	(2,678,582)	24.5	90
Transportation	(351,568)	(1,725,987)	42.5	196
Building/Security	5,574,921	4,901,013	54	1002
Airline	386,076	(1,319,491)	30	296

(1) Actual versus expected incurred loss from start of CIW to current age

(2) Difference in total ultimate loss (in AYs included in CIW) between actuarial reports pre-CIW and current

(3) Months between CIW start and current valuation

(4) Total number of open claims included in CIW project at its start



Actuarial Role in Process

1) Pre-CIW Savings Estimates

- Expected Savings Calculation, Cash Flow and IRR Analysis

2) Mid-CIW

- Updated Savings Calculation
- Actual vs Expected
 - Claim Closures, Case Incurred Amount, Claim Payments, IBNR Reduction from Closures

3) Post-CIW

- “Look-back”
- Full actuarial study to aid in recognizing CIW impact
- Evaluate changes in patterns



Actuarial Role in Process

More on Initial Savings Estimates

- Generally, claim inventory restricted to loss dates prior to one year before CIW inception
- Use actuarial report for implied loss development patterns and average IBNR
- Claims are assigned a probability of closing and two growth factors based on claim characteristics
 - Closed Growth – Change in total incurred given the claim closures during CIW
 - Open Growth – Change in total incurred if claim remains open at the end of the CIW 0 to 72 months
- $EV \text{ at } 72 \text{ months} = \text{Portion of claims expected to close} \times \text{closed growth} + \text{Remaining portion of claims} \times \text{open growth}$
- Sum EV at 72 months with payments on closed claims not in CIW and apply implied LDFs
- Compare with original ultimates to arrive at savings estimate



Business Case to Invest in a CIW

Actuarial Considerations:

- Initial up-tick in payments
 - Important to be in frequent contact with CIW team, so you can better gauge how to react
- What if CIW is preceded by a change in case reserve adequacy?
- Mid and Post-CIW projections of ultimates: admittedly, difficult, as patterns have changed and, if process is working, claims “mature” faster
 - Method adjustments to consider: Berquist-Sherman, adjustment to effective age, etc.
 - Individual Claims Reserving Models
 - Potential efficacy in this case, as considers the status and other variables of each claim, where it currently stands, rather than as part of a group of claims of “same maturity”



Poll #3

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Business Case to Invest in a CIW

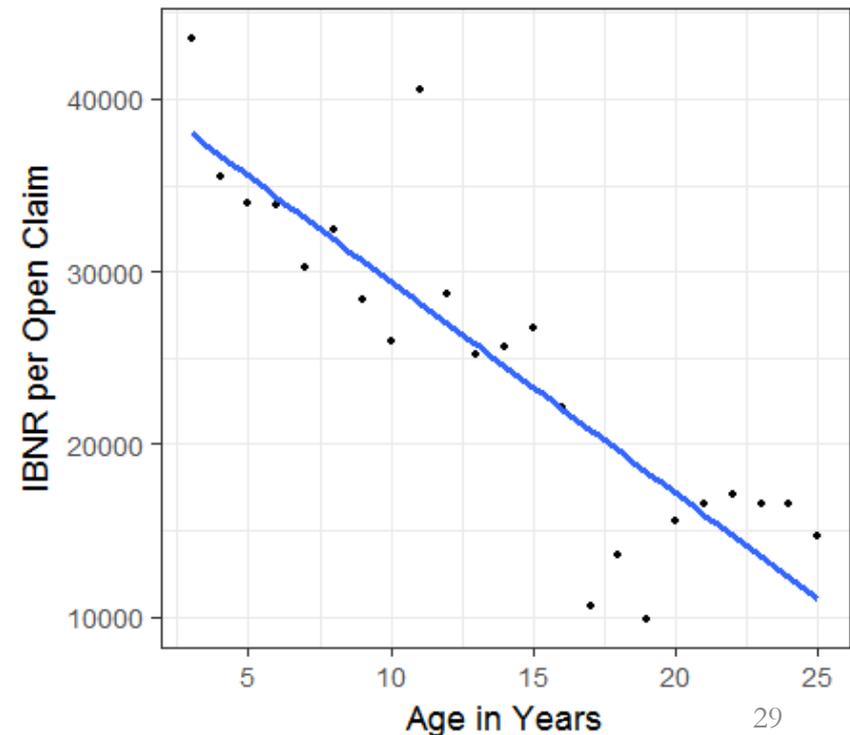
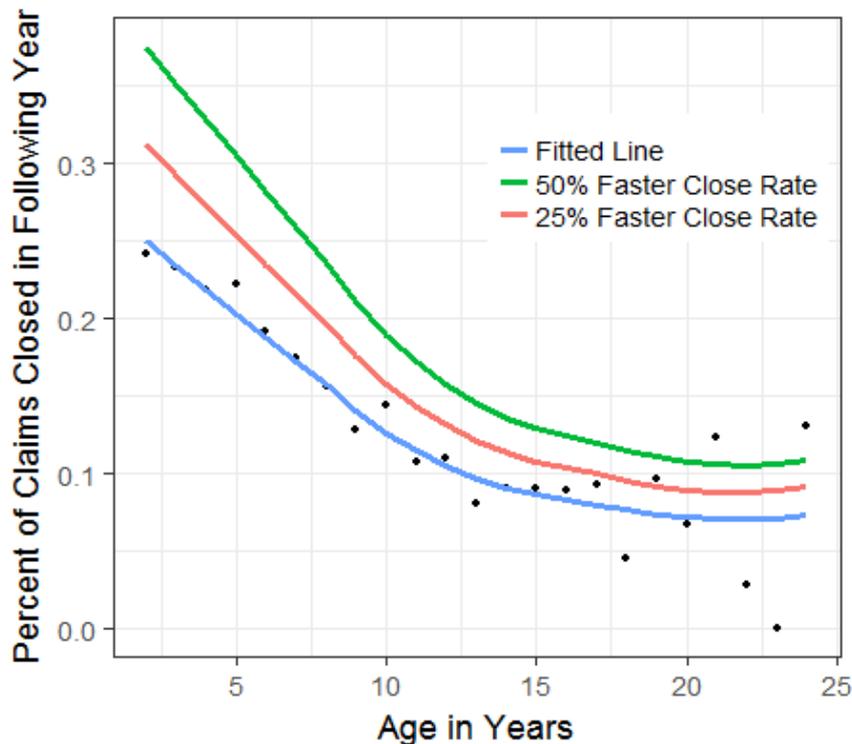


Kaiser Permanente's Prospective Estimate
CIW Impact on Incurred Loss



Estimating the Impact of a CIW

1. Select current and expected claim closure rates
2. Estimate IBNR per open claim by age
 - Assume all IBNR is for future development on open claims
3. Use 1. and 2. to calculate percent of IBNR incurred each year
4. Savings equals IBNR that would have been incurred on the extra claims closed in the CIW project

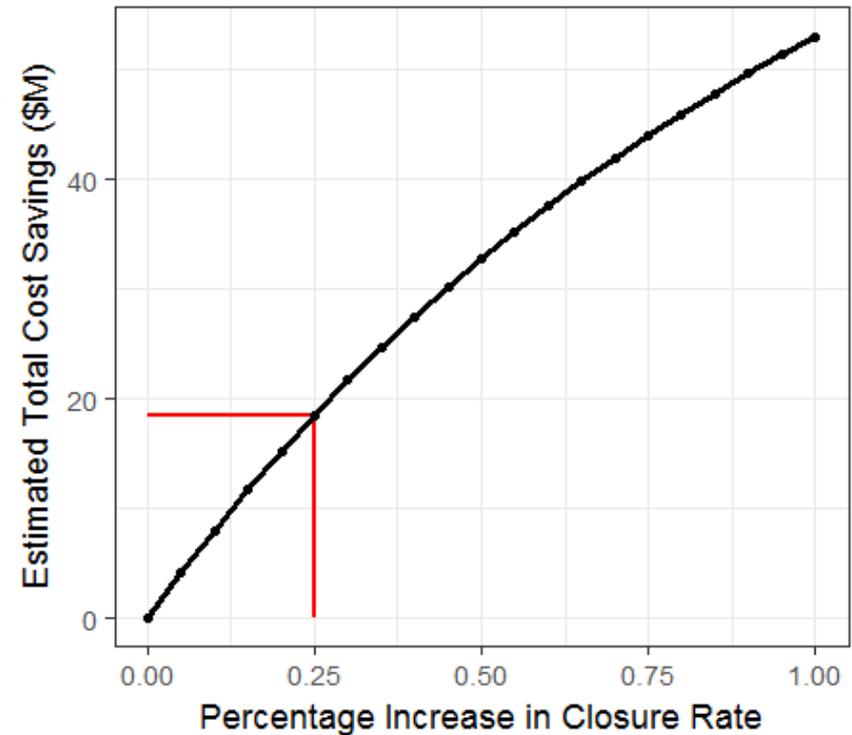


Business Case to Invest in a CIW

Estimated Impact

- \$ 115M IBNR @ 12/31/15
- Assume 25% Increase Claim Closure Rate
- \$ 18M Estimated Savings in IBNR

Settling claims for less than total incurred can result in further savings.



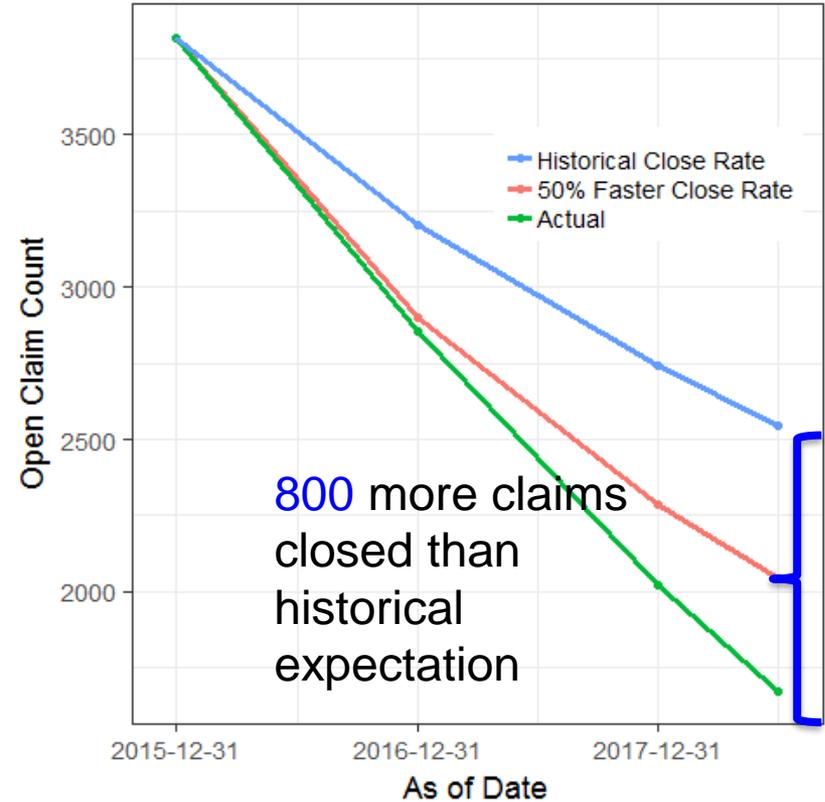
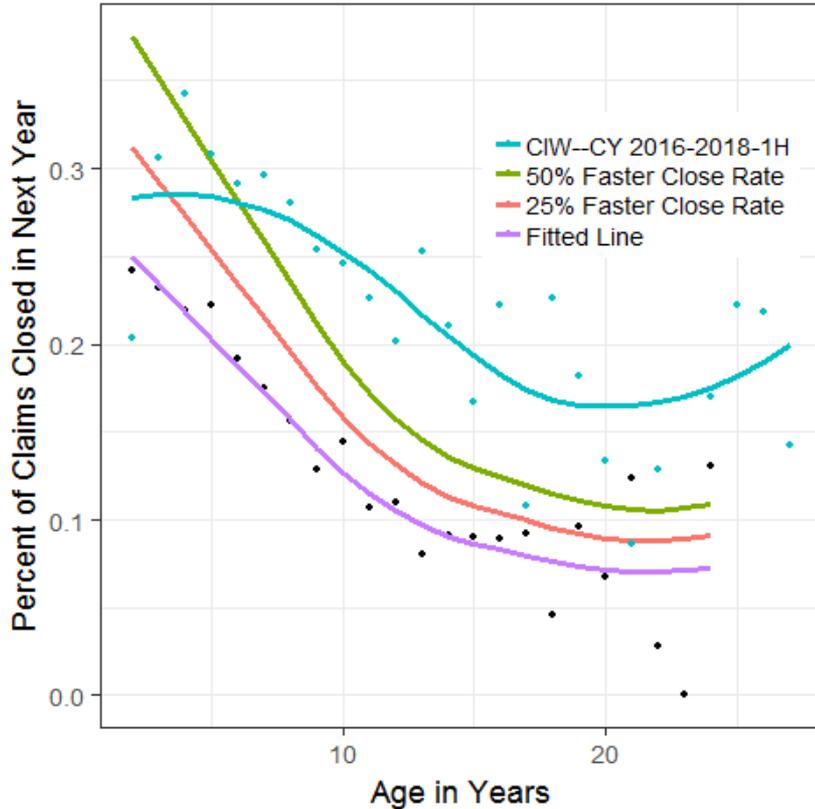
CIW Impact on Losses



What has Kaiser Permanente seen after 2 years ?



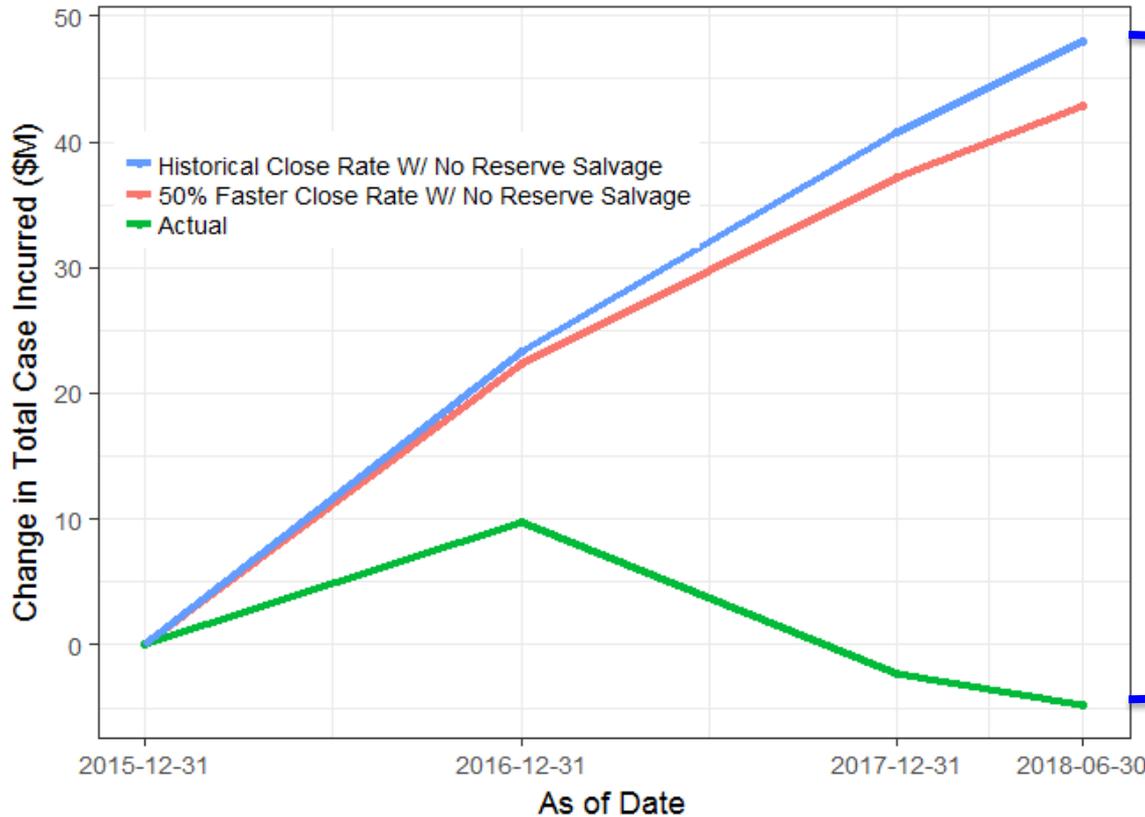
Claims Closing Faster than Expected



Claims with dates of injury 3/31/2013 and Prior



Savings from Case Incurred Reductions



\$50M “Savings”
(favorable development)
compared to 12/31/2015
actuarial estimate

Claims with dates of injury 3/31/2013 and Prior



Reserve Salvage

\$85 Million
Reserve
Salvage

5,400

2,500

It takes *TIME* to see these benefits in reserving data.



How about the Claimant ?



Settlement Below the Case Reserve

“Ripping off” injured workers?

Settlements are typically 50% of the initial demand...

WCAB agrees it is reasonable. **Why ?**

All parties benefit from settlement:

- All parties know the initial demand is inflated by applicant’s attorney
- Released from medical treatment restrictions in WC system (MPN, UR)
- Lump sum payment can be appealing to claimant
- End of litigation and uncertainties for claimant. Life can go on.



**No More
Horror Stories !!**



“Permanent” C I W

How do you sustain this closure effort ?

**Claim closure begins at claim intake.
Identify early signs of a catastrophe claim.**



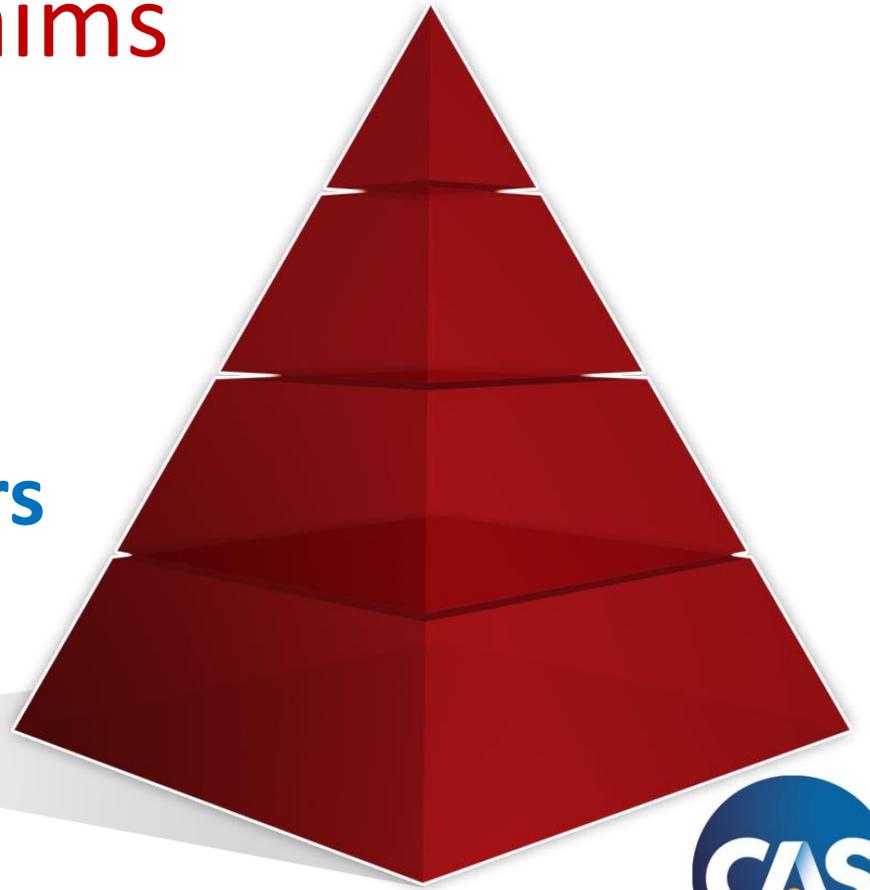
“Permanent” C I W

Catastrophic Claims

3 % of the claims

account for

60% of the loss dollars



Old Causes for Catastrophic Claims

- Quadriplegic / Paraplegic / Severe Back Trauma
- Amputations / Head Injuries / Loss of vision

Culture of Safety → Few and far between

So what is driving “catastrophic” claims?



New Causes for Catastrophic Claims

Health Related

- Opioid use (addiction)
- Multiple body parts
- Smoking
- Obesity
- High blood pressure
- Diabetes
- Prior work related injury

Psychosocial

- Litigation
- Lost time from work
- Lack of a relationship between the employee and the employer
- Injured workers poor coping skills
- Poor hiring practices



Catastrophic Claims Administration

1. Restructure claim intake to identify warning signs
2. Segregate these claims for special claims handling
 - Early assignment of Employee Advocate
 - Early assignment of Nurse Intervention
 - Early Resolution:
 - File reviews focused on settlement
 - Settlement Champions
 - Staffing model and culture that supports a permanent claim closure structure



“Permanent CIW” Litigation Management

- Litigation Guidelines: Focus on closure
- Regular meetings with defense firms
- Legal Roundtables to resolve complex claims
- Applicant’s Attorney negotiation workshops
- Quarterly evaluation of attorney panel
 - Claims Examiner Survey
 - Claim Closure Scorecard
- Annual Litigation Symposium



Remaining Questions?

- Beth Dupre, Marsh Risk Consulting
- Esther Becker, Oliver Wyman
- Martin King, Kaiser Permanente
- Ryan Purcell, Kaiser Permanente



