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Workers Compensation and Health Reform

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**CAS Ratemaking and Product Management Seminar
March 9, 2009
Las Vegas, Nevada**

- # The High Growth in Medical Spending
 - ▣ Workers Compensation
 - ▣ Healthcare in the US
- # Healthcare—Reform/Reform/Reform
 - ▣ What Are the Concerns?
 - ▣ A Closer Look
 - ▣ How Much Healthcare Do We Want?
- # High Costs, Inefficiencies & Misaligned Incentives
 - ▣ Reforming healthcare: what is being proposed & what does it mean for workers comp?
- # Forecasting the Impact of Reforms



Medical Spending in the US: How Does Workers Comp Fit?

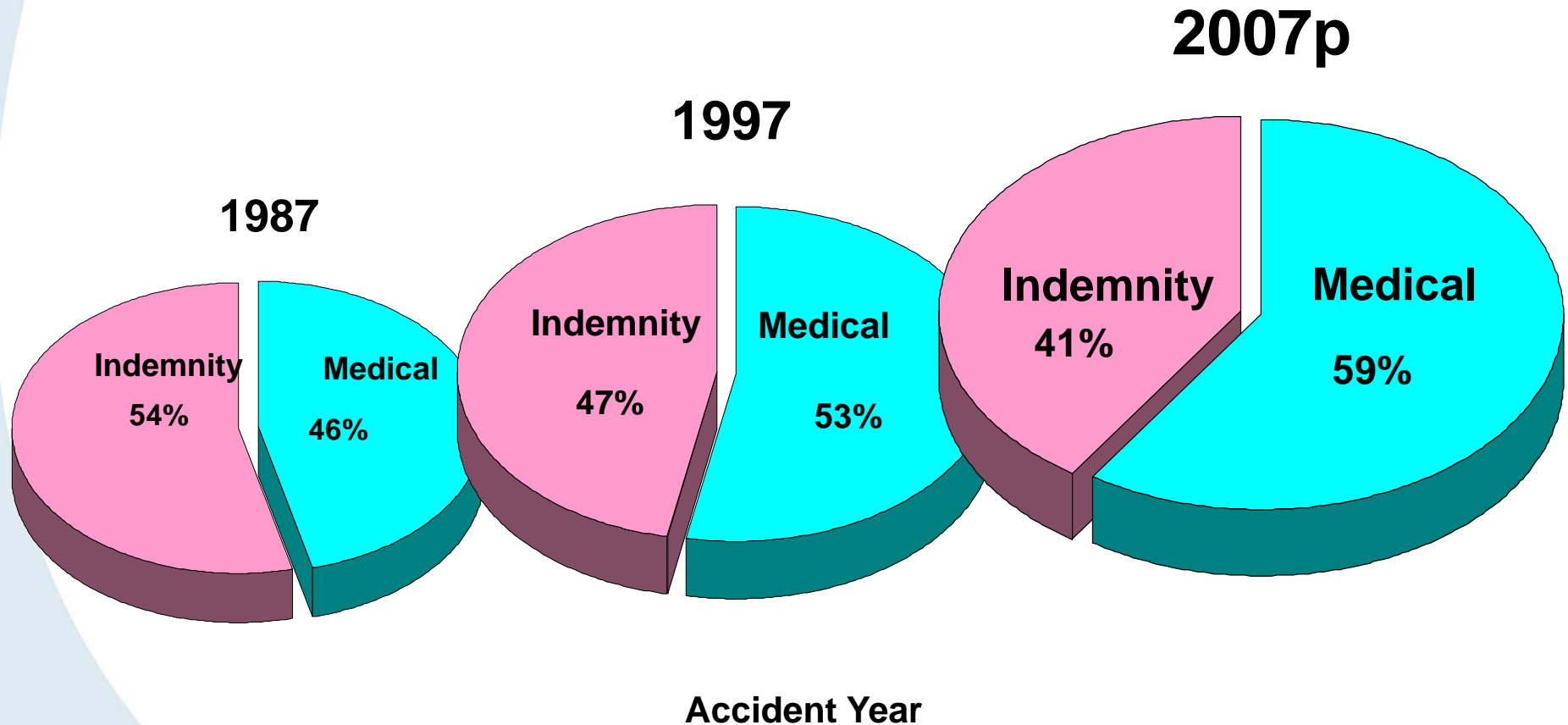


The High Growth in Medical Spending



Medical Share of Total Benefits Has Grown Over 25 Years

All Claims—NCCI States

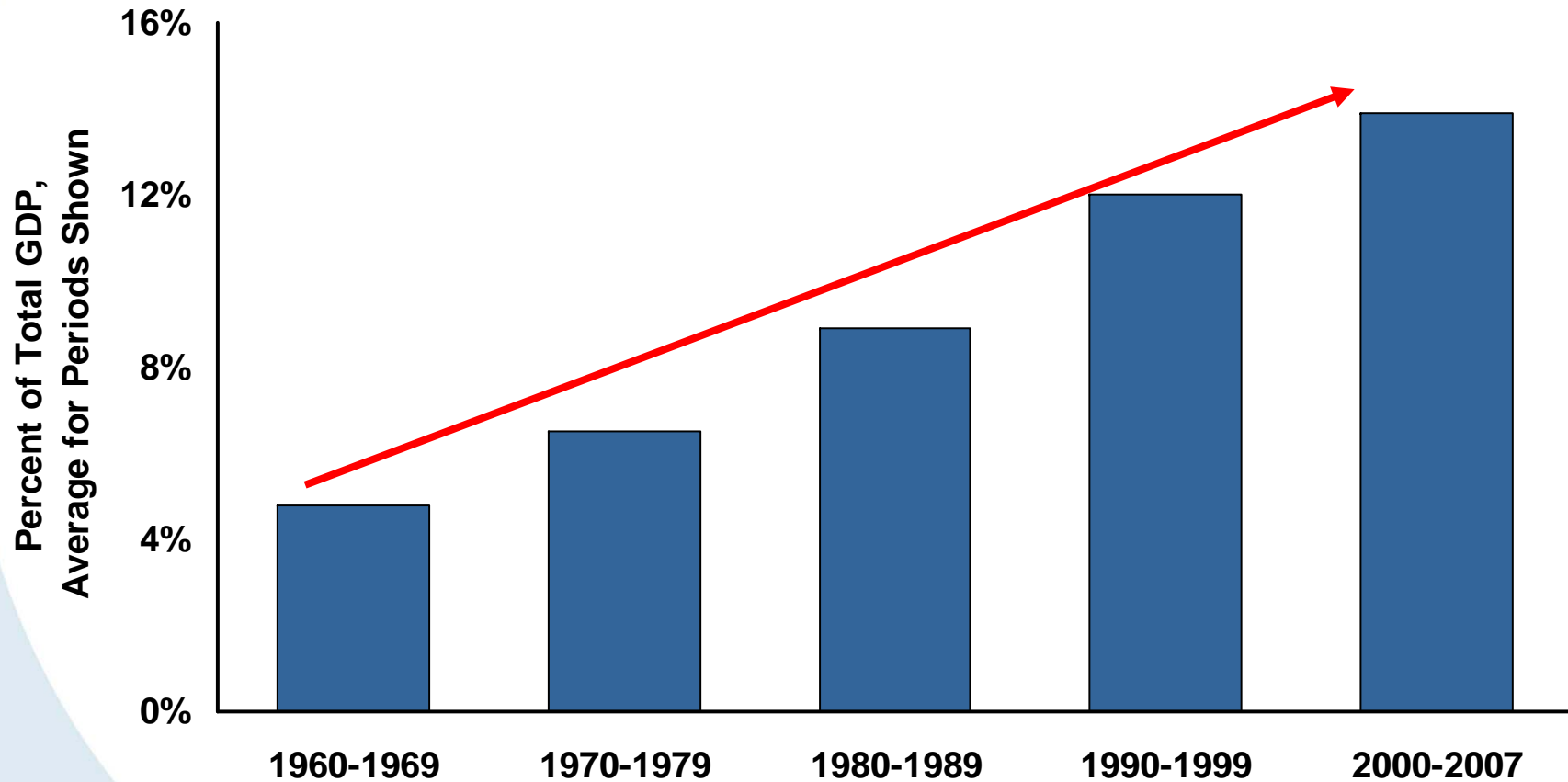


2007p: Preliminary based on data valued as of 12/31/2007
1987, 1997: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies



Medical Share of the US Economy Also Has Grown Steadily

Medical Care Spending is Increasing as a Share of GDP

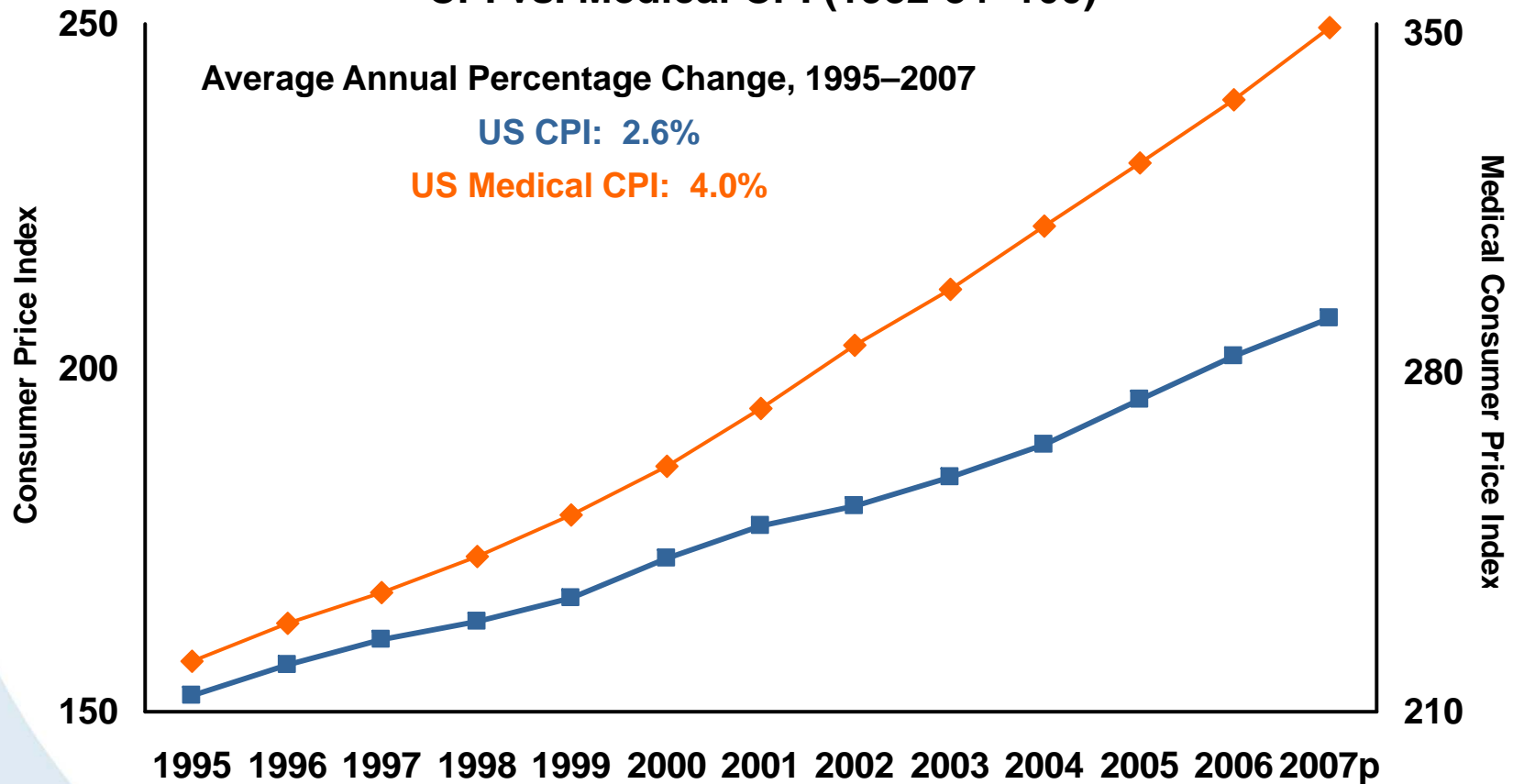


Source: U.S. Bureau of Economic Analysis



It's Partly Price— Countrywide Medical Prices Continue to Rise Faster than Prices Generally

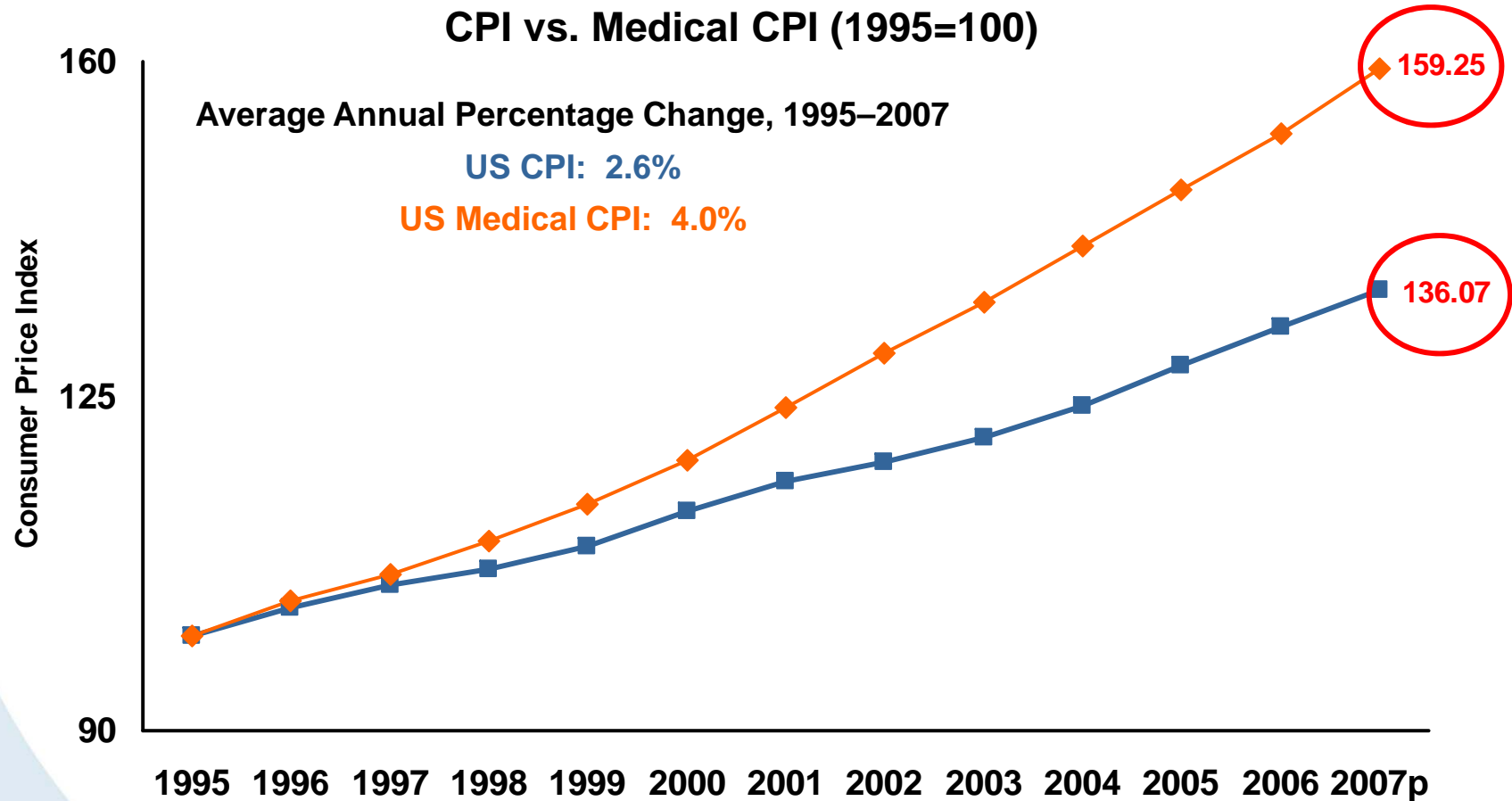
CPI vs. Medical CPI (1982-84=100)



Source: Economy.com



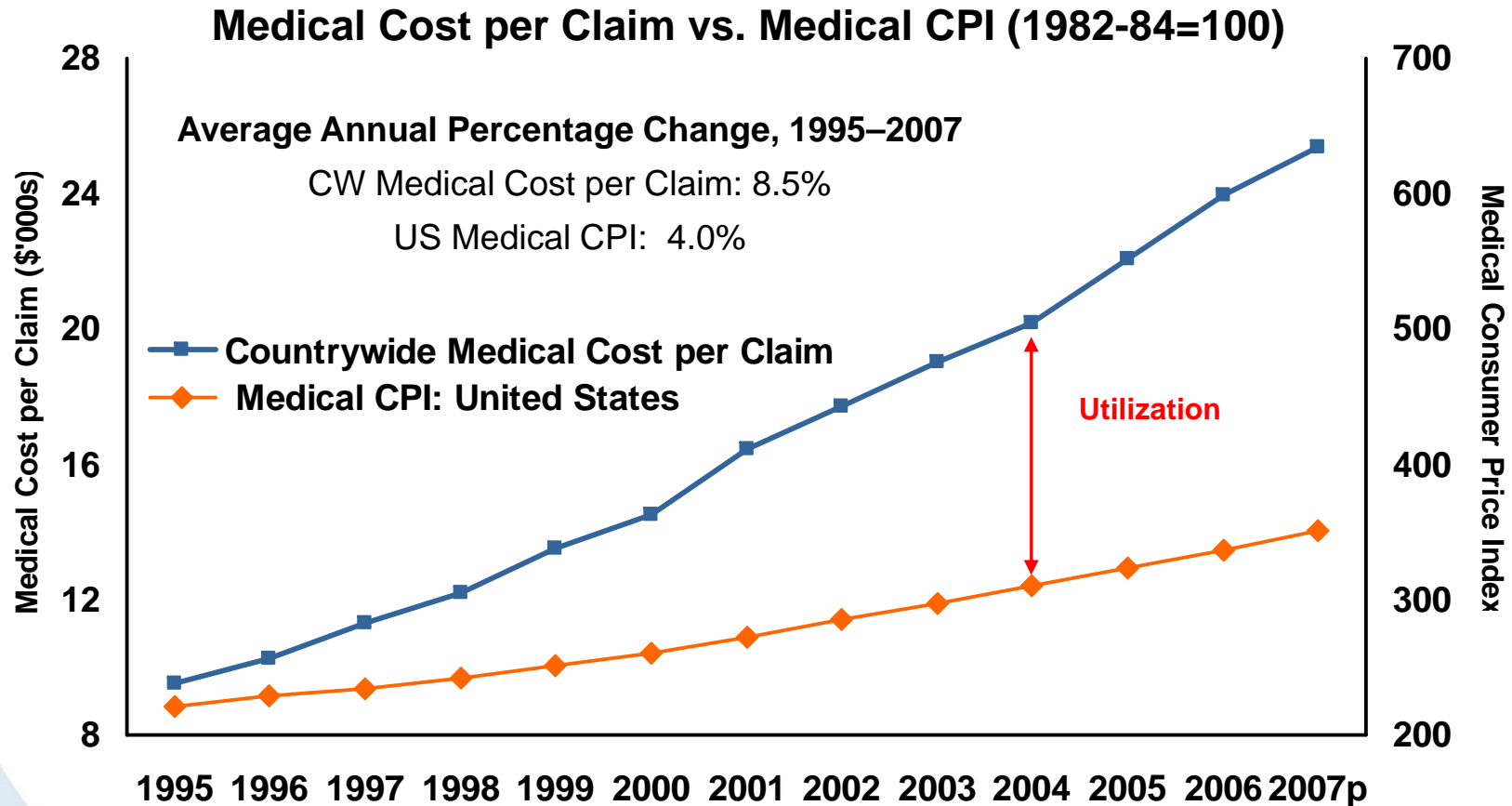
It's Partly Price— Countrywide Medical Prices Continue to Rise Faster than Prices Generally



Source: Economy.com



But **in WC** It's More than Prices— Countrywide Medical Cost per Claim Is Outpacing the Medical Care CPI

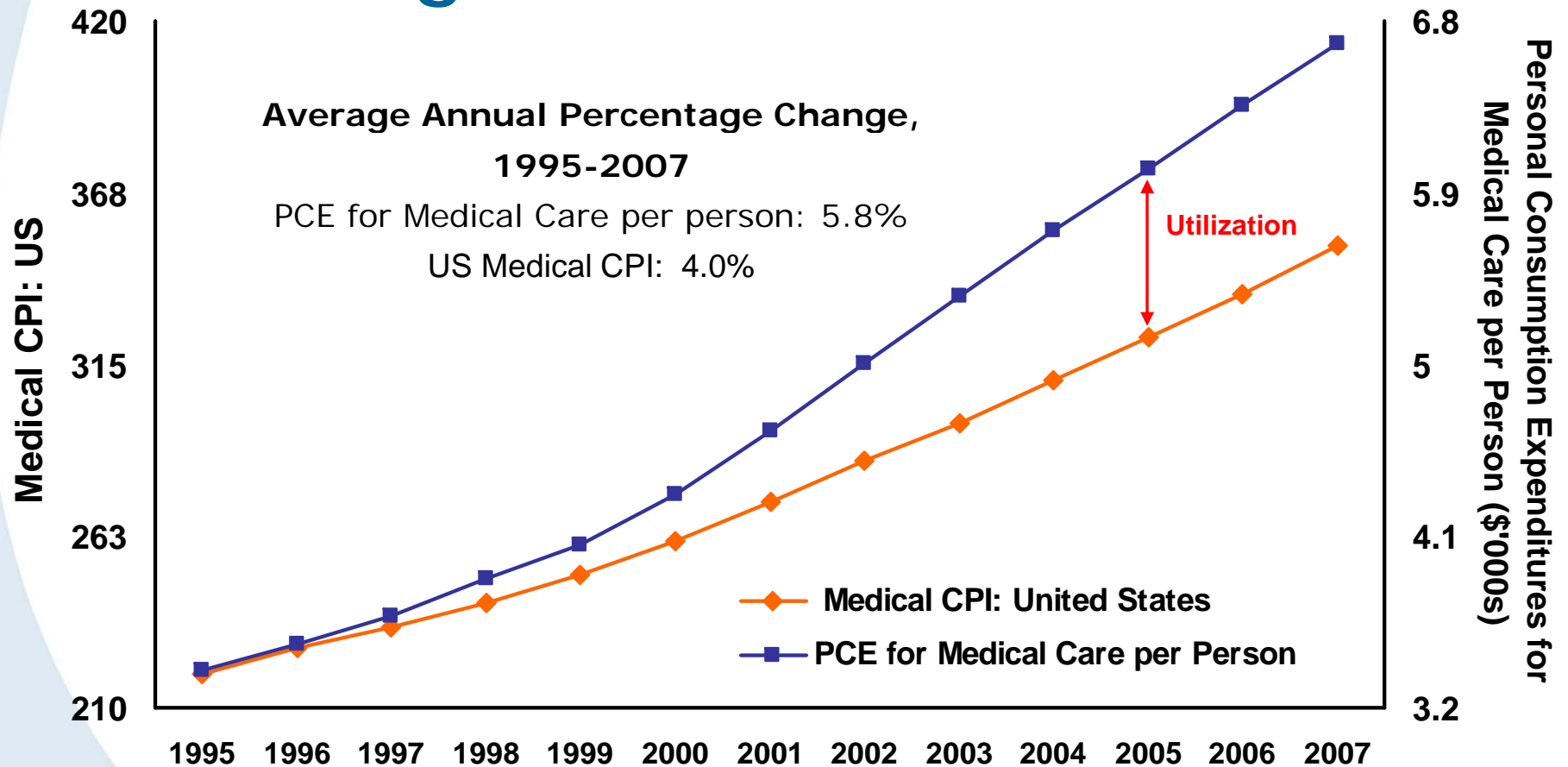


Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
 Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI—All states, Economy.com; accident year medical severity—NCCI states, NCCI



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And in the US It's also More than Prices— Medical Care Spending per Person Is Increasing Faster Than Medical Prices

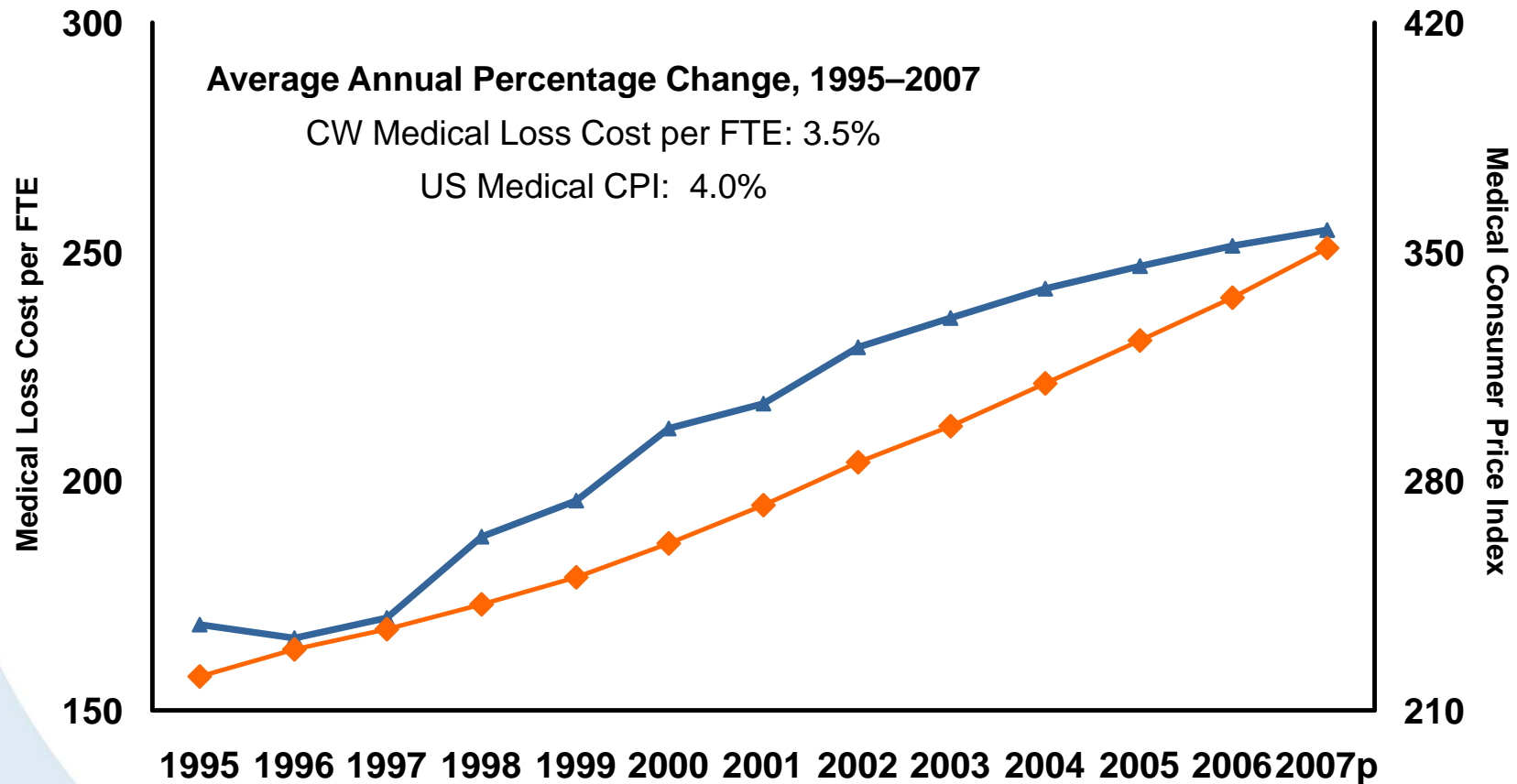


Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis



Countrywide Medical Cost per Covered Employee Reflects a Different Pattern

Medical Cost per Claim vs. Medical CPI (1982-84=100)



Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
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 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI—All states, Economy.com; accident year medical severity—NCCI states, NCCI



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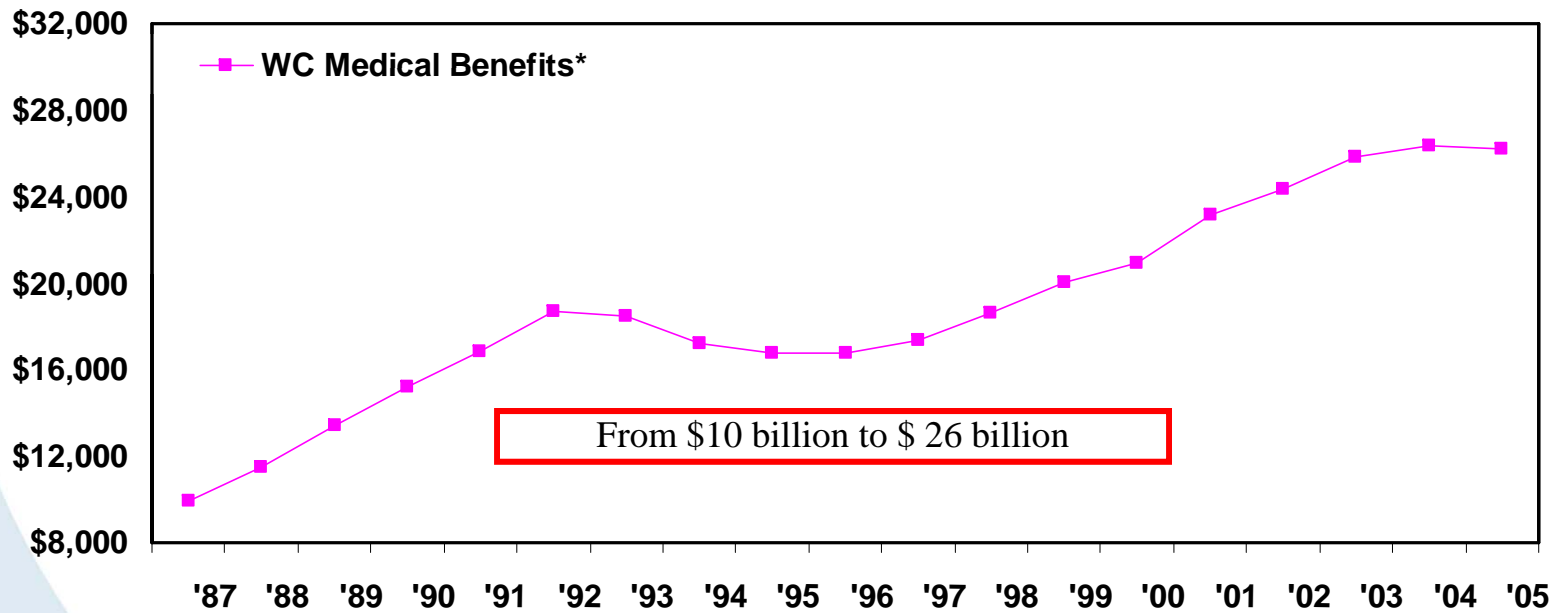
So what else does workers compensation share
with medical spending generally?

Is this good news or bad news?



Indeed, Workers Compensation Shares a Lot With the Country's Healthcare System

**Total Medical Benefits Under Workers Compensation Have Edged Lower Recently, In Contrast to Ongoing Increases in Medical Care Spending
Millions of Dollars**

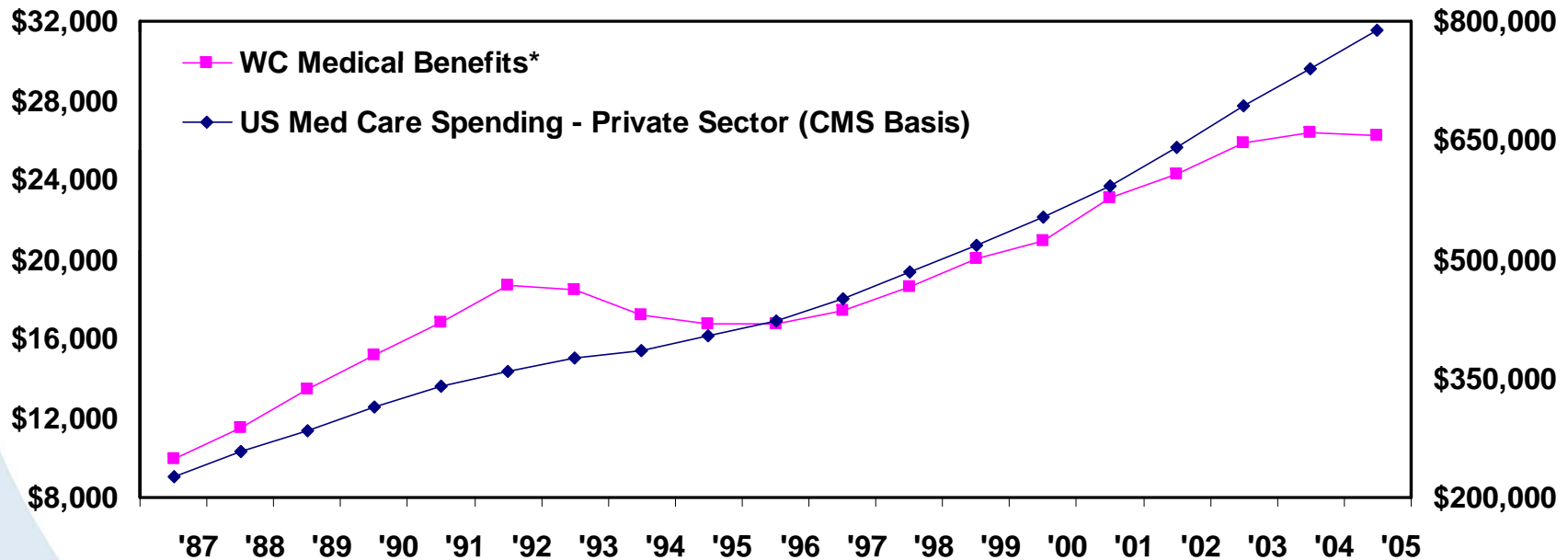


Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)



Indeed, Workers Compensation Shares a Lot With the Country's Healthcare System

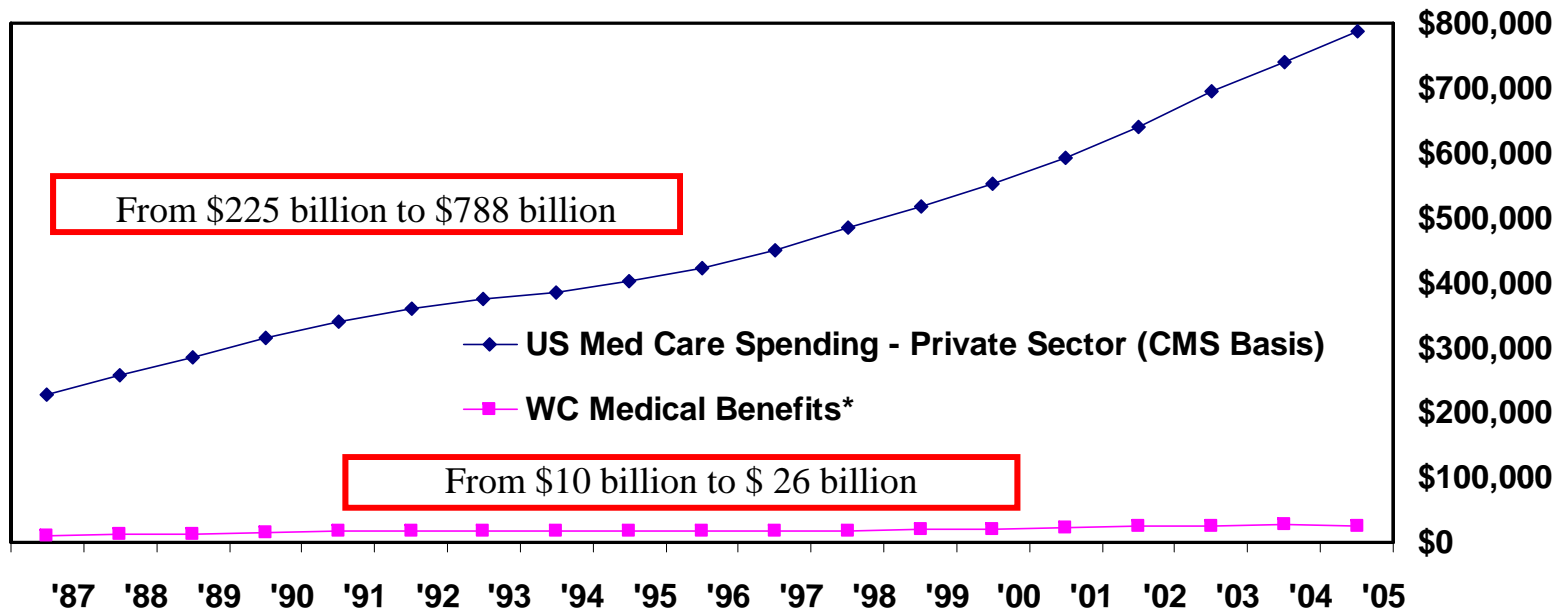
**Total Medical Benefits Under Workers Compensation Have Edged Lower Recently, In Contrast to Ongoing Increases in Medical Care Spending
Millions of Dollars**



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)

What Is Surprising Is How Small We Are Compared to the Country Total

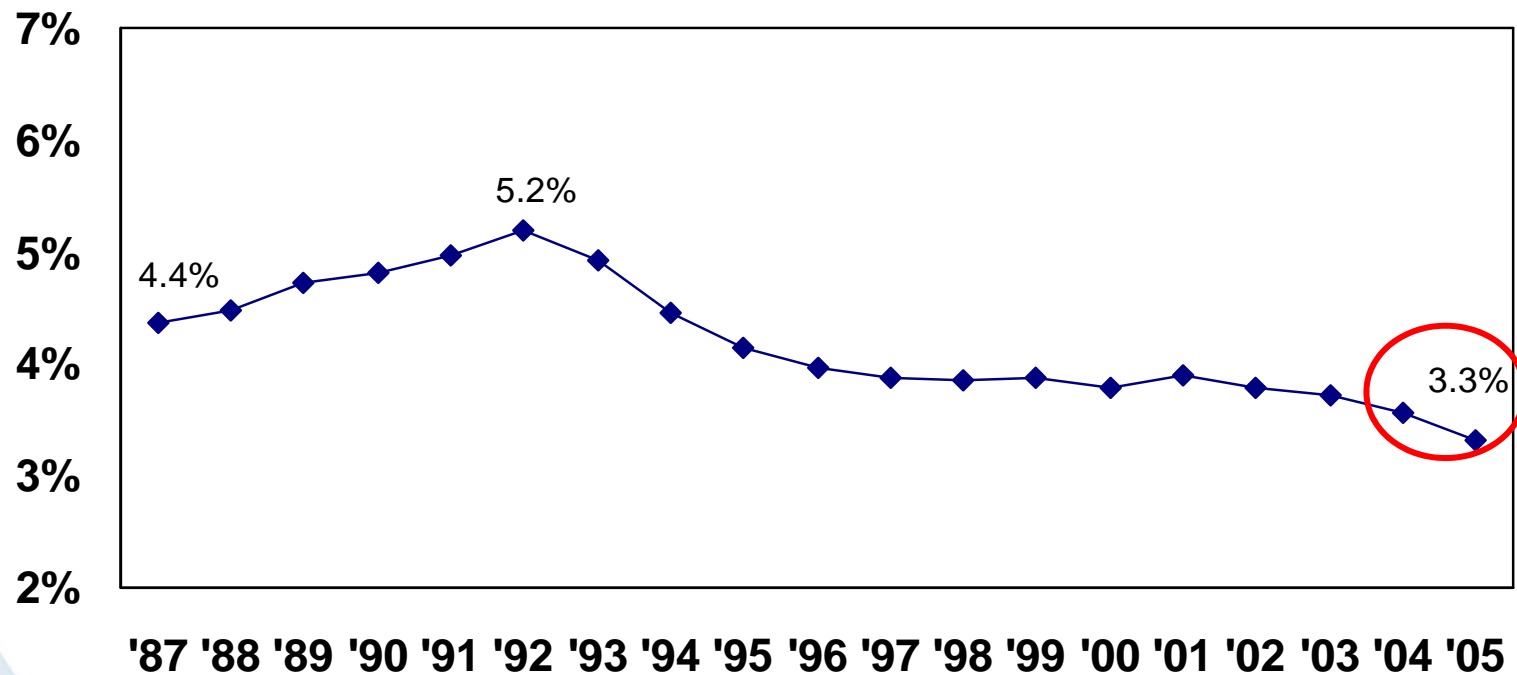
**Total Medical Benefits Under Workers Compensation Are Modest Compared to US Medical Care Spending
Millions of Dollars**



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)

And the **WC Share** Actually Is Shrinking

Medical Benefits Paid Under Workers Compensation Have Been Declining as a Share of Medical Care Spending



Sources: National Academy of Social Insurance (NASI); Centers for Medicare & Medicaid Services (CMS)



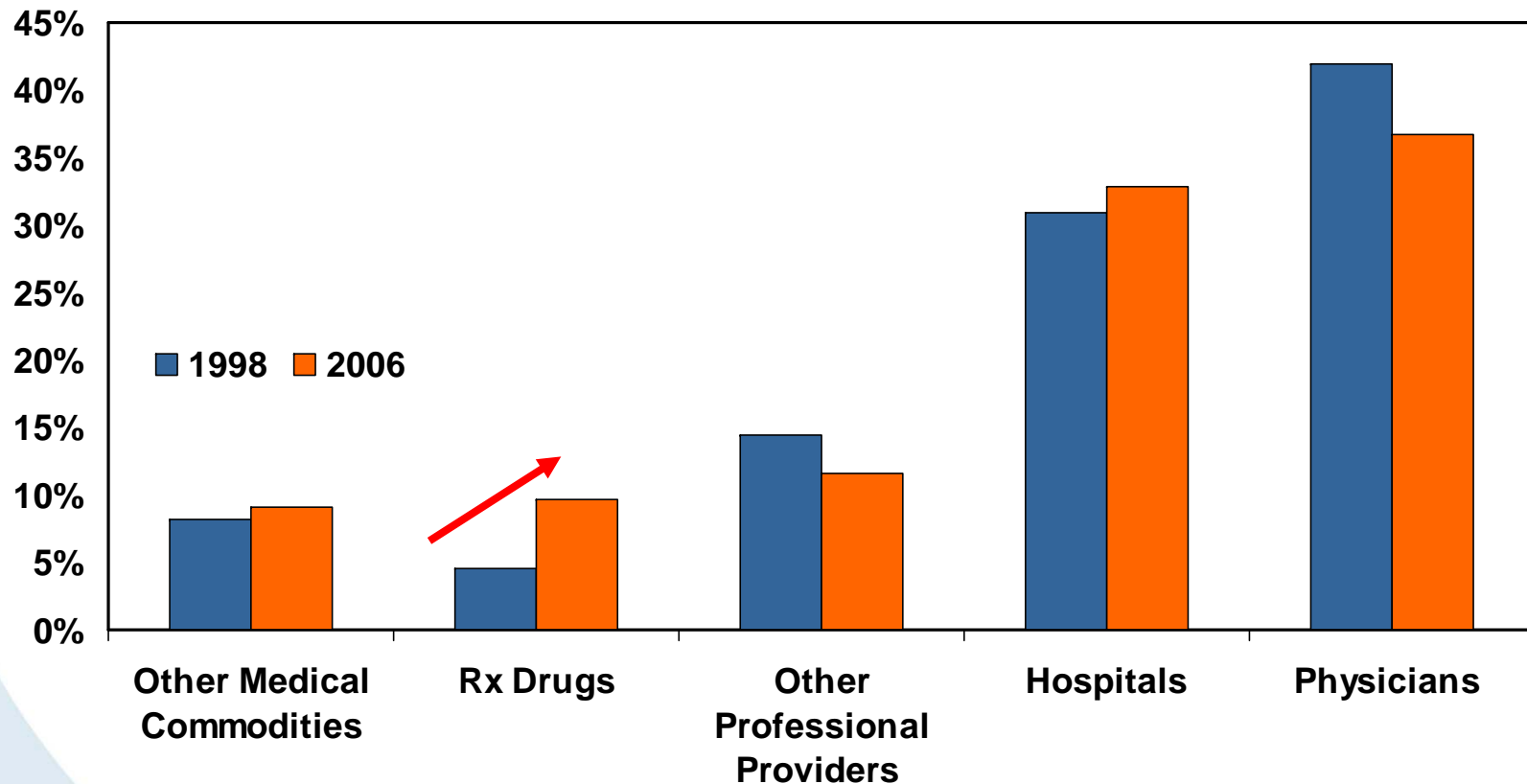
Comparing Where the Medical Dollars Go
And Just How Important
Is Spending on Rx Drugs?

US and Workers Comp



Rx Share of WC Has Doubled Now about 10%

The Share of WC Medical Payments* For Rx Drugs Has More Than Doubled Between 1998 and 2006



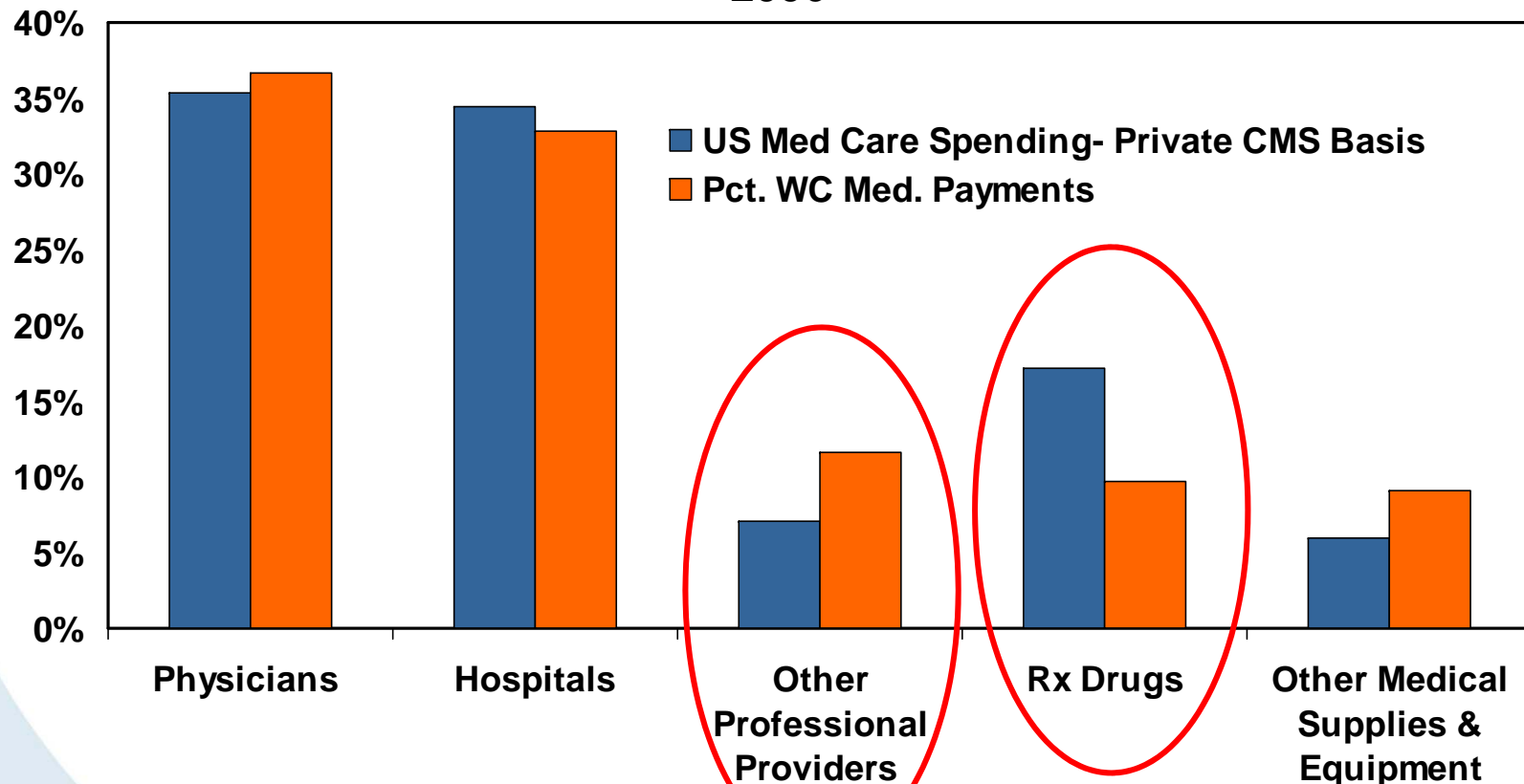
* Percentages based on sum categories shown. Data exclude dentists and nursing homes.

Sources: NCCI



But Rx Share of WC Is Still Lower than the 17% for US Medical Spending

Shares of Spending* for Rx Drugs Are Less for Workers Compensation than for Overall Medical Care Spending
2006



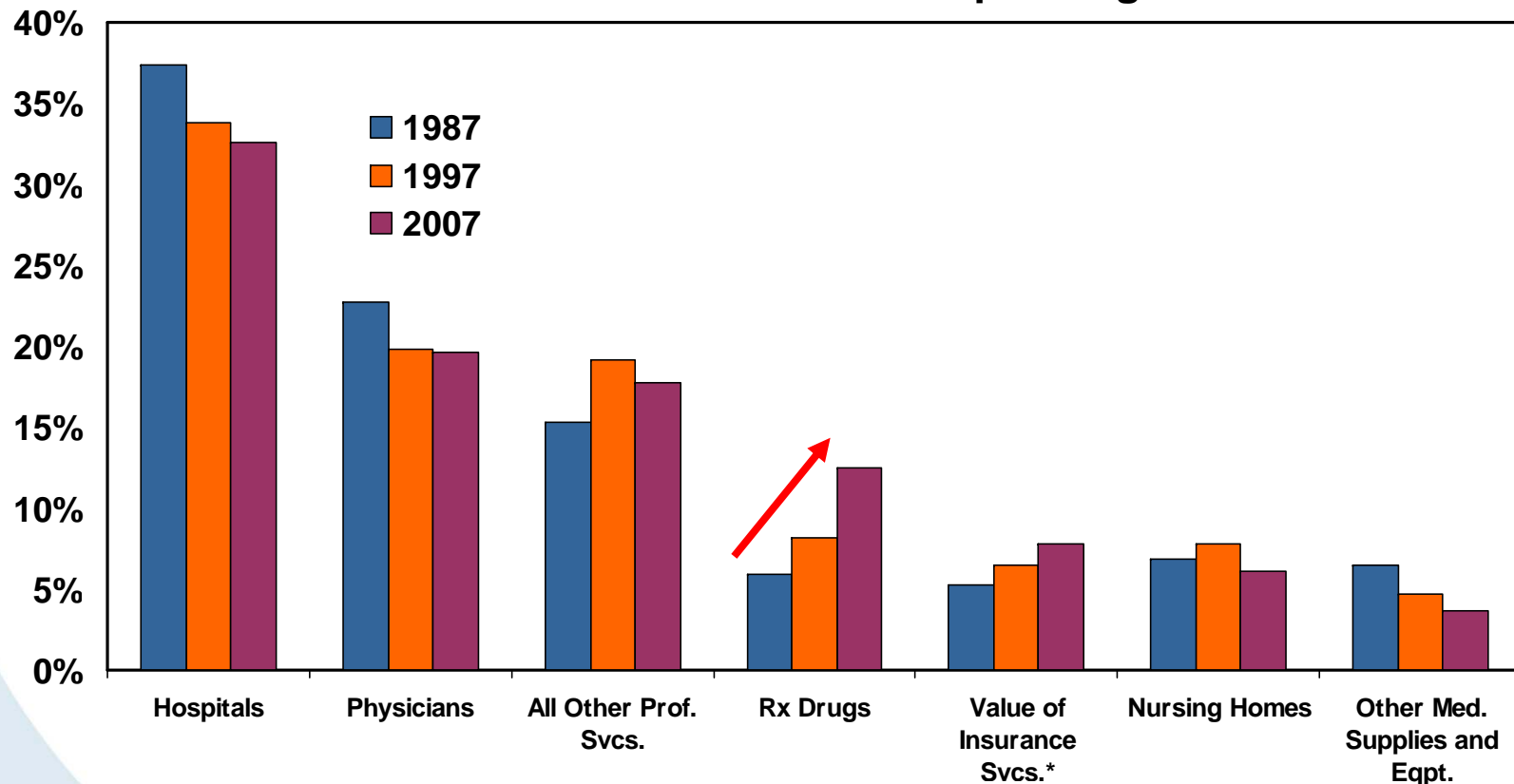
* Workers Compensation percentages based on sum categories shown.
CMS basis excludes Dentists, Nursing Homes, and Ins. Based on "Private" (Excl Medicare and Medicaid).

Sources: NCCI



Even Though **US Spending** on Hospitals and Physicians Remains High—Spending on Rx Drugs Has Been Growing

Hospitals and Physician Services Account for Roughly Half of Total Medical Care Spending



* Direct premiums plus investment income minus sum of normal losses (based on historical experience) and policyholder dividends.

Source: U.S. Bureau of Economic Analysis (components shown add to 100%)

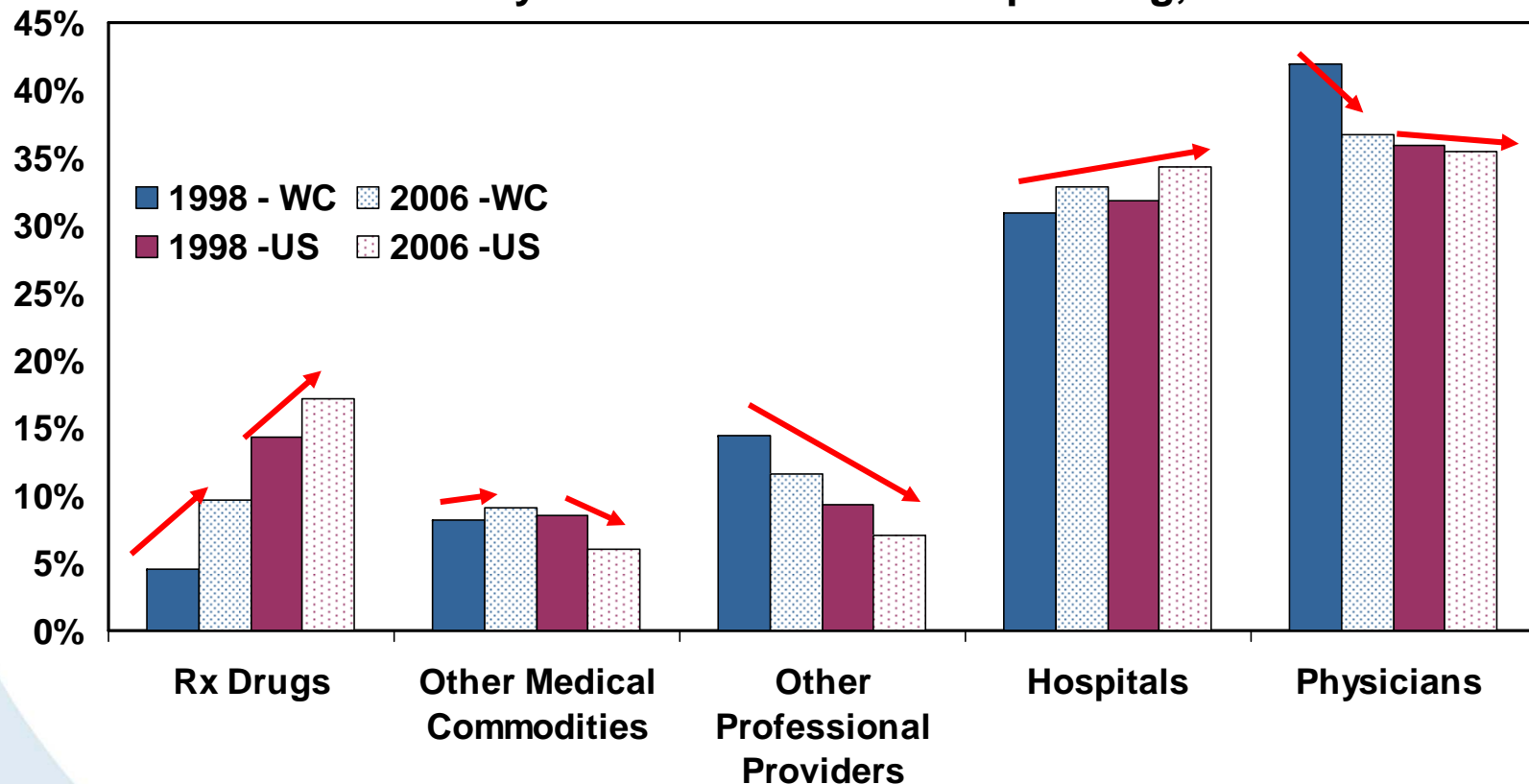


The Pattern of Changes in Medical Spending in the US Generally and in WC Are Markedly Similar

Rx Up and Other Professional Services (esp. PT) Down

Shifts in Shares of Medical Payments and Spending Have Been Most Apparent for Prescription Drugs

Shares of WC Med Payments and U.S. Med. Spending, 1998 and 2006



Percentages based on total payments and spending for Rx drugs, other medical equipment and supplies, physician services, services for other healthcare providers, and hospital services. Excludes dentists and nursing homes.

US data excludes spending funded by Medicare and Medicaid.

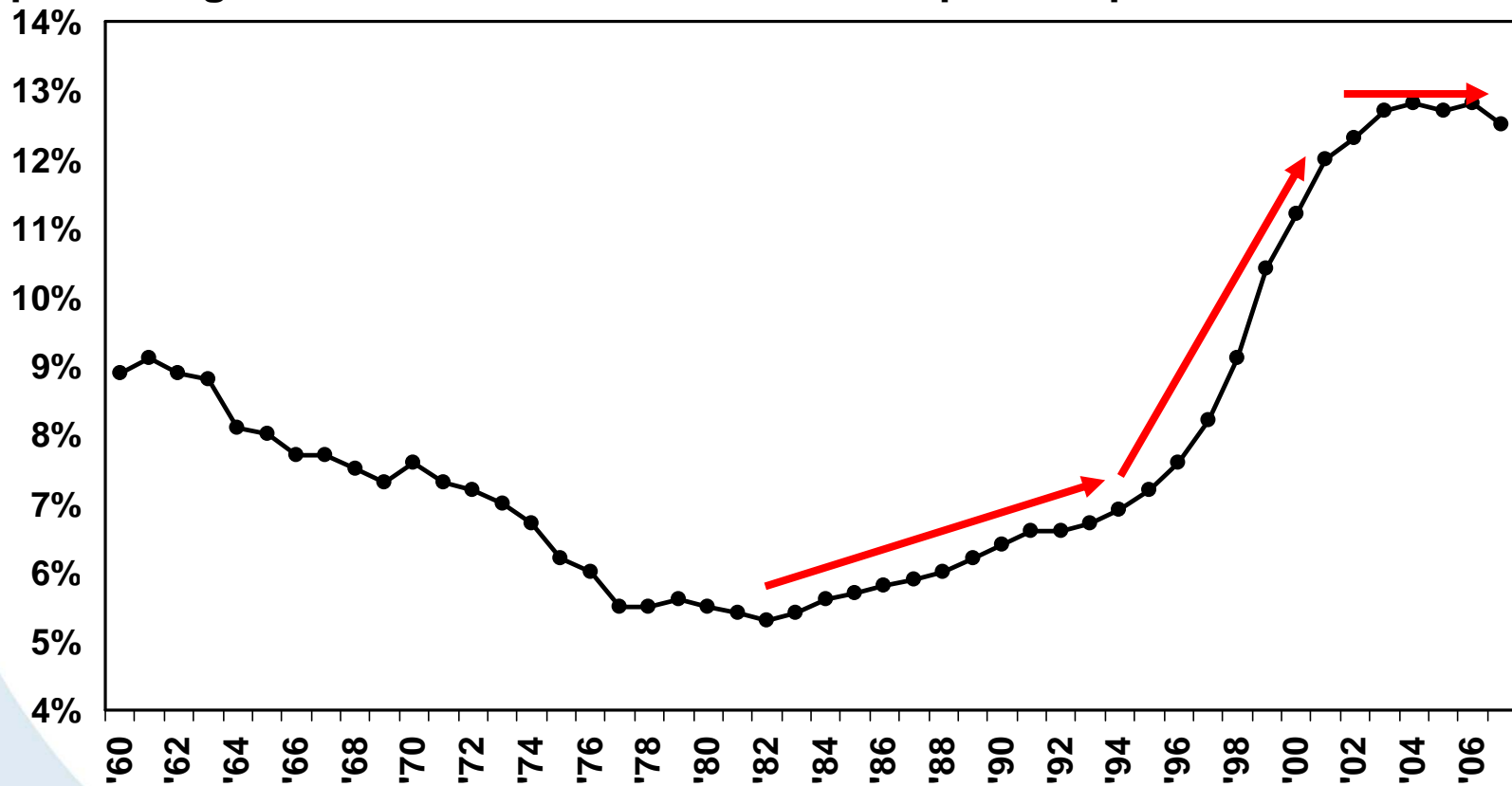
Source: Workers Compensation (WC)—NCCI; US—Centers for Medicare and Medicaid Services



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The Rx Share of US Medical Spending Has Levelled Off—What Might This Mean for WC?

The Rx Drug Share has Plateaued After a Sharp Run-Up in the 1990's
Prescription Drug's Share of Total Personal Consumption Expenditures for Medical Care

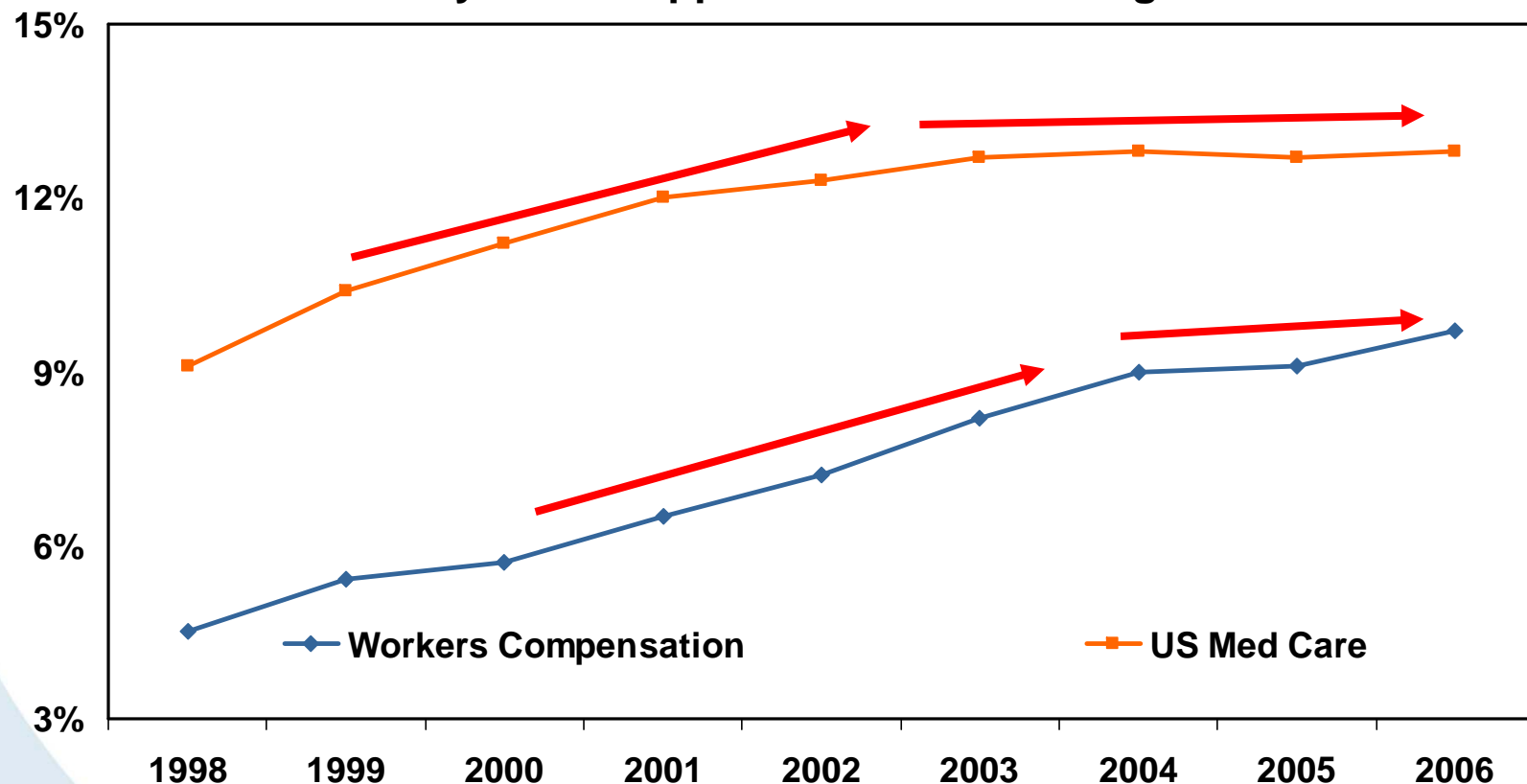


Source: U.S. Bureau of Economic Analysis



There Are Early Signs of a Leveling Off of the Share of Rx Drugs in WC Medical Spending

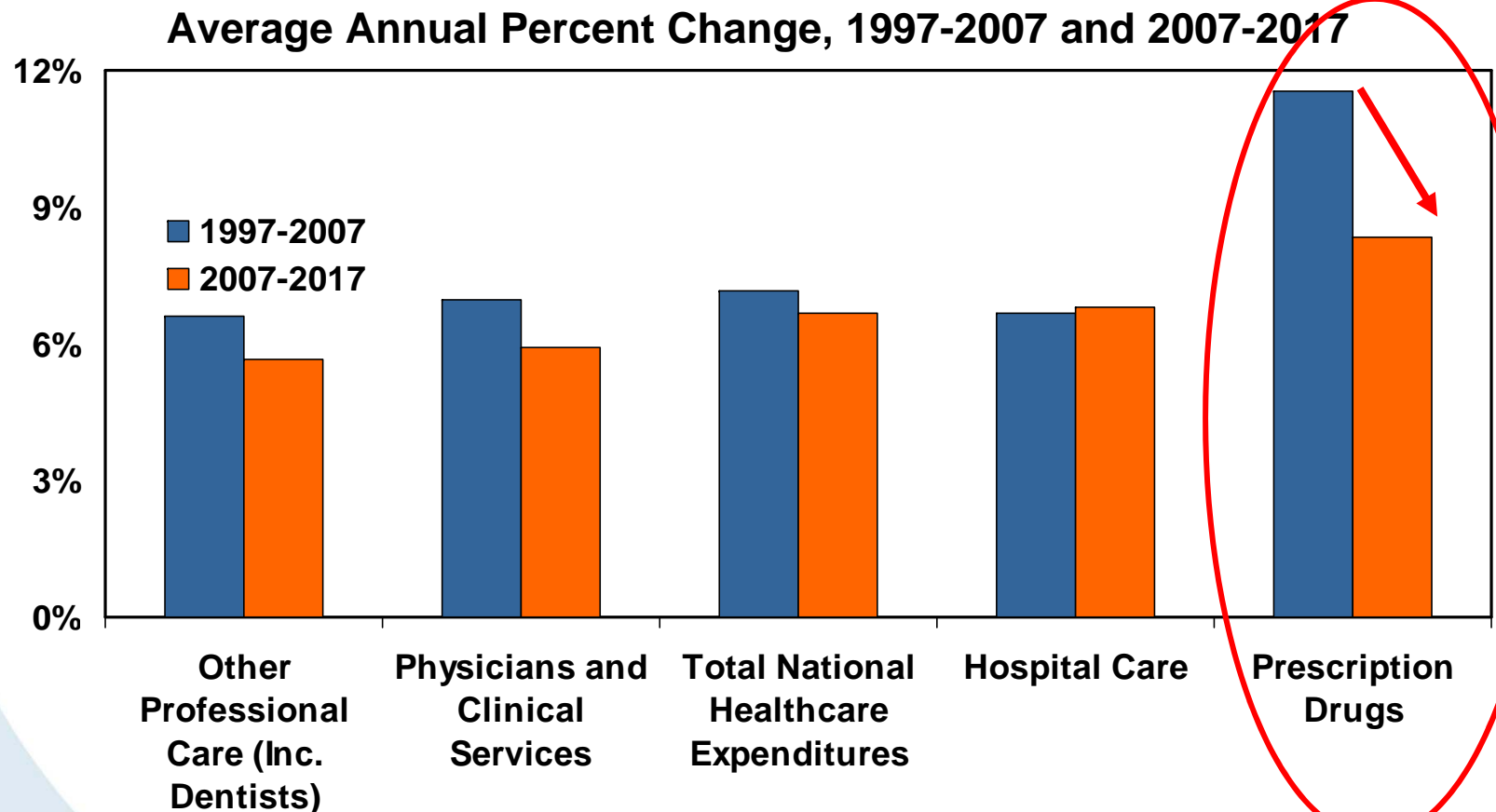
After Rising Rapidly, the Prescription Drug Share of U.S. Med. Spending and WC Med. Payments* Appears to be Plateauing



Source: Workers Compensation (WC)—NCCI; US—Bureau of Economic analysis



And Government Actuaries Are Projecting a Continuing Decline in Rx Share of Medical Spending in the US Generally



Sources: Office of the Actuary, Centers for Medicare and Medicaid Services



Healthcare— Reform/Reform/Reform



Healthcare— Reform/Reform/Reform

What Are the Concerns?



Healthcare Reform—The Concerns

Med is 16% of GDP and growing – 33% by 2050?

According to some this is “unsustainable”

Even though many others claim:

- # 47 million uninsured – is unacceptable
- # Higher infant mortality – is disturbing
- # Lower Life Expectancy – is disappointing



Healthcare— Reform/Reform/Reform

A Closer Look

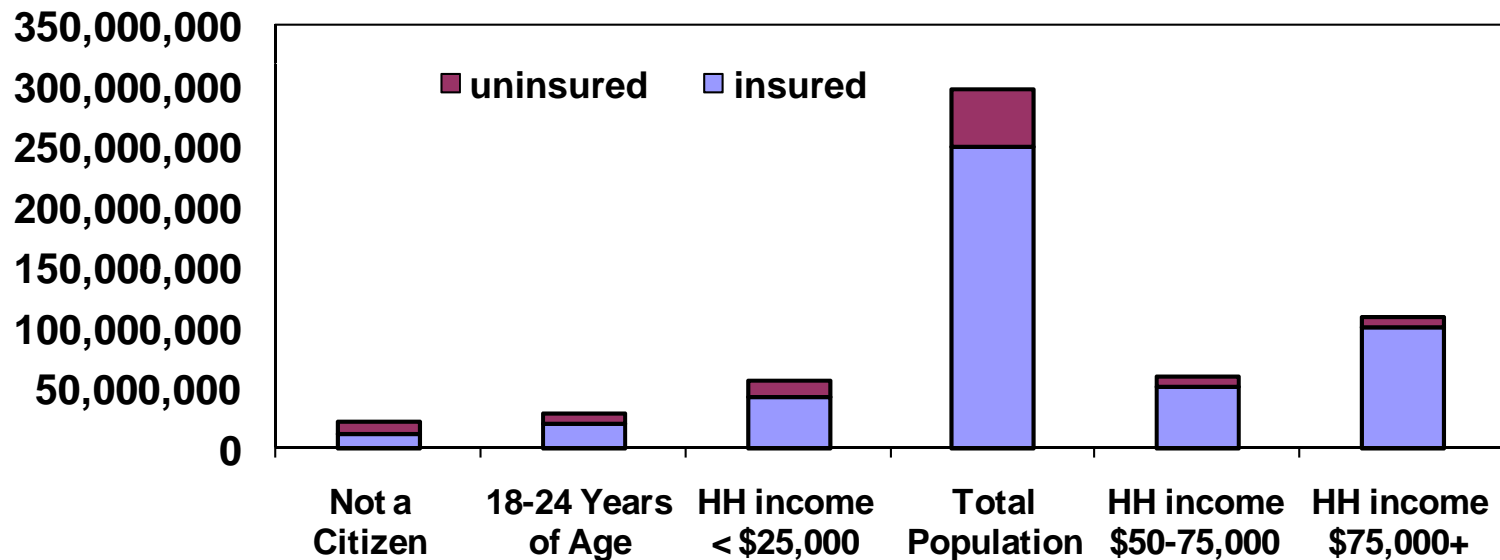


47 Million US Residents Are Uninsured

Who Are They?

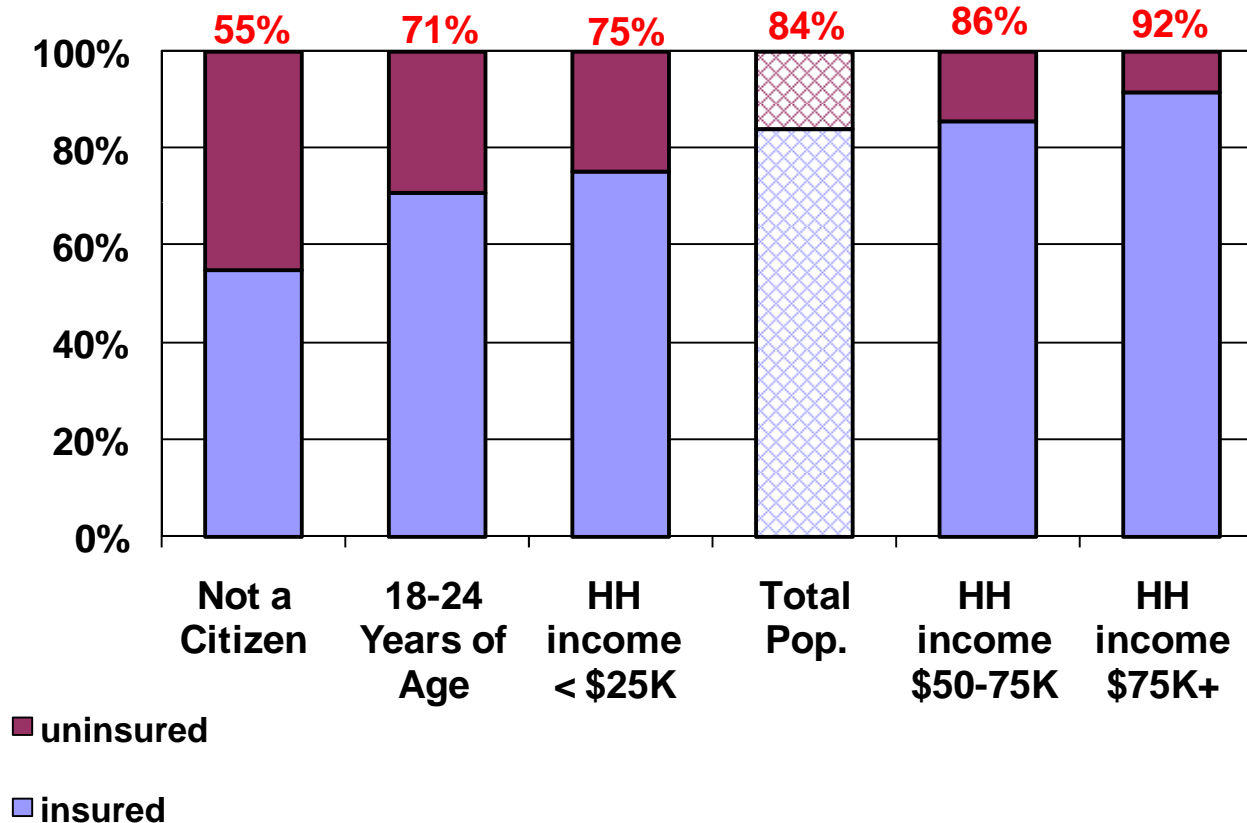
The Poor, the Young & Non-citizens

Who's Uninsured?
The Poor, the Young, Non-citizens
2006



Who Is Insured?

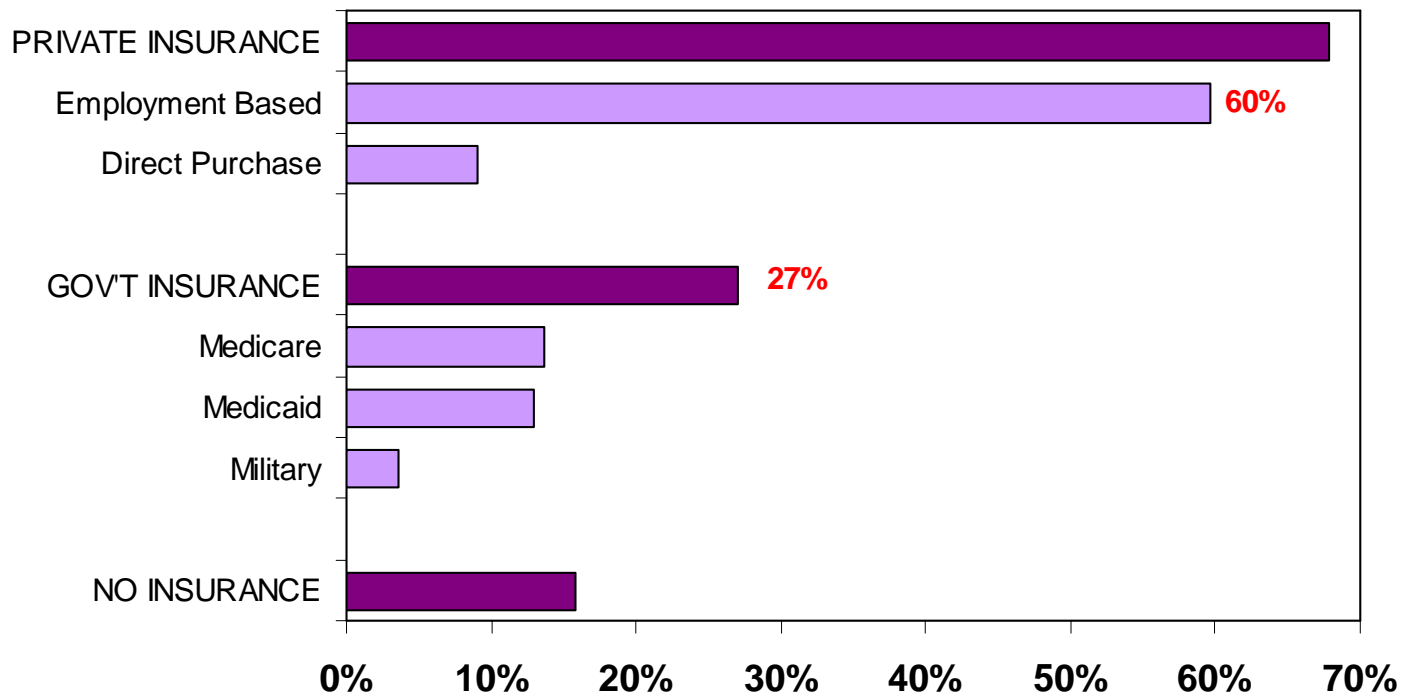
Who's Insured?
A Majority of the Population including Non-citizens
 2006



How Is Healthcare Paid For in the US?

Government Probably Supports More than 70%

Roughly 84% of the U.S. Population Has Some Form of Health Insurance*
Percent, 2006



** These estimates are not mutually exclusive; persons can be covered by more than one type of health insurance during the year*

Source: U.S. Census Bureau.



A Closer Look

Does the US Medical System Under Perform?
- A Comparison with Canada

- # Infant Mortality
- # Life Expectancy



A Closer Look

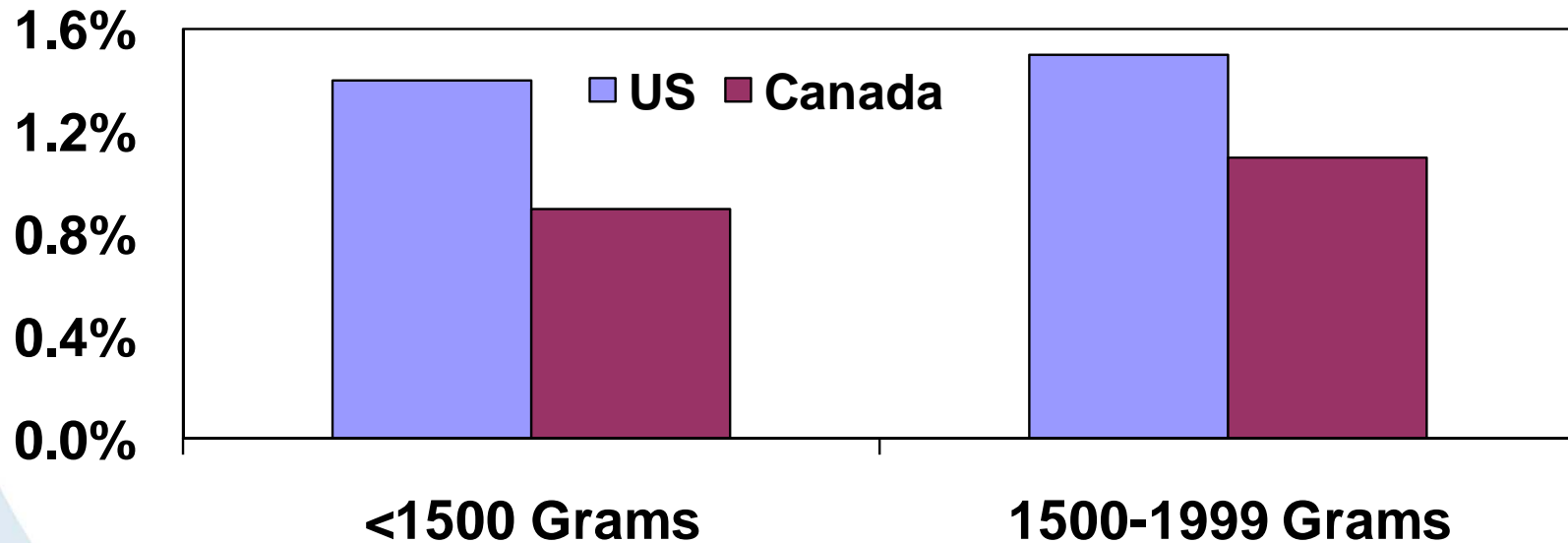
Infant Mortality

Depends on More than Access to Healthcare



The US Has a Substantially Higher Rate of Low-Birthweight Babies

The Percentage of Low-Birthweight Infants is Substantially Higher in the US Than in Canada
Percent of Births for Infants with Known Birthweights

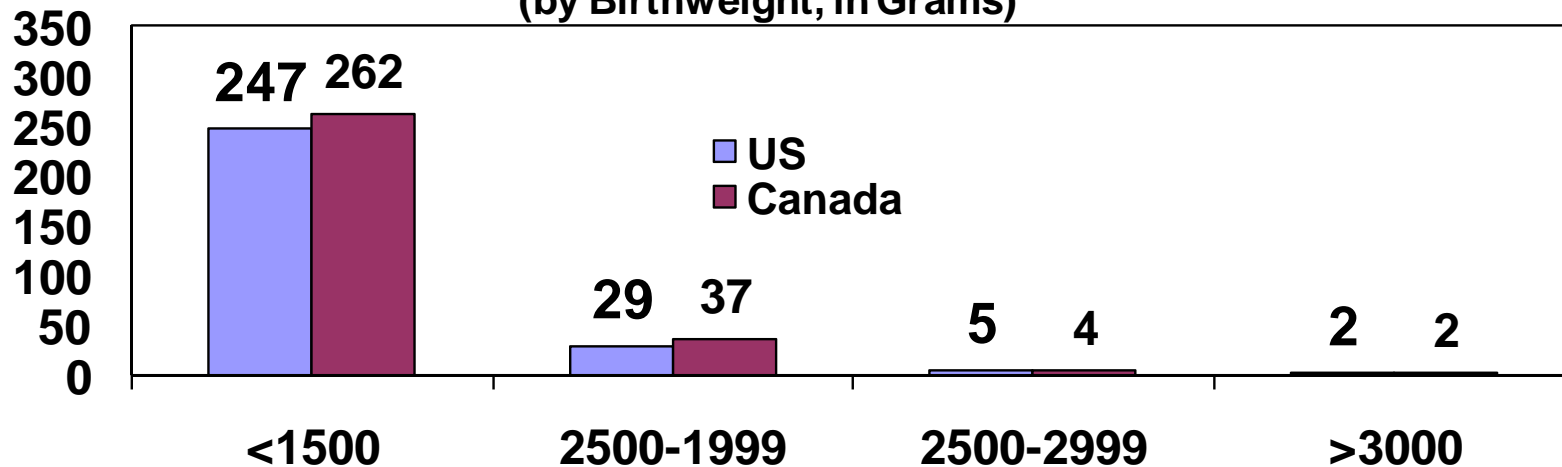


Source: Table 2, "Health Status, Health Care and Inequality: Canada Vs. The U.S.", June E. O'Neill & Dave M. O'Neill, Working Paper 13429, National



This Explains Why the US Has Higher Infant Mortality Rates

**Low-Weight Infants Have Very High Mortality;
US Rate a Bit Less on a Weight-Specific Basis**
Infant Mortality per 1,000 Live Births
(by Birthweight, in Grams)



A Closer Look

Life Expectancy

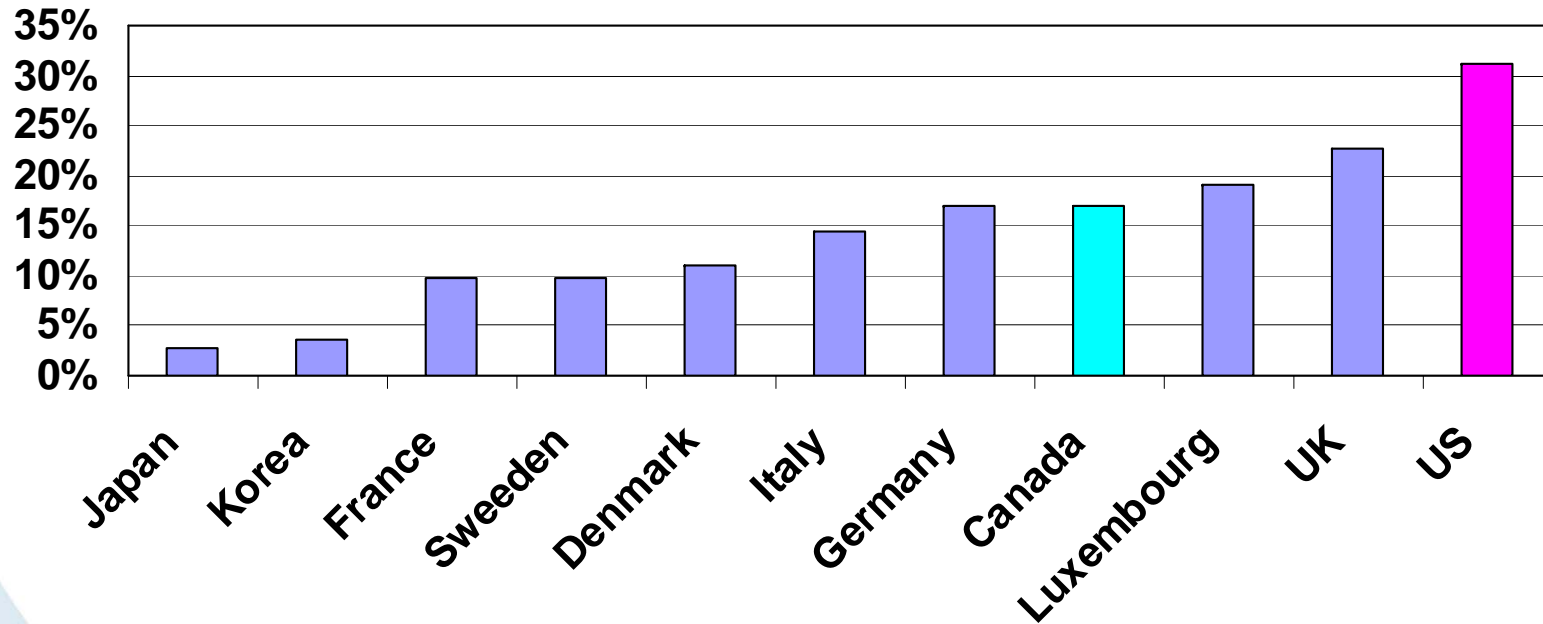
Depends on More than Access to Healthcare



Might the US's High Rate of Obesity Contribute to Lower Life Expectancy?

The US's Obesity Percentage Is Well Above That of Canada and Other Nations

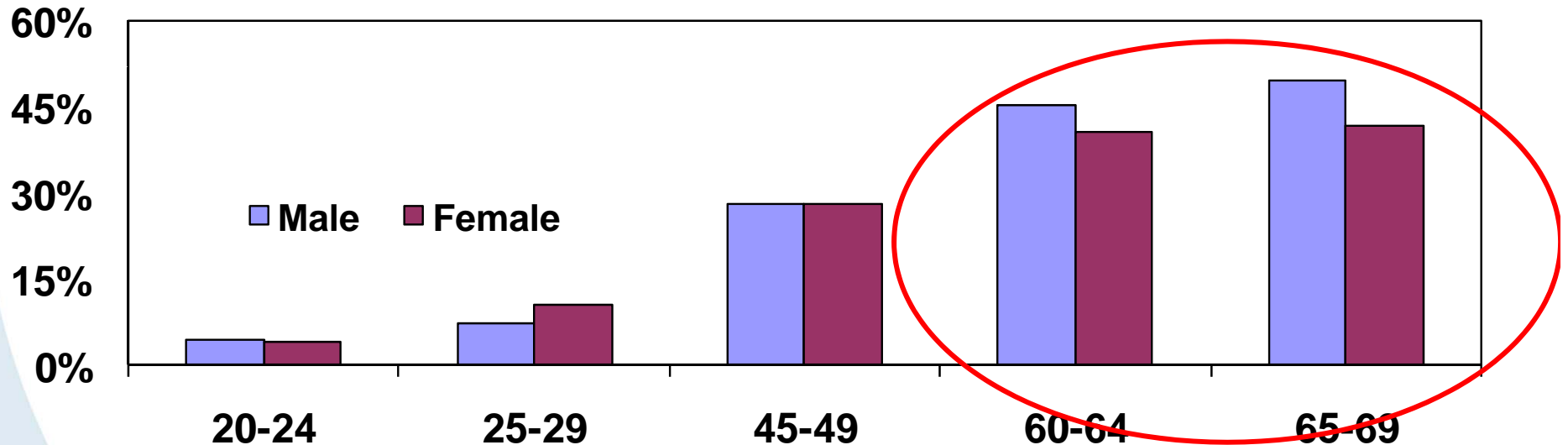
Percent of Male Population with BMI of 30 or More



It Likely Plays a Role in the Death Rates Due to Heart Disease

Nearly Half of the Mortality Rate Difference Between the U.S. and Canada for Older Persons is Due to Diseases of the Heart

Percent of Mortality Rate Difference (US-CAN) Due to Diseases of the Heart

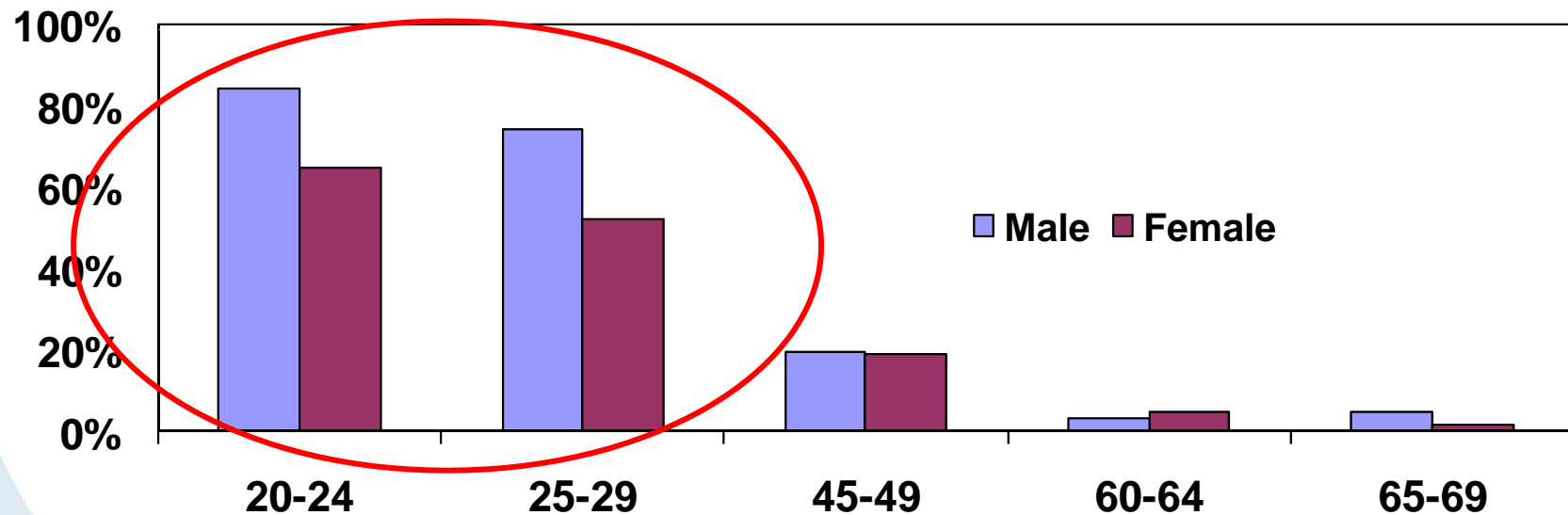


Source: Table 4, "Health Status, Health Care and Inequality: Canada Vs. The U.S.", June E. O'Neill & Dave M. O'Neill, Working Paper 13429, National Bureau of Economic Research, September 2007



And Homicides and Accidental Deaths Are a Big Factor in the Higher Mortality Rates of Young Americans

More Than 80% of the Difference in Mortality Rates Between the US and Canada for Younger Men Is Due to Homicides and Accidents



Source: Table 4, "Health Status, Health Care and Inequality: Canada Vs. The U.S.", June E. O'Neill & Dave M. O'Neill, Working Paper 13429, National Bureau of Economic Research, September 2007



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A Closer Look

Can the US Afford to Spend a Third of It's
GDP on Healthcare in 2050?

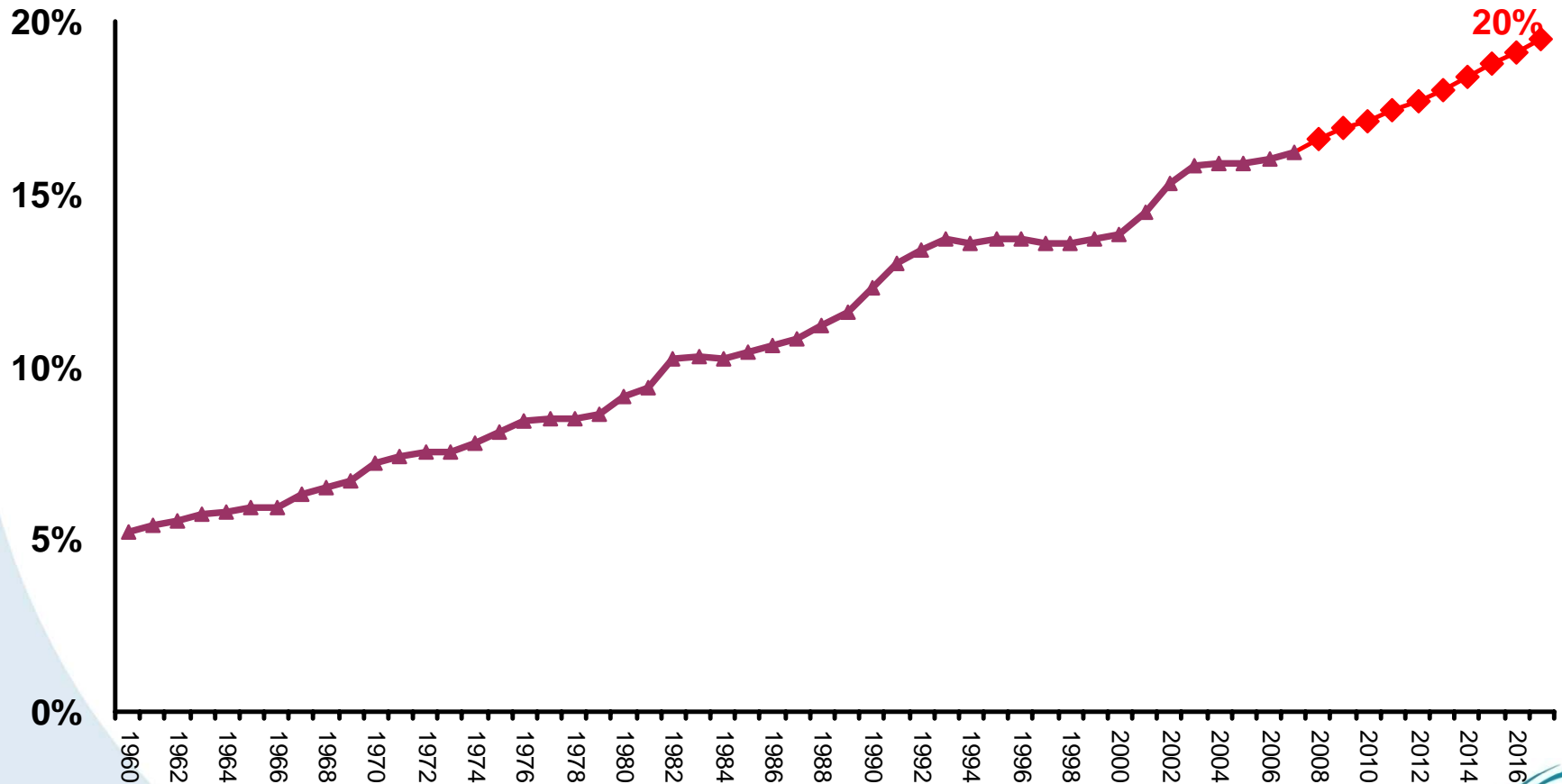
Med is 16% GDP and growing
– 33% by 2050?

Can we afford this?



And This Growth Is Projected to Continue

Healthcare Expenditures as Percentage of Gross Domestic Product (GDP)



Source: Office of the Actuary, Centers for Medicare and Medicaid Services



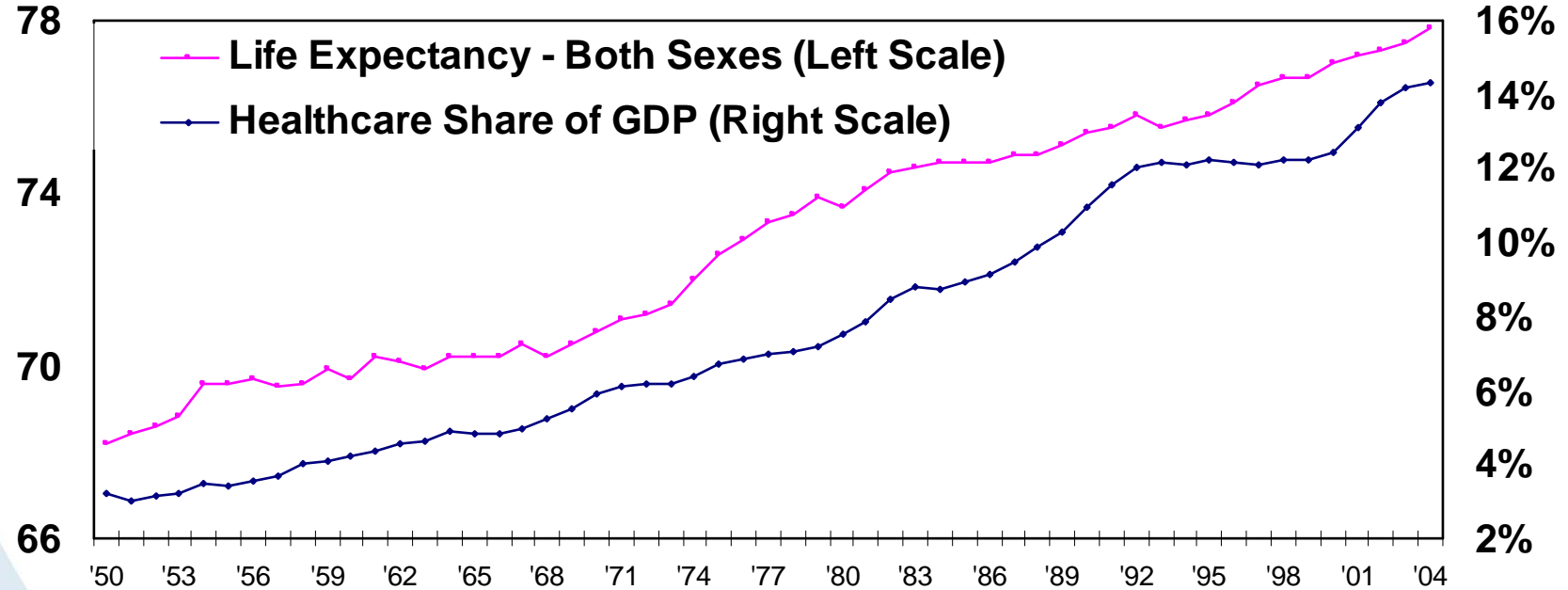
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How Much Healthcare Do We Want?



Rising Healthcare Costs Are Correlated with Increasing Life Expectancy

Could the Increasing Share of Healthcare Spending Be Contributing to the Increase in Life Expectancy?



Sources: Centers for Disease Control and Prevention, U.S. Bureau of Economic Analysis



Healthcare:

- ▣ A “superior” good
- ▣ Technology is adding to higher costs, but people want it

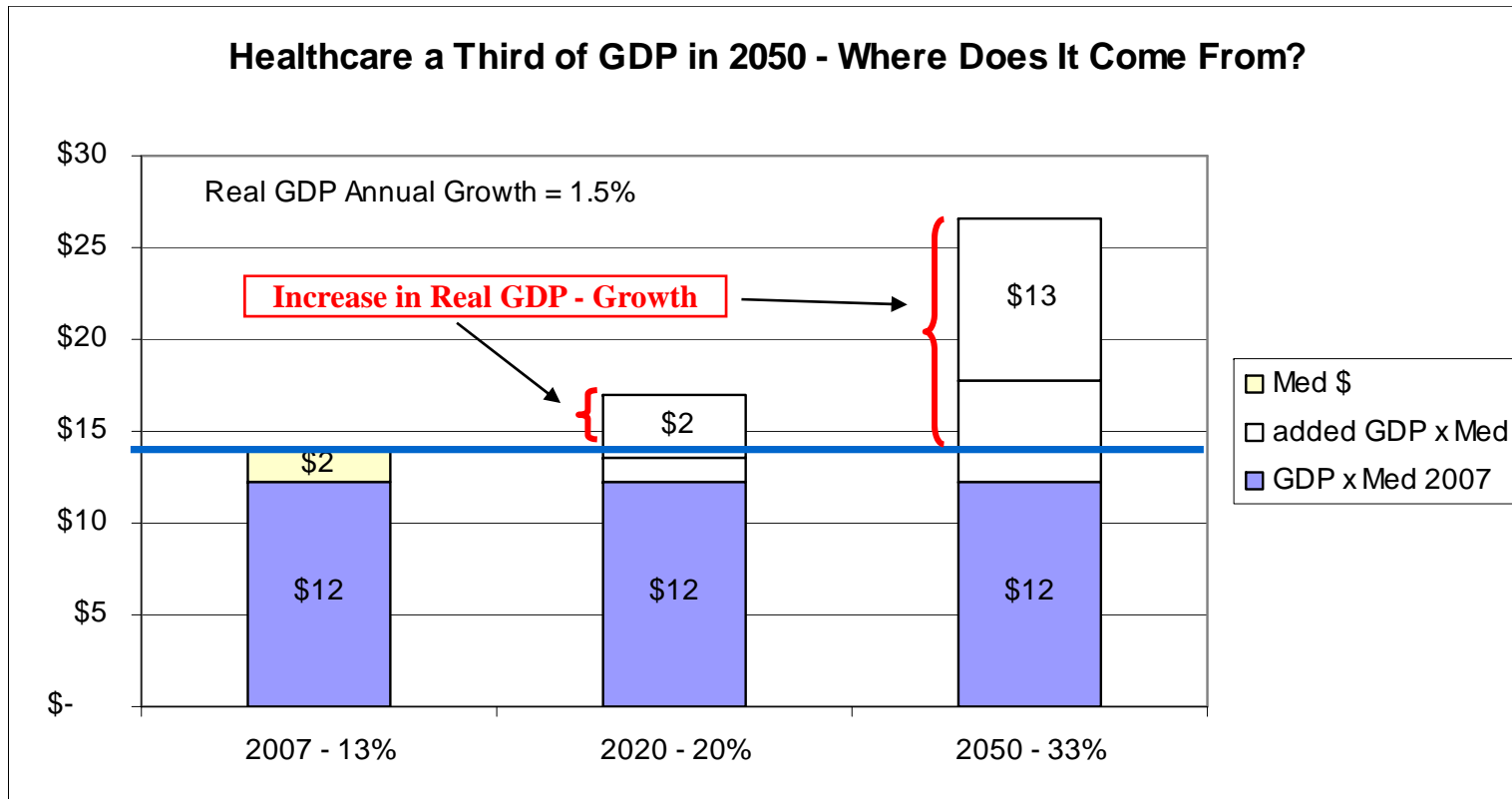


Moral Hazard/Personal Choice as a contributor:

- ▣ Smoking down – a plus
- ▣ Obesity up – arguably because the downside can be managed by medicine
 - hypertension,
 - cholesterol,
 - diabetes



Don't Bet Against the US Economy

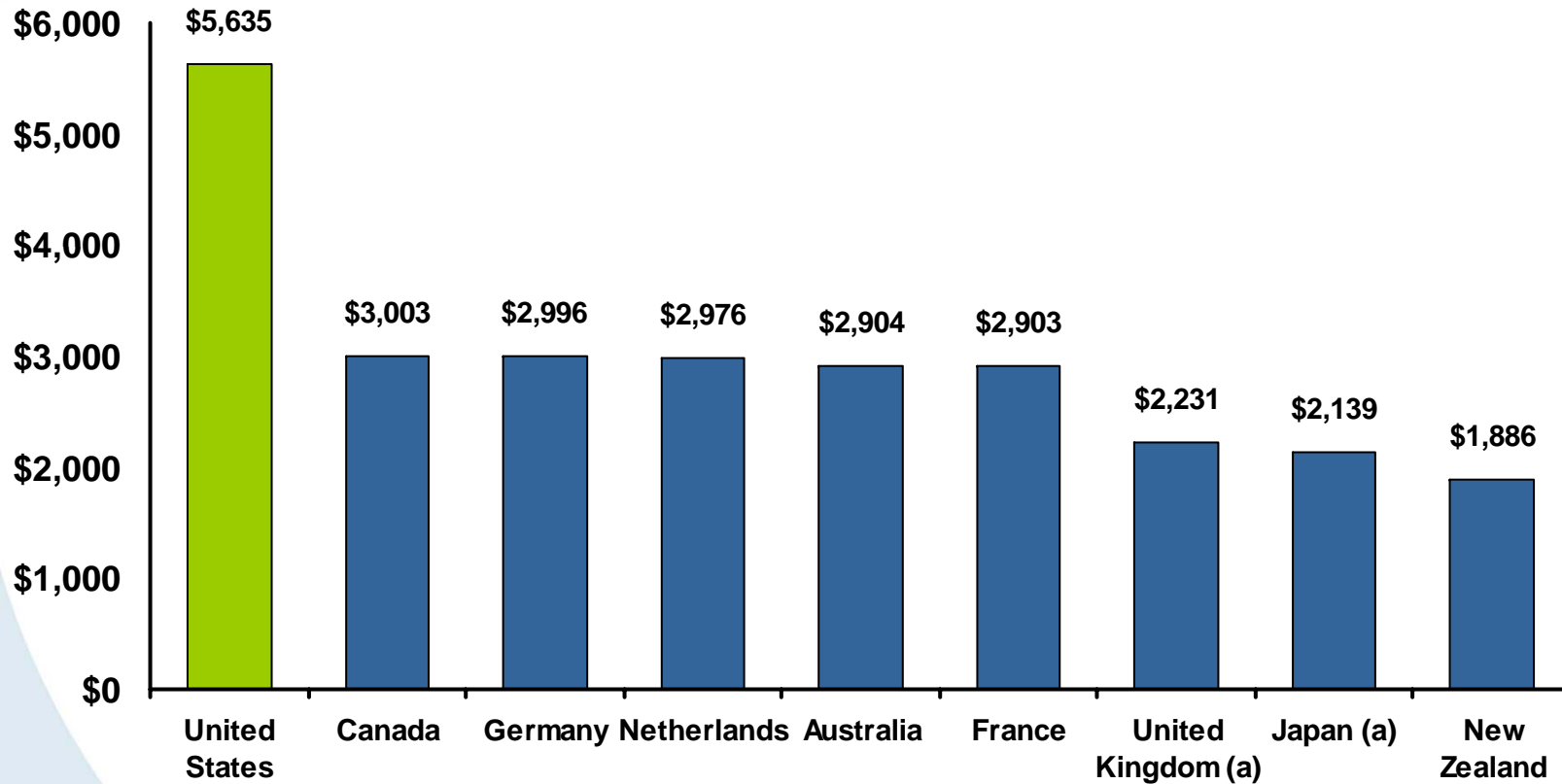


High Costs, Inefficiencies & Misaligned Incentives



United States Is the World Leader in High Cost Health Care

Healthcare Spending per Capita by Source of Funding, Adjusted for Differences in Cost of Living, 2003



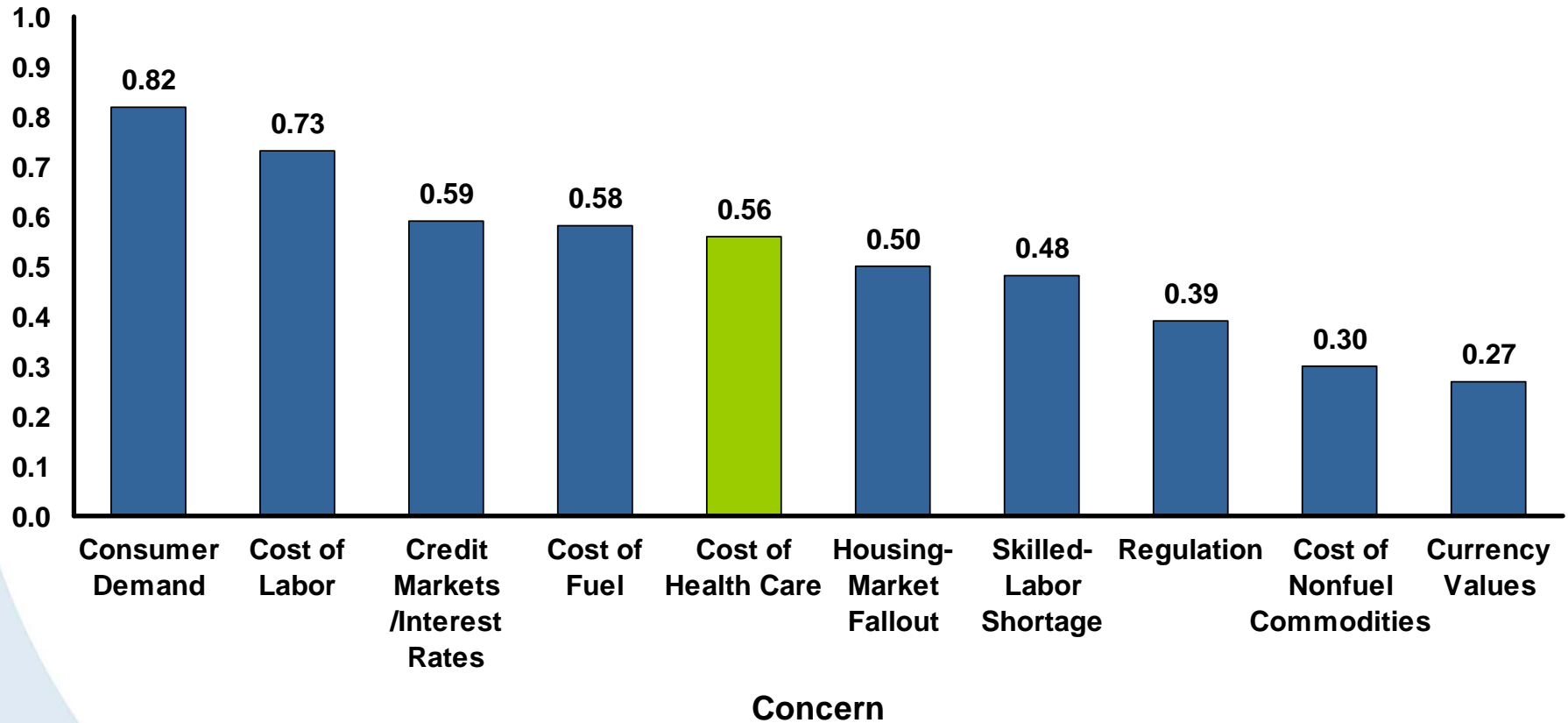
(a) 2002

Source: Multinational Comparisons of Health Systems Data, 2005, The Commonwealth Fund, April 2006



Business Leader Concerns

Average Importance Score, Weighted Average, Concerns of CFOs



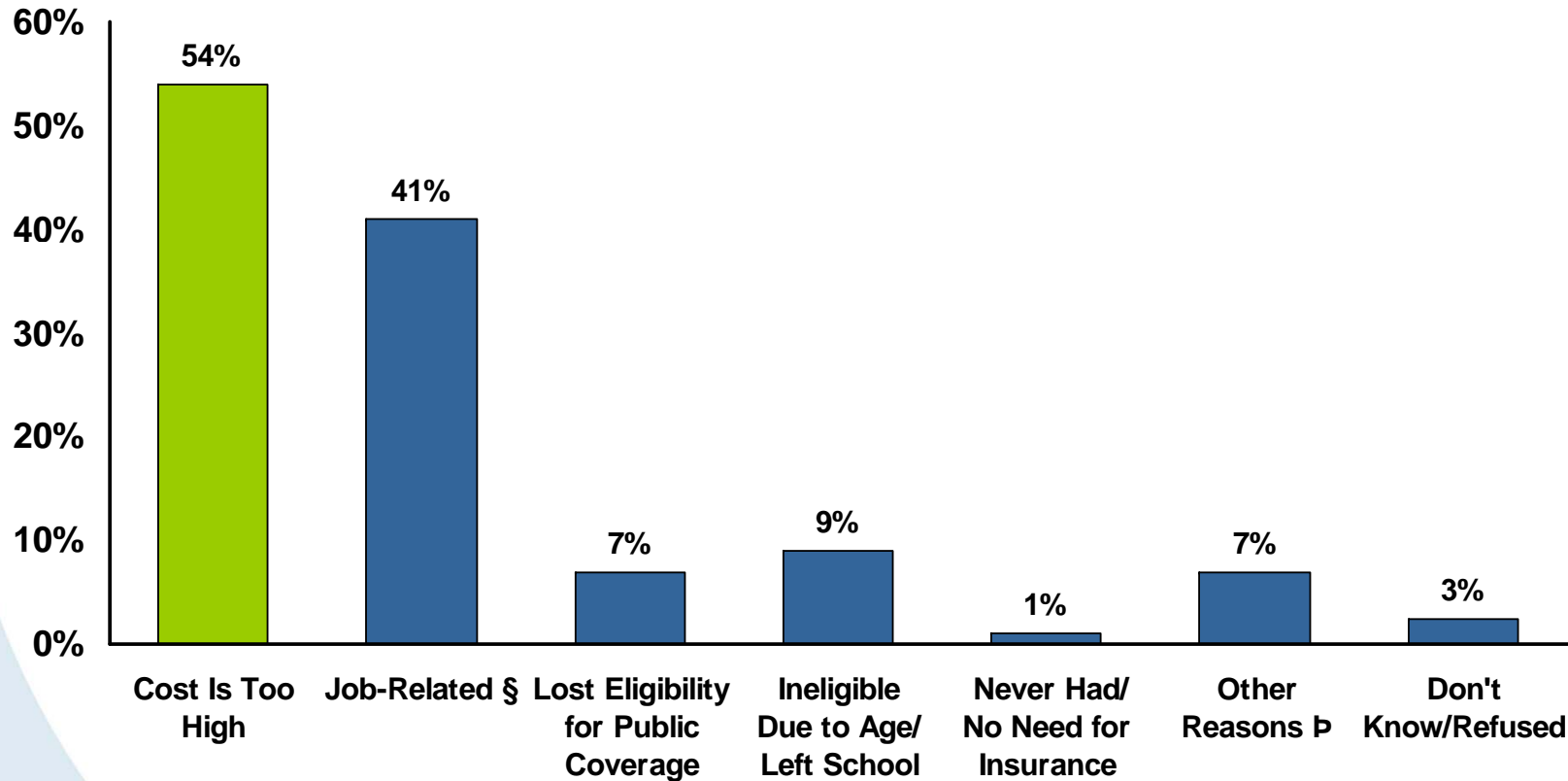
Respondents were asked to rank their top three concerns. The average importance score reflects the weighted average that resulted for each concern.

Source: Duke University/CFO Magazine Global Business Outlook survey as reported in CFO, February 2008, p. 22



High Cost For Individuals, Too

Reasons for Absence of Insurance among Uninsured, Non-Elderly Adults, Percent Reporting Each Reason, 2003/2004



Notes: Reasons are not mutually exclusive; nonelderly adults are age 19–64

§ Job-related reasons include lost job or changed employers, self-employed, employer doesn't offer/not eligible for Employer-Sponsored Insurance (ESI)

¶ Other reasons include moved, got married or divorced, insurance company refused coverage, and other unspecified reasons

Source: Urban Institute analysis of the 2003 and 2004; National Health Interview Survey (NHIS)



Costs, not sustainability is the real issue

- # Market responses are already appearing:
 - ▣ Medical tourism
 - ▣ VIP medical practices
 - ▣ Importing Rx drugs from abroad
 - ▣ Outsourcing radiology interpretation

- # A look at the presidential approaches



Reforming Healthcare in the US

What Is Being Proposed

What Will It Mean for Workers Comp?



Healthcare Reform Proposals: What Are the Key Differences?

Healthcare Reform Proposals: Characterizing the Differences				
	Conservative		Liberal	
Purpose:	Privatization of healthcare market		Comprehensive protection for all	
Goal:	Individual choice in a competitive marketplace		Universal Coverage	
Organization:	More efficient and more affordable private health care insurance market for individuals with government support primarily through tax incentives		Build on existing employer provided and public programs by offering government sponsored programs to achieve universal coverage	



- # Whatever the nature of the ultimate reforms WC is likely to remain responsible for medical costs related to workplace injuries
 - ▣ 1993 Clinton plan – was to be “coordinated” with WC and auto
 - ▣ MA – WC unaffected
 - ▣ Canada – funding of WC medical much like the US



Outlook and Options for Reform



What Are We Doing Now to Contain Costs?

- # How the system works now:
 - ▣ Cost containment via
 - Reimbursement rates/fee schedules
 - Utilization reviews/prior approval
 - ▣ An incentive for providers to do more because can't charge more – increased utilization
 - ▣ System even pays for treating medical provider mistakes



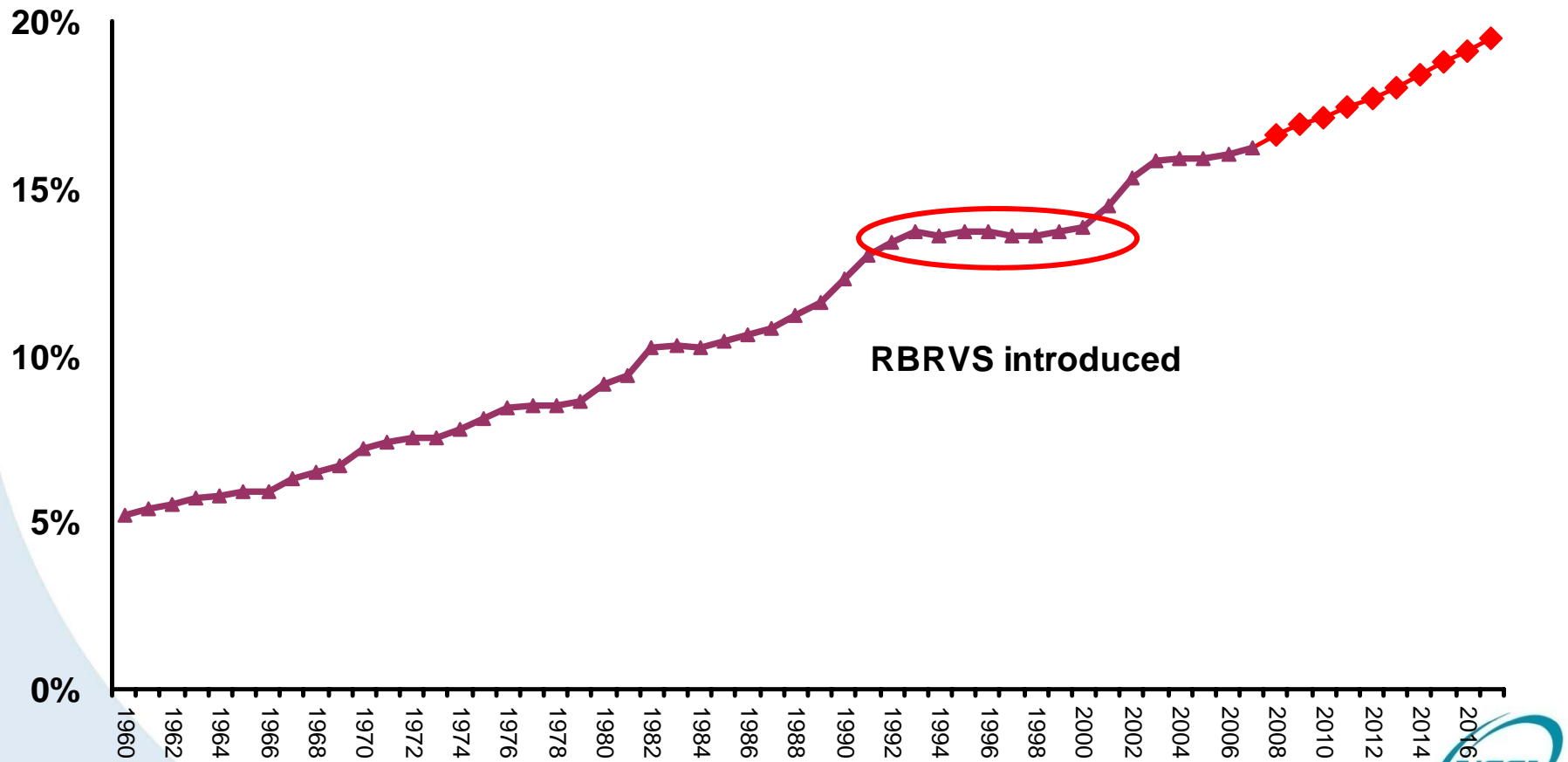
Managing Provider Payments

Resource Based Relative Value System (RBRVS)



RBRVS Eased the Growth in Medical Spending (At Least Temporarily)

Healthcare Expenditures as Percentage of Gross Domestic Product (GDP)



Source: Office of the Actuary, Centers for Medicare and Medicaid Services



Proposed New Approaches to Get the Incentives Better Aligned

- Pay for performance
- Pay per episode
- Evidence-based medicine



Proposed New Approaches to Get the Incentives Better Aligned

Evidence-based medicine

- ▣ Lower back pain – only 15% get a clear diagnosis of why there's pain
- ▣ Use of pain killers as a “treatment”
- ▣ 90% resolve in 6 to 12 weeks regardless of treatment
- ▣ 60% to 70% have a recurrence
- ▣ Build up and maintain core strength



Proposed New Approaches to Get the Incentives Better Aligned

Evidence-based medicine

▣ Pain management

- Early 1990s – docs reluctant to prescribe opiates and other pain management drugs
- “In 1998 and 2004, the Federation of State Medical Boards developed policies ...”
- “one third of state legislatures passed intractable pain treatment acts providing immunity to physicians that treat within the guidelines” (of the license boards)
- Target “outcome” is reducing pain; unintended consequences include addiction, sexual dysfunction, ...



Forecasting the Impact of Proposed and Enacted Reforms



NCCI's Experience

WC vs GH

- ▣ Fee schedules seem to lower costs in WC vs GH
- ▣ Networks help lower reimbursement rates



NCCI's Experience

Utilization: Understanding why medical severity increased 70% in the late 1990s.

- ▣ Not Prices: Increases in WC costs per treatment tracked with the medical CPI
- ▣ Utilization surged: Due to the 35% increase in the number of billed medical treatments



WC and Medical Costs



WC and Medical Reform

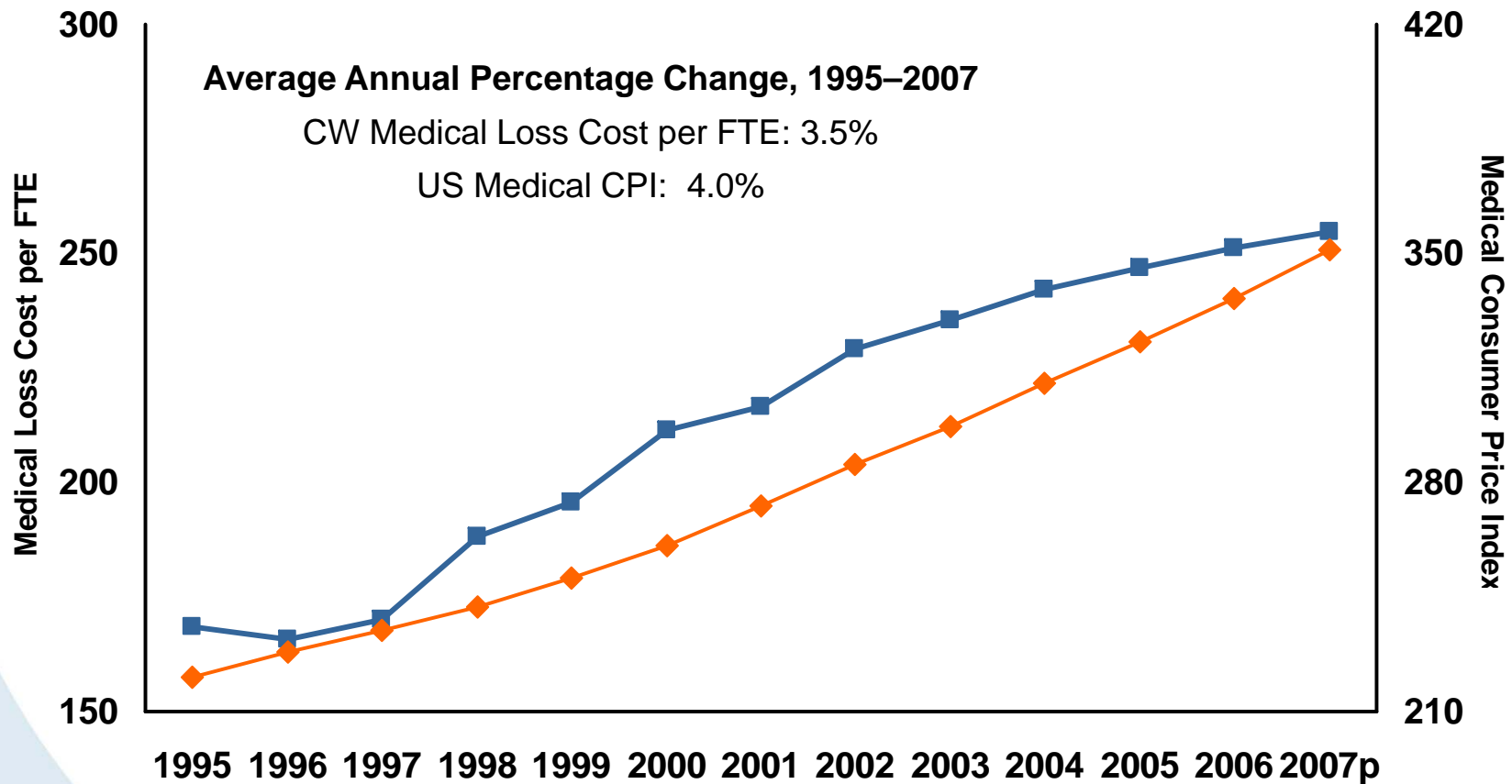
- # Medical trends in WC reflect what has been and what will be happening in healthcare nationally

- # Likely changes to the delivery system:
 - ▣ Evidence based medicine
 - ▣ Pay per episode
 - ▣ Pay for outcomes
 - ▣ Reimbursement schedules



Countrywide Medical Cost per Covered Employee Reflects a Different Pattern

Medical Cost per Claim vs. Medical CPI (1982-84=100)



Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
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Thank You

Questions

