


**Workers Compensation—
State of the Market**
(SESSION WC-3)

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Casualty Actuarial Society
Ratemaking and Product Management (RPM) Seminar
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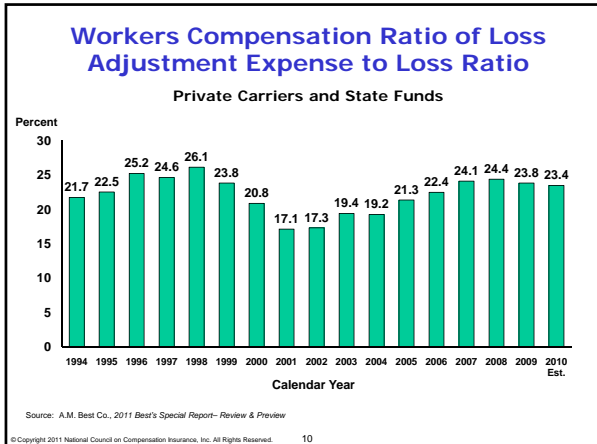
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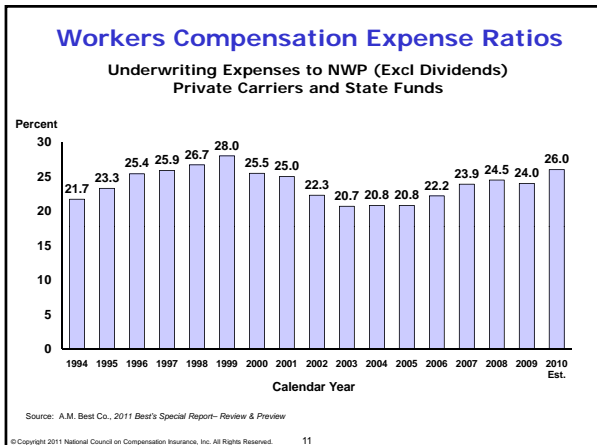
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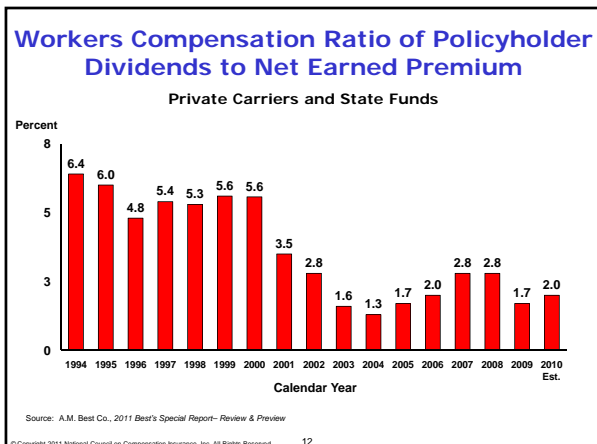
Premium Changes by Line
Net Written Premium by Line—Private Carriers and State Funds

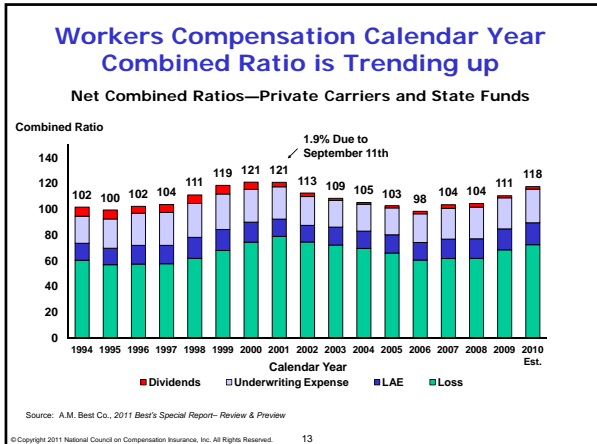
Line of Business	2008	2009	2010 Est.	2009– 2010 Est. Change
Personal Auto	\$158.0 B	\$156.5 B	\$161.2 B	3.0%
Homeowners	\$58.3 B	\$59.5 B	\$63.0 B	6.0%
Other Liability (Incl Prod Liab)	\$42.0 B	\$39.1 B	\$38.7 B	-1.0%
Workers Compensation	\$39.4 B	\$32.6 B	\$30.5 B	-6.5%
Commercial Multiple Peril	\$30.1 B	\$28.5 B	\$28.5 B	0.0%
Commercial Auto	\$23.7 B	\$21.8 B	\$20.6 B	-5.5%
Fire & Allied Lines (Incl EQ)	\$24.2 B	\$23.4 B	\$23.8 B	2.0%
All Other Lines	\$64.4 B	\$57.2 B	\$54.4 B	-4.9%
Total All Lines	\$440.0 B	\$418.6 B	\$420.8 B	0.5%

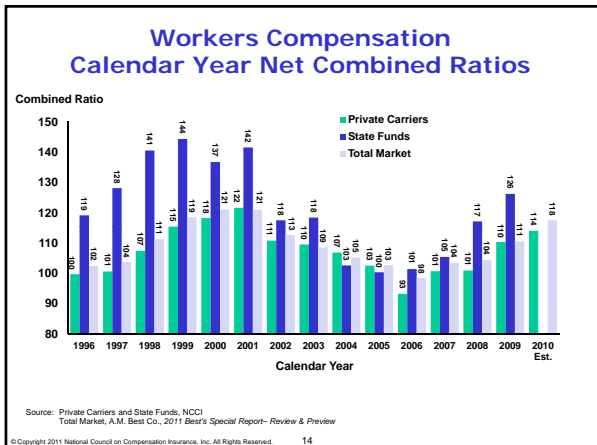
Source: A.M. Best Co., 2011 Best's Special Report—Review & Preview
State Funds included in WC are AZ, CA, HI, IL, NY, LA, ME, MD, MN, MO, NM, OR, RI, UT Annual Statements
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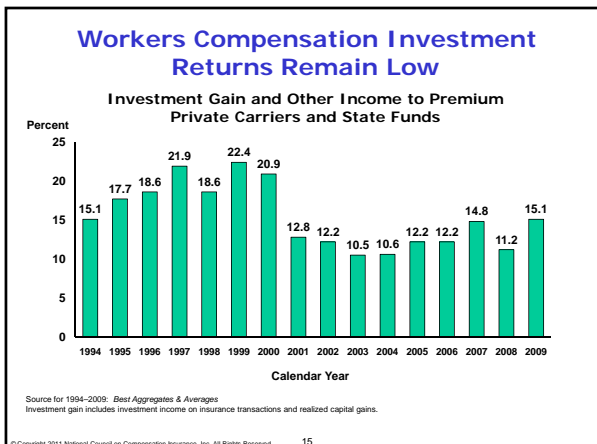


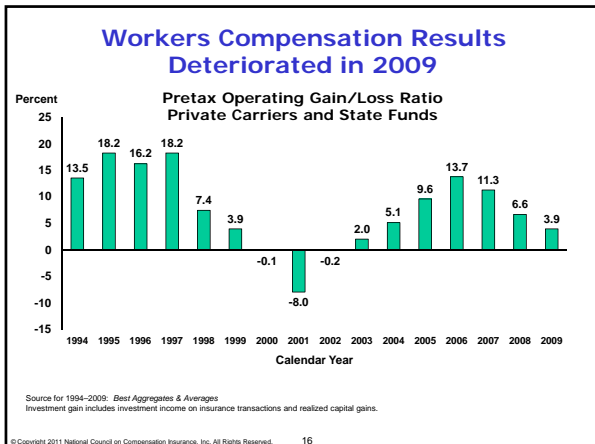


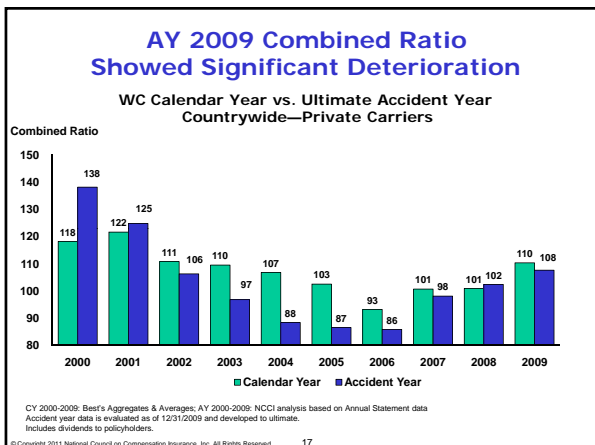




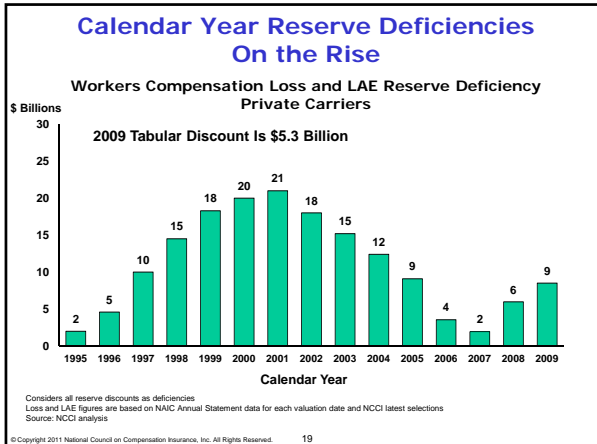


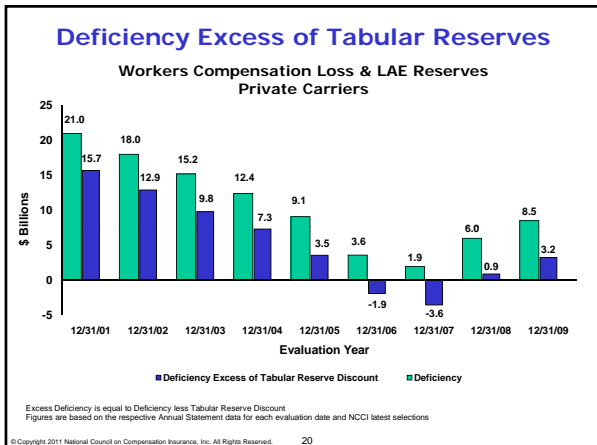


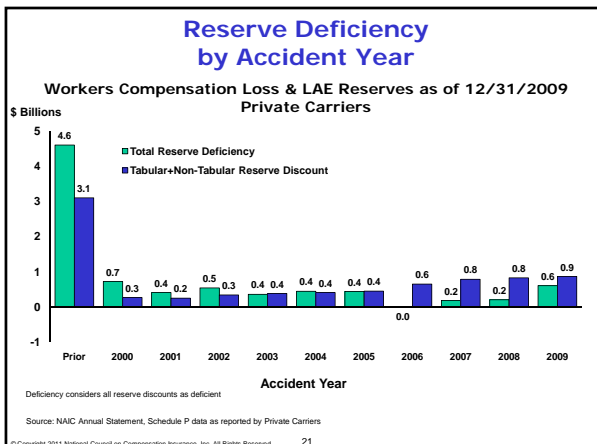


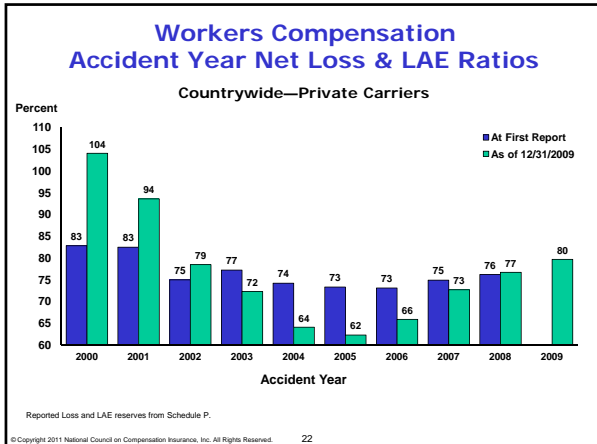


- ### What Have Been The Key Factors Impacting Workers Compensation Results?
- Premium
 - Reserve Levels
 - Economic Downturn
 - Loss Severity Trends
 - Frequency Trends
 - Investments
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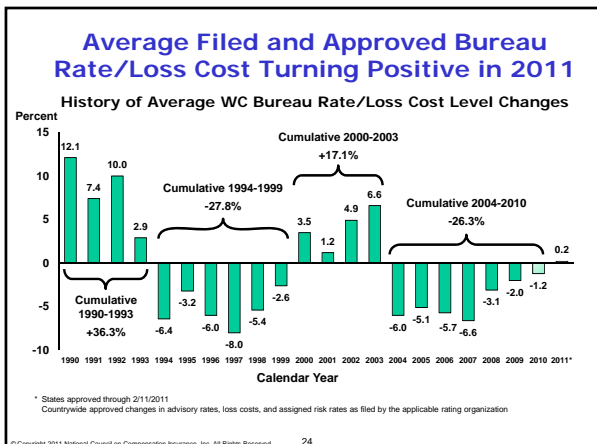


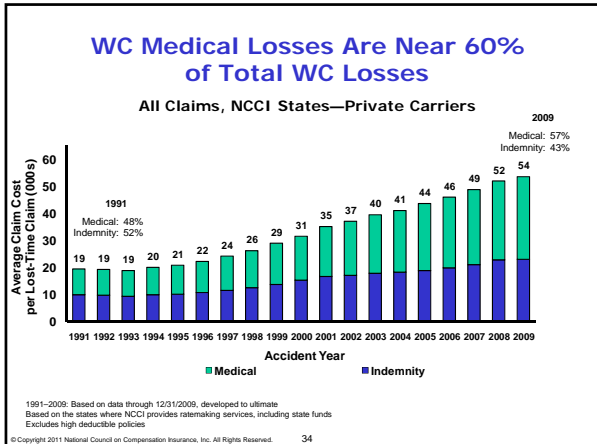


How Are Final Workers Compensation Premiums Determined?

<p>ADVISORY ORGANIZATION</p> <ul style="list-style-type: none"> Advisory Loss Costs Assigned Risk Rates Experience Rating Values Experience Mods Rating Plans and Classifications 	<p>INSURANCE COMPANY</p> <p>Final Rate Determination:</p> <ul style="list-style-type: none"> - Expense Multiplier - Loss Cost Deviations <p>Individual Risk Modifications:</p> <ul style="list-style-type: none"> - Schedule Rating - Retrospective Rating
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The Impact of Inflation is More Sensitive on Excess Policies

	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>
Gross Loss	\$360,000	\$385,200	7%
Deductible	\$250,000	\$250,000	-
Excess Loss	\$110,000	\$135,200	23%

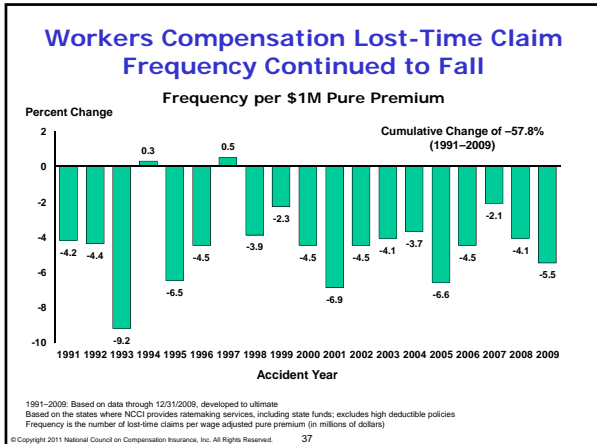
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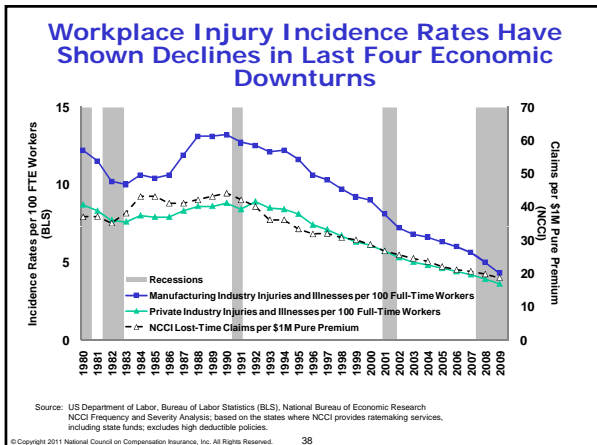
With Medical Technology, How Big Can a WC Claim Become?

- Consider a 25-year old quadriplegic
- Indemnity benefits of \$23,500 a year
- 24-hour attendant care costs of \$135,000 a year
- Other medical costs of \$72,500 a year
- These costs continue until death

Age at Death	Medical Inflation Rate		
	5%	7%	9%
45	\$7	\$8	\$8
60	\$16	\$20	\$27
75	\$33	\$49	\$82
90	\$64	\$118	\$266

\$ amounts are in millions. Attendant care assumed to increase at 3% per year. 36





- ### What Are Key Items in Workers Compensation Today?
- Impact of Economy
 - Underwriting Cycle
 - WC Medical Inflation
 - Reserve Levels
 - Legislative Issues
 - Developments in Ratemaking
 - Implementation of Class Ratemaking Changes
 - Developments in Experience Rating Methodology
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National Health Care Bill
Implications for Workers Compensation Insurance
The Patient Protection and Affordable Care Act*
(as of 12/31/2010)

Direct Impacts

1. Changes to Federal Black Lung Benefit Entitlement Provisions-

- a. Reinstates the 15-year rebuttable presumption of total disability for benefits
- b. Eliminates the requirement to prove that death of miner was due to occupational disease for survivor benefits

2. Changes to Medicare reimbursement levels; potential impacts will depend on:

- a. Potential modifications to Medicare reimbursements
- b. How the states react to those potential changes

*HR3590 as amended by HR4872
**Section 1556: Federal Coal Mine Health and Safety Act

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National Health Care Bill
Implications for Workers Compensation Insurance
The Patient Protection and Affordable Care Act*
(as of 12/31/2010)

Provisions Worth Watching:

- Increased health care coverage in general population
- Wellness initiatives
- Consumer access to more generic drugs
- New taxes on medical devices, pharmaceutical manufacturers, and health insurance companies
- Fraud and abuse provisions

Other Areas of Interest:

- Electronic transaction standards
- Coordination, subrogation, and reimbursement issues
- Medicare as a secondary payer

*HR3590 as amended by HR4872

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Legislative Update
Issues and Trends

2010 Key Themes—Medical Fee Schedule Proposals

- Flat to modest increases for physician fees
- Flat to modest increases to hospital and ambulatory surgical center (ASC) fees
- Repackaged/re-labeled drugs changing from charged amount to percentage of average wholesale price
- Implants going from discount off charges to percentage above actual cost

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**Legislative Update
Issues and Trends**

2010 Key Themes—Indemnity Proposals

- **Permanent Partial Disability Benefit Increases**
 - Maximum weekly benefits (AL, MT, RI)
 - Duration (MT)
 - Elimination of schedule (NM)
 - Other (CO, KY)
- **Other Benefits Increases (IA, KY, NM)**

**Legislative Update
California Court Cases**

- WCAB en banc decisions on Guzman, Almaraz, and Olgilvie court cases impact determination of PPD benefits
- Appeal of Guzman en banc decision affirmed by 6th district
- Still awaiting rulings on appeals of Almaraz and Olgilvie decisions
- These decisions allow more subjectivity in application of impairment guidelines and diminished future earning capacity modifiers used in determination of PD ratings
- WCRIB of California included 5.8% in 1/1/2010 pure premium filing and continued to use this estimate in their 1/1/2011 filing

**Legislative Update
Enacted Legislation**

- **Arizona Med Fee Change, effective 10/1/2010**
 - Change in fees for physicians, overall impact +0.3%
- **Arkansas Med Fee Change, effective 1/1/2010**
 - Change in fees for physicians, overall impact +0.1%
- **Colorado Senate Bill 187, effective 7/1/2010**
 - Eliminates retirement and disability offsets to PPD indemnity benefits, overall impact +0.2%
 - Implements an annual adjustment to the PPD benefit caps, effective for injuries occurring on or after 1/1/2012
- **Colorado Med Fee Change, effective 1/1/2010**
 - Change in physician and outpatient/ambulatory surgical center fee schedules, overall impact +0.6%

Legislative Update

Enacted Legislation (cont'd)

- **Connecticut Med Fee Change, effective 7/15/2010**
 - Change in physician fee schedule, overall impact +0.5%
- **Florida Staffmark Court Decision, 8/12/2010**
 - Apportionment of pre-existing conditions, overall increase expected to be minimal
- **Hawaii Med Fee Change, effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.3%
- **Idaho Med Fee Change, effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.4%
- **Illinois Med Fee Change, effective 1/1/2011**
 - Increase in physician and hospital services, overall impact +0.7%

Legislative Update

Enacted Legislation (cont'd)

- **Kansas Bergstrom Court Decision, 9/4/2009**
 - Eliminates Good Faith requirement, overall impact +0.6%
 - Tyler v. Goodyear (2/26/2010) is related to Bergstrom; whether wage loss is related to injury is inconsequential
- **Louisiana Senate Bill 639, multiple effective dates**
 - Changes to SIF reimbursement thresholds (7/1/2010), eligibility requirements (1/1/2011), and claim acceptance (1/1/2015)
- **Maryland Med Fee Change, effective 1/1/2010**
 - Increase in physicians and ASC Med Fee Schedules, overall impact +0.8%
- **Mississippi Med Fee Change, effective 7/1/2010**
 - Changes to the physician and pharmaceutical fee schedules, overall impact +0.1%

Legislative Update

Enacted Legislation (cont'd)

- **Montana Med Fee Change, effective 1/1/2010**
 - Change in physician and hospital fee schedules, overall impact +0.8%
- **Nebraska Med Fee Change, effective 6/1/2010**
 - Change in physician fee schedule, overall impact -0.3%
- **Nevada Med Fee Change, effective 2/1/2010**
 - Change in physician and hospital fee schedules, overall impact +1.3%
- **New Mexico Med Fee Change, effective 12/31/2009**
 - Change in physician fee schedule, overall impact +1.1%

Legislative Update

Enacted Legislation (cont'd)

- **New York**
 - **Fee Schedule Changes**
 - Inpatient hospital fee schedule enacted Dec, 2009—moved from a Diagnostic Related Group (DRG) basis to a new pricing system reflecting All Patients Refined Diagnostic Related Groups (ARP-DRG)
 - Physician fee schedule for Evaluation & Management services increased 30% effective 12/1/2010.
 - Revised fee schedule for chiropractic services effective 12/1/2010, changing billing to be by modality rather than per visit
 - **7/1/2007 Reforms**
 - Medical treatment guidelines for 4 body parts went into effect 12/1/2010
 - Impairment guidelines being finalized – to be used in determining caps on weeks of benefits for nonscheduled PPD claims
 - **Workplace Safety and Loss Prevention Incentive Program (WSLPIP)**

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Legislative Update

Enacted Legislation (cont'd)

- **Oklahoma House Bill 2650, effective 8/27/2010**
 - Limits the duration of PTD benefits
 - Adjusts the minimum and maximum weekly benefit amounts for scheduled PPD injuries; the latter only for 5 years
 - Amends definition of objective medical evidence
 - Contains numerous other provisions
 - Overall impact -4.5%
- **Oklahoma Med Fee Change, effective 1/1/2010**
 - Changes in physician and durable medical equipment (DME) fee schedules, overall impact +0.2%
- **Oregon Med Fee Change, effective 7/1/2010**
 - Change in physician fee schedule, overall impact +2.6%

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Legislative Update

Enacted Legislation (cont'd)

- **Rhode Island Senate Bill 2083, effective 1/1/2012**
 - Increases minimum and maximum weekly benefits for additional compensation on specified injuries and increases the number of weeks payable for hearing loss; overall impact +1.4%
- **South Carolina Med Fee Change, effective 7/1/2010**
 - Change in physician fee schedule, overall impact +0.5%
- **South Dakota House Bill 1118, effective 7/1/2010**
 - Raises maximum burial expense benefit from \$7.5K to \$10K, overall impact < +0.1%
 - Addresses out-of-state reimbursement rules for medical services, overall impact is minimal
- **Texas Med Fee Change, effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.8%

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Legislative Update

Enacted Legislation (cont'd)

- **Texas Healthcare Certified Networks, 1/1/2011**
 - House Bill 7 (HB 7) required any current healthcare network that provides healthcare services to injured workers to be certified by the Texas Department of Insurance
 - House Bill 473 states that as of January 1, 2011, informal or voluntary networks may no longer be used
- **Utah Med Fee Change, effective 12/1/2010**
 - Change in physician fee schedule, overall impact +0.4%
- **Vermont Attorney Fee Rule 10, effective 6/15/2010**
 - Increase in attorney fee hourly rate and maximum payable, overall increase expected to be minimal
- **Vermont House Bill 647, effective 6/1/2010**
 - Changes in how evidence to discontinue TTD benefits is considered, plus other administrative changes, overall impact is expected to be an increase, but magnitude is not quantifiable

**Legislative Update
Issues and Trends**

2011 Session Overview – First 45 Days

- **Several states proposed comprehensive legislative changes**
 - IL, KS, KY, ME, MT, and OK
- **Legislation to address repackaged prescription drugs**
- **Impact of 2011 Medicare Update**
- **Proposed Implementation of Medical Fee Schedules**
 - ID, IN, MD, and NH

**NCCI Developments in
Ratemaking Methodology**

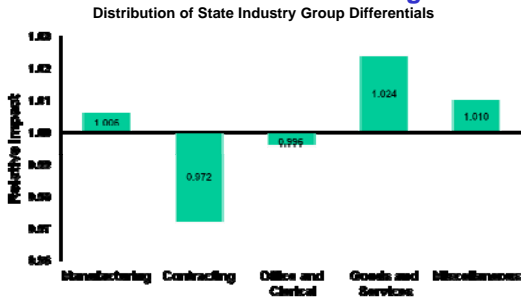
- **NCCI conducted a comprehensive review of all class ratemaking methodologies**
- **Implemented with filings effective October 1, 2009**
- **The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability**
- **The new methodology has been implemented in all NCCI states other than Texas**

**Areas Impacted by
 Class Ratemaking**

- Lower loss limits
- Revised loss development to include body part
- Replaced use of serious and non-serious partial pure premiums with indemnity partial pure premiums
- Revised excess loss treatment to incorporate ELPPFs
- Maintaining industry group differentials
- Adjusted class credibility to accommodate new partial pure premiums

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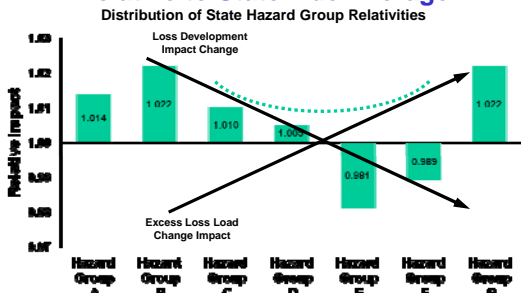
**Industry Group Impact Relative to
 Statewide Loss Cost Changes**



Impact in loss costs relative to statewide average
 Note: Results exclude F-Class codes
 Source: NCCI analysis

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**Hazard Group Loss Cost/Rate Changes
 Relative to Statewide Average**



Impact in loss costs relative to statewide average
 Note: Results exclude F-Class codes
 Source: NCCI analysis

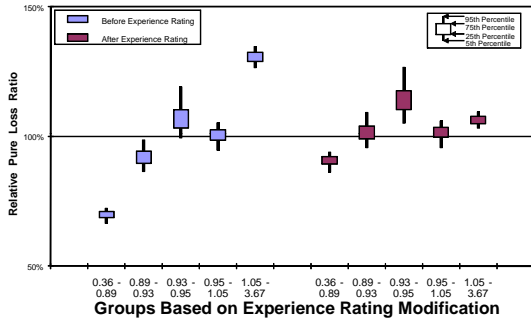
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**Experience Rating Plan
 Methodology Review**

- Experience rating plan showed excellent results overall in performance testing for prior years
- An extensive review has been recently completed
- Number of years in the plan will remain the same
- We are increasing the split point from \$5,000 to \$15,000 (trended) over a three year transition
- The split point will be indexed for claim inflation
- A filing for these changes will likely be made in 3rd Quarter of this year (2011)

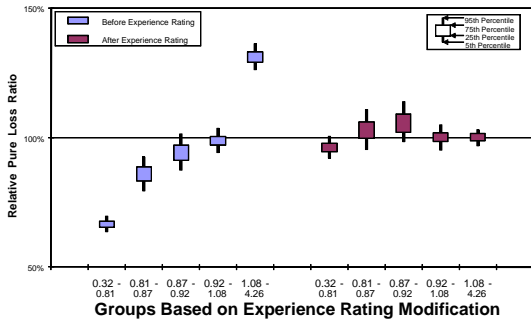
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**Quintile Analysis: \$5,000 Split Point
 (Current)**



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**Quintile Analysis: \$15,000 Split Point
 (Indicated)**



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Key Issues for the Future

- Impact of the economy
- Premium growth
- Premium returns on audits
- Frequency changes as we emerge from the recession
- Medical severity changes
- Impact of earnings pressures on reserve levels
- Impact of economic pressures on reforms
- The underwriting cycle

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**WORKERS COMPENSATION
CURRENT ISSUES
(SESSION WC-3)**

Q & A
