

California Workers' Compensation Update – Senate Bill No. 863

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California Workers' Compensation Update – Senate Bill No. 863 Summary

- Pre-SB 863 Underlying Cost Trends
- SB 863 Summary
- WCIRB Cost Evaluation of SB 863
- Anticipated Post-SB 863 Trends
- Q & A



California Workers' Compensation Update – Senate Bill No. 863 Pre-SB 863 Underlying Cost Trends - Reforms of 2002 - 2004

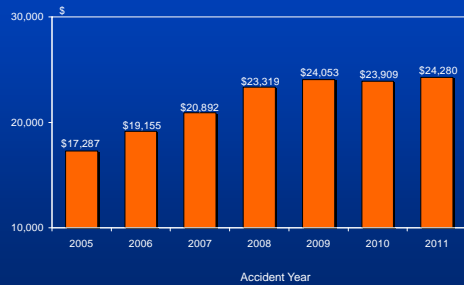
- Rapidly Escalating Costs Prior to Reforms of 2002 through 2004
- 3-Year Series of Reforms in 2002 through 2004
 - Evidence-based utilization standards
 - Unlimited employer control of medical within networks
 - Limits of physical therapy and chiropractic visits
 - New permanent disability rating schedule based on AMA Guides
 - 2-Year cap on temporary disability
 - Apportionment of permanent disability benefits
- WCIRB Retrospective Estimate of Savings: 66%, or \$14 Billion Annually in Statewide Costs
- Industry Average Rates Declined by Two-Thirds from 2003



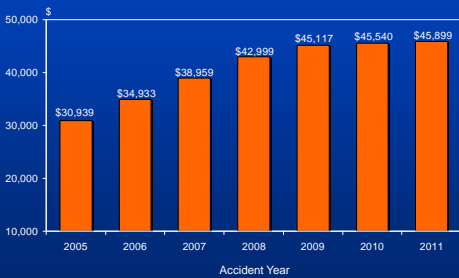
Pre-SB 863 Underlying Cost Trends - Erosion of Impact of Reforms of 2002 - 2004

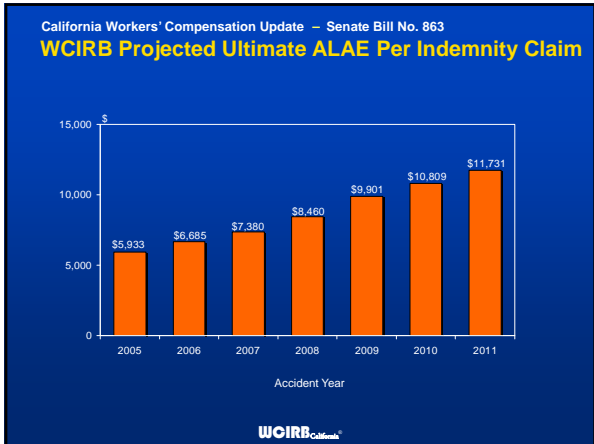
- Erosion of Reform Impacts Since 2005
 - Indemnity cost per claim up 40% since 2005
 - Medical cost per indemnity claim up 50% since 2005
 - ALAE cost per indemnity claim up almost 100% since 2005
 - Costs rising much quicker than underlying exposure
- Combined Ratios Increasing
- Industry Average Charged Rates up 22% since 2009

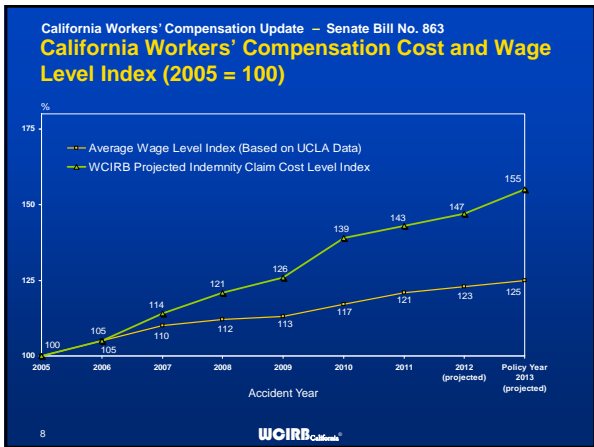
WCIRB Projected Ultimate Indemnity Loss Per Indemnity Claim

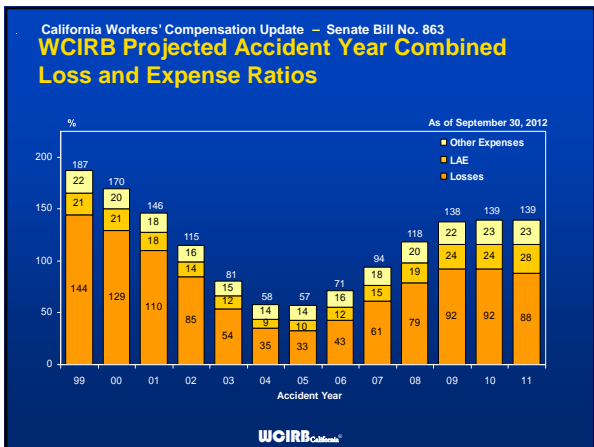


WCIRB Projected Ultimate Medical Loss Per Indemnity Claim

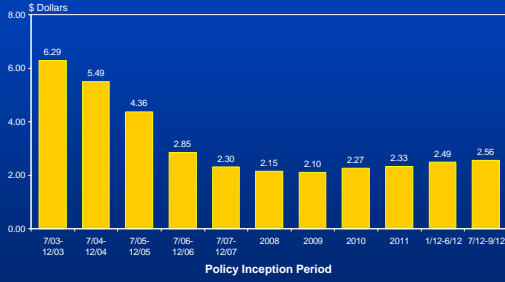








Industry Average Charged Rate per \$100 of Payroll



Summary

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SB 863 Summary – Legislative Process

- Consensus that 2002–2004 Reforms Cut PD Benefits Back Too Far
- Several Attempts to Significantly Increase PD Benefits Vetoed
- 2011: Governor Indicated Would Consider Balanced Solution
- 2012: Labor and Employer Representatives Attempt to Negotiate Compromise Bill
 - Reduce frictional costs
 - Increase PD benefits
 - Reduce employer costs

SB 863 Summary – Bill Provisions

- Signed by the Governor on September 18, 2012
- Includes Benefit Changes Effective 1/1/2013 and 1/1/2014
- Series of Structural Reforms to Benefit Delivery System
 - Many provisions quantifiable based on available data and judgmental assumptions
 - Lien reforms
 - Independent medical review (IMR)
 - Permanent disability add-ons
 - Medical provider networks (MPNs) strengthening
 - Medical reimbursements
 - Future earning capacity adjustments (Qailvie decision)
 - Other provisions not quantifiable at this time (dependent on future regulations)
 - Return-to-work program
 - New medical fee schedules
 - Independent bill review

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- **WCIRB Cost Evaluation of SB 863**
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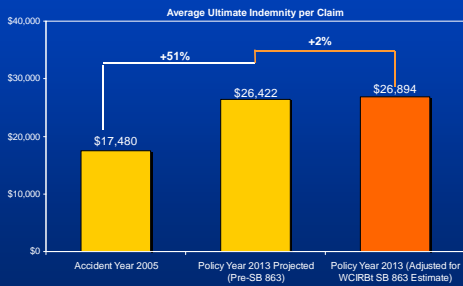
WCIRB Cost Evaluation of SB 863 - Process

- WCIRB Requested by Insurance Commissioner and Director of DIR to Provide Preliminary Cost Assessments
- Final WCIRB Estimate Reflected in Amended 1/1/2013 Filing
- WCIRB Assessments Reflect
 - Review of legislative provisions
 - Consultation with experts
 - Review of relevant research and analyses
 - New actuarial analyses based on data and timeframes available
 - Judgmental estimates developed when there was consensus as to likely impact
 - Revisions as legislation changed or new information became available
- Develop Plan to Proactively Monitor Emerging Costs

Anticipated Post SB 863 Trends - Indemnity

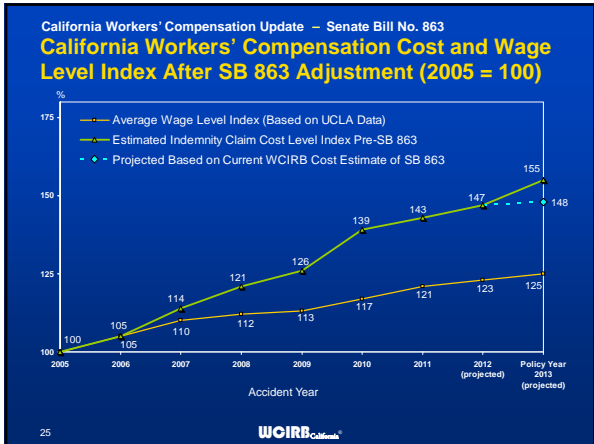
- **Increases in TD Duration**
 - SB 863 IMR and MPN provisions should accelerate claims process and reduce TD duration
- **Ogilvie and Almaraz/Guzman Decisions**
 - SB 863 effectively eliminates Ogilvie adjustments
 - Does not address Almaraz/Guzman
- **PD Rating Creep**
 - SB 863 eliminates PD rating "add-ons"
 - FEC factor replaced by 1.4 adjustment increases many PD ratings
 - Elimination of multi-tiered PD benefit system should reduce costs
- **Increased Indemnity Claim Frequency**
 - Largely driven by cumulative injury increase
 - Not addressed by SB 863

Indemnity Projections – After SB 863 Adjustments



Anticipated Post SB 863 Trends - Medical

- **Medical Treatment Costs**
 - SB 863 addresses ASC fees, surgical implant hardware, and MPNs which should reduce costs
 - Creates IMR process to address medical treatment disputes (impact on medical not yet evaluated)
 - Creates new fee schedules and converts Fee Schedule to RBRVS (impact on medical not yet evaluated)
- **Medical Liens**
 - SB 863 imposes lien filing fee and statute of limitations
- **Medical-Legal Costs**
 - SB 863 creates IMR process which should reduce medical-legal cost
- **Pharmaceutical Costs and Medicare Set-Asides**
 - Not addressed by SB 863



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Anticipated Post SB 863 Trends – Cost Monitoring
- Purpose
 - Prospective estimates reflected in advisory pure premium rates based on judgmental assumptions that may or may not materialize
 - Some provisions of SB 863 could not be evaluated due to dependence of future regulations (e.g. fee schedule changes)
 - WCIRB Comprehensive Monitoring Plan
 - Identifies key components to be measured
 - Data needed to monitor
 - When components can be measured
 - Plan to be submitted to Commissioner in March
 - Other SB 863 Impacts to be Evaluated
 - Payment patterns
 - Impact on existing claims
 - Size of loss distribution
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