



Evaluating WC Reform

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CAS RPM Seminar 2014

Agenda

- Review approach for analysis of:
 - Oklahoma Senate Bill (SB) 1062
 - Version passed by the Senate on 3/5/2013
 - Georgia House Bill (HB) 154
 - Version passed by the Senate and the House
 - Indiana HB 1320
 - Version amended on 4/3/2013
 - Missouri SB 1
 - Tennessee SB 200



Oklahoma SB 1062

Quantifiable Provisions

Provision	Estimated System Cost Impact	
	(%)	(\$)
Shortening of the waiting period from 7 to 3 days and removal of the 21 day retroactive period	-0.1%	-\$1M
Decrease in the temporary total disability (TTD) maximum duration from 156 weeks to 104 weeks	-1.3%	-\$13M
Decrease in the TTD maximum weekly benefit from 100% to 70% of the state average weekly wage (SAWW)	-2.6%	-\$25M
Removal of the permanent partial disability (PPD) minimum weekly benefit of \$150	-0.2%	-\$2M
Decrease in the PPD maximum weekly benefit from \$323 to \$250	-5.6%	-\$54M
Change in PPD Durations and Reclassify Partial Loss of Use as Non-Scheduled PPD Benefit	-3.2%	-\$32M
Decrease in the permanent total disability (PTD) duration from the maximum of social security retirement age and 15 years to 450 weeks	-1.1%	-\$11M
Eliminating the remarriage lump sum award for a surviving spouse and other death benefit changes	-0.7%	-\$7M
Changes in the Medical Fee Schedule	-0.2%	-\$1.9M
Combined Impact on Overall WC System Costs	-14.2%	-\$138M



Oklahoma SB 1062

*Decrease in the TTD Maximum Duration
From 156 Weeks to 104 Weeks*

- What claims are affected?
 - TTD-only claims
 - Healing period (HP) portion of PPD
 - Assume impact on indemnity benefits only, no quantified impact for medical benefits

- Estimate impact on affected claims
 - Data source: Detailed data licensed to NCCI
 - Limit duration of affected claims to 104 weeks
 - Impact on TTD-only claims: -0.8%
 - Impact on HP of PPD claims: -10.7%



Oklahoma SB 1062

Decrease in the TTD Maximum Duration From 156 Weeks to 104 Weeks

- Various data sources are used in estimating the share of benefits affected:
 - Detailed data licensed to NCCI
 - HP share of PPD claim costs: 30%
 - NCCI Workers Compensation Statistical Plan
 - TTD-only share of indemnity: 16.1%
 - PPD share of indemnity: 75.5%
 - NCCI Financial Call
 - Share of indemnity benefits, projected to effective date: 53.5%



Oklahoma SB 1062

Decrease in the TTD Maximum Duration From 156 Weeks to 104 Weeks

Estimated impact on overall costs is the impact on affected claims times their share of benefits:

(1)	Impact on TTD-only claims due to limited duration	-0.8%
(2)	TTD-only share of indemnity benefit costs	16.1%
(3)	Impact on indemnity benefits due to limited duration of TTD-only claims = (1) x (2)	-0.1%
(4)	Impact on HP of PPD claims due to limited duration	-10.7%
(5)	HP share of PPD indemnity benefit costs	30%
(6)	PPD share of indemnity benefit costs	75.5%
(7)	Impact on indemnity benefits due to limited duration of HP of PPD claims = (4) x (5) x (6)	-2.4%
(8)	Total impact on indemnity benefits costs in Oklahoma= (3) + (7)	-2.5%
(9)	Indemnity as a percentage of overall workers compensation (WC) benefit costs in Oklahoma	53.5%
(10)	Total impact on overall WC costs in Oklahoma = (8) x (9)	-1.3%

Oklahoma SB 1062

Decrease in the TTD Maximum Weekly Benefit From 100% to 70% of the SAWW

- What is the impact on the average weekly benefit for TTD-only and HP of PPD claims?
 - Current maximum: \$771.00
 - Proposed maximum: \$539.70

- NCCI uses a countrywide distribution of workers and their wages indexed to Oklahoma's average wage level
 - NCCI developed a wage distribution table, based on countrywide DCI data, last updated in 2009
 - Oklahoma's average wage level is based on the Quarterly Census of Employment and Wages

- Since the rate of compensation is 70%, workers earning between \$771 and \$1,101 will see up to a 30% reduction in weekly benefit
 - 23% of workers, 28% of wages affected

- Workers earning above \$1,101 will see a 30% reduction in weekly benefit
 - 18% of workers, 34% of wages affected

- Impact on the average weekly benefit is -12.8%



Oklahoma SB 1062

Change in PPD Durations and Reclassify Partial Loss of Use as Non-Scheduled PPD Benefit

For scheduled injuries:

- Derived a table of case frequencies and average percent of loss of use by part of body based on unit statistical plan data and state-specific data
- Converted partial loss of use by part of body to whole person using conversion factors from the American Medical Association's (AMA) Guides to the Evaluation of Permanent Impairment
- Compared the duration by body part currently awarded to the proposed duration based on the 450-week maximum
- Estimated the impact for schedule injuries to be -14.5%

For non-scheduled injuries:

- The decrease is simply -10% ($= 450 / 500 - 1$).

Oklahoma SB 1062

Decrease in the PTD Duration From the Maximum of Social Security Retirement Age and 15 Years to 450 Weeks

- Current PTD benefit costs: Based on annuity with an average age at injury of 40
- Proposed PTD benefit costs: A lump sum payment of 450 weeks
- Estimated impact on PTD indemnity benefits is -65.9%
- PTD indemnity benefits represent approximately 1.6% of overall WC benefit costs in Oklahoma
- Estimated overall impact: -1.1% (= 1.6% x -65.9%)

Oklahoma SB 1062

Non-Quantifiable Provisions

- PPD benefit section changes including the Multiple Injury Trust Fund
- Changing from Court System to an Administrative System
- Changing to the Current Edition of the AMA Guides to the Evaluation of Permanent Impairment
- Creating the Oklahoma Employee Injury Benefit Act
- Establishing the Workers' Compensation Arbitration Act



Georgia House Bill (HB) 154

Quantifiable Provisions

Impact Description	Estimated Cost Impact	
	(%)	(\$)
Limiting medical benefits beyond 400 weeks with exception for injuries defined as catastrophic	-5.8% to -3.9%	-\$60M to -\$40M
Increases the maximum weekly benefit for TTD from \$500 to \$525 and for Temporary Partial Disability (TPD) from \$334 to \$350	+1.4%	\$14M
Combined Impact on Overall WC System Costs	-4.4% to -2.6%	-\$45M to -\$27M

Georgia House Bill (HB) 154

Limiting medical benefits beyond 400 weeks

- What claims are affected?
 - Medical for PPD claims would be affected
 - Medical for catastrophic claims are not limited, so PTD claims are not affected
 - Typically, medical-only and TTD claims are not open 400 weeks after the injury date, so NCCI assumes these claim types are not affected

- NCCI relied on data for PPD claims from the Unit Statistical Plan
 - (A) Projected PPD medical losses to ultimate
 - (B) Projected PPD medical paid losses to 8th report
 - The difference between (A) and (B) is the estimated savings

- Estimated overall impact: -5.8% (= -10.5% x 54.8%) to -3.9% (= -7.2% x 54.8%)
 - Estimated impact on medical costs: -7.2% to -10.5%
 - Medical costs make up 54.8% of overall benefit costs

Georgia HB 154

Non-Quantifiable Provisions

- A change in the interest rate used for both discounting Board directed lump sum settlements and calculating advance payments from 7% to 5% per annum
- Shorten the mileage reimbursement payment schedule from 30 to 15 days from receipt of required documentation
- Clarifies the minimum hourly work standard for the refusal of suitable employment



Indiana HB 1320

Quantifiable Provisions

Impact Description	Estimated System Cost Impact	
	(%)	(\$)
Changes to Maximum Weekly Wage and Maximum Aggregate Benefit Payable	+0.8% to +1.2%	\$6M to \$8M
Changes to Benefit Awards Per Degree of Permanent Impairment	+2.2% to +3.4%	\$15M to \$24M
Medical Services Facility Fee Schedule and Repackaged Drugs	-5.3%	-\$37M
Combined Impact on Overall WC System Costs	-2.3% to -0.7%	-\$16M to -\$5M

Indiana HB 1320

Summary of Proposed Changes to Benefit Awards

- Increases the maximum weekly wage used in the determination of benefits from \$975 to \$1,170
- Increases the maximum aggregate benefit payable from \$325,000 to \$390,000
- Increases the amount payable for PPD awards as follows:

Permanent Partial Impairment (in Degrees)	Current Award per Degree of Impairment	Proposed Award per Degree of Impairment	Percent Increase in Awards
1-10	\$ 1,400	\$ 1,750	+25%
11-35	\$ 1,600	\$ 1,952	+22%
36-50	\$ 2,700	\$ 3,186	+18%
51-100	\$ 3,500	\$ 4,060	+16%



Indiana HB 1320

Estimated Impact of Changes to Benefit Awards

- Lower bound is the direct impact: +3.0% on overall costs (= +13.3% x 22.8%)
 - Impact on indemnity costs: +13.3%
 - Indemnity benefits make up 22.8% of overall benefits
- Upper bound includes utilization: +4.6% on overall costs (= +20.2% x 22.8%)
 - NCCI applied a factor of 1.54 to account for utilization, only to TTD and PPD claim costs

Indiana HB 1320

Medical Fee Schedule Implementation

- Currently, there is no medical fee schedule in Indiana
- Effective 7/1/2014, reimbursement for facilities can be based on any one of the following:
 - Negotiated contract rates
 - An amount not more than 200% of Medicare
 - An amount not less than 125% of the cost to the medical facility of the specific service or product
- Effective 7/1/2013:
 - Limits reimbursement for repackaged drugs to the average wholesale price set by the original manufacturer for that prescription drug
 - Limits physician dispensing to within 7 days of date of injury
- Effective 7/1/2014, for all providers, implants are to be reimbursed at invoice plus 25%



Indiana HB 1320

Estimating the Impact of the Facility Fee Schedule

- Compare proposed to current reimbursements
- Current reimbursement = Current payments x inflation factor
- Proposed reimbursement is either 200% of Medicare x (1 + price departure) or 125% of cost, whichever is greater
 - Price departure is observed ratio of payments to charges minus 1
 - 125% of Cost = current charges x inflation factor x cost-to-charge ratio x 125%
 - The cost-to-charge ratio is obtained from Medicare and is calculated as the simple average of the Indiana statewide urban and rural cost-to-charge ratios for hospitals
- Key source of data: NCCI's Medical Data Call

Indiana HB 1320

Limits on Repackaged Drugs

- In Indiana, drug costs represent 5.9% of medical costs
 - Repackaged drug costs represent 0.4% of total medical costs
 - Non-repackaged drugs represent 5.5% of total medical costs
- To estimate the cost impact on repackaged drugs, NCCI compared the paid per unit amount of repackaged drugs to the average price per unit for equivalent drugs that is not repackaged
- Estimated impact on repackaged drug costs: -24.2%

Indiana HB 1320

Estimated Impact of Medical Fee Schedule Implementation

	(A)	(B)	(C)	(D)
	Impact on Type of Service	Medical Cost Distribution	Impact On Medical Costs (A) x (B)	Impact on Overall Costs (C) x (2)
Hospital Inpatient	-8.9%	14.4%	-1.3%	-1.0%
Hospital Outpatient	-18.0%	22.9%	-4.1%	-3.2%
Drugs	-1.5%	5.9%	-0.1%	-0.1%
ASC	-25.6%	5.4%	-1.4%	-1.1%
(1) Total Impact on Indiana Medical Costs			-6.9%	
(2) Medical Costs as a Percentage of Overall Workers Compensation Benefit Costs in Indiana				77.2%
(3) Total Impact on Overall Workers Compensation System Costs in Indiana = (1) x (2)				-5.3%



Enacted Missouri Senate Bill (SB) 1

- Changes related to the Second Injury Fund (SIF)
 - Limit eligibility for permanent total disability (PTD) injuries occurring on or after 1/1/2014
 - Eliminate SIF eligibility for permanent partial disability (PPD) and certain other injuries occurring on or after 1/1/2014
 - Creates an additional employer surcharge of up to 3% of premium from 2014 to 2021 for the SIF runoff liabilities

- Occupational Diseases
 - Clarifies applicability of Workers Compensation (WC) Act
 - Changes handling of, and benefits for, PTD and Fatal claims resulting from exposure to toxic substances



Missouri SIF Background

- The SIF has historically covered:
 - PPD and/or PTD benefits beyond those attributable to the latest injury by itself when a worker with a pre-existing permanent disability sustains a subsequent compensable injury
 - Medical expenses for injured employees of uninsured employers
 - Death Benefits for employees of uninsured employers
 - Lost wages from a second job
 - Rehabilitation benefits

Note that only rehabilitation benefits and certain PTD claims will continue to be eligible for SIF reimbursement under SB 1



Impact of SIF PPD Eligibility Changes

- SIF provided payments to PPD claimants for the additional liability due to the combined injury
 - SB 1 eliminated these benefits from the SIF for future injuries
 - The employer/carrier (E/C) remains responsible for only the second injury by itself
 - To address potential increases in disability awards in some cases due to the impact of this change on the injured worker, NCCI assumed that 10% of these eliminated SIF PPD costs may ultimately be provided to the injured worker by the E/C
- Estimated loss cost impact to pre-fund for PPD claim costs that are now the responsibility of the E/C is +0.2%

Impact of SIF PTD Eligibility Changes

- Only eligible for SIF compensation if subsequent injury results in PTD and the worker had a medically documented pre-existing disability equaling a minimum of 50 weeks of PPD compensation which is:
 - a direct result of active military duty or
 - a direct result of a compensable injury or
 - not a compensable injury, but such a pre-existing disability that “directly and significantly aggravates or accelerates the subsequent work-related injury,” or
 - a pre-existing PPD of an extremity, when the subsequent compensable injury is to the opposite extremity



Impact of SIF PTD Eligibility Changes

- PTD impact was calculated as follows:
 - Accident year SIF PTD payments were obtained and developed to an ultimate value
 - Missouri ultimate benefit costs were estimated on an accident year basis using NCCI Financial Call data adjusted to include self-insurance, large deductibles, and federal classes
 - Ratio of the above was calculated for historical accident years
 - Based on new eligibility criteria, NCCI assumes:
 - Veterans comprise 1.5% of SIF PTD claim costs based on U.S. Census Bureau data
 - 50% of the non-veteran SIF PTD claim costs will now be the responsibility of the E/C (source: Missouri PPD data)

Impact of SIF PTD Eligibility Changes (cont'd)

- An offset of 15% (factor of 0.85) was applied to reflect increased efficiencies in carrier handling of claims; typical offset applied by NCCI in SIF elimination analyses is up to 30% depending on specifics of the SIF process for the state
- Estimated loss cost impact to pre-fund for SIF PTD claim costs that are now the responsibility of the E/C is +3.6%
 - This impact assumes that E/C loss adjustment expenses will not experience an increase commensurate with the additional benefit costs

Impact of Occupational Disease Changes Effective 1/1/2014

- Clarification that claims for these conditions falls under the exclusive remedy of the WC Act
 - Addresses some recent court rulings
 - Impact to flow through experience
- O.D. PTD and Fatal claims involving toxic exposure
 - Affects only a small percentage of indemnity costs (approx. 0.3%)
 - Increased benefits are for a limited duration (100 weeks for non-mesothelioma cases)
 - Mesothelioma exposure (and potentially all employers liability coverage) may be separately self-insured
 - Overall cost impact expected to be negligible
 - E/C subrogation rights disallowed in toxic exposure claims



Enacted Tennessee Senate Bill 200

Effective 7/1/2014

- PPD Award Determination and Multipliers
 - Elimination of schedule for PPD injury classification
 - Non-scheduled PPD weeks increased from 400 to 450
 - No multiplier if employee returns to work at the same or greater wage; current law allows for a multiplier of up to 1.5
 - Formula established for the determination of the multiplier for those not returning to work
- Fatal Benefits Aggregate increased to be based on 450 weeks (from 400 weeks)



Impact of PPD Changes

- Impact to non-scheduled injuries is +12.5%
(= $450/400 - 1$)
- Impact to scheduled members varies
 - Compare the distribution of weeks by body part to estimated distribution of weeks awarded using disability ratings and a 450 week max
- Combined effect of increase in duration and elimination of PPD schedule = +13.6%

Impact of PPD Changes (cont'd)

- Impact due to change in PPD multipliers = -39.7%
 - Estimate pre-SB 200 multipliers for return-to-work cases and non-return-to-work cases
 - Estimate post-SB 200 multipliers for non-return-to-work cases
- Combined impact to indemnity PPD awards = -31.5%
(1 + 13.6%) x (1-39.7%)
- Impact on indemnity benefits = -16.9%
 - Indemnity PPD awards as a % of total indemnity benefits = 53.5%

Enacted Tennessee Senate Bill 200

Non-Quantifiable Provisions

- Dispute Resolution
 - WC Court of Claims
 - Ombudsman Program
 - Medical Payment Committee
- Compensability threshold modified
- Credit for Temporary Disability payments made after Maximum Medical Improvement (MMI)
- Requires development of Treatment Guidelines
- Construction and interpretation of statutes
- Determination of MMI for mental injuries



Questions?

