

CASUALTY ACTUARIAL SOCIETY
2014 Ratemaking & Product
Management Seminar

Recent New York Workers
Compensation Reforms

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Overview

- Pricing Needs
- Major NY WC Reforms
- Pricing Methods/Assumptions
- Summary

Pricing Needs

- Understanding the Law Changes
- Identifying Data Requirements
- Data Sources
- Non-Data Sources

Major Components of the 2007 Reforms

- Elimination of Special Disability Fund
- Increase in Maximum Weekly Benefit
- Caps on Permanent Partial Disability Duration
- Medical-Related Provisions
- PPD Claims Into Aggregate Trust Fund
- System Improvements

The 2008 Reform

- Effective 10/1/2008
- End of “Administered Pricing”
- Loss Costs → LCMs
- NYCIRB’s governing structure

2013 Reform

- Closing the “Fund for Reopened Cases”
- Revision of the State Assessment
Procedure

The 2007 Reform Elimination of Special Disability Fund

- Actual Assessment Data From State Workers' Comp. Board
- Relate Assessments to Paid Losses
- Mitigation / Efficiency Factor

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Impact of Removing the NY SDF

(1)	Paid CY Losses (3 Calendar Year Average)		\$ 2,306,956,237
(2)	Paid SDF Reimbursements (3 Calendar Year Average)		\$ 362,380,249
(3)	Direct Impact (2) / (1)		15.7%
(4)	Efficiency Factor		0.85
(5)	Final Impact (3) x (4)		13.3%

The 2007 Reform Increase in Maximum Weekly Benefit

- Fratello Method *
- Recognition of Varying Wage Levels by Injury Type
- Increased System Utilization

*** THE "WORKMEN'S COMPENSATION INJURY TABLE" AND "STANDARD WAGE DISTRIBUTION TABLE"-- THEIR DEVELOPMENT AND USE IN WORKMEN'S COMPENSATION INSURANCE RATEMAKING BY BARNEY FRATELLO**

<http://www.casact.org/pubs/proceed/proceed55/5510.pdf>



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Increase in Maximum Weekly Benefit Impacts

Effective Date	Max Weekly Benefit	Overall Impact	Prorated Impact
7/1/07	\$500	+6.0%	+6.0%
7/1/08	\$550	+1.9%	+1.2%
7/1/09	\$600	+1.5%	+0.1%
Total Impact for the 2007 Filing			+7.3%



The 2007 Reform Caps on PPD Duration

- % Loss of Earnings = # Weeks of Benefits
- Actual PPD Data From State Workers' Comp. Board
- Distribution of Loss of Earnings
- PPD Settlement Considerations
- Hardship Provision

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Benefit Duration by Impairment Ratings

Loss of Earning %	Number of Weeks
Greater than 95%	525
90% to 95%	500
85% to 90%	475
80% to 85%	450
75% to 80%	425
70% to 75%	400
60% to 70%	375
50% to 60%	350
40% to 50%	300
30% to 40%	275
15% to 30%	250
Less than 15%	225

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What did we get from the WCB?

WCB Dist of Disability	
Marked	0.1914
Mod to Marked	0.2677
Moderate	0.1842
Mild - Mod	0.1667
Mild	0.0487
Minimum	0.1413

Now all we have to do is map it!

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Seminar Final Calculation

Loss of Earning percentage	Number of Weeks	Selected Distribution	Percentage Savings	
			Lump sum Cases	Other Cases
Greater than 95%	525	0.5%	17.0%	33.5%
90% to 95%	500	0.5%	18.5%	34.2%
85% to 90%	475	2.4%	20.0%	35.0%
80% to 85%	450	2.4%	21.5%	35.7%
75% to 80%	425	10.1%	46.1%	73.0%
70% to 75%	400	10.1%	49.1%	74.6%
60% to 70%	375	19.9%	52.2%	76.0%
50% to 60%	350	15.8%	55.3%	77.6%
40% to 50%	300	21.5%	61.4%	80.7%
30% to 40%	275	8.2%	64.5%	82.3%
15% to 30%	250	6.4%	67.7%	83.9%
Less than 15%	225	2.0%	70.9%	85.4%
Average			54.2%	75.6%
Total Average Savings on Perm. Partial Non Schedule: 71.3%				
Total Average Savings on Perm. Partial: 50.5%				
Total Impact: -28.0%				



The 2007 Reform Medical – Related Provisions

- Pharmacy Fee Schedule
- Generic Drugs when Available
- Networks for Diagnostic Services
- Schedule for Prosthetic Devices
- Medical Care Guidelines

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Pharmaceutical Fee Schedule Pricing

Average Wholesale Price	\$100
Average Discount	8%
Pre-Reform Payment	\$92
Assumed Medicaid “Discount”	33%
Post Reform Payments	\$67
Dollar Savings	\$25
Pharmaceutical Saving Percentage	27%
Pharmaceutical Percentage of Medical	16%
Medical Cost Impact	-4.3%
Utilization	40%
Final Impact on Medical Costs	-2.6%

The 2007 Reform Mandatory PPD to Aggregate Trust Fund

- Discount Set By State
- Effect on Settlement Practices
- Claimant Behavioral Impact
- Savings or Added Cost ???

The 2008 Reform The Shift to Loss Costs

- Effective 10/1/2008
- Removing Expenses from Premiums
- Overall Change: -6.4%
- Approved as Filed
- Carriers filed LCMs

2013 Reform

- Closing the “Fund for Reopened Cases”
- Revision of the State Assessment Procedure

What is the Fund for Reopened Cases?

- Applies to claims which are at least 7 years old
- AND
- The last indemnity payment was made 3 or more years ago.
 - The Fund handles all aspects of the claim. The carrier deems this claims closed. (Different from the Special Disability Fund)
 - The Fund is Funded by assessments on all policyholders.

Closing of the Fund

- Effective 1/1/2014 the Fund may no longer accept claims.
- Prospective Impact
- Retrospective Impact

The Pricing

- The claims will still need to be paid for
- Used to be paid by assessment → Now will be paid for by carriers
- Need to figure out the percentage of the losses that was omitted from carrier experience due to the existence of the Fund
- No Historical data from carriers (because as far as they're concerned these claims are closed)
- Data obtained from WCB and SFCC

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The Data – WCB Assessment

Fund for Reopened Cases				
Summary of Assessments				
Fiscal Period	Date Billed	Category	Total Amount Billed	Percent of Total
CY 2011	Apr-12	Carriers + SIF	\$190M	76.09%
		Individual SI	\$20M	8.05%
		Group SI	\$3.9M	1.57%
		Political Subs	\$35.7M	14.29%
		Total	\$249.8M	100.00%
CY 2010	Apr-11	Carriers + SIF	\$240.9M	74.64%
		Individual SI	\$25.6M	7.95%
		Group SI	\$9.5M	2.96%
		Political Subs	\$46.6M	14.44%
		Total	\$322.7M	100.00%



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The Data – WCB 25-A Disbursements

25A Payments by Type	2009	2010	2011	2012
Disbursements/Award Payments				
Compensation	\$23.9M	\$27.5M	\$28.8M	\$33.9M
Medical	\$81.6M	\$74.0M	\$113.2M	\$94.3M
Bi-Weekly Compensation	\$42.6M	\$45.7M	\$48.5M	\$50.8M
Defense of Fund	\$4.4M	\$3.9M	\$7.6M	\$5.6M
Penalties	\$0.2M	\$0.2M	\$0.3M	\$0.3M
Volunteer Firefighter & Ambulance	\$2.7M	\$2.4M	\$2.2M	\$2.2M
SubTotal	\$155.6M	\$153.9M	\$200.8M	\$187.3M
Supplemental Compensation	\$23.1M	\$19.6M	\$17.1M	\$15.7M
Total Disbursements	\$178.8M	\$173.5M	\$218.0M	\$203.1M
DOF ratio to comp+med+biweekly	3.0%	2.7%	4.0%	3.2%
res chng	96.0M	142.6M	25.3M	43.3M
Comp + med + Bi weekly + res chng	244.2M	289.9M	216M	222.4M
PC + SIF Assessment Market Share	72.52%	74.64%	76.09%	72.92%
25A Payments for PC + SIF	177.1M	216.4M	164.4M	162.2M



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The Data – WCB Assessment Determination

Fund for Reopened Cases - Summary of Annual Assessment Levels

<u>Calendar Year</u>	<u>Assets</u>	<u>Total Reserves</u>	<u>Statutory Contingency</u>	<u>Subtotal Liabilities and Reserves</u>	<u>Supplemental Compensation Payments</u>	<u>Total Liabilities and Reserves</u>	<u>Surplus (Deficit)</u>	<u>Total Assessment</u>
2008	\$711.7M	\$791.5M	\$79.1M	\$870.7M	\$22.5M	\$893.5M	-\$181.7M	\$181.7M
2009	\$731.4M	\$887.6M	\$88.7M	\$976.4M	\$22M	\$998.4M	-\$267M	\$267M
2010	\$829.6M	\$1,030M	\$103M	\$1,133M	\$19.1M	\$1,152M	-\$322.7M	\$322.7M
2011	\$951.5M	\$1,055M	\$105.5M	\$1,161M	\$17.1M	\$1,178M	-\$226.8M	\$226.8M
2012	\$991M	\$1,098M	\$109.8M	\$1,208M	\$15.7M	\$1,224M	-\$233.5M	\$233.5M



The Goal

- Use above data elements to try and ascertain incurred losses in the Fund
- Relate these to carrier incurred losses by AY
- Need to use older AYs (2006 and prior)
- Overall impact: +4.5%

Retrospective Impact

- Ratemaking is prospective in nature
- Certain claims from prior years would have been eligible for “25-A Relief”
- Not anymore
- Prior years’ loss costs did not account for this Fund closing
- → Unfunded Liability

Pricing Summary

- The Devil is in the Details
- Behavior of Claimants
- Behavior of Law Judges
- Behavior of Attorneys
- Effectiveness of Regulations

Looking Ahead

- Time lag before changes reflected in data
- Adjustment to current data
- Adjustment to development factors
- Additional carrier surveys
- Awaiting full implementations of reform

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Questions & Answers

