



# State of the Workers Compensation Line & Legislative Activity

CAS RPM Seminar  
March 15, 2016  
Orlando, Florida

Angela McGhee, FCAS, MAAA  
Practice Leader and Senior Actuary  
[angela\\_mcghee@ncci.com](mailto:angela_mcghee@ncci.com)  
561-893-3113

Cary Ginter, ACAS, MAAA  
Director and Actuary  
[cary\\_ginter@ncci.com](mailto:cary_ginter@ncci.com)  
561-893-3110

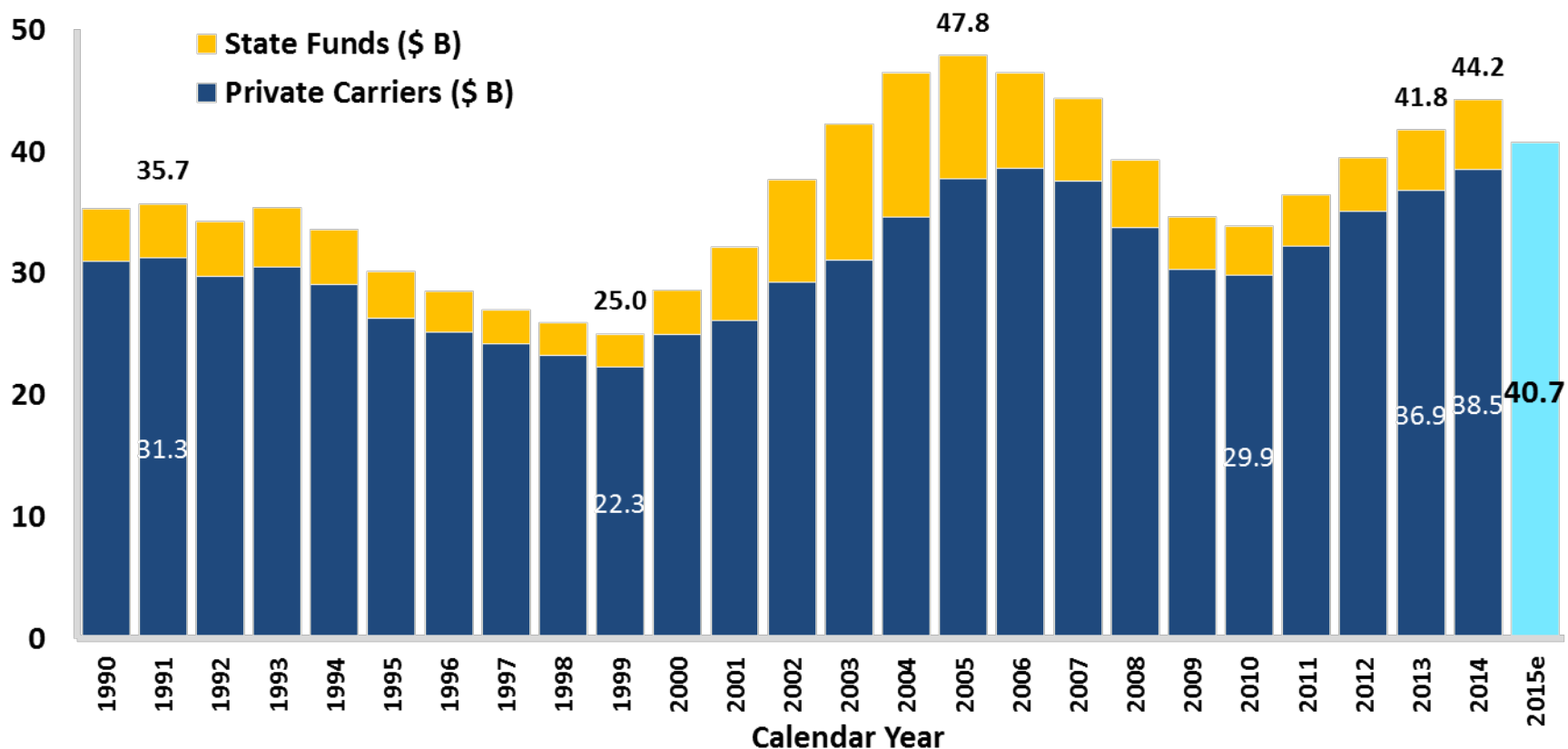


# State of WC

# WC Net Written Premium Growth Continued

## Private Carriers and State Funds

\$ Billions



2015e, NCCI estimate based on statutory data reported through 2nd Quarter 2015

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

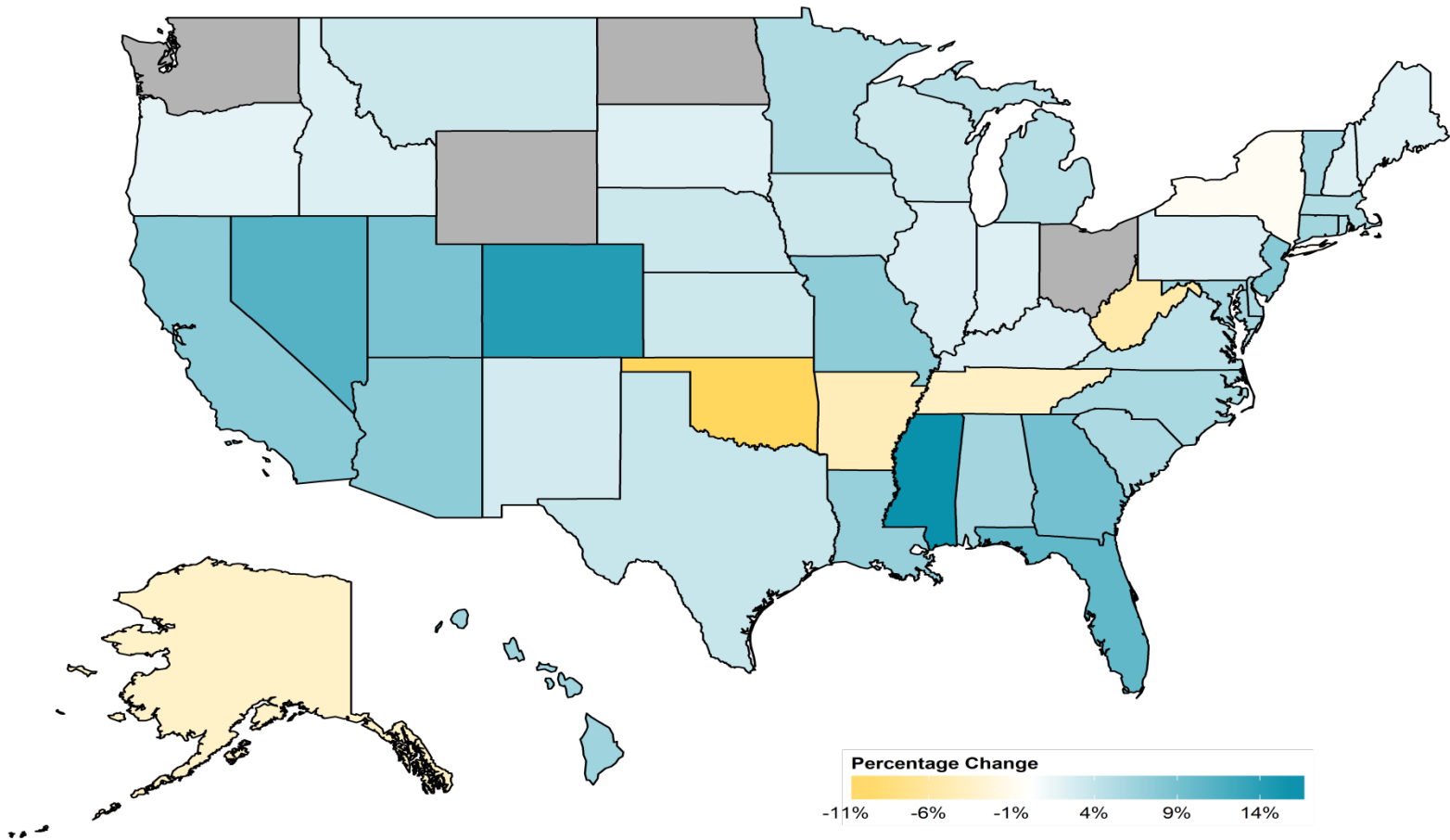
Each calendar year total for state funds includes all funds operating as a state fund in that year

Source: 1990 – 2014, Annual Statement data



# WC Direct Written Premium 2014 Growth by State

## Private Carriers



Source: 2014, 2013, Annual Statement Statutory Page 14

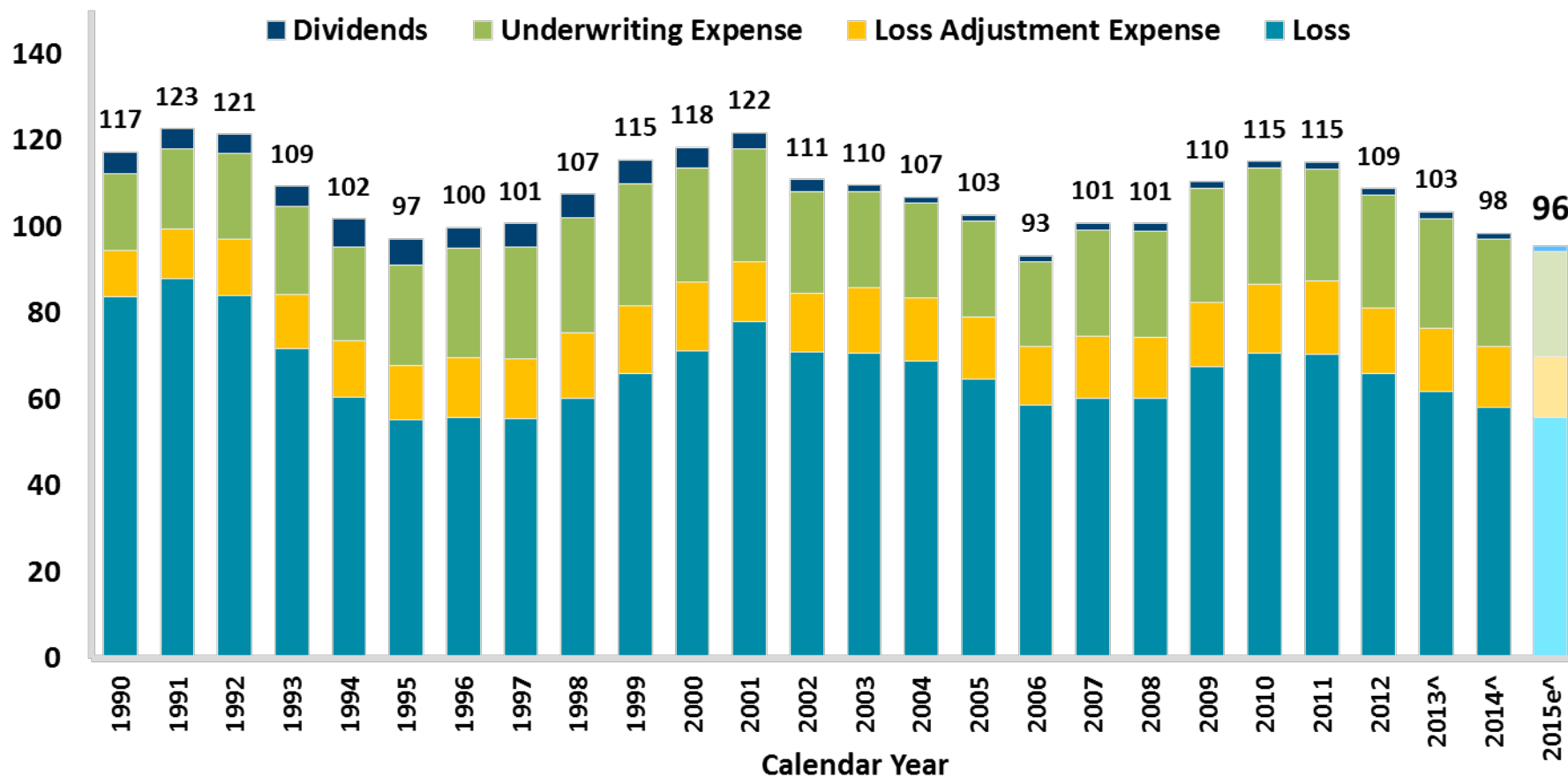


# WC Combined Ratio

## Underwriting Gain Achieved

Private Carriers

Percent



2015e, NCCI estimate based on statutory data reported through 2nd Quarter 2015

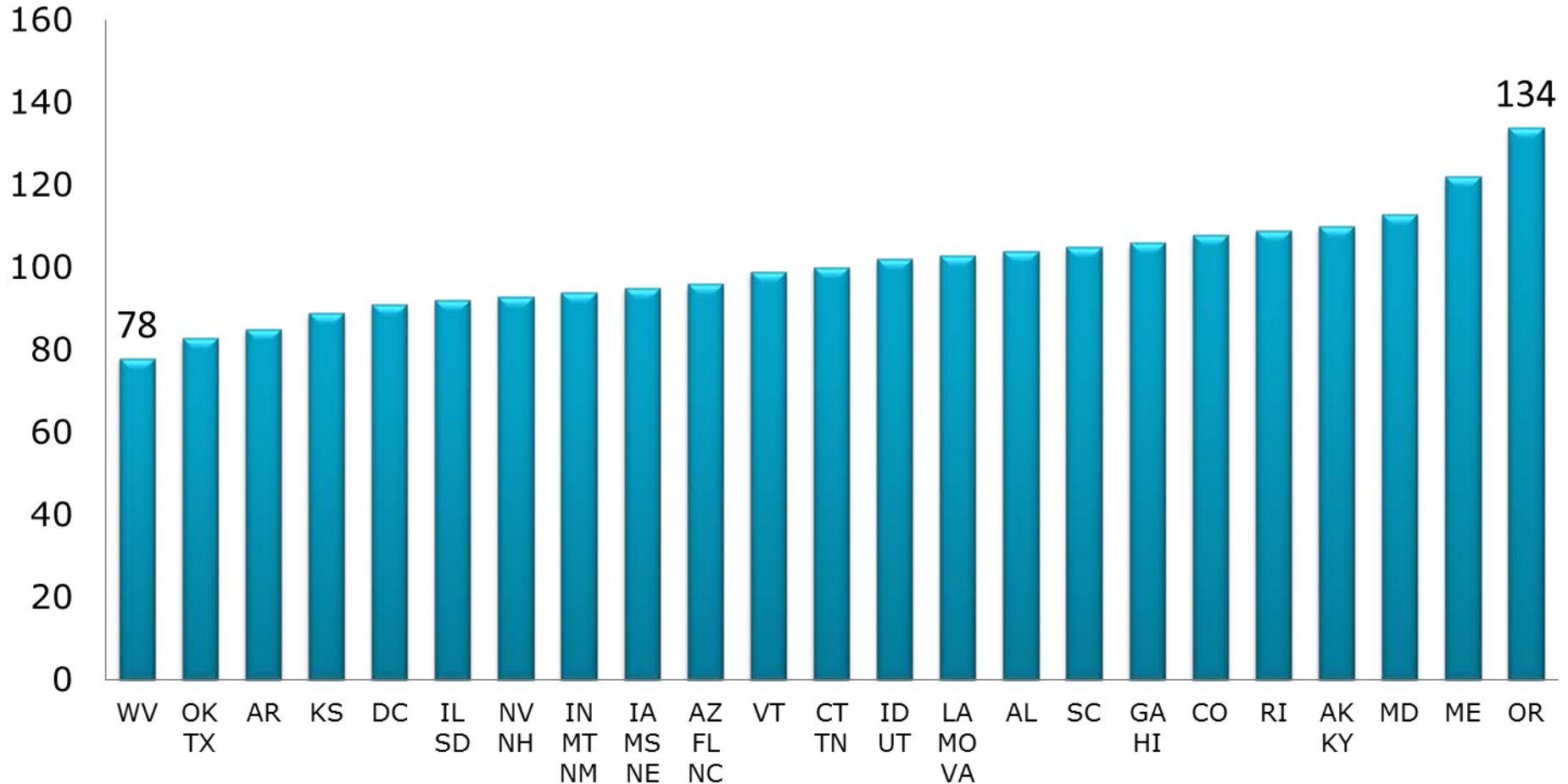
^2013–2015 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: 1990–2014, Annual Statement data



# Results Vary From State to State

## Accident Year 2014 Combined Ratios

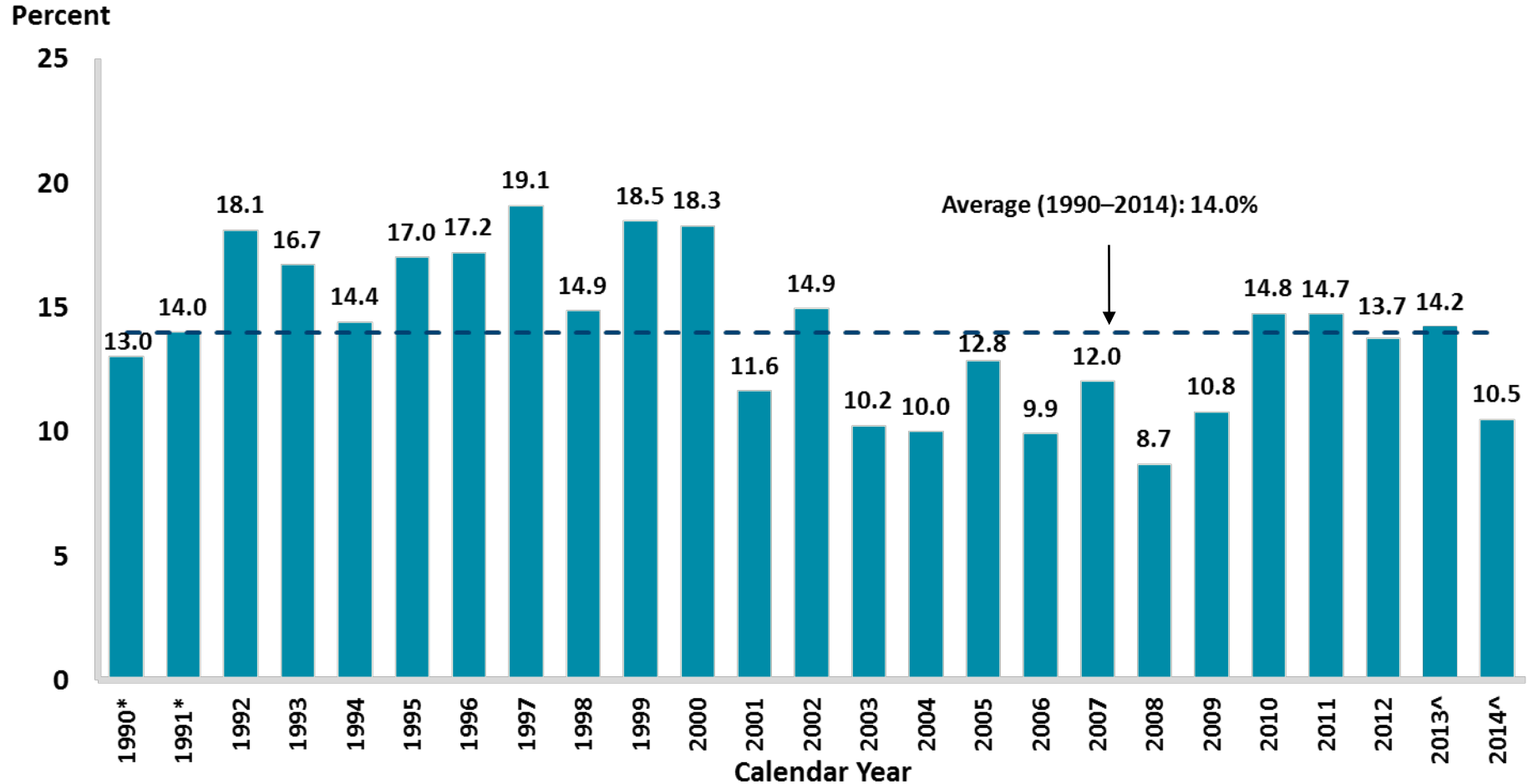


Data is evaluated as of 12/31/2014



# WC Investment Gain on Insurance Transactions Ratio to Net Earned Premium

## Private Carriers



Investment Gain on Insurance Transactions includes Other Income

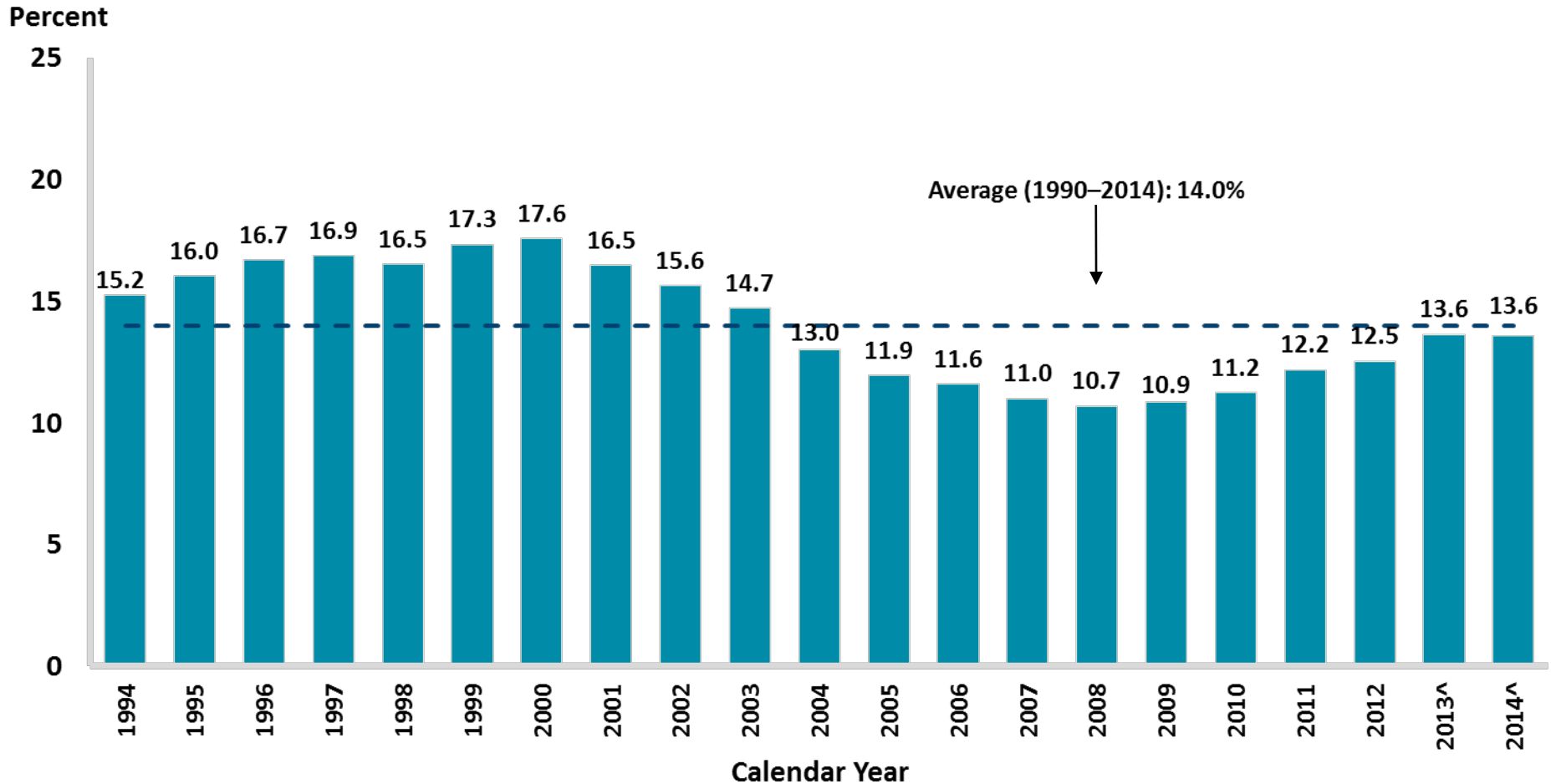
\*Adjusted to include realized capital gains to be consistent with 1992 and subsequent

^2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data

# WC Investment Gain on Insurance Transactions Five-Year Moving Average

## Private Carriers



Investment Gain on Insurance Transactions includes Other Income

\*Adjusted to include realized capital gains to be consistent with 1992 and subsequent

<sup>^</sup>2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

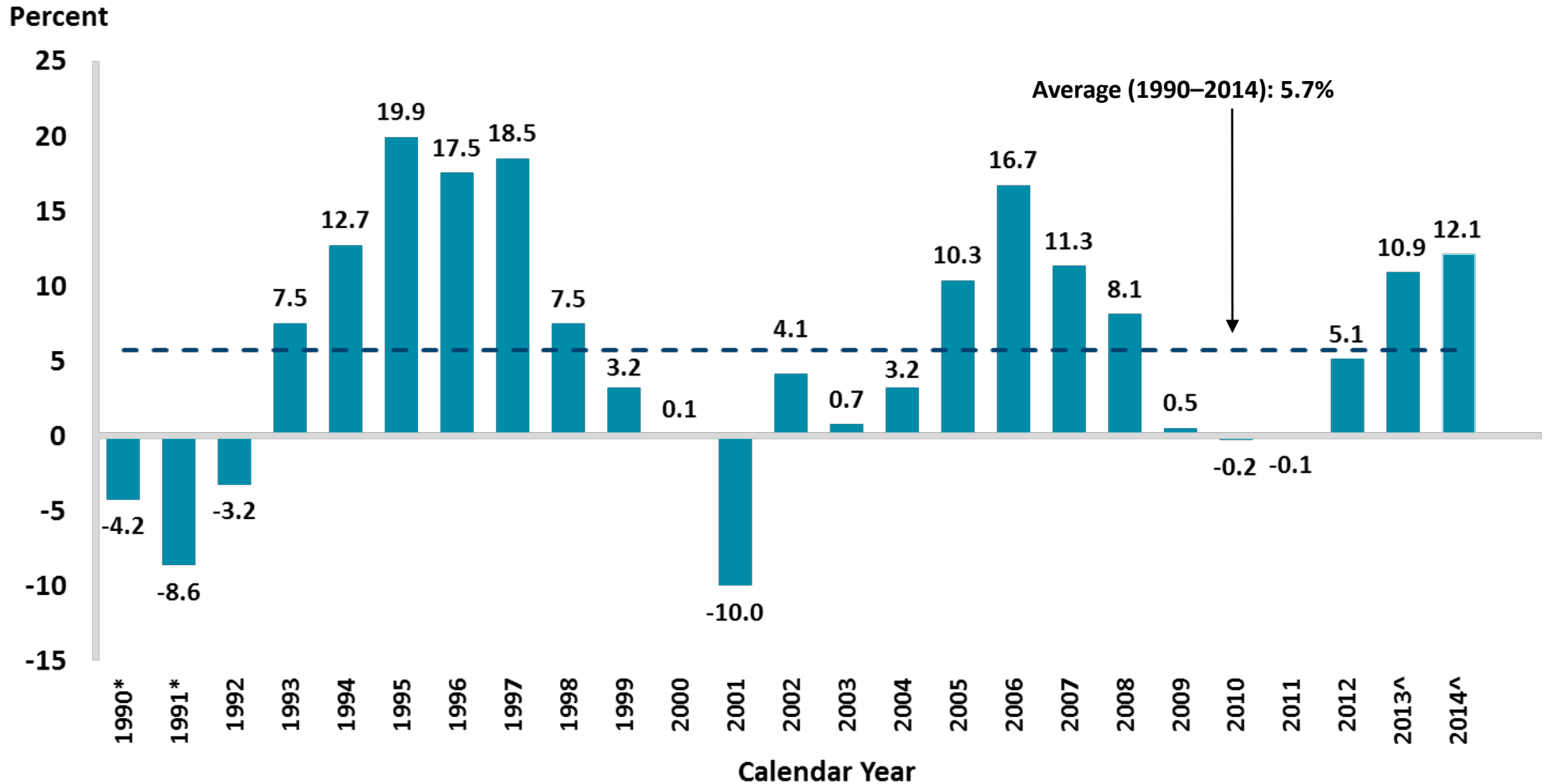
Source: Annual Statement data





# WC Pretax Operating Gain

## Private Carriers



Operating Gain Equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

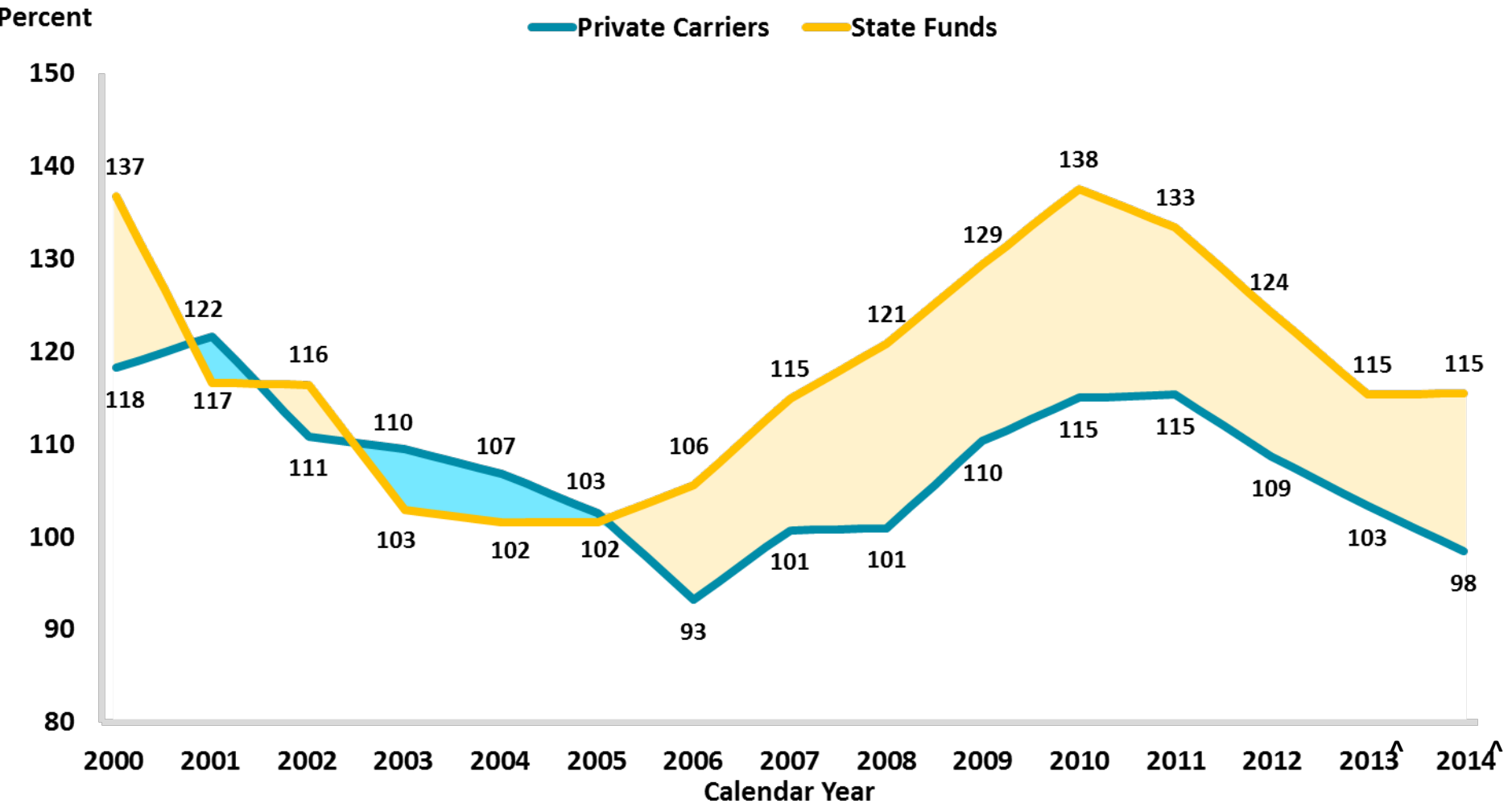
\*Adjusted to include realized capital gains to be consistent with 1992 and subsequent

^2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data



# WC Net Combined Ratios



Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

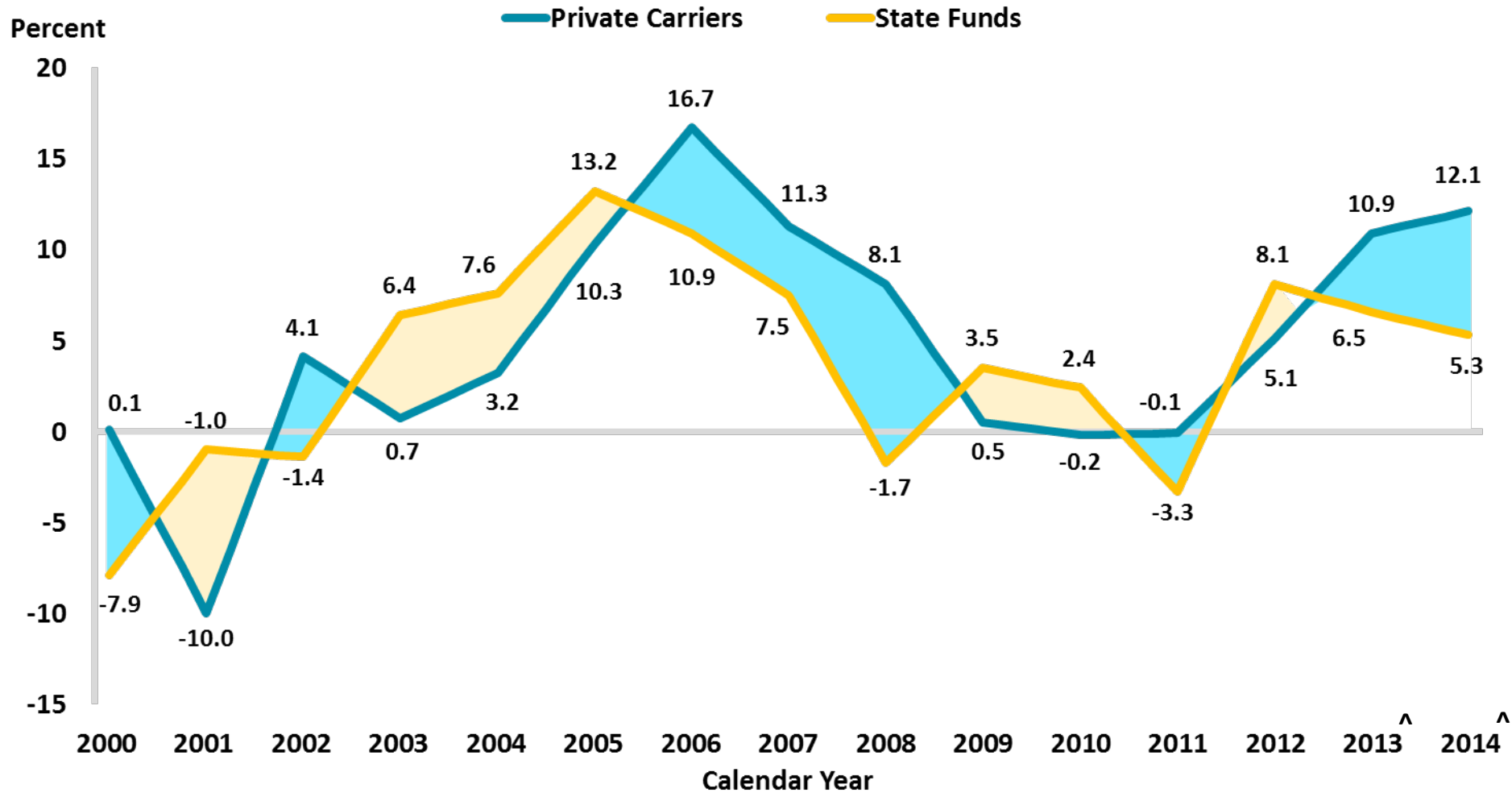
Each calendar year total for state funds includes all funds operating as a state fund in that year

<sup>^</sup>2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data



# WC Pretax Operating Gain Ratios



Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year

<sup>^</sup>2013–2014 adjusted to exclude a single large company; this exclusion has no impact on NCCI rate/loss cost filings

Source: Annual Statement data



# State of the Workers Compensation Market

Combined ratios  
continued to improve

Net written premium  
volume projected to  
increase for the fifth  
consecutive year

Lost-time claim  
frequency decreased  
again

Medical and  
indemnity lost-time  
severity are up  
modestly

Residual market  
premium remains  
manageable



# Workers Compensation Carrier Results Vary





# Workers Compensation Premium Drivers

# WC

## Components of Written Premium Change

Private Carriers

### Written Premium Change From 2013 to 2014

<b>Net Written Premium—Countrywide</b>	<b>+4.6%</b>
<b>Direct Written Premium (DWP)—Countrywide</b>	<b>+4.6%</b>
<b>Direct Written Premium (DWP)—NCCI States</b>	<b>+4.5%</b>
<b>Components of DWP Change for NCCI States:</b>	
<b>Change in Carrier Estimated Payroll</b>	<b>+4.7%</b>
<b>Change in Bureau Loss Costs and Mix</b>	<b>-1.4%</b>
<b>Change in Carrier Discounting</b>	<b>+0.4%</b>
<b>Change in Other Factors</b>	<b>+0.8%</b>
<b>Combined Effect:</b>	<b>+4.5%</b>

Sources: Countrywide: Annual Statement data

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services

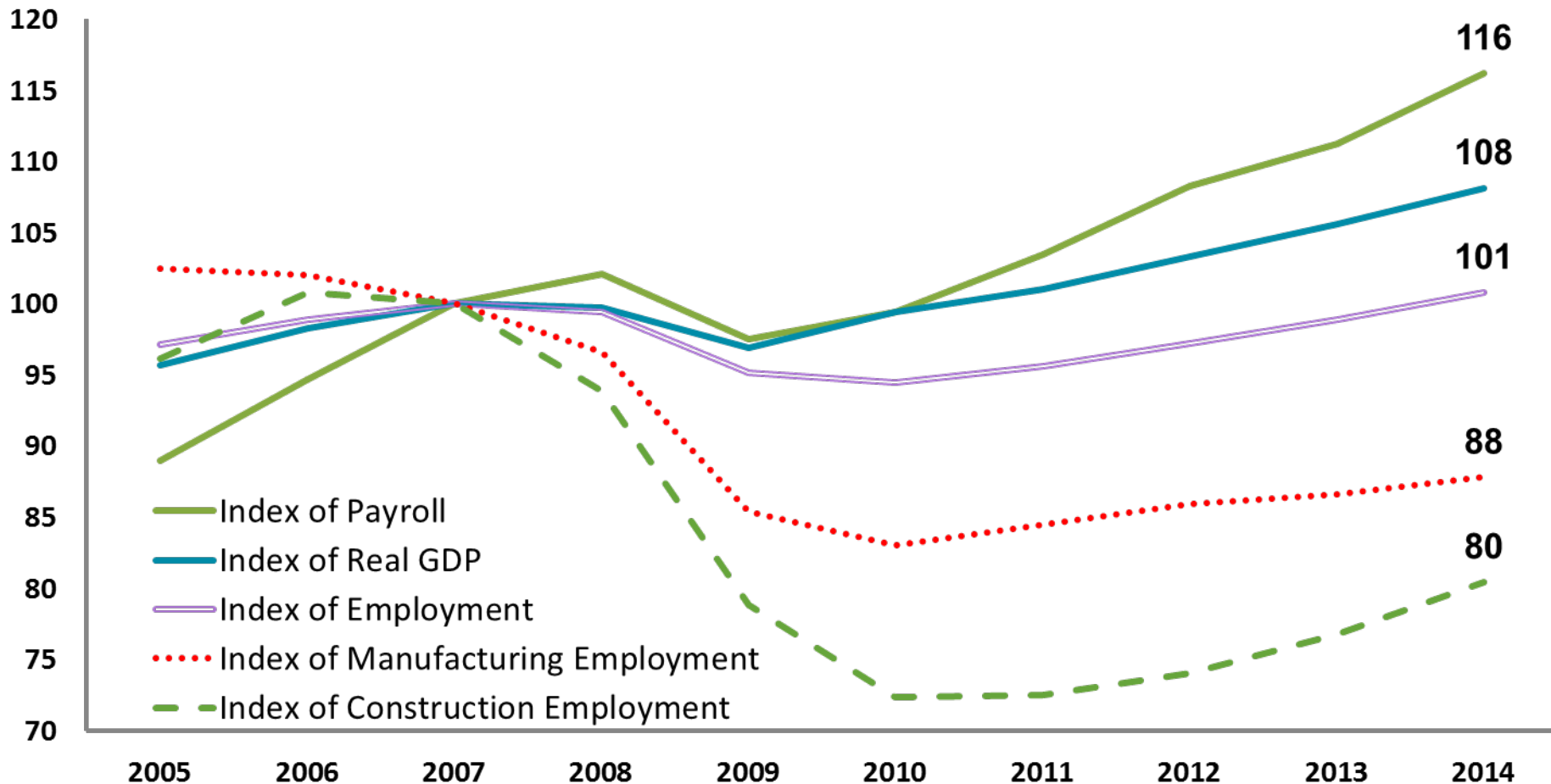
Components: NCCI Policy data





# US Employment Levels

Index: 2007 = 100

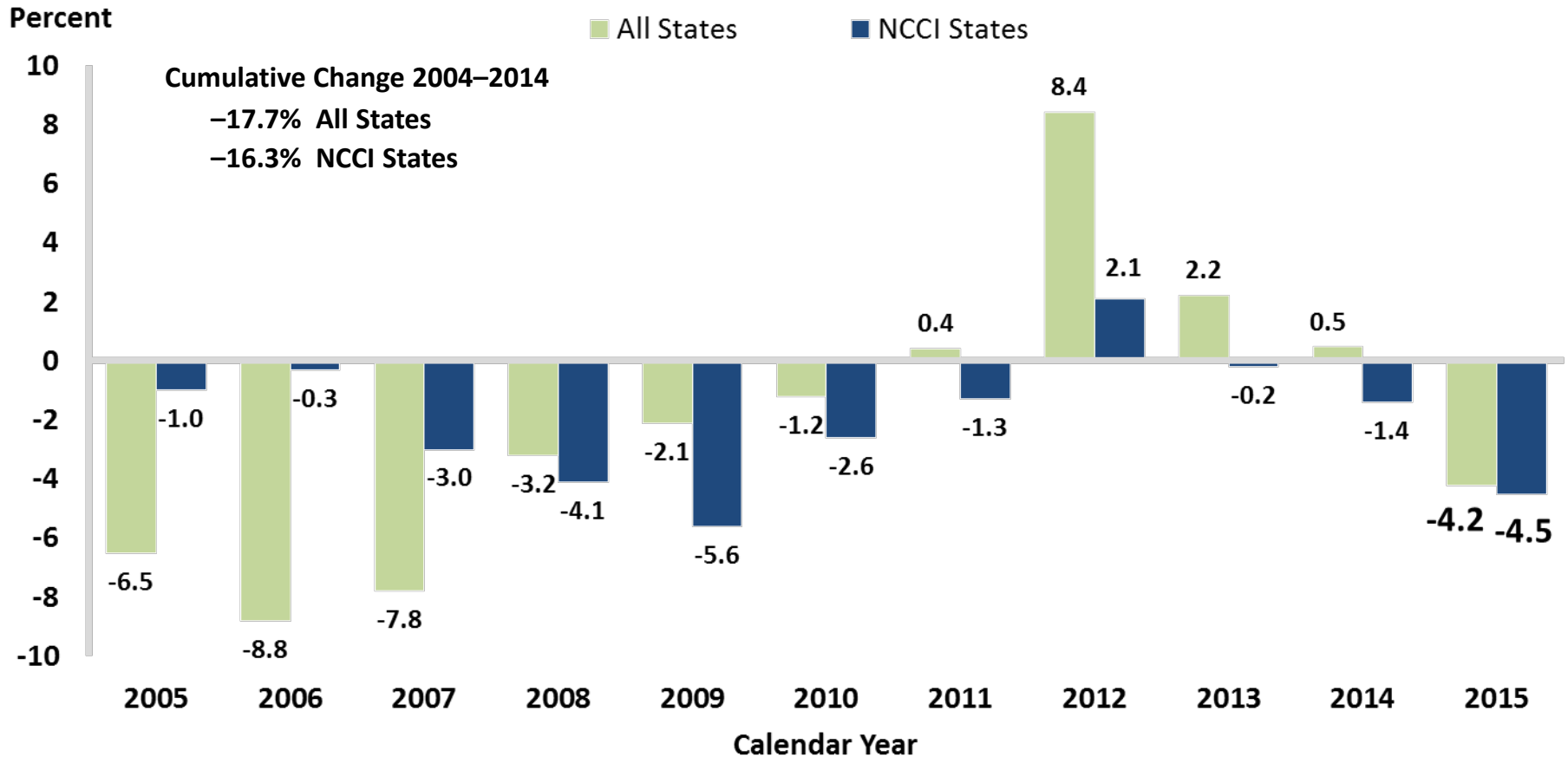


Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis



# WC Approved Changes in Bureau Premium Level

## By Effective Date for Total Market



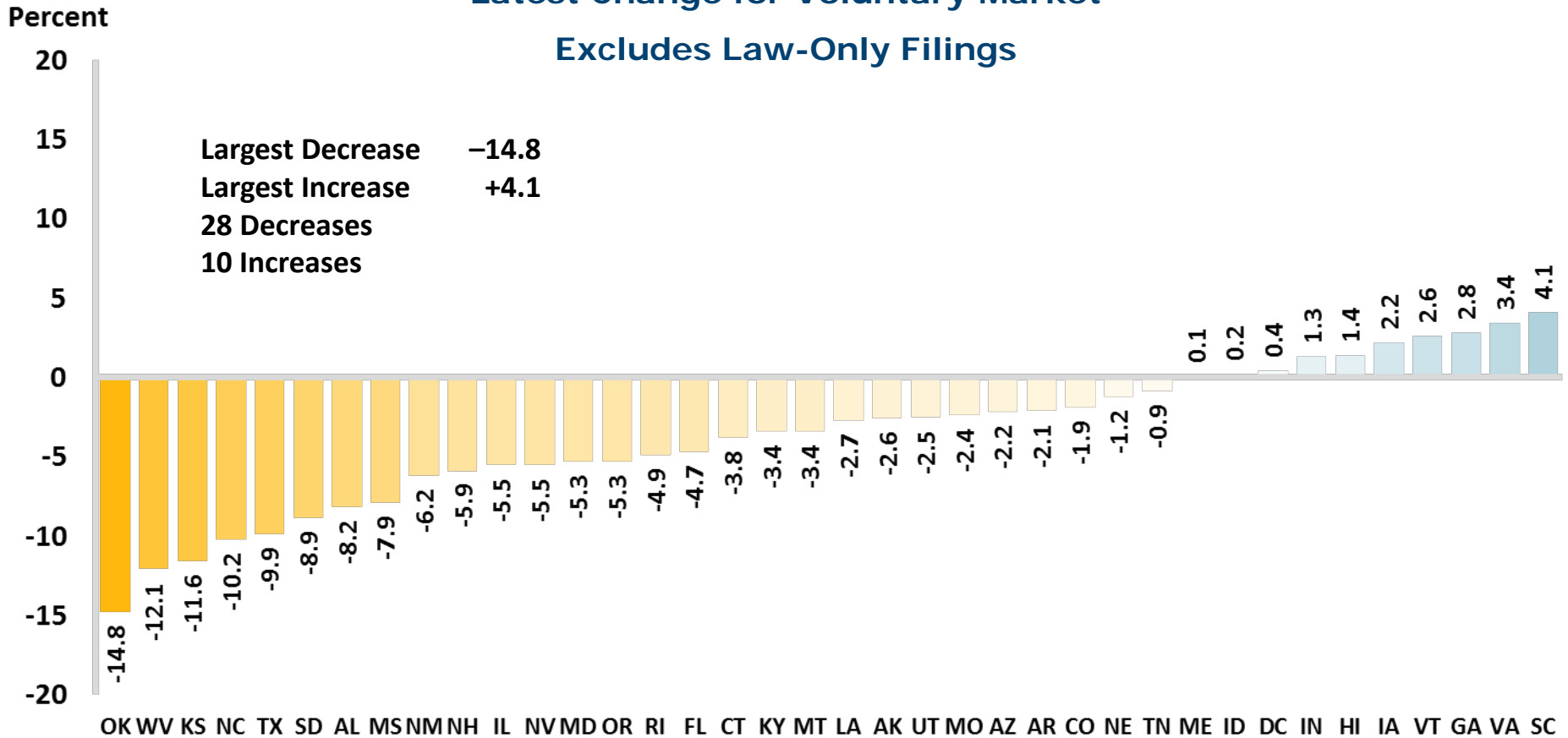
Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 2/19/2016, as filed by the applicable rating organization, relative to those previously approved



# WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for Voluntary Market

Excludes Law-Only Filings



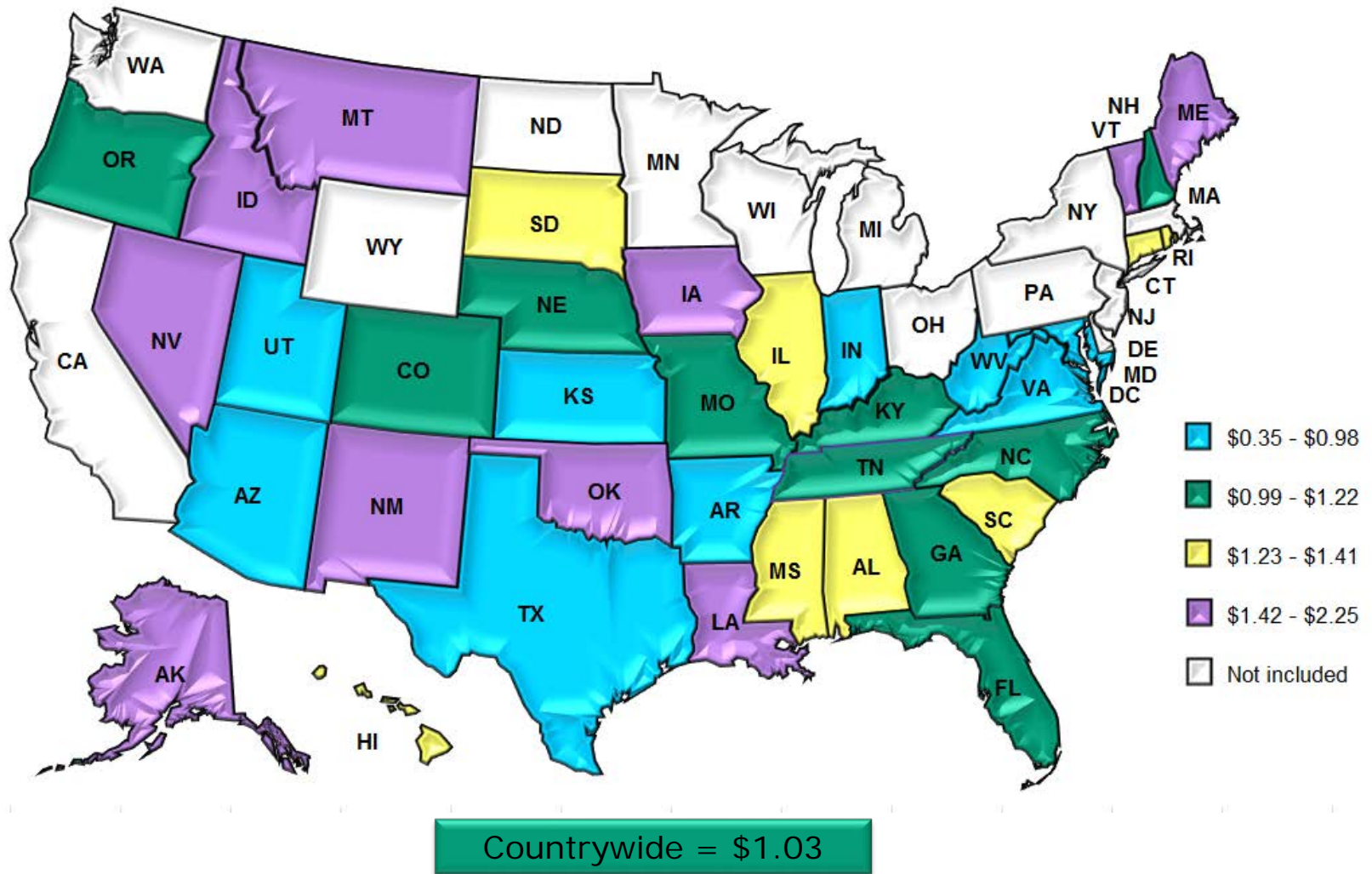
Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 2/19/2016, as filed by the applicable rating organization, relative to those previously approved

ME, MT, RI and SC are filed and pending

IN and NC are filed in cooperation with state rating bureaus



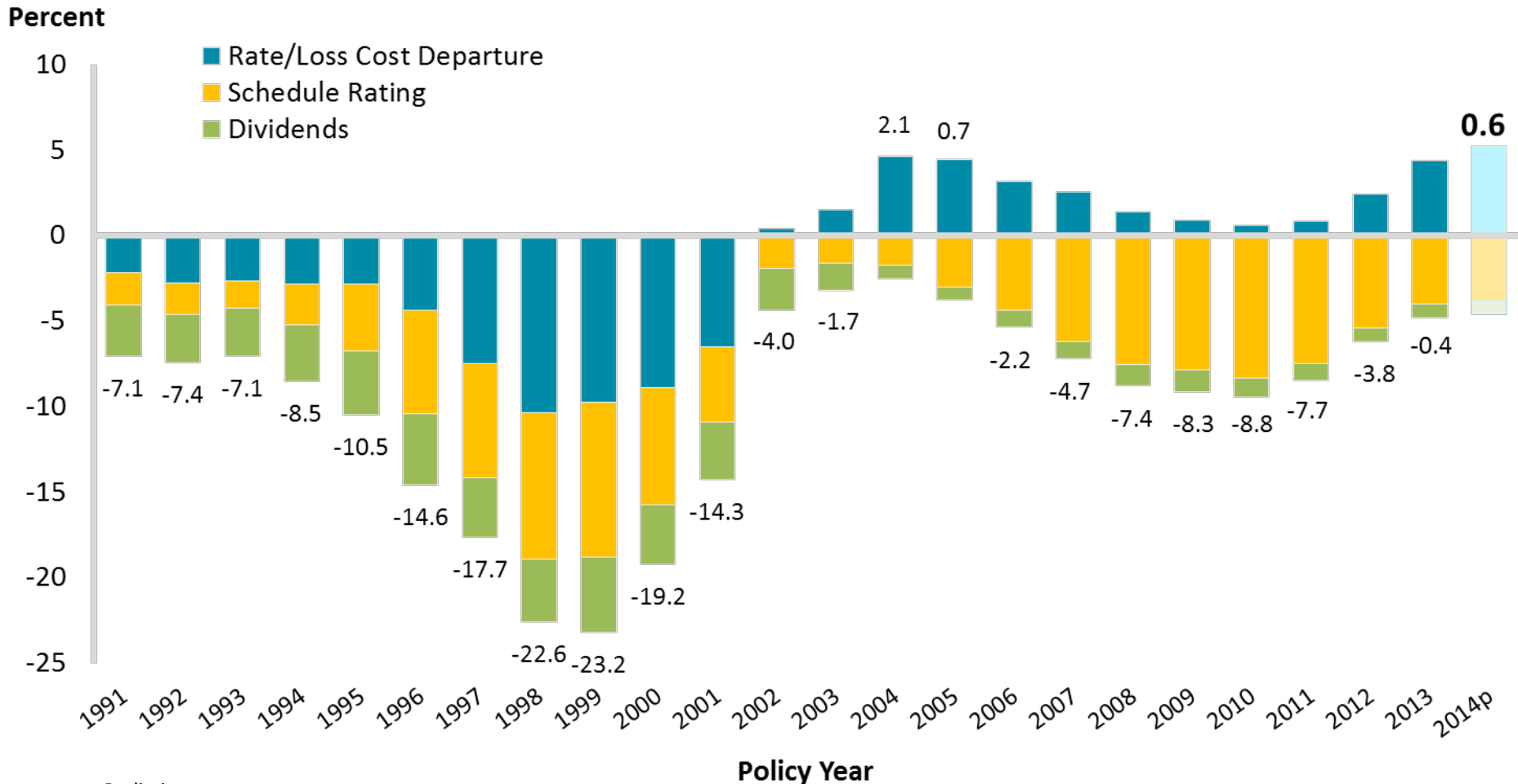
# Average Voluntary Pure Loss Cost Quartiles Using Each State's Respective Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states as of 1/4/2016

# WC Impact of Discounting on Premium NCCI States

## Private Carriers



p Preliminary

Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data

Dividend ratios are based on calendar year statistics

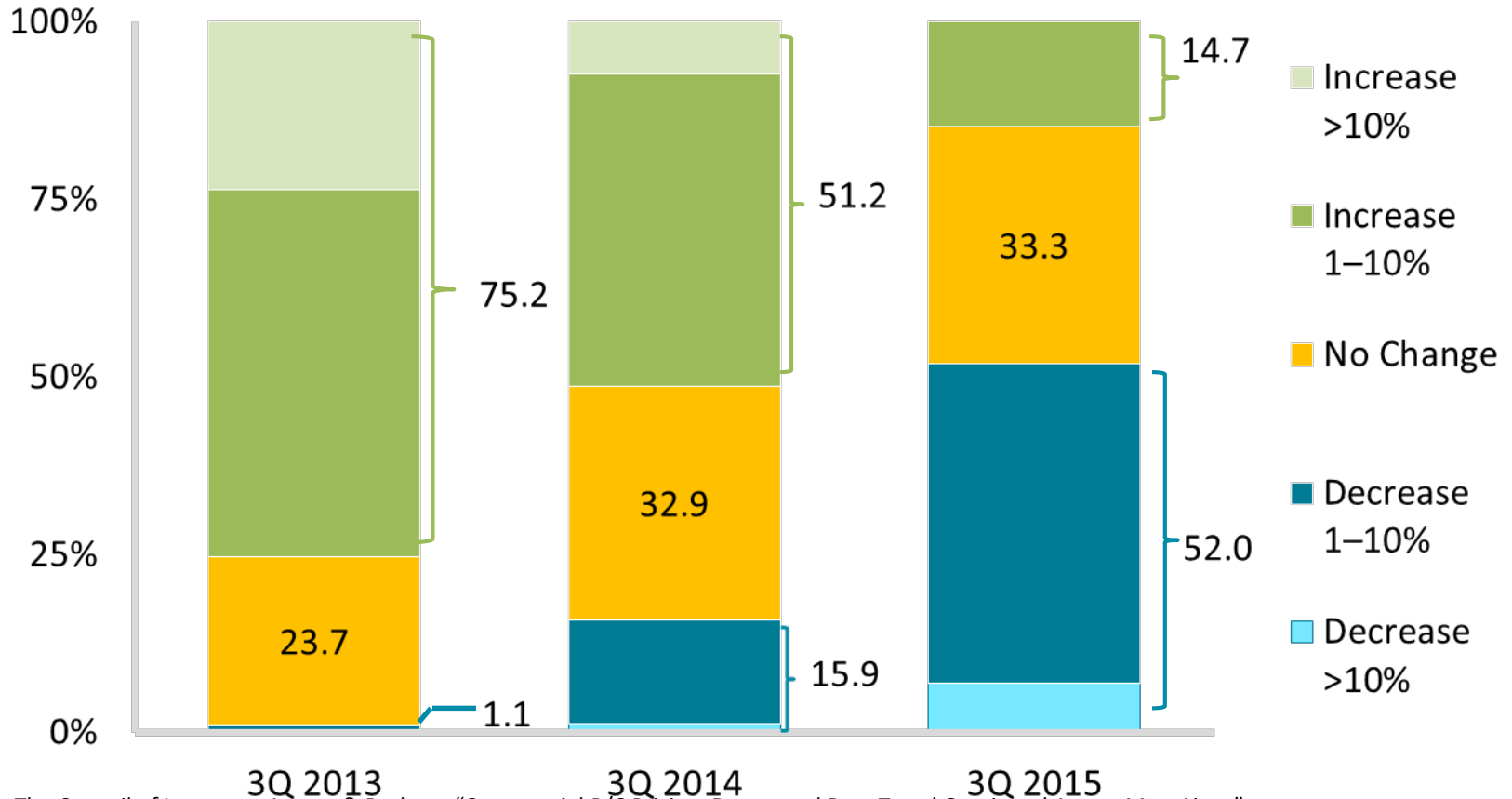
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2014 for all states where NCCI provides ratemaking services, excluding TX



# WC Price Increases Continue to Ease

Percentage of Respondents



Sources: The Council of Insurance Agents & Brokers, "Commercial P/C Pricing: Downward Rate Trend Continued Across Most Lines" Third Quarter 2015 Results

"Commercial P/C Pricing Continued to stabilize in Third Quarter of 2014"

"Commercial P/C Pricing Steady in Third Quarter"

Results for "All Regions"





# Workers Compensation Recession Impact on Class Payroll





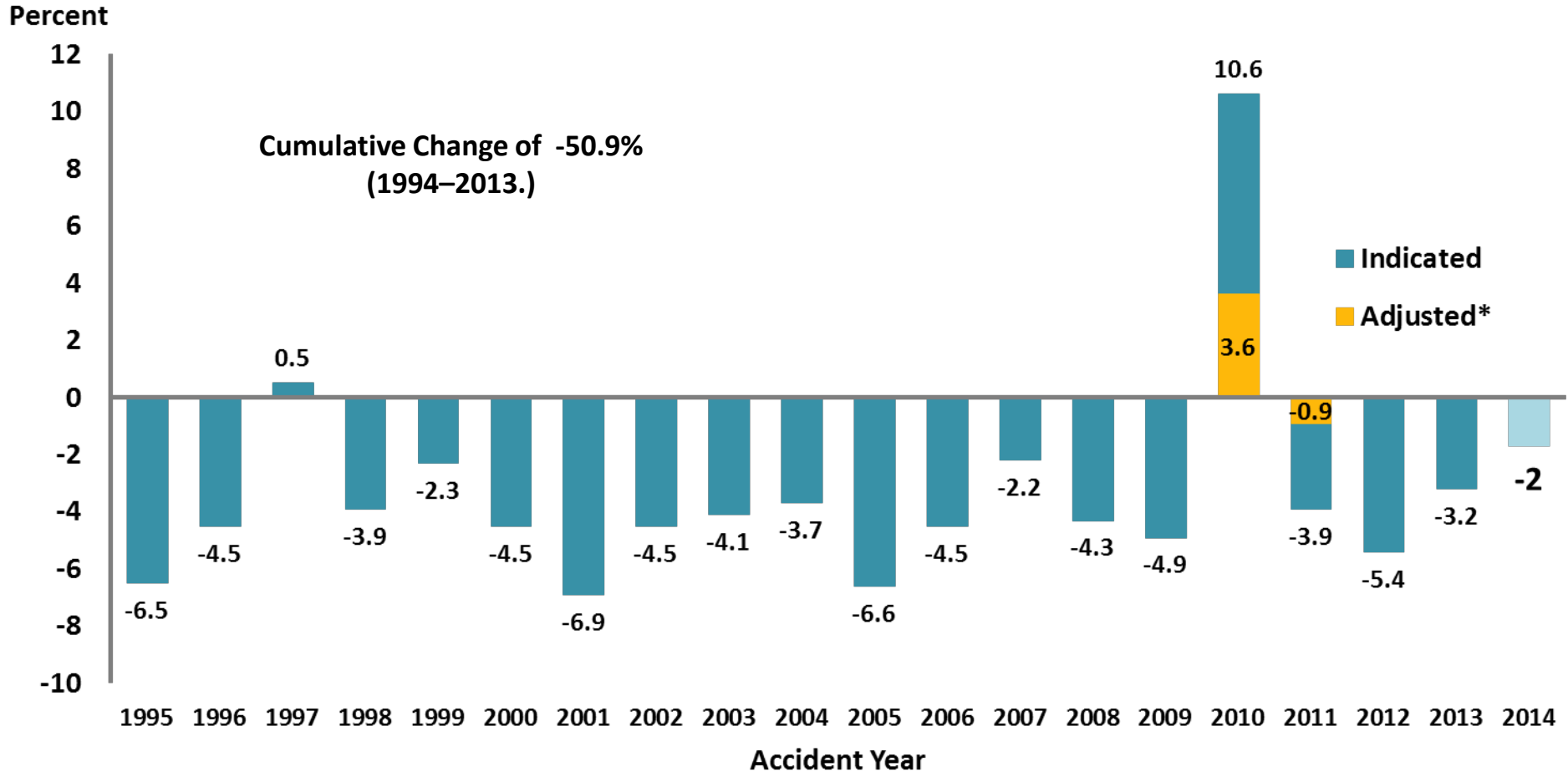


# Workers Compensation Loss Drivers

# WC Lost-Time Claim Frequency

## Change in Lost-Time Claims per \$1M Pure Premium

Private Carriers and State Funds



\*Adjustments primarily due to significant changes in audit activity

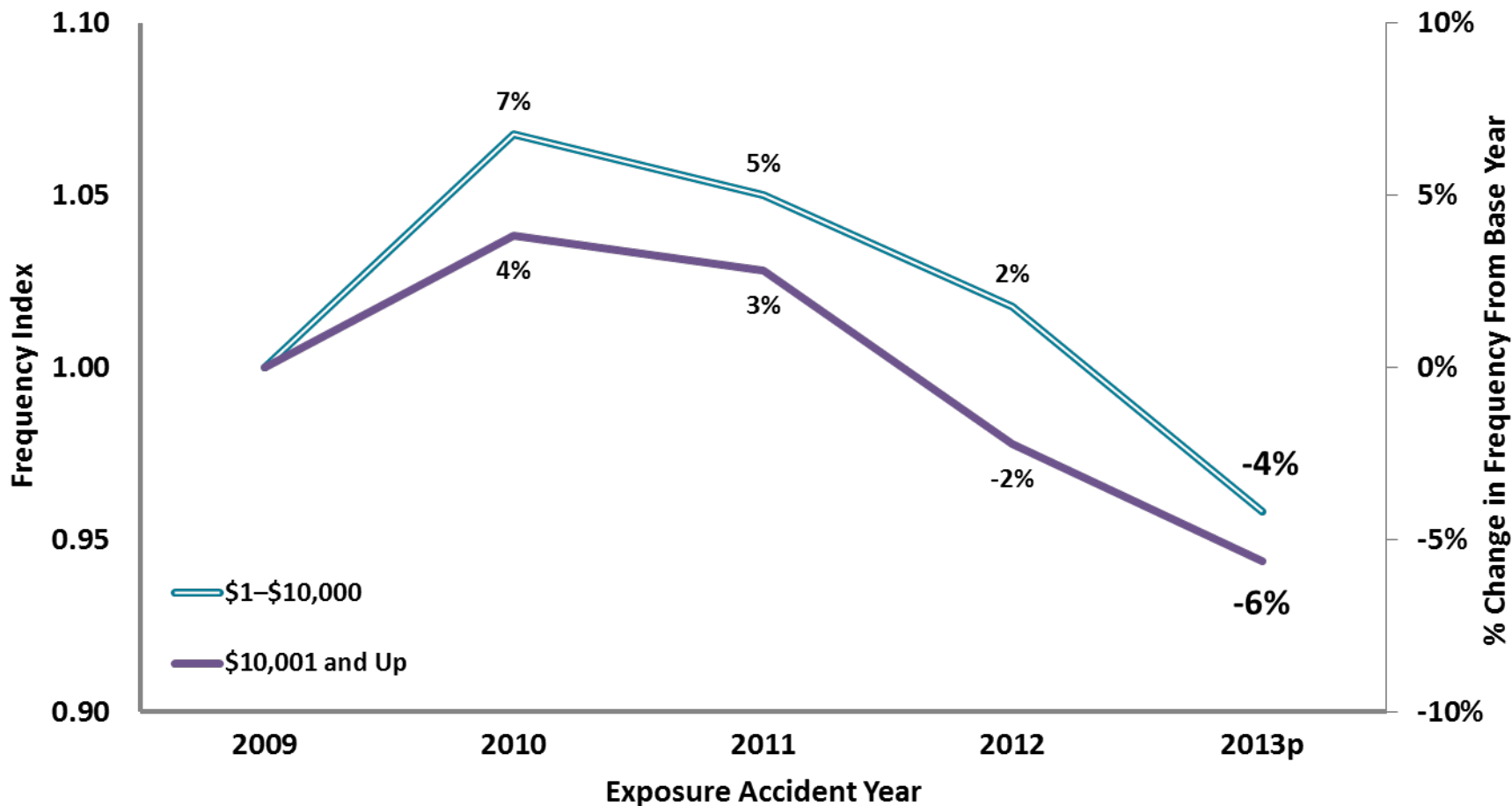
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; excludes high deductible policies; Based on data through 12/31/2014

For all states where NCCI provides ratemaking services, excluding WV



# WC Lost-Time Claim Frequency Changes by Total Size of Loss

Index: Exposure Accident Year 2009 = 1.00



p Preliminary

Source: NCCI Unit Statistical Plan data

Frequency is the number of lost-time claims at 1st report per \$1M premium at current wage and average carrier rate level

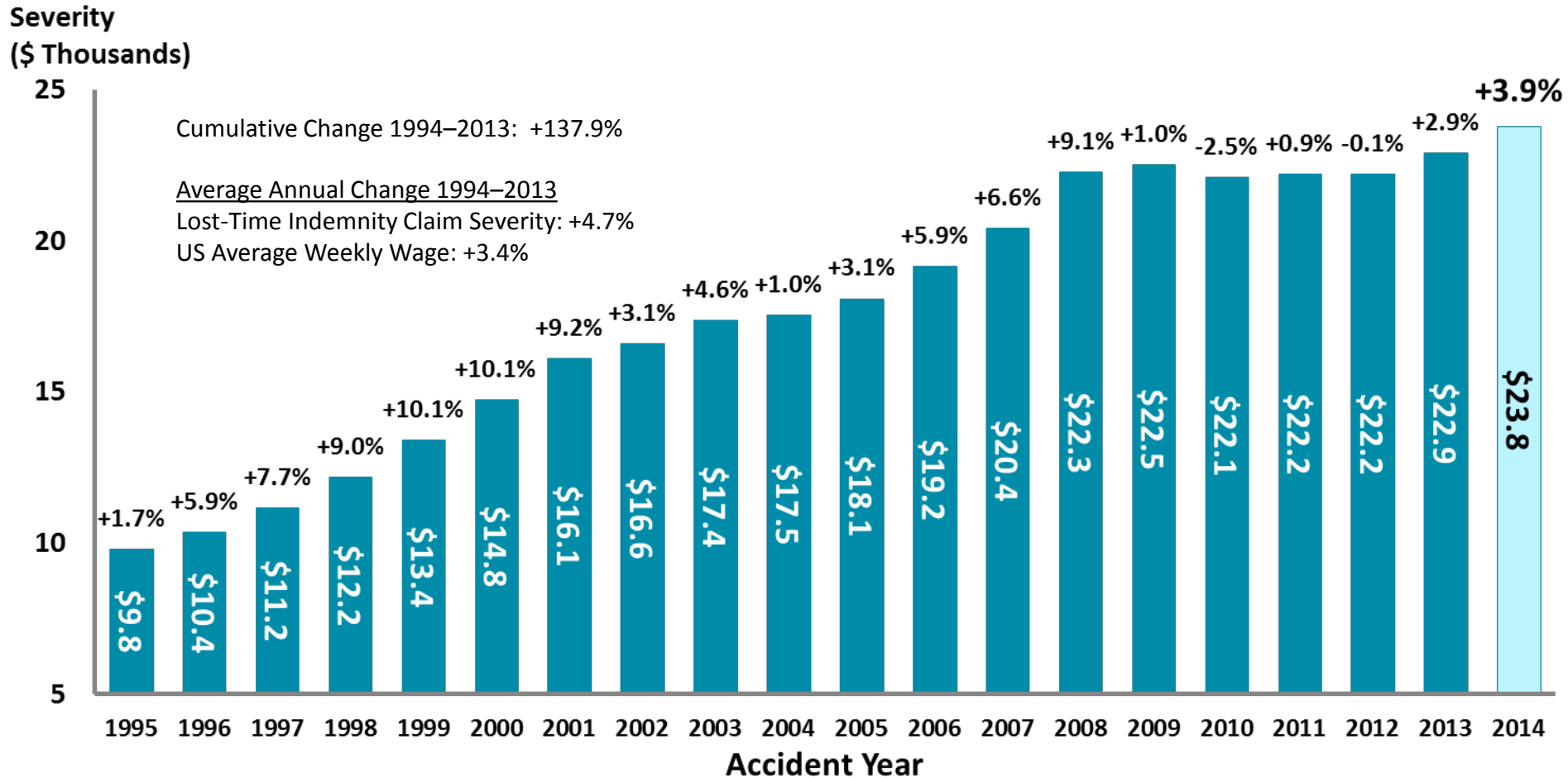
Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation through 2013

For all states where NCCI provides ratemaking services



# WC Average Indemnity Cost per Lost-Time Claim

## Private Carriers and State Funds



Source: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

Based on data through 12/31/2014

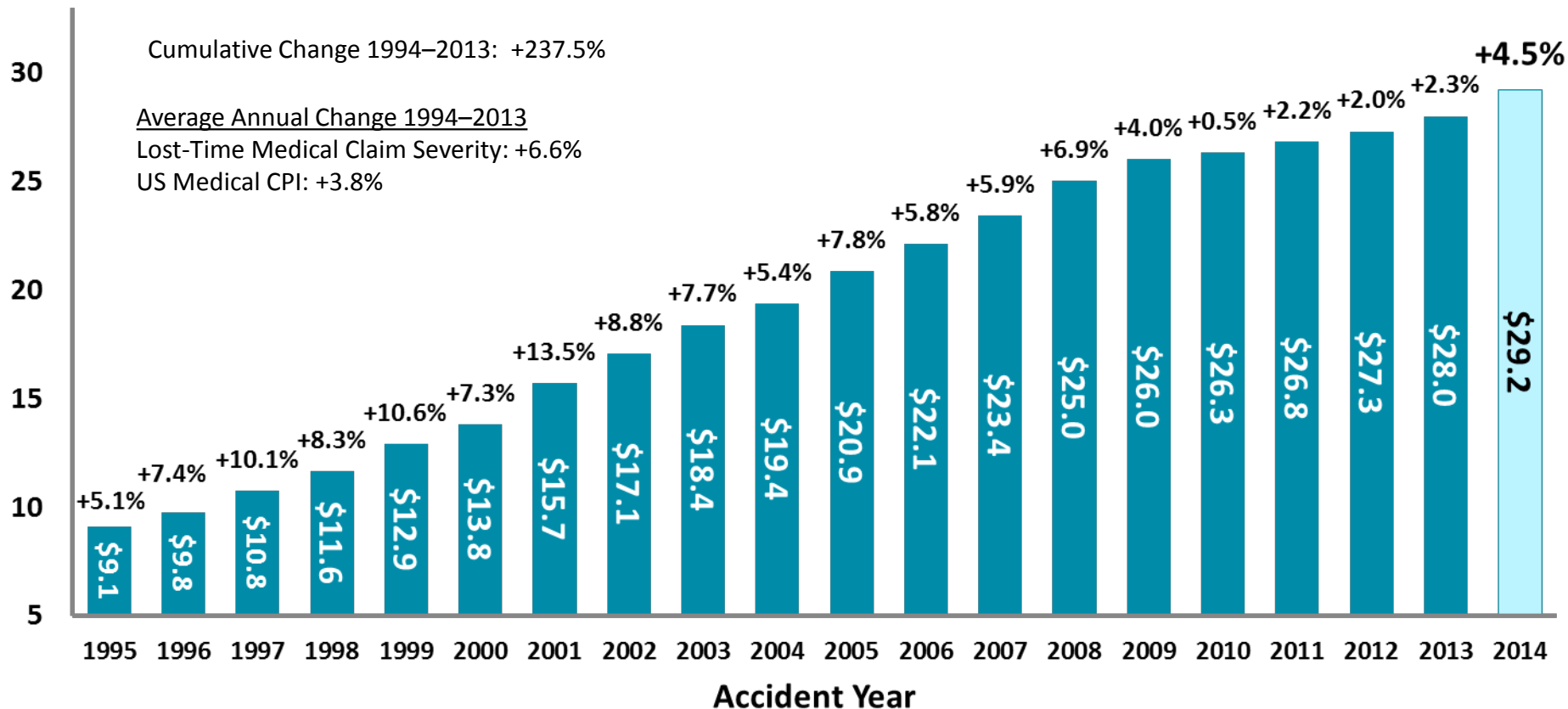
For all states where NCCI provides ratemaking services, excluding WV



# WC Average Medical Cost per Lost-Time Claim

## Private Carriers and State Funds

Severity  
(\$ Thousands)



Source: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

Based on data through 12/31/2014

For all states where NCCI provides ratemaking services, excluding WV



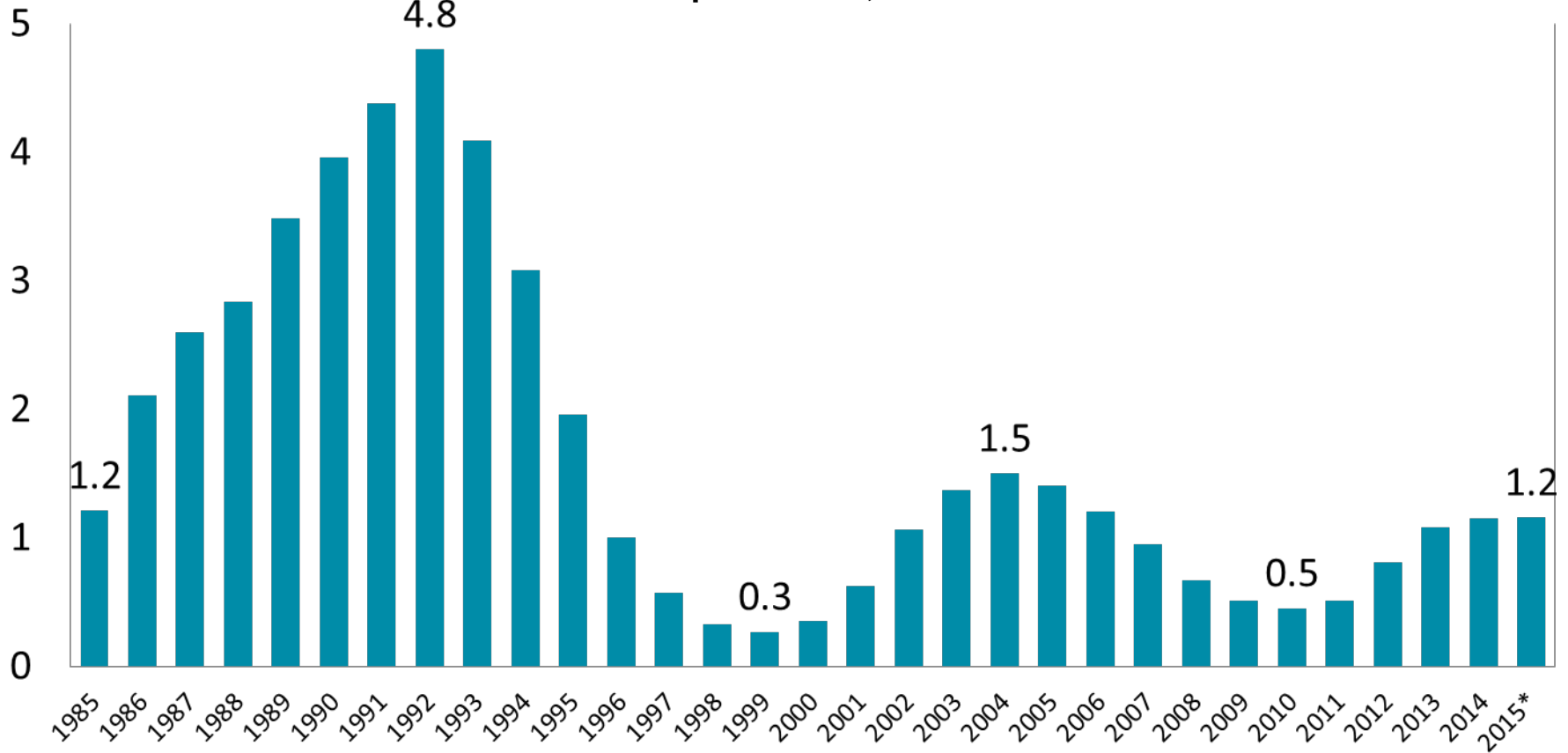


# Workers Compensation Residual Market

# Workers Compensation Residual Market Premium

NCCI-Serviced Workers Compensation Residual Market Pools  
as of September 30, 2015

\$ Billions

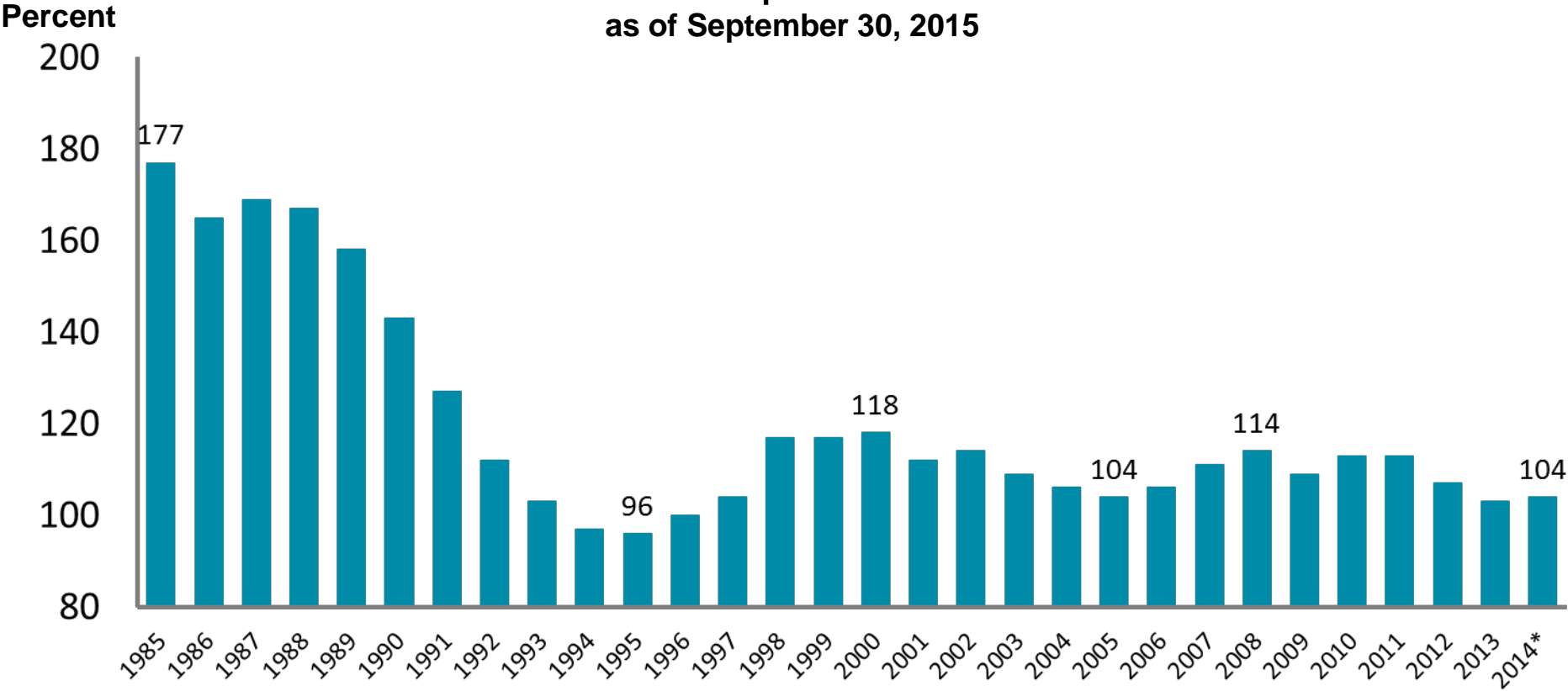


\* Projected to Ultimate



# Workers Compensation Residual Market Combined Ratio

NCCI-Serviced Workers Compensation Residual Market Pools  
as of September 30, 2015



## Policy Year

Based on data through 9/30/2015, developed to ultimate

\*Policy Year 2014 is not yet complete

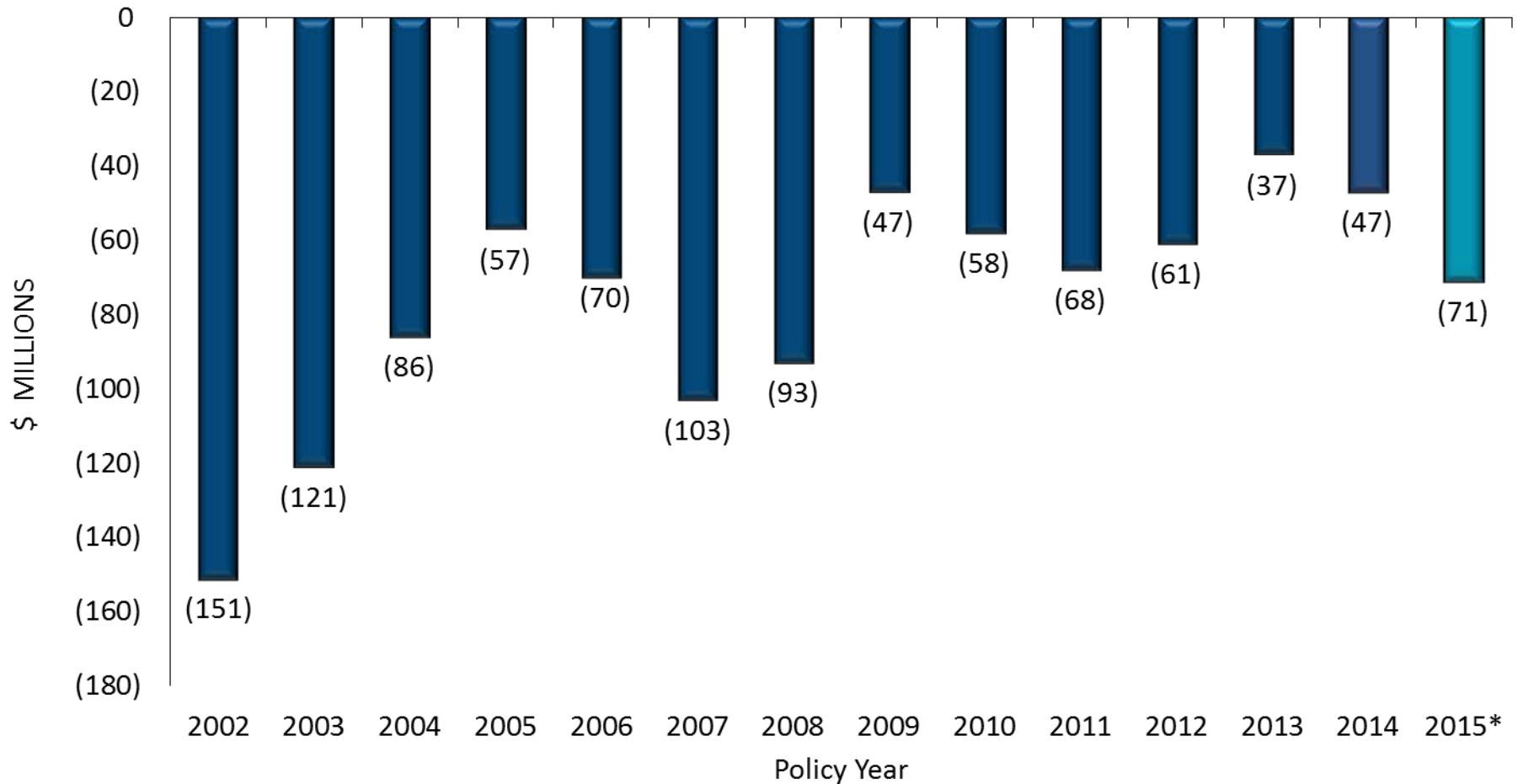
Tennessee Reinsurance Mechanism experience is not included in the combined ratios above





# Operating Results for all Pools Serviced by NCCI

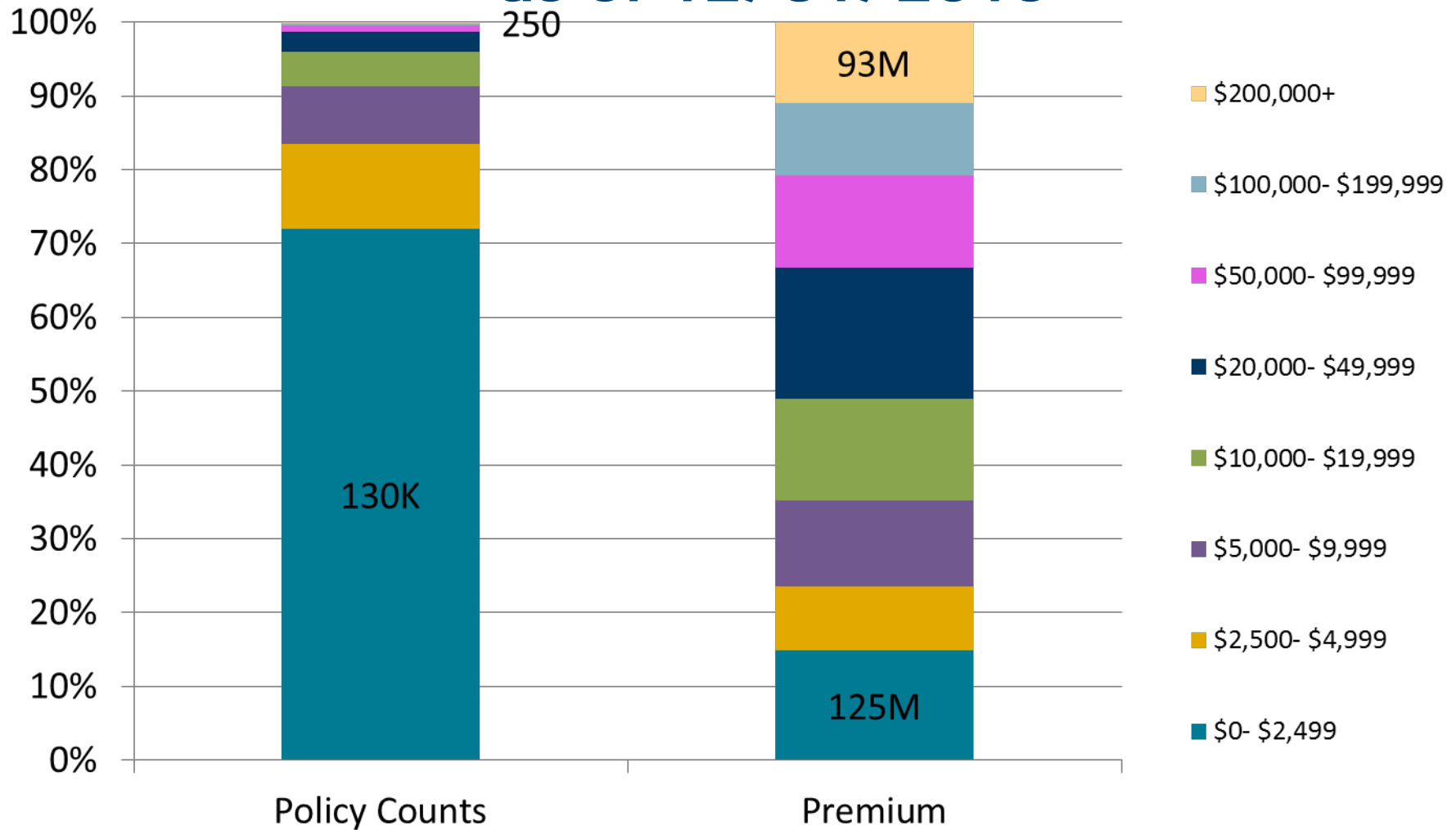
as of 9/30/15 (Projected to Ultimate)



\* Preliminary



# Residual Market Distribution by Policy Size as of 12/31/2015



# Residual Market Demographics Top 5 Classification Codes

as of 12/31/2015

## Plan Administration Policy Count

- 5645 – Carpentry (8.4%)
- 5437 - Carpentry, Interior Trim (5.3%)
- 5474 – Painting (4.8%)
- 7228 - Trucking, Local (4.0%)
- 5551- Roofing (2.9%)

## Plan Administration Premium

- 5645 – Carpentry (6.0%)
- 7228 – Trucking, Local (3.8%)
- 5551- Roofing (3.6%)
- 7229 –Trucking, Long Distance (3.0%)
- 5474 – Painting (2.3%)



# NCCI Research

# NCCI Research Highlights

Time From Injury to  
Treatment in Workers  
Compensation – A  
Baseline to Monitor  
the ACA

The Impact of Workers  
Compensation Drug  
Fee Schedules

The Relationship  
Between Accident  
Report Lag and Claim  
Cost

# Time From Injury to Treatment

## Key Findings

There are significant differences by state in the time to receive initial treatment

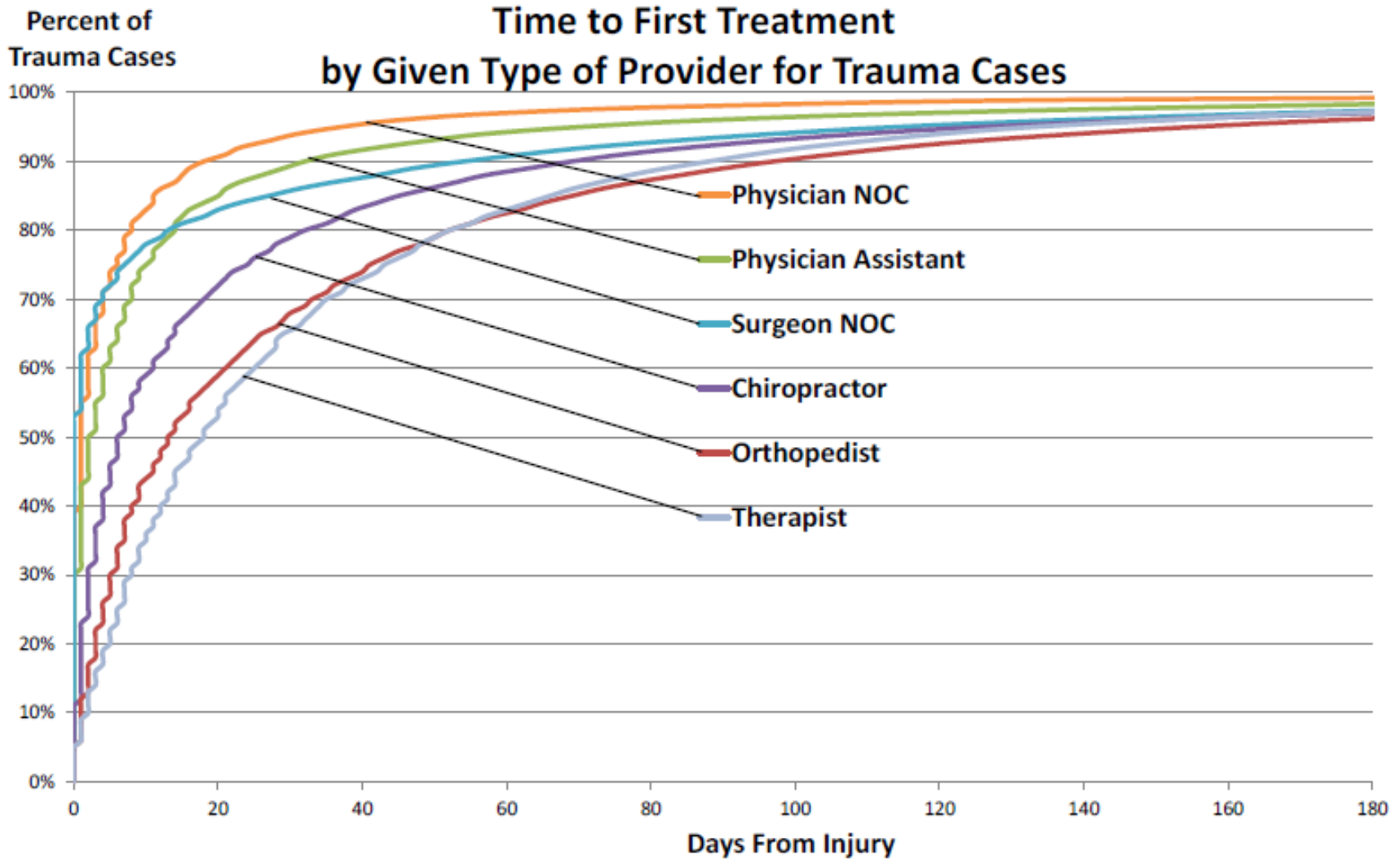
A high share of WC cases receive treatment on the date of injury

Claimant demographics impact how medical care is accessed

Time to treatment patterns differ by the type of service, type of provider and the nature of the injury

Little evidence of a difference between urban versus rural providers

# Time From Injury to Treatment - ACA

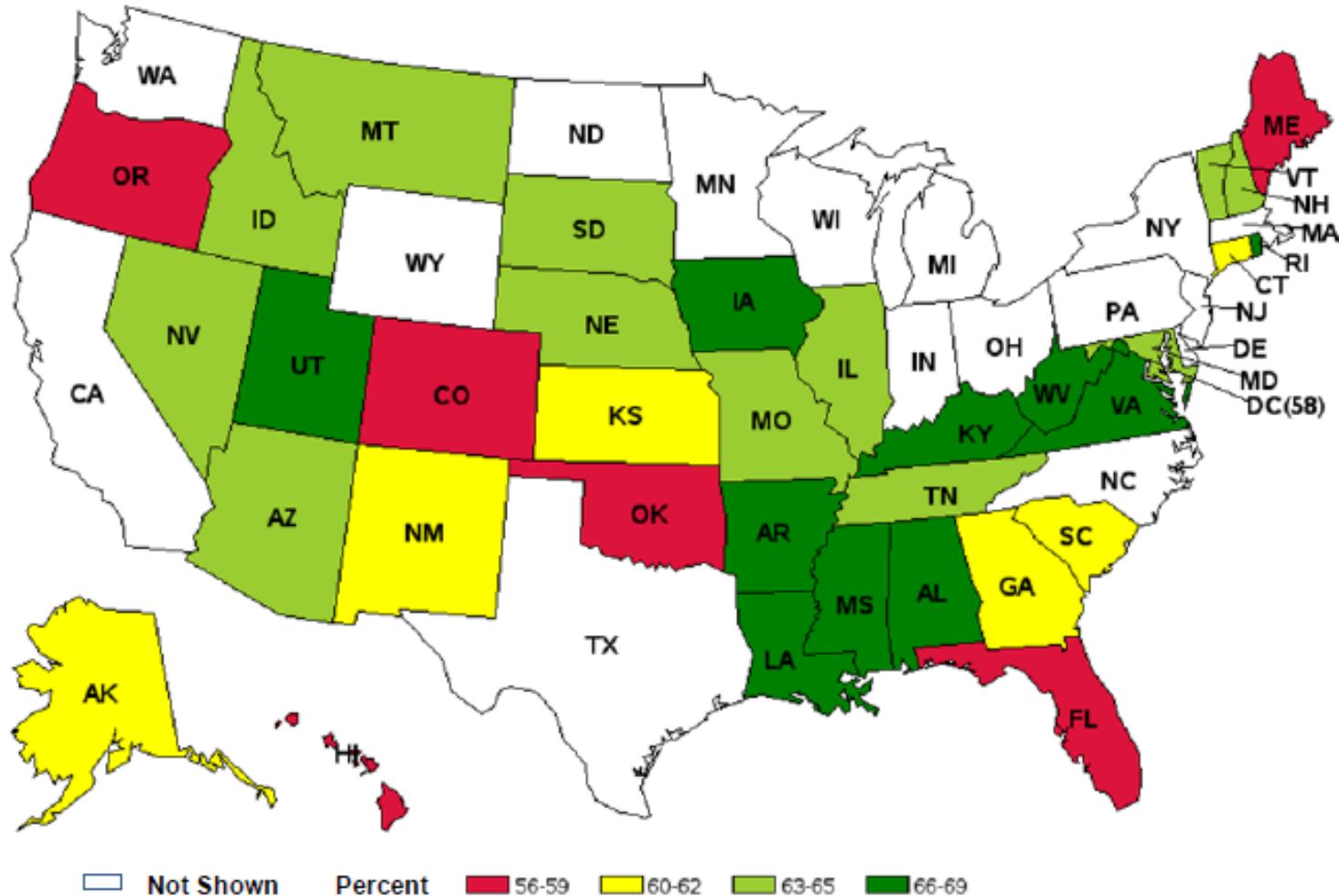


Based on NCCI's Medical Data Call for injuries occurring between July 1, 2010 and December 31, 2012, that had at least one medical treatment within 360 days of the date of injury.



# Time From Injury to Treatment - ACA

## Percent of Trauma Cases Seen on Date of Injury





# Impact of WC Drug Fee Schedules

## Key Findings

AWP-based Rx fee schedules do have an effect on Rx prices paid in WC

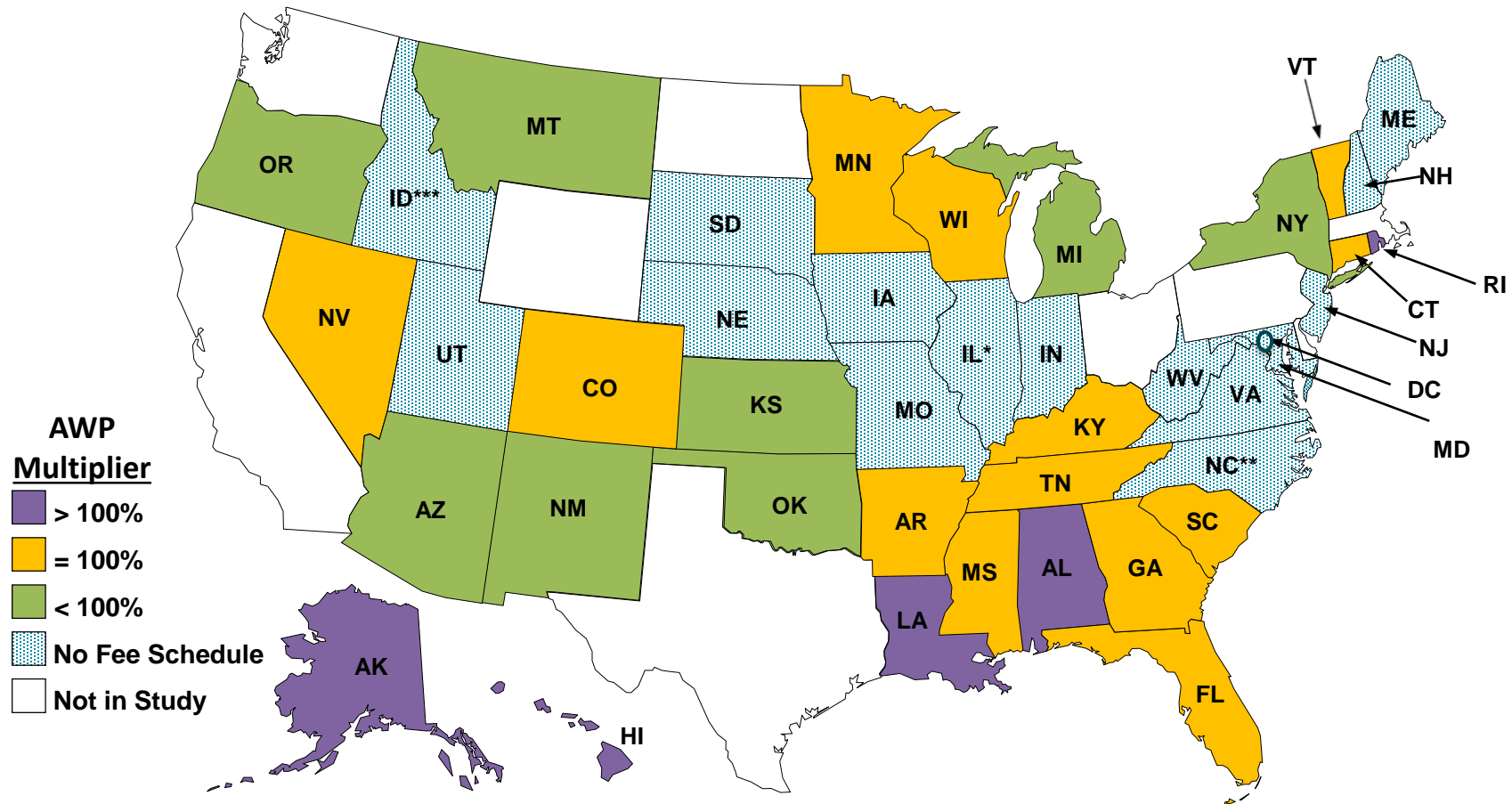
States with similar WC Rx fee schedules do not necessarily have similar Rx prices paid

Lower WC state Rx fee schedules seem to correspond with lower WC Rx prices paid

While average Rx prices paid are higher in high-fee-schedule states vs. low-fee-schedule states, the differences are smaller than the differences in the maximums

# Impact of WC Drug Fee Schedules

## AWP Multipliers Range From 80% to 140%



Based on regulation rules established for pharmacy dispensing of generic medications during Service Years 2011–2013.

\*AWP-based fee schedule only applies to prescriptions filled outside of a pharmacy

\*\* AWP-based fee schedule established 8/7/2014

\*\*\* AWP-based fee schedule established 7/1/2013

# Impact of WC Drug Fee Schedules

## Average Rx Price per Unit Varies by State

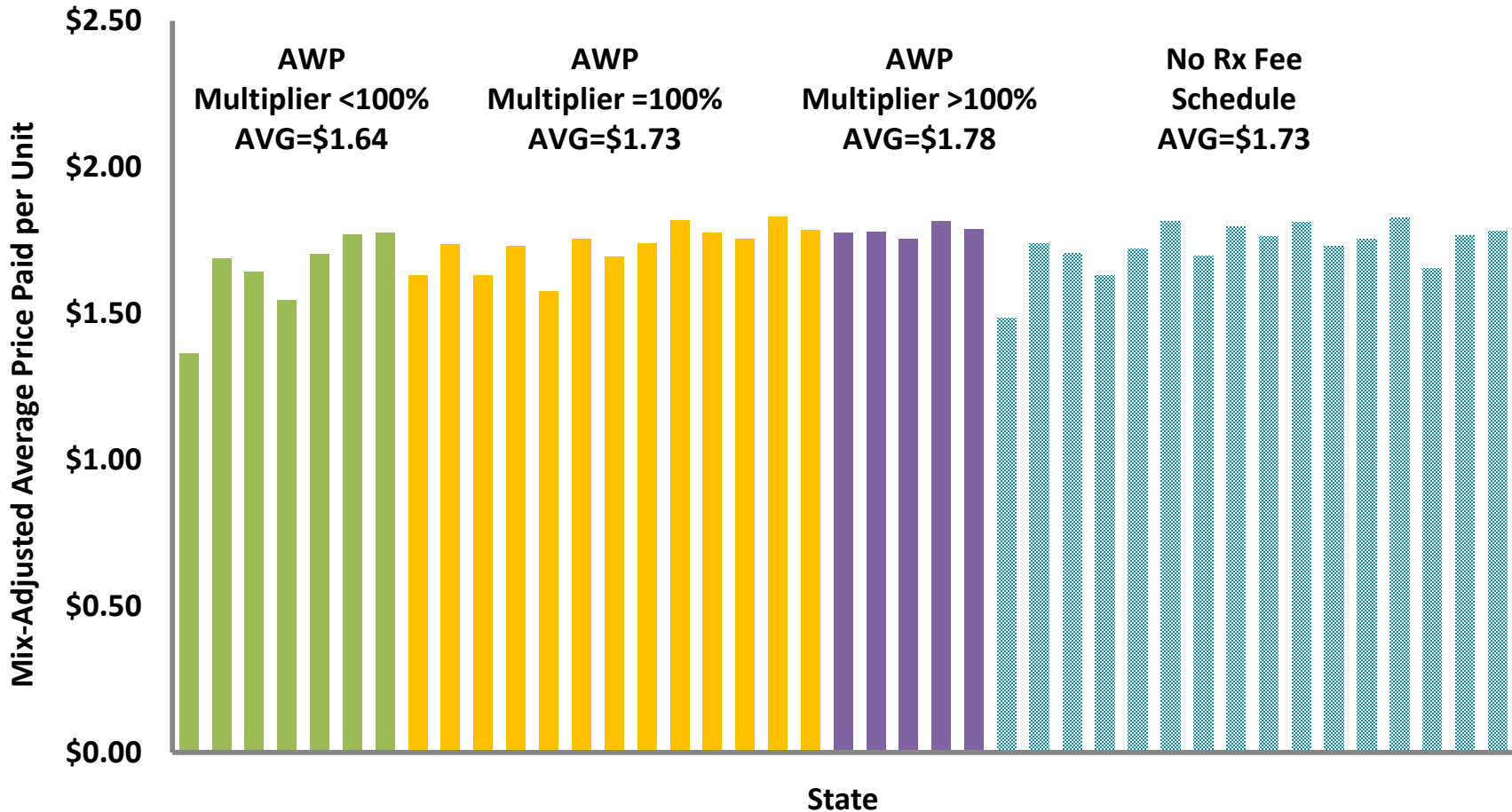


Source: NCCI Medical Data Call, for prescriptions provided between Service Years 2011 and 2013  
Capsules and tablets only

# Impact of WC Drug Fee Schedules

## Mix-Adjusted Average Rx Price per Unit

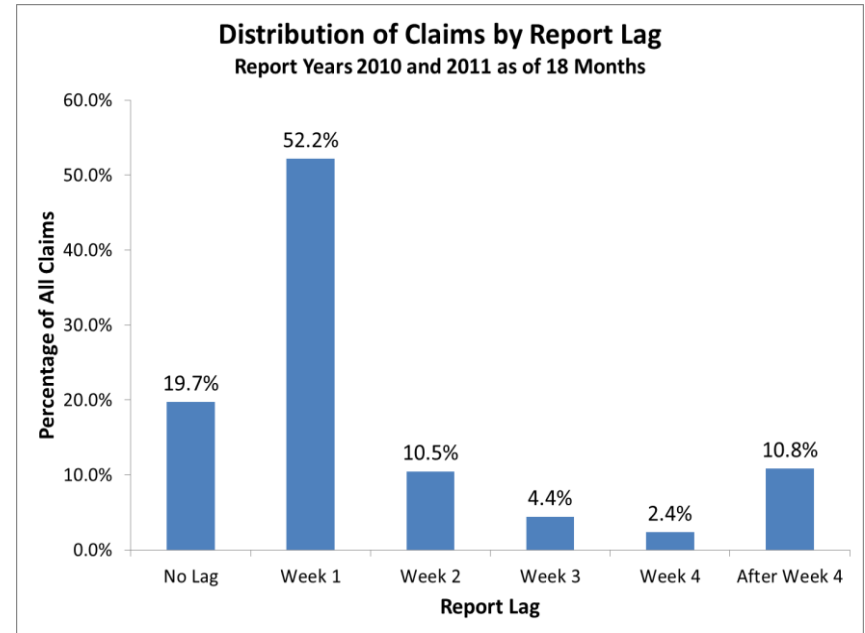
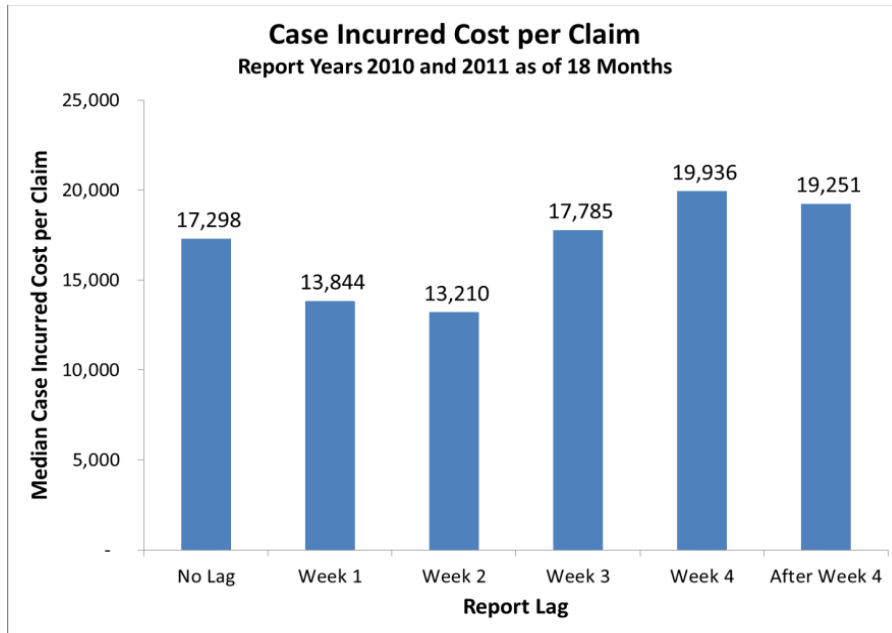
### Also Varies by State, But to a Lesser Degree



Source: NCCI Medical Data Call, for prescriptions provided between Service Years 2011 and 2013  
 Capsules and tablets only  
 Adjusted for mix of Rx's and mix of network transactions

# Accident Report Lag and Claim Cost

## Key Findings



- Claims reported on the day of the accident are some of the most costly claims.
- Claims with more than a two-week delay in reporting have a lower medical share of total cost, greater attorney involvement, more use of lump-sum payments, lower paid to incurred ratio at 18 months, and a lower closure rate at 18 months.



# LEGISLATIVE ACTIVITY

# Legislative Activity—NCCI States

- 2015 Key Themes
  - Medical
  - Indemnity
- Pricing Example: Hospital Outpatient Fee Schedule Implementation
- What's Happening/Expected for 2016

# 2015 Key Themes - Medical

- Establishing and updating Medicare-based schedules
- Changes in maximum allowable reimbursements
- Medical treatment guidelines
- Prescription drugs
  - Closed drug formularies
  - Reimbursement limitations for repackaged drugs
- Medical marijuana



# 2015 Key Themes - Indemnity

- Increases in compensation payable
  - Weekly wage benefits and awards
  - Burial benefits
- Eligibility criteria
  - Stricter causation definition
  - Intoxication
  - Mental injuries
  - First Responder presumptions

# 2015 Key Themes – Indemnity (cont'd)

- Other
  - Apportionment
  - Attorney fee schedules and maximums
  - Average weekly wage definition
  - Choice of physician
  - Classification of workers
  - Opt-Out
  - State benefit fund eligibility/assessments

# Pricing Example: Connecticut Facility Fee Schedule Implementation

- There were no facility fee schedules in Connecticut previously.
  - The employer was liable for the hospital's prevailing charges unless the payer has negotiated discounted rates with the hospital.
- Facility fee schedule effective April 1, 2015:
  - Hospital Outpatient services maximum reimbursement set at 210% of Medicare's Outpatient fee schedule
  - Ambulatory Surgical Center services maximum reimbursement set at 195% of Medicare's Outpatient fee schedule
  - Hospital Inpatient services maximum reimbursement set at 174% of Medicare's Inpatient Prospective Payment System

# Pricing Example: Connecticut Facility Fee Schedule Implementation (cont'd)

- Calculation of Hospital Outpatient Impact
  - Prior Reimbursement =  
Current Payments by Procedure Code x Trend Factor
  - Revised Reimbursement =  
[210% \* Medicare Payment Rate + Outlier Amount (if applicable) – Multiple Procedure Discounts (if applicable)] x (1 + Price Departure)
  - Impact = -13.6%; based on average of percentage changes in reimbursements by procedure code weighted by the observed payments by procedure code<sup>1</sup>

<sup>1</sup>The decrease is tempered by a price realization factor of 50%. See “*The Impact of Physician Fee Schedule Changes in Workers Compensation: Evidence from 31 States*” Schmid, F and Lord, N (2013)

# Pricing Example: Connecticut Facility Fee Schedule Implementation (cont'd)

## Summary of Cost Impacts

	(A)	(B)	(C)	(D)
Type of Service	Impact on Type of Service	Medical Cost Distribution <sup>1</sup>	Impact On Medical Costs	Impact on Overall Costs
			(A) x (B)	(C) x (2)
Hospital Outpatient	-13.6%	16.8%	-2.3%	-1.1%
ASC	-6.4%	9.2%	-0.6%	-0.3%
Hospital Inpatient	-12.4%	14.4%	-1.8%	-0.9%
(1) Total Impact on Connecticut Medical Costs			-4.7%	
(2) Medical Costs as a Percentage of Overall Workers Compensation Benefit Costs in Connecticut <sup>2</sup>				49.6%
(3) Total Impact on Overall Workers Compensation System Costs in Connecticut = (1) x (2)				-2.3%

<sup>1</sup> NCCI Medical Data Call for Connecticut, Service Year 2013

<sup>2</sup> NCCI Financial Call Data for Connecticut for Policy Years 2011 and 2012, projected to 4/1/2015

# What's Happening/Expected for 2016

- Resurrection of prior proposals/bills
  - Medical fee schedules
  - Treatment guidelines and drug formularies
  - Indemnity benefits
- “New” concepts
  - Duty to defend (OR)
  - Parental leave benefits (VT)
  - Eliminate medical fee schedule (HI)
- Impairment guides

# What's Happening/Expected for 2016 (cont'd)

- Possible legislative actions in response to Supreme Court decisions
  - Florida: Westphal, Castellanos, and Stahl cases
  - Kentucky: Return-to-work decisions
  - Missouri: Greer v. Sysco Foods
  - Oklahoma: Challenges to new WC Act & Option
  - South Dakota: Wheeler v. Cinna Bakers LLC
- Federal

# Questions???

