

## WC-HC-1 Workers Compensation - State of the Market Independent Bureau States

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### Independent Bureau States CA, DE, MA, MI, MN, NJ, NY, PA, WI



IN and NC have independent bureaus with NCCI providing their actuarial services

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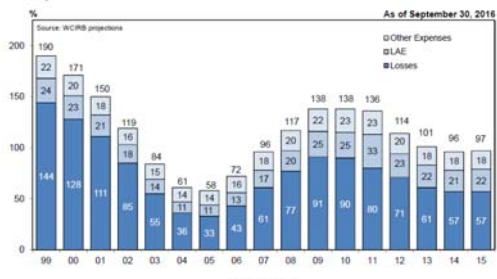
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### California WC Projected Accident Year Combined Loss and Expense Ratios\*



\* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and subsequent. It is reflected in losses for all other accident years.

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## California – Loss Cost Changes

- Cumulative loss cost change of -21% from 7/1/15 -1/1/2017
- These followed 4 loss cost increases from 7/1/12- 1/1/2015 totaling +23%
- Quarterly data collected; Often have semi-annual loss cost filings

Effective Date	Filed	Approved
1/1/2017	-4.3%	-5.6%
7/1/2016	-5.0%	-5.0%
1/1/2016	-0.8%	-2.0%
7/1/2015	-10.2%	-10.2%
1/1/2015	3.4%	+2.2%

## California – Reforms

- Overall, SB 863 delivering more savings than expected

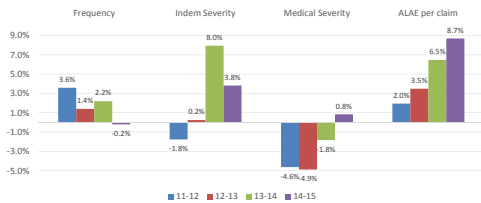
Table 1: November 2016 Evaluation of SB 863 Cost Impact

	WCRB Prospective Evaluation		November 2016 Retrospective Evaluation	
	Total Cost Impact (\$billions)	Total % Impact	General Cost Impact (\$billions)	Updated Total % Impact
<b>Indemnity Cost Components</b>				
Changes to Weekly PD Min & Max	+\$650	+3.4%	+\$650	+3.4%
SLCW Benefits	(\$10)	-0.1%	+\$20	+0.1%
Replacement of FEC Factor	+\$550	+2.9%	+\$550	+2.9%
Elimination of PD Add-ons	(\$170)	-0.9%	(\$170)	-0.9%
Three-Tiered Weekly PD Benefits	(\$100)	-0.5%	(\$100)	-0.5%
Options Decision	(\$210)	-1.1%	(\$130)	-0.7%
<b>Medical &amp; LAE Cost Components</b>				
Lens	(\$400)	-2.5%	(\$400)	-2.5%
Surgical Implant Hardware	(\$110)	-0.6%	(\$110)	-0.6%
ASC Fees	(\$80)	-0.4%	(\$80)	-0.4%
BWC – Impact on Frictional Costs	(\$180)	-0.9%	+\$10	+0.0%
BWC – Impact on TD Durations	(\$210)	-1.1%	\$0	0.0%
MPN Strengthening	(\$100)	-1.0%	(\$100)	-1.0%
EBT	N/A	N/A	+	—
RBRVS Fee Schedule	+\$340	+1.8%	(\$330)	-1.7%
Indemnity Claim Frequency	Small Increase	—	—	—
Indemnity Severities (incl. Trend)	Increases	—	—	—
Medical Severities (incl. Trend)	Increases	—	—	—
ALAE & ULAE Severities	Signif. Declines	—	—	—
<b>Total Estimate – All Items</b>	<b>(\$200)</b>	<b>-1.1%</b>	<b>(\$1,340)</b>	<b>-7.1%</b>

Source: Senate Bill No. 863 WCRB Cost Monitoring Report – 2016 Retrospective Evaluation

## California – Accident Year Trends

- Frequency trends higher than NCCI states
- High recent indemnity severity trend in line with SB 863 expectations
- Medical severity trends well below SB 863 expectations
- ALAE trends much higher than SB 863 expectations



Source: WCRB Report on Insurers Experience as of 9/30/2016  
Severity trends are based on reported losses and are net of benefit level changes

## California – Experience Rating Plan

- Prior Plan:
  - Split point for primary vs excess losses was \$7,000, with less credibility given to excess losses
- New Plan effective 1/1/2017:
  - Split point varies from \$4,500 to \$75,000 based on the size of the employer
  - Claim amounts up to split point given 100% credibility in x-mod calculation
  - Claim amounts above the split point given 0% credibility
  - Expect less volatility in x-mods
    - More sensitive to claim frequency
    - Less sensitive to large losses

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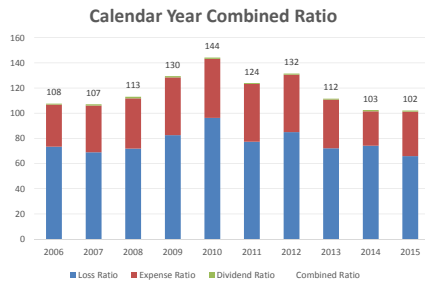
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## New York WC



Source: NYCIRB  
Expense and Dividends exclude New York State Insurance Fund in all years; Loss Ratio also excludes SIF in 2013

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## New York – Loss Cost Changes

- For 10/1/2016 loss costs, the actuarial indication was filed and was approved as filed
- Loss costs increased 27% since 2013 and increased 56% since 2009
- This followed decreases in 2007 and 2008, mostly reform related, of -24%

Effective Date	Actuarial Committee Rec	Filed	Approved
10/1/2016	+9.3%	+9.3%	+9.3%
10/1/2015	+15.8%	+6.9%	+5.9%
10/1/2014	+17.4%	+6.8%	Disapproved
10/1/2013	+29.1%	+16.9%	+9.5%
10/1/2012	+18.2%	+11.5%	Disapproved

NYCIRB Board of Governors: 4 private insurance carriers, the State Fund, and 4 public members. At least 5 votes needed to make a loss cost filing. Filings > 7% require a hearing.

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## New York - Reforms

- 2007 Reforms initially estimated impact: -17%. Key changes included:
  - Caps on nonscheduled permanent partial benefits, eliminating lifetime PPD except if hardship
  - Increases in the maximum weekly benefits over several years from \$400 to 2/3 SAWW
  - Elimination of the 2nd injury fund for new accidents
  - Savings from caps likely much smaller than initially estimated
- 2013 Governor's Budget Bill closed the NY Reopened Case Fund to all claims not reported by 1/1/2014
  - Prospective estimated impact: +6.3%
  - Retrospective estimated impact: Over \$1 billion unfunded liability

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## New York - LDFs

- Reforms have material impact on loss development factors

POLICY YEAR 2014 CASE INCURRED LOSSES

LDF Adjustment for:	Indemnity	Medical
Duration Caps	.93	1.00
Second Injury Fund	1.157	1.00
Reopened Case Fund	1.061	1.062
<b>Combined Adjustments</b>	<b>1.142</b>	<b>1.062</b>

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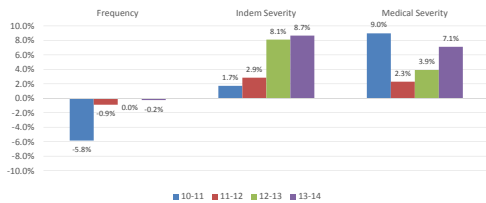
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Source: NYCIRB 10/1/2016 loss cost filing

## New York – Policy Year Trends

- Frequency trend flat in recent years
- Severity trends well above NCCI states, especially for indemnity



Source: NYCIRB 10/1/2016 loss cost filing  
Severity trends are based on on-level losses so are net of benefit level changes

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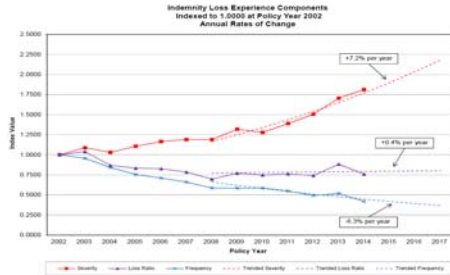
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## Delaware - Trends

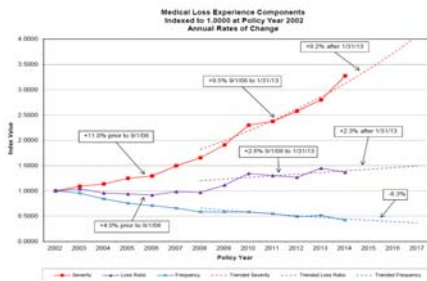
- Indemnity severity trends are higher than NCCI states
- Frequency trend needs to be adjusted to constant wage level before comparing to NCCI. Even after adjusting by wage trend of 1.5%-2%, long term average is lower than NCCI



Source: DCRB 12/1/16 loss cost filing  
 Indemnity Severity index is based on on-level losses so is net of benefit level changes  
 Frequency index is based on indemnity claim counts per \$1M of expected losses (at actual wage levels, not adjusted to constant wage level)

## Delaware - Trends

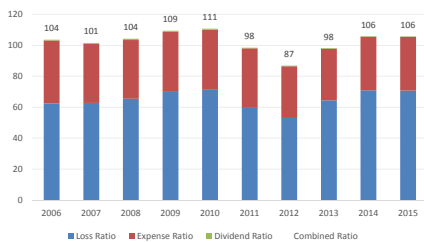
- Medical severity and loss ratio trends are much higher than in NCCI states



Source: DCRB 12/1/16 loss cost filing  
 Medical Severity index is based on losses after adjusting them to a pre-Senate Bill 1 basis, using DCRB's prospective estimates of reform impacts  
 Frequency index is based on indemnity claim counts per \$1M of expected losses (at actual wage levels, not adjusted to constant wage level)

## Massachusetts WC

Calendar Year Combined Ratio



Source: WCRBMA - Data is from A.M. Best Database Services



Questions?

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