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

Nancy Treitel-Moore, FCAS, MAAA Director, Liberty Mutual March 28, 2017

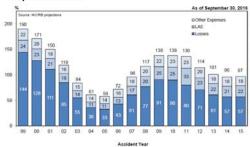
Independent Bureau States CA, DE, MA, MI, MN, NJ, NY, PA, WI



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

California WC

Projected Accident Year Combined Loss and Expense Ratios*



Accident Year

* 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

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%

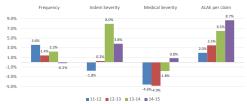
California - Reforms

• Overall, SB 863 delivering more savings than expected

	WCIRB Prospective Evaluation		November 2016 Retrospective Evaluation		
	Total Cost Impact (\$millions)	Total % Impact	General Impact on Cost Savings ³	Updated Cost Impact (Smillions)	Total % Impact
Indemnity Cost Components					
Changes to Weekly PD Min & Max	+\$650	+3.4%		*\$650	+3.4%
SJDB Benefits	(\$10)	-0.1%		+\$20	+0.1%
Replacement of FEC Factor	+\$550	+2.9%	- 2	+\$550	+2.9%
Elimination of PD Add-ons	(\$170)	-0.9%	- 2	(\$170)	-0.9%
Three-Tiered Weekly PD Benefits	(\$100)	-0.5%	- 1	(\$100)	-0.5%
Oglivie Decision	(\$210)	-1.1%		(\$130)	-0.7%
Medical & LAE Cost Components	1000000	TO CASE		100000	93,000,00
Liens	(\$480)	-2.5%		(\$480)	-2.5%
Surgical Implant Hardware	(\$110)	-0.6%		(\$110)	-0.6%
ASC Fees	(\$80)	-0.4%	=	(\$80)	-0.4%
IMR - Impact on Frictional Costs	(\$180)	-0.9%		+\$70	+0.4%
IMR - Impact on TD Duration	(\$210)	-1.1%		\$0	0.0%
MPN Strengthening	(\$190)	-1.0%		(\$190)	-1.0%
IBR	N/A	N/A		-	-
RBRVS Fee Schedule	+\$340	+1.8%		(\$330)	-1.7%
Indemnity Claim Frequency	Small Increase			_	-
Indemnity Severities (Incl. Trend)	Increases	-	2	-	1 -
Medical Severities (Incl. Trend)	Increases	-		(\$1,040)	-5.5%
ALAE & ULAE Seventies	Signif Declines	-		-	_
Total Estimate - All Items	(\$200)	-1.1%		(\$1,340)	-7.1%

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
- Medical severity trends well below SB 863 expectations
 ALAE trends much higher than SB 863 expectations



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

New York WC



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

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 filling. Fillings > 7% require a hearing.

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

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
Combined Adjustments	1.142	1.062

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

Delaware WC



Source: DCRB - Data is from A.M. Best Database Services except for expense ratios, which are from Financial Call #2

Delaware - Loss Cost Changes

• Large differences exist between what is filed and approved

Effective Date	Filed	Approved
12/1/2016	+1.7%	+0.0%
12/1/2015	+15.0%	+7.2%
12/1/2014	-3.5%	-11.5%*
12/1/2013	+41.8%	+14.0%*

*approved in February of following year

Delaware - Reforms

Cumulative medical fee schedule changes since 2008 estimated by DCRB to lower medical costs by 47% and overall costs by 33%

• Senate Bill 1 – effective 10/1/2008:

Establishment of Health Care Payment System for WC

Reimbursement set at specified % of billed charges as of anchor date, with subsequent adjustments based on various CPIs

DCRB estimated impact: -12.3%

Senate Bill 238 – effective 1/31/2013

Refines fee schedules, but still % of billed charges

DCRB estimated impact: -0.3%

House Bill 175 – effective 9/11/2013 (6/27/2013 for Hospitals)

Further refinements to fee schedule, but still % of billed charges

DCRB estimated impact: -0.9%

House Bill 373 – effective 9/11/2013 (6/27/2013 for Hospitals)

Further refinements to fee schedule, but still % of billed charges

DCRB estimated impact: -4.0%

House Bill 373 – effective 9/11/2015, 2016, and 2017

Goal of reducing medical spend by 33% across the board by 2017, with 20% reduction in 2015, an additional 5% in 2016 and 8% in 2017

Introduced Medicare-based fee schedules for physicians, hospitals, and ASCs

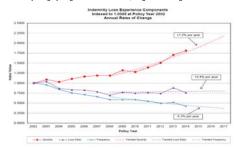
Beginning 1/31/2017, reimbursement caps introduced for some services limiting payment per procedure to a % of Medicare (professional: 200%, radiology: 250%, surgery: 300%)

Starting 1/1/2018, fee schedule rates adjusted annually by CPI-Urban

DCRB estimated impact: -20.7%

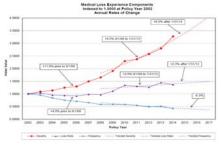
Delaware - Trends

- 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



Delaware - Trends

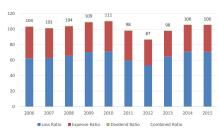
Medical severity and loss ratio trends are much higher than in NCCI states



Source: DCRB 12/1/16 loss cost filing Medical Severity index is based on los Frequency index is based on indemnity

Massachusetts WC

Calendar Year Combined Ratio



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

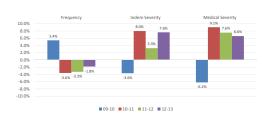
Massachusetts - Rate Changes

- First rate increase since 2001 approved in 2016
- Large differences exist between what is filed and approved
- Typically, WCRIBMA, the State Rating Bureau, and the Attorney General's Office stipulate to the rate change

Effective Date	Filed	Approved
7/1/2016	+6.4%	+1.5%
4/1/2014	+7.7%	+0.0%
9/1/2012	+19.3%	No change
9/1/2011	+6.6%	No change
9/1/2010	+4.5%	-2.4%

Massachusetts - Policy Year Trends

- Frequency generally close but slightly less negative than NCCI
 Severity trends well above NCCI states in recent years



MI, MN, NJ, PA, WI

Some Trivia

- MI (CAOM): -9.3% approved 1/1/17; Loss costs exclude trend; Carriers can file their own experience rating plans;
- MN (MWCIA): -12.1% approved 1/1/17; Loss costs exclude trend and development beyond 14th report; Mandatory participation in the WC Reinsurance Association;
- NJ (NJCRIB): -3.0% approved 1/1/17; Still a rate state; Expense ratio was understated and adjusted up 2.3 points in latest approved rates with +2.9% impact on rates;
- PA (PCRB): -6.2% approved 4/1/17; Experience rating plan excludes actual losses above \$42,500; PCRB/DCRB have unique class plan so be careful aggregating across states;
- WI (WCRB): -3.2% approved 10/1/2016; Still a rate state;

Questions?	
Questions	