

**Montana Workers
Compensation**

**Part 1 - Ratemaking
Overview**

Mike_Taylor@ncci.com

503-892-1858

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.

WC Ratemaking Basics

- **Where do we start?**
- **Where does the information come from?**
- **What does NCCI do with it?**
- **How can we be sure?**
- **Bottom line to Montana employers**

Key Definitions

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker’s time lost from work. These benefits are also referred to as “wage replacement” benefits.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Loss Costs** – Represents the portion of the rates that only includes the amount to cover claims and loss adjustment expense
- **Loss Cost Multiplier (LCM)** – The amount insurer develops to apply to loss costs to cover expenses and achieve a final rate – i.e. 1.25 X loss cost

3

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Dual Responsibilities

- | | |
|---|---|
| <ul style="list-style-type: none"> ■ NCCI <ul style="list-style-type: none"> ■ Collect & analyze data <ul style="list-style-type: none"> □ Overall, insurer and policyholder ■ Determine overall & individual loss cost level ■ Comply with the requirement that rates shall be adequate, not excessive or unfairly discriminatory | <ul style="list-style-type: none"> • Insurers <ul style="list-style-type: none"> • Review & analyze NCCI & company data/results • Determine carrier need above/below NCCI’s baseline • Develop Loss Cost Multiplier (LCM) • Comply with the requirement that rates shall be adequate, not excessive or unfairly discriminatory |
|---|---|

4

Where do we start?



- Look at where the state is
- Compile both new and updated data
- Objectively analyze it to see where it leads
- Examine and blend in other factors as necessary
- Fine tune the indications

Where are we?

- What's the current status of the state?
 - Is the system running smoothly?
 - Administration
 - Judicial
 - Regulatory
 - Have there been any:
 - Major benefit changes?
 - Medical fee schedule revisions
 - Law Changes?

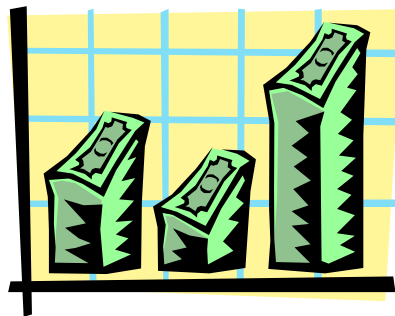
If we continue at the same level...

- Will things balance out?
- Will there be enough money to pay claims?
- Will rates be excessive?



1ST Step Determine Overall Level

- How much money (premium) is needed to fund the system to only pay all the anticipated indemnity and medical losses?



Data...

- Financial data from all Montana insurers

Answers the 1st question:
"How much money did the industry bring in?"



...and more Data



- Loss Data
Answers the 2nd question:

"How much did the industry pay out?"

- Type of injuries
- Medical costs
- Wage Replacement
- Frequency
- Severity

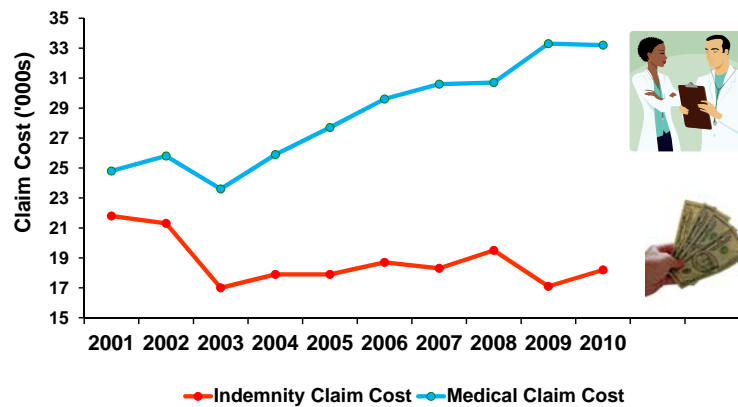
2nd Step - Trend

- Getting from Point A (Where we are)
- to Point B (Where we need to go)
- Measures the changes in:
 - Growth/decline of wages
 - Medical and indemnity losses
 - Frequency of claims



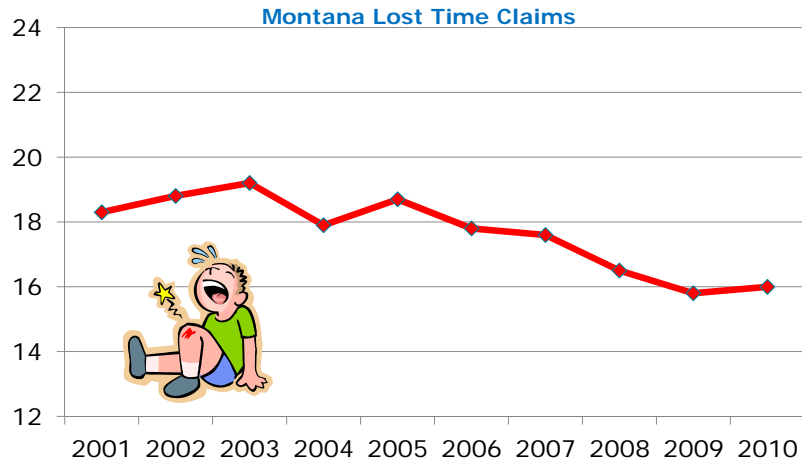
Differences indicate trend

Medical cost per claim is growing, Indemnity cost per claim is stabilizing



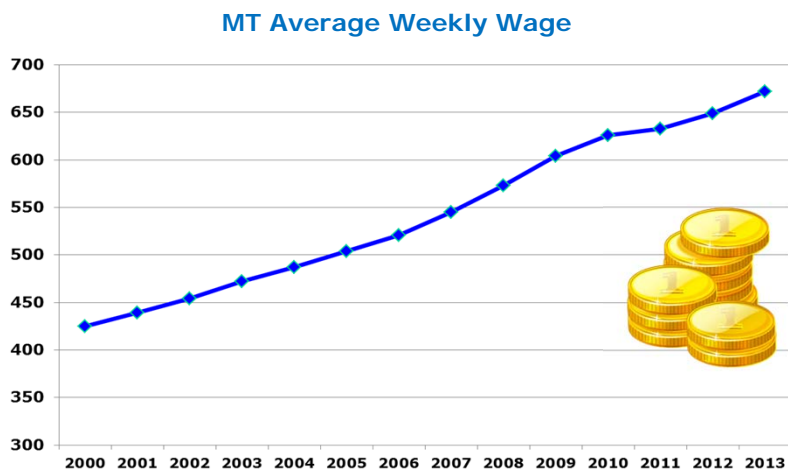
Source: NCCI
Based on data through 12/31/00.
Average indemnity and medical cost per lost-time claim.

Frequency of lost time claims is on a downward trend



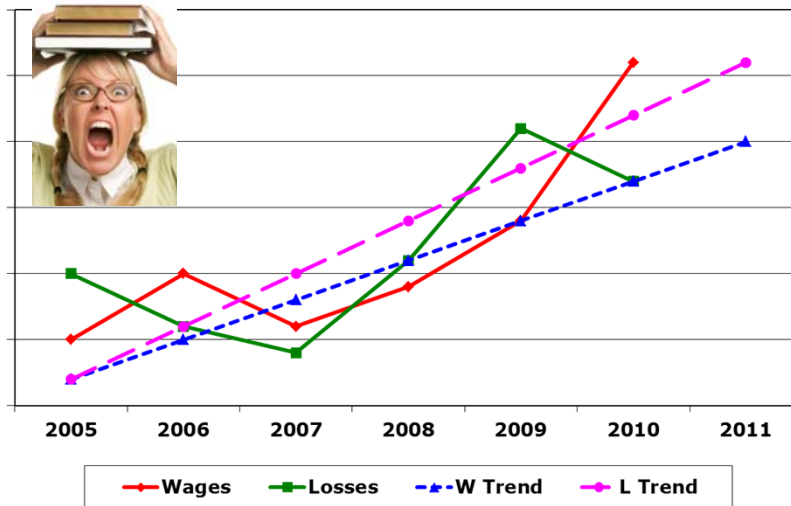
13

Growing wages can impact benefit costs



14

Finalize The Trend



3rd Step Analyze, price and incorporate other factors if necessary



Legislated changes



Court decisions



New regulations

Impact of Changes

- **Legislated Changes** – May have immediate impact on premiums by instituting higher or lower wage loss payments, subjectivity, etc.
- **Court Decisions** – Can alter laws on compensability, coverage or benefits. Impact can be retroactive, immediate or in future
- **Regulations** – Generally more long term in nature (safety requirements) but can have immediate effect (medical fee schedules)

4th Step - Sanity Check



Check outside sources for independent verification:

- DOL
- WCD
- OSHA
- BLS
- Carriers
- Guy on the street

Determine Overall Level

Add everything up to determine what the overall premium level needs to do:

- Increase ?
- Decrease ?
- No change ?



5th Step -Spread Out The Changes

- Not equitable to apply rate change unilaterally to all employers without consideration of actual experience, so we...
- Distribute to 5 Industry groups based on their experience
- Distribute to individual classifications based on their experience



Spread out the Changes

- 7/1/2013 Overall Change: -5.4%
- Manufacturing: -5.2%
- Office & Clerical: -6.3%
- Goods and Services: -4.8%
- Contracting: -7.1%
- Miscellaneous: -3.9%
- Examples:
 - 2731 – Planing mill -20.9%
 - 5437 – Interior Carpentry + 9.8%
- Maximum change is +/- 25% around the IG indications

21

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Final Premium Impact



- What does this mean to the average employer?
- Are there other factors involved?
 - Growth
 - Change in exposure
 - Losses
- Bottom Line:

“How will this impact me?”

Development of Final Rates

NCCI files the developed & trended losses and the loss based expenses: Known as the pure premiums or loss costs.

Individual insurers are responsible for developing and filing the other factors into a Loss Cost Multiplier (LCM) which becomes their Final Rate



Final Rate

Contingencies
Taxes & Fees
Production & General Expense
Loss Based Expenses
Developed & Trended Losses

Policyholder Pricing Programs

In addition to the LCM, insurers have programs to "tailor" the final premium to better match the characteristics of each insured

- Experience rating
- Tiered Rating
- Premium discounts by size of policy
- Retrospective Rating
- Etc.



Dirt Diggers, Inc.

General Excavation Company

Payroll:

■ 6217	\$100,473
■ 8810	\$ 25,716



Loss Cost Rates:

■ 6217 =	\$8.50
■ 8810 =	\$.45

- Two Guys Mutual Insurance Company
- Loss Cost Multiplier = 1.20
- TGMIC Rates:

■ Class 6217:	\$10.20
■ Class 8810:	\$ 0.54


© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Dirt Diggers, Inc.

■ 6217	\$100,473	x	\$10.20/\$100=		\$10,248
■ 8810	\$25,716	x	\$.54/\$100 =		\$ 139
■	Manual Premium	=			\$10,387
■	Experience Mod	x		.92	
■	Modified Premium	=			\$9,556
■	MCCPAP	x		.95	
■	Standard Premium				\$9,078
■	Premium Discount (12%)	x		.88	
■	Estimated Annual Premium				\$7,989
■	Base Premium = \$10,387		Actual Premium =		\$7,989
			DIFFERENCE		- \$2,398

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Fall in a Hole, Inc.

General Excavation Company

Payroll

<input type="checkbox"/>	6217	\$100,473	
<input type="checkbox"/>	8810	\$ 25,716	



Loss Cost Rates:

<input type="checkbox"/>	6217 =	\$8.50	
<input type="checkbox"/>	8810 =	\$.45	

Somewhat Equitable Insurance Company

Loss Cost Multiplier = 1.50

SEIC Rates:

<input type="checkbox"/>	Class 6217:	\$12.75	
<input type="checkbox"/>	Class 8810:	\$.68	

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Fall In A Hole, Inc.

<input type="checkbox"/>	6217	\$100,473 x \$12.72 \$/\$100	= \$12,780
<input type="checkbox"/>	8810	\$25,716 x \$.68/100	= \$ 175
<input type="checkbox"/>	Manual Premium	=	\$12,985
<input type="checkbox"/>	Experience Mod	x	1.25
<input type="checkbox"/>	Modified Premium	=	16,231
<input type="checkbox"/>	MCCPAP	x	.95
<input type="checkbox"/>	Standard Premium	=	\$15,419
<input type="checkbox"/>	Premium Discount (8%)	x	.92
<input type="checkbox"/>	Estimated Annual Premium		\$14,185
<input type="checkbox"/>	Base Premium = \$12,985	Actual Premium = \$14, 185	
	DIFFERENCE + \$1,200		

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



Significant Cost Differences

- **Dirt Diggers, Inc.**
 - Safety conscientious
 - Controlled losses
 - Better trainingGives them more carrier choices, options for premium savings via lower ex-mod MCCPAP, etc.
- **Fall in a Hole, Inc.**
 - Multiple losses
 - Less emphasis on safety
 - Spotty trainingResults in less options for coverage, higher ex-mod, lower premium discount, etc.

\$7898

vs

\$14,185

\$6,287 Savings

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.



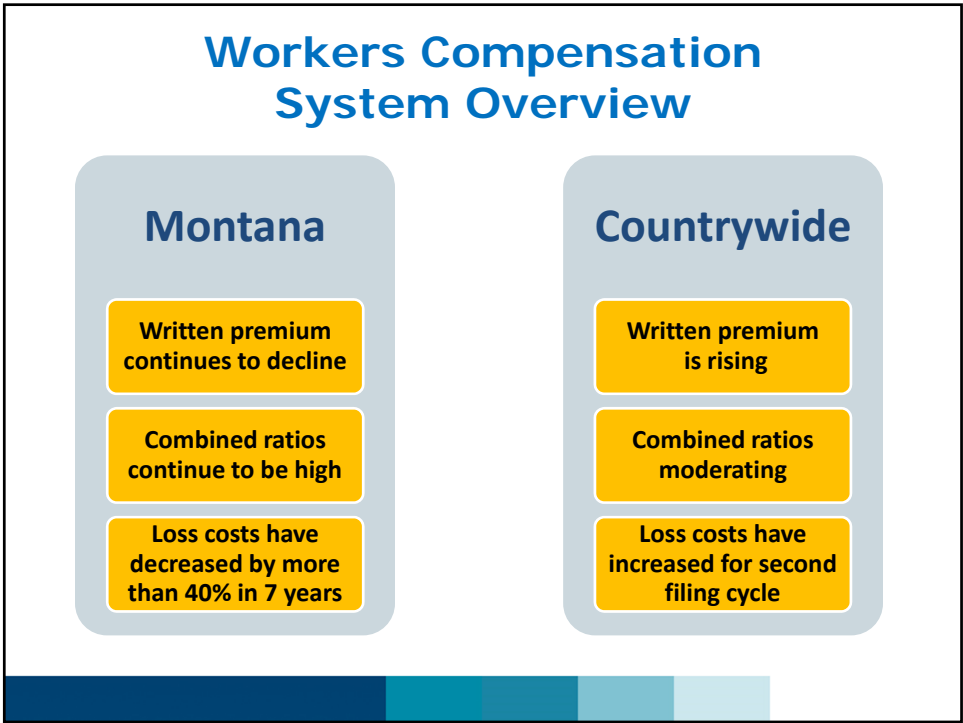
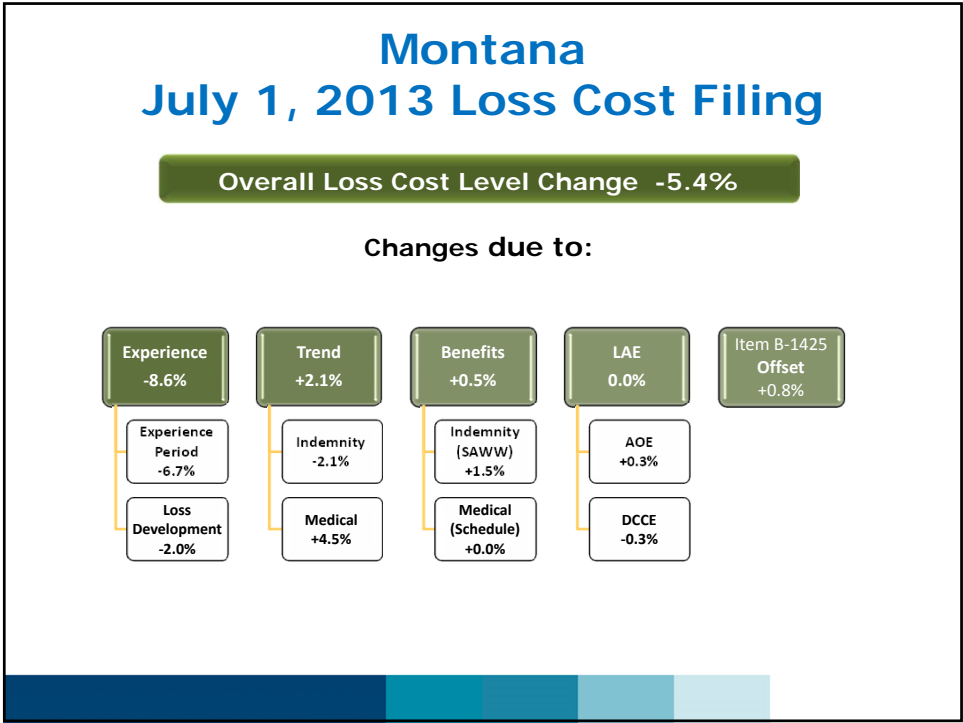
Montana Workers Compensation

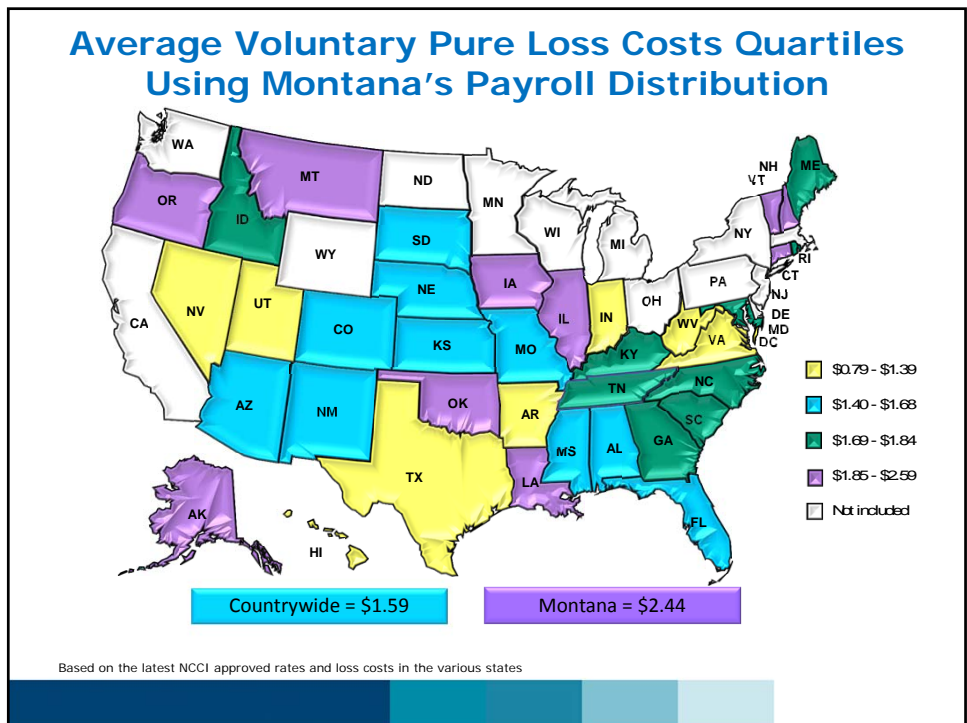
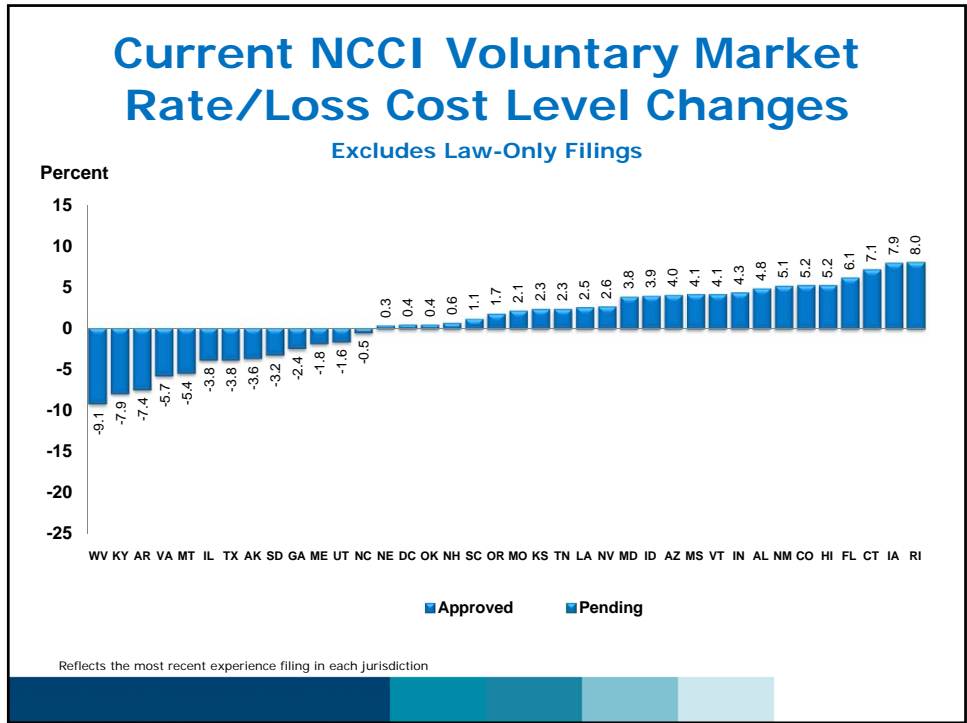
Part 2 – System Overview

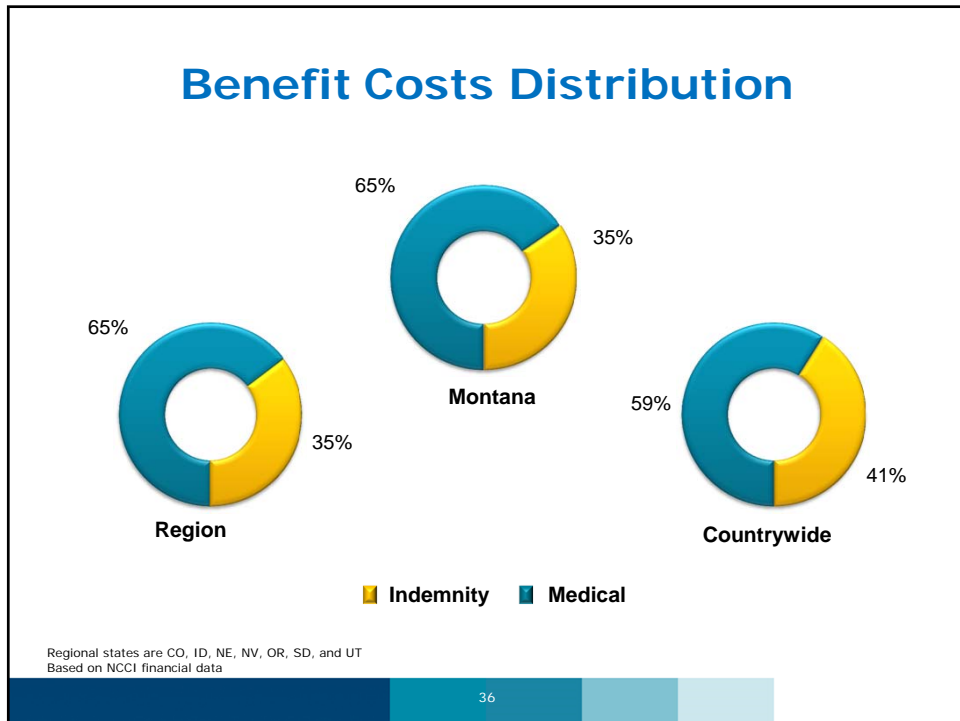
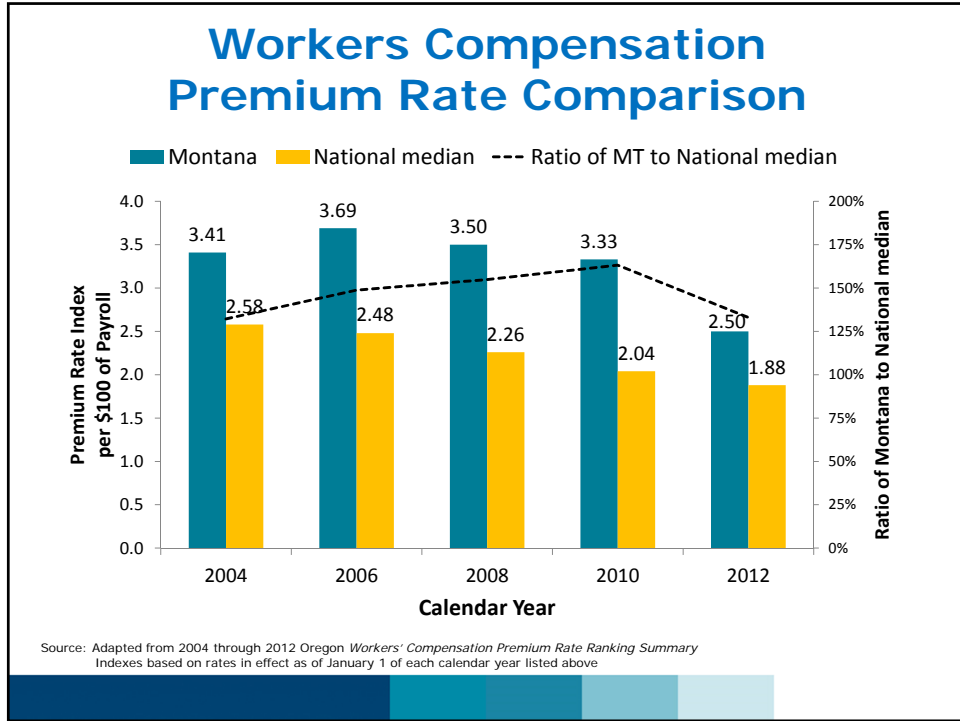
Mike_Taylor@ncci.com


503-892-1858

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.





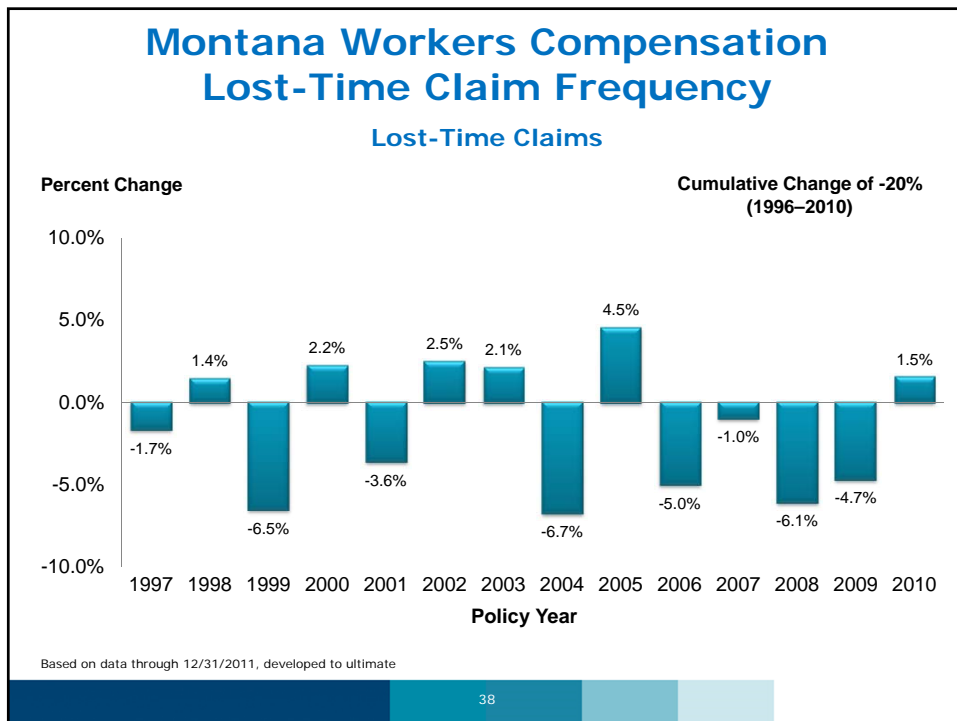


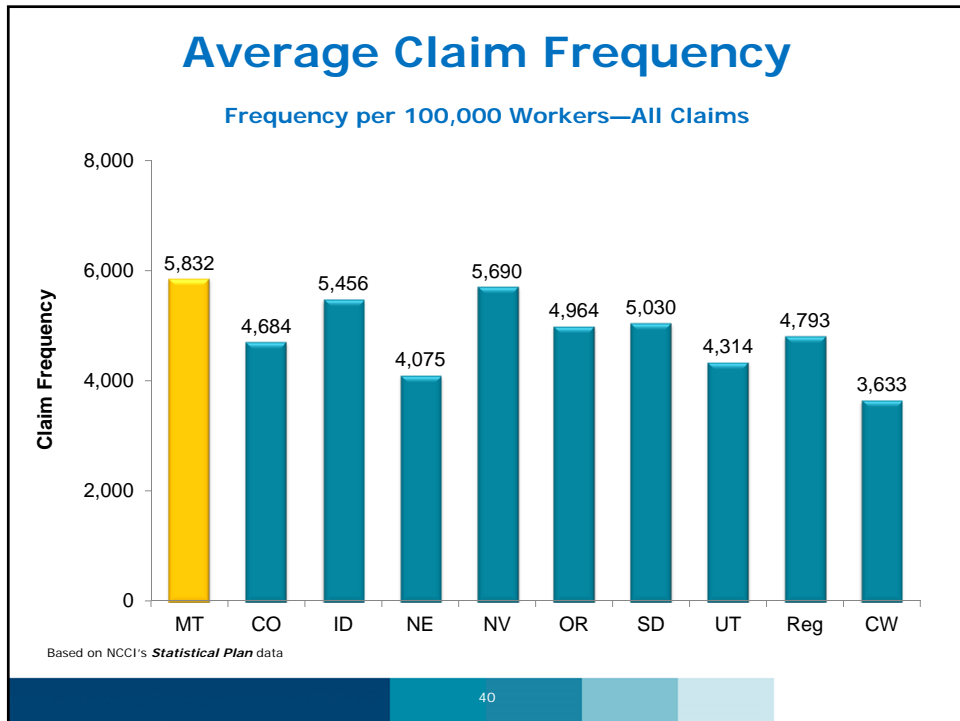
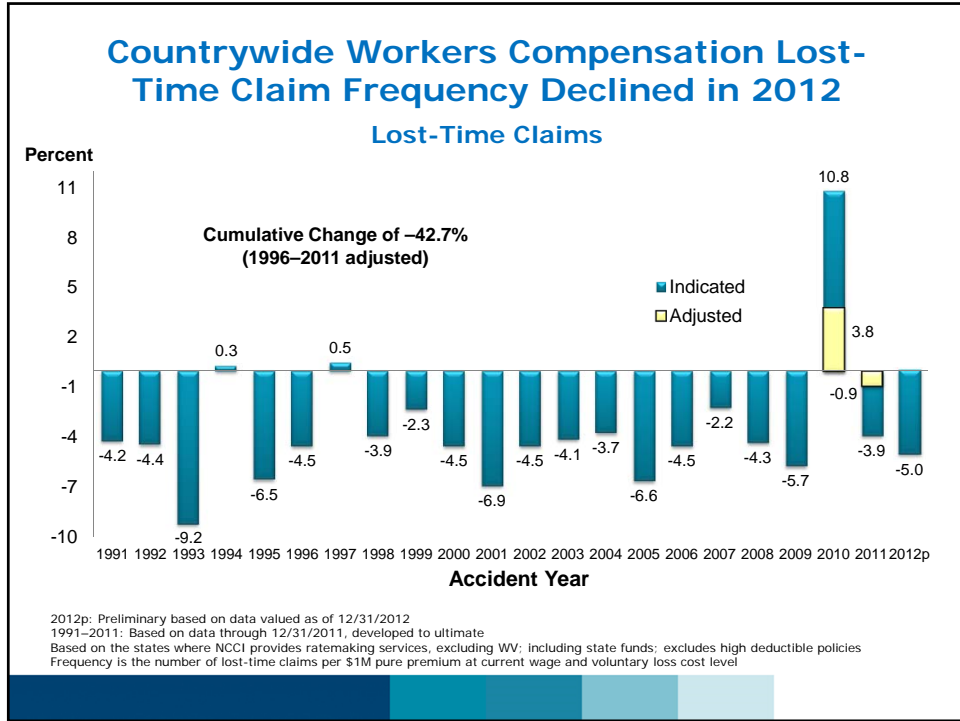


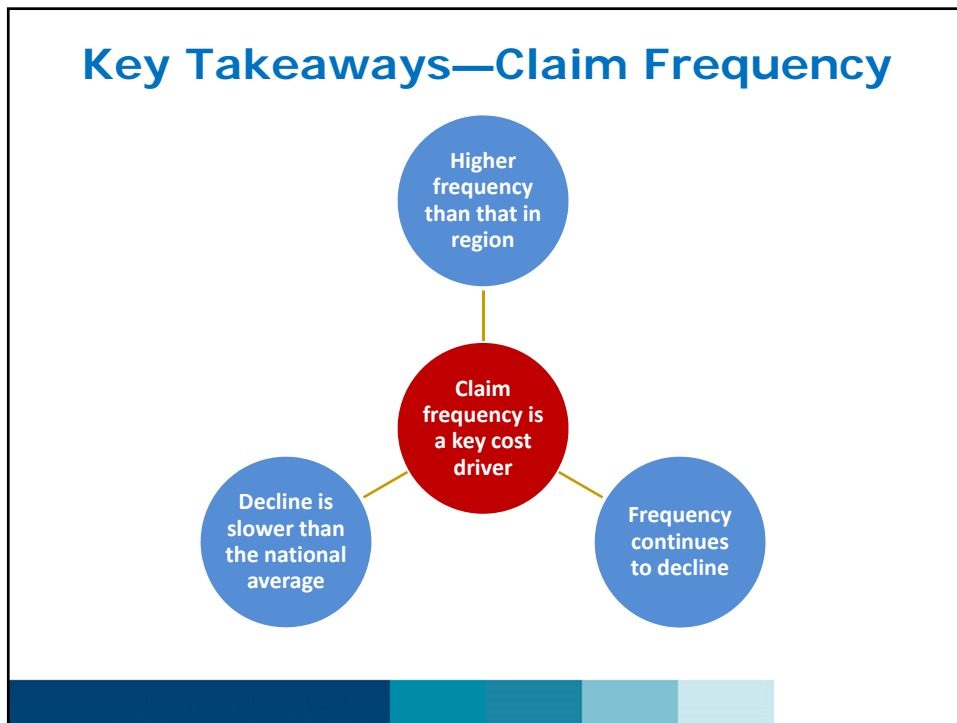
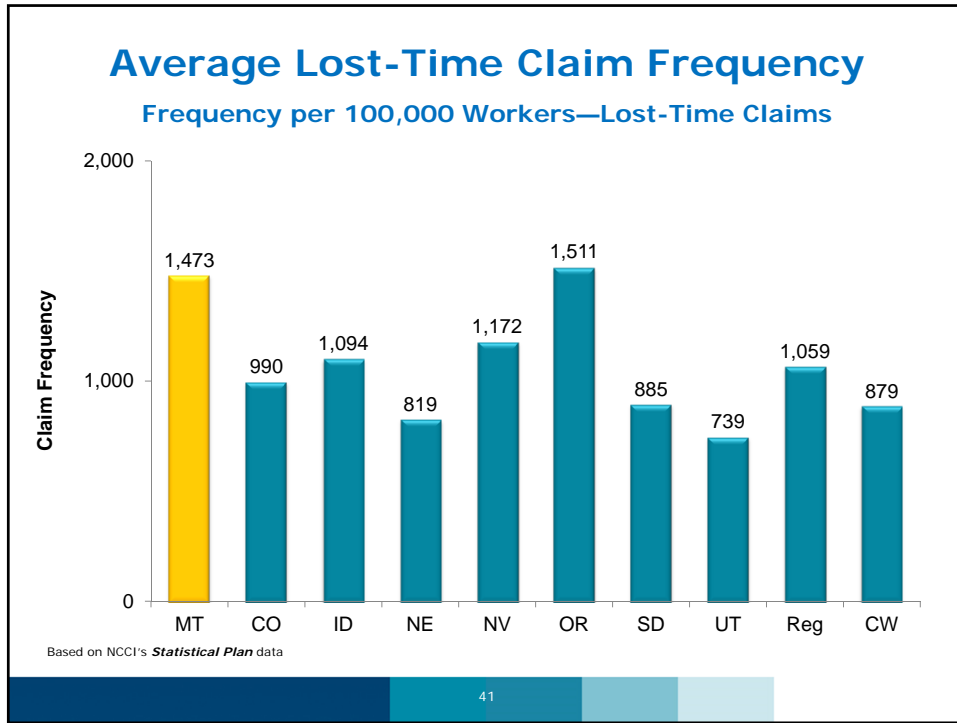
Claims Frequency

37

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.





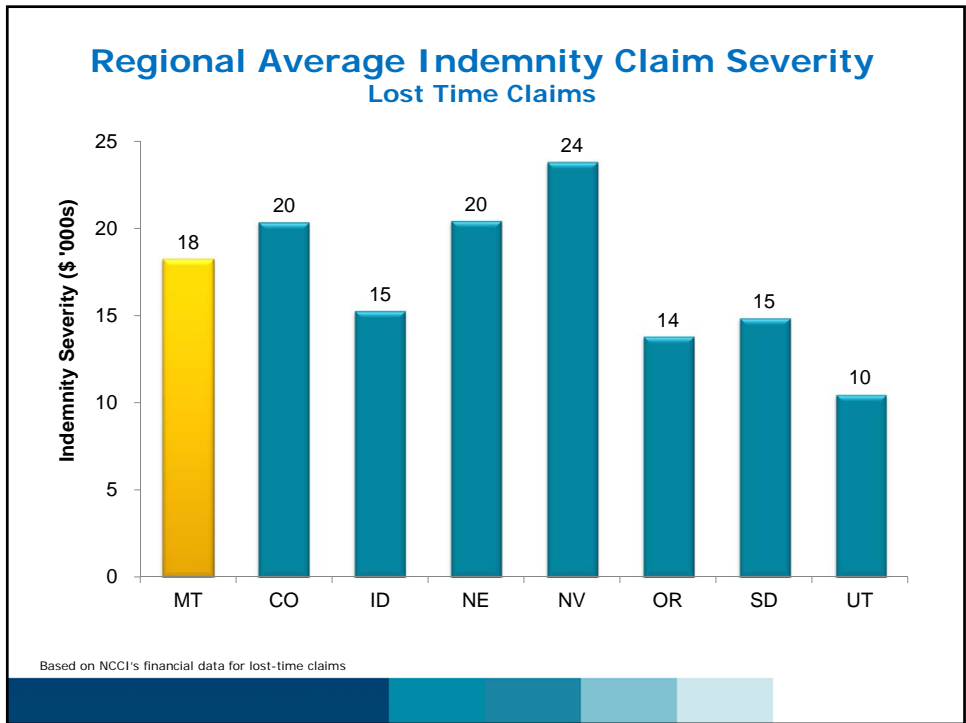


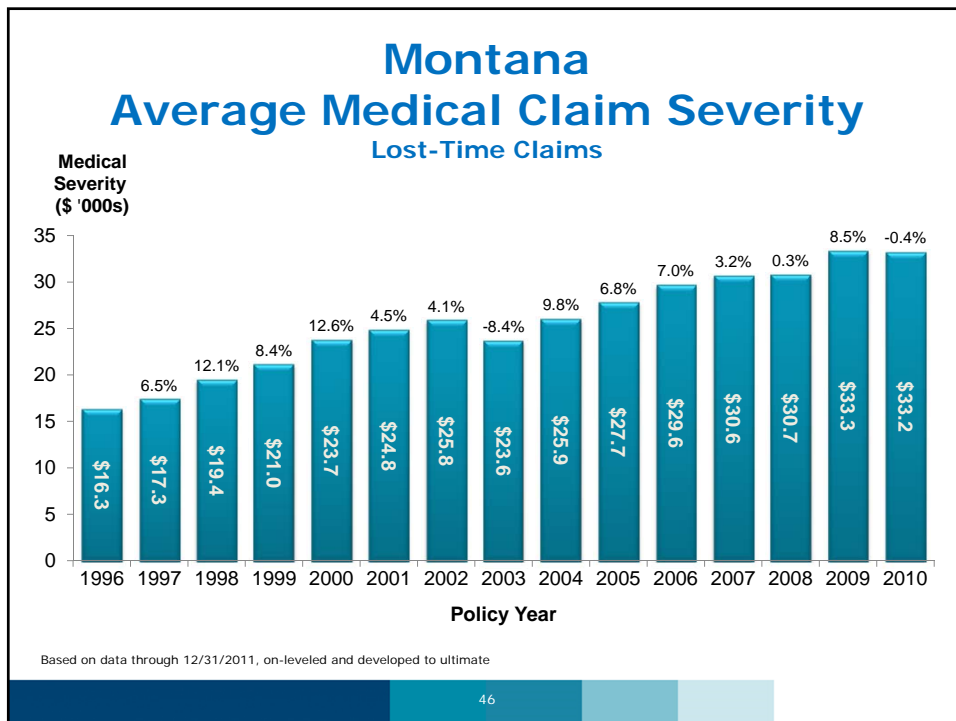
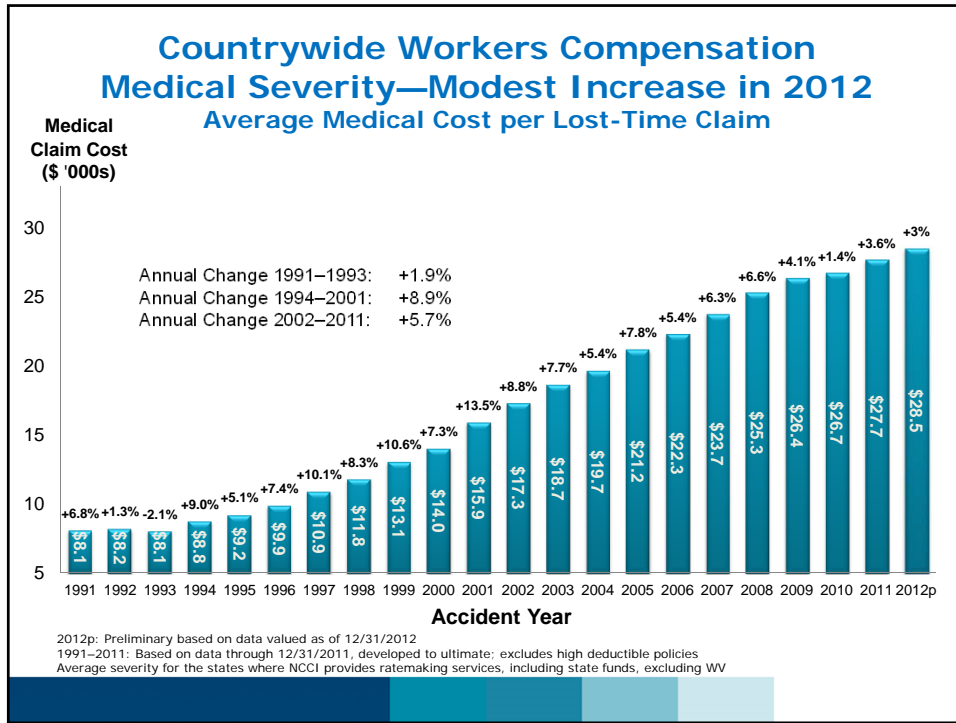


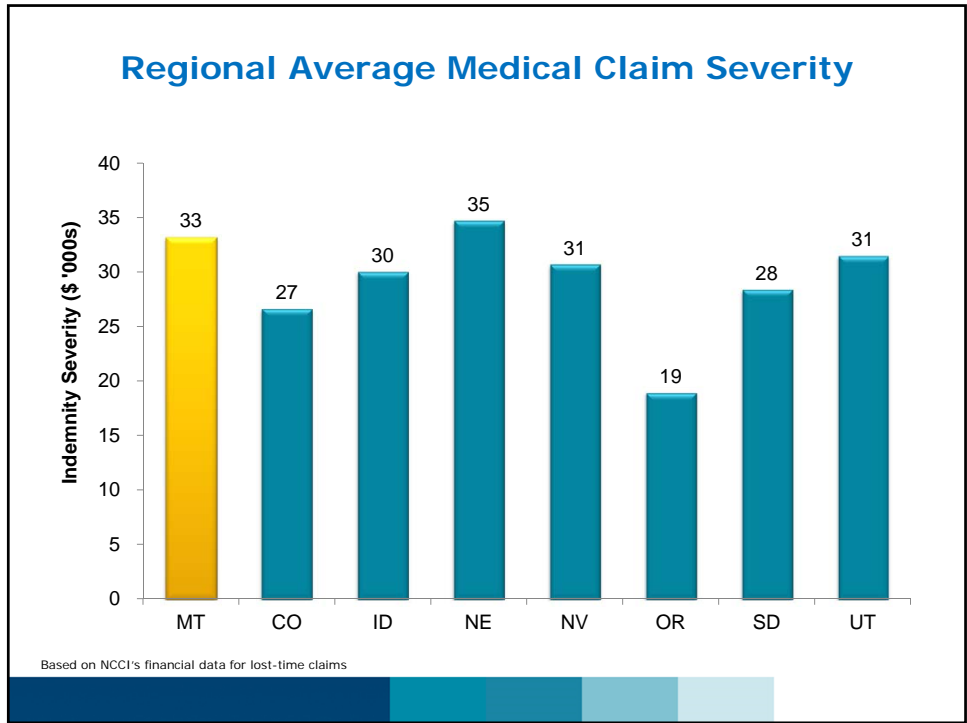
Claims Severity

43

© Copyright 2013 National Council on Compensation Insurance, Inc. All Rights Reserved.

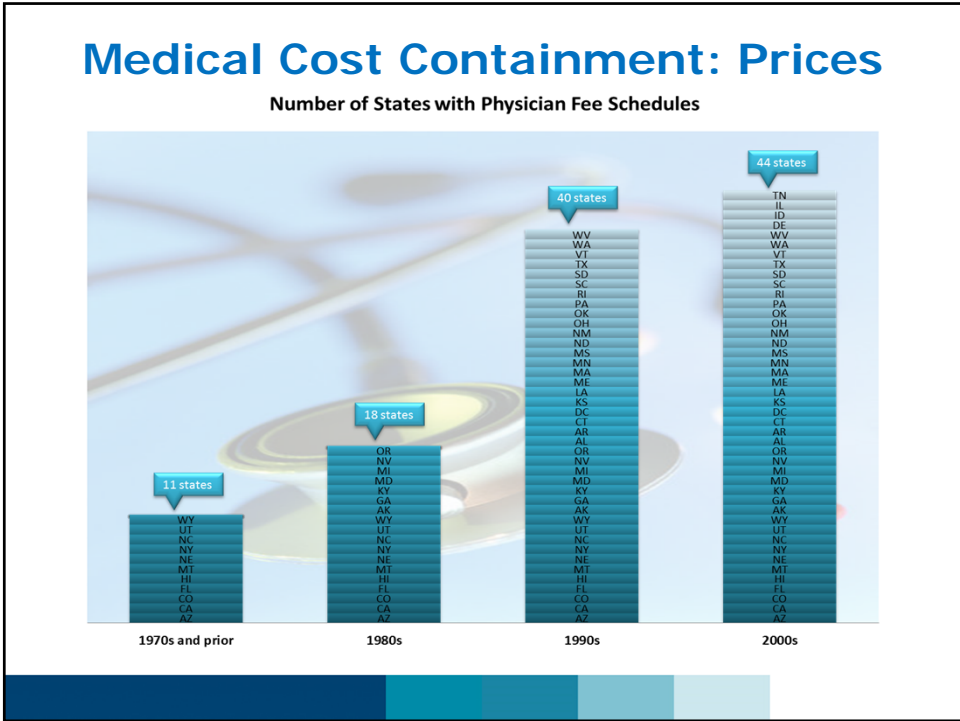




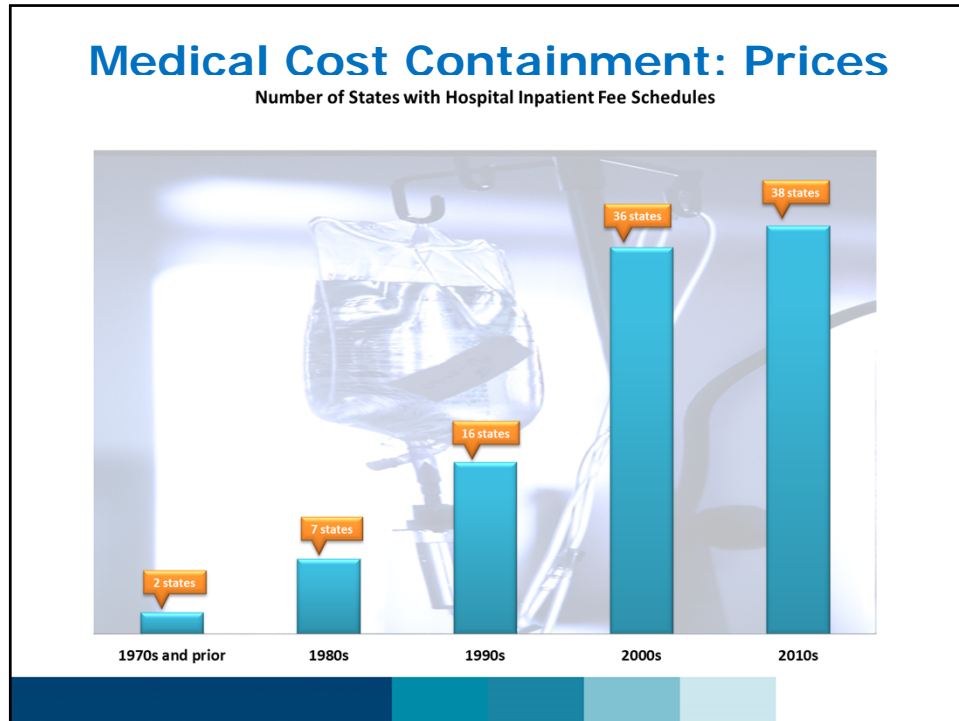


Medical Cost Containment: Prices

- On average, physician costs make up roughly 40% of medical costs
- Physician Fee Schedules
 - 1970s only 11 states
 - Several implemented in the mid-1990s
 - In 2013, 43 states and DC

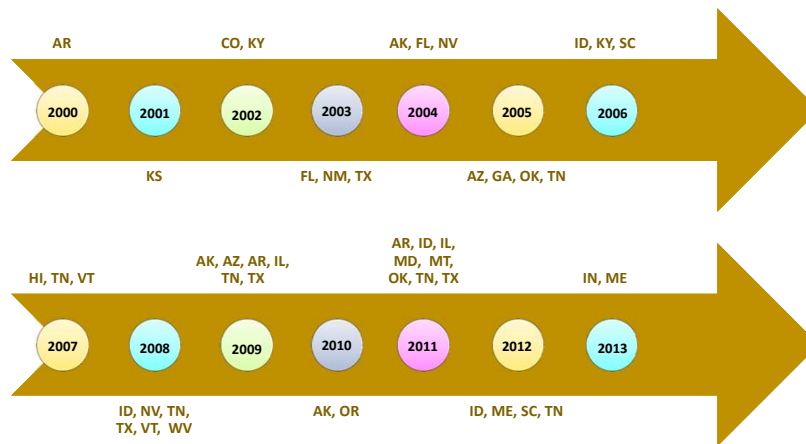


- ## Medical Cost Containment: Prices
- Hospital inpatient costs roughly make up 15% of medical costs
 - Hospital inpatient fee schedules
 - 1970s only 2 states
 - Several implemented in the mid-2000s
 - In 2013, 38 states



- ## Medical Cost Containment: Prices
- Continued refinement of fee schedules over the last decade
 - More than 20 bills/proposals addressing repackaged drugs and pharmaceutical fee schedules in 2013
 - Fee schedules and their refinement can serve to contain medical cost increase over time

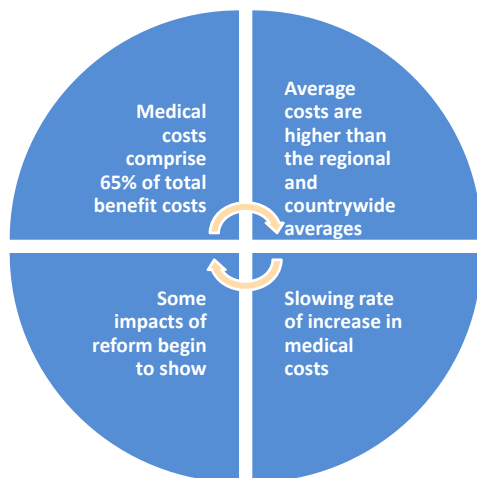
Workers Compensation Fee Schedules: Significant Changes



Medical Costs: Looking Ahead

- Limiting duration of medical benefits (MT, GA)
- More hospital fee schedule implementations (IN, VA had proposals in 2013)
- Opioid/controlled substance regulation
- Prescription drug monitoring programs (KASPER)
- Wellness programs
- Alternate settings for rendering medical services
 - Retail clinics
 - E-medicine
 - Medical tourism
- Non-traditional medicine for treatment and pain management
 - Asian medicine
 - Marijuana dispensaries

Key Takeaways—Medical Benefit Costs



Questions and Comments?