



Montana Economic Affairs Interim Committee July 8, 2009

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Montana and the Nation: Workers Compensation System Overview

- State of the Industry
- Experience
- Benefits
- Frequency
- Indemnity Severity
- Medical Severity

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State of the Industry—An Overview

- Total workers compensation premium continues to decline
- Underwriting results continue to be good
- Countrywide frequency continues to decline for workers compensation injuries, and has declined last 11 years from the previous year's level
- Medical and indemnity claim costs continue to rise—somewhat negating the good news regarding reduced claims
- Uncertain fallout from state and federal action

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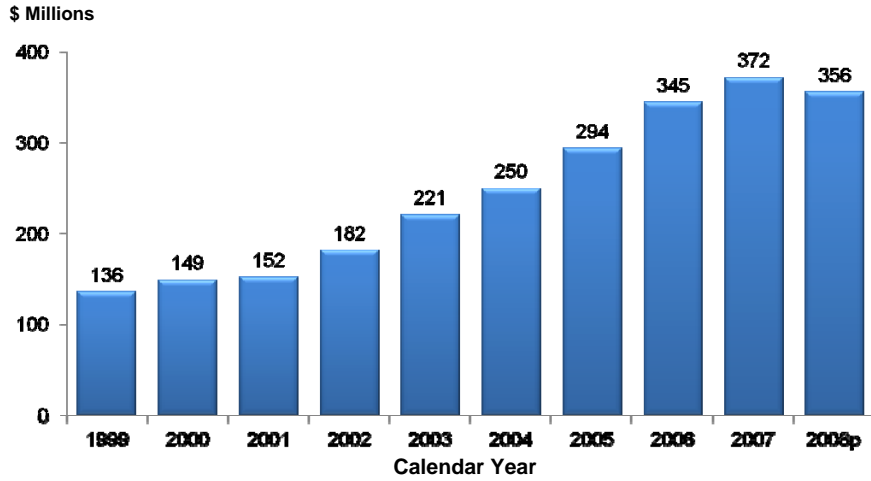
Montana Workers Compensation System— An Overview

- Easing system pressure due to improved frequency of claims
- Indemnity costs have moderated relative to wages from higher averages in the early 2000's
- Medical costs continue to rise
- Uncertainty associated with economic conditions

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Montana's Workers Compensation Premium Volume

Direct Written Premium

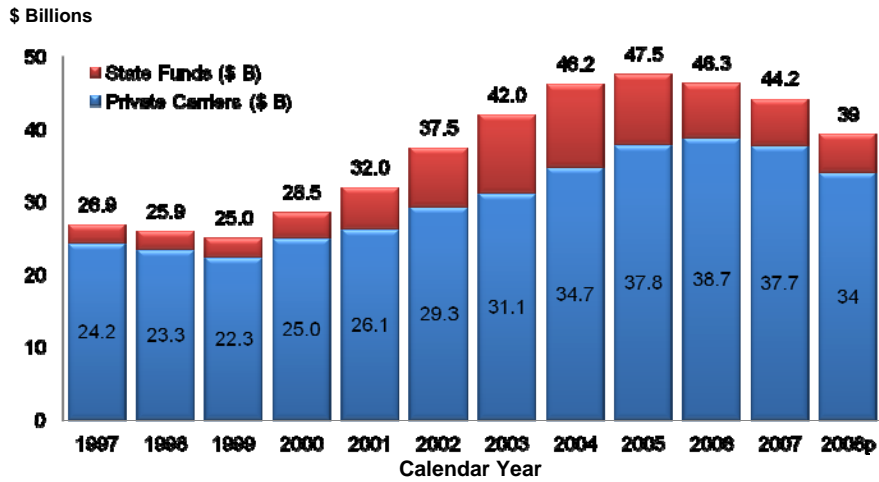


p Preliminary
Source: NAIC Annual Statement data

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Countrywide Workers Compensation Premium Volume

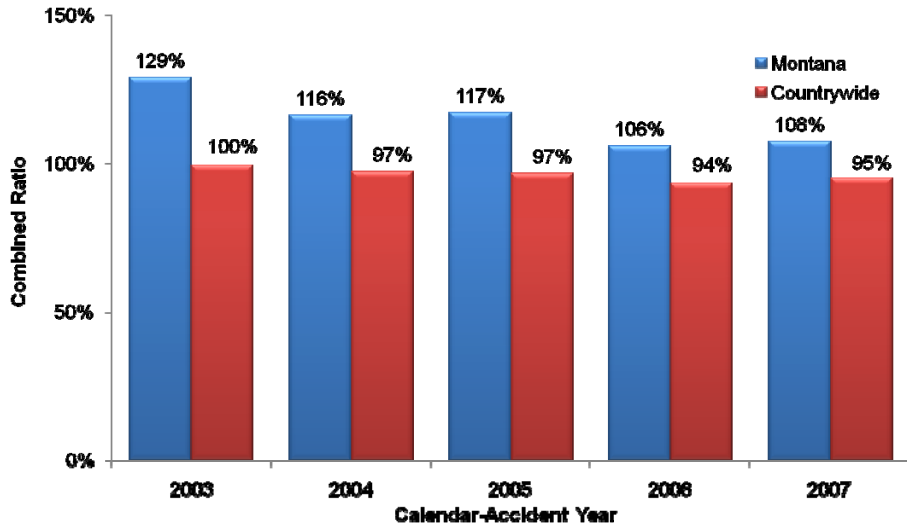
Net Written Premium



p Preliminary
Source: 1997-2007 Private Carriers, Best's Aggregates & Averages; 2008p, NCCI
1997-2008p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

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Montana versus Countrywide Combined Ratios

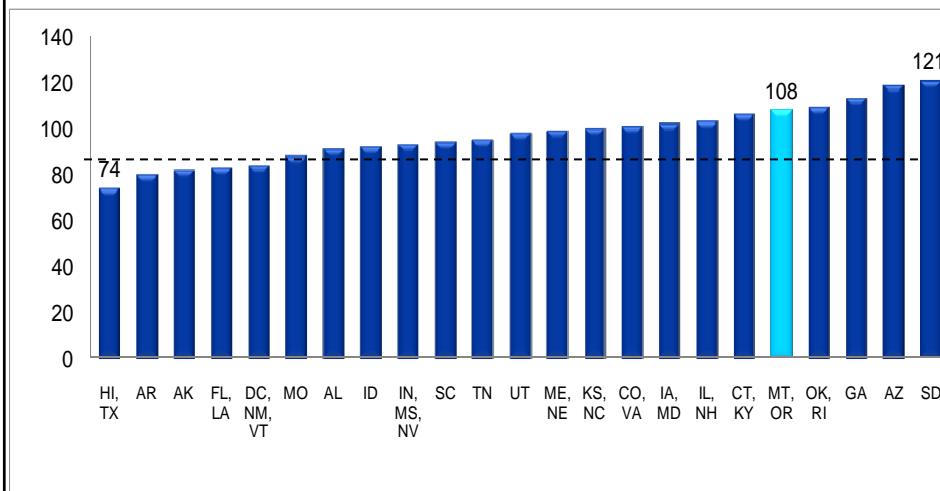


Source: NCCI financial data as of 12/31/2007.

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Results Vary From State to State

Accident Year 2007 Combined Ratios



Data is evaluated as of 12/31/2007.

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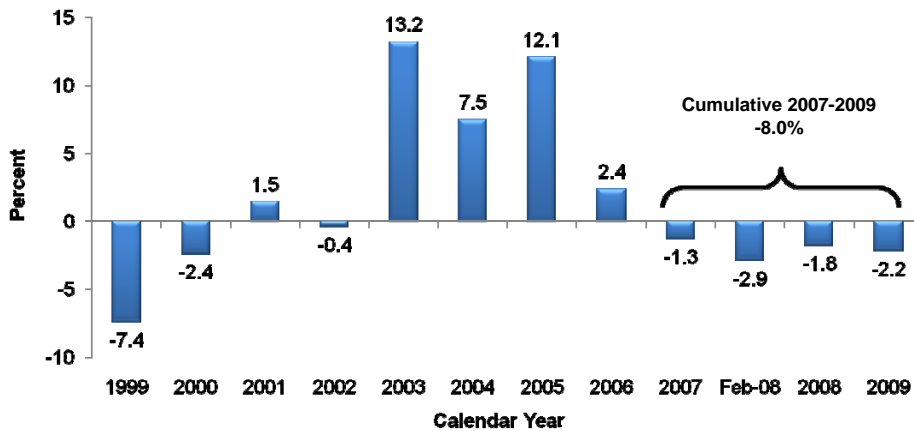
Recent Regional Rate Changes

South Dakota	7/1/09	+3.5%
Montana	7/1/09	-2.2%
Idaho	1/1/09	-3.8%
Nebraska	2/1/09	-4.4%
Nevada	3/1/09	-4.9%
Oregon	1/1/09	-5.9%
Utah	12/1/08	-7.8%
Colorado	1/1/09	-15.9%

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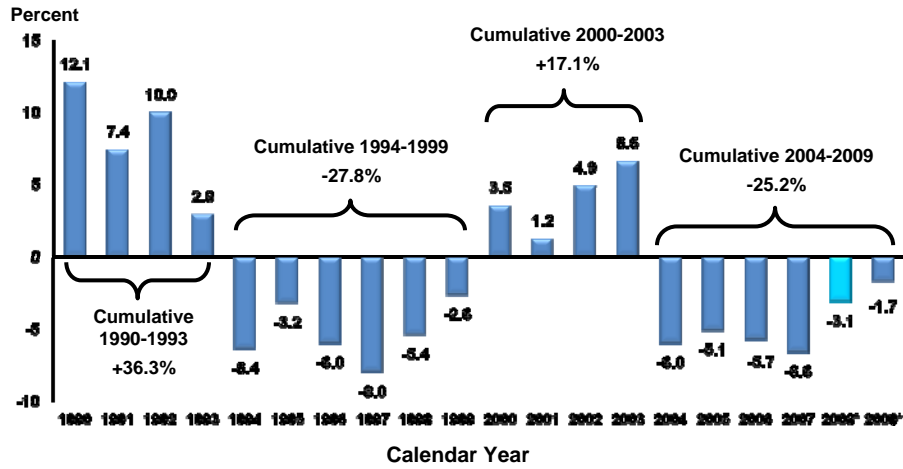
Montana's Filing Activity

Voluntary Loss Cost Changes



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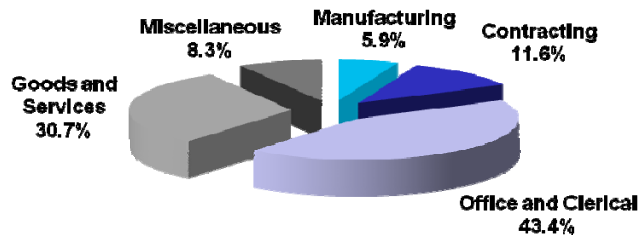
Countrywide Average Approved Bureau Rates/Loss Costs



* Preliminary
Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

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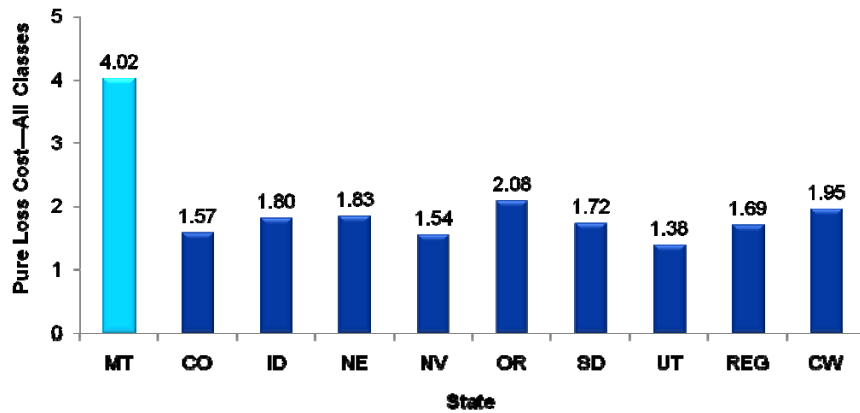
Montana's Distribution of Payroll by Industry Group



Policy Period 01/2006-12/2006

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Current Average Voluntary Loss Costs Using Montana's Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states.

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Potential Drivers of Higher Pure Premiums in Montana

- Benefits
- Industry Mix
- Compensability Criteria
- Experience

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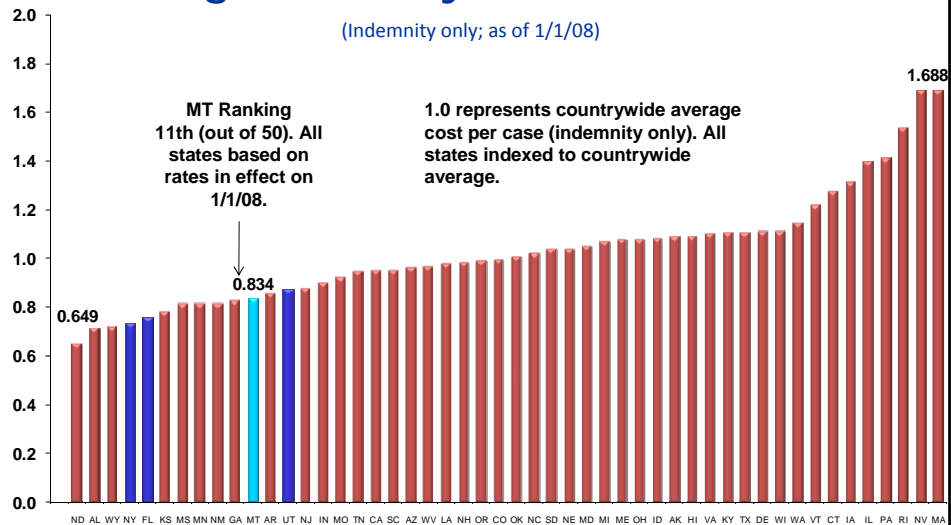
Benefit Provisions And Costs

- Statutory Benefits
- Indemnity Costs
- Medical Costs
- Total Costs

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Average Statutory Benefit Provisions

(Indemnity only; as of 1/1/08)

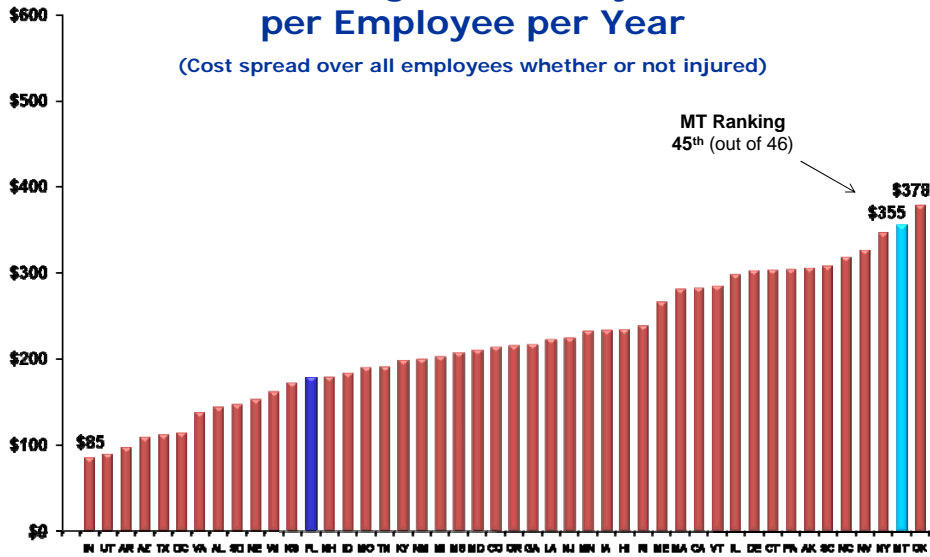


Source: *Workers Compensation State Rankings, Manufacturing Industry Costs, and Statutory Benefit Provisions, 2008 Ed.*, Prepared by Actuarial & Technical Solutions, Inc.

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Actual Average Indemnity Benefits per Employee per Year

(Cost spread over all employees whether or not injured)

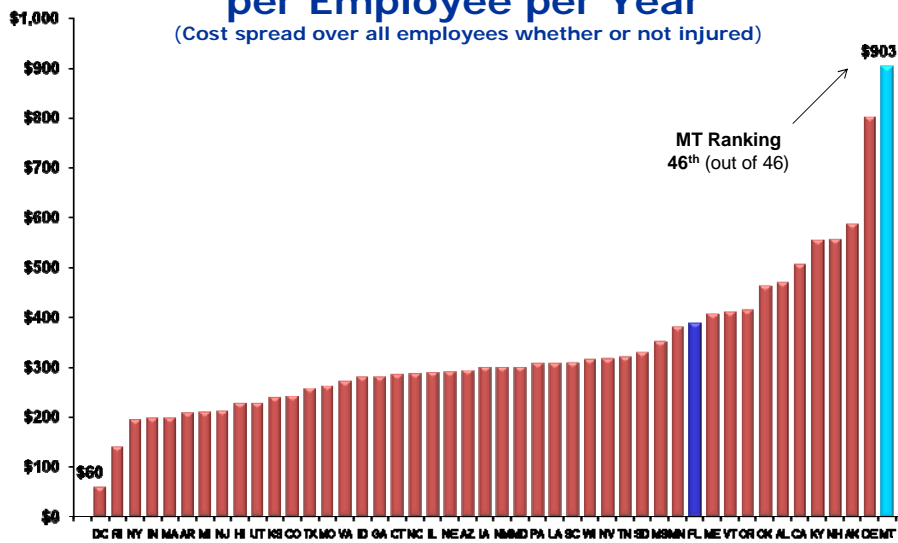


Source: WCSP Data at first report for policies effective in 2004 and 2005.

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Actual Average Medical Benefits per Employee per Year

(Cost spread over all employees whether or not injured)

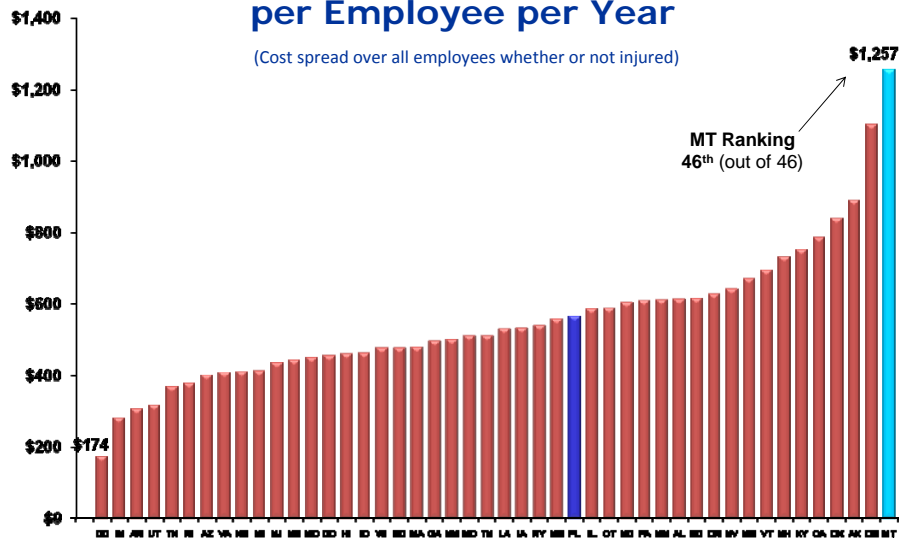


Source: WCSP Data at first report for policies effective in 2004 and 2005.

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Actual Average Total Benefits per Employee per Year

(Cost spread over all employees whether or not injured)



Source: WCSP Data at first report for policies effective in 2004 and 2005.

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Montana versus Neighbors Compensability Criteria

- **Waiting Period for indemnity benefits**
 - Montana: 4 days
 - Regional states: range from 3 to 7 days
- **Relationship of work to injury**
 - Montana and 4 neighbors: “causal connection”
 - Remaining regional states: “material cause,” “major cause,” and “proximate cause”
- **Compensability exclusions in Montana and neighbors**
 - Intoxication
 - Illegal drug use
 - Pre-existing conditions
 - Mental-only injuries

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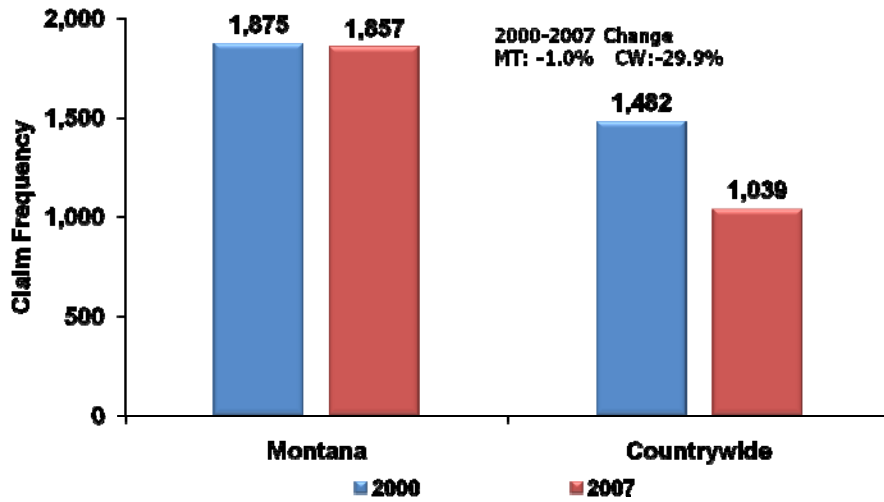
Claim Frequency

Workers Compensation Claim Frequency

- Countrywide frequency continues to decline. In fact, for each of the last 11 years (and 16 of the last 18), on-the-job claim frequency for workers compensation injuries has declined from the previous year's level
- Montana's frequency rate has declined, but not to the levels seen regionally or nationally

Lost-Time Frequency – Then and Now Montana versus Countrywide

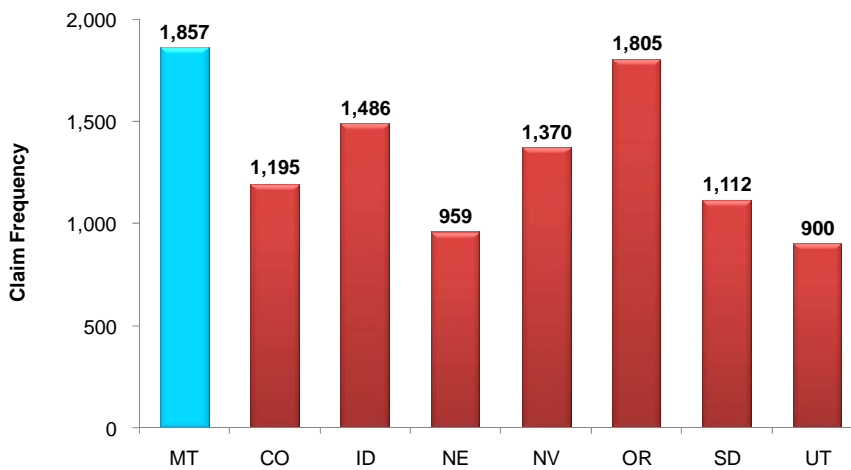
Frequency per 100,000 Workers—Lost-Time Claims



Source: NCCI's Financial Data
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Montana's Average Lost-Time Claim Frequency

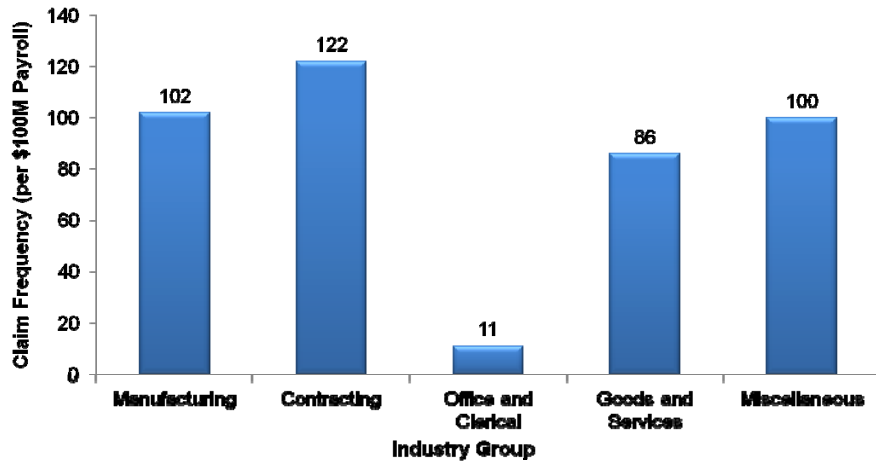
Frequency per 100,000 Workers—Lost-Time Claims



Source: NCCI's Financial data valued as of 12/31/2007.
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Montana's Frequency Rate of Lost-Time Claims by Industry Group

Lost-Time Frequency per \$100 Million Payroll



Source: NCCI's WCSP data - Policy Period 01/2006-12/2006

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Frequency of Injuries: Experience Matters

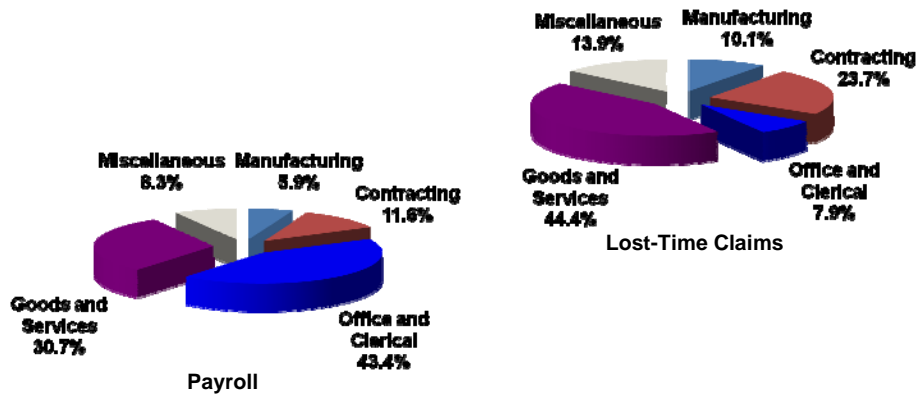
Inexperienced Have a Disproportionately High Share of Lost Work-Time Injuries and Illnesses

Time With Current Employer	Share of Employment (2008)	Share of Lost Work-Time Injuries & Illnesses (2007)	Relative Difference Share of Injuries vs. Employment
Less Than 1 Year	24.9%	34.2%	37.3% : Higher
1 - 5 Years	37.8%	35.2%	-6.9% : Lower
5+ Years	37.4%	30.6%	-18.2% : Lower

Time periods in the table are based on Share of Lost Work-time Injuries and Illnesses. Tenure "breaks" for Share of Employment classifications: 12 months or less, 13 months-to-5 years, and 5 years and above. Data for Share of Employment based on data as of January 2008.
Source: US Bureau of Labor Statistics

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Montana's Distribution of Payroll and Lost-Time Claims by Industry Group



NCCI's WCSP data
Policy Period 01/2006-12/2006

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Indemnity Severity

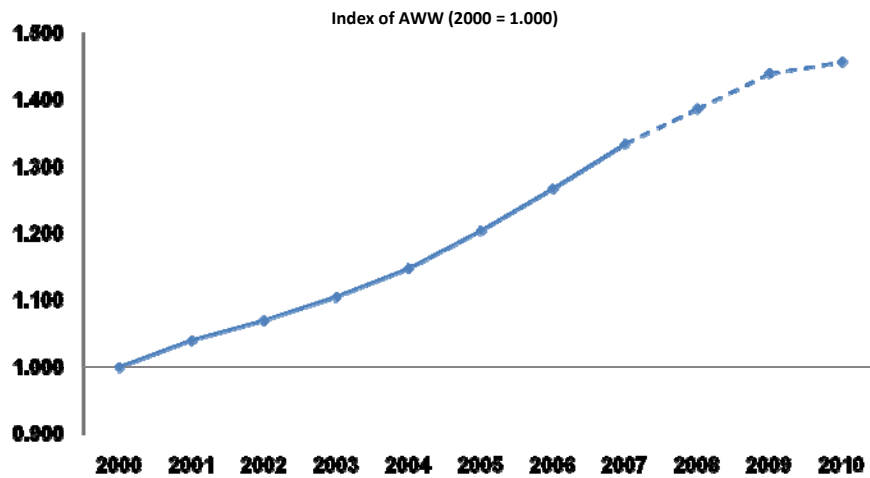
- Wages
- Duration
- Demographics

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Drivers of Severity

- Average Weekly Wage
- Age of Workforce
- Time Away From Job
- Impairment Ratings
- Closure Rates

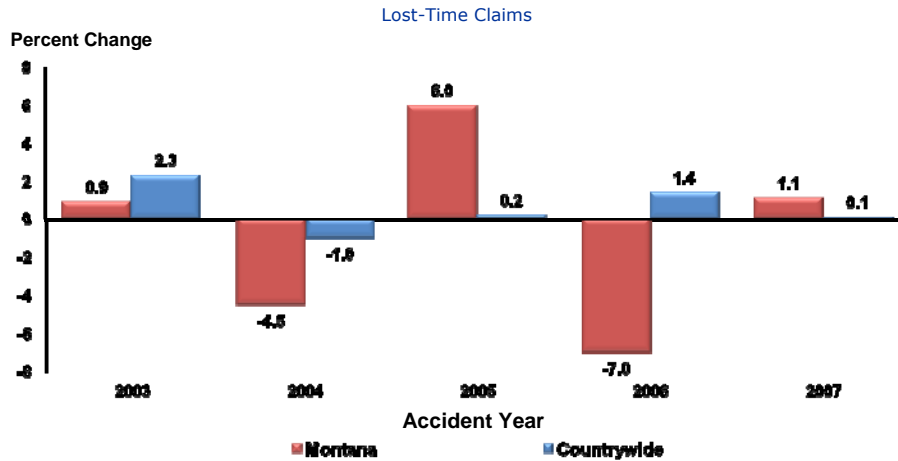
Increases in Montana's Average Weekly Wage Are Expected to Moderate Through 2010



Source: US Bureau of Labor Statistics and NCCI

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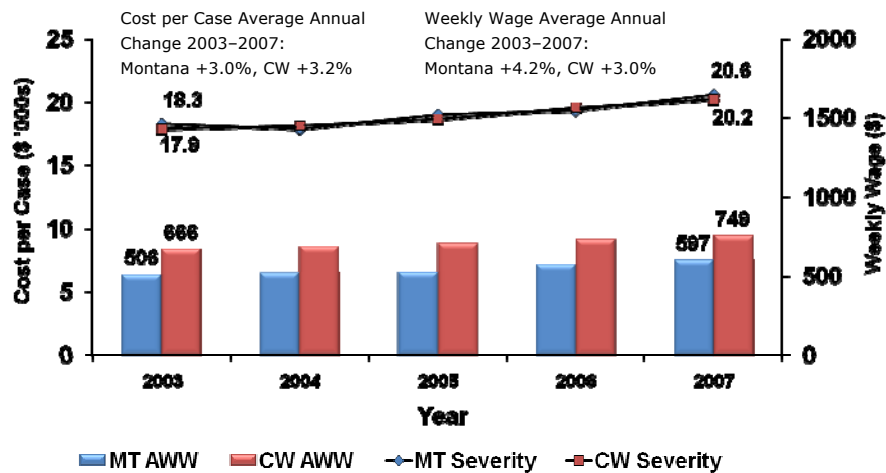
Montana Indemnity Severity Changes Net of Wage Changes



Based on data through 12/31/2007 at historical benefit level and developed to ultimate
 Source: CPS Wage (Current Population Survey), Economy.com; Accident year indemnity severity, NCCI

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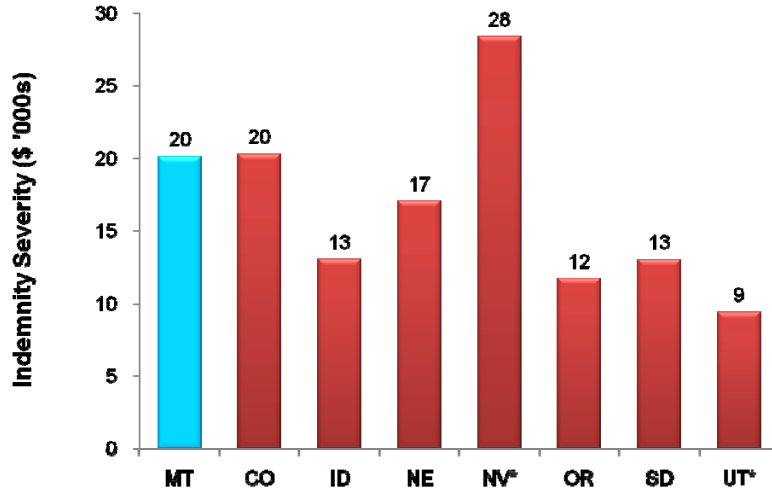
Montana Average Weekly Wage Lower Than National - Cost per Case Are Equal



Severity figures based on NCCI's financial data valued as of 12/31/07 at historical benefit levels and historical wage levels.
 Wages from BLS Current Population Survey with \$150,000 cap.

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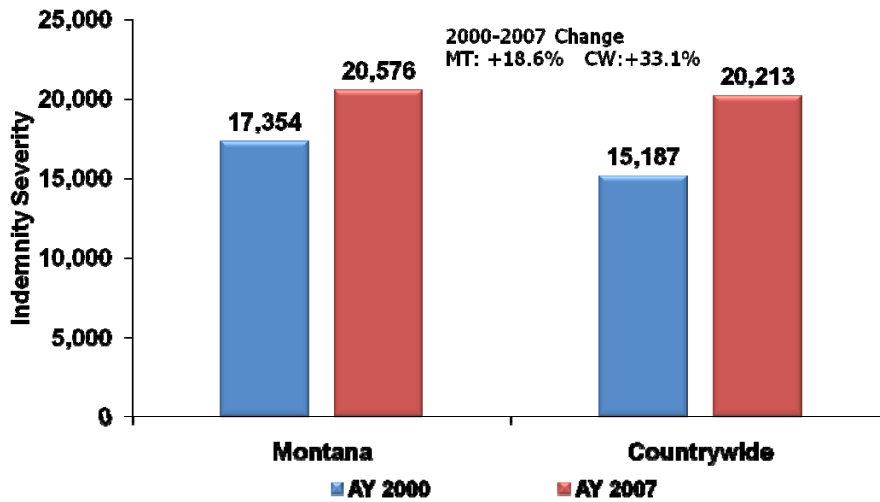
Average Indemnity Claim Severity Montana and Region



Based on NCCI's financial data for lost-time claims, PY 2006.
* NV and UT are based on AY 2007.

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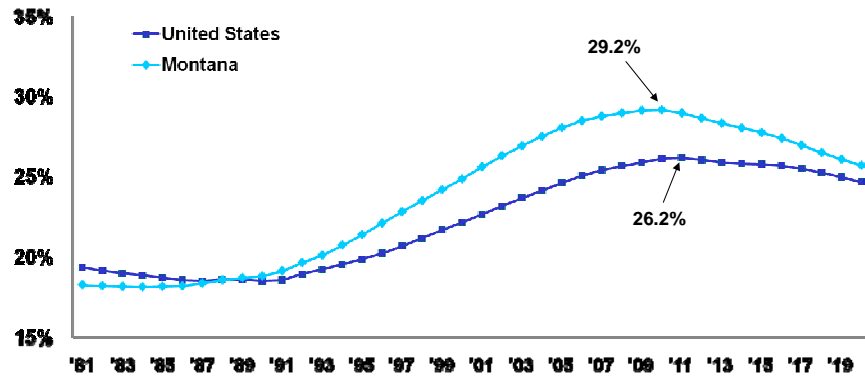
Indemnity Severity – Then and Now Montana versus Countrywide



Source: NCCI's Financial Data

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The Share of Montana's Population 45 to 64 Is Expected to Peak in 2010



Source: US Census Bureau; Moody's Economy.com
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Percentage of Claims Closed Montana vs. Neighboring States

	@ 1 st Report	@ 2 nd Report	@ 3 rd Report	@ 4 th Report	@ 5 th Report
Nebraska	55%	79%	87%	92%	94%
Montana	58%	77%	86%	89%	90%
South Dakota	58%	83%	91%	94%	96%
Nevada	66%	89%	92%	95%	95%
Oregon	67%	85%	91%	94%	96%
Idaho	69%	88%	93%	95%	97%
Utah	70%	88%	92%	95%	95%
Colorado	71%	91%	96%	98%	99%

Source: NCCI Financial Call data valued as of 12/31/07

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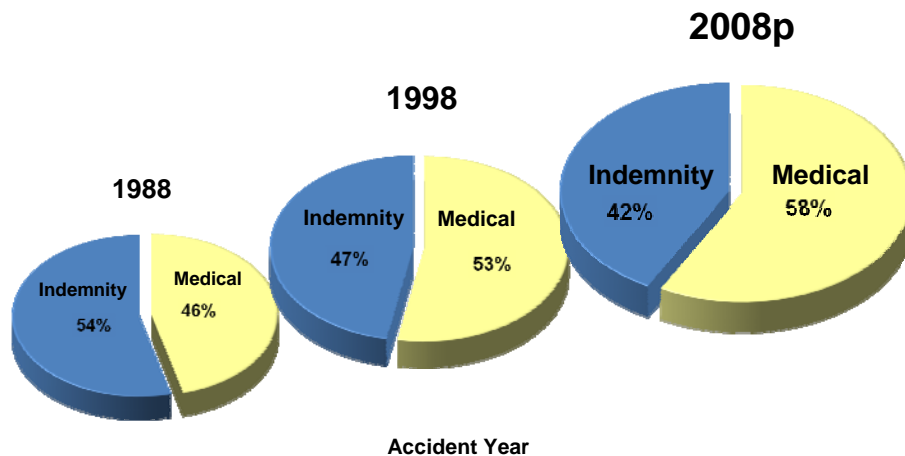
Medical Severity

- Medical Cost Growth
- Utilization
- Severity

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Workers Compensation Medical Losses Are More Than Half of Total Losses

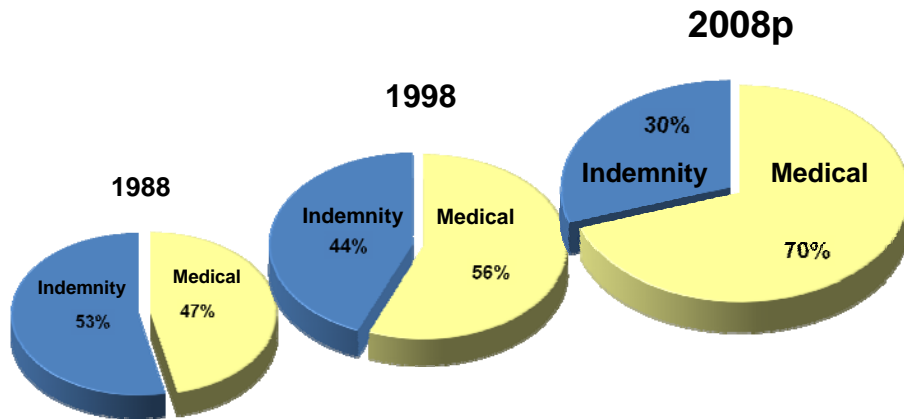
All Claims—NCCI States



2008p: Preliminary based on data valued as of 12/31/2008
 1988, 1998: Based on data through 12/31/2007, developed to ultimate
 Based on the states where NCCI provides ratemaking services, including state funds
 Excludes high deductible policies
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Montana Medical Share More Than 20% Greater Than Nationwide

All Claims—Montana

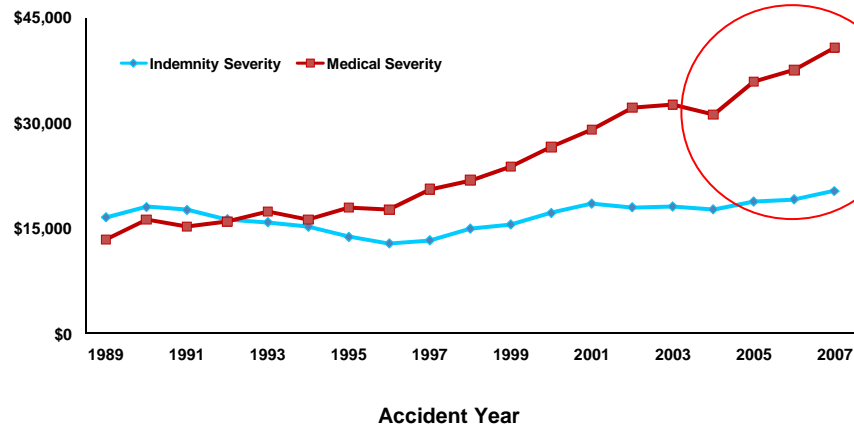


Based on data valued as of 12/31/2007, developed to ultimate
Excludes the effects of deductible policies

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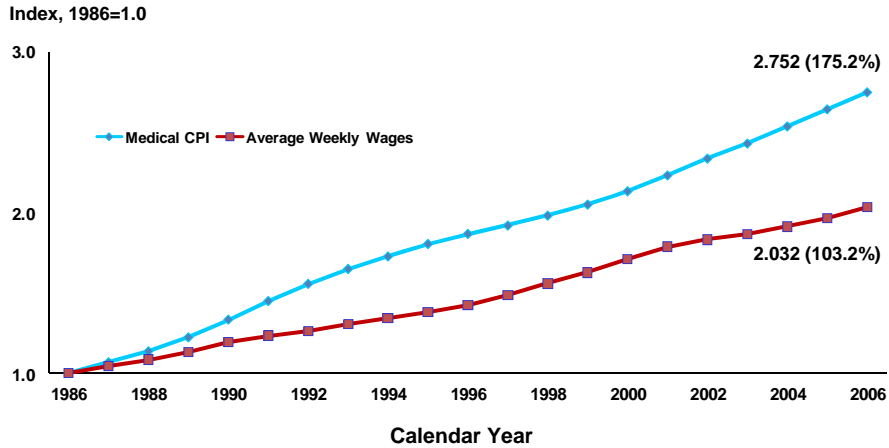
Montana's Medical Share Is Based Partly on Much Slower Indemnity Severity Growth

Cost per Claim



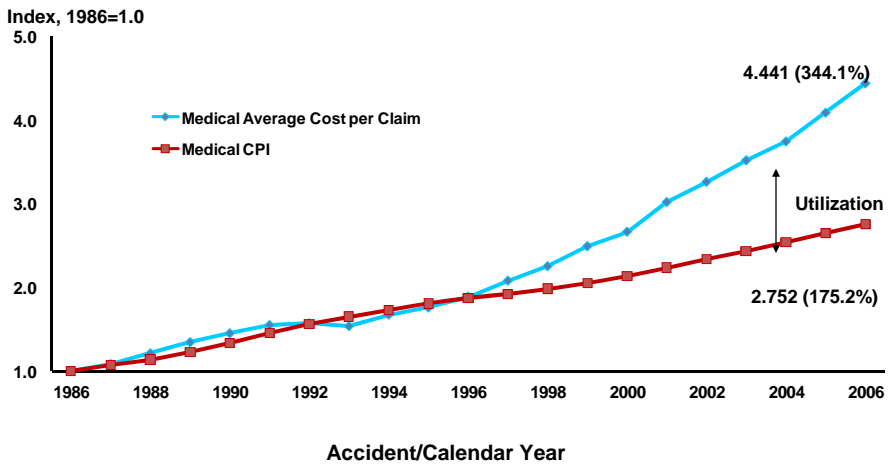
Source: NCCI
Based on financial data through 12/31/2007
Data developed to ultimate and without loss limitation
Excludes the effects of deductible policies, adjustments for wage inflation, and changes in benefit level
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Growth in the Medical Consumer Price Index (CPI) Has Exceeded Growth in Wages



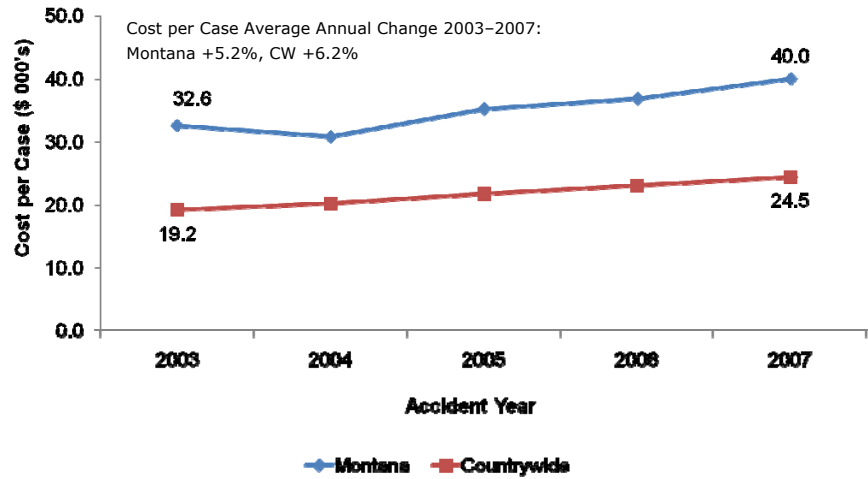
Source: NCCI and US Bureau of Labor Statistics
 Average weekly wages are calculated from Current Population Survey data.
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Growth in Medical Average Cost per Claim has Exceeded Growth in the Medical CPI



Source: NCCI and US Bureau of Labor Statistics
 Average weekly wages are calculated from Current Population Survey data.
 Accident year for average cost per claim; calendar year for medical CPI.
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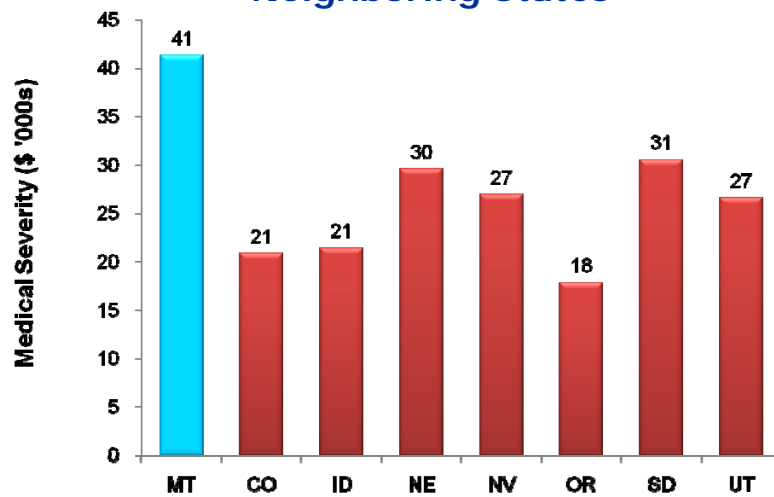
Montana Medical Average Cost per Case vs. Countrywide



Source: NCCI Financial Call data valued as of 12/31/07 at historical benefit level and historical wage levels

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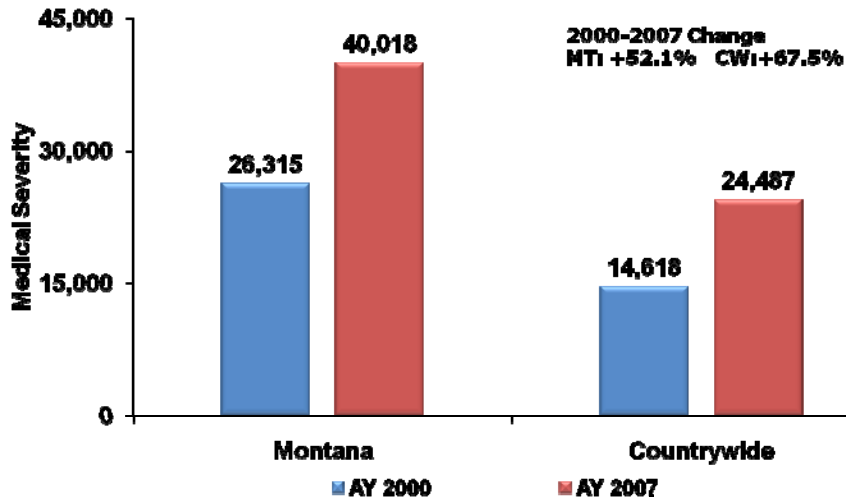
Montana's Medical Average Claim Severity Compared With Neighboring States



Based on NCCI's financial data for lost-time claims.
NV and UT based on AY 2007. All other states based on PY 2006.

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Medical Severity – Then and Now Montana versus Countrywide



Source: NCCI's Financial Data
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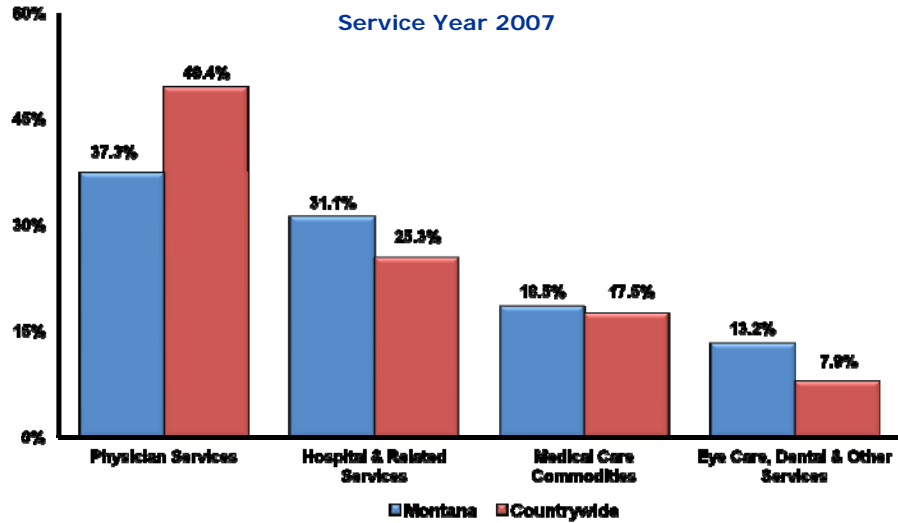
Back-Related Injuries in Montana as Compared to Countrywide

	Montana	Countrywide
Back-related PPD claims as a percentage of all PPD claims	36.5%	17.0%
Back-related PPD medical incurred dollars as a percentage of total PPD medical incurred (Paid+Case)	40.4%	19.5%
Average medical cost per case for back-related injuries (PPD Claims)	\$34,973	\$27,818
Average medical cost per case for all injuries (PPD Claims)	\$31,605	\$24,353

Source: NCCI WC Statistical Plan—policies effective 2002-2006
 Losses are not developed to ultimate: latest available report for each policy year
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Medical Cost Distribution Montana versus Countrywide

Service Year 2007



Source: Medical Transactional Data and Supplemental data NCCI obtained for service year 2007 for MT.
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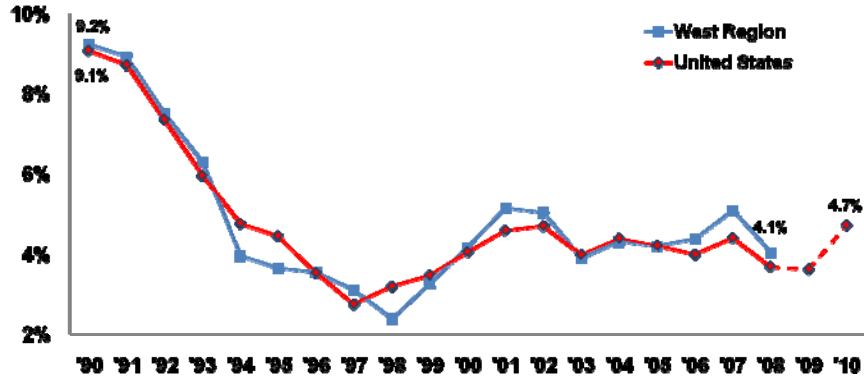
Key Drivers of Medical Severity (Cost per Claim)

- Medical Inflation
- Utilization
- Demographics

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Further Increases in Medical Care Inflation Are Expected Through 2010

Medical Care CPI, Percent Change from Year Ago

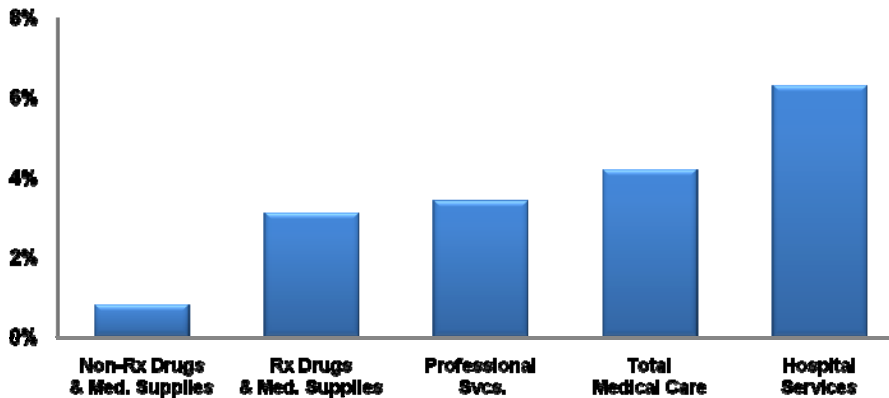


Source: US Bureau of Labor Statistics

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Medical Care Price Increases Are Highest for Hospital Services

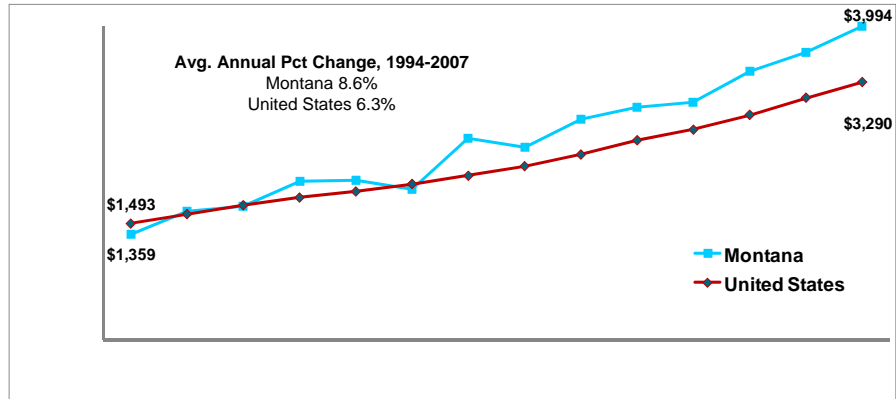
Average Annual Pct. Change in Components of the US Medical Care CPI, 2003-2008



Source: US Bureau of Labor Statistics

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Avg. Hospital Cost per Day* in Montana: Above the US; Increasing More Rapidly



* Cost per Day reflects internal costs incurred for hospital services
Source: American Hospital Association

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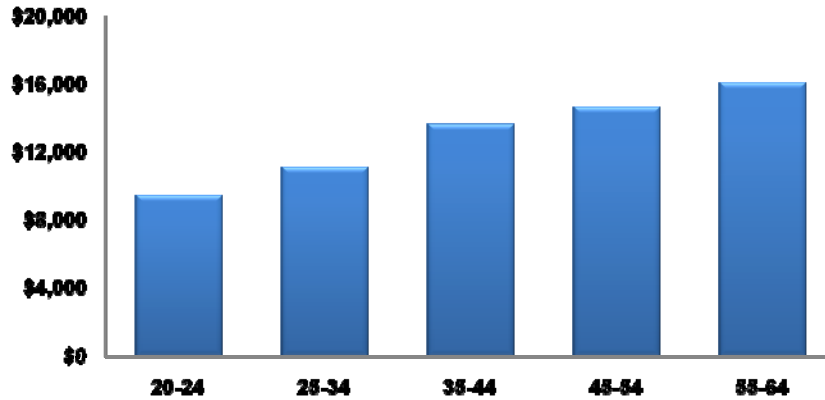
Changes in Utilization Can Come From Many Sources

- Changes in the number of services provided
- Changes in treatment modalities (use of MRIs instead of X-rays)
- Introduction of newer pharmaceuticals/generics
- Adaptive practices by providers

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Medical Severity Increases With Age

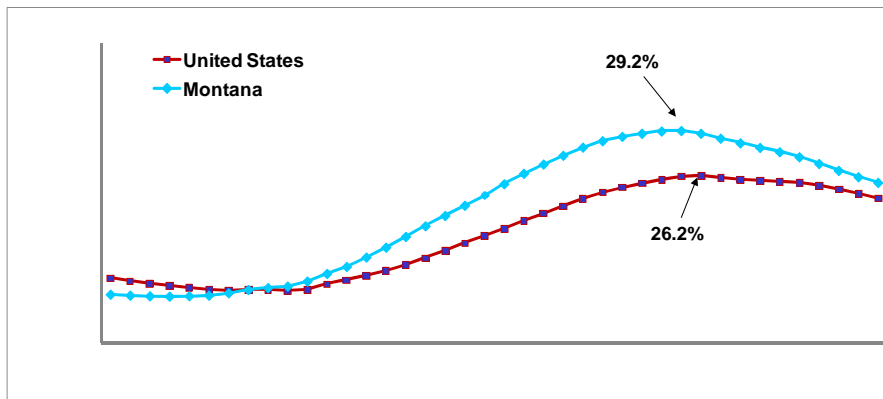
Average Paid + Case Medical Severity Reported at 18 Months by Age
Accident Year 2005, NCCI States



Source: NCCI

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The Share of Montana's Population 45 to 64 Is Expected to Peak in 2010



Source: US Census Bureau; Moody's Economy.com

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Key Takeaways— Drivers of Medical Severity

- Ongoing increases in medical inflation and utilization suggest further upward pressure on medical severity
- Medical severity increases with age
- Upward pressure on medical severity may diminish as Baby Boomers exit the workforce
- This latter effect may be partly offset to the extent that persons work well beyond the “normal” retirement age

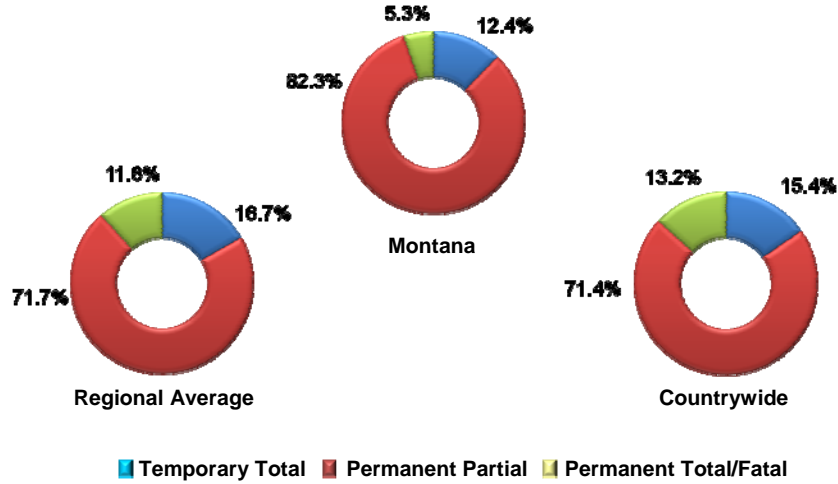
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Permanent Partial Claims

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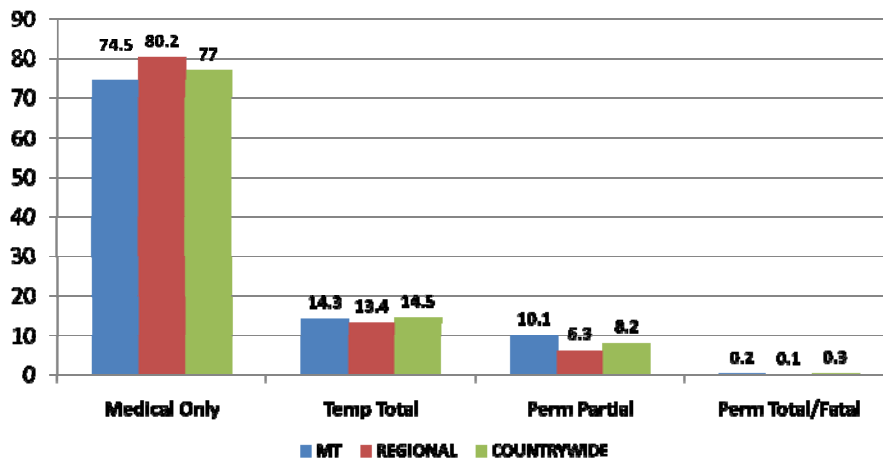
Indemnity Loss Distribution by Injury Type



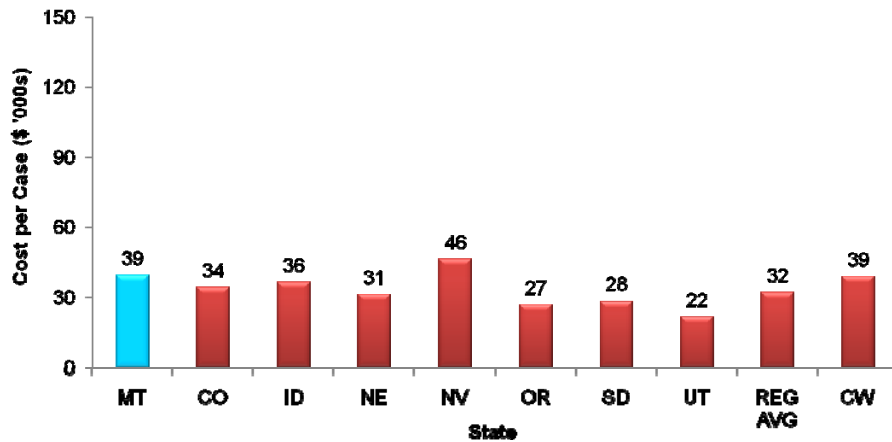
Regional states are CO, ID, NE, NV, OR, SD, and UT
Based on NCCI's WCSP data

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Montana Claims Distribution



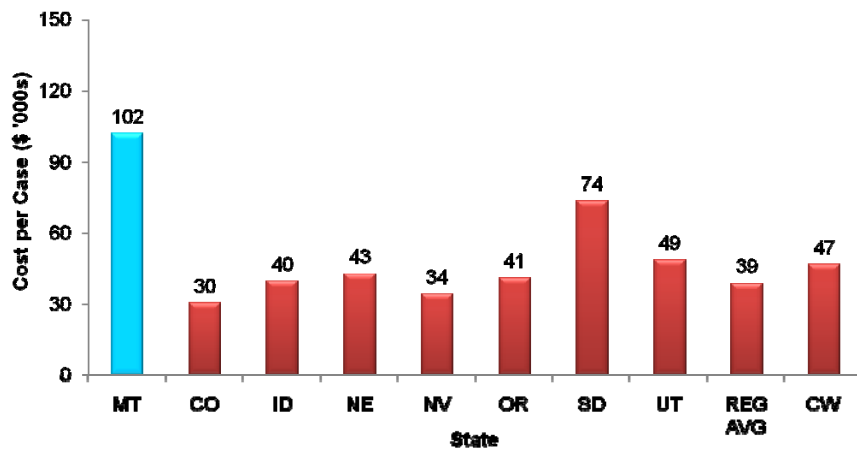
Montana's Permanent Partial Indemnity Average Cost per Case



Based on NCCI's WCSP data.

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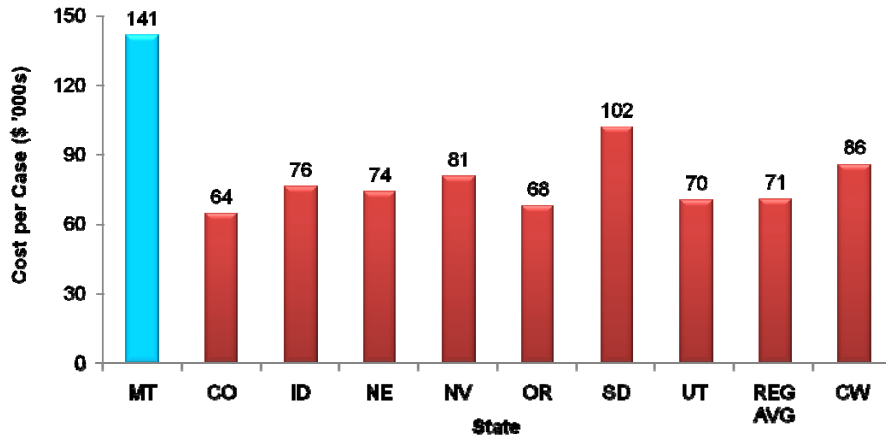
Montana's Permanent Partial Medical Average Cost per Case



Based on NCCI's WCSP data.

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Montana's Permanent Partial Total Average Cost per Case...

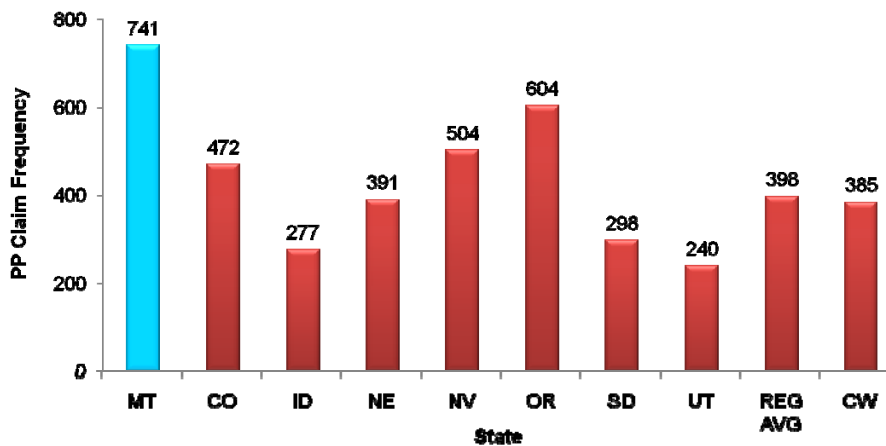


Based on NCCI's WCSP data.

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...Times Montana's Average Frequency of Permanent Partial Claims...

Permanent Partial Frequency per 100,000 Workers

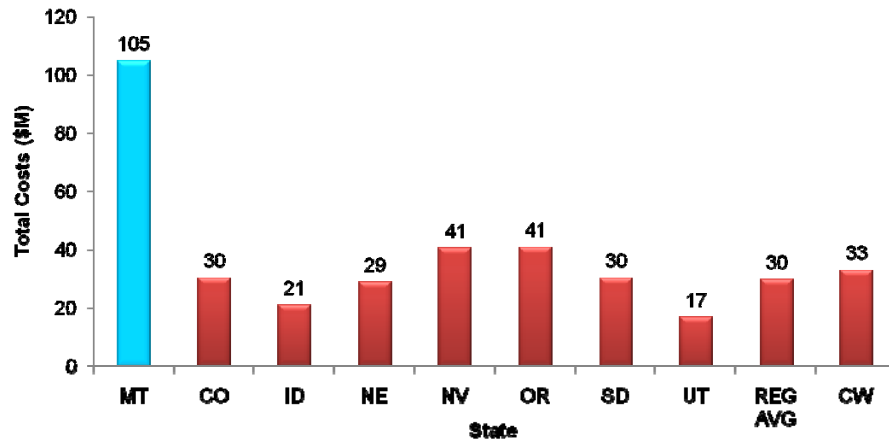


Based on NCCI's WCSP data.

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...Gives Montana's Permanent Partial Total Costs

Permanent Partial Costs per 100,000 Workers



Based on NCCI's WCSP data.

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Summary

Montana:

- Higher Total Benefits
- Greater Frequency
- Higher Average Indemnity Costs
- Higher Average Medical Costs
- Longer Claims Duration

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Questions And Comments

**Additional Studies and Research Materials
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