



Montana Legislative Services Division
Office of Research and Policy Analysis

November 3, 2009

MEMO

To: Economic Affairs Committee Members
From: Pat Murdo, Legislative Staff
Re: Senator Keane's question on Plan 1 work comp claims as a percentage of payroll

The attached data was gathered in response to Senator Keane's request for Plan 1 workers' compensation claims as a percentage of payroll. The intent of the request was presented to the responders as:

- because of size, do the Plan 1 self-insurers have better claims as a percentage of payroll because they provide safety programs as well as health insurance? (and what is the situation for Plan 2 and Plan 3 insureds?). The numbers don't specifically prove that, but it is one way of trying to see if something about Plan 1 self-insurers is a benefit that others might try to emulate.
- what does the data for Plan 1 self-insurers' incurred but not reported dollars indicate? (noting that reserve set-asides may be a further component in keeping workers' compensation costs down and recognizing that some may be underreserved and some overreserved.) Again - is there something in the way Plan 1 self-insurers work that makes their overall statistics better than those for Plan 2 and Plan 3 insureds?

The summary answer to the above questions

The data cannot be used for conclusions, either comparing one type of Plan 1 to another type of Plan 1 or comparing among Plans or even comparing year-to-year within the same plan. Nevertheless, the information is interesting and points to:

- the complexity of data gathering for workers' compensation purposes (see notes, especially); and
- the substantial outlays in 12-month periods for workers' compensation benefits.

A working group, primarily of insurers, reviewed the data and the questions Oct. 27. Many of the insurer participants also noted that, while safety is important for decreasing injury rates (and thus, premiums), the data does not show a direct connection to safety programs because more factors are involved.

Further details

The following explanations about the data requested of Plan 1 insurers and later Plan 2 and Plan 3 insurer representatives underscore the complexity of trying to make comparisons:

- ▶ **workers' compensation paid dollars** for any claims paid in a 12-month period representing the respondent's fiscal year. (The fiscal years varied so the period was not uniform.) The claims represent a combination of new and old -- whatever dollars were paid for workers' compensation in that period for claims. We also asked for separation, if possible into medical and indemnity dollars paid out.
- ▶ **workers' compensation incurred dollars** for the same period (also with a separation for medical and indemnity). For NCCI data it is paid claim dollars plus case reserves as of first report. For the Montana Municipal Interlocal Authority (MMIA), incurred dollars represent the sum of reserves and paid dollars less any collected dollars. In our 12-month scenario, someone may have been injured in the 12th month but not yet filed a claim. Given that an insurer does not know how serious the claim may be, the amount set aside for "incurred but not reported" claims (IBNR) can vary based on history or the risk tolerance of the self-insurer or Plan 2 or Plan 3 insurer.
- ▶ **workers' compensation payroll**. Plan 1 insurers routinely use this number, which has to be

estimated for Plan 2 and Plan 3 insurers. Plan 3's figures differ a bit from Plan 2 figures because Plan 3 payroll figures were "estimated to ultimate".

- ▶ **workers' compensation premium** (if applicable). This number indicated revenues received for all Plan 2 and Plan 3 insurers and for those Plan 1 respondents that pool risk, like the MMIA or the Montana Association of Counties (MACo). The premium in this case is the rate charged for all job classifications that are insured, with any additions or subtractions as determined by the self-insurer. A single company self-insurer like Plum Creek does not charge itself a premium. Further complicating the premium for self-insurance pools is that, while some job classifications may appear similar to those of another self-insurer, there may be far more diversification in one self-insurer pool as compared to another. For example, all of MACo's 22 classifications, including nursing home workers, are aggregated into its data, making comparisons difficult with MMIA's 6 classifications, even though some of the road-crew and other categories may be similar.
- ▶ **workers' compensation premium for every \$100 payroll.** This figure represents the premium divided by payroll divided by 100. For all of the insurers, this reflects a mix of business with different business activities having different job classifications, varying rates of loss relative to those job classifications, and different amounts of payroll for those job classifications. The numbers are aggregated -- again making conclusions difficult because job classifications in one insurer group may have more high-paid jobs than a similar job classification in another insurer group.¹
- ▶ **workers' compensation incurred dollars for every \$100 payroll.** Similar difficulties for use in comparisons to the example for premiums, listed above.
- ▶ **workers' compensation paid dollars for every \$100 payroll.** This figure involves several variables, including the mix of new and "matured" claims. An insurer that has not been in business for very long may have claims that have not yet matured to the degree that a long-time insurer has. So, while we asked for a snapshot of payments over a 12-month period, those insurers with more matured claims may have a higher cost than insurers with relatively new claims. (For example, a similar low-back injury claim in its first year of treatment may cost much less as providers attempt noninvasive resolutions, compared with a low-back claim that has not responded to the early treatments and is in its second level of treatment. Both claims may be paid out in the same year, but the costs are different.) Plan 3 notes that for its numbers, the annual payments reflect changes in loss-costs, insured business volumes, mix of business, duration of liabilities, and length of operation. This is another reason for insurers' caution about comparisons even within the insured's own year-to-year book of business.
- ▶ **percent change in paid loss in 12 months.** These numbers varied significantly across respondents and comparisons are difficult for all the reasons mentioned above.
- ▶ **injury rate.** For MMIA this rate was the number of lost-time workplace injuries for every 100 workers each year, using an average employee number of 6,600 workers divided by 100, with that number divided into the lost-time claims for the year. For Plan 2 numbers compiled by NCCI, the rate is the lost-time claim count for every 100 workers. The number of workers is calculated from the imputed value of payroll divided by 52 times the Montana average weekly wage (as measured by the Current Population Survey, capped at \$150,000). And for Plum Creek, the injury rate is the lost-time claim for 100 full-time equivalent positions.

¹Dan Gengler, the internal actuary at Montana State Fund, extrapolated the discussion about payroll differences of one job classification, CC8868, to indicate how payroll impacts loss rates: "Rates are a function of both losses and payroll. CC 8868 is also assigned to churches. Let's stipulate that the incidence and cost of claims are exactly the same for church secretaries and college professors. But since church secretaries are paid \$16,000 per year while college professors are paid \$80,000 per year, the loss rate for church secretaries will be 5x higher than for college professors. The difference in indicated rate would not be due to differences in losses but differences in wage level." (10/28/09 email)