Montana
Economic Affairs Interim Committee
July 8, 2009

Mike Taylor
NCCI
503-892-1858
mike_taylor@ncci.com

Montana and the Nation: Workers Compensation System Overview

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

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
Montana versus Countrywide Combined Ratios


Results Vary From State to State

Accident Year 2007 Combined Ratios

Data is evaluated as of 12/31/2007.
**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%

**Montana’s Filing Activity**

**Voluntary Loss Cost Changes**

Cumulative 2007-2009 -8.0%
Countrywide Average Approved Bureau Rates/Loss Costs

Cumulative 1990-1993: +36.3%
Cumulative 1994-1999: -27.8%
Cumulative 2000-2003: +17.1%
Cumulative 2004-2009: -25.2%

Montana’s Distribution of Payroll by Industry Group

- Goods and Services: 30.7%
- Office and Clerical: 43.4%
- Contracting: 11.6%
- Manufacturing: 5.9%
- Miscellaneous: 8.3%

Current Average Voluntary Loss Costs Using Montana’s Payroll Distribution

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

Potential Drivers of Higher Pure Premiums in Montana

- Benefits
- Industry Mix
- Compensability Criteria
- Experience
Benefit Provisions And Costs

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

Average Statutory Benefit Provisions

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

- MT Ranking 11th (out of 50). All states based on rates in effect on 1/1/08.
- 1.0 represents countrywide average cost per case (indemnity only). All states indexed to countrywide average.

**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.

**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.
**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.

**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
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

Montana’s Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims

Source: NCCI’s Financial Data

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Montana’s Frequency Rate of Lost-Time Claims by Industry Group
Lost-Time Frequency per $100 Million Payroll

<table>
<thead>
<tr>
<th>Industry Group</th>
<th>Claim Frequency (per $100M Payroll)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>102</td>
</tr>
<tr>
<td>Contracting</td>
<td>122</td>
</tr>
<tr>
<td>Office and Clerical</td>
<td>11</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>86</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>100</td>
</tr>
</tbody>
</table>

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

Frequency of Injuries: Experience Matters
Inexperienced Have a Disproportionately High Share of Lost Work-Time Injuries and Illnesses

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Less Than 1 Year</td>
<td>24.9%</td>
<td>34.2%</td>
<td>37.3% : Higher</td>
</tr>
<tr>
<td>1 - 5 Years</td>
<td>37.8%</td>
<td>35.2%</td>
<td>-6.9% : Lower</td>
</tr>
<tr>
<td>5+ Years</td>
<td>37.4%</td>
<td>30.6%</td>
<td>-18.2% : Lower</td>
</tr>
</tbody>
</table>

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.

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

NCCI’s WCSP data

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Indemnity Severity

- Wages
- Duration
- Demographics
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

Index of AWW (2000 = 1.000)

Source: US Bureau of Labor Statistics and NCCI
Montana Indemnity Severity Changes Net of Wage Changes

Percent Change

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Montana</th>
<th>Nationwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>0.9</td>
<td>2.3</td>
</tr>
<tr>
<td>2004</td>
<td>-4.5</td>
<td>0.9</td>
</tr>
<tr>
<td>2005</td>
<td>-1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>2006</td>
<td>-7.0</td>
<td>1.4</td>
</tr>
<tr>
<td>2007</td>
<td>1.1</td>
<td>0.1</td>
</tr>
</tbody>
</table>

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.

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

Cost per Case Average Annual Change 2003–2007:
Montana +3.0%, CW +3.2%

Weekly Wage Average Annual Change 2003–2007:
Montana +4.2%, CW +3.0%

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

Source: NCCI's Financial Data

* NV and UT are based on AY 2007.

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

Percentage of Claims Closed
Montana vs. Neighboring States

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

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

- Medical Cost Growth
- Utilization
- Severity

Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

1988
- Indemnity 54%
- Medical 46%

1998
- Indemnity 42%
- Medical 53%

2008p
- Indemnity 42%
- Medical 50%

Accident Year

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
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

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

Cost per Claim

$0 $15,000 $30,000 $45,000

1989 1991 1993 1995 1997 1999 2001 2003 2005 2007

Indemnity Severity Medical Severity

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

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
Montana Medical Average
Cost per Case vs. Countrywide

Cost per Case Average Annual Change 2003–2007:
Montana +5.2%, CW +6.2%

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

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.
Medical Severity – Then and Now Montana versus Countrywide

Back-Related Injuries in Montana as Compared to Countrywide

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

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**

- **Physician Services**: Montana 37.2%, Countrywide 40.4%
- **Hospital & Related Services**: Montana 31.5%, Countrywide 28.3%
- **Medical Care Commodities**: Montana 10.5%, Countrywide 17.5%
- **Eye Care, Dental & Other Services**: Montana 13.3%, Countrywide 7.9%

**Key Drivers of Medical Severity**

(Cost per Claim)

- Medical Inflation
- Utilization
- Demographics

Source: Medical Transactional Data and Supplemental data NCCI obtained for service year 2007 for MT.

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Further Increases in Medical Care Inflation Are Expected Through 2010
Medical Care CPI, Percent Change from Year Ago

Medical Care Price Increases Are Highest for Hospital Services
Average Annual Pct. Change in Components of the US Medical Care CPI, 2003-2008
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

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

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

Source: NCCI
Source: US Census Bureau; Moody's Economy.com
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
Indemnity Loss Distribution by Injury Type

Regional Average:
- Temporary Total: 16.7%
- Permanent Partial: 10.6%
- Permanent Total/Fatal: 71.7%

Montana:
- Temporary Total: 5.3%
- Permanent Partial: 12.4%
- Permanent Total/Fatal: 82.3%

Countrywide:
- Temporary Total: 13.2%
- Permanent Partial: 15.4%
- Permanent Total/Fatal: 71.4%

Montana Claims Distribution

- Medical Only: 74.5%
- Temp Total: 14.3%
- Perm Partial: 10.1%
- Perm Total/Fatal: 0.2%

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

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Montana’s Permanent Partial
Indemnity Average Cost per Case

Montana’s Permanent Partial
Medical Average Cost per Case

Based on NCCI’s WCSP data.
Montana’s Permanent Partial Total Average Cost per Case...

Based on NCCI’s WCSP data.

…Times Montana’s Average Frequency of Permanent Partial Claims...

Permanent Partial Frequency per 100,000 Workers

Based on NCCI’s WCSP data.
...Gives Montana’s Permanent Partial Total Costs

Based on NCCI’s WCSP data.
Questions And Comments

Additional Studies and Research Materials can be found under Industry Information at ncci.com