Montana Workers Compensation
Part 1 - Ratemaking Overview

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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

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Dual Responsibilities

- **NCCI**
  - Collect & analyze data
    - Overall, insurer and policyholder
  - Determine overall & individual loss cost level
  - Comply with the requirement that rates shall be adequate, not excessive or unfairly discriminatory

- **Insurers**
  - 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
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

Growing wages can impact benefit costs
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

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

<table>
<thead>
<tr>
<th>Final Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingencies</td>
</tr>
<tr>
<td>Taxes &amp; Fees</td>
</tr>
<tr>
<td>Production &amp; General Expense</td>
</tr>
<tr>
<td>Loss Based Expenses</td>
</tr>
<tr>
<td>Developed &amp; Trended Losses</td>
</tr>
</tbody>
</table>

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

**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
Fall in a Hole, Inc.
General Excavation Company

Payroll
- 6217 $100,473
- 8810 $ 25,716

Loss Cost Rates:
- 6217 = $8.50
- 8810 = $.45
- Somewhat Equitable Insurance Company
- Loss Cost Multiplier = 1.50

SEIC Rates:
- Class 6217: $12.75
- Class 8810: $.68

Fall In A Hole, Inc.

- 6217 $100,473 x $12.72 $/100 = $12,780
- 8810 $25,716 x $.68/100 = $ 175

- Manual Premium = $12,985
- Experience Mod x 1.25
- Modified Premium = 16,231
- MCCPAP x .95
- Standard Premium = $15,419
- Premium Discount (8%) x .92
- Estimated Annual Premium $14,185

- Base Premium = $12,985
- Actual Premium = $14,185

DIFFERENCE + $1,200
**Significant Cost Differences**

- **Dirt Diggers, Inc.**
  - Safety conscientious
  - Controlled losses
  - Better training
  - Gives 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 training
  - Results in less options for coverage, higher ex-mod, lower premium discount, etc.

$7898 vs $14,185

$6,287 Savings

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**Montana Workers Compensation**

**Part 2 - System Overview**

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Montana
July 1, 2013 Loss Cost Filing

Overall Loss Cost Level Change -5.4%

Changes due to:

- Experience -8.6%
  - Experience Period -6.7%
  - Loss Development -2.0%
- Trend +2.1%
  - Indemnity -2.1%
  - Medical +4.5%
- Benefits +0.5%
  - Indemnity (SAWW) +1.5%
  - Medical (Schedule) +0.0%
- LAE 0.0%
- Item B-1425 Offset +0.8%

Workers Compensation System Overview

**Montana**
- Written premium continues to decline
- Combined ratios continue to be high
- Loss costs have decreased by more than 40% in 7 years

**Countrywide**
- Written premium is rising
- Combined ratios moderating
- Loss costs have increased for second filing cycle
Current NCCI Voluntary Market Rate/Loss Cost Level Changes

Excludes Law-Only Filings

Reflects the most recent experience filing in each jurisdiction

<table>
<thead>
<tr>
<th>State</th>
<th>Percent</th>
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<tr>
<td>WV</td>
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<tr>
<td>KY</td>
<td>-20.0</td>
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<tr>
<td>VA</td>
<td>-15.0</td>
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<tr>
<td>MT</td>
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<td>IL</td>
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<tr>
<td>MT</td>
<td>100.0</td>
</tr>
</tbody>
</table>

WV KY VA MT IL TX AK SD GA ME UT NC NE DC OK NH SC OR MO KS TN LA NV MD ID AZ MS VT IN AL NM CO HI FL CT IA RI

Approved | Pending

Average Voluntary Pure Loss Costs Quartiles Using Montana’s Payroll Distribution

Countrywide = $1.59
Montana = $2.44

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

Not included
Workers Compensation
Premium Rate Comparison

Source: Adapted from 2004 through 2012 Oregon Workers' Compensation Premium Rate Ranking Summary
Indexes based on rates in effect as of January 1 of each calendar year listed above

Benefit Costs Distribution

Regional states are CO, ID, NE, NV, OR, SD, and UT
Based on NCCI financial data
Montana Workers Compensation
Lost-Time Claim Frequency

Lost-Time Claims

Percent Change

Cumulative Change of -20%
(1996–2010)

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>Percent Change</th>
<th>Cumulative Change</th>
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<tbody>
<tr>
<td>1997</td>
<td>-1.7%</td>
<td></td>
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<tr>
<td>1998</td>
<td>-6.5%</td>
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<tr>
<td>1999</td>
<td>-3.6%</td>
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<tr>
<td>2000</td>
<td>2.6%</td>
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<tr>
<td>2001</td>
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<tr>
<td>2002</td>
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<td>-6.7%</td>
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<td>4.5%</td>
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<tr>
<td>2009</td>
<td>1.5%</td>
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<tr>
<td>2010</td>
<td></td>
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</tbody>
</table>

Based on data through 12/31/2011, developed to ultimate
Countrywide Workers Compensation Lost-Time Claim Frequency Declined in 2012

Lost-Time Claims

2012p: Preliminary based on data valued as of 12/31/2012
1991–2011: Based on data through 12/31/2011, developed to ultimate
Based on the states where NCCI provides ratemaking services, excluding WV; including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level

Average Claim Frequency

Frequency per 100,000 Workers—All Claims

Based on NCCI’s Statistical Plan data
Average Lost-Time Claim Frequency

Frequency per 100,000 Workers—Lost-Time Claims

Key Takeaways—Claim Frequency

- Higher frequency than that in region
- Decline is slower than the national average
- Claim frequency is a key cost driver
- Frequency continues to decline
Claims Severity

Regional Average Indemnity Claim Severity
Lost Time Claims

Based on NCCI’s financial data for lost-time claims
Countrywide Workers Compensation
Medical Severity—Modest Increase in 2012
Average Medical Cost per Lost-Time Claim

<table>
<thead>
<tr>
<th>Accident Year</th>
<th>Annual Change 1991–1993</th>
<th>+1.9%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Change 1994–2001</td>
<td>+8.9%</td>
</tr>
<tr>
<td></td>
<td>Annual Change 2002–2011</td>
<td>+5.7%</td>
</tr>
</tbody>
</table>

Medical Claim Cost ($000s)

2012p: Preliminary based on data valued as of 12/31/2012
1991–2011: Based on data through 12/31/2011, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds, excluding WV

Montana
Average Medical Claim Severity
Lost-Time Claims

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>Medical Severity ($000s)</th>
</tr>
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<tbody>
<tr>
<td>1996</td>
<td>$163.3</td>
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<tr>
<td>1997</td>
<td>$191.3</td>
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<td>1999</td>
<td>$205.0</td>
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<td>$267.8</td>
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<td>2003</td>
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<td>2009</td>
<td>$333.3</td>
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<td>2010</td>
<td>$332.2</td>
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Based on data through 12/31/2011, on-leveled and developed to ultimate
Regional Average Medical Claim Severity

<table>
<thead>
<tr>
<th>Region</th>
<th>Indemnity Severity ($'000s)</th>
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<tbody>
<tr>
<td>MT</td>
<td>33</td>
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<tr>
<td>CO</td>
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<td>OR</td>
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<tr>
<td>SD</td>
<td>28</td>
</tr>
<tr>
<td>UT</td>
<td>31</td>
</tr>
</tbody>
</table>

Based on NCCI’s financial data for lost-time claims

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
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

Number of States with Hospital Inpatient Fee Schedules

- 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

AR, CO, KY, AK, FL, NV, ID, KY, SC


KS, FL, NM, TX, AZ, GA, OK, TN

HI, TN, VT, AK, AZ, AR, IL, TN, TX, AR, ID, IL, MD, MT, OK, TN, TX, IN, ME


ID, NV, TN, TX, VT, WV, AR, OR, ID, ME, SC, TN

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

- Medical costs comprise 65% of total benefit costs
- Average costs are higher than the regional and countrywide averages
- Some impacts of reform begin to show
- Slowing rate of increase in medical costs

Questions and Comments?