

WCIRB Research Forum Emerging Trends in California Workers' Compensation ALAE Costs and 2016 SB 863 Cost Monitoring Report

The webinar will begin shortly

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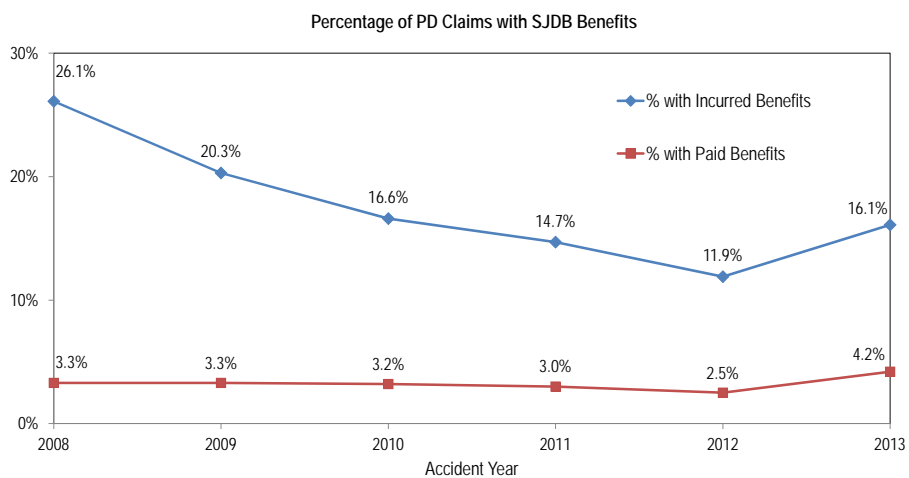
WCIRB SB 863 Cost Monitoring

- SB 863 signed into law September 18, 2012
- WCIRB prospectively evaluated cost impact in 2012: estimated net annual savings of \$200 million (1.1%)
- Many SB 863 provisions could not be evaluated prospectively
- Initial SB 863 retrospective evaluations released in 2013-2015
- Final comprehensive SB 863 Cost Monitoring Report released November 17, 2016

PD Benefits – WCIRB Prior & Current Estimates

- 2013 Changes to PD benefits estimated to increase costs by 0.3% (\$60M) (incl. frequency impact)
 - Includes increases to weekly PD benefit min. & max., increase in burial allowance, and changes to SJDB benefits
 - No estimate for DWC RTW program triggered by SJDB benefit (not in pure premiums)
- 2014 changes to PD maximums estimated to increase costs by 3.1% (\$590M) (incl. freq. impact)
- Current data shows that the impact of SB 863 PD benefit min. and max. changes have been emerging as projected

Changes in SJDB Benefits

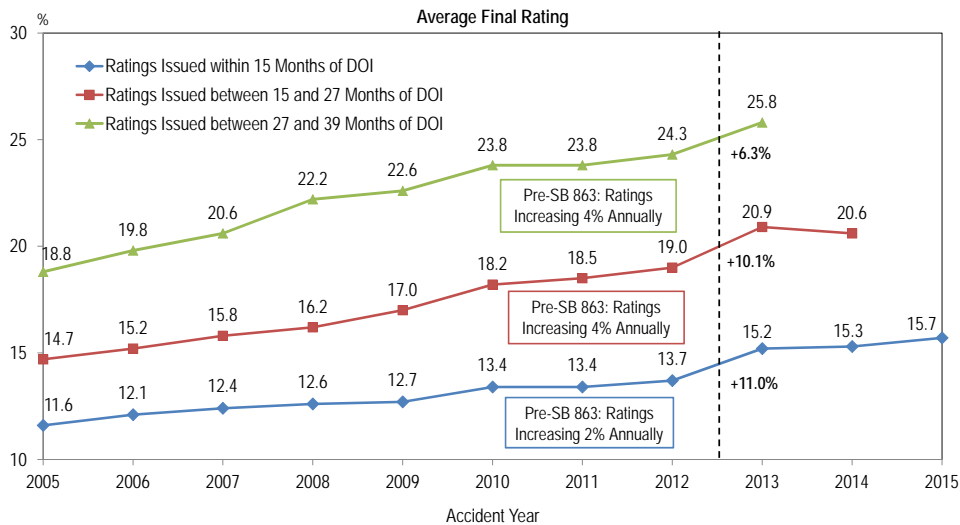


Source: WCIRB Permanent Disability Claim Survey at first survey level.

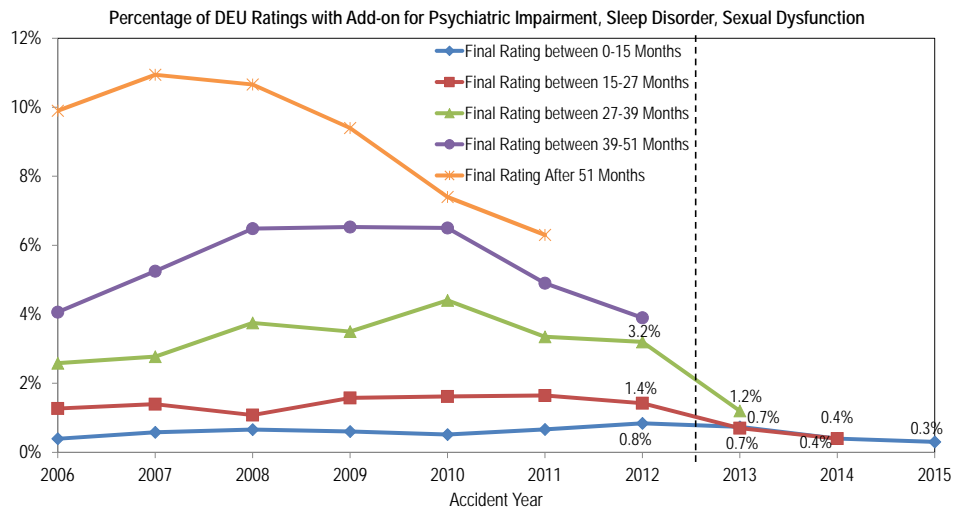
PD Ratings – WCIRB Prior Estimates

- Elimination of FEC factor and addition of uniform 1.40 adjustment estimated to increase costs by 2.7% (\$510M) (incl. freq. impact)
- Elimination of PD rating add-ons estimated to decrease costs by 0.8% (\$160M) (incl. freq. impact)
 - 10% of psych add-ons assumed to remain as a result of catastrophic injuries or violent acts
- Combined impact estimated at 6% increase in average PD rating
 - Does not reflect additional impact of eliminating Ogilvie (currently estimated at -1.1%; -\$130M impact on total costs)

Average PD Ratings Based on DEU Data



Prevalence of PD Add-ons Based on DEU Data

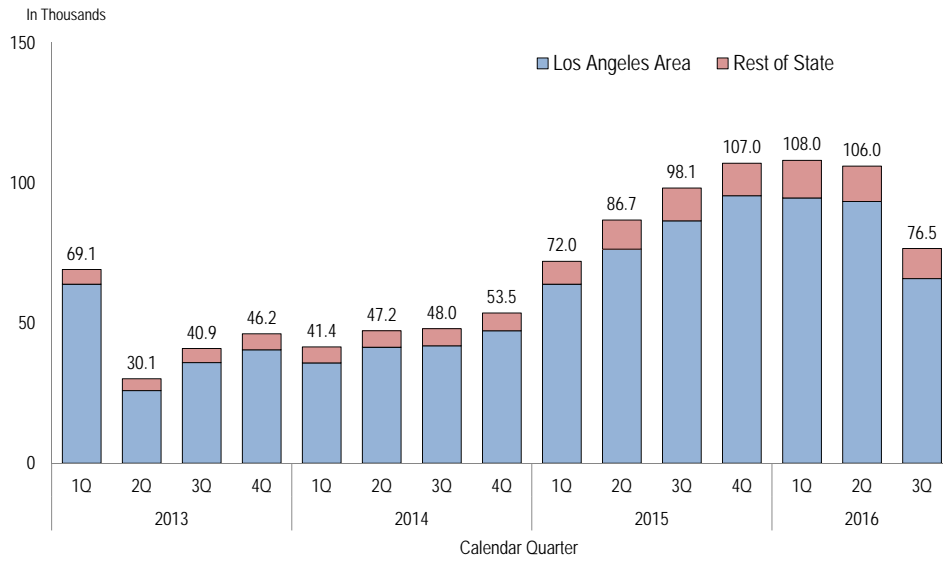


Source: Disability Evaluation Unit data.

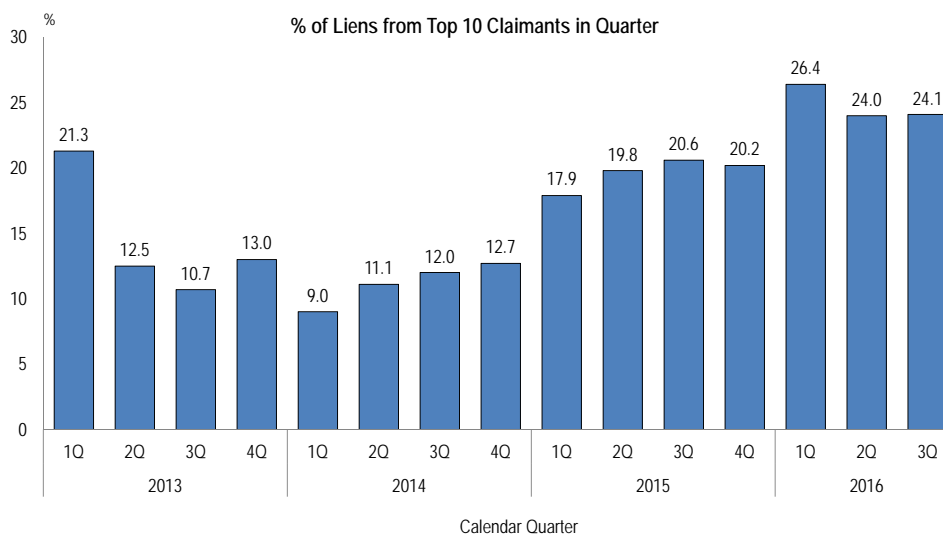
Liens - WCIRB Prior Estimates

- Total impact of SB 863 lien provisions estimated to decrease costs by 2.5% (\$480M)
- Assumed 260,000 liens (41%) eliminated by filing fee and statute of limitations
- Relatively smaller liens impacted
- Significant savings in administrative costs
- Area of concern due to sharp upswing in lien filings in 2015

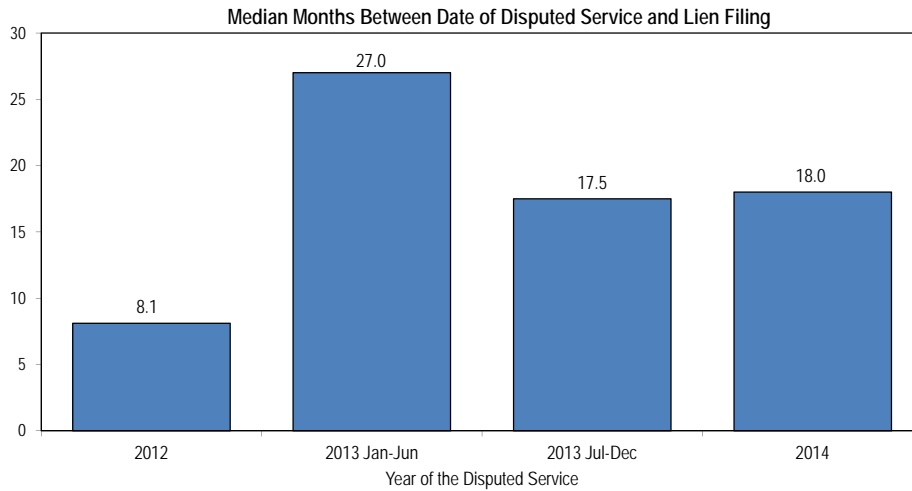
Quarterly Number of Liens Filed



Liens Filed from Largest Lien Claimants

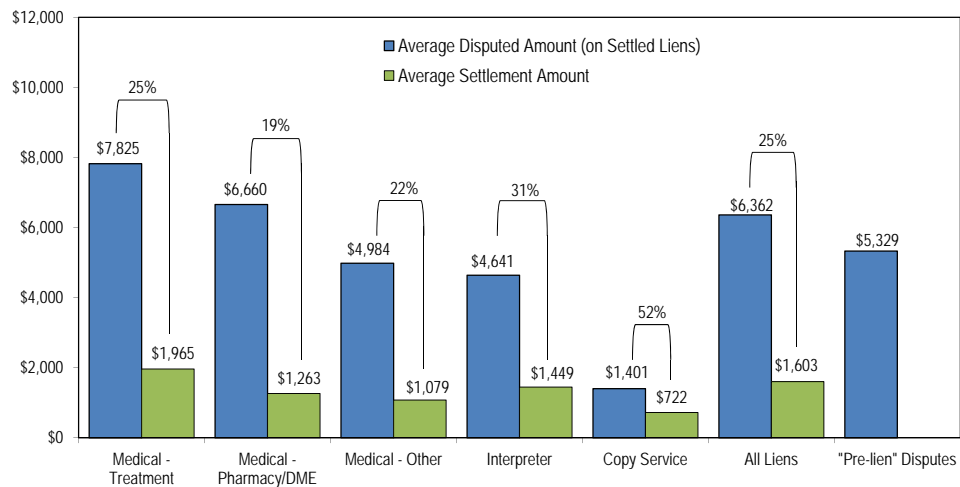


ALAE Claim Survey – Timing of Lien Filings by Service Year



Source: WCIRB survey of approximately 870 PD claims.

ALAE Claim Survey – Average Costs per Lien



Source: WCIRB survey of approximately 870 PD claims.

Number of Liens Filed

Calendar Year	Number of Liens (in Thousands)	Change from 2011
2011	463.9	---
2012	1,179.3	+154%
2013	186.3	-60%
2014	190.2	-59%
2015	363.9	-22%
2016 (proj. from first three quarters)	387.4	-18%
3Q 2016 Annualized	306.2	-34%
Prospective Estimate	---	-41%

Source: EAMS Liens Data

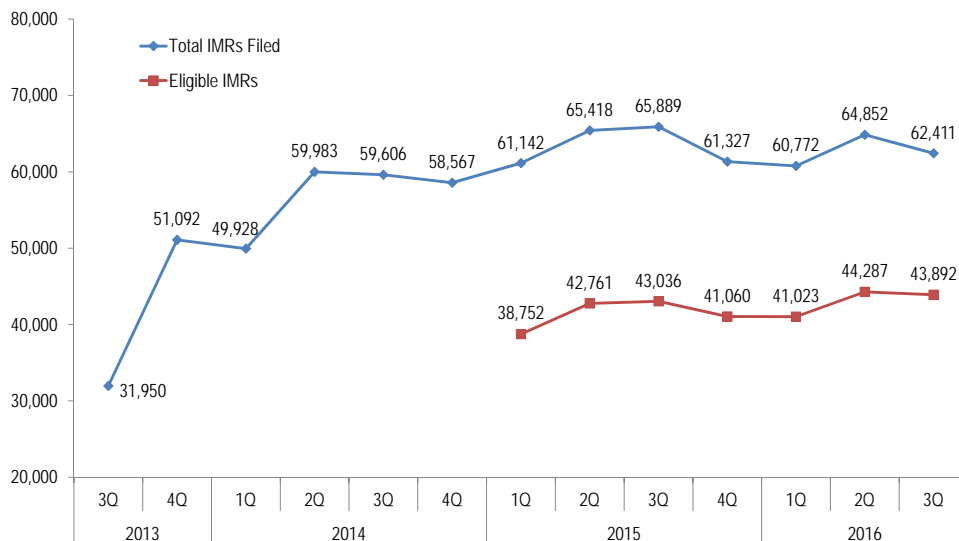
Liens – Summary of Current Information

- Significant increase in lien filings in 2015 and 1Q & 2Q 2016
 - Both 36-month and 18-month statutes of limitations in effect
- Lien filings declined sharply starting in July 2016
 - 36-month statute of limitations no longer applies
 - Age of lien consistent with change in statute of limitations
- 3Q 2016 liens much higher than 2013 & 2014 levels but generally consistent with prospective estimates on an annual basis
- Size of liens impacted (based on claim surveys) generally comparable to prospective estimates
- Liens will be closely monitored in 2017 with SB 1160 in effect

Independent Medical Review – WCIRB Prior Estimates

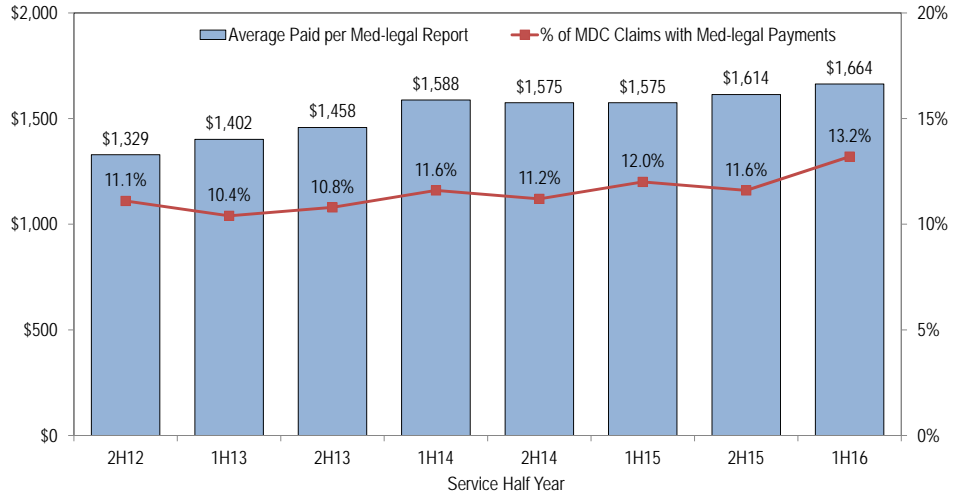
- Total quantifiable impact of SB 863 IMR provisions prospectively estimated to decrease costs by 2.1% (\$390M)
 - Includes reductions in liens related to UR disputes, QME reports and expedited hearings
 - Additional litigation cost savings estimated at 2.4% of ALAE
 - Reduction in delays for medical treatment assumed to reduce TD duration by 4%
- Total of 51,000 IMRs per year prospectively estimated
- Updated in 2014 to eliminate savings for “frictional”/litigation costs (\$180M)
- Updated in 2015 to reflect costs for greater-than-anticipated volume of IMRs (\$60M) and expedited hearings (\$10M)

Number of IMR Requests by Quarter



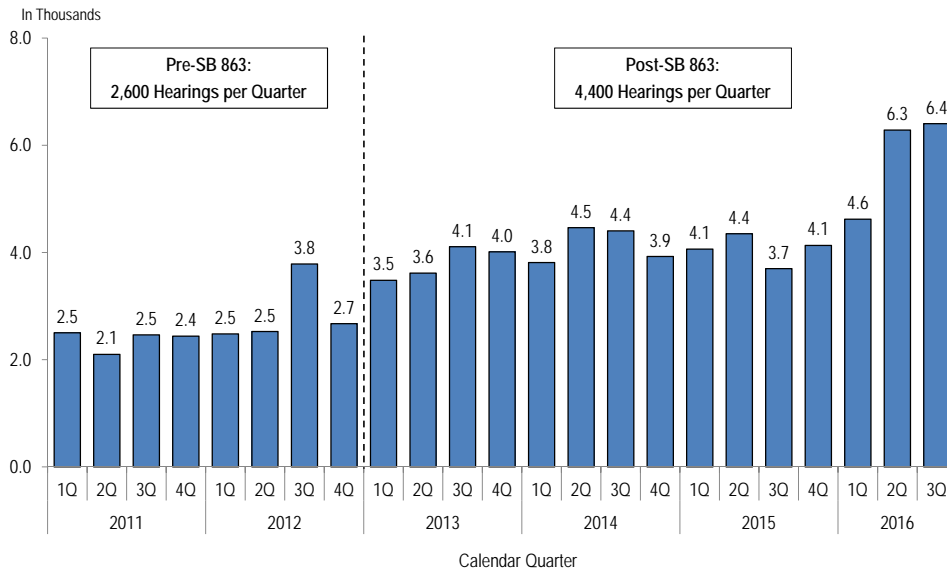
Source: DWC from IMR vendor.

Medical-Legal Costs



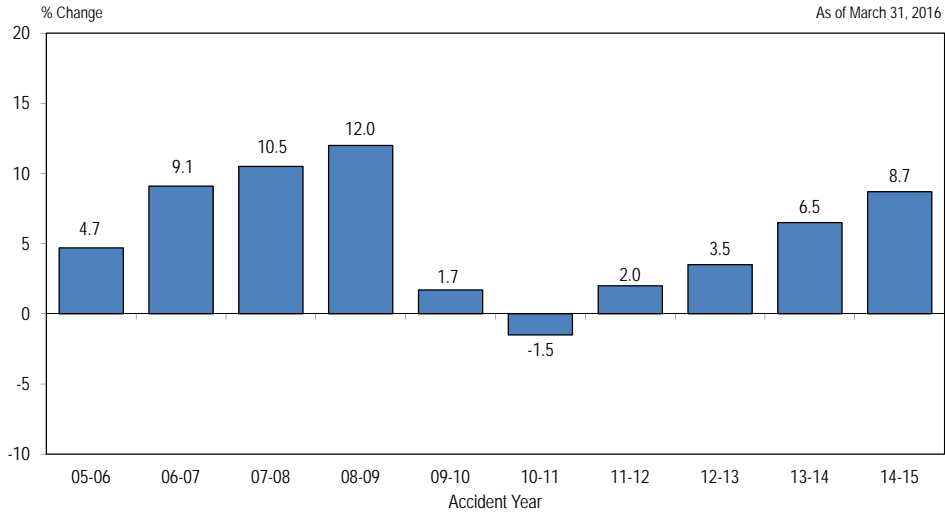
Source: WCIRB Medical Data Call. Data is based on transactions where the transaction half = service half.

Number of Expedited Hearings



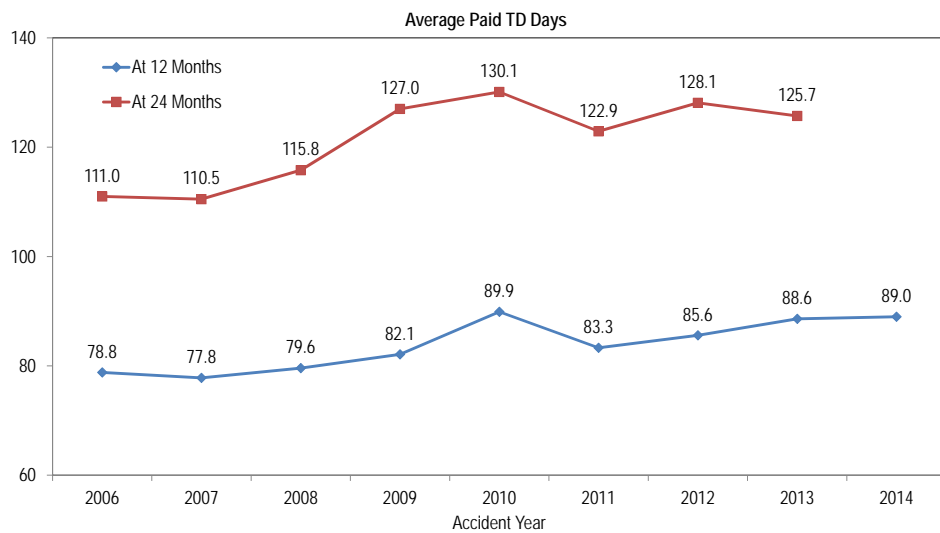
Source: DWC

Change in Ultimate ALAE Severity – Private Insurers



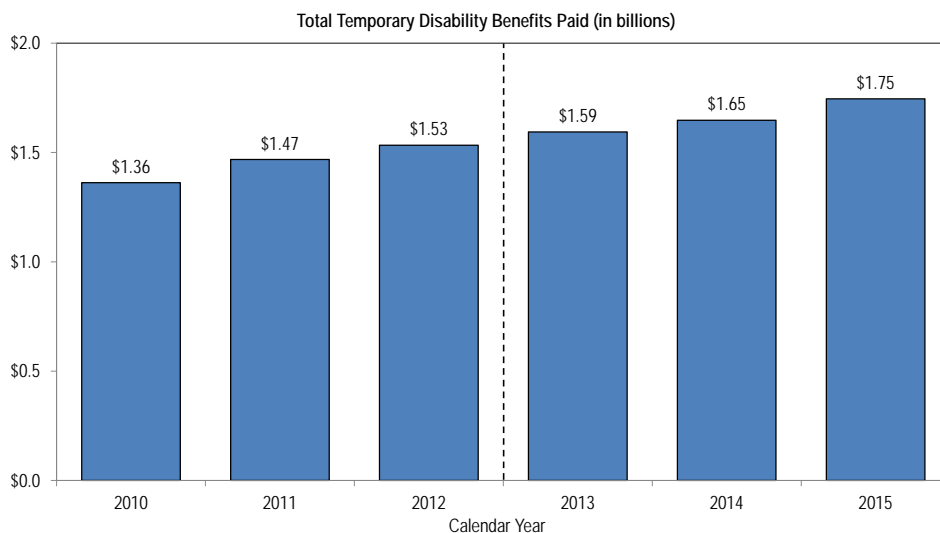
Source: WCIRB aggregate financial data and projections

Temporary Disability Duration – CWCI Data



Source: CWCI

Temporary Disability Benefits Paid by Calendar Year



Source: WCIRB Annual Reports on Calendar Year Paid Losses and Expenses.

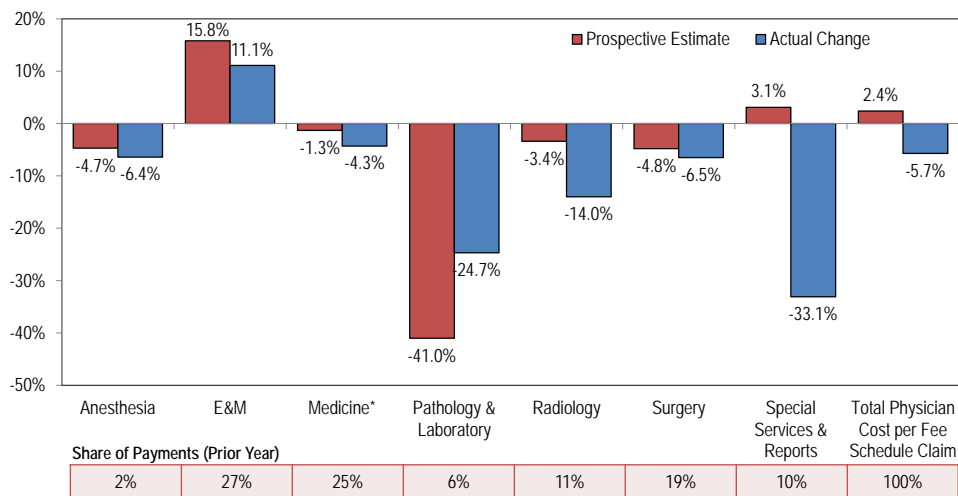
Independent Medical Review – Summary of Current Information

- Volume of IMRs remains 3 times higher than projected
- Medical-legal costs continue to increase steadily
- Number of expedited hearings increasing significantly, most are for medical related issues
- ALAE up sharply in 2013-2015 instead of declining as projected
- TD costs are stable to increasing and not declining as projected
- Although savings to “frictional” areas not materializing, overall medical severities have declined significantly

RBRVS – WCIRB Prior Estimates

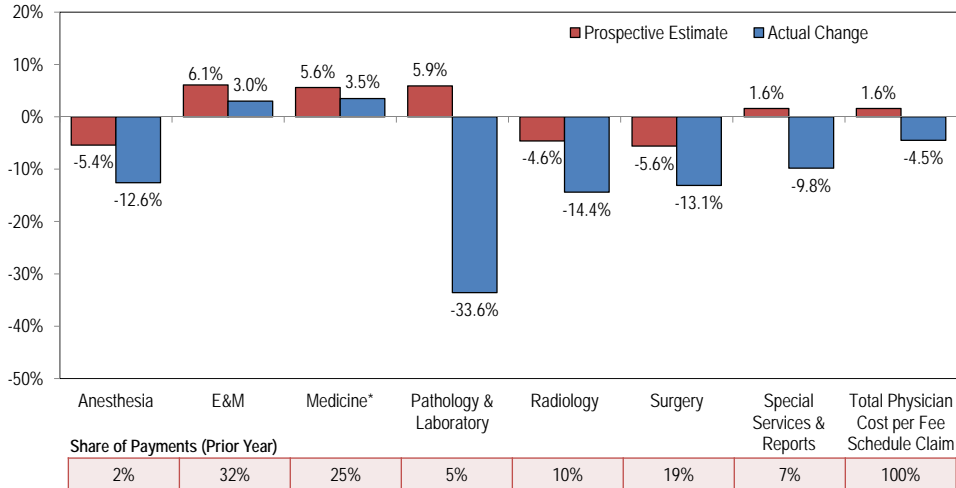
- Evaluated in 1/1/14 Filing – prospectively estimated to increase total costs by \$340M
 - Impact on 2014 services = +2.4% on physician costs
 - Impact on 2015 services = +1.5% on physician costs
 - Impact on 2016 services = +2.1% on physician costs
 - No changes in utilization patterns assumed
- Updated for 1/1/17 Filing based on WCIRB MDC data
 - Impact on 2014 services = -4.8% (from +2.4%)
 - Impact on 2015 services = -2.5% (from +1.5%)
 - No change to prospective estimates for 2016 & 2017 service years

Projected vs. Actual Change in Physician Fees – 2013 to 2014 Transactions through 2Q 2016 (30 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture
Source: WCIRB Medical Data Call.

Projected vs. Actual Change in Physician Fees – 2014 to 2015 Transactions through 2Q 2016 (18 Months)

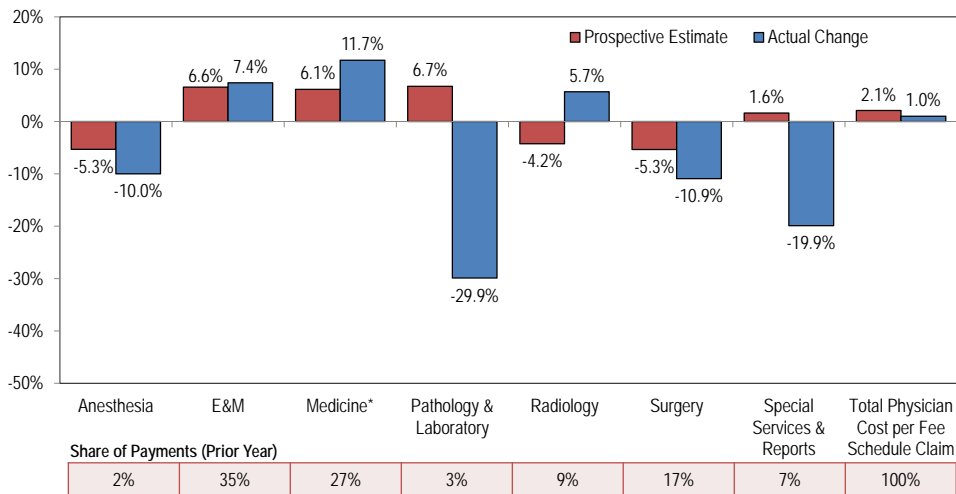


* Includes Physical Medicine, Chiropractic and Acupuncture
Source: WCIRB Medical Data Call.

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27

Projected vs. Actual Change in Physician Fees – 2015 to 2016 Transactions through 2Q 2016 (6 Months)



* Includes Physical Medicine, Chiropractic and Acupuncture
Source: WCIRB Medical Data Call.

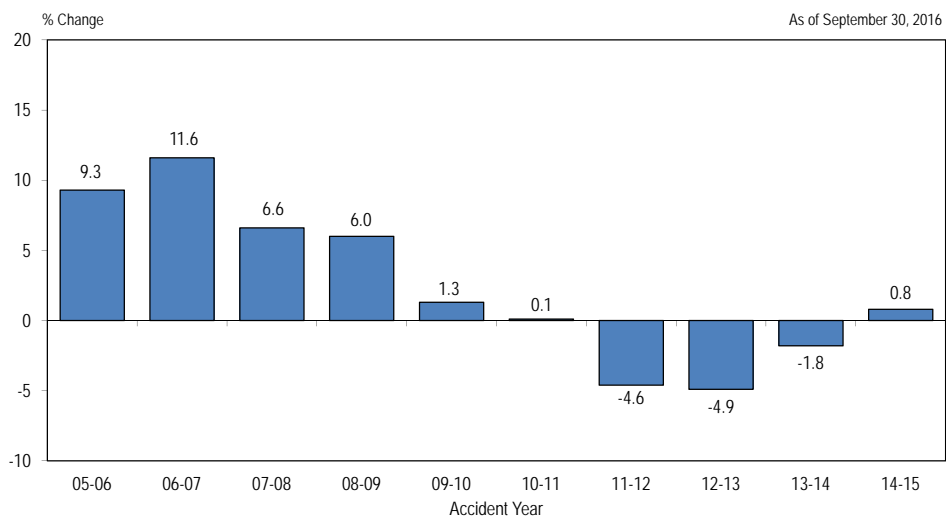
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28

Changes in Utilization of Medical Services – WCIRB Prior Estimates

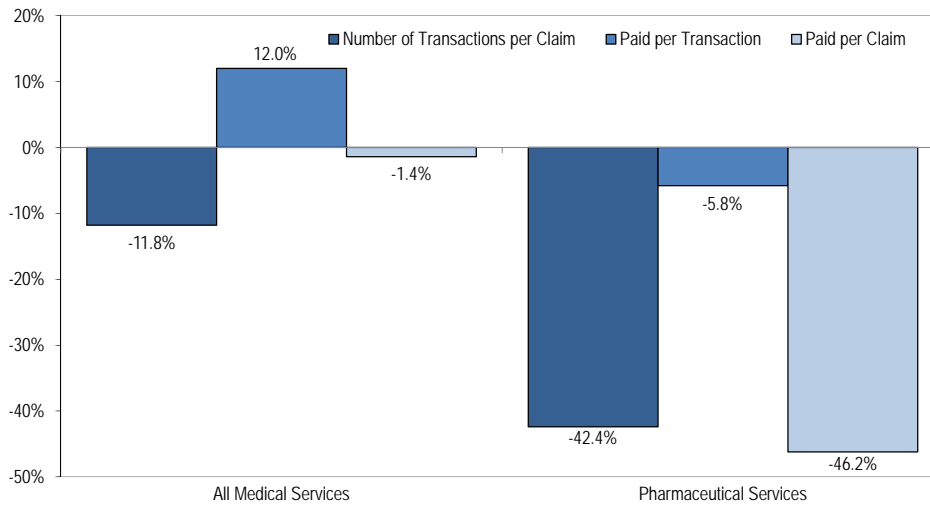
- WCIRB did not prospectively estimate any changes to utilization of medical services from SB 863 provisions related to IMR, IBR, MPNs, etc.
- Overall medical severities declined in 2012-2014 rather than increased at pre-reform trends
- Very difficult to segregate changes in medical utilization by specific SB 863 provisions
- 10% overall decrease in level of medical utilization due to SB 863 reflected in 1/1/17 Filing

Change in Ultimate Medical Severity Excluding MCCP



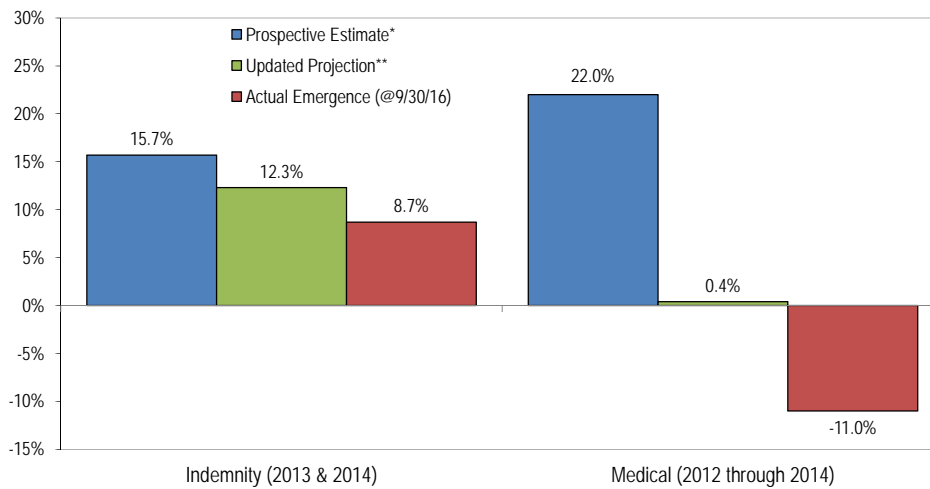
Source: WCIRB aggregate financial data and projections

Change in Medical Cost Levels Pre-SB 863 (Second Half of 2012) to First Half of 2016



Source: WCIRB medical transaction data.

Indemnity & Medical Cumulative Severity Changes



* Includes the WCIRB's prospective estimates of the impact of SB 863 and projected severity trends from the 1/1/13 Filing.

** Includes the WCIRB's most recent estimates of the impact of SB 863 and projected severity trends from the Amended 1/1/17 Filing.

WCIRB SB 863 Cost Monitoring – Indemnity Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$s in billions)	Current Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$s in billions)
Changes to Weekly PD Benefits	+\$0.6		+\$0.6
Replacement of FEC Factor	+\$0.6		+\$0.6
Elimination of PD Add-ons	(\$0.2)		(\$0.2)
Three-Tiered Weekly PD Benefits	(\$0.1)		(\$0.1)
Ogilvie Decision	(\$0.2)		(\$0.1)
Indemnity Claim Frequency	Small Increase		---
Indemnity Severities (Incl. Trend)	Increase		---
Total Indemnity Reforms	+\$0.7	---	+\$0.8

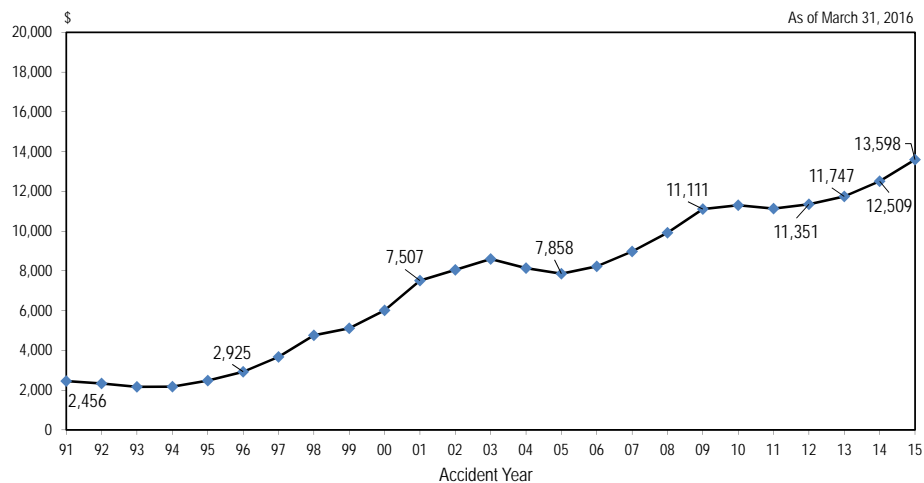
WCIRB SB 863 Cost Monitoring – Medical & LAE Reforms

SB 863 Provisions	WCIRB Original Cost Estimates (\$s in billions)	Current Monitoring Results Impact on Net SB 863 Savings	Updated Estimates (\$s in billions)
Liens	(\$0.5)		(\$0.5)
Surgical Implant Hardware	(\$0.1)		(\$0.1)
ASC Fees	(\$0.1)		(\$0.1)
IMR – Impact on Frictional Costs	(\$0.2)		+\$0.1
IMR – Impact on TD Duration	(\$0.2)		\$0.0
MPN Strengthening	(\$0.2)		(\$0.2)
RBRVS Fee Schedule	+\$0.3		(\$0.3)
Copy Services Fee Schedule	\$0.0		\$0.0
Medical Severities (Incl. Trend)	Increase		(\$1.0)
ALAE and ULAE Severities	Significant Decline		---
Total Medical & LAE Reforms	(\$0.9)	---	(\$2.1)
Total Estimate – All Items	(\$0.2)	---	(\$1.3)

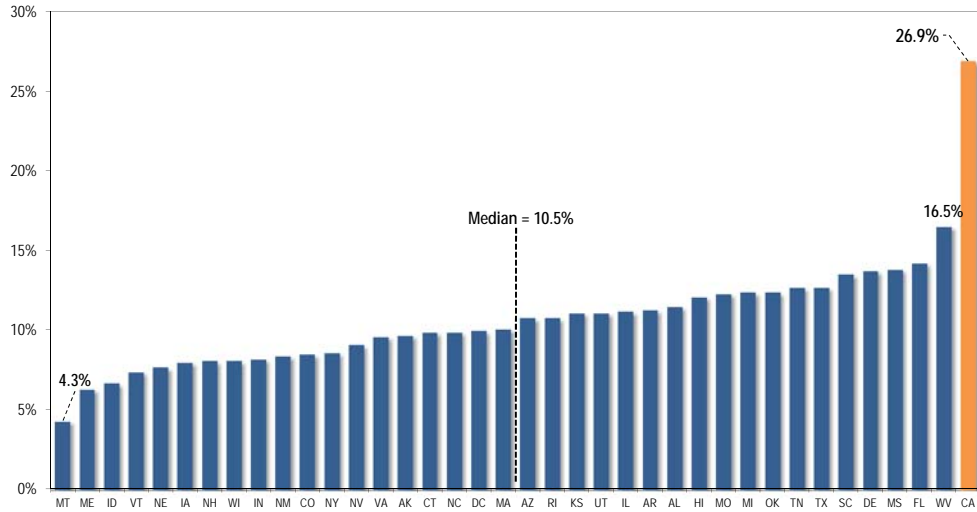
ALAE Study – Background

- California traditionally the highest ALAE cost state
- SB 863 provisions intended to reduce ALAE cost levels
 - Lien reforms, IMR/IBR, PD rating changes (Ogilvie)
- ALAE per claim increased 20% since 2012 and is fastest-growing cost component
- WCIRB report on recent trends in ALAE released January 5, 2017

Estimated Ultimate ALAE (Excl. MCCP) Per Indemnity Claim – Private Insurers

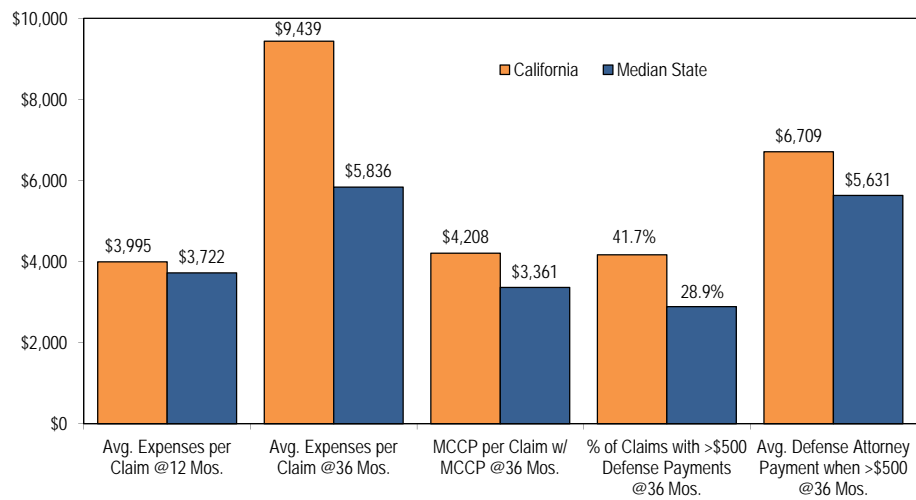


Ratios of ALAE (Defense and Cost Containment Expenses) to Losses by State



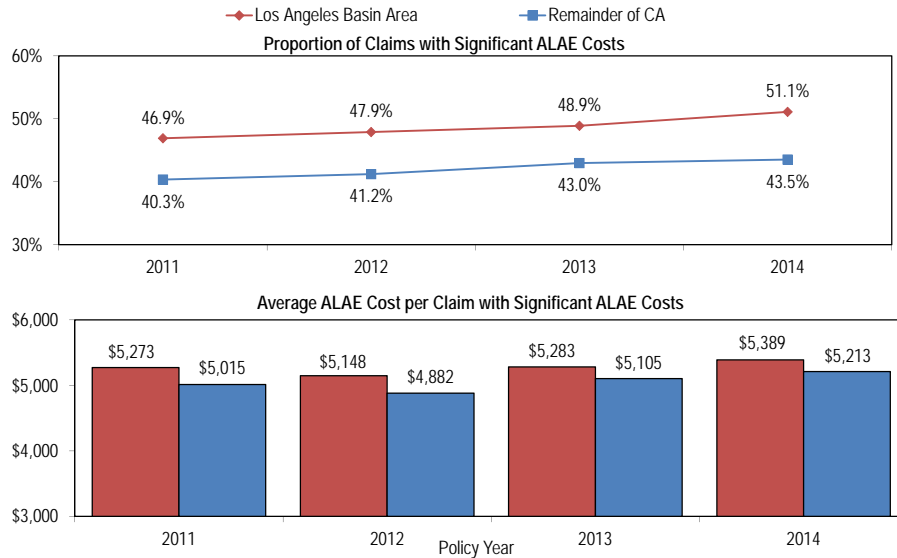
Source: NCCI Annual Statistical Bulletin - 2016 Edition

Comparisons of California Benefit Delivery Costs



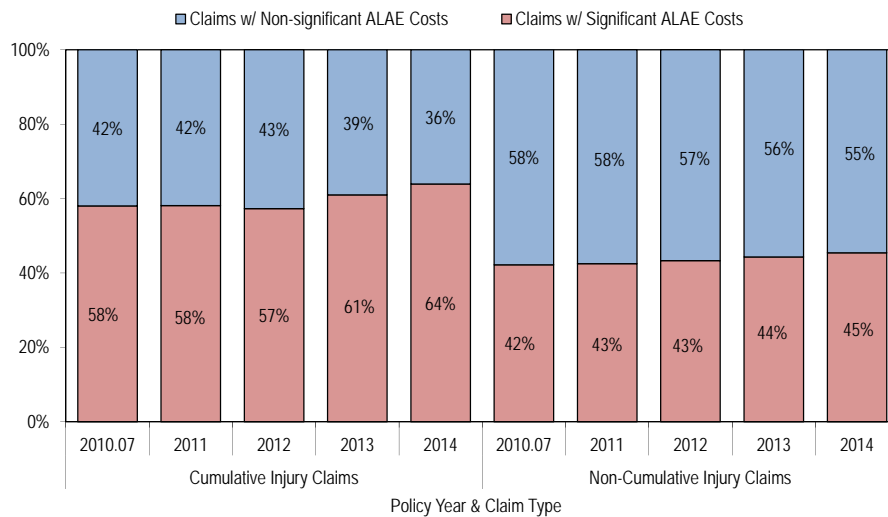
Source: WCRI *Compscope Benchmarks for California, 16th Edition*. Based on claims with 7 or more days of lost time.

Claims with Significant ALAE Costs by Region USR 1st Report Level



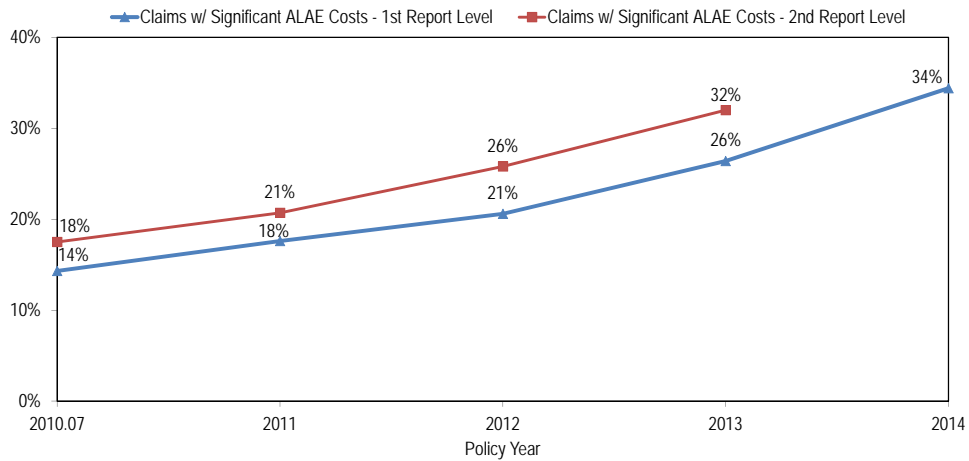
Source: WCIRB unit statistical data. Significant ALAE is paid ALAE > \$1,000.

Distribution of Indemnity Claims by Claim Type and ALAE Category USR 1st Report Level



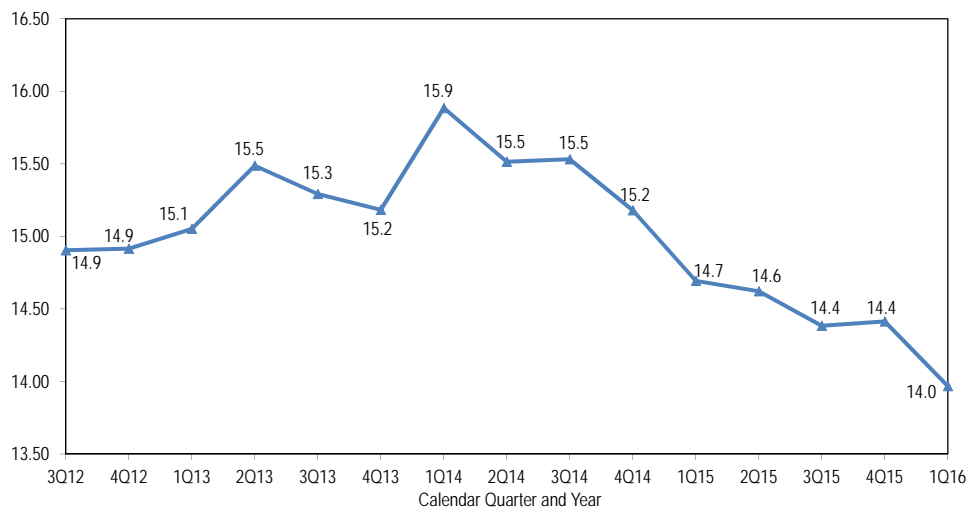
Source: WCIRB unit statistical data. Significant ALAE is paid ALAE > \$1,000.

Percentage of Closed Claims Settled by Compromise and Release



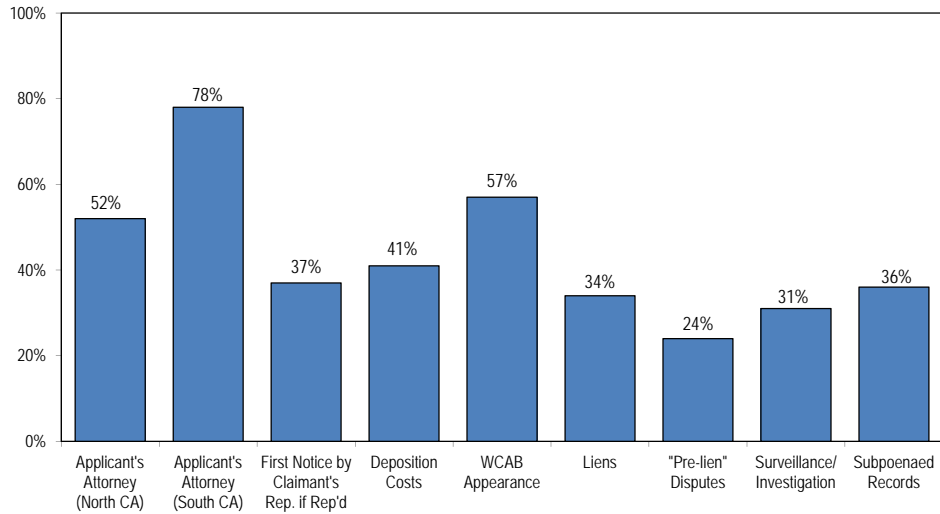
Source: WCIRB unit statistical data. A claim with "significant ALAE costs" has paid ALAE > \$1,000.

Cumulative Quarterly Paid ALAE Development from 12 to 90 Months for Private Insurers



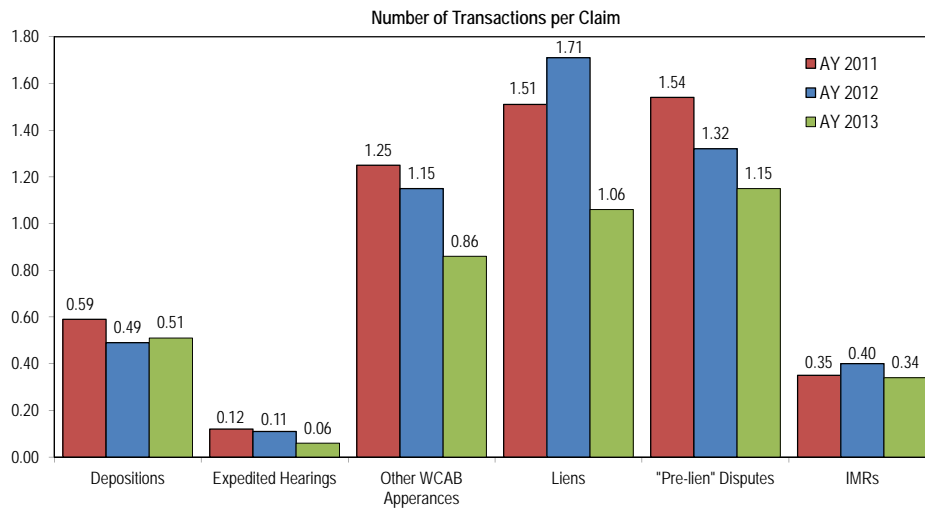
Source: WCIRB aggregate financial data calls.

ALAE Claim Survey – Percentage of Surveyed PD Claims Involving ALAE Cost Components



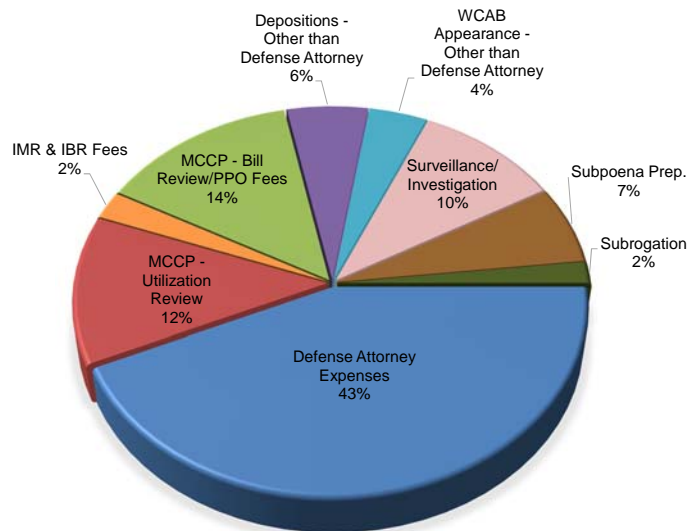
Source: WCIRB survey of approximately 870 PD claims.

ALAE Claim Survey – ALAE Component Frequency



Source: WCIRB survey of approximately 870 PD claims.

Distribution of Calendar 2015 Year Paid ALAE Costs



Source: WCIRB aggregate financial data calls, CWCI information on the cost of medical cost containment programs, and WCIRB ALAE claim survey. ALAE amounts shown include all medical cost containment program costs including those reported in medical losses.

Emerging ALAE Cost Trends – Summary

- CA continues to be highest ALAE cost state by a wide margin, driven by activities that happen later in the life of a claim
- Both frequency of claims with significant ALAE costs and average ALAE on those claims has increased since 2012
- ALAE costs more prevalent in Los Angeles Basin area but average ALAE increasing across multiple CA regions
- Recent increases in cumulative injury claims have increased ALAE cost levels
- Recent increases in C&R settlement rates at earlier maturities have resulted in some higher ALAE costs
- Depositions, WCAB appearances, MCCP, liens, and “pre-lien” disputes are all significant drivers of high ALAE costs in CA