Montana Legislative Services Division

Office of Research and Policy Analysis

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

November 3, 2009

MEMO

To: Economic Affairs Committee Members
From: Pat Murdo, Legislative Staff Pat
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.

Cl0206 9307pmxa

---

[1]Dan 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)

Workers' Compensation Paid by Payroll for selected self-insurers, compilation of private insurers, and State Fund for various years

	Work Comp Paid Dollars (all claims paid in year)	Work Comp Incurred Dollars (see Note B for Plan 2 accident year data)	WC Payroll (estimated for Plan 2)	WC Premium (if applicable)*	WC Premium/ $100 payroll (See Note A)	Work Comp Incurred $$/ $100 payroll (See Note A)	Work Comp Paid $$/ $100 payroll (See Note B)	Injury Rate ***
MMIA FY 2007	**$2,653,958**	**$3,263,866**	$190,312,908	$7,844,550	$4.12	$1.72	$1.39	1.4
(medical - indemnity)	*($1,695,810+ $921,595)*	*($2,030,950+ 1,146,057)*						
MMIA FY 2008	**$1,676,868**	**$2,172,588**	$203,149,300	$7,882,427	$3.88	$1.07	$0.83	
(medical - indemnity)	*($1,184,893+ $483,142)*	*($1,424,680+ $688,392)*						
MMIA FY 2009 ended 6/30	**$1,322,090**	**$2,483,591**	$213,950,162	$7,728,257	$3.61	$1.16	$0.62	
(medical - indemnity)	*($928,710+ $386,958)*	*($1,789,923+ $680,127)*						
MACO FY 2006	**$5,478,352**	**$6,895,816**	$173,763,656	$8,203,667	$4.72	$1.55	$0.54	
MACO FY 2007	**$6,000,423**	**$7,727,408**	$180,368,744	$9,040,427	$5.01	$1.59	$0.55	
MACO FY 2008	**$6,143,893**	**$7,912,730**	$184,215,049	$9,508,461	$5.16	$1.25	$0.44	
MUS FY 2007	**$1,092,644**	**$1,139,855**	$335,747,500	$4,047,323	$1.21	$0.34	$0.33	
(medical - indemnity)	($713,619+ $362,229)	($747,482+ $373, 499)						
MUS FY 2008	**$1,099,932**	**$1,323,877**	$363,629,671	$4,659,752	$1.28	$0.36	$0.30	
(medical - indemnity)	($837,007+ $238,389)	($950,846+ $336,268)						
MUS FY 2009 as of 6/30/09	**$640,717**	**$1,310,515**	$383,267,588	$5,315,418	$1.39	$0.34	$0.17	
(medical - indemnity)	($524,882+ $97,359)	($947,255+ $312,538)						
Plan 2 compilation PY06	$18,149,564	$31,526,577	$1,816,505,132		$4.757	$1.736	$0.999	1.801
(medical - indemnity)	*($7,002,429+ $2,321,046)*	*($19,926,836+ $11,599,741)*						
Plan 2 compilation PY07	$20,495,118	$31,742,995	$2,024,824,747		$4.721	$1.568	$1.012	1.797
(medical - indemnity)	*($13,813,985+ $6,681,133)*	*($19,031,158+ $12,711,837)*						
Plan 2 compilation AccY06	$9,323,475	$54,522,486	$1,785,309,084		$4.94	$3.054	$0.522	1.596
(medical - indemnity)	*($7,002,429+ $2,321,046)*	*($30,798,622+ $23,723,864)*						
Plan 2 compliation AccY07	$10,613,495	$57,128,965	$1,966,869,670		$4.735	$2.905	$0.54	1.573
(medical - indemnity)	*($7,580,016+ $3,033,479)*	*($32,337,264+ $24,791,701)*						
Plan 3 FY 2007	$115,849,169	$187,821,156	$4,837,355,922	$238,202,708	$4.92	$3.88	$2.39	
Plan 3 FY 2008	$124,139,778	$194,249,598	$4,929,658,343	$230,965,306	$4.69	$3.94	$2.52	
Plan 3 FY 2009	$122,460,166	$178,246,355	$4,601,508,000	$203,976,354	$4.43	$3.87	$2.66	
Plum Creek '07	$746,298	$868,869	[redacted]			$1.31	$1.13	
Plum Creek '08	$391,938	$464,026	[redacted]			$0.73	$0.62	
Plum Creek '09								
Northwestern Energy (MT only)	$1,223,790	$5,941,275	[redacted]	$301,243	$0.45	$8.97	$1.85	3.83%
(medical - indemnity) '07	*($758,648+ $465,143)*							
Northwestern Energy 2008	$1,822,724	$5,856,839	[redacted]	$329,705	$0.47	$8.28	$2.58	1.42%
(medical - indemnity)	*($914-151+ $908,573)*							
Northwestern Energy 2009**	$1,163,465	$5,602,860	[redacted]	$253,711	$0.37	$8.27	$1.72	0.9%**
(medical - indemnity)	*($581,200+ $582,265)*							
Plan 1 - Calendar YR 2006	$40,904,337		$2,756,533,153				$1.48	
Plan 1 - Calendar YR 2007	$43,784,024		$2,771,274,159				$1.58	
Plan 1 - Calendar YR 2008	$44,511,947		$2,985,918,770				$1.49	

Workers' Compensation Paid by Payroll for selected self-insurers, compilation of private insurers, and State Fund for various years

***Note1**: WC premium for **MMIA** is member premium based on payroll and mod factor for the fiscal year. For **MACO** the premium includes an amount to increase the Trust net equity (surplus) to the DOLI mandated minimum of 25% of total assets. The premiums collected in a year by MACO are to pay operating expenses for the year and claims for that year and the future deveopment of those claims, which may run for the life of the claimant. For **MUS** the premium is premium revenue. For **Plan 2**, it is the actual earned premium on an insurer's books that is expected to reconcile with the premium reported to the National Association of Insurance Commissioners (NAIC) Annual Statement. The NCCI note adds that dividends are not a reconicliation item (see "Reconciliation Items" below) when reconciling data reported to NCCI to data reported to the NAIC. For **Plan 3**, it is the net earned premium as reported in its FY 2007-FY 2009 financial statements. For **Northwestern Energy** the premium is the amount paid to another insurer for coverage above whatever is self-insured.

Note 2: Plan 3 Work Comp paid dollars and incurred losses are both as reported in the FY 2007-2009 financial statements. Payroll is the accident year payroll, developed to ultimate as of 10/1/2009.

Note 3: For Northwestern Energy - FY2009 is through the third quarter only.

Note A: For MACO - data for current year. For Plan 3, this primarily reflects mix of business insured. Different business activities will inherently reflect varying rates of loss relative to payroll (i.e. office workers vs. construction workers). Net premium rate and pure premium incurred will not be comparable across insurers.

Note B: For Plan 3, annual payments are subject to changes in loss-costs, insured business volumes, mix of business, duraction of liabilities, and how long an insurer has been in operation. MSF has been in operation since 7/1/1990.

Definitions (as used by NCCI -- others may be separately noted.):

Paid: Paid claim dollars (broken out into medical and indemnity as noted for some). For NCCI's Plan 2 compilation the sum gives a total as of first report. (First report for a policy year is 24 months after the beginning of a policy year. E.g. Policy year 2007 would be at first report on 12/31/08. First report for a calendar-accident year is 12 months after the beginning of the calendar-accident year. E.g. Calendar-accident year 2007 would be at first report on 12/31/2007.) Includes no other expenses. For MMIA legal and other expenses add to medical and indemnity for the total. For MUS the total paid dollars and total incurred dollars include expense and vocational costs not reflected in medical or indemnity values.

Incurred: Paid claim dollars plus case reserves (broken out into medical and indemnity). See difference in totals above in note for "Paid".

Payroll: For Plan 2 compilation by NCCI the payroll is imputed, based on premium and the average rate level (weighted by payroll in each classification) effective during the year.

Premium per 100 Payroll: Premium divided by payroll times 100.

Incurred per 100 Payroll: Incurred divided by payroll times 100.

Paid per 100 Payroll: Paid divided by payroll times 100.

Injury rate: For Plan 2 compilation by NCCI, the rate is the lost-time claim count per 100 workers. The number of workers is calculated from the imputed value of payroll divided by 52 times the MT average weekly wage (as measured by the Current Population Survey, capped at $150,000.) ***For Plum Creek, the injury rate is the lost-time claim for 100 full-time equivalent positions.

Reconciliation Items (for Note 1, Plan 2) include: Classifications experience, maritime and other FELA classifications experience, underground coal mine experience, national defense projects, large deductible policies, small deductible policies (reported to NCCI on a gross basis and on a net basis to NAIC), excess policies, and catastrophe and terrorism provision premium.