

ANALYSIS OF MONTANA REQUESTS (Requested on February 4, 2008)

On February 4th, 2008, the Montana Department of Labor requested that NCCI evaluate the impact of two scenarios regarding Montana’s workers compensation system costs. These proposals do not contain statutory or rulemaking language, but rather are requests for comparisons of Montana and Countrywide statistics.

Scenario #1: What if Montana reduced the frequency of injuries to the national average?

Using NCCI's Annual Statistical Bulletin, 2007 Edition, we compared the loss dollars for Montana (MT) resulting from the claim frequency shown in Exhibit XII with the loss dollars that would be expected to result from the countrywide claim frequency (CW) from the same exhibit. To do this, MT and CW claim frequencies, by type of injury, were multiplied by the Montana’s average costs from Exhibit XI. The results by injury type were summed and finally MT’s five-year total was compared to that of CW.

In all of the five reporting periods available, MT’s frequency is consistently higher. If claim frequency was reduced to a CW level, by injury type and in total, there could be a reduction of 37.6% (-\$145M) to 46.5% (-\$180M) in loss costs as shown in Exhibit I below.

Exhibit I

Montana Frequency Proposal Summary

-- Assumes the reduction in claims includes medical components --

Experience Report Period	MT Frequency times MT Average Loss ¹	CW Frequency times MT Average Loss ¹	Total Loss Impact if MT Frequency Declined to CW Level
01/03-12/03	\$1,044.1	\$558.8	-46.5%
01/02-12/02	1,138.0	614.6	-46.0%
01/01-12-01	1,030.1	619.6	-39.9%
01/00-12-00	963.4	590.8	-38.7%
01/99-12/99	933.4	582.5	-37.6%

¹Montana losses per worker

Please note that no statutory language that might accomplish such a change has been provided. It is unclear what changes would be implemented to accomplish such a drop in claim frequency. As a result, this analysis simply provides a comparison of MT and CW claim frequencies and should not be interpreted as a pricing.

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Scenario #2: What if Montana reduced the time it takes for claimants to return to work (RTW), to the national average?

In performing the analysis shown in Exhibit II, we developed an approximate annual number of claims where the injured worker is expected to return to work (row 4). This was accomplished by taking the product of

- The MT average private, non-farm workforce (row 1)
- The frequency of temporary total disability (TTD) and permanent partial disability (PPD) claims per 100,000 workers (row 2)
- An estimated 4.3 week difference in RTW between MT and CW (row 3)

Row (5) shows the average weekly wage replacement benefit for a worker on TTD. Since a worker with a permanent partial disability receives TTD benefits during the healing period, prior to returning to work, the average TTD weekly benefit represents the potential weekly savings, on either a TTD or a PPD claim.

Row (6) shows the potential estimated savings of approximately \$12.8 million in TTD and PPD indemnity benefits for a hypothetical decrease in Montana's RTW to the countrywide average.

Exhibit II

Montana Return to Work Scenario

1 Number of Workers ¹	445,000
2 Frequency of TTD and PPD per 100K workers ²	1,864.20
3 Weeks Saved if RTW at CW Rate ³	4.3
4 Total Number of Weeks Saved= (1)*(2)*(3)/100,000	35,671
5 Average Indemnity Cost Per Injured Worker TTD ⁴	\$359.99
6 Savings, in millions, for total workers = (4) * (5)	\$12.8

¹ Economy.com

² 5 year average from NCCI Annual Statistical Bulletin, 2007 Edition, Exhibit XII

³ 5 year average from NCCI Detailed Claim Information, injuries occurring between 2000 and 2004. All years evaluated at 18 months after claim filing

⁴ 5 year average from NCCI Annual Statistical Bulletin, 2007 Edition, Exhibit XI

The hypothetical savings of \$12.8 Million is a reduction of 11.8% on TTD and PPD losses, which represents a savings on indemnity losses of 10.7% and an overall reduction of 3.3%, as displayed in Exhibit III. The possible savings would be less, to the extent that relative RTW rates have improved during the 5 year period. Savings could be higher if there was an additional reduction in medical costs. This would depend on the verbiage of a specific proposal and the rules and monitoring tools utilized in its implementation.

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Exhibit III

Impact by Type of Injury due to the Hypothetical Reduction in Montana RTW to CW Level

<u>Type of Injury</u>	<u>Percentage of Losses(a)</u>	<u>Effect (%)</u>	
Fatal	1.9%	0.0	
Permanent Total	0.9%	0.0	
<u>Major Permanent Partial</u>	<u>16.1%</u>	<u>-11.8</u>	
Serious - Total	18.9%	-10.1	(b)
Minor Permanent Partial	8.1%	-11.8	
<u>Temporary Total</u>	<u>3.7%</u>	<u>-11.8</u>	
Non-Serious - Total	11.8%	-11.8	(b)
Indemnity	30.7%	-10.7	(b)
<u>Medical</u>	<u>69.3%</u>	<u>0.0</u>	
Total	100.0%	-3.3	(b)

(a) Losses for policies becoming effective during the 24-month period ending 12/31/2004 on the 07/01/2007 law level and developed to an ultimate basis by type of injury. Indemnity / Medical split based on Private Carrier and State Fund data for policy years 2003, 2004, and 2005.

(b) Weighted Average.

Please note that no statutory language that might accomplish such a change has been provided. It is unclear what changes would be implemented to accomplish such a drop in days to return to work. As a result, this analysis is simply a comparison of MT and CW time to RTW and should not be interpreted as a pricing. NCCI would evaluate any specific proposals and provide estimated cost impacts if or when they are introduced.