

“State of WC in Pennsylvania and Illinois – Old, New and Potential Trends”

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Pennsylvania Compensation Rating Bureau

Casualty Actuarial Loss Reserve Seminar
September 11, 2015

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Discussion Outline

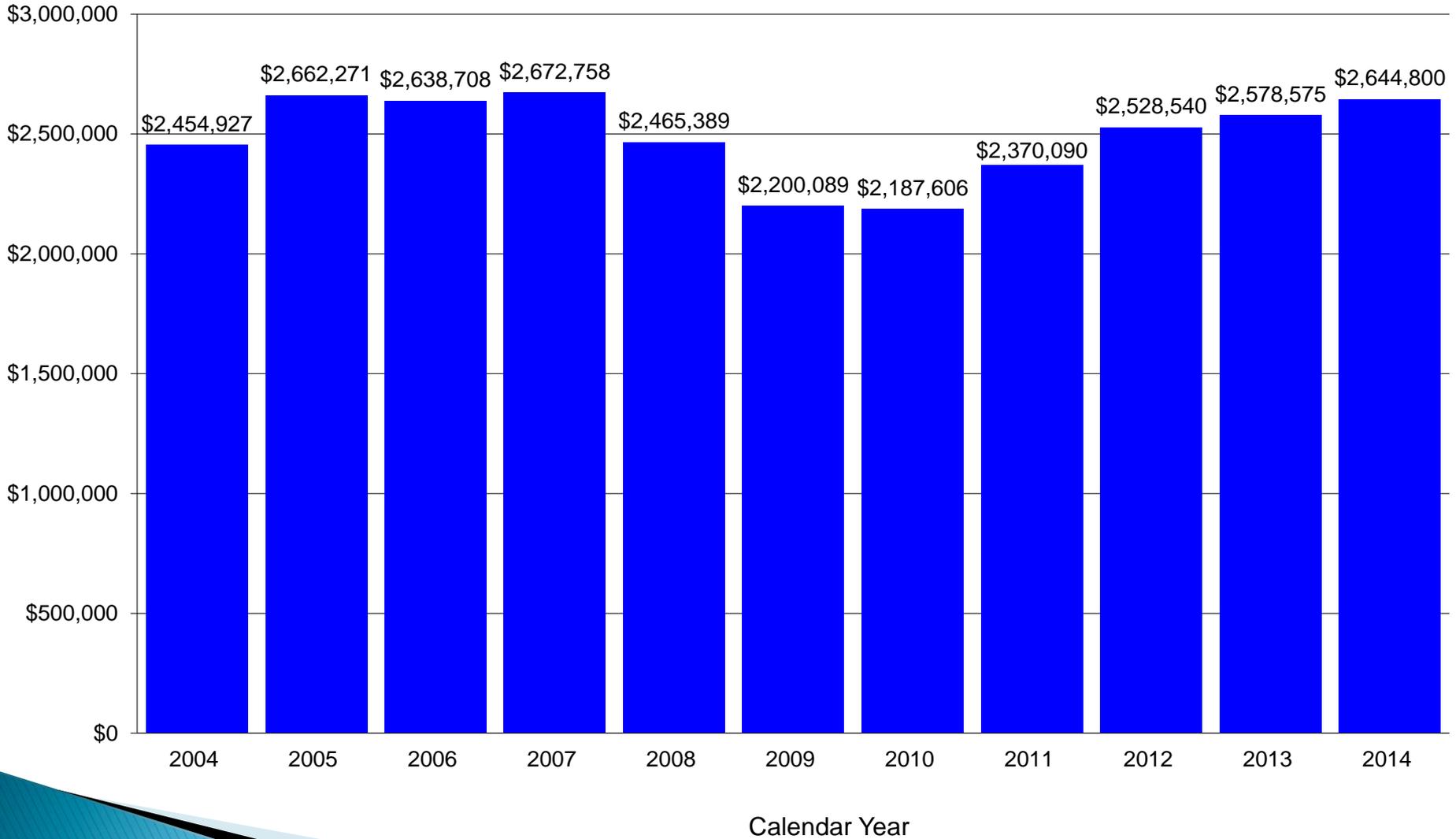
- Introduction
 - Some History
 - Loss Cost Trends
 - Results
 - Recent/Current Issues
 - Possible Areas for Future Reform
- 

Largest WC Markets

<u>State</u>	<u>2013 Direct Written Premium (millions)</u>	<u>Rank by DWP</u>	<u>Number of Entities Collecting Premium in 2013</u>	<u>State Population Rank</u>
California	10,293	1	241	1
New York	5,191	2	285	3
Illinois	2,685	3	333	5
Texas	2,674	4	287	2
Pennnsylvania	2,579	5	332	6
Florida	2,297	6	254	4

Source: Florida Office of Insurance Regulation, Workers' Compensation Annual Report
December, 2014

**Pennsylvania Direct Written Premium
Calendar Years 2004 - 2014
(in thousands)**



Some History

- Prior to the 1990's, Workers Comp costs in PA experienced significant growth
- January 1, 1991 Rate Filing
 - Filed = 25.6%
 - Approved = 13.2%
- February, 1991 - Loss Cost Task Force created by Pennsylvania Insurance Department
- December 1, 1992 Rate Filing
 - Filed = 51.8%
 - Approved = 24.3%

Some History

July, 1993 – Act 44 of 1993 was signed into law.
Largely affected medical costs.

Features:

- PCRB will file advisory loss costs, not rates. Carriers file expenses and profit.
- Carriers may file independent loss costs and/or subclassifications.
- Medical reforms:
 - * Implement a Medicare-based fee schedule (started at 113%)
 - * Establish formal peer review procedures
 - * Establish formal mechanisms for utilization review

Some History

- After passage of Act 44 of 1993:
- December 1, 1993 Loss Cost Filing
Filed = 4.7%
Approved = -2.0%
- December 1, 1995 Loss Cost Filing
Filed = -5.8%
Approved = -9.4%

Some History

June, 1996 – Act 57 of 1996 was signed into law.
Largely affected indemnity costs.

Features:

- AMA guides to evaluate Permanent Partial injuries
- New offset requirements for Social Security and pension benefits
- Compromise and Release authority (Indemnity and Medical)

Some History

- After passage of Act 57 of 1996:
- February 1, 1997 Loss Cost Filing
Filed = -21.9%
Approved = -25.0%
- April 1, 1998 Loss Cost Filing
Filed = -6.9%
Approved = -6.9%

Loss Cost Trends

- Claim Frequency
 - Claim Severity
 - Indemnity
 - Medical
 - Loss Ratio
 - Claim Settlement Rates
- 

Loss Cost Trends

DETERMINATION OF TREND

Claim Frequency

Policy Year Frequency per \$1 million of Expected Losses
 (Note: Claim Frequency Not Adjusted to Current Wage Level)

Policy Year	Claim Frequency	Normalized Frequency
2001	26.17	1.0000
2002	25.12	0.9599
2003	23.04	0.8804
2004	21.84	0.8345
2005	20.28	0.7749
2006	19.59	0.7485
2007	18.44	0.7046
2008	17.01	0.6500
2009	16.42	0.6275
2010	16.18	0.6183
2011	15.10	0.5770
2012	14.13	0.5399

Policy Year	2006	2007	2008	2009	2010	2011	2012
x	1	2	3	4	5	6	7
y	0.7485	0.7046	0.6500	0.6275	0.6183	0.5770	0.5399

7 Point Exponential Regression: $y = 0.778352 * 0.950223 ^ x$

SELECTED FREQUENCY TREND = -5.0%

Loss Cost Trends

DETERMINATION OF TREND

INDEMNITY

Policy Year	2006	2007	2008	2009	2010	2011	2012
Actual Loss Ratio	0.5456	0.5545	0.5343	0.5121	0.5049	0.4842	0.4609
Normalized Frequency	0.7485	0.7046	0.6500	0.6275	0.6183	0.5770	0.5399
Severity Loss Ratio	0.7289	0.7870	0.8220	0.8161	0.8166	0.8392	0.8537
x	1	2	3	4	5	6	7
y	0.7289	0.7870	0.8220	0.8161	0.8166	0.8392	0.8537

7 Point Exponential Regression: $y = 0.742190 * 1.021513 ^ x$

SELECTED INDEMNITY SEVERITY TREND = +2.2%

MEDICAL

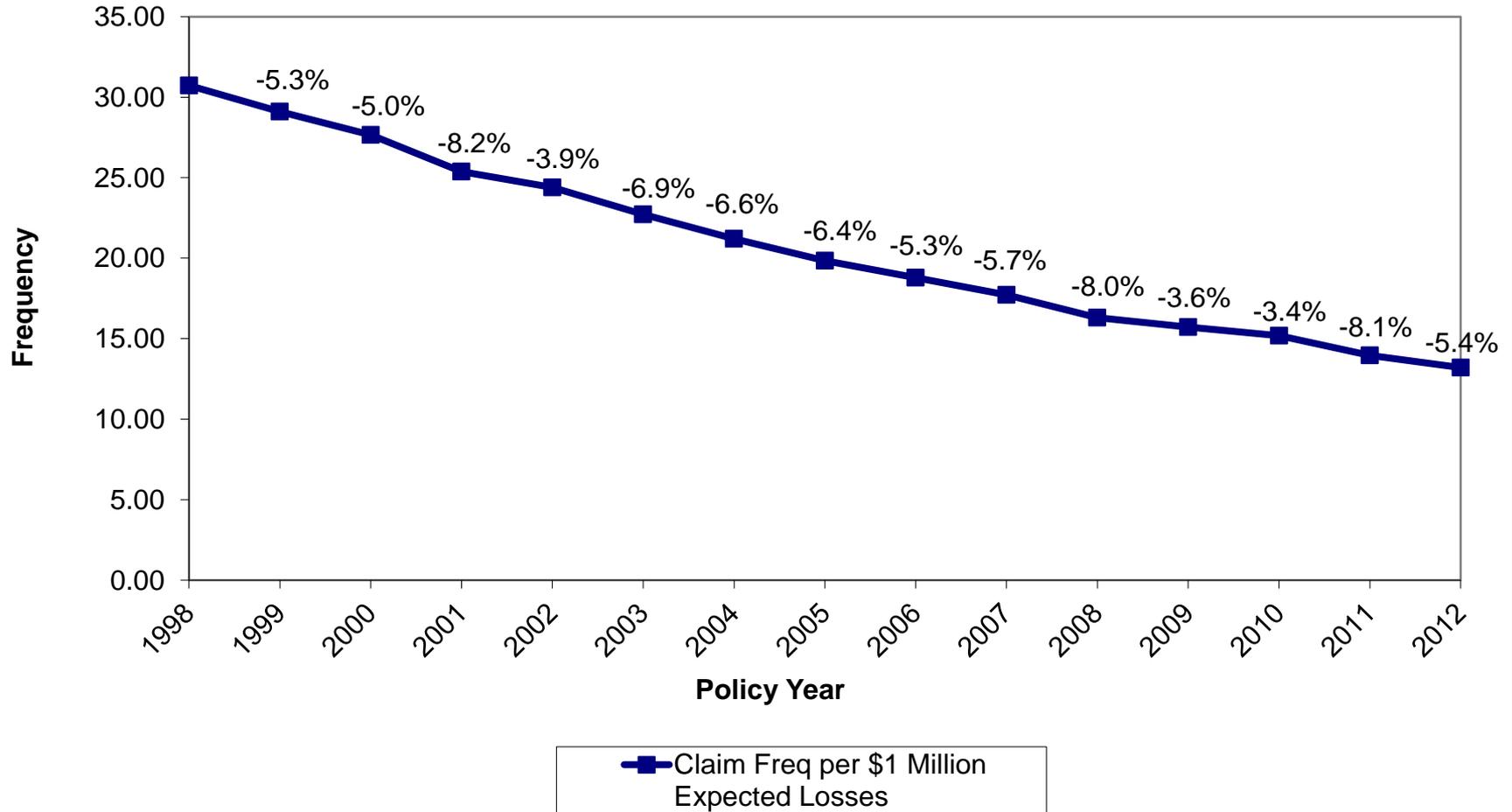
Policy Year	2006	2007	2008	2009	2010	2011	2012
Actual Loss Ratio	0.5489	0.5784	0.5423	0.5311	0.5545	0.5463	0.5221
Normalized Frequency	0.7485	0.7046	0.6500	0.6275	0.6183	0.5770	0.5399
Severity Loss Ratio	0.7333	0.8209	0.8343	0.8464	0.8968	0.9468	0.9670
x	1	2	3	4	5	6	7
y	0.7333	0.8209	0.8343	0.8464	0.8968	0.9468	0.9670

7 Point Exponential Regression: $y = 0.726131 * 1.043325 ^ x$

SELECTED MEDICAL SEVERITY TREND = +4.3%

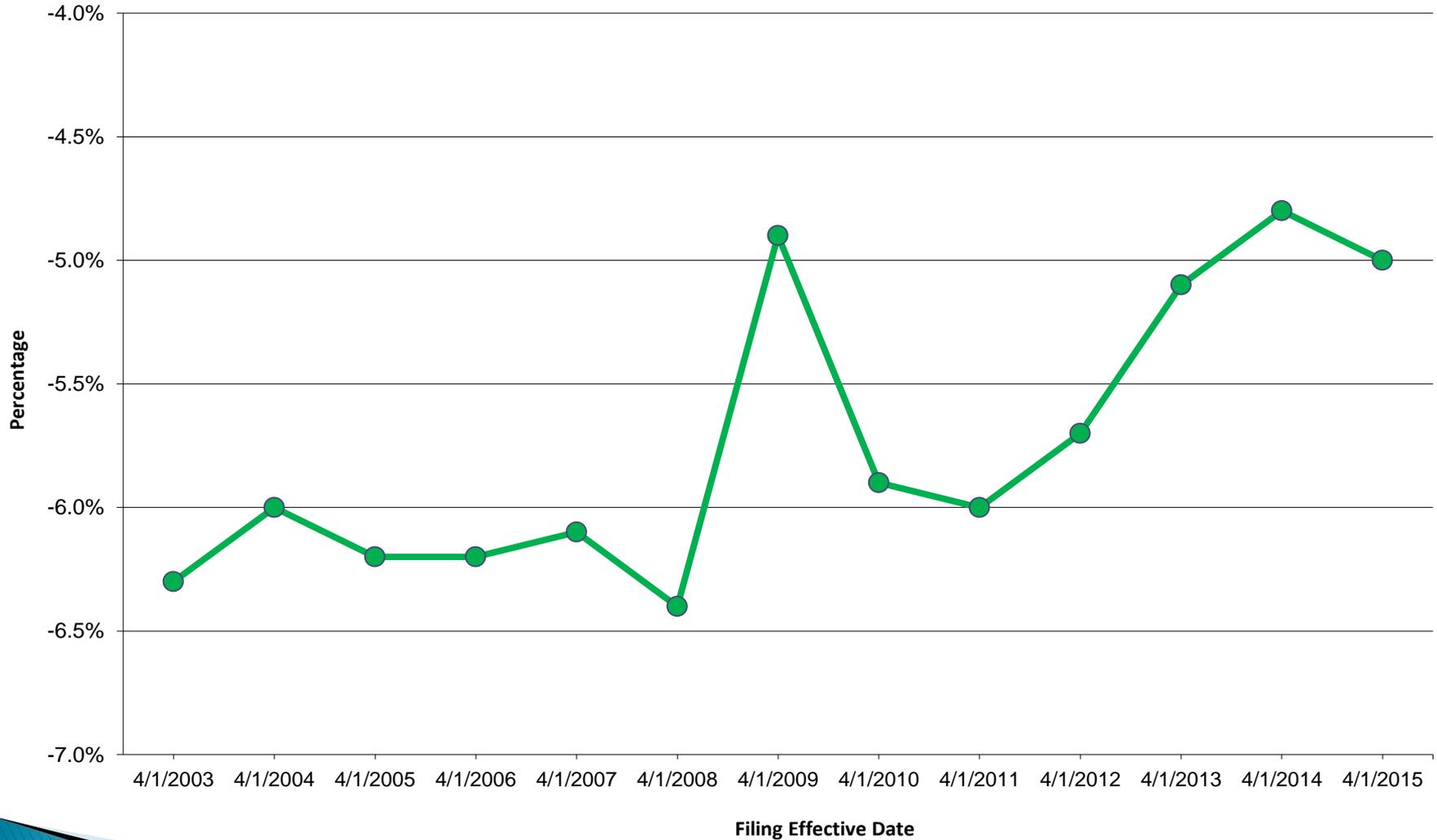
Loss Cost Trends

Claim Frequencies
PCRB Unit Statistical Plan (All Business including Deductible Business)



Loss Cost Trends

2003 through 2015 PA Loss Cost Filings
Selected Frequency Trends

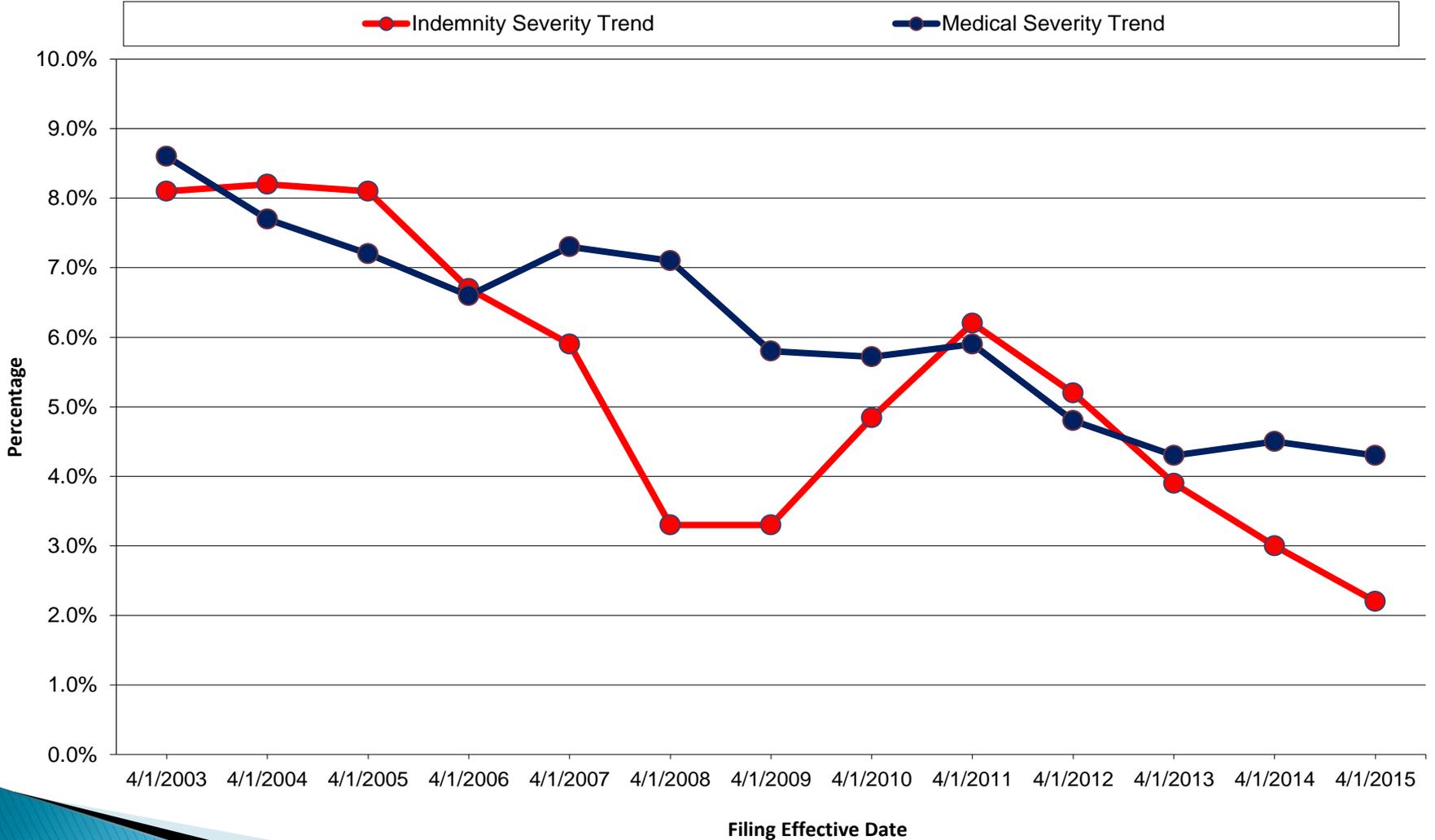


Loss Cost Trends

- Claim Frequency – Future
 - Persistently Decreasing Long Term
 - Filing Techniques Smooth Fluctuations
 - Selected Trend Range -4.8% to -6.4% since 2002
 - Rate of Decrease Has Stabilized in Low End of That Range for Last Three Filings
 - Annual Improvement of ~5 Percent Seems Reasonable and Attainable Near-Term

Loss Cost Trends

2003 through 2015 PA Loss Cost Filings
Selected Indemnity and Medical Severity Trends

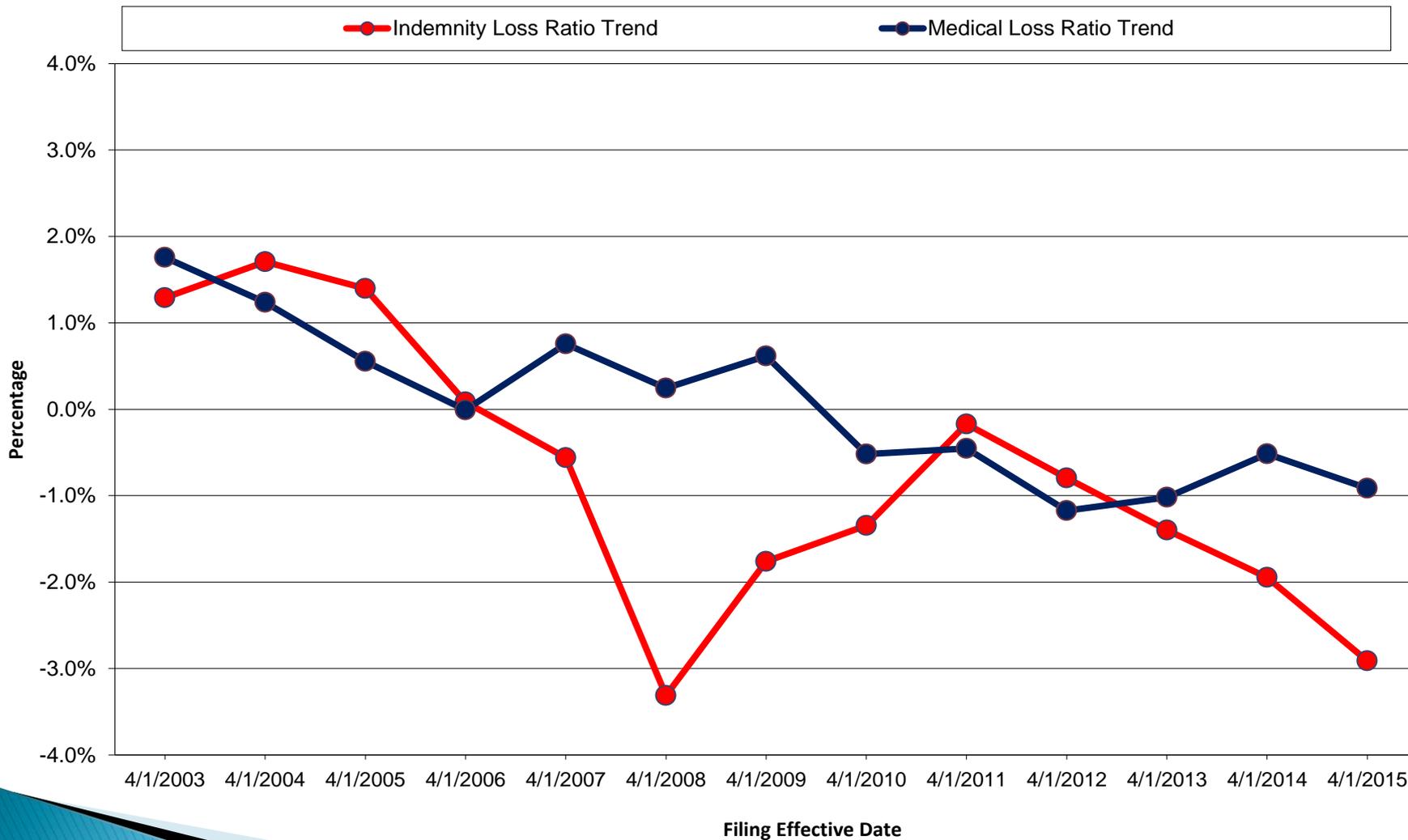


Loss Cost Trends

- Claim Severity – Future
 - Long-Term Improvement
 - Some Think Claim Frequency Improvement Has Pushed/May Push Severity Up
 - Absent Changes in Benefits or Administrative Processes, it is Hard to Foresee Further Significant Improvement

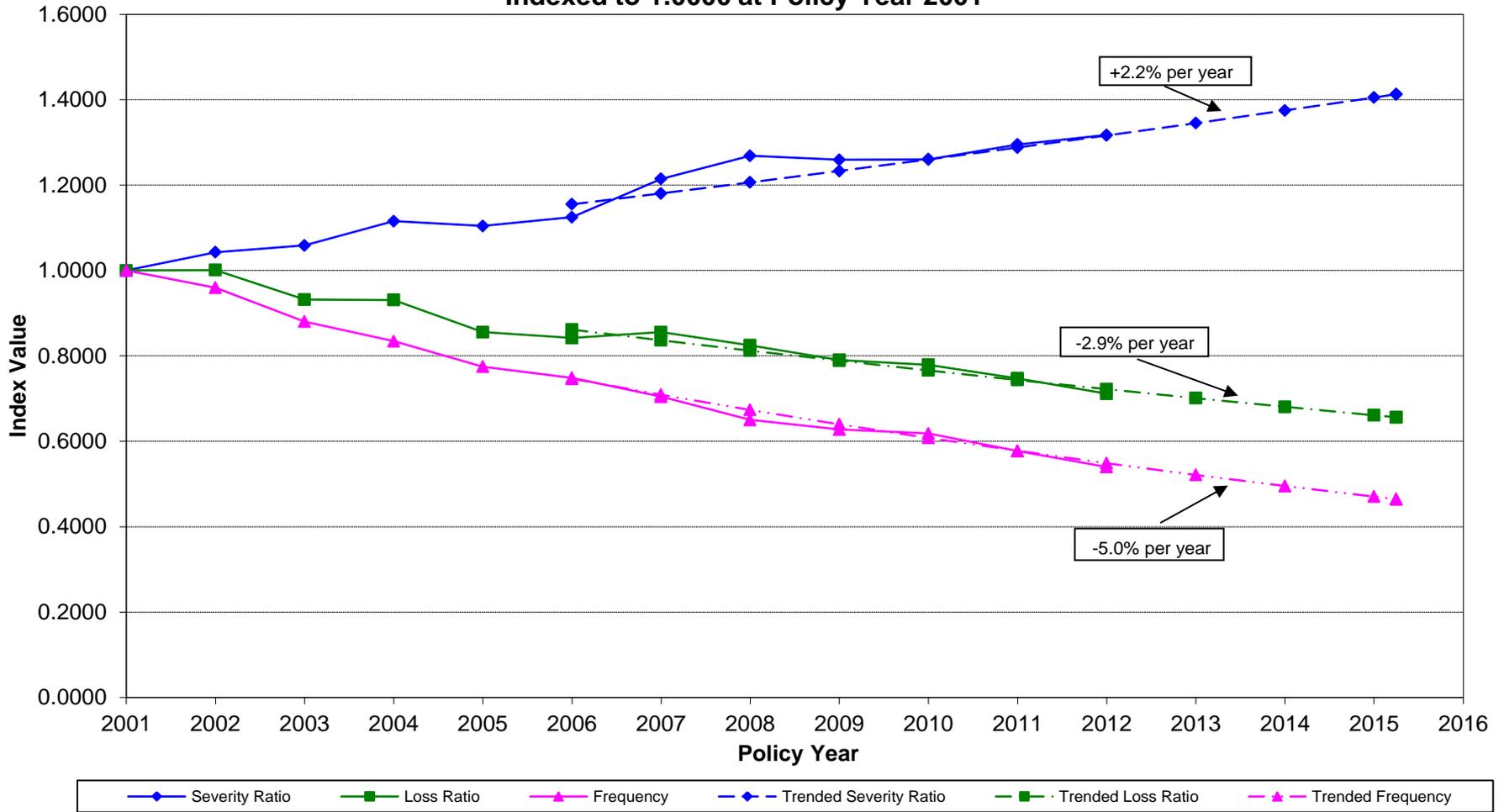
Loss Cost Trends

2003 through 2015 PA Loss Cost Filings
Indemnity and Medical Loss Ratio Trends



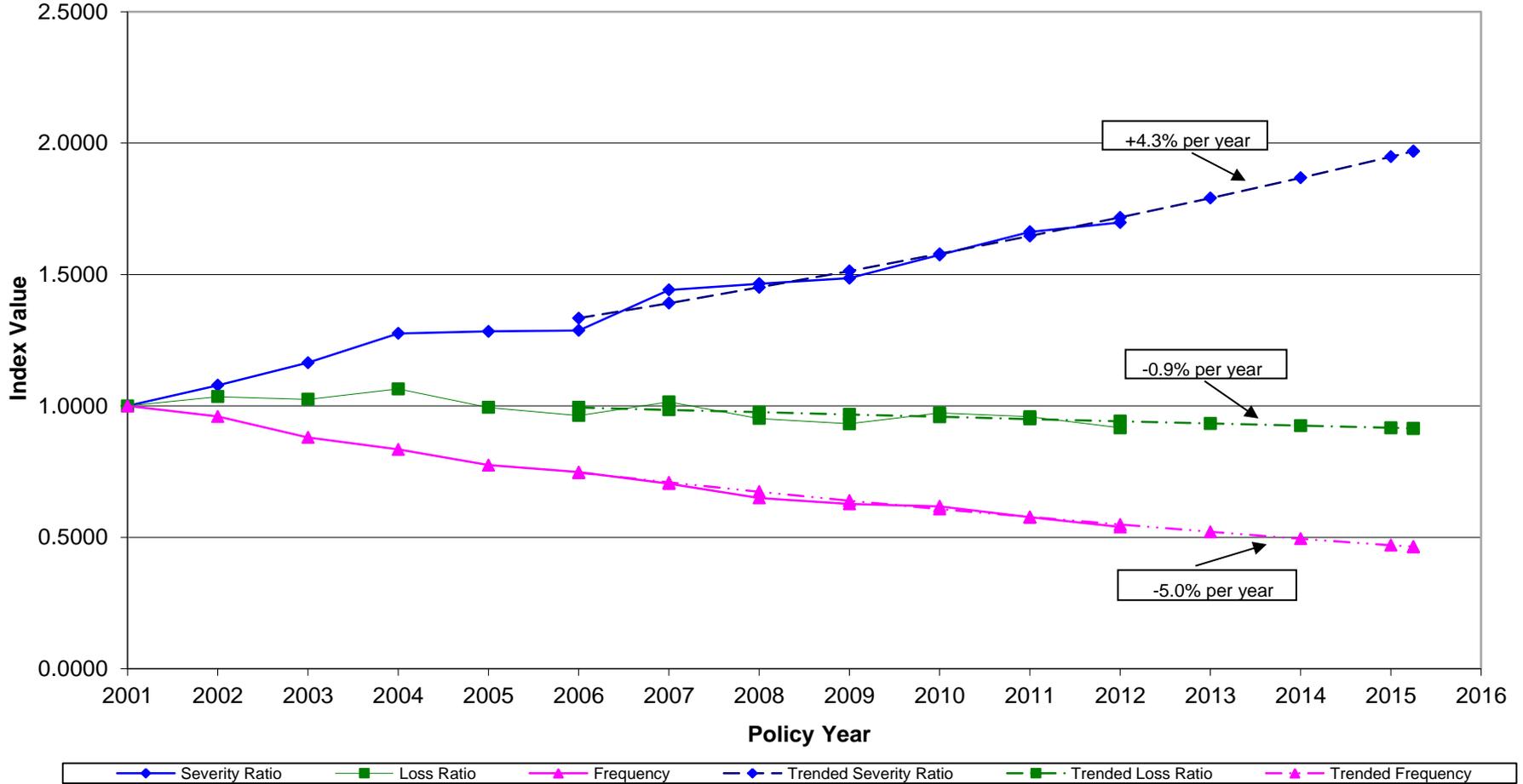
Loss Cost Trends

Pennsylvania Compensation Rating Bureau
April 1, 2015 Loss Cost Filing
Indemnity Loss Experience Components
Indexed to 1.0000 at Policy Year 2001



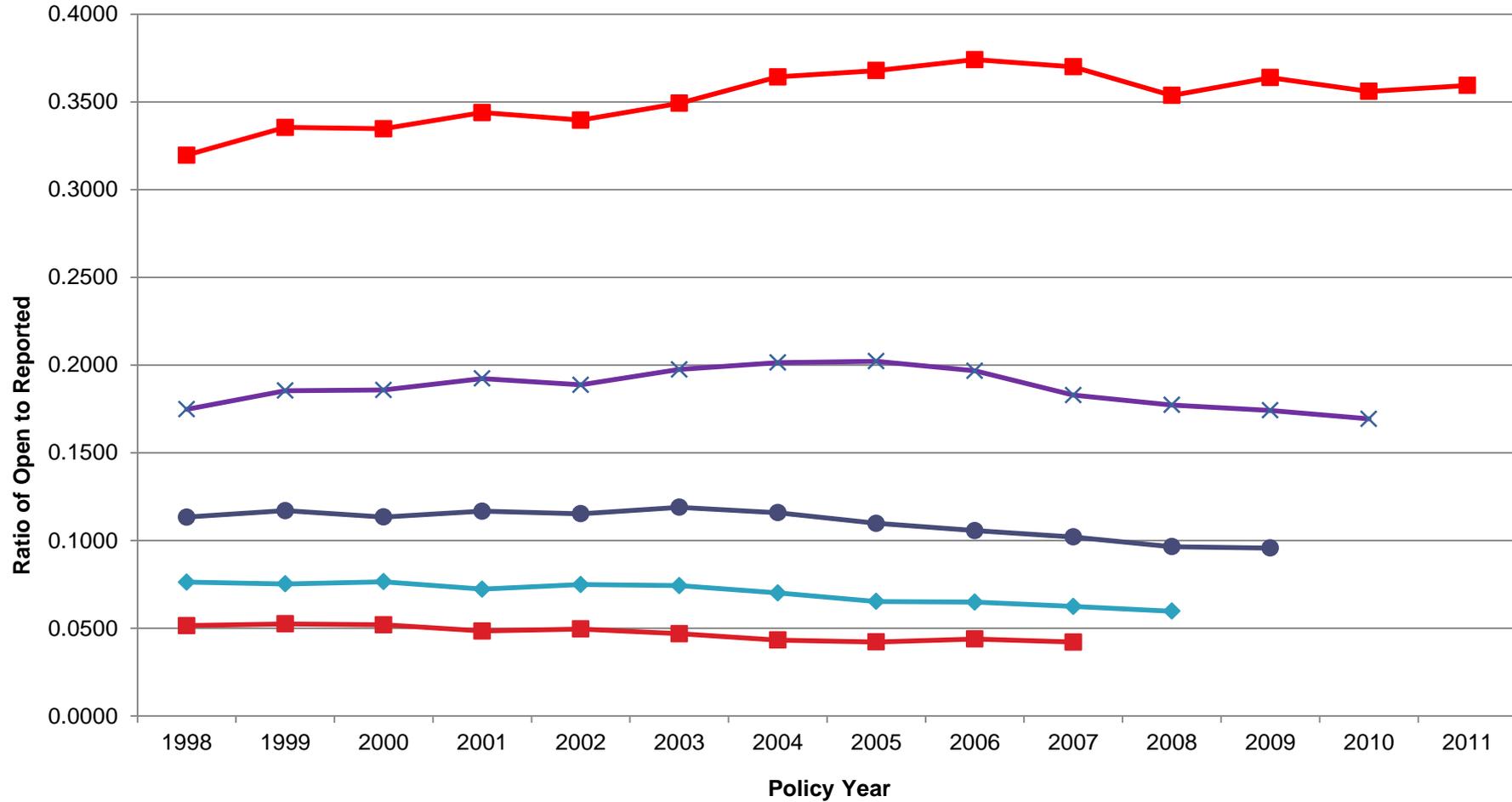
Loss Cost Trends

Pennsylvania Compensation Rating Bureau
April 1, 2015 Loss Cost Filing
Medical Loss Experience Components
Indexed to 1.0000 at Policy Year 2001



Loss Cost Trends

Claim Settlement Rates
Ratio of Open to Reported Indemnity Claims by Policy Year



■ 1st Report

× 2nd Report

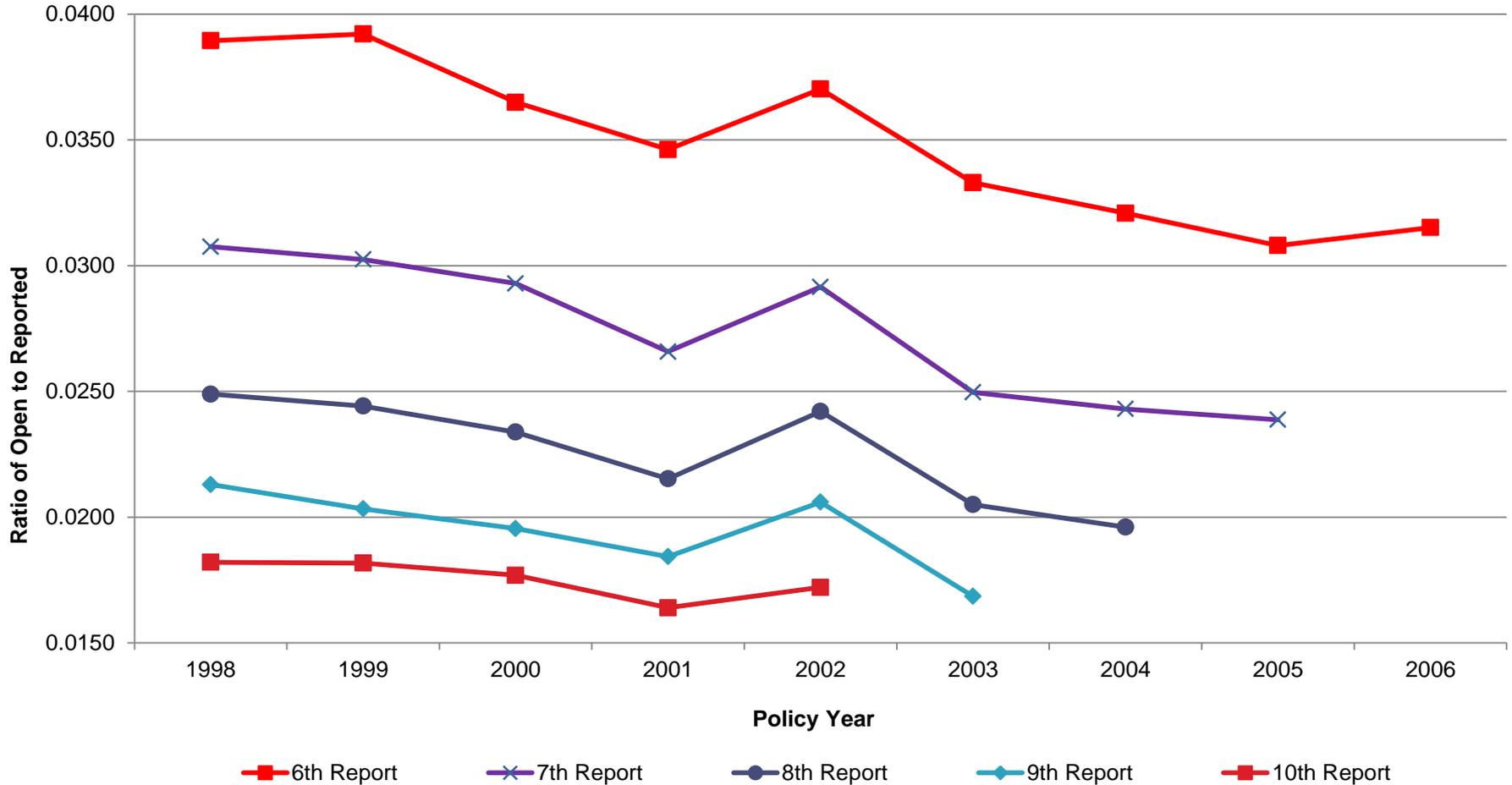
● 3rd Report

◆ 4th Report

■ 5th Report

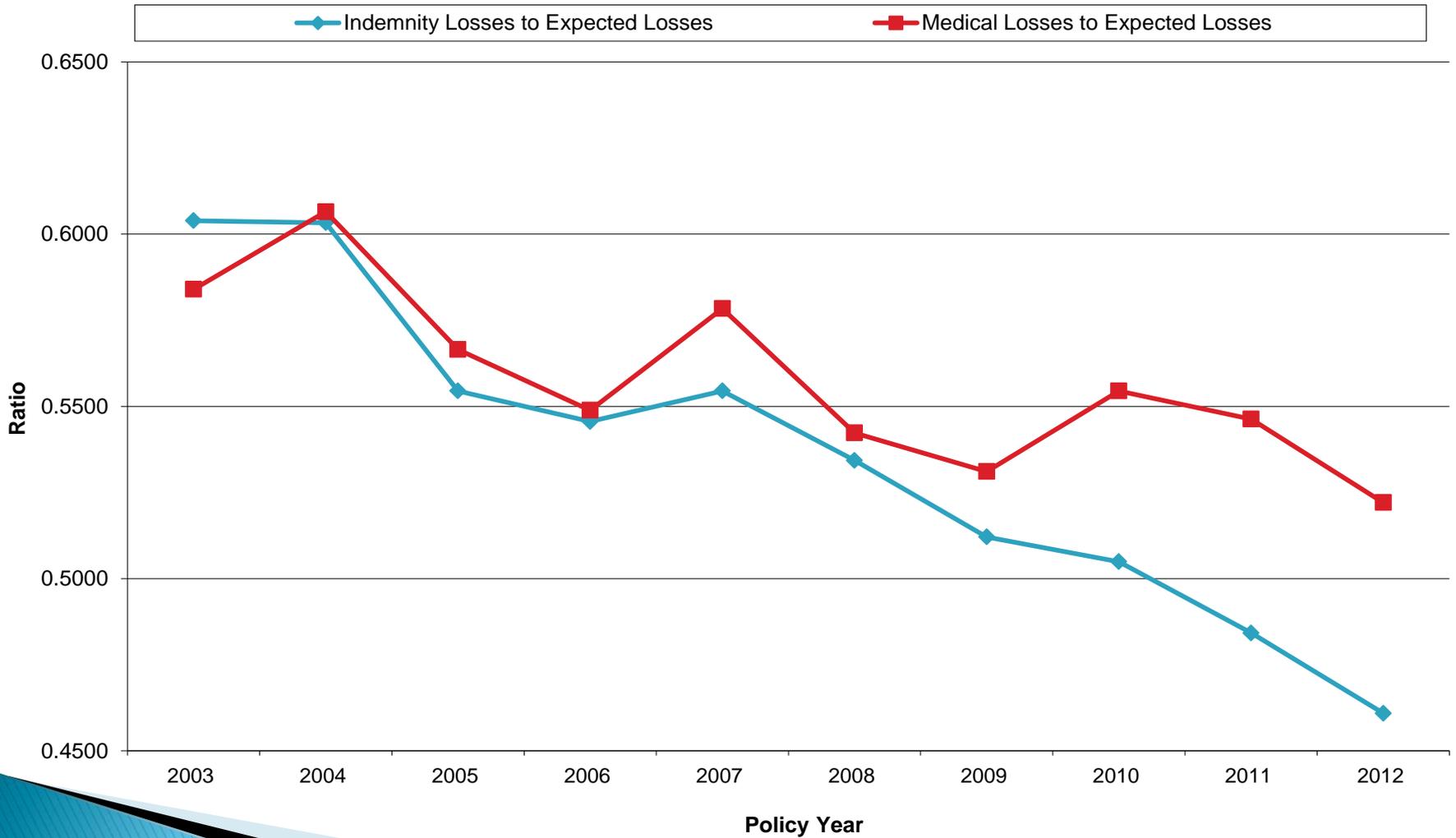
Loss Cost Trends

Claim Settlement Rates
Ratio of Open to Reported Indemnity Claims by Policy Year



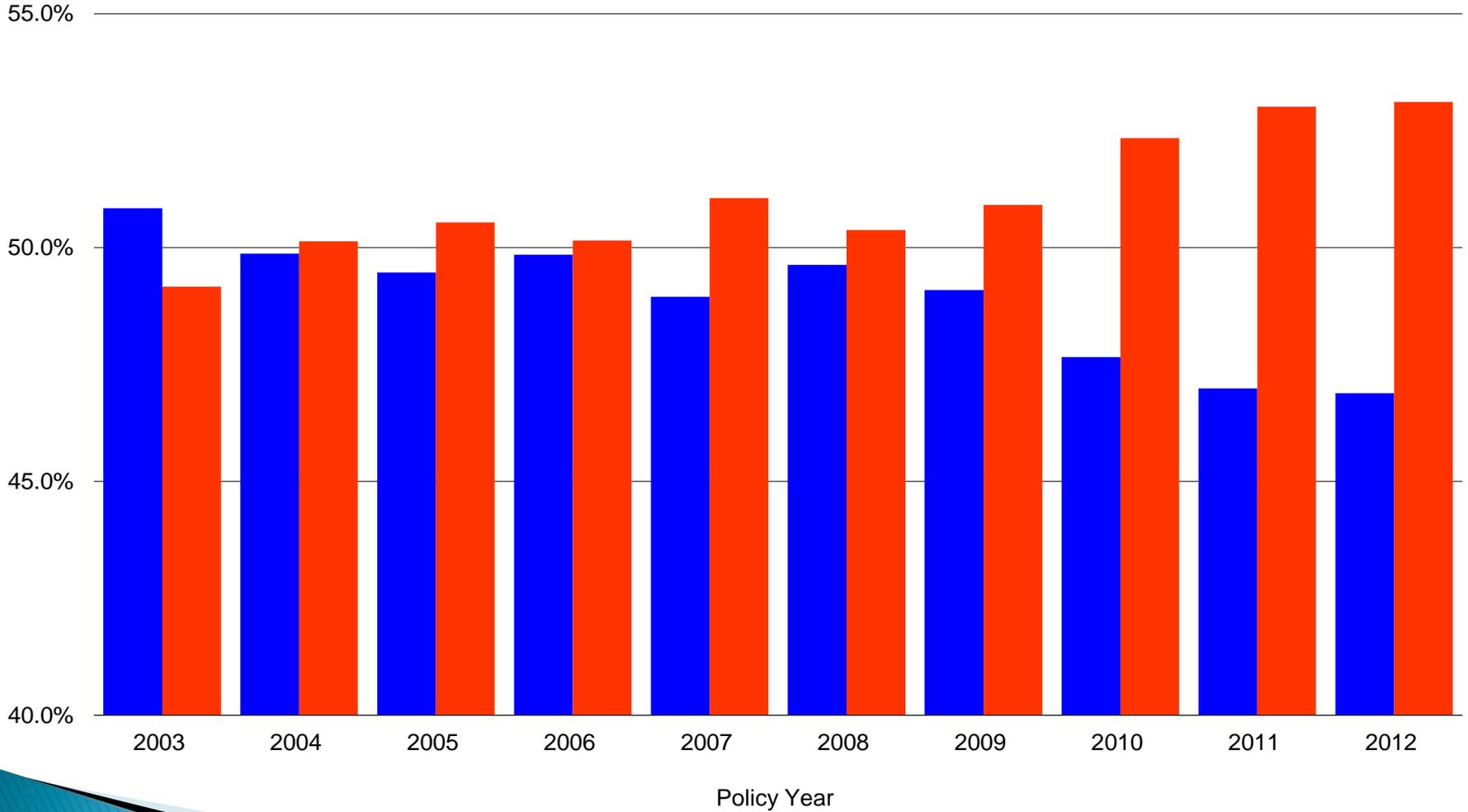
Results

Indemnity and Medical Ultimate Losses to Expected Losses April 1, 2015 Loss Cost Filing



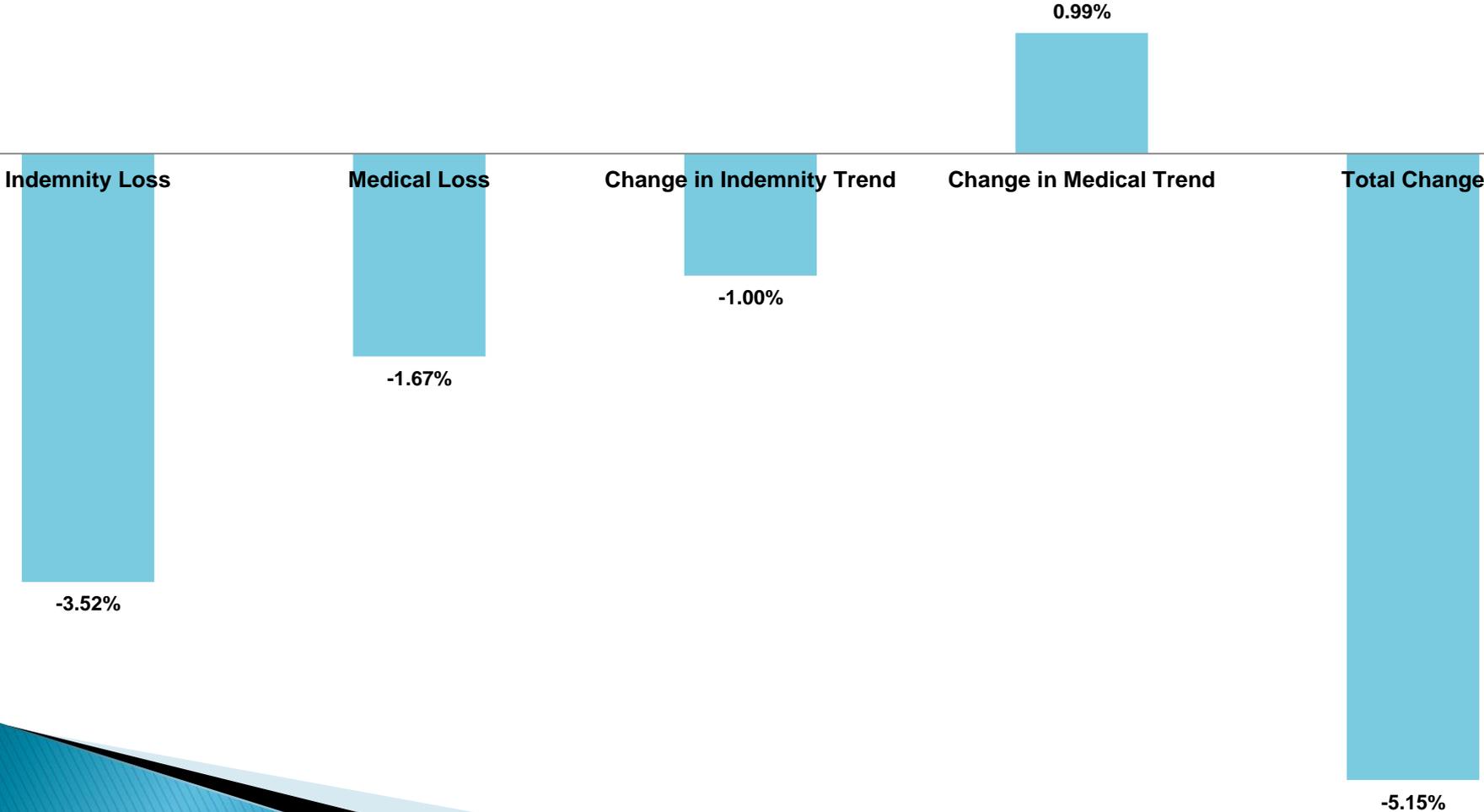
Results

**Indemnity / Medical Split
Based on Ultimate Losses to Expected Losses
in April 1, 2015 Pennsylvania Filing**



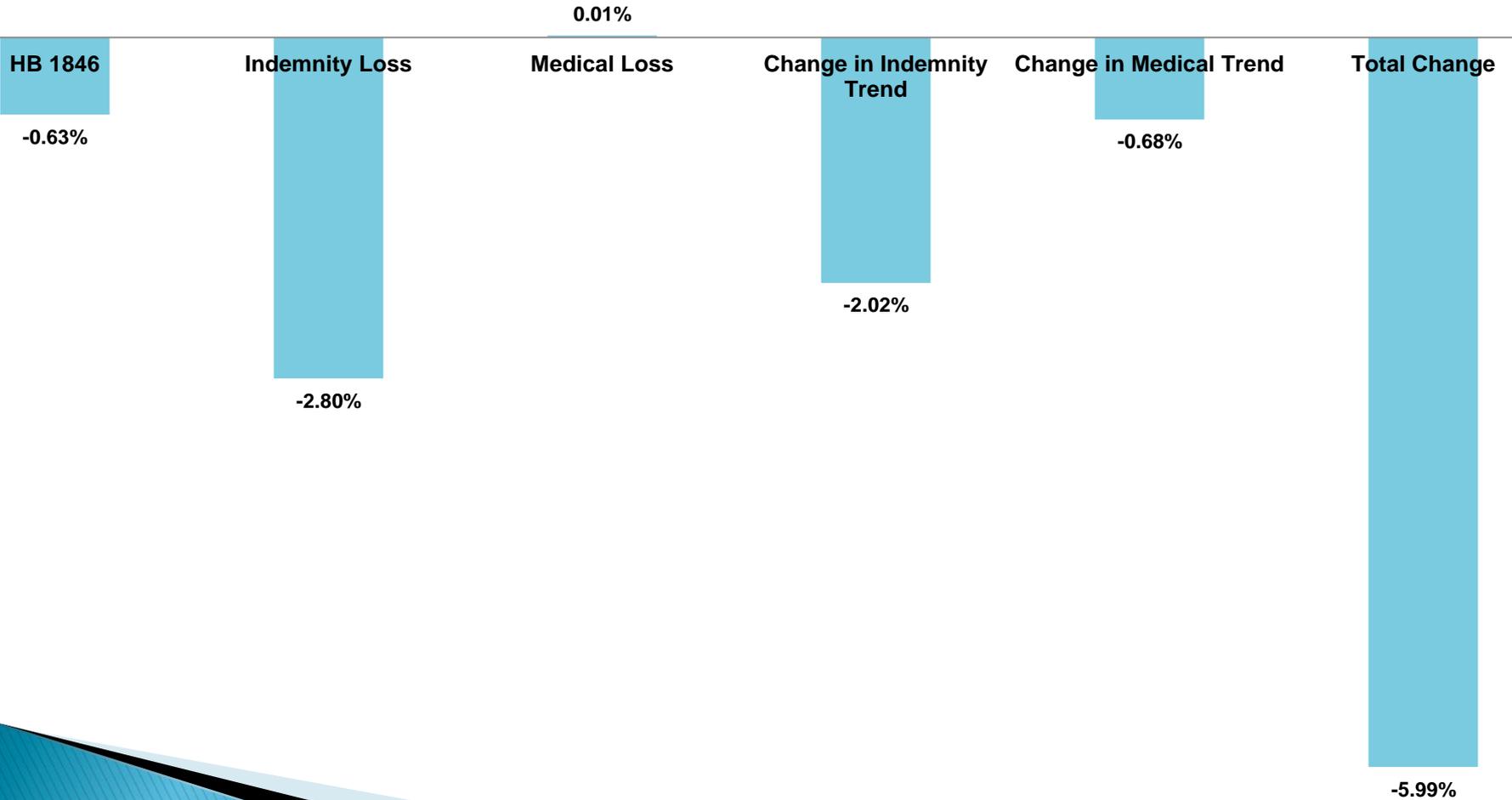
Results

Pennsylvania Compensation Rating Bureau Components of Indicated Change in Loss Costs April 1, 2014 Filing



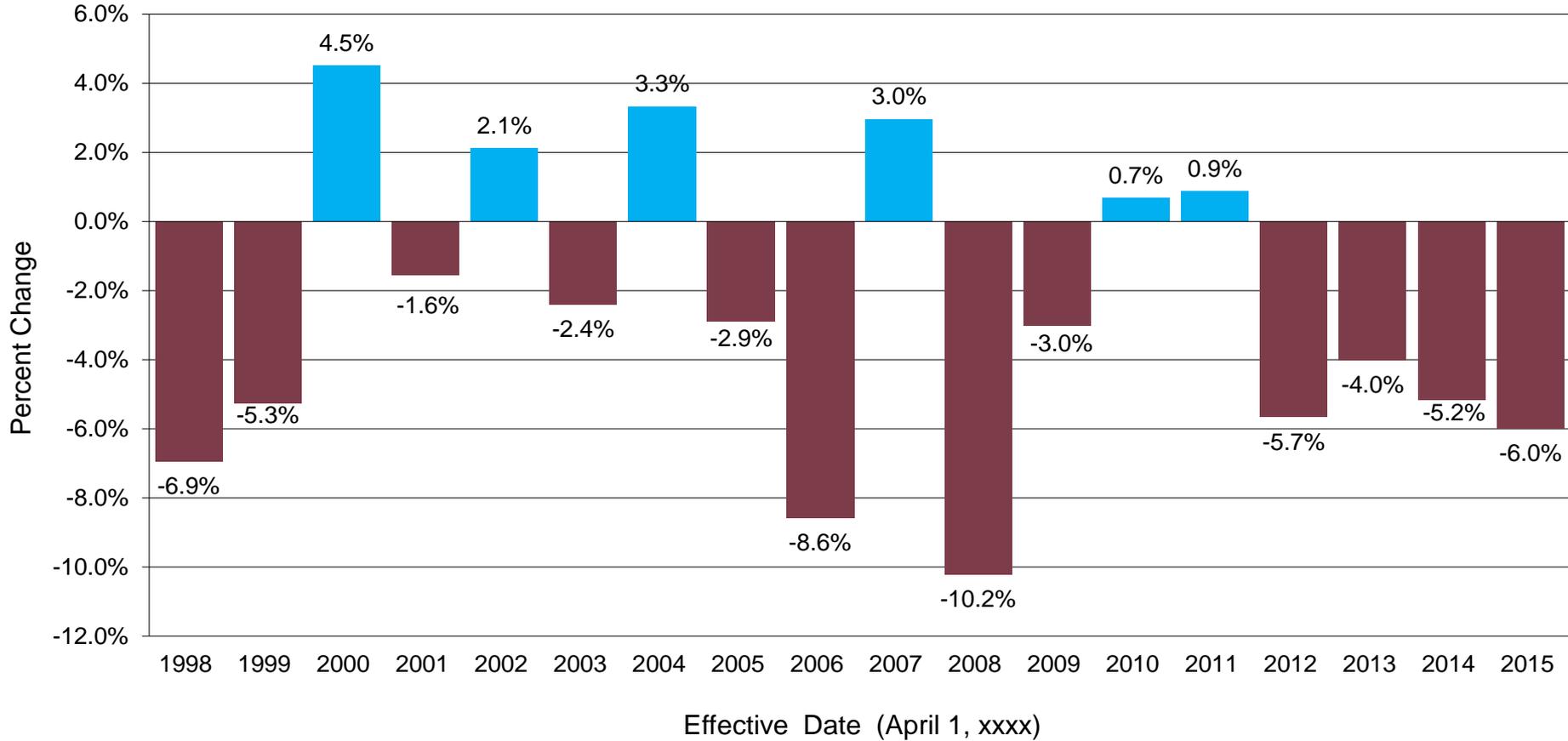
Results

Pennsylvania Compensation Rating Bureau Components of Indicated Change in Loss Costs April 1, 2015 Filing



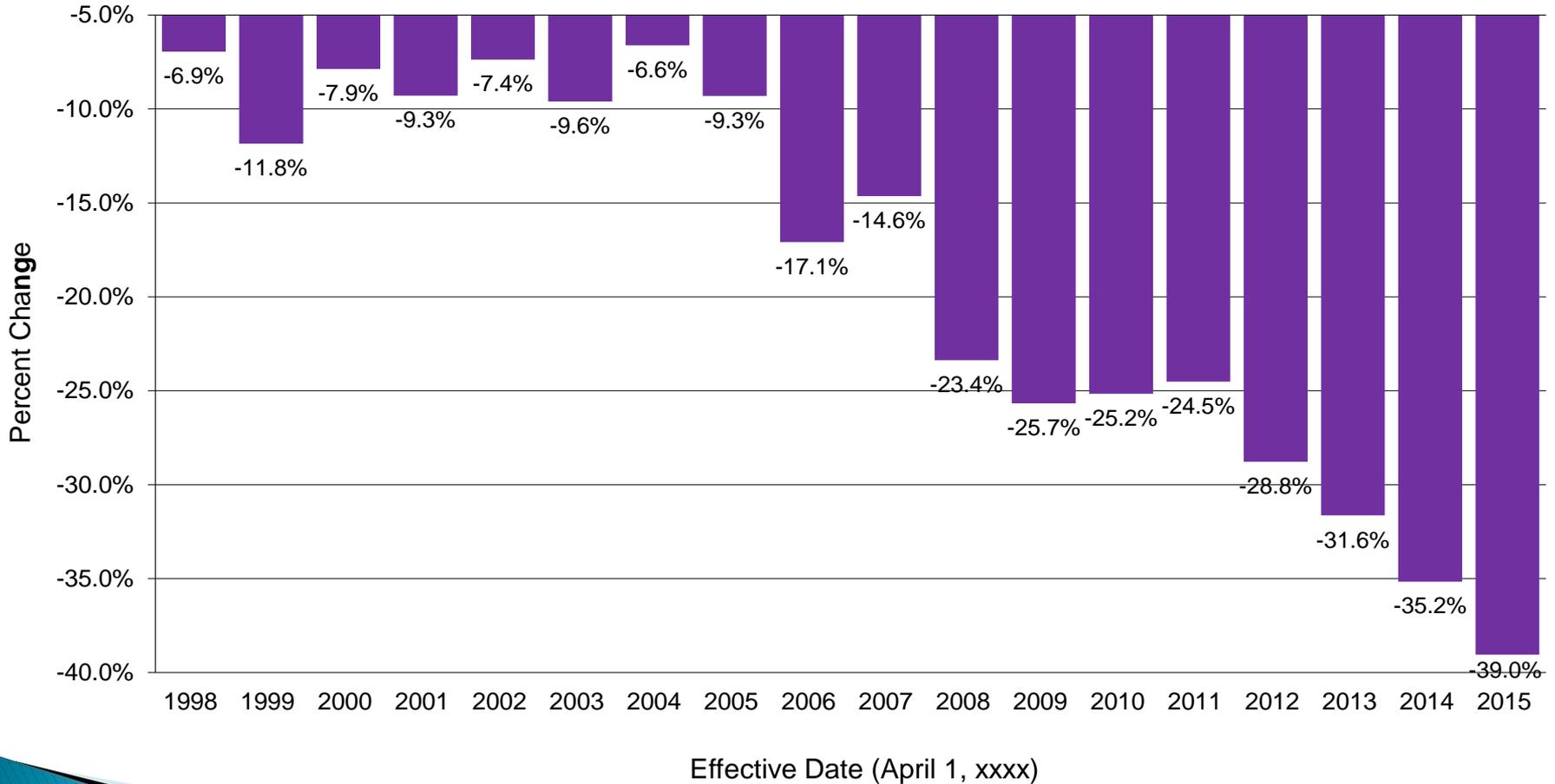
Results

Pennsylvania Loss Cost Filing History Filing Effective Years 1998 - 2015



Results

Pennsylvania Loss Cost Filing History Filing Effective Years 1998 - 2015 Cumulative Loss Cost Changes



Results

- ▶ PCRB Loss Costs and Competitive Market Pricing
 - PCRB Circular No. 1639 – April 8, 2015
 - History of Loss Cost Changes
 - Variability of Carrier Premiums Compared to PCRB Loss Costs
 - **80% (1999) to 125% (2013) Between 1996 and 2013**
 - Current Market Metrics for Loss Ratios, Combined Ratios
 - **Implied Loss Ratio ~ 80%**
 - **Loss and LAE Ratio ~ 92%**
 - **Undiscounted Combined Ratio ~ 113%**

Results

- ▶ PCRB Loss Costs and Competitive Market Pricing
 - Projected Combined Ratios for Pennsylvania WC
 - “1997” – **163%**
 - “2000” – 157%
 - “2002” – 127%
 - “2004” – **112%**
 - “2006” – 116%
 - “2008” – 120%
 - “2010” – 125%
 - “2012” – 119%
 - “2013” – 113%

Results

DISTRIBUTION OF INDEMNITY INCURRED LOSSES BY INJURY TYPE

Policy Year	Fatal (%)	Permanent Total (%)	Permanent Partial (%)	Temporary Total (%)	Total Indemnity (%)
2007	1.5	1.0	38.3	8.5	49.3
2008	1.2	1.6	38.5	9.3	50.6
2009	1.0	1.5	38.0	10.1	50.5
2010	1.0	1.3	37.4	9.8	49.5
2011	1.1	1.4	36.5	9.7	48.7

DISTRIBUTION OF MEDICAL INCURRED LOSSES BY INJURY TYPE

Policy Year	Fatal (%)	Permanent Total (%)	Permanent Partial (%)	Temporary Total (%)	Medical Only (%)	Total Medical (%)
2007	0.3	4.9	28.3	10.0	7.2	50.7
2008	0.2	2.9	28.1	10.7	7.5	49.4
2009	0.2	1.7	28.8	11.4	7.4	49.5
2010	0.3	3.3	28.8	11.1	7.1	50.5
2011	0.4	2.9	29.9	11.3	6.8	51.3

DISTRIBUTION OF OVERALL INCURRED LOSSES BY INJURY TYPE

Policy Year	Fatal (%)	Permanent Total (%)	Permanent Partial (%)	Temporary Total (%)	Medical Only (%)	Total (%)
2007	1.8	5.9	66.6	18.5	7.2	100.0
2008	1.4	4.5	66.6	20.0	7.5	100.0
2009	1.2	3.2	66.8	21.5	7.4	100.0
2010	1.3	4.6	66.2	20.9	7.1	100.0
2011	1.5	4.3	66.4	21.0	6.8	100.0

Source: April 1, 2015 Pennsylvania Loss Cost Filing Table III, Section C

Results

FREQUENCY BY INJURY TYPE (PER 100,000 WORKERS)

Policy Year	Fatal	Permanent Total	Permanent Partial	Temporary Total	Medical Only	Total
2007	3 0.1%	1 0.0%	283 5.2%	757 14.0%	4,373 80.7%	5,417 100.0%
2008	2 0.0%	1 0.0%	267 5.4%	691 14.0%	3,978 80.5%	4,939 100.0%
2009	2 0.0%	1 0.0%	259 5.6%	665 14.3%	3,733 80.1%	4,660 100.0%
2010	2 0.0%	1 0.0%	260 5.6%	677 14.5%	3,729 79.9%	4,669 100.0%
2011	2 0.0%	1 0.0%	249 5.3%	681 14.5%	3,757 80.1%	4,690 100.0%

Source: April 1, 2015 Pennsylvania Loss Cost Filing Table III, Section C

Results

AVERAGE COST PER CASE - INDEMNITY - BY INJURY TYPE

Policy Year	Fatal (\$)	Permanent Total (\$)	Permanent Partial (\$)	Temporary Total (\$)	Total Indemnity (\$)
2007	272,496	733,862	84,000	6,971	29,264
2008	316,399	805,528	83,343	7,829	30,472
2009	229,340	911,623	81,272	8,416	30,201
2010	259,426	804,389	83,394	8,365	30,517
2011	285,605	911,081	88,736	8,636	31,617

AVERAGE COST PER CASE - MEDICAL - BY INJURY TYPE

Policy Year	Fatal (\$)	Permanent Total (\$)	Permanent Partial (\$)	Temporary Total (\$)	Combined Lost Time (\$)	Medical Only (\$)	Total Medical (\$)
2007	62,531	3,637,218	62,011	8,141	25,807	1,016	5,793
2008	56,761	1,446,754	60,711	8,950	25,183	1,090	5,780
2009	56,127	1,077,554	61,582	9,521	25,216	1,098	5,895
2010	68,473	2,065,676	64,100	9,555	26,826	1,102	6,283
2011	99,532	1,976,069	72,603	10,071	28,902	1,107	6,698

AVERAGE COST PER CASE - OVERALL - BY INJURY TYPE

Policy Year	Fatal (\$)	Permanent Total (\$)	Permanent Partial (\$)	Temporary Total (\$)	Combined Lost Time (\$)	Medical Only (\$)	Total Overall (\$)
2007	335,027	4,371,079	146,010	15,111	55,070	1,016	11,432
2008	373,160	2,252,283	144,054	16,779	55,654	1,090	11,712
2009	285,467	1,989,177	142,854	17,937	55,417	1,098	11,902
2010	327,899	2,870,065	147,494	17,920	57,343	1,102	12,430
2011	385,138	2,887,150	161,339	18,707	60,519	1,107	13,058

Source: April 1, 2015 Pennsylvania Loss Cost Filing Table III, Section C

Recent/Current Issues

- ▶ HB797 (Act 46 of 2011)
 - Established a rebuttable presumption of work causation for certain forms of cancer diagnosed in firefighters.
 - Has potential to impact loss costs in certain classes
 - Little insured experience data to date
 - No adjustment to PA loss costs made in filings

Recent/Current Issues

- ▶ Recent PA Reform - HB1846 (Act 184 of 2014)
 - Reimbursement for Repackaged Drugs Dispensed by Physicians Limited to 110% of AWP* for Original Manufacturer's NDC**
 - Repackaged NDC's Cannot be Used as a Basis for Reimbursement
 - * Average Wholesale Price
 - ** National Drug Code

Recent/Current Issues

- ▶ Recent PA Reform - HB1846 (Act 184 of 2014)
 - Physician-Dispensing Limited
 - Schedule II Drugs or Schedule III Drugs Containing Hydrocodone – 7-day initial supply, 15 days after medical procedure
 - Other Drugs – one 30-day initial supply
 - Over-the-Counter Drugs – Only Pharmacies May Dispense

Recent/Current Issues

- ▶ Recent PA Reform - HB1846 (Act 184 of 2014)
 - Estimated Savings
 - 55% of Cost of Repackaged Rx Moved to Pharmacies
 - 44% of Cost of Repackaged Rx Continuing as Physician-Dispensed
 - Lower Impacts on Non-Repackaged Drugs

Recent/Current Issues

- ▶ Recent PA Reform - HB1846 (Act 184 of 2014)
 - Estimated Savings
 - Affected Rx Were ~20% of All Rx
 - Affected Rx Were ~2.7% of Total Medical Costs
 - Loss Cost Savings ~1.2% of Medical
 - Loss Cost Savings ~0.65% of Total Loss Costs
 - Future Growth and Costs Avoided Are More Significant Than Immediate Savings

Recent/Current Issues

▶ Medical Marijuana

- 2013 – 2014 Legislative Session (none passed)
 - HB1181 – would limit the legal sale of marijuana to people who have a recommendation of the medical doctor and provides for a limited number of compassion centers; people would have to register as medical marijuana patients and pay an annual \$50 fee.
 - HB2182 – would allow physicians to recommend medicinal cannabis to patients who would medically benefit from such a treatment.
 - HB2424 & SB 770 – would allow physicians to prescribe medicinal marijuana to patients who would medically benefit from such a prescription.

Recent/Current Issues

▶ Medical Marijuana

◦ 2015 – 2016 Legislative Session

- HR373 – would reschedule cannabis from a Schedule I (illegal drug) to a Schedule II controlled substance (a controlled substance with some potential medical benefits) on both PA and Federal levels.
- SB528 – would legalize marijuana use, possession, cultivation and sale for adults. Adults 21 or older would be allowed to grow up to six cannabis plants (3 flowering) and possess any amount of marijuana.
- HB35 – would create criminal penalties for anyone who diverts legally grown marijuana for non-medical purposes. (Would seem to require enactment of laws permitting medical use of marijuana.)

Possible Areas of Future Reform

- PA Chamber of Business & Industry
 - Mandatory Drug Testing
 - Authorize Use of Prescription Benefit Managers
 - Mandatory Treatment Guidelines
 - Change Utilization Review Decision-Makers and Standards
 - Employer-Directed Care for Life of Claim
 - Fee Schedule Indexed Directly to Medicare

PCRB Web Resources

www.pcrb.com

Circulars

Filings

Manuals

Rating Values

Rate Comparison Studies

Pricing Program Analyses

Market Profile Reports - Overview of Market
Activity

Carrier Pricing Benchmark Reports

~90,000 Approved Class Rates by Carrier