Workers’ Compensation Trends

Commitment Beyond Numbers

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November 16, 2017
About the Presenters

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Agenda

• Financial Results
  – Profitability
    • Loss Ratio
    • Combined Ratio
  – Sample of Workers’ Compensation Insurers
    • Investment Gain
    • Operating Ratio
    • Surplus
      – Growth
      – Traditional Insurance Risks
  – Loss Development
  – Loss Drivers

• Current Issues
  – Opioids
  – Class Mix - Construction
  – Affordable Care Act
  – Challenges to the Workers’ Compensation System
Profitability
Profitability

On a calendar year basis, measured by two key ratios:

Combined Ratio = \[ \frac{\text{Losses + UW Expenses + Dividends}}{\text{Premium}} \]

Operating Ratio = \[ \frac{\text{Losses + UW Expenses + Dividends} - \text{Investment Gain}}{\text{Premium}} \]
Net Loss & LAE Ratio – Initial Accident Year and Development on Prior

Based on U.S. P&C Industry data from AM Best
Calendar Year Net Loss & LAE Ratio

Ratio to Net Earned Premium based on U.S. P&C Industry data from AM Best
UW Expense Ratio

Ratio to Net Earned Premium. Based on U.S. P&C Industry data from AM Best.
Loss and UW Expense Ratio

Based on U.S. P&C Industry data from AM Best.
Dividend Ratio

Ratio to Net Earned Premium. Based on U.S. P&C Industry data from AM Best.
Combined Ratio (Including PH Dividends)

Based on U.S. P&C Industry data from AM Best.
Sample of Large Workers’ Compensation Insurers

- Companies in which workers’ compensation was more than 90% of DWP over the last 6 years

- Largest companies based on DWP volume
  - Excludes New York and California state fund

- Nearly 25% of the total industry NEP in 2016
Combined Ratio (Including PH Dividends) - Comparison of All Industry to Sample Companies

Based on U.S. P&C Industry data from AM Best.
Investment Gain by Component (Ratio to Premium)

Based on AM Best data for sample companies.
Investment Gain as a Percent of Premium

Based on AM Best data for sample companies.
Operating Ratio

Based on AM Best data for sample companies.
Surplus
Surplus

Based on AM Best data for sample companies.
Change in Surplus

2008 – 2011: +0.5B

2012 – 2016: +6.5B

Based on AM Best data for sample companies.
Percentage Change in Surplus

Annual Change 2008 – 2011: 1.3%

Annual Change 2012 – 2016: 9.6%

Based on AM Best data for sample companies.
Traditional Insurance Risks

- Reserve Risk
- Pricing Risk
- Investment Risk
- RBC Ratio
Net Reserves to Surplus

AM Best Data for sample companies. Includes Indemnity and all LAE reserves.
AM Best Data for sample companies. Includes Indemnity and all LAE reserves.
Assets by Class

AM Best Data for sample companies.
Assets by Class as a Percent of Total

AM Best Data for sample companies.
AM Best Data for sample companies.
Development History
Estimated Reported Loss Ratio at 12/31/2007

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2008

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2009

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2010

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2011

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2012

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2013

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2014

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2015

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Estimated Reported Loss Ratio at 12/31/2016

Based on AM Best data for the industry. Includes payments and case reserves on indemnity and ALAE. Excludes A&O.
Loss Drivers
Lost-Time Claim Frequency

Annual Trend = -2.8%

Average for 35 states based on NCCI State Advisory Forum data.
Indemnity Severity Per Lost-Time Claim

Annual Trend = 1.2%

Average for 35 states based on NCCI State Advisory Forum data.
Medical Severity Per Lost-Time Claim

Annual Trend = 2.4%

Average for 35 states based on NCCI State Advisory Forum data.
Current Issues
Current Issues Affecting Workers Compensation

- Opioids
- Class Mix - Construction
- Affordable Care Act
- Challenges to the Workers’ Compensation System
Opioids
Opioid Prescriptions Dispensed by U.S. Retail Pharmacies

U.S. Opioid Overdose Deaths 2000-2015

Overdose Deaths Involving Opioids, United States, 2000-2015

- Any Opioid
- Commonly Prescribed Opioids (Natural & Semi-Synthetic Opioids and Methadone)
- Heroin
- Other Synthetic Opioids (e.g., fentanyl, tramadol)

Opioid Epidemic by the Numbers

On an average day in the U.S. ¹

- More than 650,000 opioid prescription dispensed
- 3,900 people initiate non-medical use of prescription opioids
- 580 people initiate heroin use
- More than 1,000 people are treated in ERs for misusing prescription opioids
- 91 people die from an opioid-related overdose

Economic Impact of Opioids Epidemic ¹

- $55 Billion in health and social costs related to prescription opioids abuse each year
- $20 Billion in ER services and inpatient care for opioid poisonings

¹. CDC
Opioids and WC Statistics

• Overdose rate is highest among people of working age

• $1.5 Billion spent on opioids by WC Insurers in 2015

• Prescriptions for injured workers account for 13% of total opioid pharmacy costs in the U.S.

• 55% - 85% of injured workers across the country receive narcotics for chronic pain relief

1. CompPharma Survey
2. WCRI study
Opioids and WC Statistics

• Accident Fund Holdings Study
  – Analyzed more than 12,000 WC claims
  – Claims with opioid was 4x more likely to have total cost exceeding $100,000

• WCRI Study
  – Short – term claims: opioids make up 3% of costs
  – Longer – term claims: opioids make up 15% -20% of total cost

• Washington State Department of Labor
  – Receiving more than a one week supply of opioids or two or more opioid prescriptions soon after an injury doubles a worker’s risk of disability at one year post injury, compared with workers who do not received opioids
What Is Being Done - National Response

- Release of industry-specific guidelines for prescribers in the appropriate use of opioids for the treatment of pain specific to workplace injuries

- Pharmacy Benefits Managers (PBM) are almost universally used by payors as partners in controlling inappropriate opioid prescription

- Comprehensive Addiction Recovery Act of 2016

- CDC published “Guideline for Prescribing Opioids for Chronic Pain”
What Is Being Done – State Response

• Guidelines have been adopted by some states into official regulation
• States have passed legislation
  ➢ Limiting the daily allowable dose and day’s supply of opioid prescription
  ➢ Requiring physical examination of patient before prescribing medication
  ➢ Prohibiting doctor shopping
  ➢ Regulating pain management clinics
• Several states’ WC bureaus have passed new rules to deny reimbursement for opioid prescriptions in certain cases
What Is Being Done – Other WC Stakeholders Response

• Using predictive algorithms and behavioral health screens to assess an individual’s risk for dependency

• Developing proactive strategies for managing injured workers’ safe and timely return to work

• Training session for employees on prescription drug abuse

• Some employers are establishing health centers with full-time pharmacists to guide workers to alternative pain treatment
Are The Efforts Working?

Several studies have shown some improvements made as result of these efforts

- WCRI released new study “*Longer-Term Dispensing of Opioids, 4th Edition*”
  - Decrease in the frequency of claims resulting in chronic opioid therapy
  - Decrease in the amount of opioids received by injured workers per claim

- Study released by Mitchell Pharmacy Solutions showing possible positive effect of the CDC guidelines
  - Drop in proportion of opioid prescriptions with length of supply greater than 7 days
  - Decrease in prescription of long-acting opioids as the 1st opioid prescription
  - Decrease in concurrent prescription for opioids and benzodiazepines
Are The Efforts working?

STATE SUCCESSES: Decreases in Opioid Prescribing

Average Morphine Milligram Equivalents (MME)* per person decreased in most counties in Florida, Ohio, and Kentucky from 2010 to 2015.

These states have regulated pain clinics and set requirements for their state’s PDMP.

PDMP, Prescription Drug Monitoring Program, is a state-run electronic database used to track the prescribing and dispensing of controlled prescription drugs to patients.

- Florida: 80% of counties decreased
- Ohio: 85% of counties decreased
- Kentucky: 62% of counties decreased

* MME is a way to calculate the amount of opioids, accounting for differences in opioid drug type and strength.

www.cdc.gov/vitalsigns/opioids
Class Mix - Construction
Construction Industry’s Gross Output as a Percent of All Industries

Bureau of Economic Analysis – Gross Output by Industry.
Increases in Employment and Wages by Sector

Presented in NCCI AIS 2017. Based on NCCI and Moody’s data.
Impact of Construction Industry Increases

• Significant growth in construction

• All based on data observed prior to Trump administration
  – Trump Infrastructure Plan: $1 trillion over 10 years
  – Administrative orders streamlining approvals

• Can industry analytics handle the increase in serious claims?
Affordable Care Act
ACA and Workers Compensation

Figure 1.1. Percentage of persons of all ages without health insurance coverage at the time of interview: United States, 1997–2016

Data Source: NCHS, National Health Interview Survey
Does increase in insured population affect WC claim filing behavior?

Some empirical research supports the notion that health insurance coverage make people less likely to file for WC

- *Biddle & Roberts (2003)* surveyed MI workers identified by physicians as likely to file WC claims
  - 36% of those that did not file cited having health insurance as reason for not filing WC Claims

- *Dillender (2015a)*, compared workers in TX just before and after turning 26 (age at which young adults lose access to dependent coverage under ACA)
  - Found that immediately after people turned 26, initial claims filed for injuries with easy-to-delay reporting increased

- *Heaton (2012)* studied impact of MA health insurance reform on WC
  - Found 2006 healthcare reform resulted in WC paying for 5%-10% fewer ER medical bills
Does increase in insurance coverage put too much stress on existing medical resources?

- NCCI conducted a study comparing experience of states with Medicaid expansion and those without expansion

- The study concluded that ACA does not have a visible state-level impact on primary care intensity in WC
ACA and Workers’ Compensation

ACA’s goal of improving wellness could have impact on WC if it leads to lower comorbidity incidences.

According to NCCI, comorbidities particularly relevant to WC are

- Obesity
- Hypertension
- Diabetes
- Pulmonary conditions
- Drug abuse

NCCI’s research suggests that a reduction in U.S. obesity rate from 35% to 25% may reduce WC medical cost by 3%-4%
Challenges to the Workers’ Compensation System
Constitutional Challenges

Common Issues to Challenge

• Attorney Fees
• Unchanged Fixed Caps
• Opt-Out

Routes for Challenge

• Exclusive Remedy
• Separation of Powers
Questions
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Join Pinnacle Principal and Consulting Actuary Rob Walling and Tennessee Department of Insurance’s Ben Whitehouse as they discuss the multiple facets of captive insurance regulation, including the application process, business plan changes, financial reporting and exams, service-provider regulations and more.
Final notes

• We’d like your feedback and suggestions
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Thank You for Your Time and Attention

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