Workers' Compensation Practice Group
SPOTLIGHT on Workers' Comp

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NCCI Describes State of the Workers' Compensation Line as 'Encouraging.' How does this outlook affect workers' compensation claim handling?

The National Council of Compensation Insurance (NCCI) provides workers' compensation insurance and employee injury data to more than 900 insurance companies and nearly 40 state governments.

NCCI presented its annual "State of the Line" workers' compensation market analysis for 2012 at its Annual Issues Symposium in Orlando, Fla., on May 16 - 17, 2013. In opening remarks, NCCI President and CEO Steve Klingel described the current state of the market as "encouraging" noting that "the positives are beginning to outweigh the negatives."

Click here to view the complete State of the Line presentation. Audio of the annual State of the Line briefing by NCCI Chief Actuary, Dennis C. Mealy is available here.

Positive Developments in 2012

According to NCCI, the workers' compensation calendar year combined ratio for private carriers countrywide decreased to 109 percent. This was the first decrease in the calendar year combined ratio since 2006. Additionally, based on preliminary annual statement data from private carriers the workers' compensation accident year combined ratio in 2012 also decreased six-points to 108 percent.

The combined ratio measures underwriting profit and is calculated by dividing the sum of incurred losses and expenses and by earned premium. A combined ratio of 109 percent means that an insurer is underwriting at a loss because for every $1 in premiums received, $1.09 in claims and expenses are paid. Even if the combined ratio is above 100 percent, a company can potentially still make a profit from income received from investments. Investment results combined with underwriting results produced a workers' compensation pretax operating gain of 5 percent for 2012, an improvement following three years of near-zero operating gains or losses.

Interestingly, it is estimated that if California is excluded from the countrywide total, the workers' compensation calendar year combined ratio would be 107 percent.

The report contained additional causes for optimism:

- Net written premium countrywide increased to $39.63 billion in 2012 for private carriers and state funds. This 9 percent increase follows an 8 percent increase in 2011. One of the driving factors of the increase in the net written premium is an increase in payroll due to the improved employment landscape. Approximately 40 percent of the increase in premiums in 2012 is attributed to increases in rating bureau loss costs and rates, and a decline in carrier discounting. In the last filing cycle, NCCI filed 25 increases and 13 decreases, mostly for effective dates in 2013.

- The average indemnity cost per lost-time claim increased only 1 percent in 2012, which is less than the change in the U.S. average weekly wage. The data used to determine the workers' compensation indemnity claim costs is for states where NCCI provides ratemaking services and excludes high deductible policies.
- In 2012, the average medical cost per lost-time claim increased a modest 3 percent based on preliminary numbers in states where NCCI provides ratemaking services, but excludes high deductible policies. This change in the average medical cost per lost-time claim was less than the 2012 medical consumer price index (CPI).
- Lost-time claim frequency declined 5 percent on average in NCCI states. This was the first significant decline in claim frequency since 2009.

Challenges to the Workers' Compensation Line

Even with the improvements, workers' compensation is faced with some ongoing challenges:

- The combined ratio, while lower, still remains high.
- The pace of the economic recovery and slow growth in employment, particularly in the manufacturing and construction industries, is impeding additional premium growth. Manufacturing and construction remain below pre-recession levels, and these jobs generate approximately 35 percent of workers' compensation premium.
- Interest rates remain at historic lows and will eventually affect investment returns.
- There is potential for continued expansion of alternative systems to workers' compensation.
- In addition, the impact of the implementation of the Patient Protection and Affordable Care Act in 2014 looms as a huge uncertainty for the workers' compensation line.

Impact of Split-Point Change on Workers' Compensation Experience Modifications

Also addressed in the annual state of the line presentation was the impact of the split-point change on workers' compensation experience modifications.

NCCI filed to increase the $5,000 experience rating split-point over a three-year transition period for the first time in 20 years to more accurately reflect individual employer's claims experience as follows:

- $10,000 in 2013;
- $13,500 in 2014; and
- $15,000 adjusted for inflation in 2015 and thereafter.

The split point reflects both the frequency and severity of losses and is one of the key elements to formulating an individual experience rating modification. The amount of the incurred loss equal to or less than the split-point is the primary loss, which reflects frequency. The portion of the incurred loss in excess of the split-point is the excess loss, which reflects severity.

In total, 39 states have approved the split-point filing. Several independent rating bureau states are also adopting this split-point change.

- Click here for split-point change effective dates by state.
- Click here for frequently asked questions regarding the split-point change.

According to Dennis Mealey the impact of the split-point change has been as predicted at the time of the filings. Generally, employers with favorable loss experience are receiving larger experience modification credits. Conversely, employers with less than favorable loss experience are generally receiving larger experience modification debits. Page 60 of the annual "State of the Line" presentation includes details.

The NCCI's "The ABC's of Experience Rating" further explains the premise for the "split point":
http://www.ncci.com/media/pdf/abc_Exp_Rating.pdf

Our day-to-day delivery of excellent, cost-effective claims administration as claims professionals can have a positive impact on the results monitored by NCCI. While it is true that claims frequency has decreased over the last few years, medical and wage replacement continues to steadily increase albeit moderately.

Sedgwick is committed to ensuring that all claims are managed as efficiently as possible and offers a world of resources to achieve to the best possible outcomes including medical management and return to work services, recoveries, special investigations unit, Medicare set-asides and lien resolution services and structured settlements.