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Date: February 7, 2014

TO: MEMBERS, BOARD OF DIRECTORS

I. AGENDA ITEM # AND TITLE :	Open Agenda Item 7 – SB863 Update: WCIRB Perspective
II. NAME AND PROGRAM:	Dave Bellusci - WCIRB
III. ACTIVITY:	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
IV. JUSTIFICATION:	<input type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input checked="" type="checkbox"/> New Topic from Staff

V. EXECUTIVE SUMMARY:

Dave Bellusci, Executive Vice President and Chief Operating Officer, will present the WCIRB’s perspective on the status of SB 863 reforms, trends, and anticipated savings and results to date.

VI. ANALYSIS:

California WC costs were escalating out of control in the early 2000’s. Reforms in 2003 and 2004 improved costs dramatically and industry results improved. Judicial Decisions such as Ogilvie, Almaraz, Guzman and the lien industry drove loss costs back up.

SB863 had several provisions designed to address a number of these cost drivers. While it is pre-mature to fully know the impacts of SB863, early data suggests some aspects are emerging as expected while others may be less successful.

VII. RECOMMENDATION:

No action at this time.

VIII. PRESENTATION EXHIBITS: See attached deck

IX. APPENDIX: N/A

SB 863 Update – WCIRB Perspective

Dave Bellusci
WCIRB

State Compensation Insurance Fund Board of Directors Meeting
February 20, 2014
San Francisco, California
Open Agenda Item 7 – SB 863 Update: WCIRB Perspective

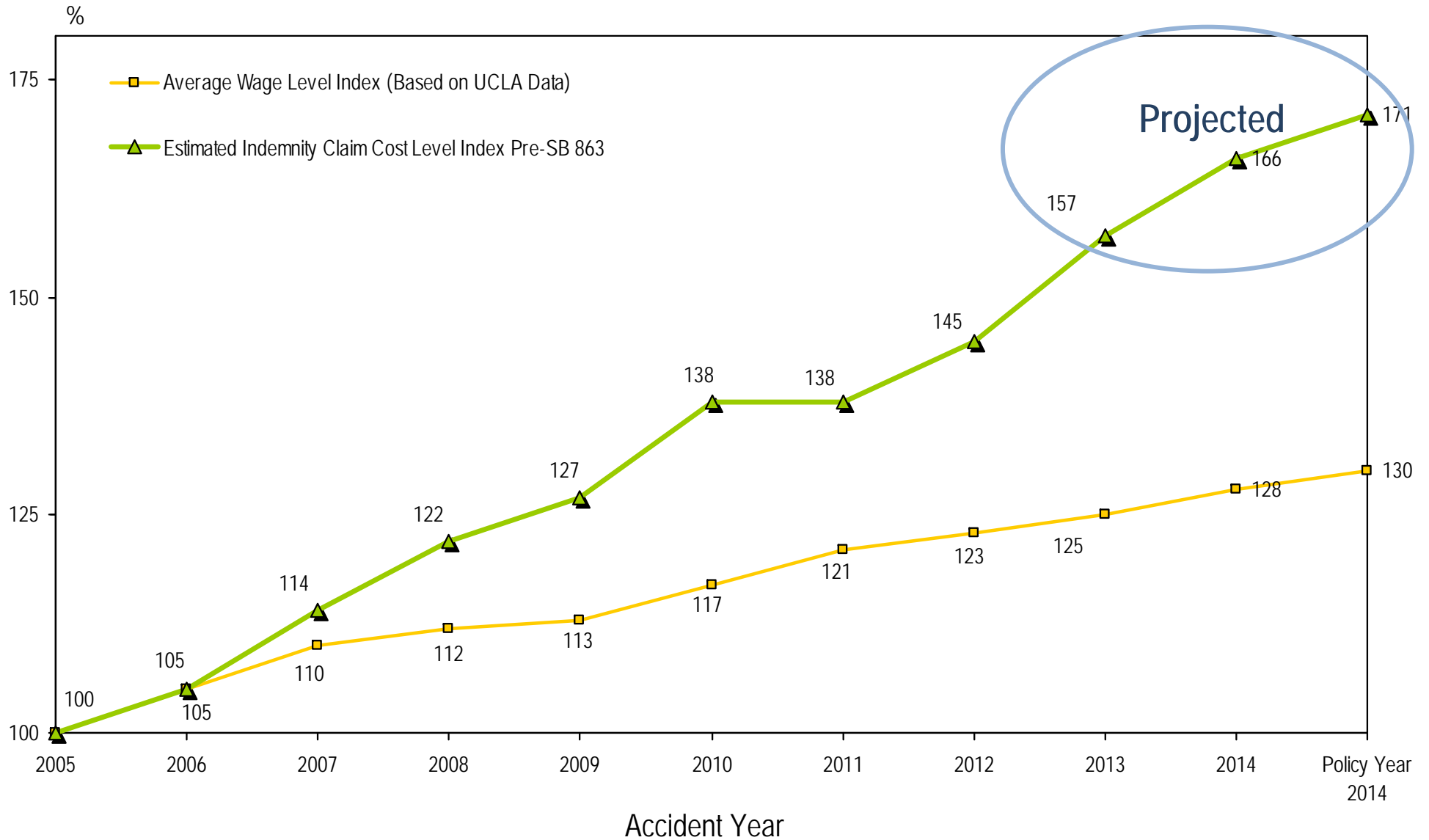
Pre-SB 863 Underlying Cost Trends - *Reforms of 2002 - 2004*

- Rapidly Escalating Costs Prior to Reforms of 2002 through 2004
- 3-Year Series of Reforms in 2002 through 2004
 - Evidence-based utilization standards
 - Unlimited employer control of medical within networks
 - Limits of physical therapy and chiropractic visits
 - New permanent disability rating schedule based on AMA Guides
 - 2-Year cap on temporary disability
 - Apportionment of permanent disability benefits
- WCIRB Retrospective Estimate of Savings: 66%, or \$14 Billion Annually in Statewide Costs
- Industry Average Rates Declined by Two-Thirds from 2003

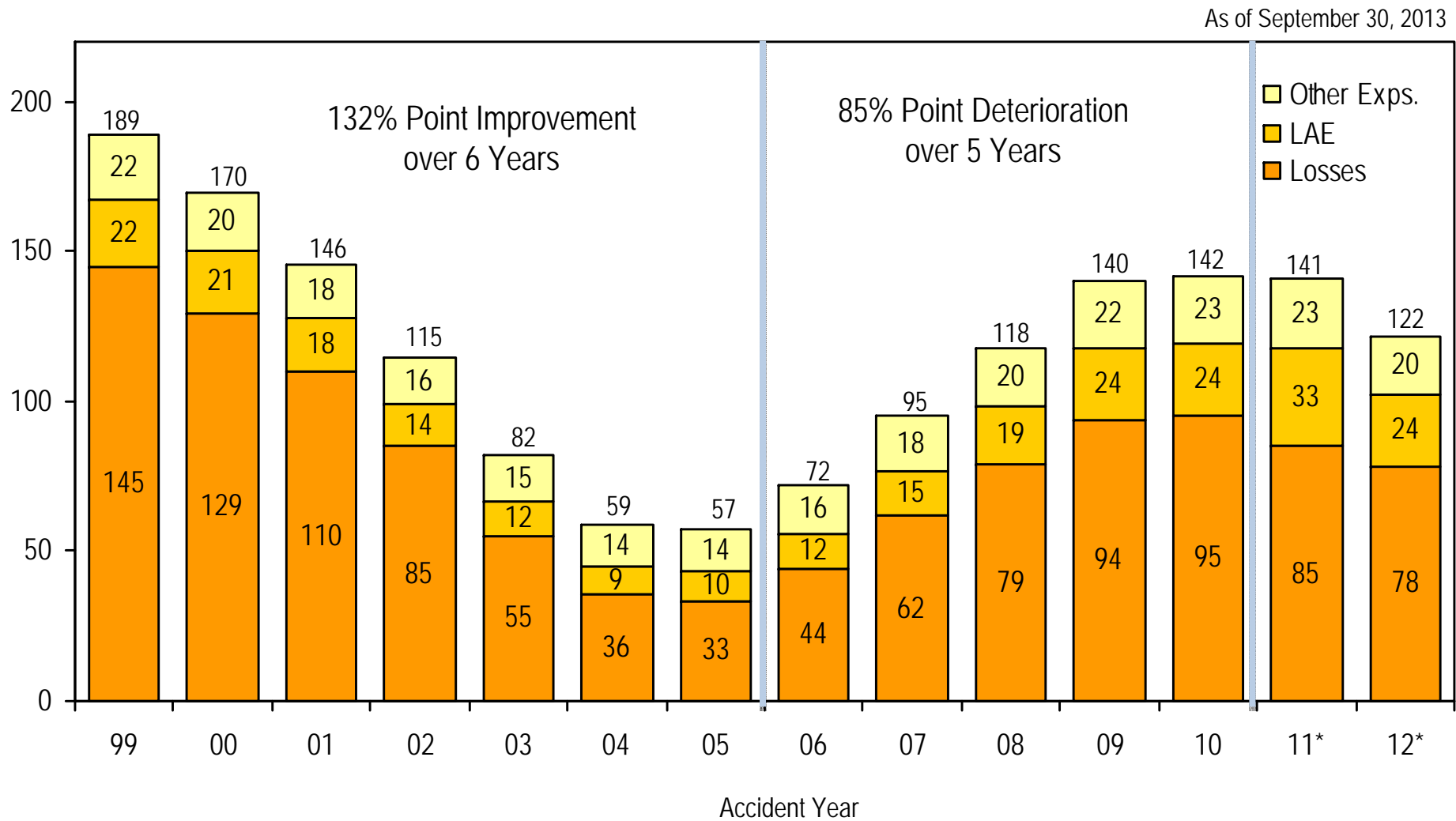
Underlying Cost Trends - *Erosion of Impact of Reforms of 2002 - 2004*

- Erosion of Reform Impacts Since 2005
 - Indemnity cost per claim up 40% since 2005
 - Medical cost per indemnity claim up 50% since 2005
 - ALAE cost per indemnity claim up almost 100% since 2005
 - Costs rising much quicker than underlying exposure
- Combined Ratios Increasing through 2010
- Industry Average Charged Rates up 35% since 2009
- Premiums Increasing

California Workers' Compensation Claims and Wage Level Index

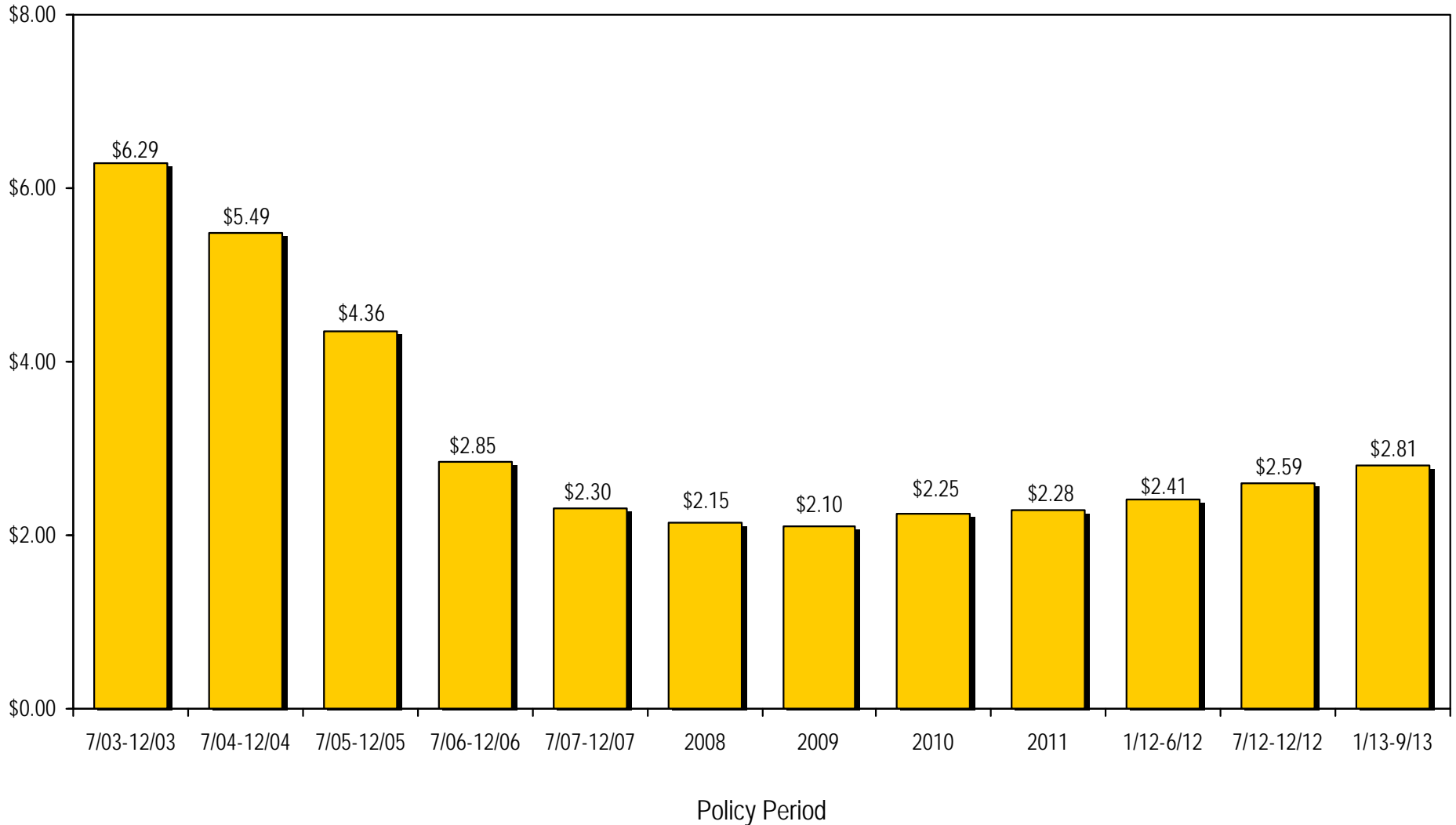


Accident Year California Projected Combined Loss and Expense Ratios

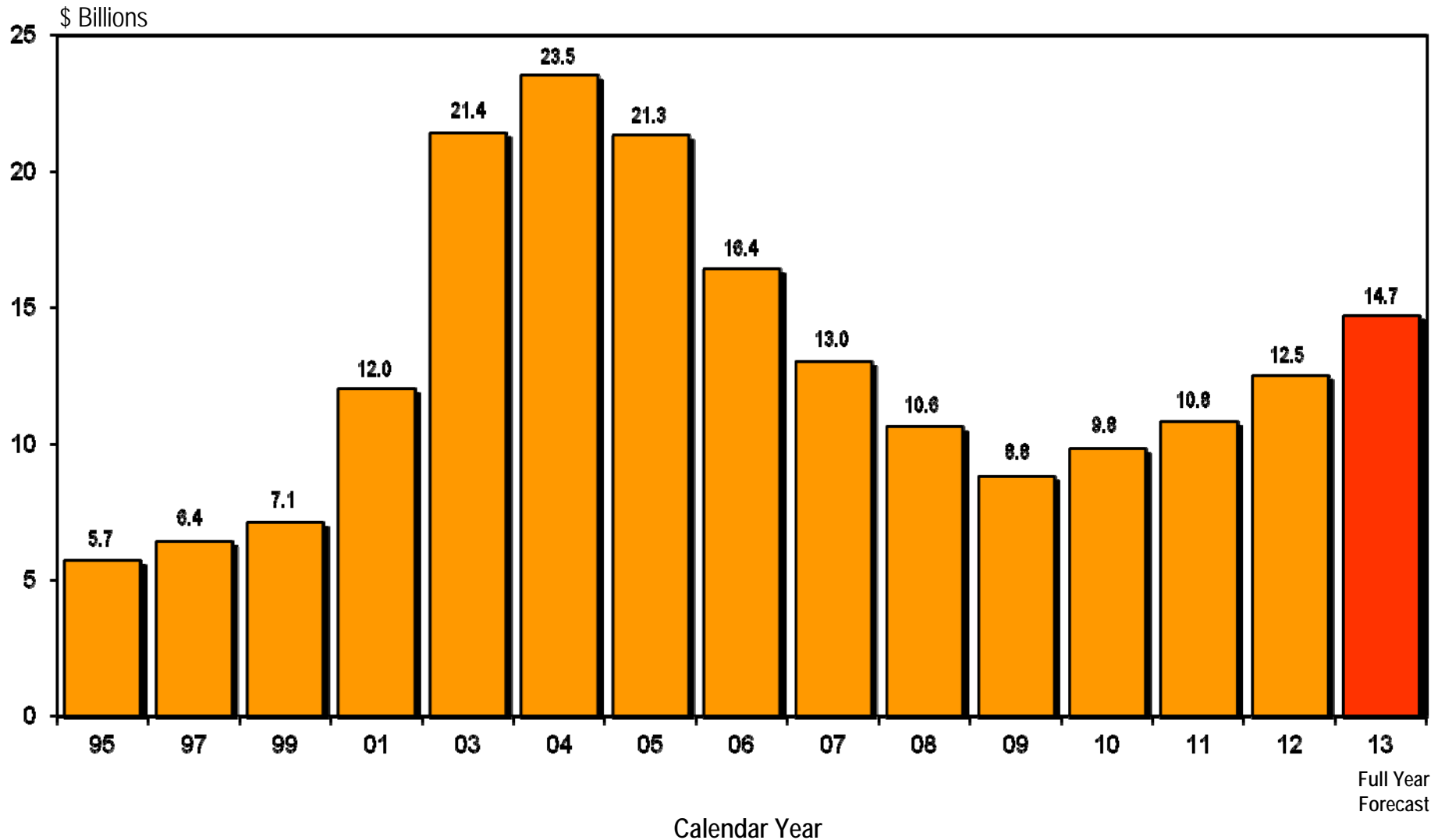


* The cost of medical cost containment programs is reflected in LAE for accident years 2011 and 2012. It is reflected in losses for all other accident years.

Estimated Average Charged Insurer Rate Per \$100 of Payroll



Reported Written Premium Gross of Deductible Credits



SB 863 Summary – Bill Provisions

- Signed by the Governor on September 18, 2012
- Includes Benefit Changes Effective 1/1/2013 and 1/1/2014
- Series of Structural Reforms to Benefit Delivery System
 - Provisions quantified based on available data and judgmental assumptions
 - Lien reforms
 - Independent medical review (IMR)
 - Permanent disability add-ons
 - Medical provider networks (MPNs) strengthening
 - Medical reimbursements
 - Future earning capacity adjustments (Ogilvie decision)
 - Other provisions not quantifiable at this time
 - Return-to-work program
 - New medical fee schedules
 - Independent bill review

WCIRB Cost Evaluation of SB 863 – Process

- WCIRB Requested by Insurance Commissioner and Director of DIR to Provide Preliminary Cost Assessments
- Final WCIRB Estimate Reflected in Amended 1/1/2013 Filing
- WCIRB Assessments Reflect
 - Review of legislative provisions
 - Consultation with experts
 - Review of relevant research and analyses
 - New actuarial analyses based on data and timeframes available
 - Judgmental estimates developed when there was consensus as to likely impact
 - Revisions as legislation changed or new information became available
- Establish Program to Proactively Monitor Emerging Costs

WCIRB Prospective Cost Evaluation of SB 863

Summary of WCIRB October 12, 2012 Estimates (\$'s in billions)

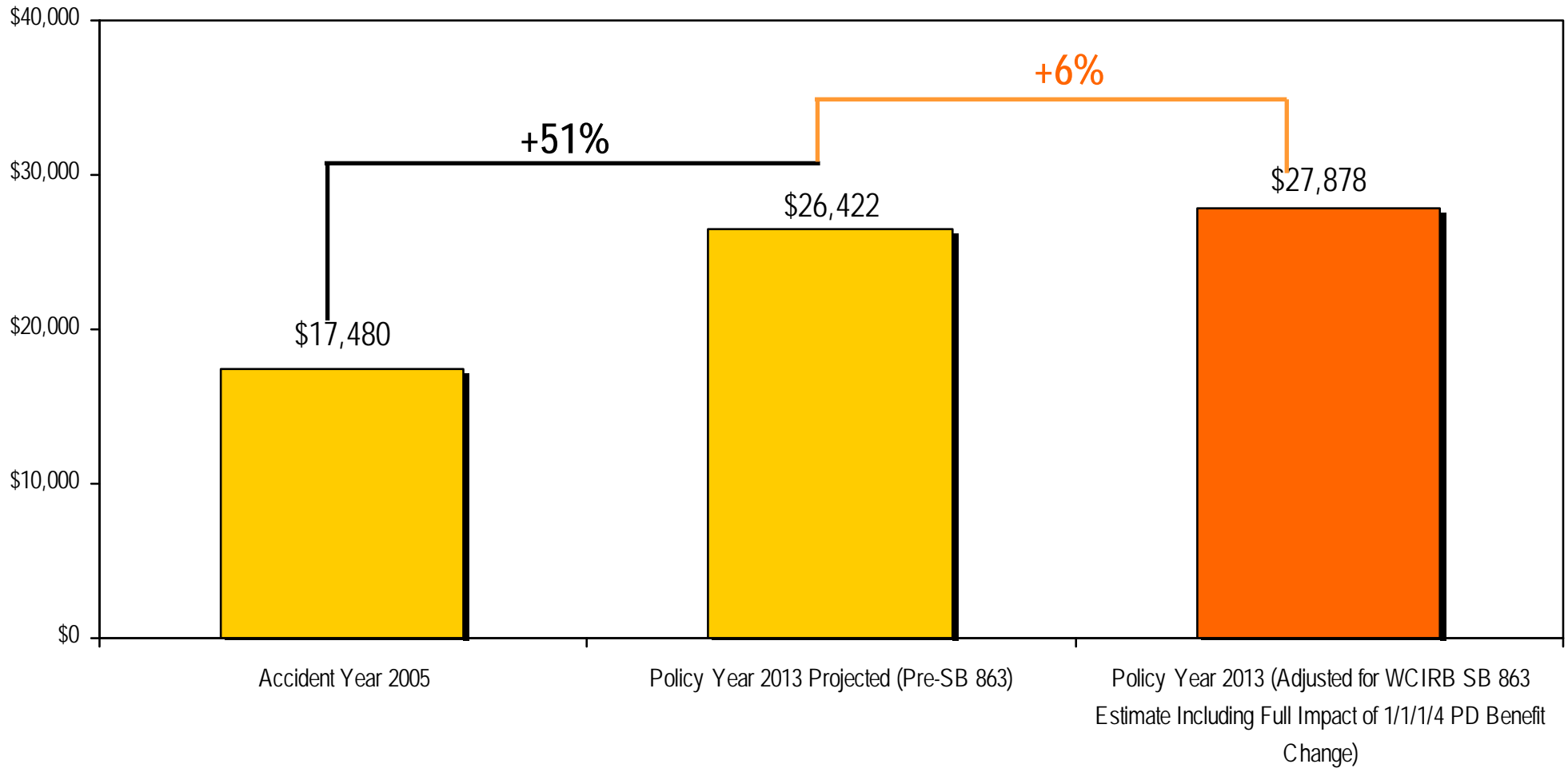
SB 863 Provisions	Impact on Statewide Claim Costs	% Impact on Claim Costs
2013 & 2014 PD Benefit Level Changes	+\$1.2	+6.4%
Elimination of PD Add-ons	(\$0.2)	-0.9%
Three-Tiered Weekly PD Benefits	(\$0.1)	-0.5%
Liens	(\$0.5)	-2.5%
Surgical Implant Hardware	(\$0.1)	-0.6%
ASC Fees	(\$0.1)	-0.4%
IMR (Impact on Frictional Costs & TD Duration)	(\$0.4)	-2.1%
<u>Ogilvie</u> Decision	(\$0.2)	-1.1%
MPN Strengthening	(\$0.2)	-1.0%
Total Estimated Impact of SB 863 (pre RBRVS)	(\$0.5)	-2.7%
RBRVS Fee Schedule	+\$0.3	+1.8%
Total Estimated Impact of SB 863 (post RBRVS)	(\$0.2)	-0.9%

Anticipated Post-SB 863 Trends – Indemnity

- Temporary Disability Duration
 - IMR and MPN provisions should accelerate claims process & reduce TD duration
- Ogilvie and Almaraz/Guzman
 - Effectively eliminates Ogilvie adjustments
 - Does not address Almaraz/Guzman
- Permanent Disability Rating Disputes/Litigation
 - Eliminates PD rating “add-ons” and 3-tiered benefit system
 - FEC factor replaced by 1.4 adjustment
- Increased Indemnity Claim Frequency Partly Driven by Cumulative Injury Increase
 - Not addressed by SB 863

WCIRB Projected Indemnity Cost Change After SB 863 Adjustments

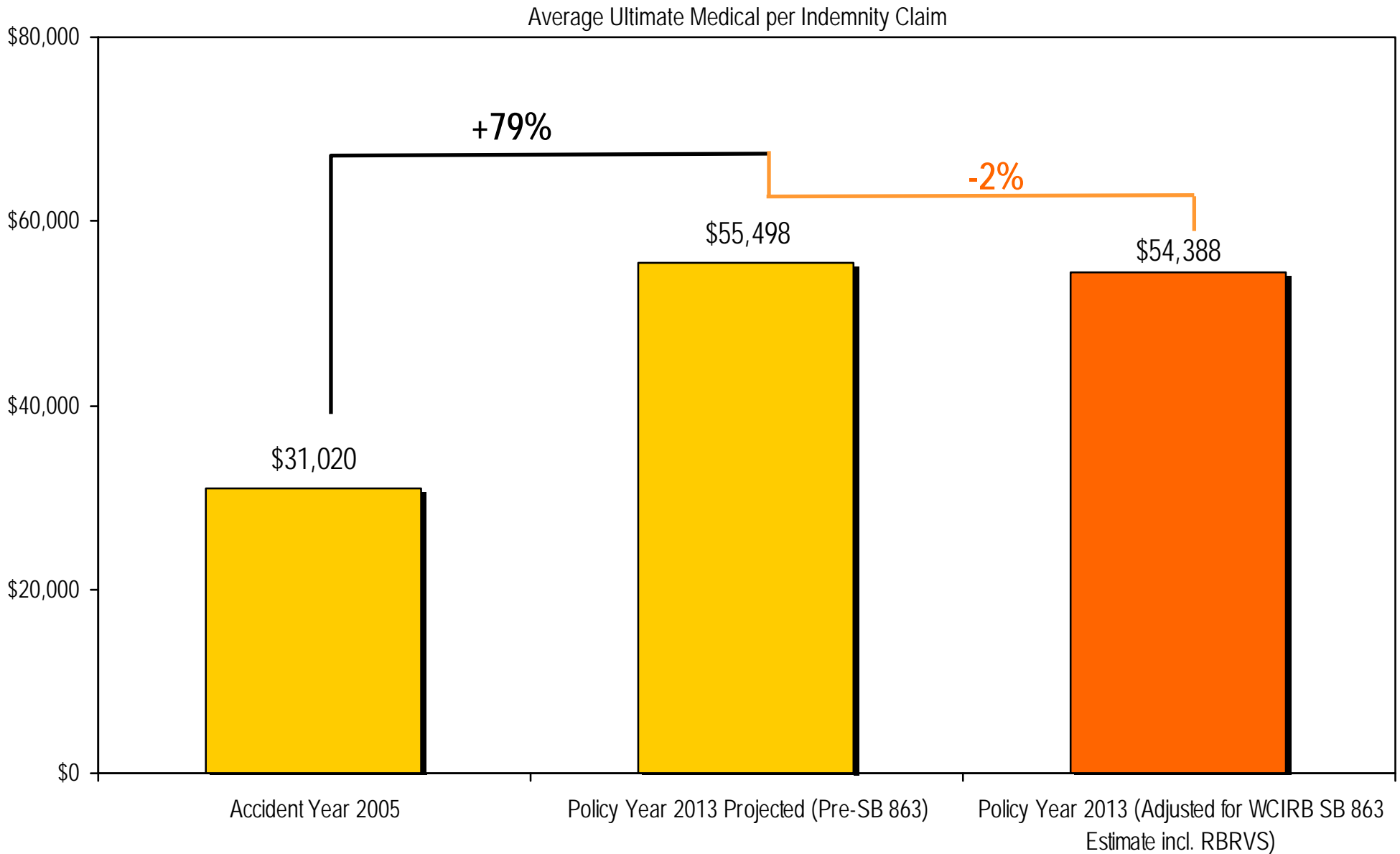
Average Ultimate Indemnity per Claim



Anticipated Post-SB 863 Trends – Medical

- Medical Treatment Costs
 - ASC fees, surgical implant hardware, and MPNs provisions should reduce costs
 - IMR process should reduce medical treatment disputes (impact on medical costs uncertain)
 - New fee schedules and conversion to RBRVS (impact on medical uncertain)
- Medical Liens
 - Filing fee and statute of limitations should materially reduce volume and cost
- Medical-legal Costs
 - IMR process should reduce medical-legal disputes and cost
- Pharmaceutical Costs and Medicare Set-asides
 - Not addressed by SB 863

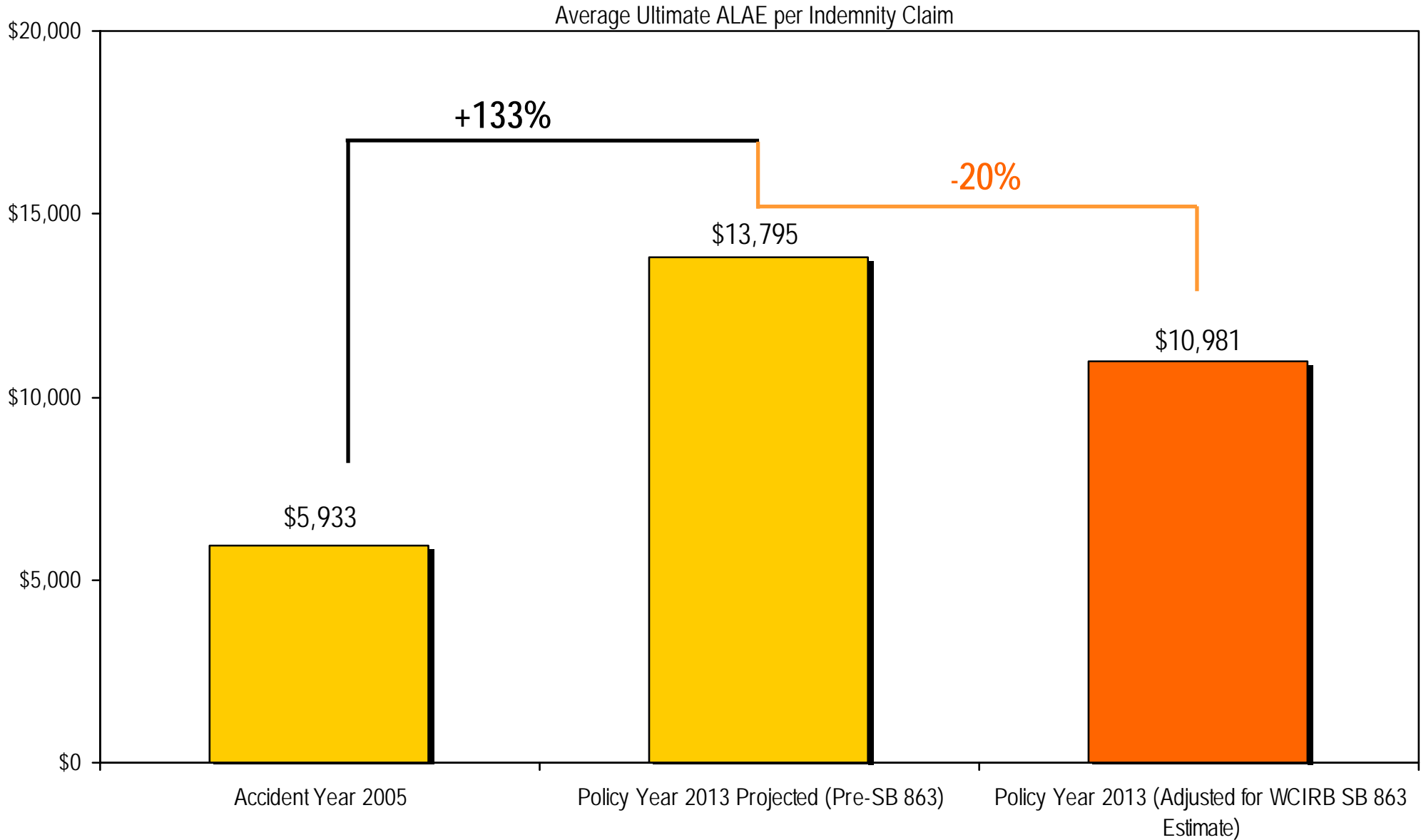
WCIRB Projected Medical Change After SB 863 Adjustments



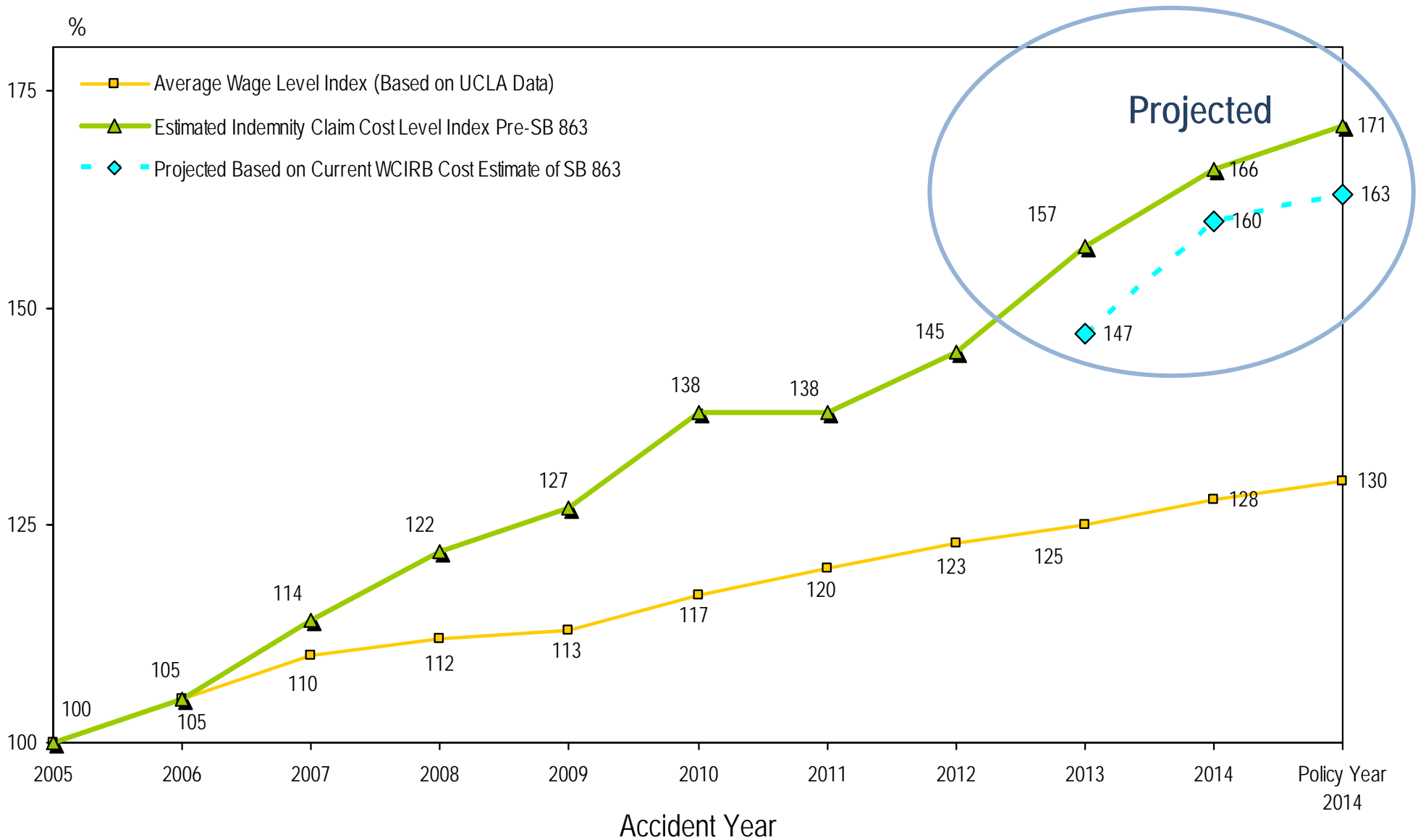
Anticipated Post-SB 863 Trends – ALAE

- Liens
 - Lien filing fee and statute of limitations should significantly reduce volume and cost of liens
 - IMR should reduce lien costs related to utilization review
- Ogilvie and Almaraz/Guzman
 - SB 863 effectively eliminates Ogilvie
 - Does not address Almaraz/Guzman
- Medical cost containment
 - Not directly addressed although IMR process may reduce frictional costs related to medical disputes
- Increases in Cumulative Injury Claims and Claims with Multiple Body Parts
 - Not addressed by SB 863

ALAE Projections – After SB 863 Adjustments



California Workers' Compensation Claims and Wage Level Index

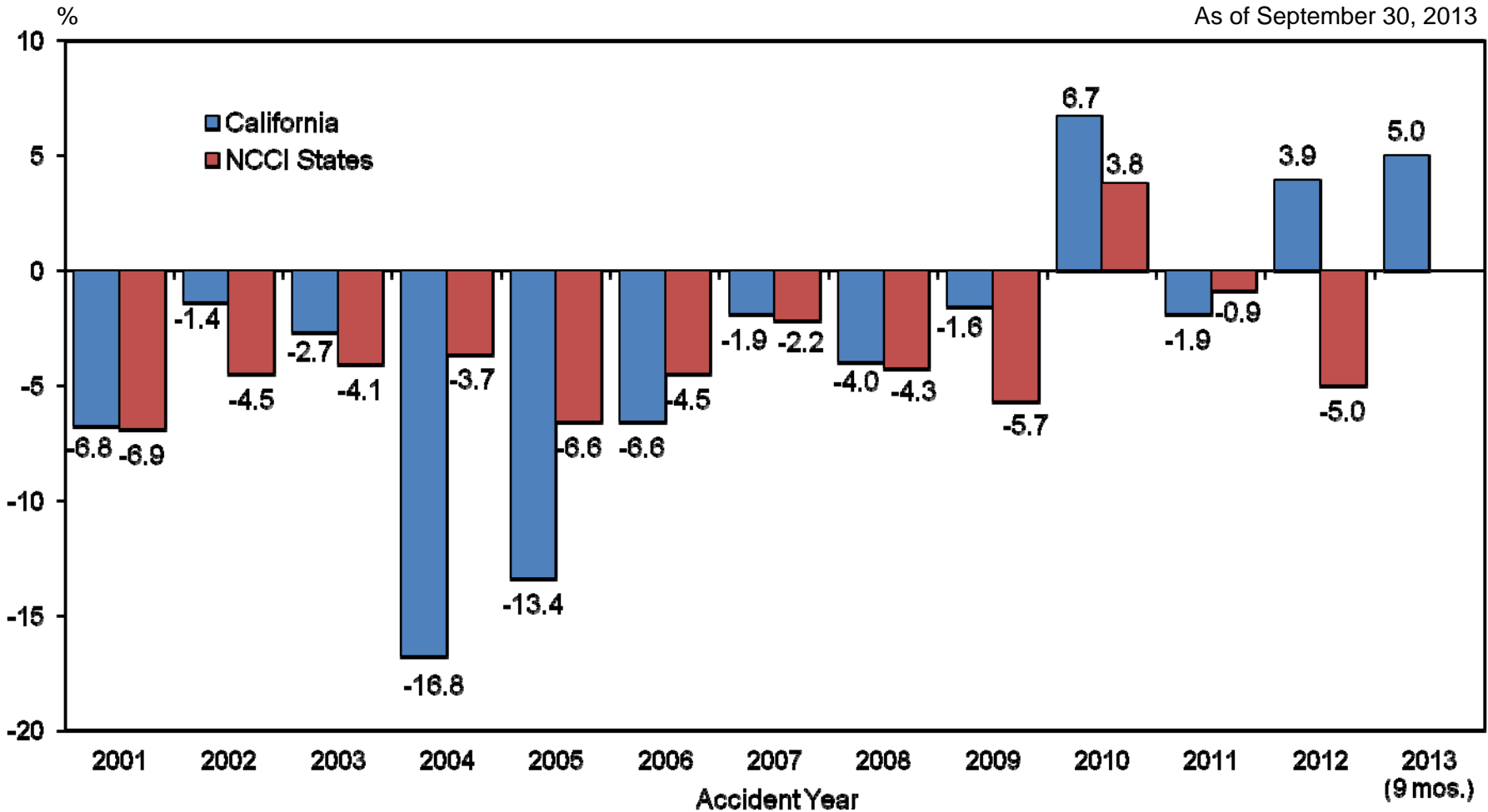


WCIRB SB 863 Cost Monitoring

Indemnity Claim Frequency – WCIRB Prospective Estimate

- Impact of SB 863's PD Benefit Increases on Frequency Estimated to Increase Costs by 1.1% (\$200M)
- Accident Year 2013 Frequency Initially Projected to Increase by 1.0% Based on WCIRB Frequency Model
- Preliminary 2013 Indication: +5%

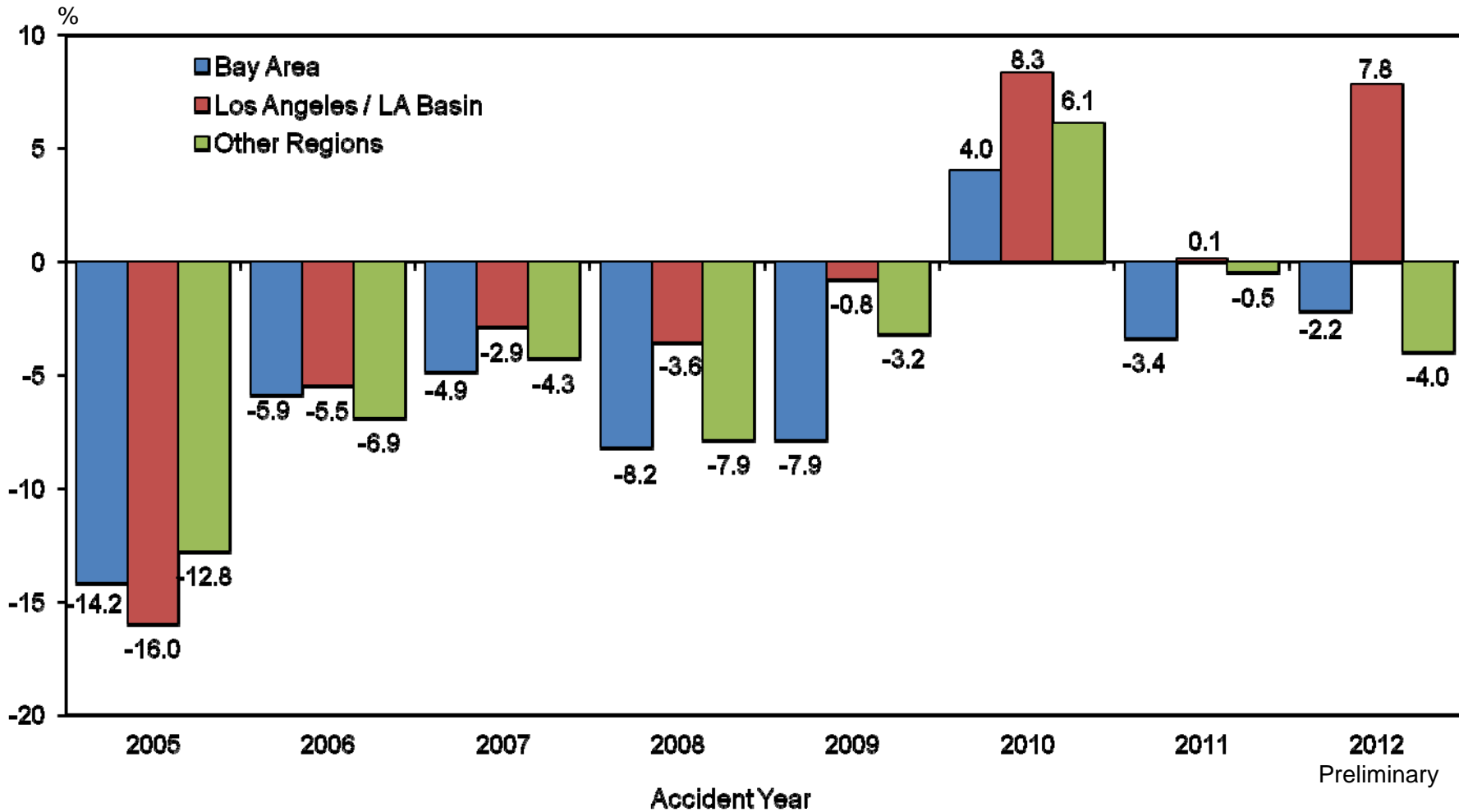
Change in Estimated Indemnity Claim Frequency – California vs. NCCI States



Source: WCIRB Unit Statistical Data (2001-2011) and Aggregate Data Calls (2012-2013)

NCCI estimates are based on May 16, 2013 State of the Line Presentation (NCCI 2012 estimate is preliminary and the 2010 and 2011 estimates have been adjusted to remove the impact of audit premium and other factors).

Estimated Frequency Changes by Geographic Region USR 1st Report Level



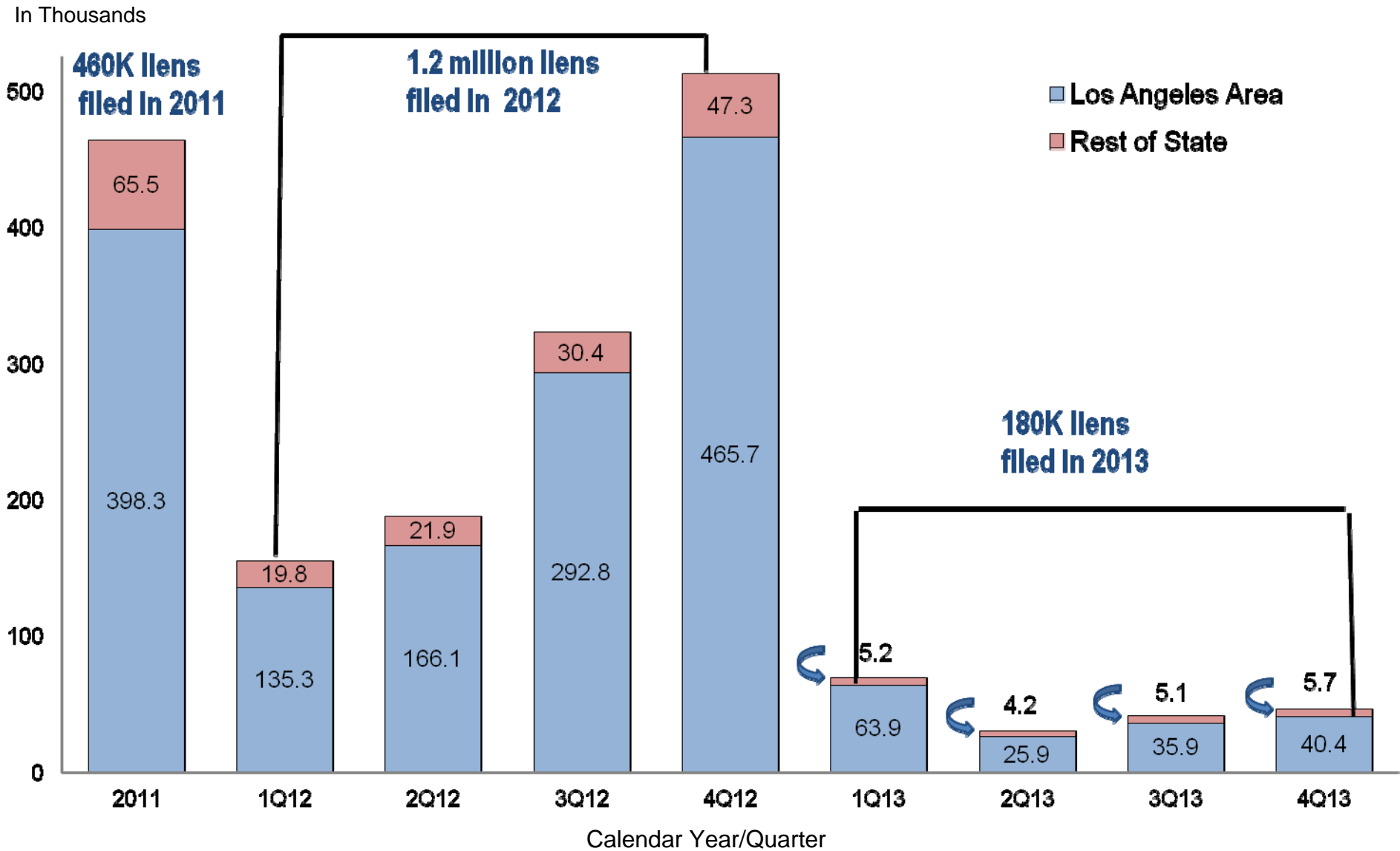
Change in Indemnity Claim Frequency 2010 Compared to 2012

	2010 Frequency Change	2012 Frequency Change
Comparison to Countrywide	California Consistent with National Trends	California Differs from National Trends
Impact of Recession	Increase in Cumulative Injuries (not Filed During Recession)	Increase in Newly-Hired Workers During Recovery
Industries Most Affected	Sectors Most Impacted By Recession (e.g., Construction, Real Estate)	Broad-Based (e.g., Manufacturing, Entertainment, Other Industries)
Regions Most Affected	Broad-Based Across all California	Isolated to Los Angeles Area Regions
Claims Most Affected	Smaller Indemnity Claims that May Otherwise Have Been Medical-Only	Larger Permanent Disability Claims, Many Involving Multiple Body Parts
Shifting Industrial Mix	Loss of Construction Employment Significantly Dampening Frequency	Reversal of Dampening Impact During Recovery

WCIRB SB 863 Cost Monitoring Liens – WCIRB Prospective Estimate

- Total Impact of SB 863 Lien Provisions Estimated to Decrease Costs by 2.5% (\$480M)
- Assumed 260,000 Liens (41%) Eliminated by Filing Fee and Statute of Limitations

Liens Filed Counts by Region



Source: EAMS Liens Data

WCIRB SB 863 Cost Monitoring

Spinal Surgical Implant - WCIRB Estimated Cost Impact

- Elimination of Separate Reimbursements for Implantable Hardware Estimated to Decrease Costs by 0.6% (\$110M)
- Estimate Based on CWCI Study of Multiple Reimbursements
 - Duplicate payments added \$20,000 to each procedure
- Post-Reform Emerging Costs - Calculated Billed and Paid Amounts for the 7 DRGs Pre- and Post-1/1/13

	# Episodes	% DRGS 454 & 455	Total \$ Paid	Avg. \$ Paid Per Episode
Pre-1/1/13	214	84%	\$5,870,125	\$27,430
Post-1/1/13	52	85%	\$628,504	\$12,087
Change				-56%

WCIRB SB 863 Cost Monitoring

Ambulatory Surgical Center – WCIRB Estimated Cost Impact

- Changes to ASC Fees Estimated to Decrease Costs by 0.4% (\$80M)
- Some ASC Fees Reimbursed Under Contract Levels Below Current Fee Schedule
- Assumed Reduction in ASC Facility Fees of 25%
- Post-Reform Emerging Costs - Examined ASC Episodes of Care for the 30 Most Highly Reimbursed Procedure Codes (67% of All ASC Costs)

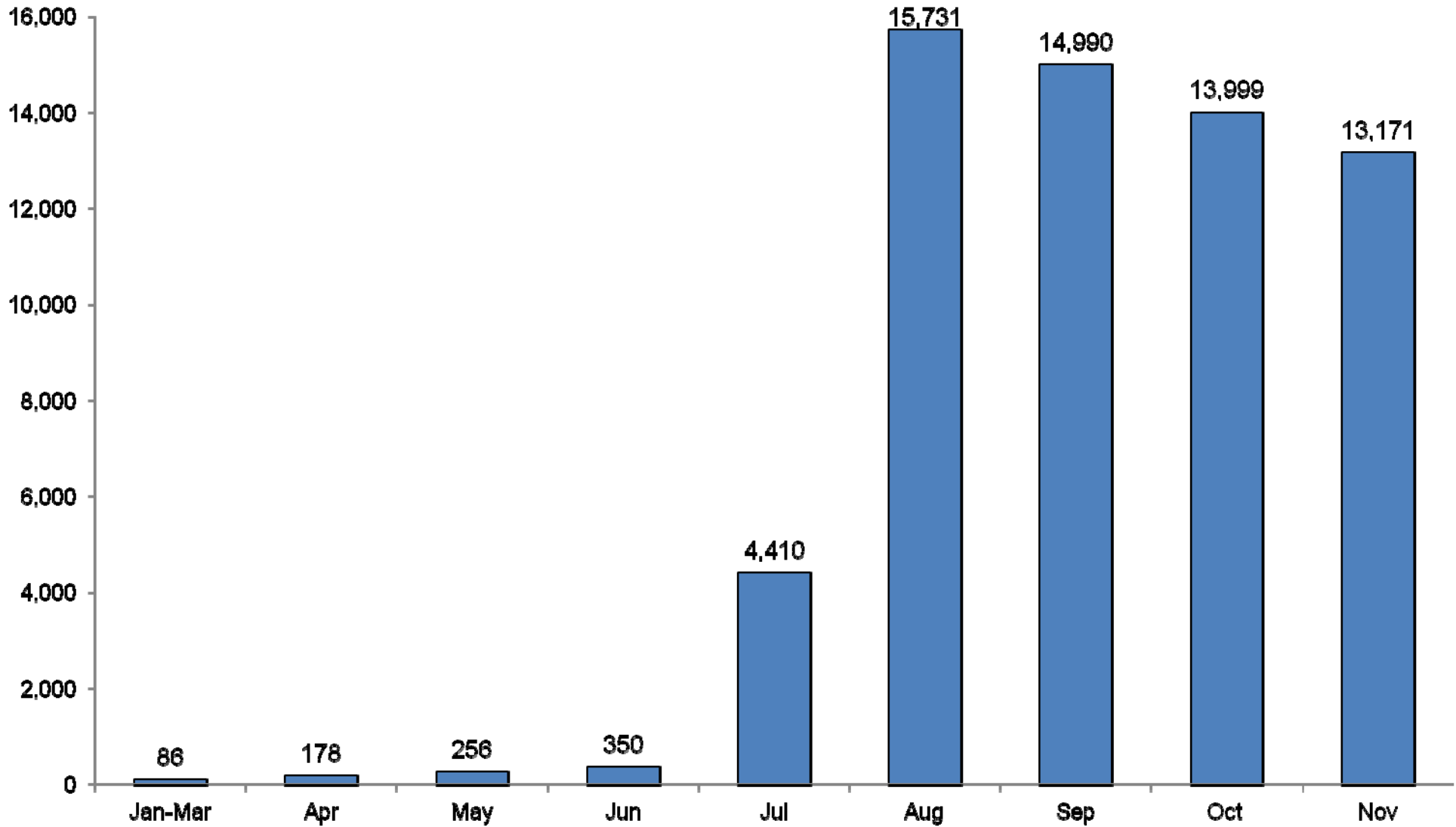
ASC Surgeries Top 30 Paid Codes	% of all ASC \$ in Top 30 Codes	# of Episodes	\$ Paid	\$ Paid per Episode
Services Pre-1/1/13	65%	11,435	\$37,628,741	\$3,291
Services Post-1/1/13	68%	5,497	\$13,430,373	\$2,443
Change				-26%

WCIRB SB 863 Cost Monitoring

Independent Medical Review – WCIRB Prospective Estimate

- Total Quantifiable Impact of SB 863 IMR Provisions Estimated to Decrease Costs by 2.1% (\$390M)
- IMR Frictional Cost Saving Assumptions
 - 30,000 medical liens for UR disputes replaced by IMR reports
 - 21,000 QMEs for medical treatment replaced by IMR reports
 - 9,000 expedited hearings eliminated
- Reduction in Delays for Medical Treatment Assumed to Reduce TD Duration & Litigation
- No Estimate for IMR Impact on Medical Treatment Levels Provided

Number of IMR Requests by Month








Source: DWC

WCIRB SB 863 Cost Monitoring

WCIRB Cost Evaluation of SB 863

Summary of Estimates (\$'s in billions)

SB 863 Provisions	WCIRB Prospective Cost Estimates (Impact on Statewide Claim Costs)	Preliminary Monitoring Results (Impact on Savings Estimates)
2013 & 2014 PD Benefit Level Changes	+\$1.2	
Elimination of PD Add-ons	(\$0.2)	TBD
Three-Tiered Weekly PD Benefits	(\$0.1)	TBD
Liens	(\$0.5)	
Surgical Implant Hardware	(\$0.1)	
ASC Fees	(\$0.1)	
IMR (Impact on Frictional Costs & TD Duration)	(\$0.4)	
<u>Ogilvie</u> Decision	(\$0.2)	TBD
MPN Strengthening	(\$0.2)	TBD
IMR (Impact on Medical Treatment)	TBD	TBD
IBR	TBD	TBD
RBRVS Fee Schedule	+\$0.3	TBD