



Florida Workers Compensation 10/1/2016 Law-Only Rate Filing Overview— Actuarial Analysis

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Components of the Rate Indication

Component	Impact
<i>Castellanos</i> (First-Year Impact)	+15.0%
Medical fee change (SB 1402)	+1.8%
<u><i>Westphal</i></u>	<u>+2.2%</u>
Overall:	+19.6%

Note: Figures are multiplicative, not additive



Proposed Implementation of the October 1, 2016 Rate Filing

- The combined impact of the filing components is +19.6%
- NCCI proposes that the increased rates will apply to new and renewal policies that are effective on or after October 1, 2016
- Additionally, NCCI proposes that the increased rates will apply to all policies in effect on October 1, 2016 on a pro-rata basis through the remainder of the term of these policies

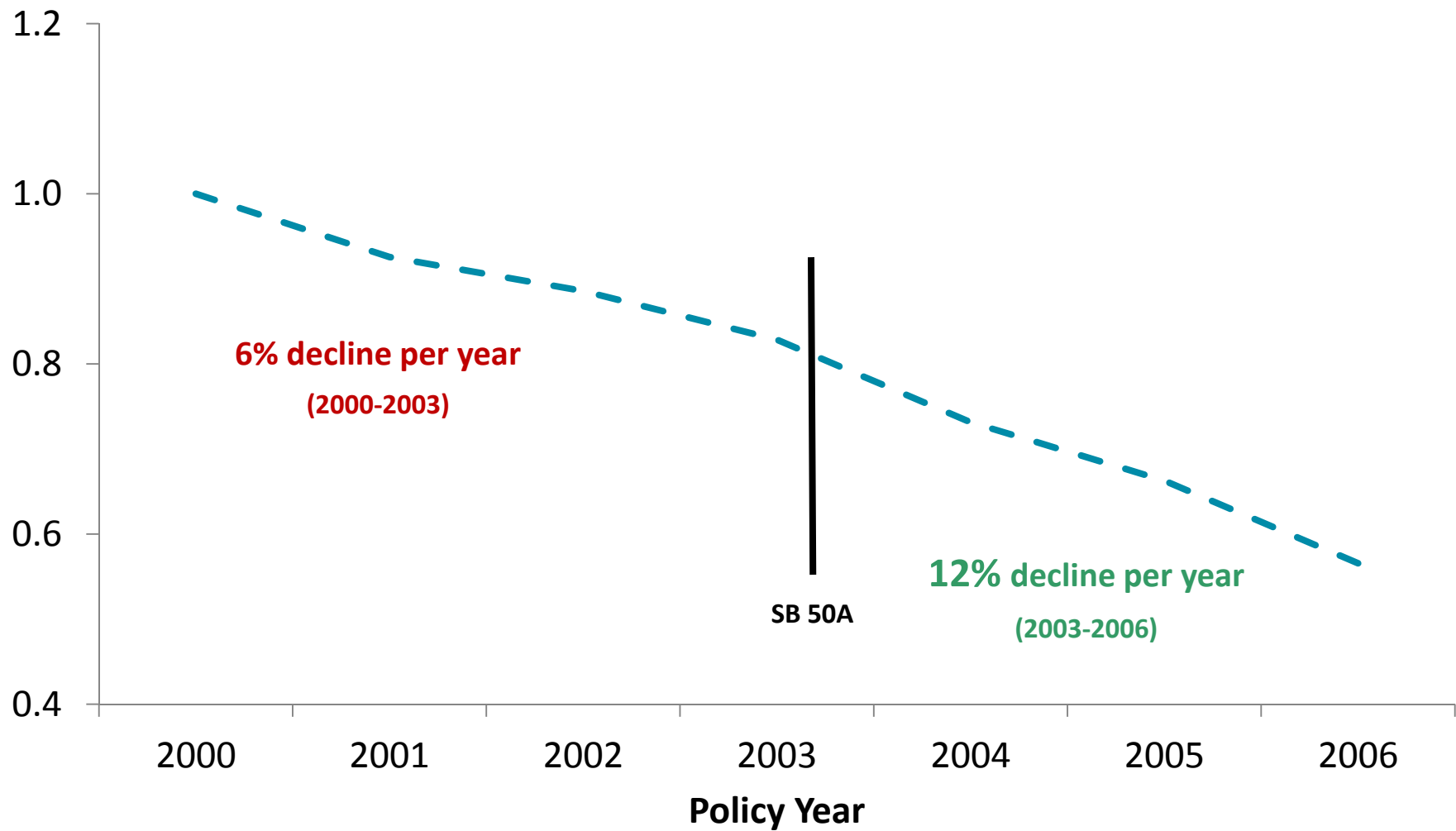


Actuarial Analysis—*Castellanos*

- An examination of system costs pre- and post-SB 50A was completed
- Two independent data sources underlie the actuarial analysis:
 - Financial Call data
 - Detailed Claim Information data

Change in Florida's Average Pure Loss Cost

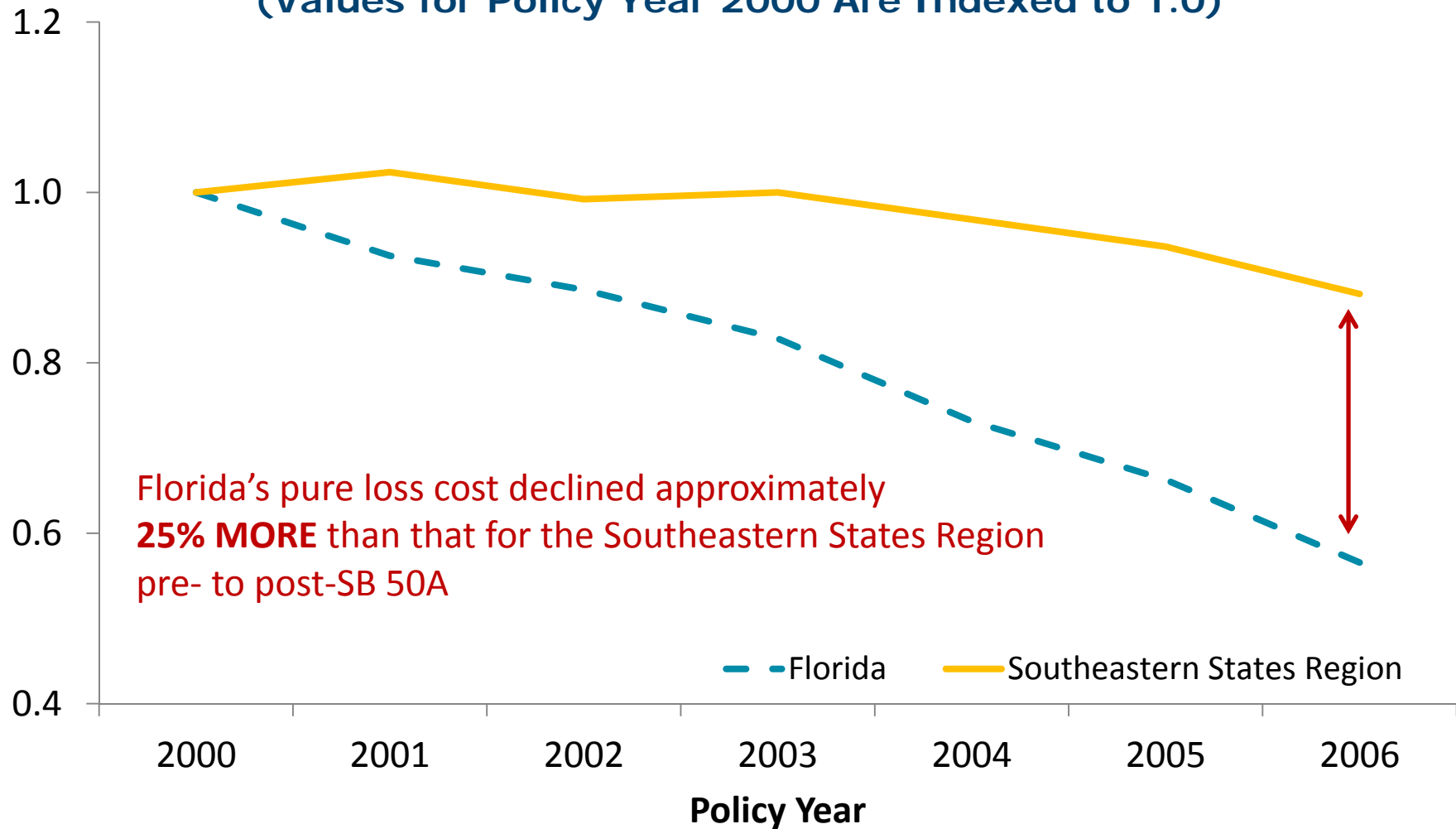
(Values for Policy Year 2000 Are Indexed to 1.0)



Relative Changes in Average Pure Loss Costs

Florida vs. Southeastern States Region*

(Values for Policy Year 2000 Are Indexed to 1.0)



Florida's pure loss cost declined approximately **25% MORE** than that for the Southeastern States Region pre- to post-SB 50A

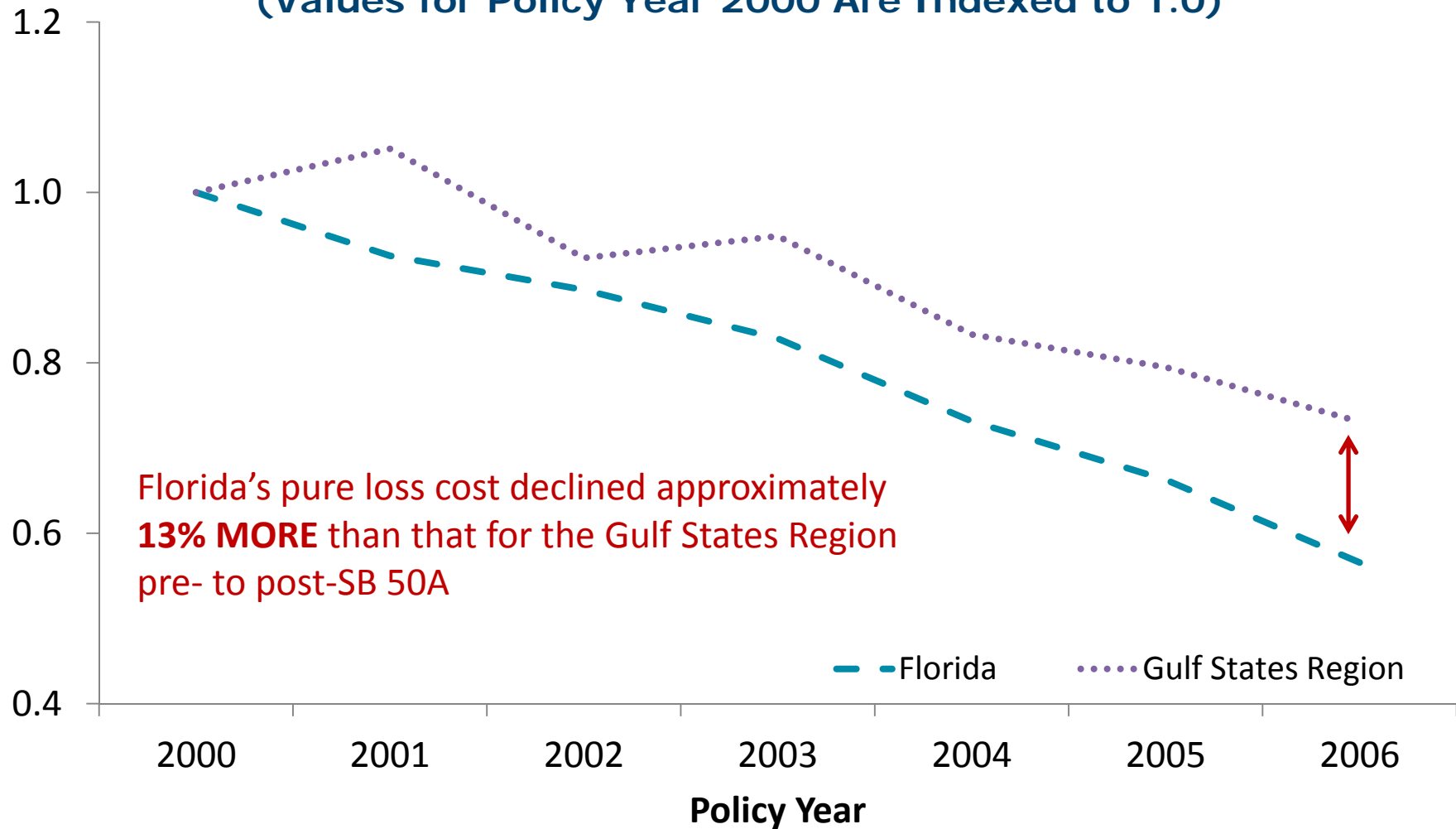
*Southeastern states are: AL, GA, LA, MS, NC, SC, and TN.



Relative Changes in Average Pure Loss Costs

Florida vs. Gulf States Region*

(Values for Policy Year 2000 Are Indexed to 1.0)



Florida's pure loss cost declined approximately **13% MORE** than that for the Gulf States Region pre- to post-SB 50A

*Gulf states are AL, LA, and MS.



Actuarial Analysis—*Castellanos* Financial Data

- Florida's average pure loss cost declined more than 30% pre- to post-SB 50A, over and above the originally-estimated impact of SB 50A (excluding the attorney fee provision)
- The decline in Florida's average pure loss cost OVER AND ABOVE that observed in the region:
 - Florida's pure loss cost declined approximately 25% MORE than the Southeastern States* Region
 - Florida's pure loss cost declined approximately 13% MORE than the Gulf States* Region

*Southeastern states are: AL, GA, LA, MS, NC, SC, and TN.
Gulf states are AL, LA, and MS.



Actuarial Analysis—*Castellanos* Financial Data

Returning to a pre-SB 50A attorney fee environment and reversing these observed declines, would increase Florida's workers compensation rates by the following percentages:

Pre- to Post-SB 50A	Southeastern States* Comparison Rate Impact	Gulf States* Comparison Rate Impact
'00/'02 to '05/'06	+37.5%	+16.7%
'01/'02 to '05/'06	+33.4%	+13.8%

*Southeastern states are: AL, GA, LA, MS, NC, SC, and TN.
Gulf states are AL, LA, and MS.



Actuarial Analysis—*Castellanos* Detailed Claim Information Data

- Florida's average benefit costs for claims with attorneys declined more than 25% pre- to post-SB 50A
- Returning to a pre-SB 50A attorney fee environment and reversing these observed declines, would increase Florida's workers compensation rates by the following percentages:

Pre- to Post-SB 50A	Rate Impact (excluding expected impact on lost-time claim frequency)
'00/'02 to '05/'06	+16.1%
'01/'02 to '05/'06	+15.0%

Actuarial Analysis—*Castellanos* Detailed Claim Information Data

- In order to limit the impact that individual large claims may have on the results, a supplemental analysis was performed. The largest one percent of claims based on total incurred losses were uniformly excluded.
- Returning to a pre-SB 50A attorney fee environment and reversing these observed declines, would increase Florida's workers compensation rates by the following percentages:

Pre- to Post-SB 50A	Rate Impact (excluding expected impact on lost-time claim frequency)
'00/'02 to '05/'06	+18.1%
'01/'02 to '05/'06	+16.7%

Actuarial Analysis—*Castellanos* Summary

The proposed +15.0% first-year impact of the *Castellanos* decision was judgmentally selected after collectively reviewing the indicated rate impacts discussed earlier:

Pre- to Post-SB 50A	Financial Data Rate Impacts		DCI Data Rate Impacts	
	Southeastern States* Comparison	Gulf States* Comparison	All claims	All claims after excluding the largest one percent
'00/'02 to '05/'06	+37.5%	+16.7%	+16.1% (still need to add in frequency impact)	+18.1% (still need to add in frequency impact)
'01/'02 to '05/'06	+33.4%	+13.8%	+15.0% (still need to add in frequency impact)	+16.7% (still need to add in frequency impact)

*Southeastern states are: AL, GA, LA, MS, NC, SC, and TN.
Gulf states are AL, LA, and MS.



Update to the *Florida Workers' Compensation Health Care Provider Reimbursement Manual*

(Ratified by Senate Bill 1402, Effective July 1, 2016)

The estimated impact is based on data provided by the Florida Division of Workers' Compensation

Type of Service	Impact
Physician	+2.5%
<u>Hospital Outpatient</u>	<u>+0.1%</u>
Impact on Medical Costs	+2.6%
Overall Impact on Florida Workers Compensation System Costs	+1.8%



Actuarial Analysis—*Westphal*

- The impact on Florida workers compensation costs due to an increase in the maximum temporary total disability (TTD) duration from 104 to 260 weeks was estimated
- The analysis was based on data provided by the Florida Division of Workers' Compensation as well data collected by NCCI
- Separate analyses were completed for
 - TTD claim durations having no permanent disability benefit payments
 - The healing period portion of permanent impairment benefits (PIBs)
 - Medical benefits

Actuarial Analysis—*Westphal* Indemnity Benefits

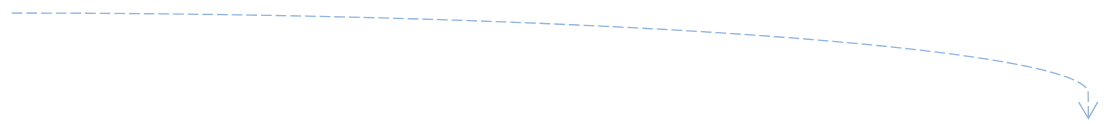
	TTD Injuries	Healing Period Portion of PIB Injuries	Total
Florida average claim duration	56.3 days	94.7 days	
Estimated increase in avg. claim duration	3.5 days	12.4 days	
Impact on indemnity benefit-type costs	+6.2%	+13.1%	
Impact on indemnity benefits	+3.0%	+3.0%	+6.0%
Impact on overall benefits			+1.8%

Actuarial Analysis—*Westphal* Medical Benefits

- Generally, before a claimant reaches maximum medical improvement (MMI), the goal for much of the medical care provided is to treat the underlying cause of the injury and improve the claimant's condition to MMI
 - Hospital stays, surgeries, anesthesia, etc. are relatively more prevalent pre- versus post-MMI
- Generally, once MMI is reached, the bulk of the medical care a claimant receives is focused on alleviating symptoms and not necessarily treating the underlying cause
 - Evaluation and management costs, prescription drugs, etc. are relatively more prevalent post-MMI
- With a delayed determination of MMI, medical costs would be expected to increase

Actuarial Analysis—*Westphal* Medical Benefits

- As a percentage of total costs, the share of medical costs expected to be impacted by an increase in the maximum TTD duration is small



- This is comprised of only a fraction of the total permanent impairment benefits that are provided prior to MMI
- Assuming there would be no medical cost impact on TTD claims without permanent disability benefit payments, the estimated increase in medical benefits due to the *Westphal* decision is 0.5%, or +0.4% on overall costs

Actuarial Analysis—*Westphal* Summary

- The estimated impact of the *Westphal* decision on overall Florida system costs is +2.2%. This is the sum of the above-described separate indemnity (+1.8%) and medical (+0.4%) component impacts.
- The *Castellanos* and *Miles* decisions could result in a further lengthening of claim durations and higher medical costs than currently contemplated in the *Westphal* pricing. Any additional increase in claim costs would be reflected in a future Florida rate filing.

Components of the Rate Indication

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