

Florida Workers Compensation Market 2012

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Florida Workers Compensation Rates

1-	1-	13	}
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-56.0%

8%
3.6 %
3.1%
1.4%
1.0%

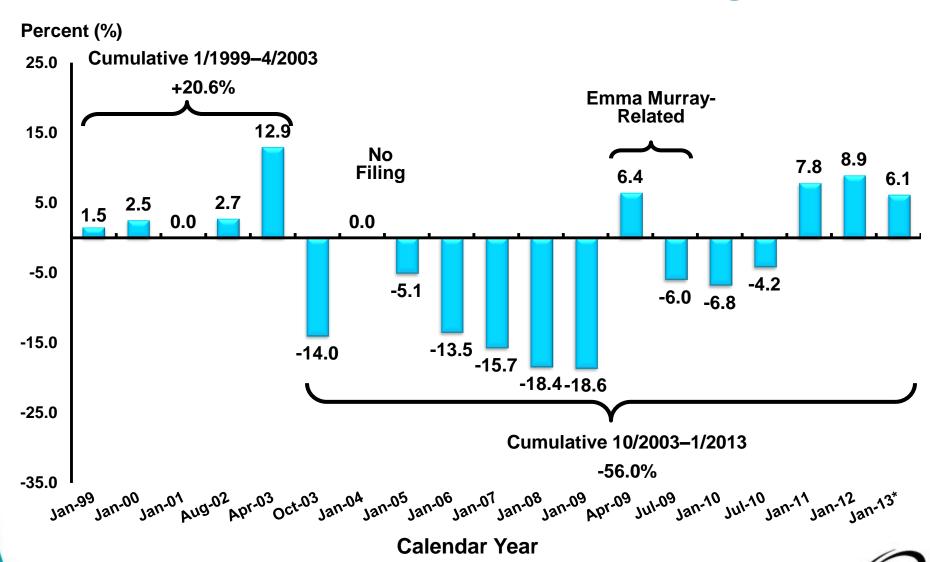
Overall Average



+6.1%

^{*} Assuming 1/1/2013 is approved as filed

Florida Historical Rate Changes



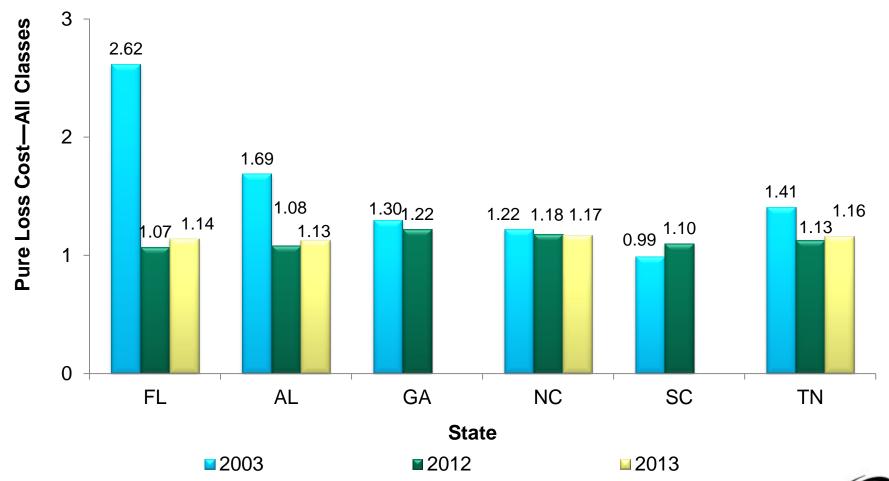
* Pending

Why a Third Increase After So Many Years of Decreases?

- Florida has reached its new post reform baseline; 2006 was likely last year to include additional beneficial impacts of reform; this filing 1/1/13 and the last two (1/1/11 and 1/1/12) are based on years unimpacted by additional impacts of SB 50A
- Current rates assumed continued improvements in loss experience but for this filing 1/1/13 and the last two (1/1/11 and 1/1/12), the experience changes were positive
- After 9 years of claim frequency declines, claim frequency started becoming increasingly less negative in policy years 2007 and 2008 and turned positive in the two most recent two policy years - 2009 and 2010
- These 3 increases reflect an attempt to find the "new normal" for Florida post-reform and in face of economic disruption/cost pressures



Current Average Voluntary Pure Loss Costs Using Florida's Payroll Distribution



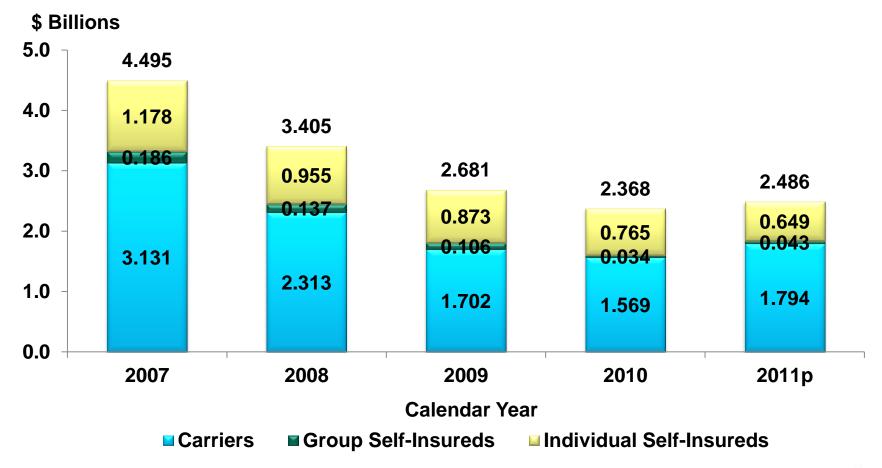




Market Indicators

Florida's Workers Compensation Premium Volume

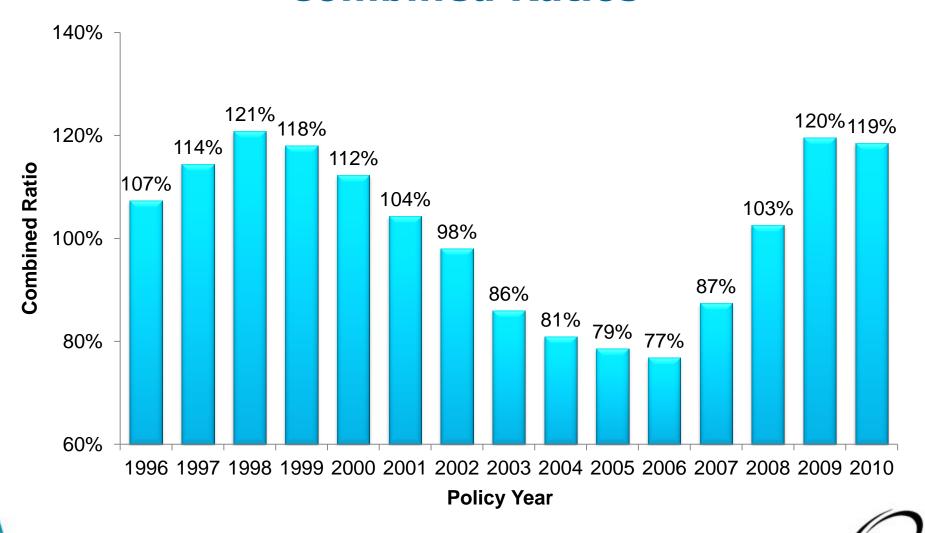
Direct Written Premium



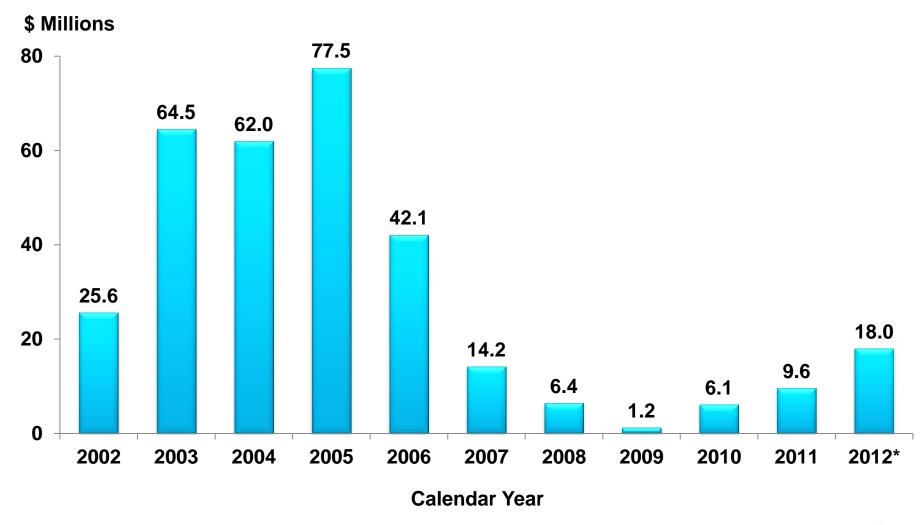




Florida Policy Year Combined Ratios



Florida WCJUA Written Premium



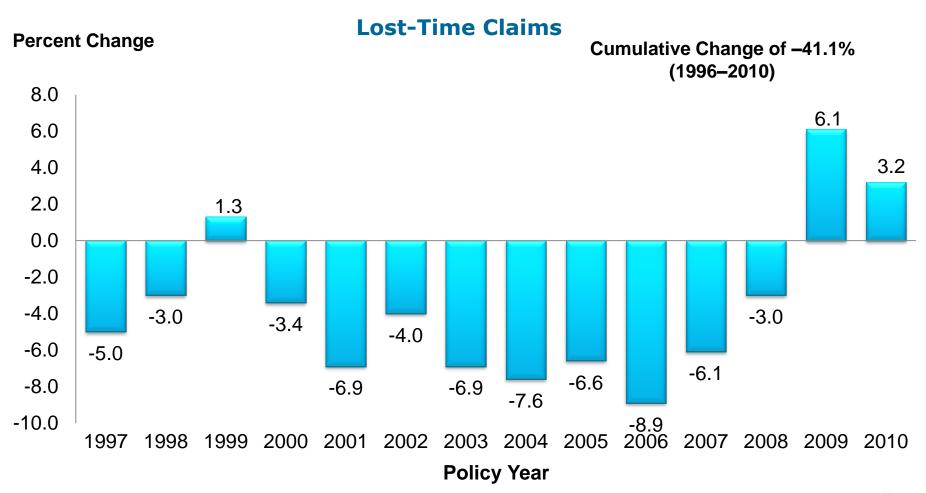
Data provided by the Florida Workers Compensation Joint Underwriting Association (FWCJUA) *Projected





Cost Drivers

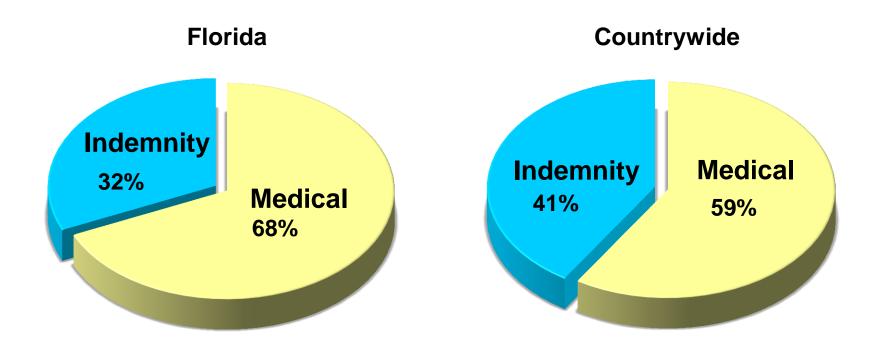
Florida Workers Compensation Lost-Time Claim Frequency



Based on data through 12/31/2011, developed to ultimate



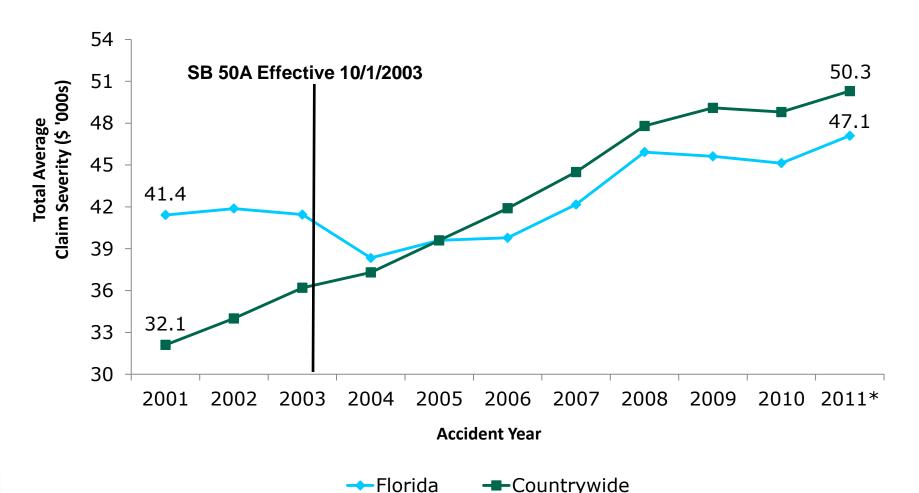
Medical Benefits Constitute the Majority of Total Benefit Costs in Florida

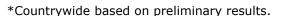




Average Total Severity

Lost-Time Claims, Excluding On-Levels, No Wage Adjustment



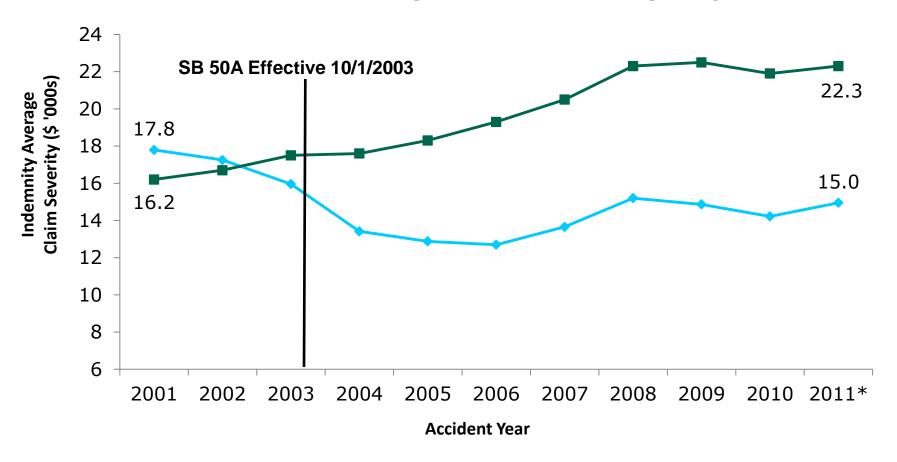


Based on NCCI's financial data for lost-time claims developed to ultimate and NOT adjusted to current benefit level.



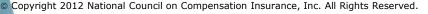
Average Indemnity Severity

Lost-Time Claims, Excluding On-Levels, No Wage Adjustment





Based on NCCI's financial data for lost-time claims developed to ultimate and NOT adjusted to current benefit level.



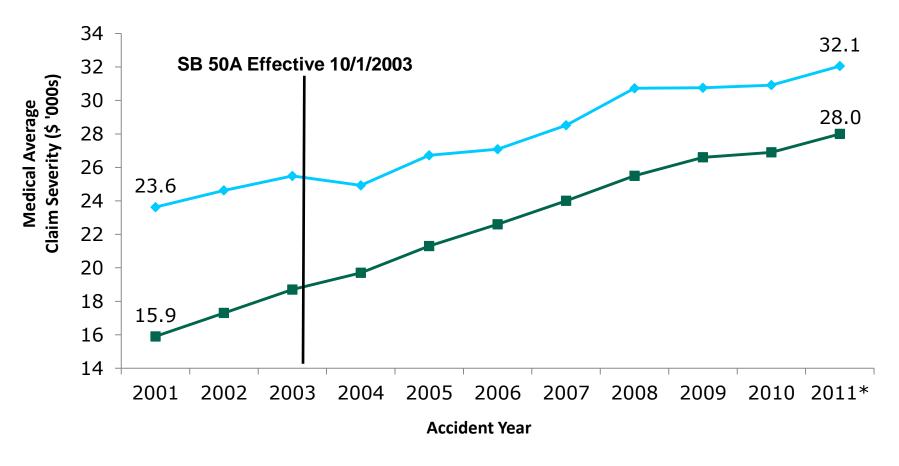


^{*}Countrywide based on preliminary results.

¹⁴

Average Medical Severity

Lost-Time Claims, Excluding On-Levels, No Wage Adjustment







^{*}Countrywide based on preliminary results.

¹⁵

Based on NCCI's financial data for lost-time claims developed to ultimate and NOT adjusted to current benefit level.

2011 Medical Cost Distributions Florida

	Florida ¹	Countrywide ²	Difference
PHYSICIANS	33.7%	41.1%	-7.4%
DRUGS	15.1%	10.5%	+4.6%
SUPPLIES	4.2%	7.0%	-2.8%
OTHER	1.9%	4.4%	-2.5%
HOSPITAL INPATIENT	17.8%	14.5%	+3.3%
HOSPITAL OUTPATIENT	18.8%	17.5%	+1.3%
ASC	8.5%	5.0%	+3.5%
TOTAL	100%	100%	0%

¹Source: Derived from data provided by Florida Division of Workers' Compensation for service year 2011.

²Source: Derived from NCCI Medical Data Call, for Service Year 2011.



Potential Areas for Savings

Drugs – Cap on repackaged drugs – 1.1% savings (2011 FL DWC data) or \$27.3M

- If cap were to be implemented, FL would still be
 3.5% higher than countrywide average (currently
 4.6% above countrywide average)
- Other options:
 - Florida pays 100% AWP plus a dispensing fee; many other states have lower fee schedules such as 80% or 90% of AWP plus a dispensing fee
 - Other benchmarks such as Wholesale Acquisition Cost which are lower than AWP



Comparison of Drug Repackaging Pricings

		HB 5603 (2008 data)	SB 1068 (2009 data)	Current Analysis (2011 data)
(1)	Impact of Limiting AWP on Repackaged or Relabeled Prescription Drugs	-52.8%	-57.0%	-45.1%
(2)	Share of Repackaged or Relabeled Drug Costs to WC Drug Costs	23.5%	39.8%	24.3%
(3)	Share of WC Drug Costs to WC Medical Costs	12.8%	16.0%	15.1%
(4)	Impact on Medical Costs = $(1) \times (2) \times (3)$	-1.6%	-3.6%	-1.6%
(5)	Medical Costs as a percentage of Overall WC System Costs	68.9%	68.3%	68.4%
(6)	Impact on Overall WC System Costs = $(4) \times (5)$	-1.1%	-2.5%	-1.1%



Why Has Markup Decreased?

- Possibly repackagers have changed behavior after attention issue has received starting with 2010 bill
- Possibly due to the actions of carriers who may have addressed the markup in different ways such as:
 - Strengthening contracts
 - Using current 440.13(12)(c) language to limit reimbursements
 - Where the employer or carrier has contracted for such services and the employee elects to obtain them through a provider not a party to the contract, the carrier shall reimburse at the schedule negotiated, or contract price, whichever is lower. No such contract shall rely on a provider that is not reasonably accessible to the employee.

Potential Areas for Savings

Facilities

- Hospital Inpatient
- Hospital Outpatient
- Ambulatory Surgical Centers

If Florida facility reimbursements were reduced to countrywide average, savings would be 5.5%



Florida Workers Compensation Market— In Summary: Mixed Results

- Statewide premium indicates Florida payroll is up in 2011 - first year since the end of the recession in 2009
- Florida combined ratios are high 119% PY 2010
- WC JUA premium creeping up in 2011 and 2012; projected to increase further in 2013



Despite Mixed Results, Stability Still Possible

- Even including 6.1% increase, Florida rates would still be down 56% from the peak in 2003 and are still relatively low
- Most of the post-reform cost reductions have been maintained (reached 64.7% in 2010 and now would be 56%)
- Even including 6.1% increase, Florida loss costs would be around the average for the southeastern states (FL 1.14 vs. 6 state average 1.15)
- Addressing workers comp cost drivers legislatively may help towards the goal of stabilizing workers compensation rates for Florida employers

