



Pennsylvania Compensation Rating Bureau

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Pennsylvania Compensation Rating Bureau Trends in Experience – April 1, 2006 Loss Cost Filing

Summary of Responses Received to Questionnaire for Leading Carrier Groups

In preparation for the April 1, 2006 Loss Cost Filing the PCRB developed and distributed a series of questions to larger carrier groups. The questions were intended to solicit information more current than that available from routine data collection resources such as financial data and unit statistical reports and/or to elicit carrier insights into possible causes for observed features of the available experience data.

The survey questions were sent to a total of 34 carrier groups, collectively representing over 89 percent of the Pennsylvania workers compensation market in 2004.

Responses were received from 15 of those carrier groups, representing over 51 percent of the 2004 Pennsylvania market. The responses obtained from the returned surveys are summarized in the attached pages, which replicate the form and sequence of the questions asked for purposes of providing context for the summaries shown. Because some surveys included multiple responses to specific questions, the numbers of responses counted in these summaries may exceed the number of responding carrier groups.

Pennsylvania Compensation Rating Bureau
Trends in Experience – April 1, 2006 Loss Cost Filing

Questionnaire for Leading Carrier Groups

In each of the past several years the Bureau has distributed a series of questions to larger carrier groups as part of its work in developing supporting information for annual loss cost filings. In each of the last three years (2002 - 2004) the Bureau distributed limited sets of questions focused on some key issues identified in its preliminary review of available experience data underlying the April 1, 2003, April 1, 2004 and April 1, 2005 Loss Cost Filings. Those questions were distributed electronically, and carriers were asked to reply via e-mail. Any member(s) inclined to also discuss their responses with Bureau staff were encouraged to so indicate in their response.

The Bureau's work toward the April 1, 2006 Loss Cost Filing is presently in the stages of data collection and assembly, so that we cannot pose survey questions in the context of specific findings or trends emerging from our analysis of aggregate data. In the interest of giving carriers more time to prepare and submit their responses and in hopes that the Bureau will, in turn, be able to design, apply and/or interpret various aspects of our analysis based on carrier input to this survey, we are distributing our survey questions for the April 1, 2006 filing at this time.

We have made our best effort to direct this questionnaire to a company representative who can knowledgeably complete it. In the event you know someone else in your company who would be better suited for that purpose, please forward the questionnaire to them and advise us who you sent it to, as well as providing an e-mail address for that individual.

It is again imperative that responses be returned promptly and in any event not later than Friday, July 29, 2005. Replies should be sent to BOTH of the following e-mail addresses:

twisecarver@pcrb.com

mdoyle@pcrb.com

Pennsylvania Compensation Rating Bureau
Trends in Experience – April 1, 2006 Loss Cost Filing

Questionnaire for Leading Carrier Groups

1. Bureau data from previous filings has shown substantial and persistent downward trends in claim frequency. The trends in question have been measured comparing indemnity claims to on-level expected losses, so that medical-only losses are excluded from the data, and shifts in employment between classifications and/or industry groups are recognized in the frequency calculations over time.

The April 1, 2005 Loss Cost Filing reflected an annual effective rate of decline in claim frequency of 6.2 percent. The April 1, 2006 filing will consider the most recent available data and develop appropriate projections for ingoing claim frequency changes through the mid-point of the proposed schedule of loss costs.

What has your group observed with respect to claim frequency in the period from 2000 to date?

RESPONSE SUMMARY

Declining claim frequency – 11
Flat or mixed experience - 4
Increasing claim frequency – 2

To what do you attribute the changes you have seen?

RESPONSE SUMMARY

Safety programs and incentives, working conditions – 8
Economic conditions – 3
Changes in workplace technology and operations – 3
Shifts between different types of employment – 3
Book of business written – 2
Cost shifting from other programs – 2
Antifraud programs – 1
Workers compensation market conditions – 1
Previously adopted initiatives maturing, effects stabilizing – 1
Aging workforce – 1
No response – 3

What do you expect claim frequency data for the period from 2004 through 2007 will show when that experience becomes available?

RESPONSE SUMMARY

Flat or mixed increases and decreases – 7
Continuing declines – 6
Increases – 2
No response – 3

What factors do you think will cause the claim frequency experience you anticipate and why?

RESPONSE SUMMARY

Economic conditions – 4
Safety programs and incentives, working conditions – 4
Book of business being written – 3
Previously adopted initiatives maturing, effects stabilizing – 3
Changes in workplace technology and operations – 3
Cost shifting from other programs – 1
Workers compensation market conditions – 1
Increased claims arising from off-premises activity – 1
Expected continuation of recent observed trend(s) – 1
No response – 3

2. Bureau data from the April 1, 2005 Loss Cost Filing showed a significant increase in indemnity claim severity trends as compared to the experience underlying previous filings, measuring indemnity severity trend at approximately +8.1 percent per year.

Our most recent data indicates that indemnity claim closure rates have been slowing slightly at earlier maturities (first and second unit statistical reports) and improving somewhat for older maturities (fourth and fifth unit statistical reports). Thus, in combination, our data suggests that the average indemnity claim was increasing faster than wages (and thus faster than benefit levels) at the same time that average claim duration was relatively stable.

What has your company seen in terms of changes in indemnity claim severity over the period from 2000 to date?

RESPONSE SUMMARY

Increasing indemnity severity – 10
Declining indemnity severity – 2
Fluctuations between increases and decreases – 1
No response – 2

What factors do you find notable in terms of either controlling or increasing indemnity claim severity over this period of time?

RESPONSE SUMMARY

Benefit administration programs and procedures – 5
Weakness or deterioration in application of Labor Market Survey process in determinations for modification, suspension or termination of benefits – 3
Medicare Set Asides, delays and related administrative impediments to claims resolution – 3
Increased use of compromise & release settlements – 3
Wage & benefit levels – 3
Aging workforce – 2
Escalation in settlement values – 2
Utilization – 2
Book of business written – 1
Economic conditions – 1
Shifts between types of employment – 1
Frequency improvement focused on smaller claims – 1
Litigation volumes/delays – 1
No response – 5

What do you expect indemnity claim severity data for the period from 2004 through 2007 will show when that experience becomes available?

RESPONSE SUMMARY

Increasing – 12
Decreasing – 1
Flat or mixed – 1
No response – 2

What factor(s) do you think will be most important in contributing to the indemnity claim severity changes that you foresee, and why?

RESPONSE SUMMARY

Benefit administration programs and procedures – 4
Litigation volumes/delays – 3
Medicare Set Asides, delays and related administrative impediments to claims resolution – 2
Aging workforce – 2
Utilization – 2
Wage & benefit levels – 2
Book of business written – 1
Weakness or deterioration in application of Labor Market Survey process in determinations for modification, suspension or termination of benefits – 1
Pending case law determinations – 1
Medical malpractice overlays for workers compensation – 1

Response summary continued:

Escalation in settlement values – 1
Stabilizing compromise & release volumes – 1
Continuation of observed recent trends – 1
No response – 4

3. Bureau data from the April 1, 2005 Loss Cost Filing showed a medical claim severity trend of +7.2 percent per year.

What has your company seen in terms of changes in medical claim severity over the period from 2000 to date?

RESPONSE SUMMARY

Increasing medical severity – 11
Declining – 2
Fluctuations between increases and decreases – 1
No response – 1

What factors do you find notable in terms of either controlling or increasing medical claim severity over this period of time?

RESPONSE SUMMARY

Pharamceutical prices & utilization – 7
Medical utilization – 7
Benefit administration programs and procedures – 4
Cost shifting from other programs – 2
Medical malpractice overlays for workers compensation – 2
Changes in workplace technology and operations – 2
Utilization review process, disparity between original and appellate decisions – 2
Accounting for settlement components (indemnity vs. medical) – 1
Case law precedents – 1
Aging workforce – 1
Price inflation – 1
Expanding use of compromise & release settlements – 1
No response – 2

What do you expect medical claim severity data for the period from 2004 through 2007 will show when that experience becomes available?

RESPONSE SUMMARY

Increasing medical severities – 13
No response – 2

What factor(s) do you think will be most important in contributing to the medical claim severity changes that you foresee, and why?

RESPONSE SUMMARY

Pharmaceutical prices & utilization – 6
Medical utilization – 6
Previously adopted initiatives maturing, effects stabilizing – 3
Benefit administration programs and procedures – 2
Cost shifting from other programs – 2
Changes in workplace technology and operations – 2
Continuation of past trends – 2
Case law precedents – 1
Medical malpractice overlays for workers compensation – 1
Aging workforce – 1
Price inflation – 1
Escalation in settlement values – 1
Utilization review process, disparity between original and appellate decisions – 1
Wages, benefit levels - 1
No response – 4

4. As seen in Questions 2 and 3 above, for the April 1, 2005 Loss Cost Filing the Bureau's measured indemnity trend exceeded our measured medical severity trend. This is the second consecutive filing in which this relationship has been observed. In preparing our April 1, 2006 Loss Cost Filing we would very much like to know as much as possible about the experience underlying our findings as it may pertain to these severity trend measures.

Are there any factors that you think may be artificially inflating recent indemnity claim severity trends and/or artificially suppressing recent medical claim severity trends in Pennsylvania? If so, what are they?

RESPONSE SUMMARY

Accounting for settlement components (indemnity vs. medical) – 5
Escalation in claim settlement values – 2
Medicare Set Asides, delays and related administrative impediments to claims resolution – 1
Case law precedents – 1
No response – 9

One possible explanation of these relative trends that surfaced in our previous reviews of this matter and was generally confirmed with our carrier survey last year is that the allocation of compromise and release settlements between indemnity and medical losses is substantially skewed toward indemnity benefits. Coupled with the large and growing volume of compromise and release settlements being implemented in Pennsylvania, accounting practices that might default entirely to indemnity loss or limit medical loss allocations to near-term and relatively certain payments could serve to inflate apparent indemnity trends and deflate apparent medical trends.

How does your company determine and report amounts attributable to indemnity and medical loss, respectively, when compromise and release settlements are paid?

RESPONSE SUMMARY

Settlements apportioned between indemnity & medical based on case facts & merits – 7
Settlements predominantly paid as indemnity – 4
Settlements paid entirely as indemnity – 3
No response – 1

5. What considerations, if any, NOT mentioned in your responses to the above questions do you think will be significant drivers of loss cost experience in Pennsylvania from 2004 through 2007? In particular, significant case law decisions and precedents and/or trends in administrative findings or proceedings that your company finds important in either controlling costs or making it more difficult to manage cases in Pennsylvania would be of interest.

RESPONSE SUMMARY

Case law precedents – 4
Benefit administration processes & procedures – 3
Utilization – 2
Capping of losses in experience rating plan – 1
Weakness or deterioration in application of Labor Market Survey process in determinations for modification, suspension or termination of benefits – 1
Medicare Set Asides, delays and related administrative impediments to claims resolution – 1
Price inflation – 1
Utilization review process, disparity between original and appellate decisions – 1
Wages, benefit levels – 1
No response – 8

How do you think each of these factors will affect loss costs?

RESPONSE SUMMARY

Respondents either offered no response to this question (nine cases) or generally acknowledged that various factors tended to work in opposite directions in terms of their impact on loss costs. Some factors were cited as potentially having either increasing or decreasing impacts, depending upon specific developments that might take place over time. Overall, a slight bias was seen toward expecting adverse impacts (increasing loss costs).

6. Some consideration has recently been given in Pennsylvania to changing the statutory time period within which an employer can direct employees to a posted list of medical providers (an option currently available for the first 90 days after injury). The PCRB is interested in carriers' perspectives about how the current process works and how changes under discussion might actually work in controlling medical and indemnity costs. Toward that end, we pose the following questions:

(a) What proportion (measured by number of accounts) of your company's policyholders post a list of medical providers to apply to the initial 90 days of treatment?

0 % to 10 %	- 1
11 % to 20 %	- 1
21 % to 30 %	- 1
31 % to 40 %	- 1
41 % to 50 %	- 1
51 % to 60 %	- 2
61 % to 70 %	- 2
71 % to 80 %	- 1
81 % to 90 %	- 1
91 % to 100 %	- 2
No response	- 2

(b) What proportion (measured by premium volume) of your company's policyholders post a list of medical providers to apply to the initial 90 days of treatment?

0 % to 10 %	- 0
11 % to 20 %	- 1
21 % to 30 %	- 0
31 % to 40 %	- 0
41 % to 50 %	- 1
51 % to 60 %	- 0
61 % to 70 %	- 3
71 % to 80 %	- 0
81 % to 90 %	- 1
91 % to 100 %	- 3
No response	- 6

(c) For claims **which remain open for treatment longer than 90 days and are incurred by your policyholders that DO post a list of medical providers**, please indicate your best estimates (even if subjectively determined) of the percentages of time that *initial* changes in medical provider going outside the posted list occur:

(i) Between 91 and 120 days after date of injury: _____

0 % to 10 %	- 5
11 % to 20 %	- 4
21 % to 30 %	- 1
31 % to 40 %	- 3
41 % to 50 %	- 0
51 % to 60 %	- 0
61 % to 70 %	- 0
71 % to 80 %	- 0
81 % to 90 %	- 0
91 % to 100 %	- 0
No response	- 2

(ii) Between 121 and 150 days after date of injury: _____

0 % to 10 %	- 7
11 % to 20 %	- 5
21 % to 30 %	- 1
31 % to 40 %	- 0
41 % to 50 %	- 0
51 % to 60 %	- 0
61 % to 70 %	- 0
71 % to 80 %	- 0
81 % to 90 %	- 0
91 % to 100 %	- 0
No response	- 2

(iii) Between 151 and 180 days after date of injury: _____

0 % to 10 %	- 8
11 % to 20 %	- 4
21 % to 30 %	- 1
31 % to 40 %	- 0
41 % to 50 %	- 0
51 % to 60 %	- 0
61 % to 70 %	- 0
71 % to 80 %	- 0
81 % to 90 %	- 0
91 % to 100 %	- 0
No response	- 2

(iv) More than 180 days after date of injury: _____

0 % to 10 %	- 8
11 % to 20 %	- 1
21 % to 30 %	- 2
31 % to 40 %	- 1
41 % to 50 %	- 0
51 % to 60 %	- 0
61 % to 70 %	- 0
71 % to 80 %	- 1
81 % to 90 %	- 0
91 % to 100 %	- 0
No response	- 2

NOTE: Any given claim can have either one or no "initial" change in provider going outside the posted list after 90 days. Sections (i) through (iv) above are intended to reflect the incremental activity during each of four discrete timeframes. Accordingly, consideration must be given to the collective implications of your responses to these sections. For example, it is not possible to have responses above 25 percent for all four sections because that would imply that more than

100 percent of your company's cases had initial changes in provider going outside the posted list after the 90-day statutory period in which the employer can direct choice of provider. It IS possible that NO claims would invoke changes going outside the posted list (in which case all answers would be "0"), and, as a practical matter, it is quite conceivable that the changes you have observed would total to something substantially less than 100 percent.

Thank you for providing your responses to these questions. Please provide the following identifying information with your reply:

Carrier Group Name:
Contact Person's Name:
Contact Person's Title:
Contact Person's Telephone Number:
Contact Person's Preferred E-mail Address: