

August 24, 2012

By Email and U.S. Mail

The Honorable Dave Jones
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David M. Bellusci
Senior Vice President
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RE: WCIRB Preliminary Evaluation of Proposed Workers' Compensation Reform Legislation

Dear Commissioner Jones and Director Baker:

Per your request, we have completed a preliminary evaluation of the cost impact of the proposed amendments contained in the draft legislation dated August 21, 2012 (RN1221520).

The proposed amendments involve complex multi-dimensional changes to the workers' compensation system in California. Working within a tight timeframe, the WCIRB has not had the opportunity to fully review the cost implications of all the changes given the time constraints, nor does WCIRB staff have all the necessary expertise and data to fully and accurately assess the impact of these changes. Further, the WCIRB will not be able to provide a formal evaluation of the cost effect of the provisions under consideration until such time as the final statutory language is available. If reform legislation is enacted by the close of the current legislative session, we will hold a joint meeting of our Actuarial Committee and Claims Working Group on September 5, 2012 to assist in a formal evaluation of the enacted legislation. We anticipate being able to provide a full formal evaluation of the legislation, along with any recommended amendments to our proposed January 1, 2013 advisory pure premium rates, by the week of September 17, 2012, which will be in advance of the public hearing on the January 1, 2013 Pure Premium Rate Filing.

The WCIRB's preliminary evaluation of the proposed legislative changes consisted of (1) a review of the proposed statutory language, (2) an evaluation of the available relevant statistical data from the WCIRB and other organizations and (3) a review of the preliminary evaluation of the legislation that was made available to us. While we did not have the opportunity to review our work with WCIRB committees, we did review our work with a number of individual committee members with expertise in evaluating the cost impact of legislative changes including representatives of the California Department of Insurance, the Department of Industrial Relations, the Commission on Health and Safety and Workers' Compensation, the California Workers Compensation Institute, the University of California at Berkeley and several insurers.

Based on our preliminary analysis, the WCIRB estimates the impact of the provisions in the proposed legislation that we were able to evaluate on injuries occurring in 2013, including the impact on claim frequency (utilization), is an overall cost reduction of **2.2%, or \$0.4 billion**, based on an estimated statewide cost of indemnity and medical losses and loss adjustment expenses (LAE) of \$19 billion on

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injuries occurring in 2013. In addition, the increased permanent disability benefit provisions effective on injuries occurring on or after January 1, 2014, including the impact on claim frequency (utilization),¹ are estimated to increase total costs by **3.7%, or \$0.7 billion**. In total, by the 2014 injury year, the proposed legislation, including the impact on claim frequency (utilization), is estimated to increase total system costs by **1.4%, or \$0.3 billion**, annually.² Attached is our preliminary evaluation.

Please let us know if you have any questions or wish additional clarification.

Sincerely,



David M. Bellusci
Senior Vice President and Chief Actuary

DMB:smd
Enclosures

¹ Excluding the impact on claim frequency (utilization), the total estimated cost impact on 2014 injuries is an increase of 2.3%, or \$0.4 billion, based on a total system cost estimate of \$19 billion.

² Excluding the impact on claim frequency (utilization), the combined annual impact of the legislative provisions by the 2014 injury year is to reduce total system costs by 1.1%, or \$0.2 billion.

**WCIRB Preliminary Estimate of Cost Impact
of August 21, 2012 (RN1221520) Legislative Proposals**

The WCIRB has completed a preliminary review of the proposed August 21, 2012 amendments to the California workers' compensation system. Among the areas impacted by the proposed amendments for which the WCIRB was able to provide a preliminary cost analysis are permanent disability (PD) minimum and maximum weekly benefit levels, the burial allowance, supplemental job displacement benefits, the adjustments to the PD rating corresponding to future earning capacity (FEC), permanent disability impairment "add-ons" for psychiatric impairment, sleep disorders or sexual dysfunction, the three-tiered system of PD weekly benefits based on return to work status, the rate at which PD benefits are paid, liens, reimbursements for spinal implant hardware, fee schedule values for ambulatory surgical centers (ASCs) and the process for resolving medical treatment disputes. Among the areas impacted by the proposed amendments which are not quantifiable at this time are medical provider networks (MPNs), admissibility of medical reports completed outside a valid MPN, fee schedules for interpreters, home health services and copy services, conversion of the California Official Medical Fee Schedule (OMFS) to a Resource Base Relative Value Scale (RBRVS) basis and permanent disability advances. Note that the preliminary estimates of dollar impacts, while based primarily on data from insured employers, have been extrapolated to the entire market based on the relative sizes of the insured and self-insured market.

In evaluating the potential cost implications of this proposed legislation, the WCIRB (a) reviewed the provisions which potentially impact the costs reflected in advisory pure premium rates; (b) consulted with other professionals with expertise in evaluating the impact of the legislation;¹ (c) reviewed relevant research; and (d) performed additional analysis, as appropriate, given the available data and extremely limited time constraints.

The WCIRB estimates the impact of the provisions in the proposed legislation that are quantifiable at this time on injuries occurring in 2013, including the impact on claim frequency (utilization), is an overall cost reduction of **2.2%, or \$0.4 billion**, based on an estimated statewide cost of indemnity and medical losses and loss adjustment expenses (LAE) of \$19 billion on injuries occurring in 2013.² In addition, the increased PD benefit provisions effective on injuries occurring on or after January 1, 2014, including the impact on claim frequency (utilization),³ are estimated to increase total costs by **3.7%, or \$0.7 billion**, in 2014. In total, by the 2014 injury year, the proposed legislation, including the impact on claim frequency (utilization), is estimated to increase total system costs by **1.4%, or \$0.3 billion**, annually.⁴

These estimates reflect a preliminary assessment developed by WCIRB staff based on a review of the proposed legislation. The WCIRB has not had the opportunity to fully review the cost implications of all of the changes, nor does WCIRB staff have all the expertise and data necessary to fully and accurately assess the impact of these changes. As a result, the WCIRB will not be able to provide a formal evaluation of the cost impact of the provisions under consideration until such time as final statutory language is available, the WCIRB is able to convene an appropriate panel of those with expertise in evaluating the cost impact of legislative changes to assess the fiscal impact

¹ These professionals include a number of insurer representatives with expertise in claims, legal, and actuarial issues, representatives of the California Department of Insurance, the Commission on Health & Safety and Workers' Compensation (CHSWC), the Department of Industrial Relations, the California Workers' Compensation Institute (CWCI) and University of California at Berkeley.

² The WCIRB's estimated system size is based on the estimated cost of indemnity and medical losses and loss adjustment expenses as reflected in the WCIRB's January 1, 2013 Pure Premium Rate Filing, with adjustments for statewide employment growth through 2013 based on UCLA forecasts and an estimated 50% loading for self-insured experience. The \$19 billion estimate consists of \$4.9 billion in indemnity benefits, \$10.4 billion in medical benefits, and \$3.7 billion in loss adjustment expenses.

³ Excluding the impact on claim frequency (utilization), the total estimated cost impact on 2014 injuries is an increase of 2.3%, or \$0.4 billion, based on a total system cost estimate of \$19 billion.

⁴ Excluding the impact on claim frequency (utilization), the combined annual impact of the legislative provisions by the 2014 injury year is to reduce total system costs by 1.1%, or \$0.2 billion.

of the proposals, relevant research can be reviewed, and any additional needed analysis is conducted.

If comprehensive reform legislation is enacted by the close of this legislative session, we will hold a joint meeting of our Actuarial Committee and Claims Working Group on September 5, 2012 to assist in a formal evaluation of the legislation. In such circumstances, we anticipate providing a full evaluation of the legislation, along with any recommended amendments to our proposed January 1, 2013 advisory pure premium rates, by the week of September 17, 2012 in advance of the public hearing on the January 1, 2013 Pure Premium Rate Filing.

While the information summarized below reflects the WCIRB's preliminary estimate of the cost impact of the proposed legislation, the actual cost impact will depend, in part, on future regulations required by the proposed legislation, how the Workers' Compensation Appeals Board (WCAB) interprets certain new provisions, and changes in medical treatment and PD practices and patterns. If enacted into law, the WCIRB will periodically reassess the cost impact of this legislation as more information and data becomes available.

Estimated Cost Impact of Proposed Legislation on Injuries Occurring in 2013

The WCIRB's preliminary estimated impact on cost levels underlying injuries occurring in 2013 is summarized in Table 1.

Table 1: Preliminary Cost Impact of Proposed Legislation on Injuries Occurring in 2013⁵

August 21, 2012 Proposed Legislative Change on 2013 Injuries	Direct Impact on Claim Costs (\$ millions)		Indirect Impact on Claim Frequency (Utilization) (\$ millions)		Total Impact on Claim Costs on 2013 Injuries (\$ millions)	Total % Impact on Claim Costs on 2013 Injuries
	Loss	LAE	Loss	LAE		
Changes in Statutory Benefit Levels ⁶	\$110	—	\$60	\$10	\$180	+0.9%
Modification of Three- Tiered Weekly PD Benefits	\$20	—	\$10	\$0	\$30	+0.2%
Paying PD Benefits at the TD Rates	\$170	—	\$120	\$30	\$320	+1.7%
<i>Estimated Impact of Benefit Provisions</i>	\$300	—	\$200	\$50	\$550	+2.9%
Liens ⁷	(\$280)	(\$170)	—	—	(\$450)	-2.4%
Surgical Implant Hardware	(\$110)	—	—	—	(\$110)	-0.6%
ASC Fees	(\$110)	—	—	—	(\$110)	-0.6%
Independent Medical Review	(\$30)	(\$60)	—	—	(\$90)	-0.5%
Elimination of Impact of Ogilvie Decision	(\$80)	(\$80)	(\$50)	(\$0)	(\$210)	-1.1%
<i>Judgmental Estimates of Reform Impacts</i>	(\$610)	(\$310)	(\$50)	(\$0)	(\$970)	-5.1%
<i>Total Estimate for 2013 Injuries</i>	(\$310)	(\$310)	\$150	\$50	(\$420)	-2.2%

⁵ Each provision was valued independently. For the total of multiple provisions, including the grand total impact, the provisions were valued collectively. As a result, the total of the provisions may not be the same as the sum of the various components.

⁶ This includes changes to the permanent disability weekly benefit maximums and minimums, the supplemental job displacement benefit, the burial allowance, the elimination of the future earning capacity (FEC), the application of a uniform factor adjustment of 1.4 to each impairment, and the elimination of the rating add-ons for psychiatric impairment, sleep disorders and sexual dysfunction.

⁷ This includes the provisions related to the filing fee and statute of limitations.

Estimated Additional Cost Impact of Proposed Legislation on Injuries Occurring in 2014

The WCIRB estimates that the increased PD benefit provisions effective on injuries occurring on or after January 1, 2014, including the impact on claim frequency (utilization),⁸ will increase total costs by **3.7%, or \$0.7 billion**, in 2014

Estimated Combined Annual Cost Impact of Proposed Legislation on Injuries Occurring On or After 2014

In total, by the 2014 injury year, the proposed legislation, including the impact on claim frequency (utilization), is estimated to increase total system costs by **1.4%, or \$0.3 billion**, annually.⁹

The basis of the WCIRB's preliminary evaluation of the impact of the various provisions of the proposed August 21, 2012 legislation is summarized below.

Section I: Benefit Provisions for Which WCIRB Can Provide a Preliminary Estimate

A. Changes in Statutory Benefits Levels

The proposed amendments to Labor Code Section 4453 provide for increases in the minimum and maximum weekly PD benefits for workers with injuries occurring on or after January 1, 2013, with an additional increase to maximum weekly PD benefits for injuries occurring on or after January 1, 2014. Labor Code Section 4658.7 provides that for injuries occurring on or after January 1, 2013, a supplemental job displacement benefit of up to \$6,000 shall be offered to an injured worker who has not received a qualified return to work offer.

The proposed amendments to Labor Code Section 4660.1 provide that the PD impairment produced in accordance with American Medical Association (AMA) Guides will be not be modified for FEC as in the 2005 Permanent Disability Rating Schedule (PDRS), but instead, a uniform adjustment factor of 1.4 will be applied to the whole person impairment determined pursuant to the AMA Guides. In addition, the proposed amendments to Labor Code Section 4660.1 also provide that there shall be no increases in impairment ratings for sleep disorder, sexual dysfunction or psychiatric impairment¹⁰ arising out of a compensable physical injury. Finally, the proposed amendments to Labor Code 4701 would increase the burial allowance from \$5,000 to \$10,000.

The evaluation of the estimated cost impact on the statutory benefit changes on injuries occurring on or after January 1, 2013 is based on information from approximately 200,000 lost time claims that occurred on policies incepting in 2008 and 2009 and were reported to the WCIRB in accordance with the requirements of the *California Workers' Compensation Uniform Statistical Reporting Plan—1995* (USRP). (Certain information on death claims, vocational rehabilitation, and supplemental job displacement benefits is based on survey information on other claims.) Injured worker wage information on these claims was adjusted to reflect the level of wages anticipated for 2013 injuries based on wage level growth estimates using UCLA published wage information.¹¹

To evaluate the impact of the changes to permanent disability ratings based on the proposed amendments to Labor Code Section 4660.1, the WCIRB analyzed approximately 20,000 claims available from the Disability Evaluation Unit (DEU) database that had permanent disability ratings computed by the DEU between June 2011 and March 2012. While not all permanent disability claims are rated by the DEU, the DEU database does provide sufficient detail to allow for the evaluation of the effect of the elimination of the FEC, the application of the 1.4 adjustment factor,

⁸ Excluding the impact on claim frequency (utilization), the total estimated cost impact on 2014 injuries is an increase of 2.3%, or \$0.4 billion, based on a total system cost estimate of \$19 billion.

⁹ Excluding the impact on claim frequency (utilization), the combined annual impact of the legislative provisions by the 2014 injury year is to reduce total system costs by 1.1%, or \$0.2 billion.

¹⁰ The elimination of the psychiatric "add-on" does not apply if the psychiatric impairment was the result of a violent act or catastrophic injury.

¹¹ See Part A, Section B, Exhibit 5.1 of the WCIRB's January 1, 2013 Pure Premium Rate Filing.

and the elimination of the impairment “add-ons” for psychiatric impairment, sleep disorder and sexual dysfunction on the average rating. While the DEU database may not be fully representative of all permanent disability ratings, there is no indication of significant bias for the purpose of this evaluation.

Using the DEU database, the estimated change in average rating by percentage of permanent disability rating point was determined and the rating for each claim in the WCIRB database previously discussed was adjusted accordingly.¹² Using this information, the incurred cost of each of the approximately 200,000 lost-time claims at the 2013 cost level was restated after reflecting the changes to (a) weekly PD benefit maximums and minimums, (b) the burial allowance, (c) the supplemental job displacement benefit, (d) the FEC factor, and (e) the add-ons to the impairment rating for psychiatric impairment, sleep disorder, and sexual dysfunction. The restated cost of these claims was then compared with the estimated cost of these claims under the current schedule of benefits. This process was repeated to estimate the level of benefits for injuries occurring in 2014.

With changes in benefit levels, not only is the cost of average weekly benefits changed, but the frequency of claims is also affected. This evaluation includes a provision to reflect the historical impact of changes in temporary total and permanent partial disability benefits on claim frequency. The estimates of the impact of the statutory benefit changes on claim frequency are based on a WCIRB econometric model of the effect of a number of economic, demographic and claims-related variables, including changes in indemnity benefit levels, on the frequency of indemnity claims in California.¹³ In essence, the model shows that for every 1% change in indemnity benefit costs due to changes in statutory benefits, there is an approximate 0.2% change in indemnity claim frequency.¹⁴ (The utilization factors are not applied to changes in permanent total or death benefits, and no provision is reflected for the potential impact of benefit changes on claim duration.)

Exhibit 1 shows the estimate of the impact of the proposed statutory benefit changes for injuries occurring in 2013, both before and after the adjustment for changing frequency (utilization). Exhibit 2 shows the comparable estimates for injuries occurring in 2014.

Changes in statutory indemnity benefit levels do not necessarily impact the cost of loss adjustment expenses (LAE). However, to the extent the number of indemnity claims is impacted by the benefit changes, LAE cost will also be affected. The WCIRB’s estimate of the impact of the proposed changes to the statutory benefits as reflected in Table 1 assume that the change in LAE costs is proportional to the indicated change in claim frequency reflected in Exhibit 1.

In total, including the impact of the changes in benefit levels on claim frequency (utilization), the WCIRB estimates that the proposed changes to statutory benefits will increase the total statewide cost of losses and loss adjustment expenses by 0.9%, or \$180 million, for 2013 injuries and by 3.7%, or \$700 million, for 2014 injuries.

Note that these preliminary estimates assume that the permanent disability rating “add-ons” in the DEU database will be eliminated by the proposed changes. It has been suggested that this could be an area of legal challenge. Also, no estimate has been reflected for any potential impact on medical costs of specifying in the Labor Code the intent to not limit the ability of the injured worker to obtain medical treatment for psychiatric impairment, sleep disorders or sexual dysfunction arising out an industrial injury. Finally, the estimate assumes that no change is reflected in the utilization of the supplemental job displacement voucher due to the new Labor Code Section 4658.7 provisions.

B. Modification of Three-Tiered Weekly Permanent Disability Benefits

¹² The total impact of the proposed legislative provisions was an approximate 6% increase in the average PD rating in the DEU database.

¹³ Brooks, Ward, *California Workers Compensation Benefit Utilization – A Study of Changes in Frequency and Severity in Response to Changes in Statutory Workers Compensation Benefit Levels*, Proceedings of the Casualty Actuarial Society, Volume LXXXVI, 1999, pp. 80 – 262.

¹⁴ The medical loss factor is adjusted to reflect that the newly-generated claims may have lower than average severity.

Labor Code Section 4650(e) in effect eliminates the 15% decrease in weekly PD benefits provided in current statute when the employer provides to an injured worker a qualified offer to return to work. (There is no change to the provision for a 15% increase in PD benefits if a qualified return-to-work offer is not provided by an employer with more than 50 employees.) The WCIRB collects information on the proportion of weekly PD benefits paid at each of the three tiers through its annual PD claim survey. The WCIRB's survey information indicates that approximately 7.5% weeks of PD benefits on accident year 2006 through 2009 claims were paid at the lower benefit level that reflected the 15% reduction. As a result, the WCIRB estimates eliminating this option and paying weekly PD benefits at the standard rate when there is a qualified return to work offer would increase permanent disability benefits by approximately 1.3%.

Exhibit 3 shows the impact of eliminating the 15% reduction in weekly PD benefits when there is a qualified return-to-work offer. The WCIRB estimates that this provision, including the commensurate impact on claim frequency and LAE, as shown in Table 1, will increase overall costs on 2013 injuries by 0.2%, or \$30 million, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion.

C. Paying PD Benefits at the Temporary Disability Rate

The proposed amendments to Labor Code Section 4650 provide that the permanent partial disability benefits are paid at the temporary disability rate. While paying PD benefits at the temporary disability rate does not impact the permanent disability award, it does affect how quickly the benefits are paid. Exhibit 4 shows the computation of the impact of this change using the evaluation approach and claims described in Paragraph A above. The WCIRB estimates that this provision, including the commensurate impact on claim frequency and LAE, as shown in Table 1, will increase the overall costs on 2013 injuries by 1.7%, or \$320 million, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion. This estimate assumes no change in the timing of life pension benefits for workers with permanent disability ratings in excess of 70% due to payment of PD benefits at the higher temporary disability rate. If life pension benefits were to commence immediately following the last payment of the accelerated PD benefits, the cost impact would be higher.

Section II: Reform Provision for Which WCIRB Can Provide a Judgmental Estimate

A. Liens

The proposed amendments reflect a number of provisions related to liens, including those in Labor Code Sections 4603.2, 4603.3, 4603.4, 4306.6, 4622, 4903, 4903.1, 4903.6, 4903.6, 4903.8, 4904 and 4905. The proposed amendments contained in Labor Code Section 4903.5 provide that every lien claimant is required to file its lien with the WCAB using an approved form and be charged a filing fee of \$150. In addition, the amendments to Labor Code Section 4903.5 provide that no liens may be filed more than three years from the date of service for liens filed before July 1, 2013 or 18 months from the date of service for liens filed on or after July 1, 2013.

There is relatively limited information available on the cost impact of liens. A 2011 report published by the CHSWC indicated that the number of medical lien filings has increased sharply since 2005.¹⁵ The report suggested that approximately \$1.5 billion per year is claimed in lien disputes, and the average cost of defending and settling a lien is approximately \$1,000.

Bickmore Risk Services (BRS) completed a preliminary estimate of the impact of the proposed legislation for the Department of Industrial Relations on August 21, 2012. The evaluation includes a computation of the estimated savings in administrative cost and losses based on the introduction of the lien filing fee and the 18-month statute of limitations. The key assumptions underlying the BRS estimates, based in large part on the CHSWC study and its underlying data, are as follows:

1. The total number of liens for 2013 injuries, based on Division of Workers' Compensation (DWC) data and WCIRB frequency change forecasts, is estimated at 640,000.

¹⁵ *Liens Report*, CHSWC, January 2011.

2. Based on the number of liens eliminated in 2005 with the introduction of the \$100 lien filing fee, 60% of the 2013 liens are estimated to be eliminated by the new filing fee.
3. Based on CHSWC data on individual liens by size, the average claim size of the liens eliminated by the lien filing fee is estimated to be \$150, based on an average lien amount of \$1,500 with a settlement rate of 10%.
4. The average savings in administrative cost per lien on the liens projected to be eliminated by the \$150 filing fee is estimated at \$100.¹⁶
5. The percentage of liens filed more than two years¹⁷ from the date of service, above the \$5,000 threshold that was estimated to reflect liens that would not be eliminated by the new lien filing fee and involve medical or medical-legal issues, was estimated at 8% based on CHSWC data.
6. The average lien claim based on CHSWC lien information for the liens that would be eliminated by the statute of limitations was assumed to be \$22,000, with an assumed 20% settlement rate and \$2,500 in administrative costs eliminated per lien by the statute of limitations on lien filings.

On a preliminary basis, the WCIRB believes the assumptions underlying the BRS report appear reasonable and reflect the limited statistical data available on liens. (The WCIRB will discuss the underlying assumptions for this analysis with the WCIRB's Claims Working Group and Actuarial Committee at their joint meeting of September 5, 2012 if the legislation is enacted.)

Based on the BRS assumptions summarized above, as shown in Table 1, the WCIRB preliminarily estimates that the proposed lien provisions will reduce overall system costs by 2.4%, or \$450 million, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion.

B. Surgical Implant Hardware

The proposed August 21, 2012 legislative amendments would repeal Labor Code Section 5318, which provides for separate reimbursement for implantable medical devices, hardware and instrumentation. Earlier this year, the CWCI preliminarily estimated that the savings from eliminating the multiple reimbursements for spinal implant hardware in California workers' compensation injuries was approximately \$67 million.¹⁸ Based on the WCIRB's estimate of total insured medical costs paid in 2010¹⁹ adjusted to reflect the total statewide system, this would equate to approximately 1% of total paid medical costs. As a result, the WCIRB estimates that the repeal of the separate reimbursement for spinal implant hardware would reduce medical costs by 1% and total system costs by approximately 0.6%, or \$0.1 billion, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion.

C. Ambulatory Surgical Center Fees

The proposed amendments to Labor Code Section 5307.1(c) provide that the maximum facility fee for services performed in ASCs should not exceed 80% of the Medicare fee for the same service in a hospital outpatient department. ASC facility charges are currently at 120% of the Medicare rate for hospitals. As result, these proposed amendments would result in a reduction of one-third in ASC facility fee payments if it is assumed that the change in the maximum fee schedule allowance would translate directly to ASC facility fee costs.

¹⁶ Estimates of the cost of loss adjustment expenses per lien have ranged from \$1,000 in the 2011 CHSWC lien study to \$1,500 based on CWCI's preliminary results from its 2012 lien survey (as discussed at the July 30, 2012 WCIRB Claims Working Group meeting). The BRS estimate assumed the liens eliminated by the filing fee would be the smaller, less complicated, liens with significantly lower than average loss adjustment expense costs.

¹⁷ The BRS analysis reflected a two-year time frame rather than the 18 months in the proposed statute in that it was assumed that some liens that would otherwise be filed after 18 months will be filed earlier due to the establishment of the 18-month statute of limitations.

¹⁸ *Preliminary Estimate of California Workers Compensation System-Wide Costs for Surgical Instrumentation Pass-Through Payments for Back Surgeries*, CWCI, June 2012.

¹⁹ *2010 California Workers' Compensation Losses and Expenses*, WCIRB, June 2011.

The CHSWC, based on information provided by the RAND Corporation, estimated that ASC facility fee payments in 2010 were \$187 million.²⁰ A reduction of those fees by one-third would generate savings of approximately \$62 million. This would equate to approximately 1% of total medical costs based on the WCIRB's estimate of total insured medical costs paid in 2010²¹ adjusted to reflect the total statewide system. As a result, the WCIRB estimates the reduction in ASC facility fees would reduce medical costs by 1% and total system costs by approximately 0.6%, or \$0.1 billion, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion. To some extent, ASC facility fees may be being reimbursed under contract at levels different from those contemplated in the fee schedule. However, the preliminary estimate assumes that the one-third reduction in the schedule value would translate directly to reduced payments for ASC facility fees and there would be no impact on medical service utilization patterns.

D. Independent Medical Review

The proposed amendments to Labor Code Sections 139.5, 4061, 4062, 4062.2, 4610.1, 4610.5, 4610.6 and 4903 provide for a newly-created process of independent medical review (IMR). The impact of the proposed provisions are difficult to evaluate inasmuch as their ultimate impact, if the legislation is enacted, is dependent upon the regulatory structure used in its implementation, any judicial interpretations of the new review process and the practices and procedures used by the parties involved.

The August 21, 2012 BRS report reflected estimates of the impact of the IMR provisions on liens and medical-legal reports. The key assumptions underlying the BRS estimates are as follows:

1. The total number of liens for 2013 injuries, based on DWC data and WCIRB frequency change forecasts, is estimated at 640,000.
2. Based on CHSWC data, it was estimated that 62% of all lien disputes were for medical and 11% of those were related to utilization review disputes. In addition, it was judgmentally assumed that one-third of such lien disputes would have been eliminated by the other proposed legislative changes with respect to liens. In total, under these assumptions, it was assumed that approximately 30,000 liens on 2013 injuries statewide would be affected.
3. It was estimated that \$2,500 in administrative expenses would be avoided on each of the affected liens related to utilization review as these liens were assumed to be more complex than typical.
4. Based on CHSWC data, it was estimated there were 116,000 Qualified Medical Evaluator (QME) reports in 2010, with 18% related to medical treatment issues. In total, under these assumptions, it was assumed that approximately 21,000 QME reports would be eliminated by the new IMR process.
5. Based on WCIRB data on medical-legal report costs, it was estimated that the average QME report in 2013 would be approximately \$1,700.
6. In lieu of the \$1,700 QME cost per report, it was assumed a \$500 cost for the IMR would be incurred.

On a preliminary basis, the WCIRB believes the assumptions underlying the BRS estimate of the impact of the IMR process appear reasonable and reflect the limited statistical data available. (The WCIRB will evaluate these underlying assumptions for this analysis with the WCIRB's Claims Working Group and Actuarial Committee at their joint meeting of September 5, 2012 if the legislation is enacted.) However, the BRS estimate of the administrative savings due to the reduction in the number of liens of \$2,500 per lien did not reflect an additional cost of \$500 per eliminated lien due to an assumed replacement by an IMR report. The WCIRB's preliminary estimate shown in Table 1 was based on the BRS assumptions listed above with this additional adjustment. The WCIRB preliminarily estimates that the proposed IMR provisions will reduce total

²⁰ CHSWC Staff Estimates for Labor and Employer Discussions, CHSWC, November 2009.

²¹ 2010 California Workers' Compensation Losses and Expenses, WCIRB, June 2011.

costs by 0.5%, or \$0.1 billion, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion.

E. Elimination of the Impact of the Ogilvie Decision on PD Rating Adjustments

The 2009 WCAB decision in Ogilvie v. City and County of San Francisco allowed for the PD rating to be adjusted based on a finding that the FEC component of the PD rating did not appropriately describe the loss of future earning capacity. As discussed in Section I above, the proposed legislation would not use the FEC as a basis to determine the permanent disability rating on injuries occurring on or after January 1, 2013 and, as a result, these ratings would not be subject to amendments based on the Ogilvie decision.

In 2009, the WCIRB projected the combined impact of Ogilvie and Almaraz v. Environmental Recovery Services/Guzman v. Milpitas Unified School District on cost levels to be an increase of 5.8%.²² This impact on permanent disability benefits, excluding the impact of changes in claim frequency, was estimated to be an increase of approximately 20%. The WCIRB has since reviewed a wide range of information on costs emerging subsequent to the WCAB decisions. This information shows costs emerging at a level that is not inconsistent with the initial estimates reflected in the WCIRB's earlier pure premium rate filings.²³ In particular, a WCIRB analysis of claim settlement data from the Division of Workers' Compensation (DWC) suggested that total claim settlements increased by approximately 12% following the decisions, which corresponds to an approximate 25% increase in permanent disability benefits.²⁴ The WCIRB has also reviewed information on ratings from the DEU which suggest that the increase in permanent disability benefits due primarily to the Almaraz/Guzman decision could range from 8% to 17%.²⁵

Given this information, the WCIRB believes that the initially estimated impact of Ogilvie and Almaraz/Guzman decisions on permanent disability costs of an increase of 20% appears reasonable. However, the WCIRB is not aware of any information segregating the impact of Ogilvie from that of Almaraz/Guzman. The WCIRB's Claims Working Group and Actuarial Committee have indicated that Ogilvie adjustments to PD are significantly rarer than Almaraz/Guzman adjustments, although they do impact claim settlements — particularly in Northern California.²⁶ On a preliminary basis, the WCIRB judgmentally estimates that one-fifth of the increase in permanent disability benefits collectively attributed to Ogilvie and Almaraz/Guzman is attributable solely to Ogilvie and, as a result, permanent disability benefits on 2013 injuries is preliminarily estimated to be reduced by 4% (one-fifth of 20%) by the effective elimination of the Ogilvie adjustments. This judgmental adjustment will be re-assessed at the WCIRB's joint meeting of the Claims Working Group and Actuarial Committee to be held on September 5, 2012 if the proposed legislation is enacted. The estimated impact of the elimination of the Ogilvie adjustments is a 4% reduction in PD benefits.

In the 2009 evaluation of the impact of the Ogilvie and Almaraz/Guzman decisions, the WCIRB estimated that allocated loss adjustment expenses (ALAE) would increase by 9% due to the WCAB decisions.²⁷ Although the impact of the WCAB decisions on ALAE costs cannot be isolated from other factors impacting ALAE (e.g., liens), ALAE costs did escalate following the WCAB decisions at a level relatively consistent with the estimate.²⁸ As noted earlier, Ogilvie adjustments to permanent disability are significantly rarer than adjustments based on the Almaraz/Guzman decision. Nevertheless, Ogilvie cases do involve significant frictional costs. As a result, on a

²² See Part A, Section B, Appendix C of the WCIRB's July 1, 2009 Pure Premium Rate Filing for a complete discussion of the WCIRB's estimate of the impact of the Ogilvie and Almaraz/Guzman decisions on costs.

²³ See Agenda Item AC09-03-07 of the August 2, 2012 WCIRB Actuarial Committee meeting for a more complete discussion of this information.

²⁴ See Agenda Item AC09-03-07 of the August 3, 2011 WCIRB Actuarial Committee meeting.

²⁵ See Agenda Item AC09-03-07 of the August 2, 2012 WCIRB Actuarial Committee meeting.

²⁶ See Agenda Item AC09-03-07 of the August 2, 2012 WCIRB Actuarial Committee meeting.

²⁷ See Part A, Section B, Appendix C of the WCIRB's July 1, 2009 Pure Premium Rate Filing for a complete discussion of the WCIRB's estimate of the impact of the Ogilvie and Almaraz/Guzman decisions on costs.

²⁸ See Agenda Item AC09-03-07 of the August 2, 2012 WCIRB Actuarial Committee meeting for a more complete discussion of this information.

preliminary basis, the WCIRB judgmentally estimates that one-third of the 9% increase in ALAE estimated to reflect the combined impact of Ogilvie and Almaraz/Guzman is attributable solely to Ogilvie and, as a result, ALAE on 2013 injuries is estimated to be reduced by 3% by the effective elimination of the Ogilvie adjustments. This judgmental adjustment will be re-assessed at the WCIRB's joint meeting of the Claims Working Group and Actuarial Committee to be held on September 5, 2012 if the proposed legislation is enacted. This would reduce statewide loss adjustment expenses by approximately \$80 million based on a total system cost estimate of \$19 billion.

As shown in Table 1, the WCIRB's preliminarily estimates that the elimination of the Ogilvie adjustments to permanent disability will reduce overall costs by 1.1%, or \$0.2 billion, based on a total statewide estimate of the cost of losses and loss adjustment expenses of \$19 billion.

Section III: Provisions for Which No WCIRB Preliminary Estimate is Provided

The August 21, 2012 proposed legislation included a number of provisions for which the WCIRB is not able to provide a preliminary cost impact. These include the following:

1. Medical Provider Networks. Proposed amendments to Labor Code Sections 4061, 4062, 4063.2, 4616, 4616.1, 4616.2, 4616.3 and 5502 address medical provider networks (MPNs). These provisions are intended to improve communication and quality assurance and streamline the entire MPN process in California. The WCIRB is not aware of any statistical basis upon which to predicate an estimate of the impact of these changes.
2. Medical-Legal. Proposed amendments to Labor Code Sections 4061, 4062, 4062.2, 4063, 4064, 4066, 4605 and 4622 are intended to streamline the medical-legal process in California. The proposed amendments to Labor Code 4605, which pertain to reports prepared by a consulting or attending physician chosen by the injured worker, appear to attempt to address the Valdez²⁹ decision. However, it is not clear at this time to what extent the legislation will limit the use and cost of medical reports prepared by physicians chosen by the injured worker outside the MPN. In any case, the impact of the Valdez decision, which was issued in June 2012, is not yet reflected in the data underlying the WCIRB cost projections, and no adjustment for this decision is reflected in the WCIRB's January 1, 2013 Pure Premium Rate Filing.³⁰
3. New Medical Fee Schedule Provisions. The proposed amendments to Labor Code Section 5307.8 authorize the Administrative Director to adopt a fee schedule for home health services by July 1, 2013. The proposed amendments to Labor Code Section 5307.9 authorize the Administrative Director to adopt a fee schedule for copy services by December 31, 2013. The proposed amendments to Labor Code Section 5307.7 and Labor Code Sections 4600(g) and 5811 pertain to fee schedules for vocational services and interpreters, respectively. It is premature to assess the cost impact of new fee schedules until such time as the fee schedule is adopted. Once the new schedules are adopted, the WCIRB will assess their cost impact and, to the extent appropriate, reflect the cost impact in proposed pure premium rates.
4. Conversion of OMFS to RBRVS Basis. The proposed amendments to Labor Code Section 5307.1 provide that the administrative director shall adopt a fee schedule based on the RBRVS for physician services with the maximum reasonable fees paid set at a level not to exceed 120% of Medicare. The proposed amendments provide for a four-year transition period beginning in 2014. The WCIRB believes it is premature to assess the cost impact of

²⁹ Valdez v. WCAB (Demo Warehouse). The WCAB, in an en banc decision issued on April 20, 2011, held that if the injured worker obtains unauthorized treatment outside a validly established and properly noticed MPN, the reports from any non-MPN doctors are inadmissible in court. The California 2nd District Court of Appeals, in a published decision issued on May 29, 2012, overturned the decision of the WCAB, holding that the labor code does not prohibit the admission of medical reports from non-MPN doctors.

³⁰ The WCIRB's Claims Working Group reviewed the impact of the Valdez decision at its July 30, 2012 meeting. The Working Group agreed that the impact of the decision should continue to be monitored, but did not recommend any adjustments to pure premium rates at this time.

fee schedule revisions until such time as the specific revisions have been promulgated. Once the revised schedule values are adopted, the WCIRB will assess their cost impact and, to the extent appropriate, reflect the cost impact in proposed pure premium rates.

5. Advances to Permanent Disability. The proposed revisions to Labor Code Section 4650(b) provide that the advances to permanent disability are not required if the employer has made a qualified offer of return-to-work. The WCIRB does not have the statistical information to evaluate the cost impact of this provision at this time. However, it is not believed to have a significant impact on total system costs.

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
 Changes in Statutory Benefit Levels ^[1]

<u>Type of Injury</u>	<u>Distribution of Incurred Losses</u>	<u>Impact Prior to Utilization Adjustments</u>	<u>Impact Subsequent to Utilization Adjustments</u>
Death	0.0063	2.5%	2.5%
Permanent Total	0.0108	0.0%	0.0%
Major 70-99.75	0.0077	-33.4%	-33.1%
<u>Major 25-69.75</u>	<u>0.1669</u>	<u>3.6%</u>	<u>4.1%</u>
Serious	0.1917	1.9%	2.3%
Minor 15-24.75	0.0265	4.1%	4.6%
Minor 0.25-14.75	0.0655	3.2%	3.7%
<u>Temporary</u>	<u>0.0373</u>	<u>0.0%</u>	<u>0.5%</u>
Non-Serious	0.1293	2.5%	3.0%
Indemnity (Serious & Non-Serious)	0.3210	2.1%	2.6%
Medical	0.6790	0.0%	0.4%
Total	1.0000	0.7%	1.1%

^[1] This includes changes to the permanent disability weekly benefit maximums and minimums, the supplemental job displacement benefit, the burial allowance, elimination of the FEC, the application of a 1.4 adjustment to each impairment and elimination of the rating add-ons for psychiatric impairment, sleep disorders and sexual dysfunction. This does not include cost impact of the payment of permanent disability benefits at the temporary disability rate.

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
Changes in Statutory Benefit Levels^[1]

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed^[1]</u>
<u>Death</u>		
1. Effect of amendment on death	\$196,955.94	\$201,955.94 1.025
<u>Permanent Total</u>		
2. Average compensation	\$1,048.62	\$1,048.62
3. Effect of amendment on permanent total		1.000
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	98.8	98.8
5. Average compensation, temporary disability	\$629.82	\$629.82
6. Average duration, permanent disability	519.3	480.7
7. Average compensation, permanent disability	\$273.26	\$284.72
8. Average duration, life pension	991.2	689.0
9. Average compensation, life pension	\$183.62	\$83.96
10. Average cost of education vouchers	\$3,164.34	\$2,215.56
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	\$389,342.76	\$259,186.52
12. Effect of amendment on major 70-99.75		0.666
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	75.7	75.7
14. Average compensation, temporary disability	\$525.86	\$525.86
15. Average duration, permanent disability	175.4	185.5
16. Average compensation, permanent disability	\$229.34	\$234.98
16. Average duration, life pension	---	1162.0
16. Average compensation, life pension	---	\$0.03
17. Average cost of education vouchers	\$2,284.07	\$1,849.58
18. Average total cost: (13)x(14)+(15)x(16)+(17)	\$82,331.83	\$85,293.31
19. Effect of amendment on major 25-69.75		1.036

^[1] This includes changes to the permanent disability weekly benefit maximums and minimums, the supplemental job displacement benefit, the burial allowance, elimination of the FEC, the application of a 1.4 adjustment to each impairment and elimination of the rating add-ons for psychiatric impairment, sleep disorders and sexual dysfunction. This does not include cost impact of the payment of permanent disability benefits at the temporary disability rate.

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
 Changes in Statutory Benefit Levels^[1]

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed^[1]</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	61.8	61.8
21. Average compensation, temporary disability	\$476.38	\$476.38
22. Average duration, permanent disability	68.0	75.5
23. Average compensation, permanent disability	\$226.78	\$228.94
24. Average cost of education vouchers	\$1,113.34	\$1,113.34
25. Average total cost: (20)x(21)+(22)x(23)+(24)	\$45,959.04	\$47,833.11
26. Effect of amendment on minor 15-24.75		1.041
 <u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	40.6	40.6
28. Average compensation, temporary disability	\$454.60	\$454.60
29. Average duration, permanent disability	22.3	25.3
30. Average compensation, permanent disability	\$221.19	\$223.44
31. Average cost of education vouchers	\$479.29	\$540.15
32. Average total cost, (27)x(28)+(29)x(30)+(31)	\$23,873.25	\$24,641.13
33. Effect of amendment on minor 0.25-14.75		1.032
 <u>Temporary</u>		
34. Average compensation	\$456.26	\$456.26
35. Effect of amendment on temporary		1.000

^[1] This includes changes to the permanent disability weekly benefit maximums and minimums, the supplemental job displacement benefit, the burial allowance, elimination of the FEC, the application of a 1.4 adjustment to each impairment and elimination of the rating add-ons for psychiatric impairment, sleep disorders and sexual dysfunction. This does not include cost impact of the payment of permanent disability benefits at the temporary disability rate.

Estimated Cost Impact On Accident Year 2014 - August 21, 2012 Legislative Proposal
Change in Statutory Benefit Levels

<u>Type of Injury</u>	<u>Distribution of Incurred Losses</u>	<u>Impact Prior to Utilization Adjustments</u>	<u>Impact Subsequent to Utilization Adjustments</u>
Death	0.0065	0.0%	0.0%
Permanent Total	0.0109	0.0%	0.0%
Major 70-99.75	0.0063	0.0%	1.9%
<u>Major 25-69.75</u>	<u>0.1877</u>	<u>11.6%</u>	<u>13.7%</u>
Serious	0.2115	10.3%	12.2%
Minor 15-24.75	0.0291	9.5%	11.6%
Minor 0.25-14.75	0.0707	5.9%	7.9%
<u>Temporary</u>	<u>0.0382</u>	<u>0.0%</u>	<u>1.9%</u>
Non-Serious	0.1380	5.0%	7.0%
Indemnity (Serious & Non-Serious)	0.3495	8.2%	10.2%
Medical	0.6505	0.0%	1.6%
Total	1.0000	2.9%	4.6%

Estimated Cost Impact On Accident Year 2014 - August 21, 2012 Legislative Proposal
Change in Statutory Benefit Levels

	(1) Benefit Effective 1/1/2014 <u>Present</u>	(2) Benefit Effective 1/1/2014 <u>Proposed</u>
<u>Death</u>		
1. Effect of amendment on death	\$203,808.05	\$203,808.05 1.000
<u>Permanent Total</u>		
2. Average compensation	\$1,078.89	\$1,078.89
3. Effect of amendment on permanent total		1.000
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	95.7	95.7
5. Average compensation, temporary disability	\$627.89	\$627.89
6. Average duration, permanent disability	269.3	269.3
7. Average compensation, permanent disability	\$663.42	\$663.42
8. Average duration, life pension	1,034.2	1,034.2
9. Average compensation, life pension	\$176.86	\$176.86
10. Average cost of education vouchers	\$2,424.12	\$2,424.12
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	\$424,084.22	\$424,084.22
12. Effect of amendment on major 70-99.75		1.000
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	74.8	74.8
14. Average compensation, temporary disability	\$537.78	\$537.78
15. Average duration, permanent disability	82.7	101.0
16. Average compensation, permanent disability	\$561.73	\$561.73
17. Average cost of education vouchers	\$1,828.15	\$1,828.15
18. Average total cost: (13)x(14)+(15)x(16)+(17)	\$88,512.33	\$98,778.85
19. Effect of amendment on major 25-69.75		1.116

Estimated Cost Impact On Accident Year 2014 - August 21, 2012 Legislative Proposal
Change in Statutory Benefit Levels

	(1) Benefit Effective 1/1/2014 <u>Present</u>	(2) Benefit Effective 1/1/2014 <u>Proposed</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	58.4	58.4
21. Average compensation, temporary disability	\$490.80	\$490.80
22. Average duration, permanent disability	33.8	42.6
23. Average compensation, permanent disability	\$509.93	\$509.93
24. Average cost of education vouchers	\$1,108.07	\$1,108.07
25. Average total cost: (20)x(21)+(22)x(23)+(24)	\$47,021.37	\$51,505.77
26. Effect of amendment on minor 15-24.75		1.095
 <u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	40.6	40.6
28. Average compensation, temporary disability	\$466.13	\$466.13
29. Average duration, permanent disability	12.0	15.1
30. Average compensation, permanent disability	\$475.50	\$475.50
31. Average cost of education vouchers	\$530.96	\$530.96
32. Average total cost, (27)x(28)+(29)x(30)+(31)	\$25,147.81	\$26,628.69
33. Effect of amendment on minor 0.25-14.75		1.059
 <u>Temporary</u>		
34. Average compensation	\$468.97	\$468.97
35. Effect of amendment on temporary		1.000

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
 Modification of Three-Tiered Weekly PD Benefits

<u>Type of Injury</u>	<u>Distribution of Incurred Losses</u>	<u>Impact Prior to Utilization Adjustments</u>	<u>Impact Subsequent to Utilization Adjustments</u>
Death	0.0063	0.0%	0.0%
Permanent Total	0.0105	0.0%	0.0%
Major 70-99.75	0.0084	0.3%	0.4%
<u>Major 25-69.75</u>	<u>0.1788</u>	<u>0.4%</u>	<u>0.5%</u>
Serious	0.2039	0.4%	0.5%
Minor 15-24.75	0.0278	0.4%	0.4%
Minor 0.25-14.75	0.0674	0.3%	0.4%
<u>Temporary</u>	<u>0.0366</u>	<u>0.0%</u>	<u>0.1%</u>
Non-Serious	0.1318	0.2%	0.3%
Indemnity (Serious & Non-Serious)	0.3357	0.3%	0.4%
Medical	0.6643	0.0%	0.1%
Total	1.0000	0.1%	0.2%

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
Modification of Three-Tiered Weekly PD Benefits

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed</u>
<u>Death</u>		
1. Effect of amendment on death	\$201,955.94	\$201,955.94 1.000
<u>Permanent Total</u>		
2. Average compensation	\$1,048.62	\$1,048.62
3. Effect of amendment on permanent total		1.000
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	98.8	98.8
5. Average compensation, temporary disability	\$629.82	\$629.82
6. Average duration, permanent disability	254.1	254.1
7. Average compensation, permanent disability	\$661.52	\$665.46
8. Average duration, life pension	689.0	689.0
9. Average compensation, life pension	\$112.88	\$112.88
10. Average cost of education vouchers	\$2,215.56	\$2,215.56
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	\$310,358.13	\$311,358.81
12. Effect of amendment on major 70-99.75		1.003
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	75.7	75.7
14. Average compensation, temporary disability	\$525.86	\$525.86
15. Average duration, permanent disability	88.1	88.1
16. Average compensation, permanent disability	\$544.82	\$549.28
16. Average duration, life pension	1162.0	1162.0
16. Average compensation, life pension	0.2	\$0.23
17. Average cost of education vouchers	\$1,849.58	\$1,849.58
18. Average total cost: (13)x(14)+(15)x(16)+(17)	\$89,940.29	\$90,333.26
19. Effect of amendment on major 25-69.75		1.004

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
Modification of Three-Tiered Weekly PD Benefits

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	61.8	61.8
21. Average compensation, temporary disability	\$476.38	\$476.38
22. Average duration, permanent disability	38.0	38.0
23. Average compensation, permanent disability	\$490.18	\$494.94
24. Average cost of education vouchers	\$1,113.34	\$1,113.34
25. Average total cost: (20)x(21)+(22)x(23)+(24)	\$49,164.31	\$49,345.24
26. Effect of amendment on minor 15-24.75		1.004
<u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	40.6	40.6
28. Average compensation, temporary disability	\$454.60	\$454.60
29. Average duration, permanent disability	13.2	13.2
30. Average compensation, permanent disability	\$457.91	\$463.74
31. Average cost of education vouchers	\$540.15	\$540.15
32. Average total cost, (27)x(28)+(29)x(30)+(31)	\$25,056.02	\$25,133.17
33. Effect of amendment on minor 0.25-14.75		1.003
<u>Temporary</u>		
34. Average compensation	\$456.26	\$456.26
35. Effect of amendment on temporary		1.000

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal

Cost Impact of Paying PD Benefits at TD Rates

<u>Type of Injury</u>	<u>Distribution of Incurred Losses</u>	<u>Impact Prior to Utilization Adjustments</u>	<u>Impact Subsequent to Utilization Adjustments</u>
Death	0.0063	0.0%	0.0%
Permanent Total	0.0108	0.0%	0.0%
Major 70-99.75	0.0077	12.1%	13.0%
<u>Major 25-69.75</u>	<u>0.1669</u>	<u>5.2%</u>	<u>6.1%</u>
Serious	0.1917	5.0%	5.8%
Minor 15-24.75	0.0265	2.8%	3.6%
Minor 0.25-14.75	0.0655	1.7%	2.5%
<u>Temporary</u>	<u>0.0373</u>	<u>0.0%</u>	<u>0.8%</u>
Non-Serious	0.1293	1.4%	2.3%
Indemnity (Serious & Non-Serious)	0.3210	3.6%	4.4%
Medical	0.6790	0.0%	0.7%
Total	1.0000	1.1%	1.9%

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
 Cost Impact of Paying PD Benefits at TD Rates

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed</u>
<u>Death</u>		
1. Effect of amendment on death	\$201,955.94	\$201,955.94 1.000
<u>Permanent Total</u>		
2. Average compensation	\$1,048.62	\$1,048.62
3. Effect of amendment on permanent total		1.000
<u>Major 70-99.75</u>		
4. Average duration, temporary disability	98.8	98.8
5. Average compensation, temporary disability	\$629.82	\$629.82
6. Average duration, permanent disability	480.7	254.1
7. Average compensation, permanent disability	\$284.72	\$661.52
8. Average duration, life pension	689.0	689.0
9. Average compensation, life pension	\$83.96	\$83.96
10. Average cost of education vouchers	\$2,215.56	\$2,215.56
11. Average total cost: (4)x(5)+(6)x(7)+(8)x(9)+(10)	\$259,186.52	\$290,434.22
12. Effect of amendment on major 70-99.75		1.121
<u>Major 25-69.75</u>		
13. Average duration, temporary disability	75.7	75.7
14. Average compensation, temporary disability	\$525.86	\$525.86
15. Average duration, permanent disability	185.5	88.1
16. Average compensation, permanent disability	\$234.98	\$544.82
16. Average duration, life pension	1162.0	1162.0
16. Average compensation, life pension	0.0	\$0.03
17. Average cost of education vouchers	\$1,849.58	\$1,849.58
18. Average total cost: (13)x(14)+(15)x(16)+(17)	\$85,257.86	\$89,709.99
19. Effect of amendment on major 25-69.75		1.052

Estimated Cost Impact On Accident Year 2013 - August 21, 2012 Legislative Proposal
 Cost Impact of Paying PD Benefits at TD Rates

	(1) Benefit Effective 1/1/2013 <u>Present</u>	(2) Benefit Effective 1/1/2013 <u>Proposed</u>
<u>Minor 15-24.75</u>		
20. Average duration, temporary disability	61.8	61.8
21. Average compensation, temporary disability	\$476.38	\$476.38
22. Average duration, permanent disability	75.5	38.0
23. Average compensation, permanent disability	\$228.94	\$490.18
24. Average cost of education vouchers	\$1,113.34	\$1,113.34
25. Average total cost: (20)x(21)+(22)x(23)+(24)	\$47,833.11	\$49,164.31
26. Effect of amendment on minor 15-24.75		1.028
<u>Minor 0.25-14.75</u>		
27. Average duration, temporary disability	40.6	40.6
28. Average compensation, temporary disability	\$454.60	\$454.60
29. Average duration, permanent disability	25.3	13.2
30. Average compensation, permanent disability	\$223.44	\$457.91
31. Average cost of education vouchers	\$540.15	\$540.15
32. Average total cost, (27)x(28)+(29)x(30)+(31)	\$24,641.13	\$25,056.02
33. Effect of amendment on minor 0.25-14.75		1.017
<u>Temporary</u>		
34. Average compensation	\$456.26	\$456.26
35. Effect of amendment on temporary		1.000