

Workers' Compensation Insurance Rating Bureau of California

January 1, 2013 Pure Premium Rate Filing WCIRB Executive Summary

CDI Public Hearing
November 16, 2012

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Amended January 1, 2013 Pure Premium Rate Filing: WCIRB Executive Summary Presentation Summary

- **Proposed January 1, 2013 Pure Premium Rates**
- **SB 863 Evaluation**
- **Uncertainty, Risks and Monitoring**

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Amended January 1, 2013 Pure Premium Rate Filing: WCIRB Executive Summary
California Workers' Compensation Cost and Wage Level Index (2005 = 100)

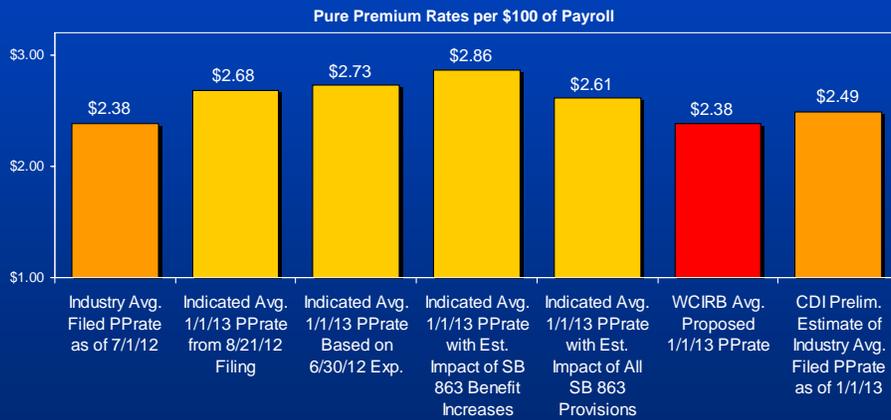


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Amended January 1, 2013 Pure Premium Rate Filing: WCIRB Executive Summary
Proposed and Industry Average Pure Premium Rates



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SB 863 Summary

- **Signed by the Governor on September 18, 2012**
- **Includes Benefit Changes Effective 1/1/2013 and 1/1/2014**
- **Series of Structural Reforms to Benefit Delivery System**
 - Many provisions quantifiable based on available data and judgmental assumptions
 - Lien reforms
 - Independent medical review (IMR)
 - Permanent disability add-ons
 - Strengthening of medical provider networks (MPNs)
 - Other provisions not quantifiable at this time (dependent on future regulations)
 - Return-to-work program
 - New medical fee schedules
 - IMR impact on medical treatment
 - Independent bill review

WCIRB Cost Evaluation of SB 863 - Process

- **WCIRB Requested by Insurance Commissioner and Director of DIR to Provide Preliminary Cost Assessments**
- **WCIRB Cost Assessments Reflect**
 - Review of legislative provisions
 - Consultation with experts
 - Review of relevant research and analyses
 - New actuarial analyses based on data and timeframes available
 - Judgmental estimates developed when there was consensus as to likely impact

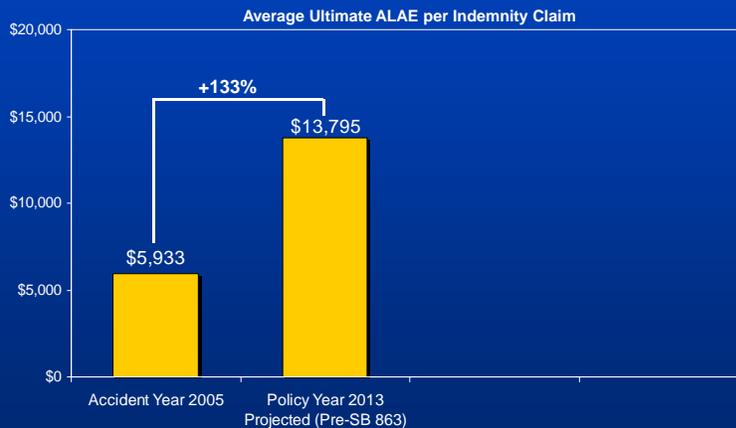
WCIRB Cost Evaluation of SB 863

Summary of WCIRB Estimates

SB 863 Provisions	Impact on Statewide Claim Costs (\$ millions)	% Impact on Claim Costs
2013 Benefit Level Changes	\$620	+3.3%
Elimination of PD Add-ons	(\$170)	-0.9%
Three-Tiered Weekly PD Benefits	(\$100)	-0.5%
Liens	(\$480)	-2.5%
Surgical Implant Hardware	(\$110)	-0.6%
ASC Fees	(\$80)	-0.4%
IMR	(\$390)	-2.1%
Ogilvie Decision	(\$210)	-1.1%
MPN Strengthening	(\$190)	-1.0%
Estimated SB 863 Impact on 2013 Injuries	(\$1,110)	-5.8%
2014 PD Benefit Level Changes	\$590	+3.1%
Estimated SB 863 Impact on 2014 Injuries	(\$520)	-2.7%
Estimated SB 863 Impact on 2013 Policies	-----	-4.4%

Deterioration from 2002-2004 Reforms

Allocated Loss Adjustment Expenses



Deterioration from 2002-2004 Reforms Allocated Loss Adjustment Expense Cost Drivers

■ Liens

- SB 863 imposes lien filing fee and statute of limitations which should significantly reduce volume of liens filed
- IMR process should reduce lien costs related to utilization review

■ Ogilvie and Almaraz/Guzman Decisions

- SB 863 effectively eliminates Ogilvie
- Does not address Almaraz/Guzman

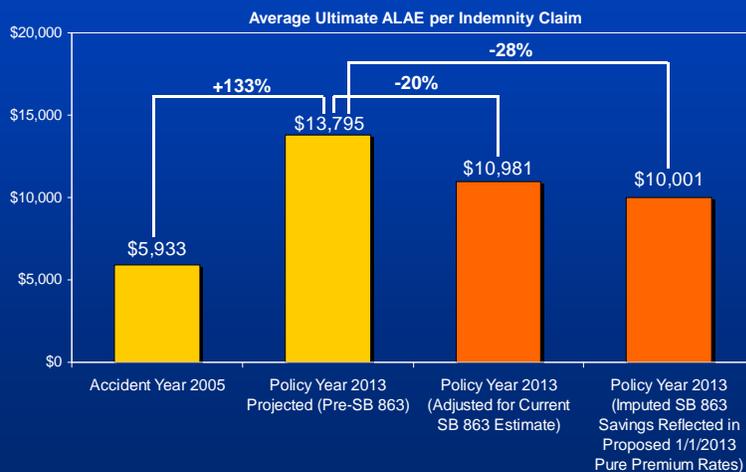
■ Medical Cost Containment Expenses

- Not directly addressed although SB 863 IMR process should reduce frictional costs related to medical disputes

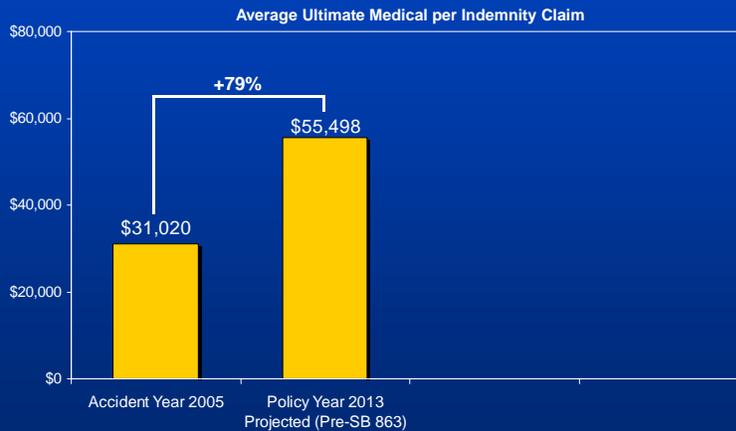
■ Increases in Cumulative Injury Claims and Claims with Multiple Body Parts

- Not addressed by SB 863

Deterioration from 2002-2004 Reforms Allocated Loss Adjustment Expenses – After SB 863 Adjustments



Deterioration from 2002-2004 Reforms Medical



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Deterioration from 2002-2004 Reforms Medical Cost Drivers

■ Medical Treatment Costs

- SB 863 addresses ASC fees, surgical implant hardware, and MPNs which should reduce costs
- Creates IMR process to address medical treatment disputes (cost effect not quantifiable at this time)
- Creates new fee schedules and converts OMFS to RBRVS (cost effect not quantifiable at this time)

■ Medical Liens

- SB 863 imposes lien filing fee and statute of limitations which should significantly reduce liens filed

■ Medical-Legal Costs

- SB 863 creates IMR process which should reduce medical-legal costs

■ Pharmaceutical Costs and Medicare Set-Asides

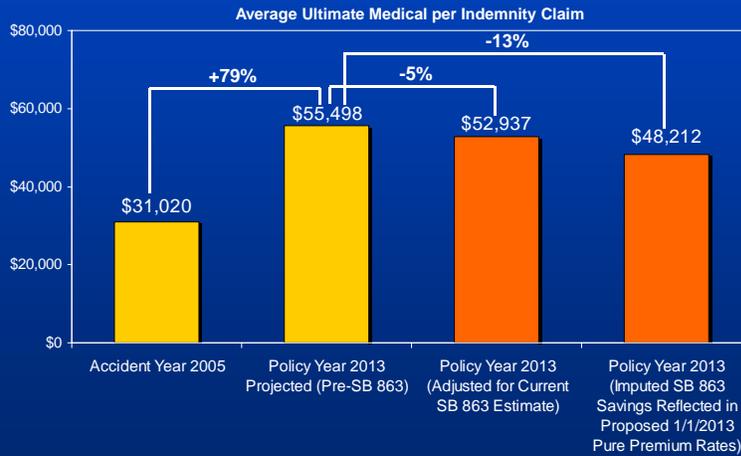
- Not addressed by SB 863

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Deterioration from 2002-2004 Reforms
Medical – After SB 863 Adjustments



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WCIRB Cost Evaluation of SB 863 – Uncertainties & Risks

■ **Provisions Not Yet Effective Remain to be Evaluated**

- Fee schedules for copy services, home health services and interpreters
- Conversion of OMFS to RBRVS basis

■ **Risks**

- Legal challenges to lien filing fees and statute of limitations
- Legal challenges to IMR and independent bill review
- Changing patterns of medical treatment
- Elimination of psychiatric, sleep disorder and sexual dysfunction add-ons to permanent disability
- Codification of Almaraz/Guzman
- Potential new types of permanent disability add-ons

■ **WCIRB to Monitor Emerging Post-Reform Costs**

- Initial WCIRB Claims Working Group meeting on 11/6/12
- Comprehensive plan to be submitted to CDI in first quarter of 2013

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