

Labor and Management Advisory Council Workers' Compensation Reform Proposal

Costing and Assumptions

Legislative Fiscal Division

National Council on Consumer Insurance (NCCI)

- NCCI is designated as the licensed workers' compensation advisory organization
- Upon passage of statutory changes affecting workers' compensation, NCCI estimates effects on loss costs in Montana
- Statute requires:
 - Private insurance companies to follow the loss costs filed by the NCCI
 - Montana State Fund to belong to the rating organization, statute is permissive as to the requirement to follow the loss costs filed by NCCI

Estimates

- NCCI developed cost estimates for some sections of the bill included in the LMAC workers' compensation reform proposal – estimates provide ranges
- Employment Relations Divisions (ERD) contracted with national expert to develop cost estimates for the LMAC proposal – estimates provide specific dollar amounts of savings

- NCCI estimates relate to three areas
 - Indemnity benefit changes effective in FY 2012
 - Stay at work/Return to work
 - Attorney Fees

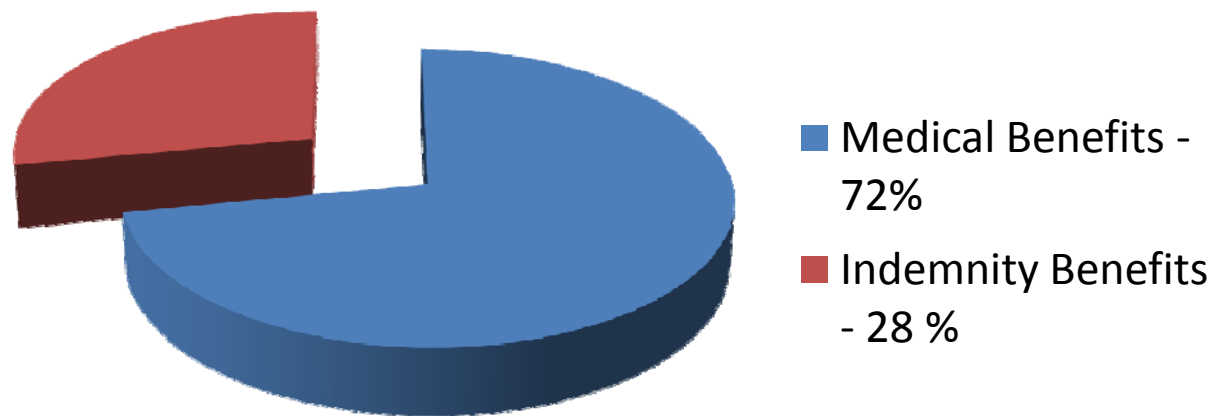
- NCCI currently developing cost estimates on potential savings for fee schedules, completed in the next few weeks

- NCCI acknowledges savings for:
 - Utilization and Treatment Guidelines
 - Fee schedule changeswill occur but is unable to quantify the impact of the provisions on system costs at this time

- NCCI anticipates changes in system costs for settlements but is unable to quantify the magnitude or direction of the changes. Impacts will be realized in future loss experience

Indemnity and Medical Benefits

- Percentage of Benefits Expected for 2011 – (NCCI Estimates)



Stay at Work/ Return to Work – Vocational Rehabilitation (Voc Rehab) Sections 1-13

Voc Rehab Costs	\$10,129,960 - FY 2009
NCCI Estimated Range	-\$6.0 million to -\$1.0 million
Assumptions	67% to 100% of people receiving Perm Total Disability Benefits include SAW/RTW benefits
	24% to 40% of Perm Partial Disability Benefits include SAW/RTW benefits
	Rehabilitation Costs as a percent of Indemnity Benefits range from 4% to 7%.

Terminate Temporary Total Disability (TTD) Benefits Section Sections 16,21, and 25

TTD Costs	\$52,655,735 – FY 2009
NCCI Estimated Range	-\$5.0 million to -\$1.0 million
Assumptions	TTD Benefits are 10.9% of indemnity benefits
	Termination occurs between 21 days and 42 days after maximum medical improvement (MMI)
	Between -13.9% and -4.2% reduction in TTD
	Permanent Partial Disability (PPD) Benefits are 69.7% of indemnity benefits
	An expected reduction of -3.4% to -1% for PPD benefits

Changes to Permanent Partial Disability (PPD) calculations and maximum benefits (Section 27)

PPD Costs	\$21,062,294 – FY 2009
NCCI Estimated Range	\$4.0 million to \$19 million
Assumptions	PPD benefits 69.7 percent of indemnity benefits
	Impairment award 57.5 percent of PPD benefits
	Average weekly benefit cap increases to 75 percent
	33 percent to 50 percent of PPD claims receive impairment award
	Eliminates wage loss modifier

Retroactive Temporary Total Disability (TTD) Benefits After 21 Days (Section 34)

TTD Costs	\$52,655,735 - FY 2009
NCCI Estimated Range	\$1.0 million to \$2.0 million
Assumptions	Temporary Total Disability Benefits are 10.9% of indemnity benefits
	Increases TTD 6.3 percent of claim costs
	Permanent Partial Disability Benefits 69.7 percent of indemnity benefits
	Increases all PPD claims by 4 days of compensation

Attorney fees

Attorney fees	FY 2009 from claimant settlements - \$5,004,176
NCCI Estimated Range	\$0.7 million to \$1.4 million
Assumptions	Between 100 percent to 50 percent of adjudicated claims denied or terminated medical benefits and were successful

Summary

NCCI calculates, for the changes in the bill they are able to quantify, the fiscal impact would be between **-\$5.3** million and **\$20.4** million.

Employment Relations Division (ERD)

- ERD estimates relate to 5 areas
 - Indemnity benefit changes effective in FY 2012 and FY 2013
 - Stay at work/Return to work
 - Attorney Fees
 - Settlements
 - Payments to medical providers

Stay at Work – Return to Work – Vocational Rehabilitation (Voc Rehab) (Sections 1 -13)

Voc Rehab Costs	\$10,129,960 – FY 2009
ERD Estimate	-\$4.4 million
Assumptions	12.0 % of Indemnity Benefits For Voc Rehab
	Permanent Total Disability (PTD) benefits 3.5 percent of Indemnity Benefits
	PTD (10%) receives Voc Rehab
	Remainder (90%) approximately 50% receive Voc Rehab

Terminate Temporary Total Disability (TTD) Benefits Section Sections 16,21, and 25

TTD Costs	\$52,655,735 – FY 2009
ERD Estimate	-\$2.1 million
Assumptions	Temporary Total Disability (TTD) Benefits 41.3 % of indemnity benefits
	Used Actual TTD benefits costs from 2003 to 2007
	Termination occurs at 14 days after Maximum Medical Improvement

Changes to Permanent Partial Disability (PPD) calculations and maximum benefits (Section 27)

PPD Costs	\$21,062,294 – FY 2009
ERD Estimate	\$5.8 million effective July 1, 2012
Assumptions	PPD benefits 33.9 percent
	Impairment award 38 percent of PPD benefits
	Average weekly benefit cap increases to 75 percent
	38 percent to 50 percent of PPD claims receive impairment award
	Average wage loss increment for PPD 17 percent
	Wage loss increment and modifier impacts unchanged

Changes to Permanent Partial Disability (PPD) calculations and maximum benefits (Section 27)

PPD Costs	\$21,062,294 - FY 2009
ERD Estimate	\$14.1 million effective July 1, 2013
Assumptions	Permanent Partial Disability Benefits 33.9 percent
	Impairment award 38 percent of PPD benefits
	Average weekly benefit cap increases to 100 percent
	38 percent to 50 percent of PPD claims receive impairment award
	Average wage loss increment for PPD 17 percent
	Wage loss increment and modifier impacts unchanged

Retroactive Temporary Total Disability (TTD) Benefits After 21 Days (Section 34)

TTD Costs	\$52,655,735 – FY 2009
ERD Estimates	\$1.5 million
Assumptions	Temporary Total Disability Benefits 41.3 percent of indemnity benefits
	Used actual TTD claim costs from FY 2004 to FY 2008
	Increases TTD 2.9 percent of benefits for an estimated 40.0 percent of claimants

Attorney fees

Attorney fees	\$5,004,176 – FY 2009 from claimant settlements
ERD Estimate	\$0.3 million
Assumptions	50 percent of adjudicated claims that denied or terminated medical benefits were successful

Settlement (Section 36)

Costs	N/A
ERD Estimate	-\$23.5 million
Assumptions	Impacts of settlement on medical costs examining 37 other states is 5 percentage points lower in states that allow settlement
	8 – 12 percent reduction in overall medical costs

Fee Schedules (Section 28)

Modification of Fee Schedules to 150% of Medicare

Costs	N/A
ERD Estimates	-\$44.7 million
Assumptions	Non-Facility 57.6 percent of medical benefits –198% Medicare fee schedule currently
	Hospital Inpatient 15.7 percent of medical benefits – 200.1% of Medicare fee schedule currently
	Ambulatory Surgery Centers 7.2 percent of medical benefits -195.6% of Medicare fee schedule currently
	Outpatient hospital 9.4 percent of medical benefits - 212.1% of Medicare fee schedule currently

Utilization and Treatment Guidelines (Section 28)

Costs	N/A
ERD Estimate	-\$83.2 million
Assumptions	Used Estimated Medical Benefits in FY 2010 - \$290 million
	Estimated differential between group health insurance and workers compensation as 150%
	Estimated differential between occupational medical costs and current medical treatment costs 60%
	Estimated differential for price 9%
	Estimated differential for utilization 91%
	Estimated differential for overutilization 29.7%

Summary

ERD calculates the fiscal impact of the changes in the bill would be a reduction in loss costs of **\$150.3 million**

Both NCCI and ERD estimate a small to 0 impact on the following sections –

- Claim closure – Section 14
- Permanent Total Disability – Section 26
- Course and scope – Sections 17 & 19
- Insurer acceptance or denial of claim within 21 days – Section 20