

ALASKA LEGISLATURE SPECIAL COMMITTEE / SUBJECT FILES 8672

1 1 22 SCOMM 33: WORKERS COMPENSATION, 1979-1982

The President of International Rehabilitation Associates, George Welch, established maximum medical recovery at the earliest possible time as the first objective of private sector rehabilitation. He saw medical management as the keystone to the entire rehabilitation process. By hastening medical recovery he figures one can accelerate the whole process of getting back to work. In this way rehabilitation can control medical and lost wage costs which are two significant factors in achieving cost containment.

Welch's argument for cost containment is demonstrated by statistical studies and many narrative reports by the International Rehabilitation Association which purports to have conducted a study of 60,000 claims demonstrating that rehabilitation is cost-effective.³⁷

Oregon's Field Service Program claims to have shaved off an average of three weeks time loss from claims due to their early intervention program aimed at preventing occupational disability and their active re-employment program.³⁸

Technektron, in California, has recently finished an unpublished study of the cost-effectiveness of early rehabilitation in terms of reducing the hard-core of long-term disability beneficiaries.³⁹

Dupont's Affirmative Action program to ease employees into the same or similar jobs following the recovery of an accident-related injury has documented that rehabilitation can be cost effective.⁴⁰

It makes sense that if early intervention will speed up the recovery process or at least reduce the disability process, if early rehabilitation efforts will deter those with low back pain in the absence of objective findings from seeking relief from solely a medical source and keep them focused on returning to work (even with pain), if this effort will result in reduction of medical costs, if rehabilitation is directed at re-employment rather than extensive retraining in a timely fashion, then the expenditure will more than justify itself.

However, if the system is used by employers/insurers as a last ditch effort to place the man with a functional overlay, or postpone employment by planning a long-term training program, or if the system is offered only as a convenient closing tool, it will likely be ineffective and expensive. If rehabilitation is offered to a claimant whose disability income benefits approach take-home pay for working, it is fostering a significant portion of the injured worker population who can literally then not afford returning to work. If rehabilitation is offered to these same injured workers who appreciate from the beginning that the indemnity benefit shall not go on forever, who realize that they will be expected to function in a defined period of time, then rehabilitation will be far more acceptable as an aid in returning to work. It would appear from both the available literature and from this firm's own review of case files that the rehabilitation effort expended upon alaskan injured workers is not wholly relevant. It is directed at a form of "status quo ante" rehabilitation rather than restoring economic productivity; at providing a college education where a job in which the worker may find pride in meaningful productive employment will do.

Essentially we find "vocational restoration " to be a more descriptive term for the way in which we believe the current state federal and private "vocational rehabilitation" service and resources ought to serve.

Re-employment preparation

The following guidelines should be used to insure that injured workers in need of services of a professional vocational rehabilitation organization shall be assisted in obtaining re-employment services or re-employment preparation that is feasible, for which there are good prospects for continuing gainful employment, and which in other respects appears to be a reasonable solution to restoring the injured worker as soon as possible to a condition of self-support and maintenance:

1. Vocational training will be provided only when the worker's inability to return to work is the result of a vocational handicap arising from his disabling occupational injury or disease. When possible, a vocationally handicapped worker should be trained in a job related to his former regular employment and in a setting where he has the potential to be hired.
2. A program to provide skills which would enable the worker to function at an employment level above his pre-injury level will not be undertaken unless the higher level is the only employment for which the worker can be trained.
3. Vocational rehabilitation should emphasize early return to work. Therefore, where more than one resource offers a program consistent with the worker's vocational objective, the worker should be placed in the program which allows him to achieve his vocational objective the soonest. Formal school training shall be the very last alternative.
4. Extensive re-employment assistance and disability prevention shall be the mission of the vocational rehabilitation effort. In all applicable cases, direct placement will be attempted as a first choice by actual job development, provision of job leads, teaching job search skills and providing other practical re-entry assistance.

Disability prevention services ought to be designed to prevent the system itself from causing long-term total disability, by providing a maximum help in a defined period of time, by providing information covering the worker's rights and responsibilities, facilitating communication, coordination, and cooperation between parties, and providing opportunities for work therapy, job try-outs, work samples, even before the worker is medically stationary.

Re-employment assistance could include payment of union initiation fees purchase of tools or equipment necessary to enable a worker to accept an offered job, payment of moving expenses necessitated by the acceptance of an offered job, and any other assistance which will practicably and economically facilitate a worker's return to work prior to becoming medically stationary and remove obstacles to the worker's re-entry into employment such as funding worksite modifications or paying a new employer for training.

RECOMMENDATION No. 15

EMPLOYERS/INSURERS SHOULD FURNISH RE-EMPLOYMENT PREPARATION SERVICES BY VOCATIONAL REHABILITATION SPECIALIST TO WORKERS ON TEMPORARY TOTAL STATUS FOR NINETY DAYS OR MORE WHO HAVE NOT RETURNED TO WORK BECAUSE OF THE EXPECTED RESIDUAL OR RESOLVING PHYSICAL EFFECTS OF THEIR COMPENSABLE INJURY OR DISEASE.

Second injury funds may be used for providing re-employment assistance up to a maximum of \$5,000 per eligible worker who has been recommended by a vocational rehabilitation organization which cannot place the injured worker in conventional means.

The second injury fund ought to provide re-employment assistance to the following qualified persons if approved by the administrator of the second injury fund:

1. Injured workers who have not returned to work as a result of a compensable injury for over three months and is still on temporary total disability status.
2. Injured workers who have demonstrable physical impairments resulting from the occupational injury or disease which by accepted medical principles would appear to be permanent.
3. Injured workers who are unable as a result of the occupational injury or disease to return to the former place of employment of same type of work.
4. Injured workers who are able to return to former employment but not sufficiently recovered to achieve acceptable levels of productivity.
5. Injured workers who have a substantial obstacle to employment.

The Workers' Compensation Claims System

Administration of the workers' compensation claims system is somewhat tedious and for that reason the system is functioning in a not relevant manner. There are four major players, the Workers' Compensation Board, the insurance company adjusters, the courts and the attorneys.

Workers' Compensation Board

The Workers' Compensation Board is comprised of six members appointed by the Governor with the Commissioner of Labor or his designated representative serving as chairman. Exhibit 16 lists the current Board members, their addresses, their time of appointment, and the date their appointment ends. Resume's for these members are not available from the State of Alaska. The Board is further subdivided into three panels each consisting of two members and a Department of Labor representative. Separately, each panel serves an Alaskan region: Northern, South Central and Southern. Each of the panels must have, as its appointed members, a representative from labor and a representative from management. The appointed members must be confirmed by the full legislature sitting in joint session. They are considered part-time employees of the State of Alaska and are paid \$50.00 per day or part of day for every day they sit in hearing or in travel to and from hearings. They also are allowed per diem and transportation expenses.

Responsibilities

According to the mission statement in the Workers' Compensation Division budget submittal, the Board is charged with five major goals: 1) to insure that employees who have become injured in their employment receive prompt medical care at no cost to the worker, 2) to insure the injured worker compensation for loss of wages during disability, 3) that vocational rehabilitation, if necessary, is provided to enable the worker's return to gainful employment, 4) to resolve disputes regarding workers' compensation claims, and 5) to insure that the Alaskan working community is aware of its rights and responsibilities under the workers' compensation system. The Board relies upon the staff of the Division of Workers' Compensation to provide the clerical and technical support necessary to assure that the goals of the Board are achieved. The staff specifically monitors work related injuries and diseases and medical and indemnity payments to workers, provides the technical support for hearings arising out of disputed claims, determines qualifications to self-insure, administers the Second Injury Fund and collects and summarizes statistical data regarding industrial injuries.

The Workers' Compensation Act

The Workers' Compensation Act itself is quite complicated, but to further compound the difficulties, it has undergone major changes in the last five years.

It establishes very definite time constraints on workers, employers, and insurance companies. For example, an employer must file, within ten days of knowledge, a report of each injury or occupational disease; a doctor must file a report of treatment; and the insurance carrier must file a notice of payment or controversy with 14 days of employer knowledge and a report on all final payments. Board opinions following hearings are required to be filed within 20 days of the close of hearing. To monitor these

EXHIBIT 16

CURRENT WORKERS' COMPENSATION BOARD MEMBERS

Name/Address	Date of Appointment	Term Ends	Profession	Labor/Management
Ms. Jan Baughman P.O. Box 60674 Fairbanks, AK 99706	9-18-79	7-1-80	Manager Fairbanks AGC Office	Management
Mr. Thomas Chandler 1217 Water Street Ketchikan, AK 99901	7-9-65	7-1-82	Retired Buissnessman, Ketchikan	Management
Mr. M.M. (Bud) Langbert 522 Glacier Avenue Fairbanks, AK 99701	8-24-79	7-1-82	B/A of Local #302 Union Rep.	Labor
Mrs. Ann S. Pittenger Hotel Captain Cook P.O. Box 2280	8-24-79	7-1-81	Personnel Mgr. Hickel Hotels	Management
Mr. Jim Robinson c/o State District Council of Laborers	9-13-77	7-1-82	President-Alaska District Council of Laborers	Labor
David W. Richards Route 5, Box 5258	7-20-77	7-1-80	Journeyman Carpenter Local-Foreman, Supt. Trades	Labor

requirements of the Act, the Workers' Compensation Division must maintain meticulous files regarding each injury. To further insure that the system is working efficiently and managed well, the Board and Division should maintain an adequate information management system.

Staff and Budget

The Workers' Compensation Division currently has a staff of 16 full and part-time personnel. In addition, it has the services of two staff from the Fisherman's Fund and four others from the Second Injury Fund. An organization chart for the Workers' Compensation Division is provided in Exhibit 17.

The Division is currently operating under an authorized budget of \$1,220,000. Exhibit 18 displays the increases in budget from fiscal year 1975 through fiscal year 1979, contrasted against the increased hearing workload of the Division for this same time period. The budget for the Division has increased by 77 percent, whereas, its hearing workload has more than doubled.

Clearly, this unparalleled growth in workload versus budget growth has taken its toll. As we noted, first payment of compensation to the employee by either the employer or insurance company following an injury must take place within 14 days; the Division indicates that this has occurred only 30 percent of the time in fiscal year 1978. The employer is mandated to file a report of injury within 10 days of injury; the Division indicates this has only occurred 46 percent of the time in fiscal year 1978. The Act stipulates that the Board must issue a decision within 20 days of a hearing; decisions actually have followed the hearing by approximately 98 days.

Much of the increased workload is attributable to pipeline related activity and this might be expected to fall off as those claims are resolved. Indeed as shown in Exhibit 19 the 1979 workloads are down from 1978 and 1980 workloads should be reduced even further.

Unfortunately, for the State's workload, further "boom" type growth lies ahead with the advent of significant activities which should blossom with major projects for mid-1980, including the Northwest Gas Line, the State's several bonded projects and further work on the Trans-Alaska Pipeline.

Capabilities

The Division is well aware of the discrepancies between actual and mandated performance. They have neither the manpower nor the budget to assure that the law is obeyed. The full-time employees of the Division who manage the Anchorage and Fairbanks offices and the Deputy and Director of the Division act as designated chairperson of the Workers' Compensation Board. They must prepare its findings, conclusions of law and decisions. However, their positions also require them to attend to the day to day administra-

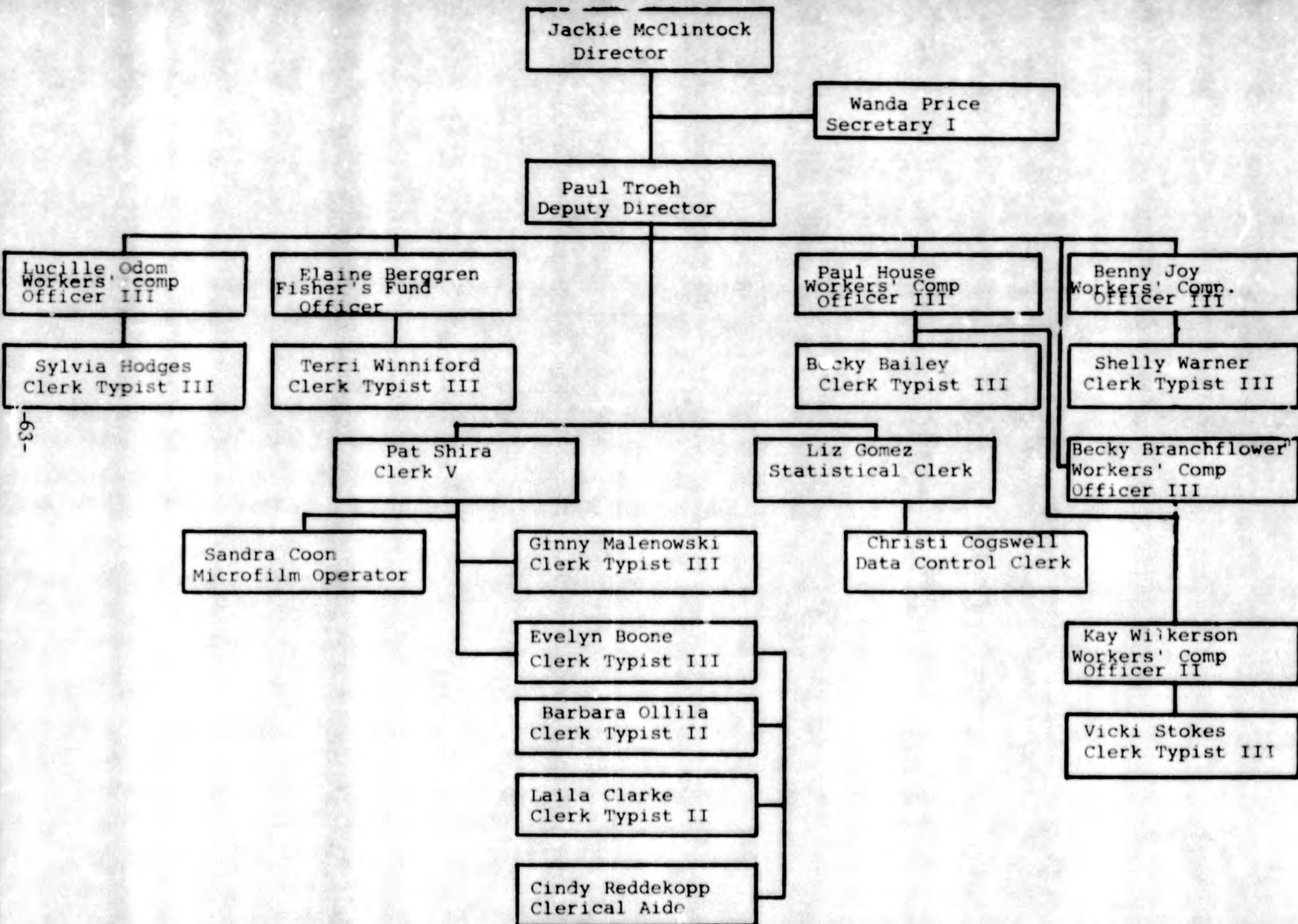
WORKMANS' COMPENSATION DIVISION
DEPARTMENT OF LABOR

EXHIBIT 18

PERCENT INCREASE IN HEARING WORKLOAD
CONTRASTED AGAINST BUDGET INCREASES
FOR DIVISION OF WORKERS' COMPENSATION
FY 1975 through FY 1979

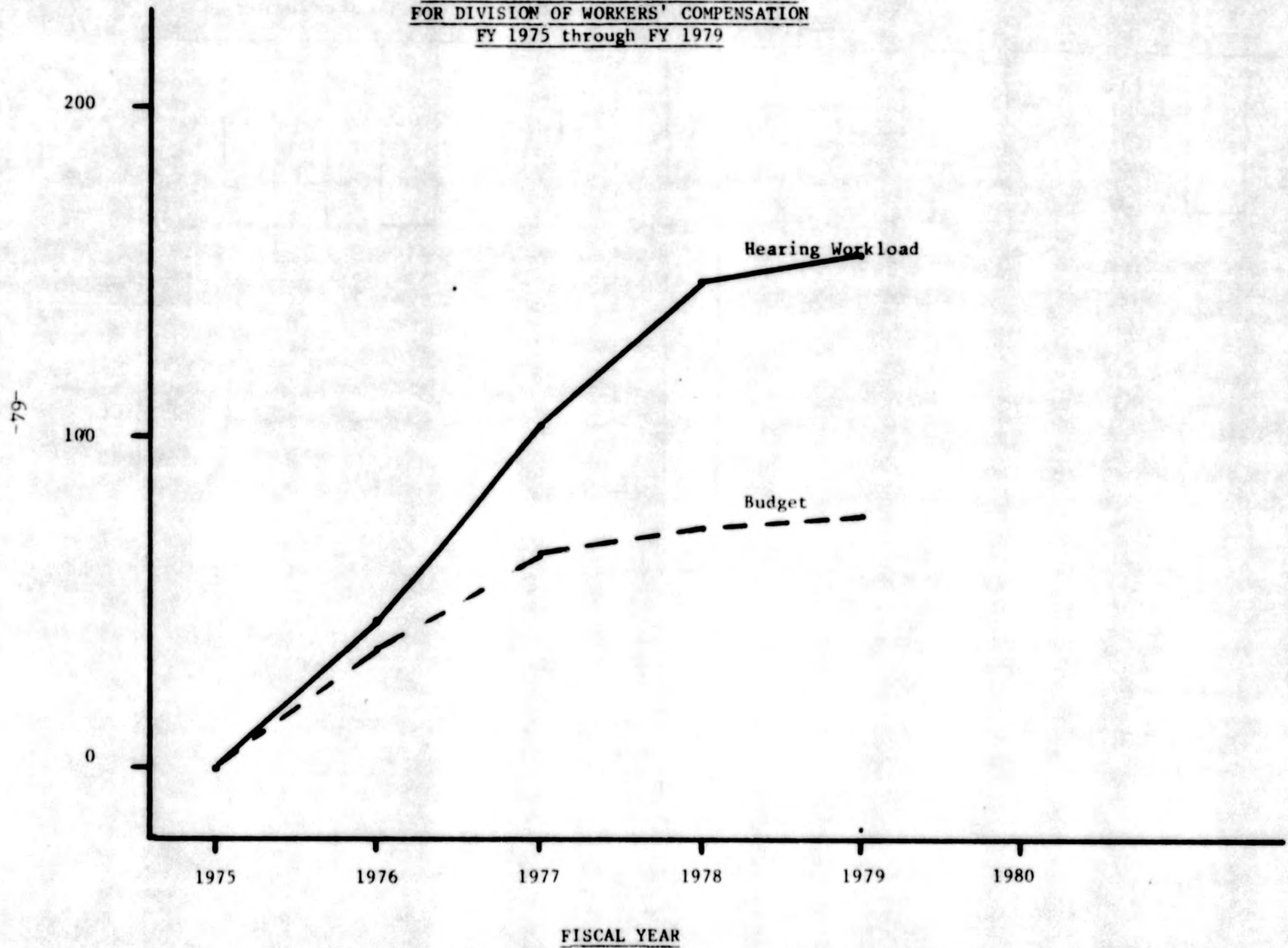


EXHIBIT 19

PERCENTAGE INCREASE IN W/C BOARD HEARINGS - FY 1975 BASE PERIOD

Percent
(%)

600

500

400

300

200

100

0

-60

Baseline
FY 75

Controverted Cases

C&R's Approved by
Order

Cases Set for
Hearing

Decisions and
Orders

FY
76
111%

FY
77
165%

FY
78
165%

FY
79
138%

FY
76
19%

FY
77
77%

FY
78
323%

FY
79
565%

FY
76
-15%

FY
77
55%

FY
78
85%

FY
79
79%

FY
76
-3%

FY
77
43%

FY
78
115%

FY
79
85%

tion of their respective offices. Here they must oversee and frequently participate in the processing of the thousands of claims, advising of injured workers, insurance companies and employers as to the provisions of the law and procedures. This dicotomy of responsibility is placing severe strain on the system. Senior personnel with the Division indicate that they cannot plan an active role in serving the public's right to know. Of course they try to answer every question received, but from a reactive posture. It would be more helpful to be able to make sure fires don't happen rather than rush to put them out. The only active public relations and information dissemination role currently performed by the Division is the publication of two modest brochures: one on workers' compensation and the other on the Fisherman's Fund. These are available at the Division on request.

Data Systems

Data collected by the Division serves primarily to fulfill requirements placed upon the State Department of Labor by the federal government. The data retrieval system which is in place could be an extremely valuable tool; however, the source documents are the first report of accident, some physicians' reports and the final report of payment. These reports come to the Division on such a sporadic basis and over such a long period of time that the data themselves are really not very useful to management for loss control. Additionally we also find some gaps in the data system. Presently, for example, there is no method enabling correlation of medical costs for the various classifications of disability. No baseline data for medical costs for similar injuries outside the workers' compensation system are kept; therefore, comparative cost and time loss studies cannot be made. It is our understanding that the Division is investigating their data system and trying to improve its utility perhaps by placing it on line with the State's computer system. The Division indicates that it is studying the Washington State data collection system to see if it is applicable to the needs of the State of Alaska. We have no knowledge about the Washington system; whether it will serve the needs cited above remains an open question. Even if the system goes on-line, the above problems will not be rectified for the source documents are too late, contain too little information, and are usually of questionable validity.

Currently, all private insurance companies are providing data to the National Council on Compensation Insurance through the unit statistical plan which could serve as source data for the State's management data system. We do not believe that it would be too great a burden to request the same data the carriers submit to the National Council to be submitted to the State's management data system. Of course, to make the data complete it would be necessary to assure that the self-insurers in the State submit comparable data to the Division. We recognize that the data needed by the State and that needed by the National Council are not identical; however, we believe the State and the National Council could develop a data system satisfactory to both.

An appropriate management data system would offer the following opportunities of benefit to employers.

a) The Division of Workers' Compensation could advise the employer community with respect to improved loss cost containment and improved safety programs. They could present reliable comparative data with respect to medical treatment costs, and indemnity costs allowing employers to more effectively manage their injury problems.

b) Continuous recognition and highlighting of injury frequencies and severities by employer class would allow employers to develop strategies to contain injury losses, and enable better and more directed efforts from the State Division of Occupational Safety and Health. This could prove to be the most significant area in which workers' compensation cost could be contained in the long term.

c) It is a widely held impression that claims for workers' compensation track increases and decreases in unemployment within the State. A number of adjusters have indicated to us that they know when a job is going to end or when winter is approaching by simply monitoring the number of worker's compensation claims filed. The obvious conclusion, therefore, is that the claims are fraudulent; workers' compensation benefits are far superior to unemployment benefits. National data collected in Exhibit 20 do not support this point. Claims appear to follow the normal activity expected for the job season. The State has no qualitative data with which to measure the validity of the malingering assumption. If there is merit to the assumption quality data would show it, define the extent of it and pin point the most critical areas for attention.

d) There is a wide spread lack of confidence in the data upon which the National Council on Compensation Insurance formulates into rates. Although, as this report notes later, the basic structure of the National Council rating approach is sound, subject to some later enumerated deficiencies. There is no sound basis in objective creditable data to validate the National Council information or, more importantly, to apply local data to temper the affect of National Council data manipulation on Alaska rate making. For example, were there to be a local data base of claims by classification available to employers, legislators, labor unions and other, more meaningful judgements could be made with respect to the quality of rate making, and rate approvals.

RECOMMENDATION No.16

THE DIVISION OF WORKERS' COMPENSATION SHOULD BE PROVIDED A SYSTEMS STAFF WHO SHALL PREPARE IN CONCERT WITH THE PRIVATE CARRIERS, THE SELF-INSURERS, THE NATIONAL COUNCIL ON COMPENSATION INSURANCE, AND THE DEPARTMENT OF OCCUPATIONAL SAFETY AND HEALTH, A DATA SYSTEM WHICH WILL ALLOW THE WORKERS' COMPENSATION DIVISION TO PROVIDE EMPLOYERS USEFUL INFORMATION TO ENABLE THEM TO CONTAIN THEIR WORK INJURY COSTS, DECREASE INJURY FREQUENCY AND SEVERITY AND TO EVALUATE THEIR SAFETY SYSTEMS AND WHICH WILL ALLOW THE DIVISION OF INSURANCE TO MAKE THE RATE MAKING PROCESS MORE RELEVANT.

Impact of Delay in Hearings and Rulings

Clearly, the Workers' Compensation Board and its staff are endeavoring to fulfill the goals and objectives of the workers' compensation system. It is equally clear that the workload and the funds made available to the Division are not compatible. The Division is unable currently to meet the simple time constraints set by law. The delays currently being experienced are placing a significant financial burden on several elements within the system.

Interviews with experienced claims adjusters indicate that the brunt of the burden of hearing and ruling delay falls upon the injured claimant. If a case or claim is controverted by the insurance company, all payments cease at that point. If the hearing and subsequent opinion requires a period of time five times greater than that mandated by law, this only results in the injured claimant receiving no compensation for this period of time. Therefore, some injured workers are partially funding the delay. If it is finally determined that the employer is obligated to pay the claim, or the disputed portion, the employer must pay interest on the full award which is an increased expense because of the delay in getting a decision. On the other hand, if a worker receives compensation five times longer than he should have during a delay, the employer is experiencing another unnecessary expense.

RECOMMENDATION No. 17

AN ADDITIONAL TWO HEARING OFFICERS AND CONCOMITANT SUPPORT PERSONNEL SHOULD BE PROVIDED THE DIVISION. ALL DISPUTED CLAIMS SHOULD BE HEARD BY ONLY THE PROFESSIONAL HEARING OFFICER WHO DISCOVERS THE FACTS AND PREPARES AND ISSUES OPINIONS. ONLY APPEALS FROM THE HEARING OFFICER'S OPINION WOULD BE HEARD BY THE FULL BOARD. HEARINGS OUGHT THEN TO BE SCHEDULED IN A TIMELY WAY THROUGHOUT EACH WORK WEEK.

Employee Information

Simply targeting the time deadlines established by law, however, is only one important goal of the Workers' Compensation Division. It should be assuring that every worker and every employer in the State thoroughly understand benefits and the responsibilities that are attendant with workers' compensation. Hopefully, misunderstandings of the system by both workers and employers would be minimized, thus reducing the concomitant anxieties which are associated with misunderstanding if meaningful information were available to all employers and workers. Here we would hopefully note a reduction in controverted claims and the cost attendant to them.

In California, there is a voluntary system supported largely by the cognitive effort of State employer associations and the State workers' compensation insurers, wherein the workers' compensation insurers provide in sufficient quantity to all employers, brochures describing the workers' compensation system, which each employer provides each new hire. They also distribute to each injured person a brief descriptive brochure of how to proceed with filing a claim and what that person's legitimate entitlement are. We believe such a program in Alaska would contribute to a lessening of litigation arising from misunderstanding. Speed up the adjudicatory, and then perhaps shorten the disability period.

RECOMMENDATION No. 18

WE RECOMMEND THAT EACH INSURER OR EMPLOYER PROVIDE A DESCRIPTIVE BROCHURE TO EACH EMPLOYEE SETTING FORTH A CLEAR, CONCISE AND EASY TO READ EXPLANATION OF THE WORKERS' COMPENSATION SYSTEM AND THE INJURED EMPLOYEE'S ENTITLEMENTS UNDER THE SYSTEM.

Monitoring Self-Insurers

An additional responsibility of the Workers' Compensation Board is to grant certificates of self-insurance to those employers within the State of Alaska who choose to insure their workers' compensation liability themselves rather than through private carriers. AS 23.30.075 provides that any employer choosing to self-insure shall furnish the Board satisfactory proof of his financial ability to pay directly the compensation provided for. If the employer elects to pay directly, the Board may, in its discretion, require the deposit of an acceptable security, indemnity or bond to secure the payment for compensation liabilities as they are incurred. AS 23.30.090 provides that if an employer has complied with the provisions of Chapter 23 relating to self-insurance, the Board shall issue him a certificate which shall remain in force for a period fixed by the Board. These are the extent of the criteria established by law for self-insurers. Currently, an application for a certificate of self-insurance includes minimal financial data from the requesting employer. Premium and loss values for the three years prior to application is requested and anticipated gross income and net

income for the current year is sought. Occasionally balance sheets are requested so that some indication of corporate net worth is before the Board. Discussions with management of the Workers' Compensation Division indicates that the Division is not staffed with the technical expertise to rigorously evaluate applications for self-insurance. Additionally, no rigorous criteria exists for either approving or denying applications for self-insurance. Some concern exists with respect to the Board's role in granting certificates of self-insurance. In a letter dated January 29, 1979, John L. George, then Acting Director of the Division of Insurance, wrote Paul Troeh, Deputy Director of the Workers' Compensation Division, regarding proposed qualifications for Workers' Compensation self-insurance. Here John George stressed "it is imperative, therefore, that those who are granted permission to self-insure, genuinely have a risk which, within relatively narrow parameters, is predictable and whose average losses can be easily absorbed annually much as insurance premiums would be absorbed". Additionally, he stated "permission to self-insure must not be granted to those who have inadequate spread of risk predictability and understanding of the principles of self-insurance". He further went on to indicate that the Board must look at the financial security of the employer which will back the self-insurance program. The employer should show adequate financial data, history, integrity and liquidity to assure the ability to pay claims now and in the future. Minimum qualifications, he stressed, must at least require a surety bond and when appropriate, evidence of excess statutory insurance coverage. He went on to note that posting an adequate bond does not relieve the Board of its responsibility to thoroughly screen applications for self-insurance, but rather, acts as an additional safeguard in the system. He noted that the Board must be careful to analyze the reasons for the employer's desire to insure. In this regard, the statistical analysis will prove beneficial. Most employers and some municipalities feel that self-insurance is cheaper and therefore plunge into it without regard for the potential of serious loss and ultimate solvency of the employer. He suggested some minimum qualifications for workers' compensation self-insurance which are fully set out in his letter.

It is our understanding that no action has taken place on these recommendations. We believe that most, but not necessarily all of the criteria contained in the insurance divisions letter are valid.

Essentially the division of workers' compensation ought to assure that only those that truly possess the financial strength to absorb the full, and true cost of workers compensation injuries be permitted to do so.

We believe it would be detrimental to the concept of self-insurance were the division to permit a self-insurer to become insolvent and thus unable to pay claimants. At the same time the requirements ought to be open enough to permit self-insurance by the truly financially able without costly and unnecessary regulatory burdens.

We do feel that data parallel to that kept by private carriers must also be kept in comparable form for self-insurers in order to monitor self-insured continued qualification and to have information on losses equivalent with that obtainable from insurers. Specific comments about self-insurance as a cost saving technique are made later.

RECOMMENDATION No. 19

A SECTION OF ANALYSIS AND REGULATION BE ESTABLISHED WITHIN THE DIVISION TO EVALUATE AND RECOMMEND ISSUANCE OF CERTIFICATES OF SELF-INSURANCE. THE DEPARTMENT SHOULD ALSO BE CHARGED WITH THE CONTINUOUS MONITORING OF AND DATA GATHERING FROM SELF-INSURERS IN A MANNER SO THAT THIS DATA CAN BE COMPARED TO THAT GATHERED FROM THE PRIVATE SECTOR.

Role of Attorney

In examining the litigation process we find an amazing and "non-relevant" practice which is costly and not wholly cost justified; the use of lawyers at hearings to represent the employers and carriers.

There is no doubt that lawyers are essential to the proper presentation of a case made complex by the presence of legal issues or cases which are appealed to the Superior or Supreme Court system. On the other hand the system has lost sight of the fact that it was originally intended to be a simple administrative procedure providing a rapid and equitable determination of what few factual issues were in dispute.

Our research and review of this issue with the State of Alaska Department of Labor has turned up no requirement that either the injured or the employer must be represented by counsel.

Experience of carriers in other states, particularly California has demonstrated that carrier employed hearing representatives can expertly handle substantially all cases for the employees at significant defense cost savings.

We do not believe that injured workers should be represented by other than lawyers if they are represented at all. We believe cost savings can be achieved by making the system more easily accessible to claimants expediting their benefits and properly informing them of their rights. Hopefully, for the majority of the cases independent counsel would not be necessary. When it is however, it should be provided only by licensed attorneys.

RECOMMENDATION No.20

CARRIERS AND EMPLOYERS SHOULD INSTITUTE THE PRACTICE OF USING HEARING REPRESENTATIVES FOR PREPARING AND PRESENTING THE MAJORITY OF ITS CASES, BEFORE THE WORKERS COMPENSATION HEARING OFFICERS OR BOARD.

Hopefully, adoption of these few recommendations will make the rehabilitation and claims administration systems as well as the governmental agencies that oversee the system more relevant to contemporary needs.

VI. COMPETITION IN THE WORKERS' COMPENSATION SYSTEM

Although ultimately, in all cases, the cost of the system is borne by the consumer as incremental price adjustments made by employers in their costs of goods and services, employers bear the direct impact of the system costs, thus the cost of the worker's compensation system is most appropriately investigated by investigating those who pay the benefits and bills. In Alaska, there are four major entities having that responsibility: the private insurance companies, the assigned risk pool, the Second Injury Fund, and the self-insured employer.

What is not fully utilized however, is the power of competition to make the participants in the system more efficient and give the employer some bargaining power in the market place.

There follows a series of analyses and recommendations which have as their motivation stimulating competition within the system.

Private Carriers

The principal occupant of the servicing field is the private insurance carrier. To understand how to develop competition among private carriers some basic background is necessary.

Earned Premium

The premium to be focused on here is the net direct earned premium. Earned premium refers to that portion of premiums which should be allocated to the year in question on a pro rata basis according to the portion of the policy period that falls in that year. For example, \$50.00 in calendar earned premium would be generated in calendar year 1971 by a policy selling for \$100.00 and running from July 1, 1971 through June 30, 1972, whereas \$100.00 for a policy covering the one year period 7/1/71 to 6/30/72 would be allocated entirely to the policy year 1971 if we chose to look at a policy year basis. Net direct earned premium is earned premium minus returns to policy holders in the form of premium discounts and through experience and retrospective rating plans. In this discussion both policy year premiums and calendar year premiums will be considered since these are the data bases utilized by the National Council on Compensation Insurance for rate making.

Premiums are expected to cover all expenses, all losses, and company profits.

In the insurance industry, expenses are divided into two components: those expenses associated with claim losses and all other expenses. Company expenses other than loss expenses are those associated with servicing policies, those to generate new business, and, of course, all other normal expenses associated with operat-

ing a business. These expenses are included in proposed rates as a function of the earned premium and are budgeted as a fraction of it. The NCCI has currently established this expense component as 31.7%. This value derives its basis from the experience of stock companies and is revised periodically to reflect their most recent experience. Within this component, a nominal percentage, 2.5% is reserved for underwriting profit. This value appears to be quite small; however, other allowances for profit have been allowed as will be discussed later.

Loss Expenses

Expenses associated with loss are, of course, the losses themselves, and all expenses both allocated and unallocated associated with adjusting these losses. In the most recent filing, October, 1979, the NCCI set the loss adjustment expense factor at 11.5 percent, for 1979, down 1% from last year. Exhibit 21 traces the last three years history in both the expense loading factor and the loss adjustment factor for all the carriers in the State of Alaska and for national experience as a whole. The actual loss adjustment expense factor fluctuates between 10.0 percent and 12.0 percent.

Incurred Losses

The largest component in the rate is the payments for claims or monies which are reserved to pay claimants the workers' compensation benefits established by law. In the vernacular of the industry, these losses are referred to as incurred losses and fall into two categories: 1) adjusted losses or losses in the process of adjustment and 2) incurred, but not reported (IBNR). The first category includes the liability for future payments on losses which have already been reported to the company. There are three general kinds of such future payment activity: payments on currently pending claims, additional payments on closed claims, and payments on claims which will be subsequently reopened. The second category of loss liabilities includes the liability for future payments on claims which have already happened but have not yet been reported and recorded in the company records but for which the carrier is obligated by law to set aside a reserve. In other words, those losses generally designated as incurred losses for a given period, refer to losses that are paid during that period plus the outstanding reserves at the end of the period, minus the reserves at the beginning of the period and the reserves include reserves for the unpaid portion of known losses and an estimate of expected but unreported losses.

Investment Income and Operating Profit

It is the reserve component of the incurred losses and the reserves established for unearned premium which provides the vehicle for the major part of the insurance carriers' operating profit. Since these reserves are established for very long term liabilities, they

Exhibit 21
Expense Loading and Loss Adjustment Factors
For Top Ten Alaskan Carriers, All Alaska Carriers, and
National Experience Between 1976 and 1978

Carrier	<u>1976</u>			<u>1977</u>			<u>1978</u>		
	Percent of Market	Loss Adj. Expense Factor %	Expense Loading (%)	Percent of Market	Loss Adj. Expense Factor %	Expense Loading (%)	Percent of Market	Loss Adj. Expense Factor %	Percent Loading (%)
ALPAC	45.5	10.4	24.4	56.5	13.2	18.8	60.5	8.9	17.4
Prov. Wash.	11.8	9.5	50.7	10.1	10.8	19.9	8.9	10.2	34.0
Ind. Indem.	8.3	13.5	23.0	7.9	16.6	18.5	5.7	19.5	21.9
Emp. of Wau.	4.4	10.3	18.9	4.0	12.9	14.7	4.9	11.7	15.8
Home	4.3	8.7	26.1	1.7	9.2	20.3	2.6	11.2	18.3
Fire. Fund	3.8	11.9	24.5	3.9	11.1	20.0	1.7	10.8	21.1
Amn. I.C.	3.6	11.9	24.5				1.2	10.4	20.2
Fid. Cas. N.Y.	1.3	8.0	23.0						
Travelers	1.2	6.4	21.0	1.9	7.9	21.3	1.9	7.9	21.5
Com. U.I.C.	1.2	11.6	25.3						
Aetna				1.8	8.8	19.7			
Assoc. Ind.				1.7	11.1	20.0			
Ideal				1.1	14.6	7.6			
Contin.							1.0	14.2	22.2
INA							1.7	9.0	17.4
	85.4	10.5	27.7	90.6	12.8	18.8	90.1	10.0	19.5
All Alaskan Carriers	100.0	10.7	27.5	100.0	12.8	19.3	100.0	9.7	19.6
All Alaskan Carriers w/o ALPAC	54.5	11.0	30.1	43.5	12.3	19.9	39.5	10.9	23.0
National Carriers	-	10.7	23.7					11.5	18.7

are capable of being invested in reasonably high interest bearing longer term instruments. It is this investment income which makes up the "lion's share" of the carrier's operating profit. Additionally, this income is not directly considered for rate determinations, the argument being that the 2.5% factor for underwriting profit is so marginal that it is unreasonable to utilize the investment income component in rate making. If the NCCI were to consider investment income in the revenues utilized in rate making, the carriers argue that the underwriting profit factor would have to be increased significantly to reflect reality. There is probably some merit in this position.

Before leaving the concept of loss reserves, it should be noted that they are also statutorily set to insure carrier solvency. AS 21.18.090 (3)(4) states that for all workers' compensation claims under policies written more than 3 years before the statement is made, the reserves shall be the present value at 4 percent interest of the determined and estimated future payments; and for all workers' compensation claims under policies written in the 3 years immediately preceding the date the statement is made, the reserves shall be 65% of the earned compensation premiums of each of the three years, less all loss and loss expense payments made in connection with the claims on the policies written in the corresponding years; but in the first year of the 3 year period, the reserves shall not be less than the present value at 4 percent interest of the determined and estimated unpaid compensation claims under policies written during the year. These are very prudent and conservative reserving policies which have been established to support the primary goals of the Division of Insurance which is to enable the Alaska insurance consumer to obtain insurance coverage from financially sound companies at rates which are adequate, not excessive, and non-discriminatory.

There is no question, that establishing reserves at the present value assuming 4 percent interest is indeed a very conservative approach to reserving and is perhaps justified for statutory financial reporting purposes. We do not believe this approach should be the same one utilized for establishing reserves for the purpose of calculating insurance rates.

Our investigation of reserving practices has revealed that on most all serious cases, carriers are setting and reporting for rate making purposes reserves calculated as the arithmetic projection of expected case payout. For example if a thirty five year old worker is rendered permanently and totally disabled, his benefit could be, in addition to temporary disability and medical expense, a permanent disability award equal to $66 \frac{2}{3}$ of his weekly wage projected forward for his life expectancy; which may be as much as 30 years.

$(\$650 \times 52 \times 30 = \$1,014,000).$

As a matter of fact that amount will never be paid!

a) The carrier deposited only \$670,000 in a 5% interest bearing investment it could pay the \$33,500 annual obligation and at the workers death still have the initial investment, or

b) The carrier could as most often happens, enter into a lump sum settlement agreement with the worker for substantially less than the posted reserve, or

c) The carrier could, and today more frequently does, purchase for a reduced amount an annuity contract from a life insurer which pays the weekly indemnity.

For some reason, workers compensation reserves are not factored by anticipated remarriage, settlement or findings of no liability.

It is true, that ultimately the true cost including later reserve deductions, finds its way into the rate making but until the true cost is recognized by the carrier, the more conservative reserve is used in rate making. This tends, in a growing and cyclical economic environment such as Alaska, to exasperate loss trends, skew loss code statistics and artificially increase losses on more recently reported years' experience.

In 1978 the legislature recognized the change in trend for interest rate assumptions, even for statutory reserving purposes when it permitted life insurers higher interest rate assumptions in the reserve valuation and nonforfeiture provisions of the Alaska Insurance Code.⁴³ The interest rate assumptions for immediate annuities, the policy most analogous to a workers' compensation claim payout is 7.5%.

The rationale for permitting higher interest assumptions in life insurance reserving is equally, if not more compelling for workers' compensation reserving and certainly for workers' compensation rate making.

RECOMMENDATION No. 21

AS. 21.18 SHOULD INCLUDE A PROVISION PERMITTING CARRIERS TO RECOGNIZE REMARRIAGE SETTLEMENT AND FINDINGS OF NO LIABILITY TO BE INCLUDED IN THE RESERVE SETTING. IF THERE IS A RELUCTANCE TO PERMIT THIS CHANGE FOR STATUTORY REPORTING PURPOSES, THEN AS. 21.39 SHOULD INCLUDE A PROVISION REQUIRING ADJUSTMENTS IN RESERVES USED FOR RATE MAKING TO REFLECT, SETTLEMENT, REMARRIAGE AND FINDINGS OF NO LIABILITY.

RECOMMENDATION No. 22

INTEREST RATE ASSUMPTIONS IN AS. 21.18.090(3)(4) SHOULD BE INCREASED TO MORE NEARLY REFLECT REALISTIC YIELDS ON INVESTMENTS. THE 7.5% ASSUMPTION USED FOR IMMEDIATE ANNUITY AND ENDOWMENT CONTRACTS IS APPROPRIATE. IF THERE IS RELUCTANCE TO PERMIT THIS CHANGE FOR STATUTORY REPORTING PURPOSES, THEN AS. 21.39 SHOULD INCLUDE A PROVISION REQUIRING ADJUSTMENT IN RESERVE FOR REMARRIAGE TO REFLECT THE 25% ANNUITY ASSUMPTIONS ON RESERVES.

Exhibit 22 traces the growth in workers' compensation written premium, earned premium and incurred losses in Alaska from 1972 through 1978. Superimposed on these trends is the growth in the State's average weekly wage. From the carrier's point of view, these trends suggest impending disaster. There is no question that the earned premium and incurred loss curves appear to be coalescing. However, here too we must approach initial conclusions with some caution. Prior to 1978, the National Association of Insurance Commissioners, the provider of these data, did not show IBNR in the incurred loss component. Thus, the apparent coalescing of the curves in 1978 is actually due to the increase in the incurred losses due to inclusion of the IBNR reserves. This change in data base makes it very difficult to determine historical trends in the profitability history of carriers of workers' compensation. This is not the first time that we have run into this type of change which has made a rigorous analysis of the financial history of workers' compensation very difficult. However, since IBNR reserves are considered a component of incurred losses in the rate making process, it is probably more realistic to include this reserve component in the studies of carrier profitability published by the National Association of Insurance Commissioners. Unfortunately indeed it is that these changes in data base are not explicitly recorded in the published documents, therefore allowing analysts to adjust tables in such a manner as to obtain comparability.

Effect of TAPS

The size and complexity of the Trans-Alaska Pipeline project that superimposed itself upon the normal working climate of Alaska between 1975 and 1977, caused affects which rippled through the entire economy of the State of Alaska. Its effects on workers' compensation costs in the State of Alaska were quite profound; some of these will be discussed here and others will be discussed when we investigate the rating process itself.

As the Alyeska premium and loss data entered the NCCI data base, the NCCI formula which is aiming at a 68+% permissible loss ratio tended to drive up the rates even though Alyeska was not paying manual rates or fixed charges for their coverage, and even though the adverse experience in the Alyeska project was not being experienced, or at least to the same degree by non-included employers.

Exhibit 23 summarizes aggregate loss ratios (i.e., the ratio of incurred losses to earned premium) for the years 1976 through 1978 for carriers in Alaska and for the carriers net of ALPAC and net of Alyeska business. Net of ALPAC business, the loss ratios for the industry in 1978 fell from 95.8 to 71.1 percent, in 1977 fell from 70.9 to 66.5 percent and rose in 1976 from 74.1 to 77.8 percent. Because of a data base change, we cannot make a clearcut conclusion based on trend; however we can see that the Alyeska phenomena has a significant impact on the workers' compensation system. So much so that in 1978 the loss ratios with and without ALPAC business differed by as much as 35%, this itself suggest

EXHIBIT 22

WORKERS' COMPENSATION EARNED PREMIUM AND INCURRED LOSSES CONTRASTED WITH ALASKA'S AVERAGE WEEKLY WAGES 1972-1980

MILLIONS OF DOLLARS

AVERAGE WEEKLY WAGES (DOLLARS)

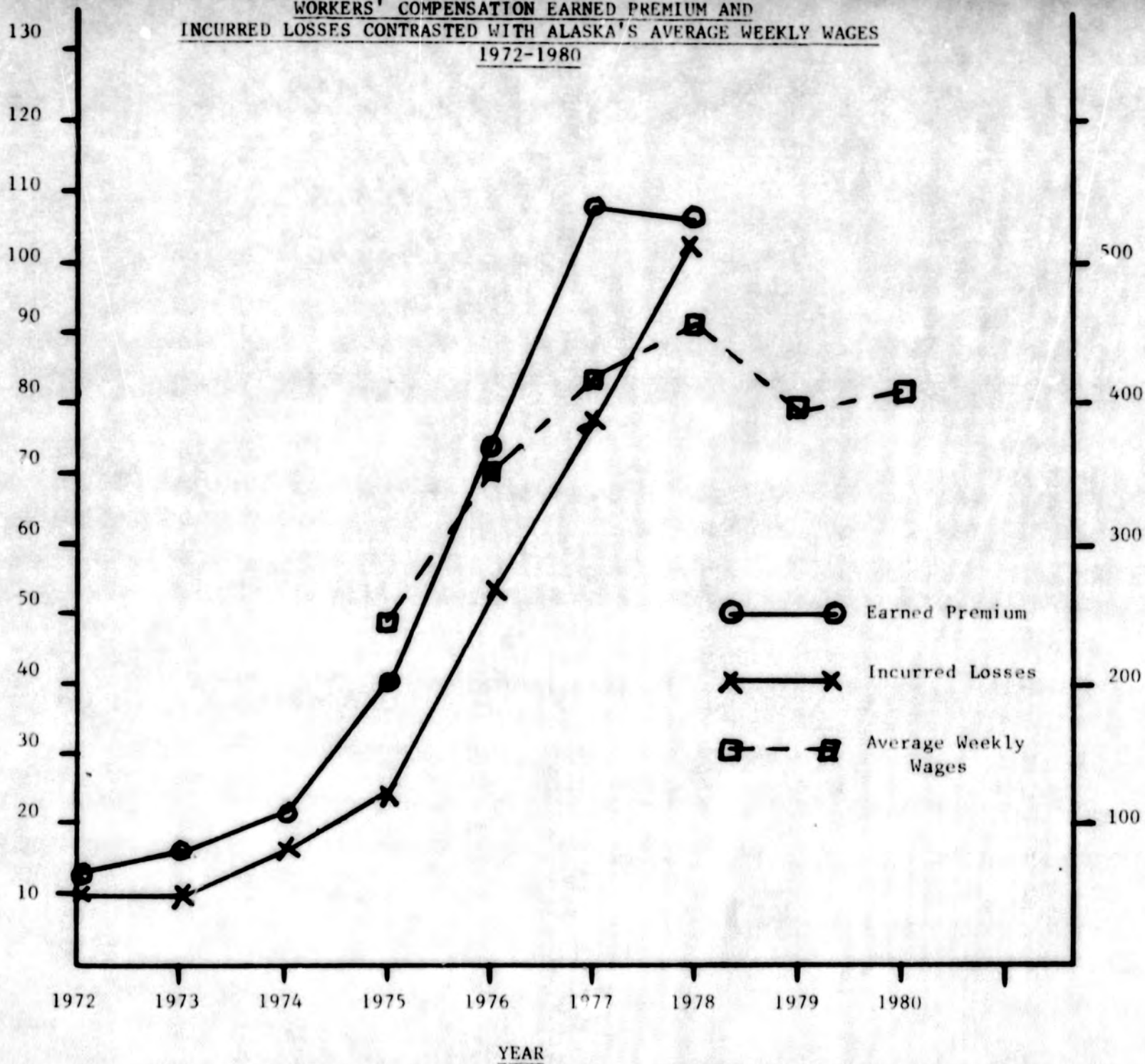


EXHIBIT 23

Aggregate Loss Ratios For
Alaska Carriers Including
ALPAC, Net of ALPAC, and
Net of TAPS for
1976 - 1978

<u>Year</u>	<u>Loss Ratio</u>	<u>With ALPAC</u>	<u>Net of ALPAC</u>	<u>Net of TAPS</u>
1976		74.1	77.8	72.0
1977		70.9	66.5	64.2
1978		95.8	71.1	103.0

that projects of this scope or magnitude should be segregated from other normal Alaskan projects. Workers' compensation premiums, and loss experience such projects should be separated totally from the State experience as whole and not be utilized in the calculation of rates for the rest of the Alaskan employers. The size of these projects is so large that they can be looked upon as quasi state experience by themselves and, therefore, should be rated in that manner.

RECOMMENDATION No. 23

IF, IN THE FUTURE, ANOTHER EXTRAORDINARY CONSTRUCTION PROJECT OF THE MAGNITUDE OF THE TRANS-ALASKA PIPELINE IS TO OCCUR WITHIN THE STATE, AND IF A SPECIAL WRAP-UP INSURANCE PROGRAM IS UTILIZED, WE RECOMMEND THE DIRECTOR OF THE DIVISION OF INSURANCE REQUIRE FOR THE PURPOSES OF WORKER'S COMPENSATION RATE MAKING, ALL PREMIUMS PAID, LOSSES INCURRED, AND EXPERIENCE REALIZED BY THIS PROJECT BE SEGREGATED FROM ALASKAN EXPERIENCE AS A WHOLE AND NOT BE INCLUDED IN GENERAL STATE RATE MAKING.

Assigned Risk Pool

Those employers who find it impossible to obtain workers' compensation insurance within the voluntary market, more specifically, have been turned down for insurance by two carriers, may petition the assigned risk pool for insurance coverage. For the privilege of being assigned to the pool, the employer pays a surcharge of 8% if he is not an air carrier risk, or 15% if he is. The pool will assign his policy to one of the servicing carriers. Currently, the servicing carriers of the assigned risk pool are: Alaska Pacific Assurance Company, Employer Mutual Liability Insurance Company of Wisconsin, Fireman's Fund Insurance Company, Industrial Indemnity Company and Providence Washington Insurance Company of Alaska. The assigned risks are distributed homogeniously across the servicing carriers with approximately 450 risks assigned to each carrier. For servicing assigned risk policies, the carrier collects the premium for each risk in advance and remits approximately 63% of it to the pool to cover losses and expenses incurred by it. The remaining 37% of the premium is retained by the servicing carriers and is utilized to cover their expenses of servicing the assigned risk policies. This 37% expense loading for the assigned risk pool compares with an aggregate expense allowance of 31.7% in the voluntary market.

If the employer in the assigned risk pool generates an annual premium of \$1,500, or more, he qualifies for experience modification just as if he were in the voluntary market. Good experience predicates a premium lowering; poor experience results in a premium increase. Additionally, all employers in the Assigned Risk Pool realize premium discounts depending upon the size of their premium in excess of \$1,000 as they would if they were in the voluntary market. If the risk is small enough, the manual

provisions for minimum premium and expense constant are applied to the cost to cover the increased expense percentage to handle small accounts. Yet, no matter where in the Assigned Risk Pool one finds himself, the surcharge is 8% or 15%.

Exhibits 24 through 27 present statistics for the Assigned Risk Pool from, in some cases, 1961, the year of inception, to present. Exhibit 24 shows the growth in the number of risks placed in the Assigned Risk Pool. The influence of Alaska Pipeline activity is clearly in evidence. Exhibit 25 traces additional Assigned Risk Pool growth trends. Compared here are new risks applying, renewal business, risks afforded coverage, and coverage refused by the employer. Exhibit 26 compares earned premium versus incurred losses and for the Assigned Risk Pool from 1970 through 1978. For every year from 1972 except 1975, the earned premium exceeded the incurred losses. However, on netting out the service carrier allowances, it is found that for every year except 1974, the Assigned Risk Pool experienced a loss. Exhibit 27 traces the cumulative percent of total risks and total premiums generated from specified annual premiums. The air carrier problem is one of special significance and will be dealt with separately below.

Out of the 1917 risks serviced by the Assigned Risk Pool in 1978, approximately 1186 paid premiums of \$1,500, or less, (62%). These risks generated \$607,000 in premium out of a total premium of \$5,520,000 (11% of premium).

Small Risk Surcharge

One of the most unfortunate phenomena in workers' compensation market distribution has been the general unwillingness of the voluntary market to accept small risks. The general attitude of many carriers has been that small business generates so little premium, even after applying expense constants and minimum premiums that the cost of servicing and the risk of loss made the small risk unattractive. Accordingly, most small businesses are placed in the assigned risk pool simply because they are small, not because they are necessarily a poor risk. The result is that small risks are paying an 8% surcharge only because of their size.

In 1977 and 1978, the Division of Insurance discussed implementing a small risk incentive program to encourage the carriers to voluntarily write the small risk. The essence of the program was an assigned risk pool assessment credit measured by the number of small risks originally written in the pool voluntarily written by the carriers. The carrier response was to establish their own small risk voluntary writing program and the Division of Insurance deferred implementation of its program to give the carriers' program a chance to operate.

The number of small risks in the pool over time is shown in Exhibit 28. It would appear that despite the good intentions of the carriers, a large number of small risks still are left with the Assigned Risk Pool as their only market choice.

EXHIBIT 24

EMPLOYER GROWTH IN THE ALASKAN ASSIGNED RISK POOL

NUMBER OF EMPLOYERS

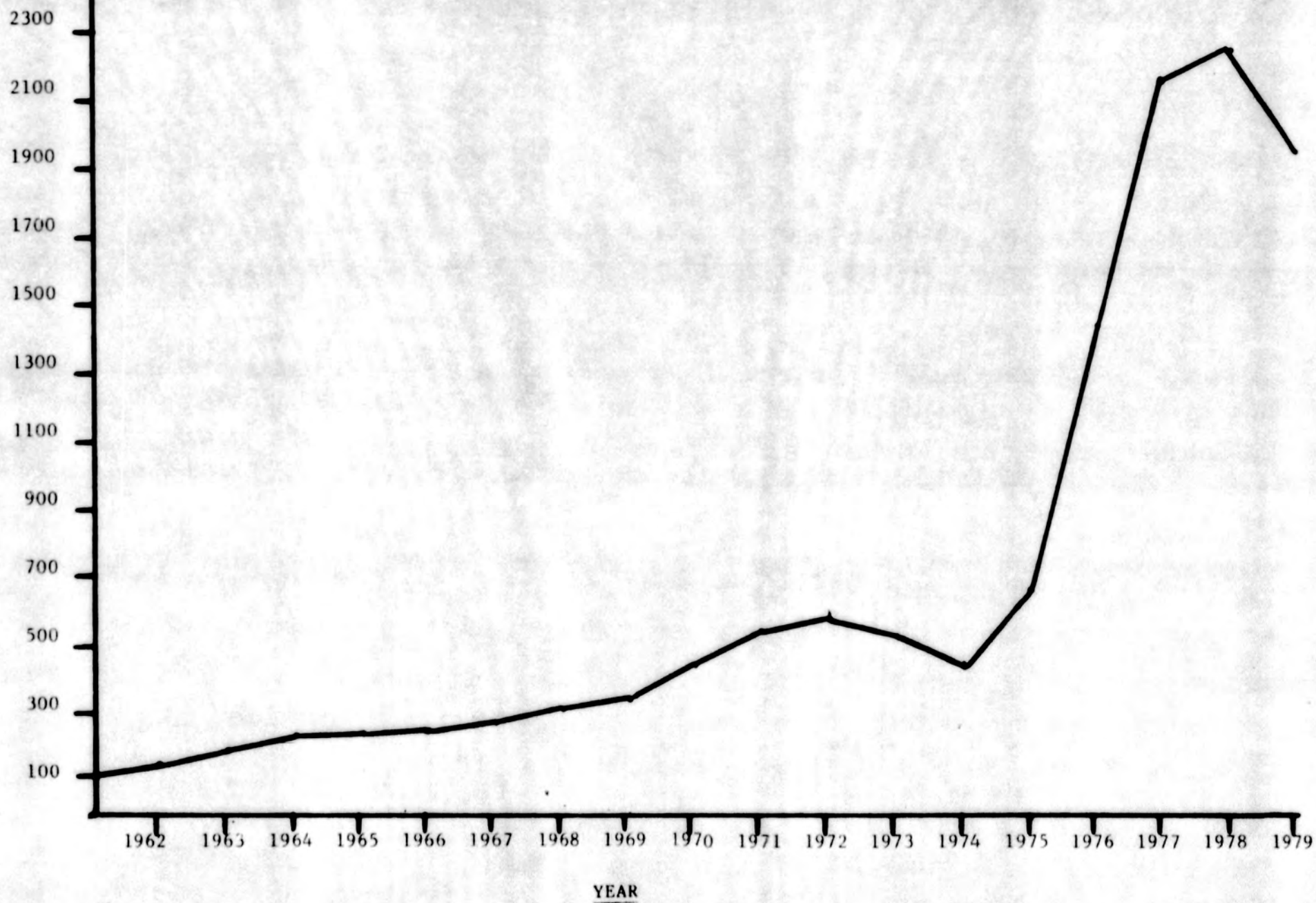


EXHIBIT 25

(ASSIGNED RISK POOL GROWTH TRENDS)

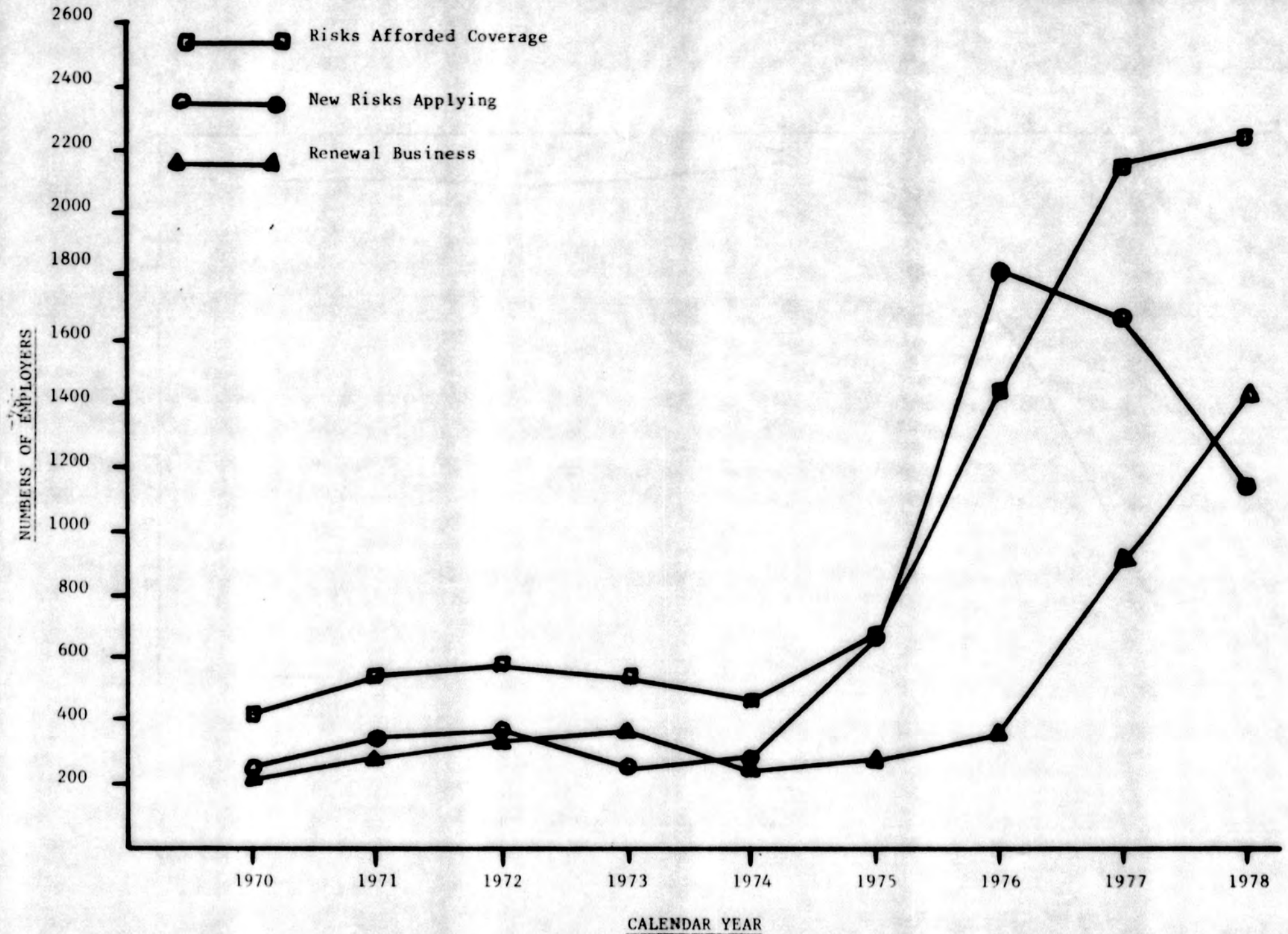


EXHIBIT 26

ASSIGNED RISK POOL CHARGES
IN EARNED PREMIUM AND INCURRED LOSSES

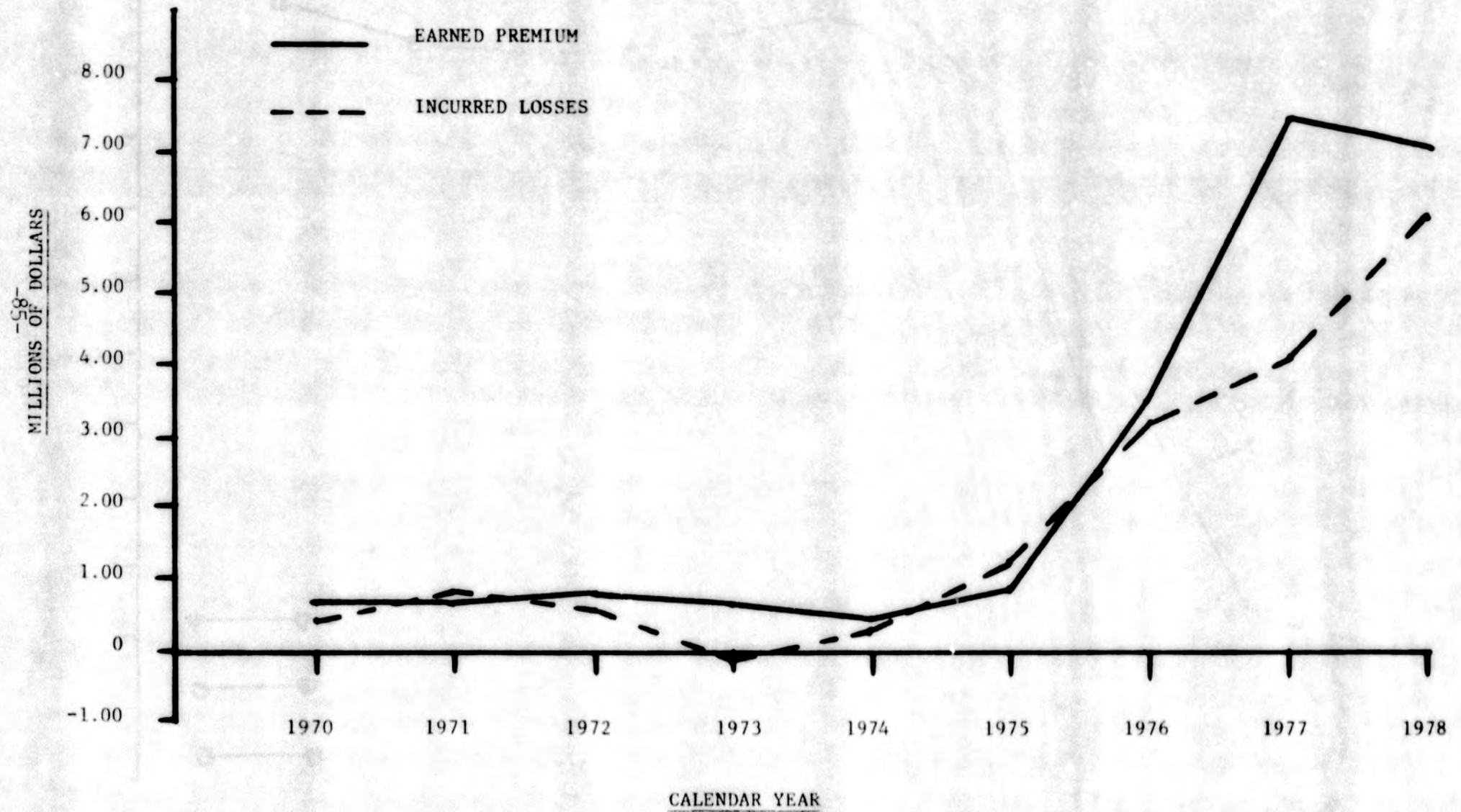


EXHIBIT 27

CUMULATIVE PERCENT OF TOTAL RISKS GENERATING AND TOTAL
PREMIUM GENERATED FROM MANUAL PREMIUMS EQUAL
OR LESS THAN PREMIUM INDICATED FOR FY 1978

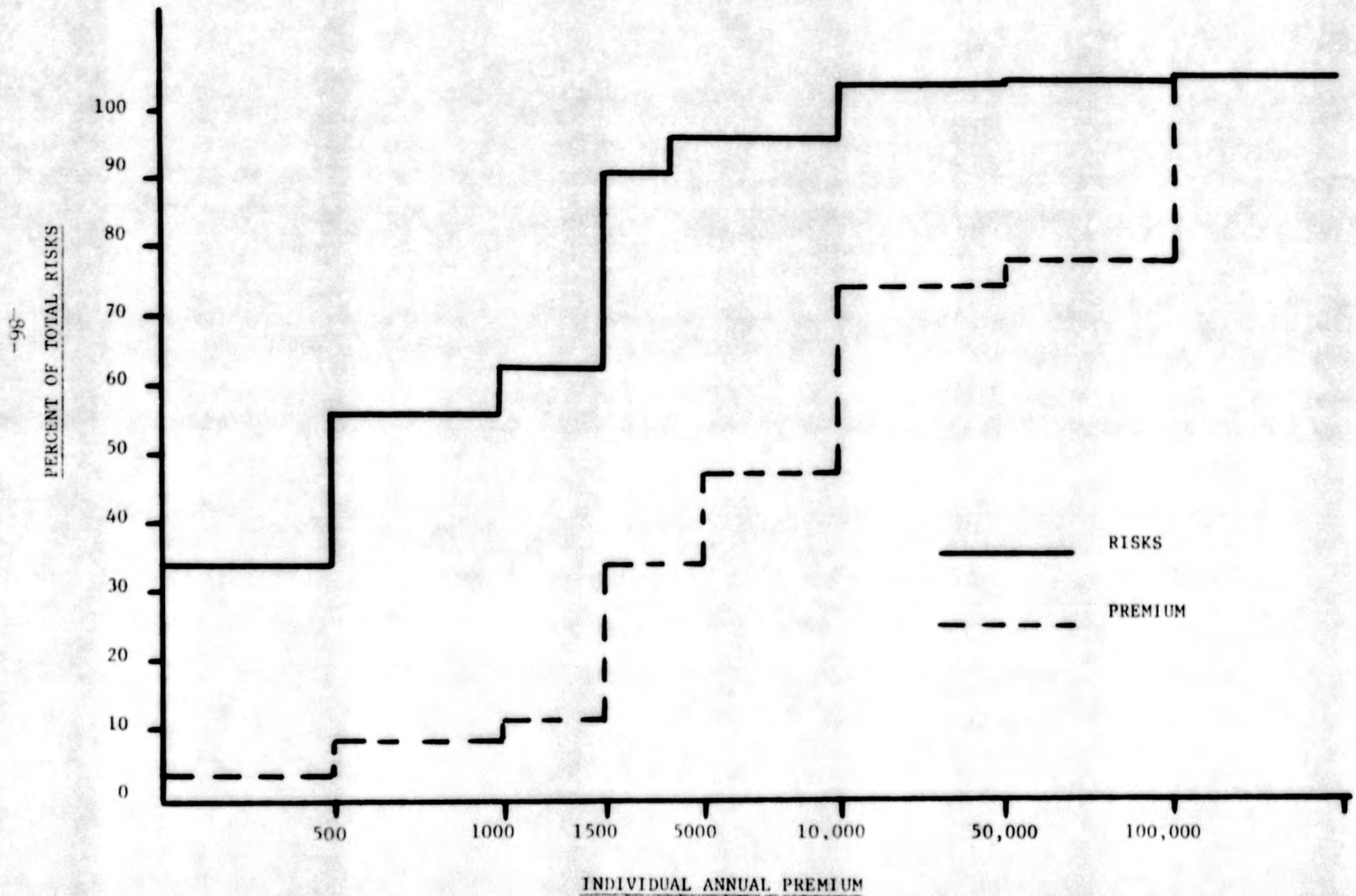


EXHIBIT 28

Small Risk For Alaska
Assigned Risk Pool
1975-1978

Year	Total Number of Risks	Number of Risks Paying <\$1500/yr.	Total Premium For ARP	Premium From Risks <\$1500/yr.	% of Risks <\$1500/yr.	% Small Risk Premium <\$1500/yr.
1975	673	503	1,135,957	178,134	74.7	15.7
1976	1,649	1,048	5,879,869	462,828	63.6	7.9
1977	2,165	1,274	7,093,520	655,055	58.8	9.2
1978	1,917	1,186	5,518,015	606,989	61.8	11.0

It is believed that the small risk should not pay a surcharge intended for the poor risk simply because the risk is small. By eliminating the 8% surcharge on those risks paying \$1500 or less, in annual premium, a total savings of \$45,000 would accrue to these risks (approximately \$40.00 per risk per year). This savings would decrease the total premium generated by the Assigned Risk Pool by 1%.

Although the objective of all of our research has been to find ways to lower cost, we believe it is important to recognize that ultimate lower cost for the broadest base of Alaskan employers may be achieved by proper allocation of costs among employer classifications which may result in cost increases for some in order to bring equity among all. Larger risks which, we assume go to the pool because of the character of the risk, should pay a surcharge large enough to create an enhanced incentive to improve the safety measures taken by the risk to reduce losses and to more approximately charge premiums in proportion to propensity to incur loss. Accordingly, an increase in surcharge is believed appropriate for the larger risks. Raising the surcharge on non-air carrier risks in the pool paying \$1500 or more per year in premium by 2% to a total of 10% would increase pool revenue by approximately 1.8%.

RECOMMENDATION No. 24

THE DIRECTOR OF INSURANCE SHOULD ORDER THE SURCHARGE BE ELIMINATED FOR ALL RISKS IN THE ASSIGNED RISK POOL WITH ESTIMATED ANNUAL STANDARD PREMIUMS EQUAL TO OR LESS THAN \$1500. FOR ALL RISKS, OTHER THAN AIR CARRIERS IN THE ASSIGNED RISK POOL PAYING ESTIMATED ANNUAL PREMIUMS OF GREATER THAN \$1500 THE SURCHARGE SHOULD BE 10%.

Pool Servicing Fee

The pool servicing carriers are currently paid 37.5% of assigned risk premium as compensation for the expenses of handling the assigned risk accounts.

The usual expense component paid to servicing carriers, from which all expenses, including commissions, is paid is 41.7%. In Order 77-4, the Director of Insurance ordered the rate of surcharge set back to 8% and 15%. Simultaneously, the Director ordered the servicing carrier fee adjusted so that it did not exceed 41.7% of the premium without the surcharge, in other words, the surcharge went entirely to fund losses. This effectively lowered the expense loading to approximately 37% of total premiums.

Earlier we showed that actual expense data indicated that in the aggregate, the carriers are experiencing an actual expense cost of 24% of premium. The NCCI rate filings reflect an allowance of 31.6% of premium. We believe that it is unfair to burden the employers with excessive expense cost in the pool by permitting a

larger than apparently necessary expense reimbursement to the servicing carriers. We suggest reducing the service carrier allowance from the present 37% to 30%. The potential premium applied against losses will increase by 7.8%.

RECOMMENDATION No. 25

WE RECOMMEND THAT THE ALLOWED EXPENSE LOADING FACTOR FOR THE SERVICING CARRIERS OF THE ASSIGNED RISK POOL BE NO LARGER THAN THAT ALLOWED BY THE NCCI FOR CARRIERS SERVICING RISKS IN THE VOLUNTARY MARKET.

Net operating losses in the pool in 1978 were 23% of net earned premium. By implementing all of the above suggestions, the operating loss could have been reduced to 14.4% of earned premium. The allocated assessment against all carriers in the Assigned Risk Pool could have been diminished.

The Second Injury Fund

Though it is one of the payors in the workers' compensation system here in Alaska, it is not an equal partner as are the private carriers, the Assigned Risk Pool and the self-insurers. Actually, the Second Injury Fund plays two important roles in the workers' compensation system: 1) it acts as a reinsurer to employers who have second injury liabilities and 2) it serves to enhance the opportunity for handicapped individuals and previously injured workers to find employment. The first instance is covered in Alaska statutes by AS 23.30.205. Here it is stated:

"a) If any employee who has a permanent physical impairment from any cause or origin incurs a subsequent disability by injury arising out of and in the course of his employment resulting in compensation liability for disability that is substantially greater by reason of combined effects of the pre-existing impairment and subsequent injury or by reason of the aggravation of the pre-existing impairment than that which would have resulted from the subsequent injury alone, the employer or his insurance carrier shall in the first instance pay all awards of compensation provided by this chapter, but the employer or his insurance carrier shall be reimbursed from the Second Injury Fund for all compensation payments subsequent to those payable for the first 104 weeks of disability."

The section proceeds to state that if the death of an employee was contingent upon a pre-existing physical impairment again the employer or his insurance carrier shall be only liable for 104 weeks of beneficiary benefits. Further, it is required that the employer establish, by written records, that he had knowledge of the permanent physical impairment before the subsequent injury and that the employee was hired or retained in employment after the employer had acquired this knowledge. A very comprehensive list of prior injuries or disabilities are defined as being a permanent physical impairment. Within this list of specific conditions is a general one which says a condition which will support

a rating of disability of 200 weeks or more if evaluated according to standards applied in compensation claims falls within the definition.

In the second instance, AS 23.30.040 states that the Second Injury Fund may be used to provide the vocational retraining and rehabilitation of a permanently disabled person whose condition is a result of a compensable injury. The expenses for retraining or rehabilitation may be paid out of all funds in the Second Injury Fund which exceed a balance of \$10,000. The individual being retrained or rehabilitated may receive compensation from the Second Injury Fund for maintenance in a sum which the Board considers necessary during the period of retraining and rehabilitation but not exceeding \$100.00 per month. The total expenditures for maintenance, training, rehabilitation and necessary transportation may not exceed \$5000.00 for any one person.

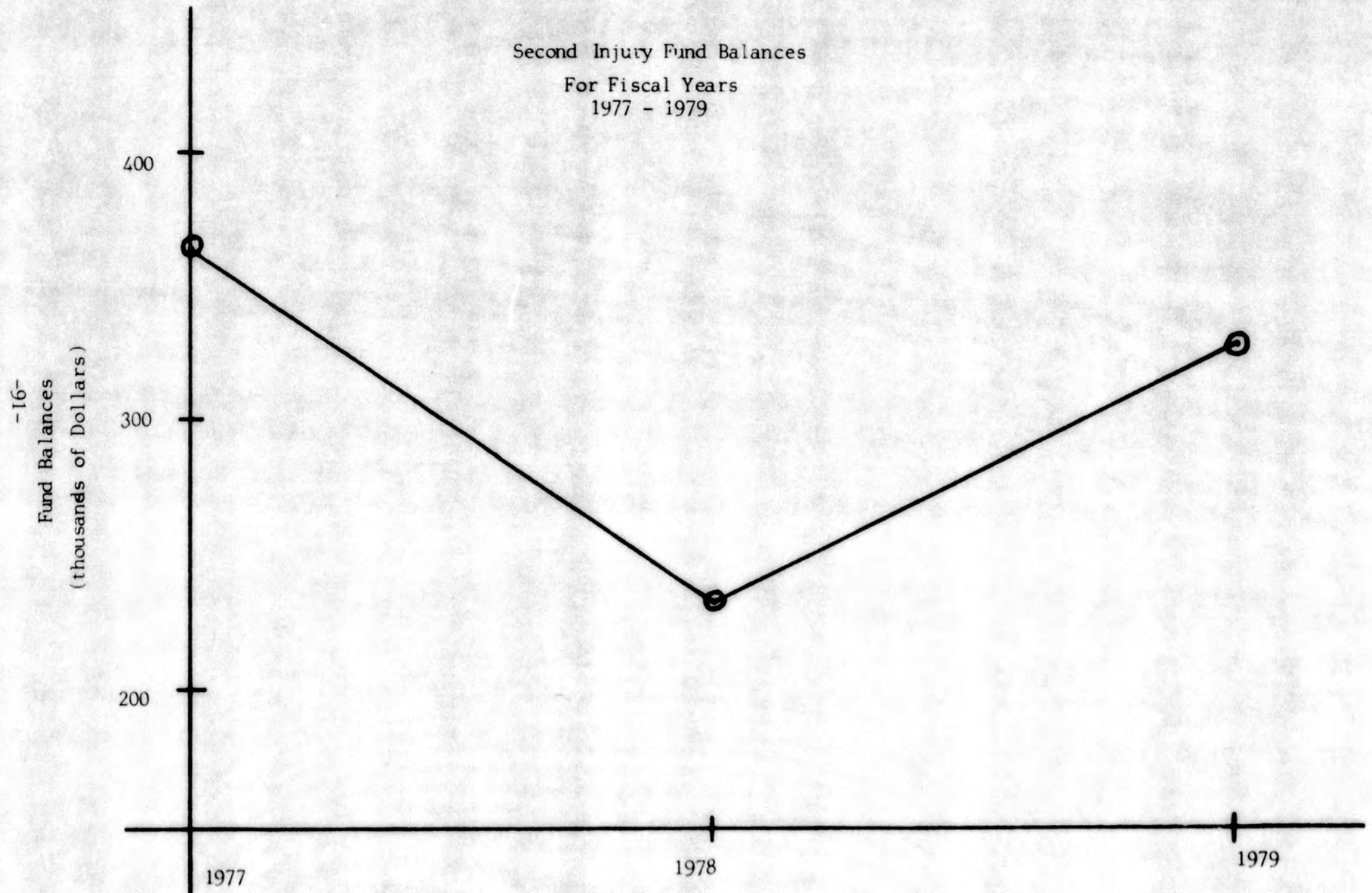
The Second Injury Fund itself was established under AS 23.30.040. It is funded by the private insurance carriers within the State of Alaska. If an employee suffers a compensable injury which results in a permanent partial disability, the employer or his insurance carrier shall, in addition to the compensation provided for, pay into the Second Injury Fund, a lump sum equal to 8% of the total compensation to which the employee is entitled for the permanent partial disability. If the employee suffers death during employment and is at the time of his death unmarried and leaves no children or dependents, the employer is required to pay to the Second Injury Fund the sum of \$10,000 for the sole benefit of those entitled to participate in the fund. Subsequent to the fund balance reaching \$400,000, these carrier or employer contributions are no longer necessary.

Exhibit 29 traces the Second Injury Fund balance from 1977 through 1979. We see that at no time has the fund balance exceeded \$370,000 and actually has oscillated around \$300,000.

In our conversations with claims adjustment personnel of the private carriers and with some senior management personnel of the Second Injury Fund, we have discovered that there is some likelihood that the Second Injury Fund in the near future will be unable to pay all its obligations. The potential claims against the Second Injury Fund which have been identified by the carriers exceed the current fund balances and its estimated income. To date, we have been unable to quantitatively document this discovery. It has been brought to our attention, however, by senior claims personnel among the private carriers that the Second Injury Fund is quite slow in responding to requests for reimbursement. One of the major complaints is that when a carrier settles a compensation claim by a compromise and release agreement and a lump sum settlement, it is unable to obtain lump sum reimbursements from the Second Injury Fund. Senior management personnel of the Second Injury Fund confirm that their cash flow is insufficient to reimburse lump sum settlements.

Exhibit 29

Second Injury Fund Balances
For Fiscal Years
1977 - 1979



It appears curious to us that the Second Injury Fund has as a specific objective the enhancement of employment opportunities of the handicapped, yet is funded entirely from revenues derived from worker injuries. If the Second Injury Fund were only to be used to enhance the re-employment opportunities of injured workers, this singular funding would be justified. However, since it is not dedicated to the single purpose of enhancing the re-employment opportunity for the occupationally injured, it is apparent that there should be additional or alternative funding avenues. Since it is State policy to encourage the hiring of the previously handicapped in addition to the previously injured, it is reasonable to fund the Second Injury Fund partially from State General Fund revenues. This suggestion is definitely contrary to tradition since there is no state in the Union which makes a general fund contribution to their Second Injury Fund.

RECOMMENDATION No. 26

WE RECOMMEND THAT THE FUND BE AUDITED YEARLY BY INDEPENDENT ACTUARIAL CONSULTANTS AND THAT ALL PROJECTED REVENUES AND CLAIMS BE ESTABLISHED. IF THE EXPECTED LIABILITIES OF THE FUND EXCEED THE PROJECTED CARRIER REVENUES, THAN AN ADDITIONAL APPROPRIATION TO MAKE UP FOR THIS DIFFERENCE BE MADE FROM THE GENERAL FUND.

As noted above, the Second Injury Fund is only liable for disability compensation payments subsequent to 104 weeks for any claimant whose second injury is proved to have been exacerbated by a prior injury. Medical payments from these injuries are not covered by the language currently in the law. We are unable to determine why the Second Injury Fund differentiates between compensation payment reimbursement and medical payment reimbursements. In fact, we have been unable to obtain a suitable rationale for not having medical payments also reimbursable.

RECOMMENDATION No. 27

WE RECOMMEND THAT MEDICAL PAYMENTS ALONG WITH DISABILITY COMPENSATION PAYMENTS AFTER THE FIRST 104 WEEKS OF DISABILITY BE COVERED BY THE SECOND INJURY FUND.

Also noted above is the fact that in order to use the Second Injury Fund, an employer is required to have written knowledge of a claimant first injury prior to his second injury. In order to utilize the second injury fund employers must require their job applicants to take a physical or complete a medical questionnaire in order to meet the requirement of prior written notice.

This is added expense to the employer and also smacks of discriminating the very discrimination against the previously injured the second injury fund was designed to prevent.

RECOMMENDATION No. 28

WE RECOMMEND THAT ANY FIRST INJURY DOCUMENTATION ESTABLISHED PRIOR TO A SECOND INJURY EVEN IF DISCOVERED AFTER THE SECOND INJURY BE SUITABLE FOR ESTABLISHING THE SECOND INJURY FUND CLAIM.

Finally, if it is deemed by the Workers' Compensation Board that a compromise and release agreement with a lump sum settlement is in the best interest of an injured worker, there is certainly no reason why this type of settlement should be discouraged in the case of a second injury claimant.

RECOMMENDATION No. 29

WE RECOMMEND THAT THE SECOND INJURY FUND BE ALLOWED AND PROPERLY FUNDED TO MAKE LUMP SUM REIMBURSEMENTS TO ANY CARRIER OR EMPLOYER WHO PROVIDES A LUMP SUM SETTLEMENT TO AN INJURED WORKER.

Self-Insurers

Alaska Law as does the law in 45 other states and the District of Columbia, permits employers' self-insurance for industrial injuries to employees.

Self-insurance in workers' compensation simply means that the employer himself pays all workers' compensation claims up to a certain amount from his own funds. The claims procedure, benefit schedules and other statutory workers' compensation provisions are unaffected. The difference is simply that the self-insurer may himself administer the system or (in most states) he may contract on a fee basis with a self-insurance management service. Though reserves may be established for future payments, the employer retains use of those funds in the interim.

Self-insurance statutes differ but they typically provide considerable latitude to a State Department of Labor or Division of Workers' Compensation in determining which enterprises will be permitted to self-insure. Applicants must submit financial and workers' compensation experience data and are required to provide guarantees of their workers' compensation reserves in the form of negotiable securities, cash, and surety bonds in some combination. Coverage up to a certain amount per occurrence is often stipulated and many self-insurers meet this requirement by carrying commercial reinsurance above their own "retention". This is analogous to a deductible. Though some states purport to follow a "formula" in decisions on self-insurance applications, case by case determinations, based upon a firm's financial resources and reputation, the type of business, the potential for serious disasters, the scent of mergers or dissolution, past workers' compensation experience and a number of other factors, are the rule.

The proportion of workers' compensation coverage provided by self-insurers as compared to commercial insurers and state funds, varies from state to state. Benefits paid by self-insurers are roughly 12% of the national total. This proportion has been gradually declining since 1939 in the face of competition from commercial retrospectively rated plans involving experience rating and premium discounts, and, in some cases, from state funds. The average self-insurer has a payroll of several millions of dollars and is a manufacturer, an energy firm, a major retailer or a public body.

A number of advantages are said by self-insurers' organizations to be characteristic of self-insured workers' compensation programs. Safety programs are claimed to be more extensive and effective than those of the average commercially insured employer. Self-insurers are also said to be more responsive to the individual injured worker, though they also litigate more claims than do either state funds or commercial insurers. A major advantage of self-insurance is that employers retain their workers' compensation reserves until payout is necessary.

Self-Insurance in Alaska

Alaska self-insurers currently number 31 and the workers' compensation benefits paid by these insurers in 1977 and 1978 were approximately 3.6% of the total payment made by private carriers. A schedule of those permitted to self-insure is attached as Exhibit 30.

Alaska's self-insurance enabling statute (AS 23.30.075) like those of other states allows considerable discretion to the Department of Labor and its Division of Workers' Compensation in approving self-insurance applications. Some states insist on a certain minimum figure in payroll or capital assets for self-insurers. Arizona, for example, required \$750,000 annual payroll.

Alaska, however sets no flat minimums. Those firms which the Department determines are good self-insurance risks may be required by the Workers' Compensation Board, at its discretion, to deposit an acceptable security, indemnity or bond, to secure the payment of compensation liability as they are incurred. Currently, there are no staff with the Division of Workers' Compensation whose sole responsibility is the assessment and analysis of requests to become self-insurers. In addition, there are no criteria in place to allow anyone within the Division of Workers' Compensation or for that matter, on the Board to make a decision to grant or deny a certificate of self-insurance.

EXHIBIT 30

SELF INSURED EMPLOYERS IN ALASKA

Alaska International Industries
(Alaska International Air, Alaska
International Constructors, Weaver
Brothers & Valdez Alaska Terminals)

Alyeska Pipeline Service Company

Amfac, Inc.
(Amfac Mortgage Corporation, Fred Harvey,
Inc., Amfac Foods, Inc. dba Pacific Pearl
Seafoods, Amfac Distribution)

Amoco Production Company
Standard Oil Company of Indiana

Municipality of Anchorage

Bethlehem Steel Corporation

Canadian National Railways

Chevron U.S.A., Inc.

Chicago Bridge & Iron

Collier Carbon & Chemical

Consolidated Freight

Fairbanks, City of

Foss Alaska Lines, Inc.
(Foss Launch & Tug, Foss L&T)

Getty Oil Company
(formerly Skelly)

Graybar Electric Company

International Harvester

Juneau, City & Borough

Kenai Lumber

Loomis Corporation
(Alaska Orient Van Line Service,
Stanley Smith Security, etc.)

Louisiana-Pacific Corporation

Mobil Oil Corporation
(Includes Cook Inlet Pipe Line Co.)

Montgomery Ware

Pay'n Save Corporation

Safeway Stores, Inc.

Sea-Land Services, Inc.

Sears Roebuck & Company

Shell Oil Company

Standard Oil Company of California

Union Oil Company of California
& Union Chemical Division
(formerly Collier Carbon & Chemical)

Western Electric

Western Geophysical Co. of America
(Litton Industries)

Western Union

State of Alaska

Except for the knowledge that there are 31 self-insurers in the State of Alaska and the fact that some fraction of these occasionally report their quarterly paid losses to the Division of Workers' Compensation, the State of Alaska has poor knowledge of what self-insurers do in this State. In 1977, fewer than two-thirds of the self-insurers even reported quarterly their paid losses. In 1978, this fraction fell to fewer than one-half. The Division collects no expense or reserve data, and therefore has no comparable data base between self-insurers and the private carriers. We have determined, from the Division of Revenue, that the self-insurers in Alaska paid an aggregate payroll of \$503,000,000 in 1978. From the extremely sketchy data provided the Division of Workers' Compensation, it appears that these self-insurers paid about \$0.34 per \$100.00 of payroll towards their workers compensation liability. This value certainly falls considerably below the average cost in the private market of approximately \$4.00 per \$100.00 in Alaska. This would tend to suggest that self-insurance is indeed considerably less costly than insuring within the private market. However, the reserving and administrative practices of self-insurers are sufficiently different from those of commercial insurers that we must approach this conclusion very carefully. Self-insurers are often said to reserve less than commercial insurers and their administrative costs are generally reported to be lower, as low as 10% in comparison with the 31.6% for commercial insurers. If this is so, one has no good way of comparing self-insurers with risks in the private market as to degree of hazard. We suspect that even if we did have more data, that the practices of self-insurers in reserving and administering workers' compensation are so different from those of commercial insurers that comparison would still not be easily accomplished.

Reserving and Administrative Cost Differences

The meanings of the terms used as measures in workers' compensation insurance are even different between the self-insurer and the commercial insurer. Reserves for commercial insurers are a specific proportion of premium, received from the employer and invested against future payments on current claims and potential future claims on an actuarial basis. Reserves for self-insurers, on the other hand, are merely a balance sheet item. The self-insuring firm must simply have assets which justify the Division of Workers' Compensation decision that "reserves" are available in an amount equal to outstanding liabilities or some projected liability. How the self-insurer calculates its outstanding liability and what it does with the money are not routinely regulated by the State of Alaska. These monies are available for other operations and are subject, of course, to other corporate obligations. The availability of these funds is one of the major attractions of self-insurance to employers. The trade off, of course, is that such reserves are less secure than those of commercial insurers. Additionally, self-insurers tend to understate their reserve requirements. The savings in reserve costs by self-insurers could be dangerous skimping; however, firms of the magnitude of the typical self-insurer may be able to reserve in this way without ill effect. But the purpose of comparing self-insurers cost to commercial rates is to isolate savings which can be replicated for those now commercially insured. Even if under reserving of the kind observed among some

self-insurers were a desirable method of cost saving for larger firms, the savings represented could not be duplicated among smaller firms without considerably increasing their financial risk.

Commercial insurers, on the other hand, may be said to have an incentive to overstate necessary reserves since a rate increase will presumably provide the requisite revenues and consequently additional investment income will be gained. Therefore, employers in the private insurance market may be paying higher premiums just to provide accelerated cash flow for his private insurer.

Administrative cost comparisons between self-insurers and commercial insurers are also similarly difficult to make. Self-insurers as we have stated, do not provide information to state agencies on their cost breakdowns, if indeed they actually have such information. There are reasons, in any case, why such data would not be comparable to those of commercial insurers. Self-insurers do not make profits on their workers' compensation coverage. They do not have acquisition costs, nor do they (in most states) pay premium taxes. They often operate without calculating hidden costs such as space, or workers' compensation related time of those in safety work or in the legal department. For example, several of the claimed advantages of self-insurance (better claims work, greater safety effort, more claim challenges) would clearly require higher rather than lower administrative costs, though they may reduce losses, unless these are not being directly charged to the self-insurance program as costs. Though a 10% administrative cost estimate for the self-insured is often encountered, it is not clear what, if any, actual data supports this figure and what costs are included in it.

Comparing the putative 10% administrative cost ratio claimed by some self-insurers with the 31.6% maximum expense loading permitted for commercial insurers is thus a very deceptive practice; the apparent costs of self-insurance are higher, some costs of commercial insurers are not borne by self-insurers, the expense ratio of commercial workers' compensation insurance to a typical large self-insurer, eligible for premium discount, would usually be on the order of 20% rather than 31.6% , and the full amount of the commercial premium is tax deductible for the employer as a business expense while self-insurance reserves generally are not.

Though it is impossible to calculate "real" cost ratios for self insurance versus commercial insurance even on single firm basis, a number of factors suggest that there is on average, a parity of costs which is overcome in particular instances by circumstances which make one or the other more attractive to a specific firm. Indeed, many of the most knowledgeable people in self insurance the professional managers of self-insurance programs believe that a commercial, retrospective, discounted workers' compensation policy is competitive with self-insurance in purely cost terms for most employers who self-insure. This is increasingly so as insurance companies permit quarterly and even monthly premium payments rather than requiring annual prepayment of the premium.

What has been learned from the comparison of self-insurance with insured plans is that a significant saving can be enjoyed by employers if they could pay their premiums as a self-insurer pays claims; that is, as the carrier pays claims rather than as it incurs or establishes reserves per claims.

Use of cash flow plans is not advised for most risks since the credit problem facing insurers from such a plan would jeopardize carrier solvency and raise the price of coverage for those purchasing insurance in the traditional manner.

For those insureds, however which are large enough to be self-insured but wish the protection of an insurance company insurance policy, the cash flow concept ought to be permitted.

To make such a concept permissible in Alaska the Director of Insurance must agree to allow the premium receivable as an admitted asset provided the receivables are guaranteed by an irrevocable and unconditional bond or bank letter of credit.

RECOMMENDATION No. 30

THE DIVISION OF INSURANCE SHOULD PROMULGATE REGULATIONS ADEQUATE TO PERMIT CASH FLOW PROGRAMS FOR INSURED ON SIGNIFICANT PROJECTS WITH WRAP-UP POLICIES WITH ESTIMATED AGGREGATE PREMIUMS LARGE ENOUGH THAT THE RETROSPECTIVE PREMIUMS ON THE POLICY WOULD EFFECTIVELY COVER ALL LOSSES UP TO NO LESS THAN A \$100,000 PER CLAIM RETENTION PLUS ALL EXPENSE AND REINSURANCE COST.

Safety Groups

In 1977, as part of the total package of workers compensation reforms, and principally at the urging of the Alaska Air Carriers Association, the legislature amended AS 21.36.190, the fictitious group law, to permit safety groups provided certain conditions were met.

The advantage of a safety group is that a group of employers with essentially homogenous business activity may purchase their insurance collectively and have the advantage of the lower expense components available to large insureds.

For example, if an individual home builder has an estimate payroll of \$100,000, his manual standard premium would fall in the range of \$4,000 to \$7,000. The home builder would be entitled to a modest premium discount, an experience modification and perhaps a tabular retrospective adjustment.

On the other hand, if all of the homebuilders in the state formed a safety group meeting the strictures of AS 21.36.190, which in fact are not complicated, it is possible an estimated annual premium of \$1,000,000 or more would be generated which would

entitle the group to a large premium discount, lower "basic premium" charge included in the retrospective premium with a resulting over all lower shared cost. The risk, of course, is that the group would also share the cost of debit retrospective adjustments because of the losses of the group; members of the group without losses may be called upon to share in the losses of other members.

Generally speaking the grouping has resulted in overall savings for the very few groups currently in effect in Alaska, primarily the Alaska Loggers Association and for groups in effect in the "lower 48".

So many industries, particularly in contractor and construction classes already have trade associations which provide the vehicle for such groupings but to date there have been no groups formed since the adoption of the new law.

The law provides that the fictitious group law (which prohibits group property and casualty insurance) does not prohibit a workers compensation safety group if the group:

- 1) has a constitution and by-laws;
- 2) incorporates a safety program;
- 3) as a group has preferred characteristics over similar risks written on an individual basis; and
- 4) has filed and received approval from the director for the rating program to be applied to the group.

The key to the workability of the program is having a viable and effective safety program. In this way the safety incentive is shared by all the numbers of the group. Here is a way the competitive and the incentive element in the compensation system work together to achieve state objectives.

RECOMMENDATION No.31

EMPLOYERS MEMBERS OF INDUSTRY TRADE ASSOCIATIONS EXPLORE THE POSSIBILITY OF CREATING SAFETY GROUPS AS A MEANS OF CREATING MORE SAFETY AWARENESS AND INCENTIVE AND TAKING ADVANTAGE. THE ECONOMIES OF SCALE AVAILABLE FROM LARGER WORKERS COMPENSATION POLICIES.

Alternate Insurance Mechanism to Provide the Statutory Benefit

Offsetting workers' compensation benefits with health benefits and other disability benefits opens up a whole new area of concern. Currently, statutorily required workers' compensation benefits may be provided through only two mechanism, that of self-insurance

and that of purchasing workers' compensation insurance from casualty insurers. We feel that this procedure is too inflexible. If the risk manager for an employer wishes to provide all or some of the statutorily required workers' compensation benefits through mechanisms other than pure self-insurance, or purchasing workers' compensation insurance from a casualty insurer, he should be given that opportunity. He should be able to put together a workers' compensation benefit package utilizing health benefit programs and disability benefit programs that are being provided for other circumstances.

There is a likelihood that for the large employers, frequently the self-insurer, that some savings may be experienced under these circumstances. Many of the carriers providing health benefit programs and disability programs have loss adjustment expense factors considerably lower than those of casualty insurers currently providing workers' compensation insurance. Therefore, by mixing and matching, a facile risk manager could conceivably put together a workers' compensation benefit package utilizing those insurers providing other benefit packages for his employees at a cost lower than that of providing workers' compensation insurance separately. We should caution, however, that many employers, particularly the small ones, might not be able to find insurers other than the present casualty insurers who would provide coverage of their workers' compensation liability. We are well aware that the current loss expense adjustment factors for health providers and non-occupational disability insurance providers is indeed lower (sometimes much lower) than those of casualty carriers now providing the workers' compensation coverage. We also realize that if one were to place the burden of providing the open-ended workers' compensation benefit coverage on health insurance carriers, there could be, an upward pressure on their loss adjustment factors. Therefore, in the minds of those who there could be sizeable savings by providing workers' compensation benefits through carriers presently utilized for health benefits and non-occupational disability benefits, we advise caution. These purported savings might indeed prove illusory. Still, to provide maximum flexibility and freedom to the risk managers in the State of Alaska, they should be allowed to utilize whatever mechanisms they can to provide the statutorily required workers' compensation benefits.

RECOMMENDATION No. 32

WE RECOMMEND THAT CARRIERS OTHER THAN CASUALTY CARRIERS BE ALLOWED TO OFFER PROGRAMS FOR WORKERS COMPENSATION, THUS ALLOWING EMPLOYERS TO PUT TOGETHER A WORKERS COMPENSATION PACKAGE UTILIZING HEALTH CARE INSURERS AND DISABILITY PROGRAM INSURERS WHICH MANY EMPLOYERS ARE ALREADY UTILIZING FOR OTHER EMPLOYEE BENEFITS.

Ratemaking

Prior to February 17, 1976, Alaska effectively had open competition rating in workers' compensation. Subsequent to that date the National Council on Compensation Insurance became licensed as a rating organization pursuant to AS 21.39.060. Effective with all policies newly issued after March 31, 1976, or renewing after March 31, 1976, on an anniversary of a previously issued policy, all carrier members of the NCCI were ordered to use and apply the rates, plans, schedules, and classifications of the NCCI in strict accord with the NCCI rules. Scheduled rate plans could be filed, but had to be based on objectably determined criteria. Scheduled credit rate adjustments could not exceed in the aggregate 15% of the manual rate adjusted for experience modifications. Scheduled debit rate adjustments could not exceed in the aggregate 20% of the manual rate adjusted for experience modifications.⁴¹

Concurrent with establishing National Council on Compensation Insurance as the licensed rating bureau, the Director of Insurance designated it to be the statistical agency for the Division of Insurance with respect to underwriting experience and workers' compensation insurance.⁴² All carriers authorized to write workers' compensation insurance in Alaska were ordered to submit premium, payroll, loss and expense information to the National Council on Compensation Insurance in accordance with the National Council unit statistical plan in response to their periodic calls for data. These orders were promulgated on the belief that the availability of workers' compensation markets would be broader if carriers could be attracted to the state by the knowledge that the rate making system produced useful statistics and that there was a disciplined administration of a fair and objective, yet flexible and adaptable rate law. Since this time, the National Council on Compensation Insurance has served Alaska as its licensed rating bureau and as its statistical bureau.

Methodology

To meet this responsibility the National Council on Compensation Insurance has established over 500 employer classifications and manual rates for each one of these classifications. They have designed an experience modification plan, a number of retrospective insurance plans, and a complex data collection mechanism. The data which are collected serve two functions: 1) to serve as a basis for determining the absolute magnitude of workers' compensation rates in the State and 2) to determine the relative magnitudes of the rates for each employer classification. Having established this prodigious data base, the National Council performs its own statistical processes upon the data to derive the absolute rates, the relative rates, and the increase or decrease in rates as the data suggest.

Very simply, the National Council collects in the aggregate, the total premium paid in the State, the total losses incurred in the State and studies all of the expenses associated both with the premiums and with the losses. Having established expense factors for both premiums and losses, having obtained prior years loss data and historical loss behavior, and projecting expected premium from past experience and current law, the Council estimates what the expected loss ratios will be (i.e., the ratio of incurred losses to expected earned premium). If this ratio is greater than a pre-accepted value, then there is an indicated need for an increase in rate; if this ratio falls below the pre-accepted value (currently 0.684), then there is an indication for a decrease. The magnitude of either the increase or decrease is simply the ratio of the indicated loss ratio to the accepted loss ratio. From this starting point, the NCCI then distributes this aggregate increase across all of the employer classification resulting in new manual rates for each employer in the State.

In addition to acquiring data to allow it to establish absolute rates and relative employer class rates, the NCCI also utilizes unit statistical plan data to develop experience modification factors for qualifying employers in the State of Alaska. If an employer in the State of Alaska pays an annual premium in excess of \$1500 per year, he qualifies for experience modification. His manual premium is modified either upward or downward according to his own experience over the past three year period. If the insured develops favorable experience, he receives a reduction in his manual premium; if the insured develops unfavorable experience a debit will apply. The experience rating modification will apply to the forthcoming year. It should be noted here, however, that adverse experience is limited with respect to its size both to single occurrences and multiple occurrences to assure that the insured will not suffer an overwhelming burden if during the prior three year period he suffered a catastrophic loss. This being the fact, not all adverse experience is directly attributable to the employer who incurs it.

Since the NCCI utilizes anticipated expenses in its rate making, it also recognizes the fact that there is a reduction in expenses (as a percentage of premium) incurred by the carrier as the premium size of the insured increases. Premium discounts have been established. Currently, they are as follows:

<u>Standard Premium</u>		<u>Premium Discounts</u>
First	\$1000	0.0%
Next	\$4000	9.4%
Next	\$95,000	14.7%
Over	\$100,000	16.3%

Data Base and Time Lags

The National Council on Compensation Insurance uses two data bases in their rate making determinations: policy year data and calendar year data. Policy year loss data are valued 18 months after inception date of the policy and reported to the NCCI two months later. At the very least, the lag in policy year data is 20 months. At this time of evaluation there are cases where total benefit cost is not yet known. An estimate is made upon the facts known at the time. For open claims a second report is required one year later. If losses are still open as of the second evaluation date, a third report is required in the following year and similarly fourth and fifth reports if any losses still remain open. Policy year data inherently contains a sizeable time lag.

Calendar year data is more current than policy year data, but also includes several inadequacies. It includes all premiums earned and losses incurred during the calendar year regardless of the effective date of the policies producing the data and thus can contain prior year adjustment which do not necessarily reflect current period trends. In the Woodward-Fondiller study for the Legislative Affairs Agency, in February 1977,⁴³ several procedural changes for the determination of rate levels in calculating class rates were suggested. They cited accident year data as being inherently more accurate than calendar year data and certainly more recent than policy year data. Therefore, they felt that accident year data should replace the mixture of policy year and calendar year data currently used by the NCCI. Woodward and Fondiller indicated that accident year statistics are used in California, Washington and West Virginia. To our knowledge, the NCCI has not responded to this particular suggestion either through implementing it or refuting it.

RECOMMENDATION No. 33

WE RECOMMEND THAT THE DIVISION OF INSURANCE REQUIRE THE NCCI TO INVESTIGATE THE USE OF ACCIDENT YEAR STATISTICS RATHER THAN THOSE USED CURRENTLY WITH THE EXPECTATION THAT THIS DATA BASE WILL BE PUT IN PLACE AS QUICKLY AS PRACTICABLE.

Though we have some argument with the utilization of policy and calendar year premium and loss data, we also recognize that the NCCI goes to extreme lengths to treat this data in such a manner to obtain statistically the most creditable values possible. It is other factors which enter into the rate making which we feel are adjustment expense factors is a questionable procedure. Neither, describe or derive the expense loading factors which they promulgated. Though they are supposed to be functions of past-histories, the NCCI has not proved their case. As seen earlier in this report actual expense loading factors obtained for the Alaska industry over the last three years have deviated significantly from the 31.6% presently established. We recognize that some of this

deviation can be explained away by invoking the premium discount; however, again, we are not certain whether the entire difference between the average 24% experienced over the last three years for expenses and the 31.6% can be explained through the use of the premium discount. Including anticipated expenses, underwriting profits, expected premium discounts and all other similar concerns as factors in rate making is at best confusing and at worst misleading.

More importantly, however, no insurance carrier in fact performs exactly like the statistical average. Each carrier has the capacity to become more or less efficient better or less effectively managed, provide better or worse service; and thus operate at a higher or lower expense level than is allowed for in the rate.

The justification for bureau rate making lies in the fact with which we fully concur, that no carrier has adequate loss data to creditably make a statistical projection of loss cost.

The bureau provides a consolidated mechanism for aggregating statistics about loss and providing the carrier members with a pure loss (loss exclusive of claim and overhead expense) factor by classification which becomes the underpinning for the ultimate rate.

The same rationale, however, does not pertain to company operating expenses. An insurance carrier ought to be required to compete on price as to the expense portion of the premium.

Because the NCCI is the statutory statistical agency for the workers' compensation system in the state of Alaska and also is the statistical agency for carriers and is also funded by all of the private carriers writing workers compensation insurance in Alaska, the NCCI is placed in the untenable situation when their rate proposals contain subjective decisions on profits and the fraction of premium which should be allocated to expenses for the insurance industry. This conflict requires that the Division of Insurance have some check on the values proposed. Presently, the State of Alaska has no data system in place which will allow them to obtain information to determine whether the values proposed are indeed correct. To obtain these data and do the appropriate analysis would be a prodigious feat indeed; one which the division is not truly equipped to do and one which we feel truly should lie outside the purview of the division of insurance. The conflict of interest which we cited above would be removed to a large degree if the expense components are separated from the determination of pure loss rates. We believe the division is currently staffed with professionally qualified personnel sufficient to determine whether an expense factor for a carrier is adequate for that carrier and whether an expense schedule is discriminatory. To accomplish this, the National Council should be required to promulgate only pure

loss rates and the carriers should be required to adhere to the pure loss rates so promulgated. Then each carrier should be allowed and required to add to the pure loss rate whatever expense component it feels is necessary to meet in expenses, except that the rating standard that rates may not be inadequate, excessive or discriminatory should be enforced by the Division of Insurance. To assure compliance the Division should require each carrier to make a filing or be prepared upon rate audit to demonstrate that the expense component being charged by the carrier is adequate to cover their actual expenses based upon financial data filed with the division.

RECOMMENDATION No. 34

AS 21.39 SHOULD BE AMENDED TO LIMIT WORKERS COMPENSATION RATING BUREAUS TO PROMULGATING PURE LOSS CLASS RATES. CARRIERS SHOULD BE REQUIRED TO USE ONLY THE PURE LOSS RATES ON FILED PLUS EXPENSE LOADINGS WHICH COMPLY WITH THE CURRENT STANDARDS FOR RATE PROPRIETY.

This chapter has offered several approaches to stimulating the development of alternatives for employers to meeting their statutory obligations under the labor code.

It is the opinion of this firm that if the incentives are reordered, systems are made more relevant and competitive alternative offered the employer, that significant savings will over time be realized.

FOOTNOTES

- 1 Proposal of Richard L. Block and Associates to Alaska Conference of Employers Inc. January 18, 1979.
- 2 Workers Compensation, the feasibility of Establishing a State Fund." State of Alaska, Legislative Affairs Agency, 1977.
- 3 Herman Somers and Anne Somers, Workmen's Compensation (New York, N.Y.: John Wiley and Sons, Inc., 1954) pp. 17-37.
- 4 Ibid.
- 5 Ives V. South Buffalo Railway Company, 201 N.Y. 271, 94 N.E. 431 (1911).
- 6 Marcus Rosenblum, ed, Compendium on Workmen's Compensation (Washington, D.C.; National Commission on State Workmen's Compensation Laws, 1973), pp. 17-18.
- 7 Abner Brodie, "The Adequacy of Workmen's Compensation as Social Insurance: A Review of Developments and Proposals", 1963 Wisconsin Law Review, 57, January 1963, pp. 62-80.
- 8 U.S. Code Citation Published 91-596(Dec. 29, 1970) 84 Stat 1590.
- 9 The Report of the National Commission of State Workmen's Compensation Laws, Washington, D.C., July 1972.
- 10 Ibid.
- 11 Department of Labor, Department of Commerce, Department of Health, Education, and Welfare and Department of Housing and Urban Development, White Paper on Workers's Compensation.
- 12 Interdepartmental Workers' Compensation Task Force Reports on State Workers' Compensation Progress Regions I through 10, Employment Standards Administration, Regional Administrators Conference. No. 9-12, 1957, San Antonio, Texas.
- 13 Alaska Legislative Council, A final report on the Workmen's Compensation Study, Publication No. 23-4 (Final).
- 14 Ibid.
- 15 Transcript of Proceedings, Public Hearings on Workmen's Compensation, Hearings conducted by the Alaska Legislative Council, Department of Commerce and Department of Labor, Juneau, Alaska, August 24, 25, and 26, 1961.

- 16 For a more complete description of the circumstances surrounding the hearings of November, 1975, and the Director's findings, see Division of Insurance Order 76-1. Two volumes of testimony were taken at the hearings and have been transcribed by the Division.
- 17 Block, Richard L., The Utilization and Regulation of the Surplus Line Business in Alaska, The Forum Volume XIV No. 4 spring 1979.
- 18 Chapter 75 SLA 1977.
- 19 AS 23.30.095. AS 23.30.150.
- 20 AS 23.30.185.
- 21 AS 23.30.180.
- 22 AS 23.30.215. 23.30. 040.
- 23 23 AS 23.30.190.
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- 27 Ross, Eleanor, Better Now than Never." Proceedings of the National Training Institute on the Industrial Injured.
- 28 Martin, Rolland. Occupational Disability, Illinois: Charles C. Thomas, 1975.
- 28 Finneson, Bernard E. "Psychosocial Consideration in Low Back Pain: The "Cause and Cure of Industry Related Low Back Pain." Orthopedic Clinics of North America. Vol. 8, No. 1 (January, 1977).
- 30 Ibid.
- 31 Nachemson, A.L. "Proceedings: Treatment of Low Back Pain--A critical Look at Current Methods." Journal of Bone and Joint Surgery (British). Vol. 57, No. 2 (May, 1975), p. 262.
- 32 Nagi, Sadd Z.; Burk, Richard D.; Potter, Harry R. "Back Disorders and Rehabilitation Achievement." Journal of Chronic Disability. Vol. 18 (1965), pp.181-197.

- 33 Grossman, Howard I. "A New Concept of Disability." Journal of Rehabilitation (July, August, September, 1979), p.41.
- 34 Miller, J.H. Preliminary report on disability insurance. Public Hearing before the Subcommittee on Ways and Means. 95th Congress, 2nd Session, May 17, 21,24; June 4, 11, 1976.
- 35 Cooper and Company, Follow up Survey, 976. In "Workers' Compensation Reform; Challenge for the 80s" by Ronald Conley, Ph.D. and John Noble, Ph.D. American Rehabilitation, Vol. 3 (1978), pp. 19-26.
- 36 Sawyer, George P. "Vocational Rehabilitation and the Industrially Disabled," Proceedings of National Training Institute on the Industrially Injured. (October 13-14, 1976), p. 23-32.
- 37 Welch, George T. "The Relationship of Rehabilitation with Industry," Journal of Rehabilitation. (July, August, September, 1979), p. 65-70.
- 38 Alverson, Norman, Letter to Marjorie T. Linder, Oregon: Workers' Compensation Department of Field Services Division, October 20, 1979.
- 39 Kleeman, Michael Teele-interview. Technetron, San Francisco, November 5, 1979.
- 40 Wolfe, J. "Disability is no handicap for DuPont." Alliance Review. Winter 1973-74.
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- 42 Ibid.
- 43 Woodward and Fondiller, Workers' Compensation Rates In Alaska, Legislative Affairs Agency, State of Alaska, 1977.

ERRATA
Exhibit 21

1977

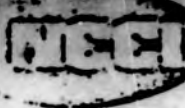
Loss Adj.	Expense
Expense	Loading
Factor %	(%)
11.0	19.2

Footnote: Data taken from NAIC profitability reports. Loss adjustment expense have been normalized to incurred loss. Expense loading is reported sales and income expenses, boards bureaus and taxes (Ex F.I.T.) plus 2.5% for profit.

SCOMM

33:28

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AS A UNIT IN THE ORIGINAL DOCUMENT**



National
Council
on Compensation
Insurance

One Tamarac Square, Suite 500
7555 E. Hampden Avenue
Denver, Colorado 80231
Tel. (303) 695-8888

H.W. Edelman
Vice President

November 10, 1980

Hon. Kenneth C. Moore, Director of Insurance
State of Alaska
Department of Commerce and Economic Development
Division of Insurance
State Office Building - 9th Floor
Pouch "D"
Juneau, Alaska 99811

RECEIVED
DIV. OF INSURANCE
NOV 13 3 32 PM '80
ALASKA DEPT. OF
COMMERCE & ECONOMIC
DEVELOPMENT

Dear Sir:

Re: Revised Workers' Compensation Rates - Alaska

In accordance with the applicable statutes and regulations of your state and at the direction of the Alaska Classification and Rating Committee, I am filing for your consideration and approval revised workers' compensation rates and rating values.

In preparing this filing, full consideration has been given to President Carter's anti-inflation program. In the application of trending, due consideration has been given to the actual and anticipated effects of the President's program and likely impact of the filing on the compliance of our members and subscribers with the Council on Wage and Price Stability (COWPS) standards as revised December 13, 1978. Furthermore, upon approval of this filing, we will inform our members and subscribers that in using these rates they must consider them in determining their individual company compliance with COWPS standards.

This proposal represents an average increase of 9.8% in the overall rate level presently in force. It is based upon the following considerations:

- A. Review of Experience: The latest available workers' compensation experience indicates an overall premium level increase of 10.0%.
- B. Completion of Payroll Transition Program: An offsetting decrease of 0.8% in rate level is applied to reflect completion of the payroll transition program.
- C. Effect of Legislation: Also included in the proposal are the effects of two increases in the maximum and minimum weekly benefits. The first, which is due to an increase in the state average weekly wage, became effective on January 1, 1980 and is estimated to increase benefit costs by 0.5%. The second, becoming effective January 1, 1981, is due to a further adjustment in the state average weekly wage in conjunction with increasing the maximum percentage for weekly compensation from 166 2/3% to 200% of this wage. This is estimated to increase benefit costs by 0.1%. The combined effect of benefit changes is a 0.6% increase ($1.006 = 1.005 \times 1.001$).

November 10, 1980

- 2 -

Combined, these considerations produce the proposed 9.8% increase in rate level ($1.098=1.100 \times .992 \times 1.006$). It should be pointed out that the premium level change envisioned by this proposal as a result of the experience review and benefit changes is a 10.7% increase ($1.107=1.100 \times 1.006$).

It is proposed to apply the revised rates and rating values effective January 1, 1981, to new and renewal policies. No adjustment to outstanding policies is proposed.

Included among the supporting exhibits of this filing is a trend exhibit which indicates the need for an additional 25% increase for trend. This need is recognized to be in line with observed increases in medical and indemnity per case cost figures in Alaska which, over the most recent available five year period, have displayed average annual increases in excess of 20%. In recognition of the severe impact which large rate increases have upon insureds and the residual economic impact thereof, the Alaska Classification and Rating Committee determined not to file for an increase for trend at this juncture. Therefore, this proposal reflects the maintenance of a unity trend factor. The trend program will, of course, continue to be monitored as newer data becomes available.

In addition to trend indications and skyrocketing cost per case figures, a further consideration substantiating the need for the proposed rate increase is the overall operating results of the compensation funding system. During calendar years 1977-1979, benefit costs incurred to Alaska carriers have exceeded the premium allocated to finance these benefits by an amount in excess of \$38 million. Of course, by the nature of the compensation funding system, any attempt to recoup such losses is expressly forbidden and certainly the present proposal makes no such attempt.

Please find attached an exhibit which displays the determination of the overall rate level change proposed. A complete filing including revised rate pages and pure premium exhibits will be forwarded to you when this material becomes available.

A rate filing is unavoidably a formidable technical document. It is our intention to make our written presentation as self-contained as possible, however, we realize that there will be occasions when further explanation is needed. Should you desire additional information, we will be pleased to furnish it to you and, should you find that a more personal contact is required, we will arrange for a representative of the National Council to meet with you.

This filing is made on behalf of the members and subscribers of the National Council on Compensation Insurance who are now writing, or may hereafter write, workers' compensation insurance in Alaska.

Respectfully submitted,

NATIONAL COUNCIL ON COMPENSATION INSURANCE

H. W. Edmiston

H. W. Edmiston,
Vice President

Attachments

NATIONAL COUNCIL ON COMPENSATION INSURANCE

REVISED

WORKERS' COMPENSATION RATES

STATE OF ALASKA

EFFECTIVE JANUARY 1, 1981

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APPENDIX

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EXHIBIT I

Determination of Change in Manual Premium Level

A. Policy Year Experience

There is shown below two years of policy year data which was obtained from the "Supplementary Call for Policy Year Experience Valued at Calendar Year End" issued to all carriers writing workers' compensation insurance in your state. This call issued annually requests policy year data by state including standard earned premium, net earned premium, and total incurred losses. The individual carrier reports were combined as described herein to produce the data displayed below.

The policy year data have been valued as of the year end indicated in Table 1 below. All data have been placed on a current basis; i.e., premiums are on present premium level excluding the trend factor in the present rates and losses are adjusted to the current benefit level. The premium generated by the trend indications in the present rates has been excluded so as to obtain a true policy year loss and loss adjustment ratio based solely on past experience. The trend factor is analyzed later in the filing. The calculation of the factors to reflect these adjustments to premiums and losses are found in Appendix A-I. Development of both the standard earned premiums and incurred losses beyond the indicated valuation date to their estimated ultimate values is included through factors determined in Appendix A-II.

Table 1

POLICY YEAR DATA

	(1)	(2)	(3)	(4)	(5)	(6)
	FACTORS					
	Valued as of 12-31-79	To Current Level	Develop- ment	Loss Ad- justment Expense	Composite (2)x((3)x(4))	Modified Data (1)x(5)
<u>Premium and Losses of Policies which became effective 1/1/77 thru 12/31/77</u>						
Std. Earned Premium	71,610,022	1.157	1.013	xxx	1.172	83,926,946
Incurred Losses	49,521,706	.998	.878	1.115	.977	48,382,707
Loss and Loss Adjustment Ratio						.576
<u>Premium and Losses of Policies which became effective 1/1/78 thru 12/31/78</u>						
Std. Earned Premium	69,896,720	1.052	1.053	xxx	1.108	77,445,566
Incurred Losses	59,878,397	1.022	.842	1.115	.960	57,483,261
Loss and Loss Adjustment Ratio						.742
<u>Total For Policies which became effective 1/1/77 thru 12/31/78</u>						
Std. Earned Premium	xxx	xxx	xxx	xxx	xxx	161,372,512
Incurred Losses	xxx	xxx	xxx	xxx	xxx	105,865,968
Loss and Loss Adjustment Ratio						.656

B. Calendar Year Experience

The ratemaking procedure provides for the use of the latest available 12 months of calendar year experience. This data is collected semiannually by a call issued to all carriers writing workers' compensation insurance in your state. This experience includes all premiums

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earned and losses incurred during this period regardless of the effective date of the policies producing the data. It should be noted these data reflect all factors which affect compensation underwriting results. These include not only recent changes in wages but also the latest estimates of changes in cost of indemnity cases, changes in costs of medical cases, changes in accident frequency and other such factors.

The premiums and losses are adjusted to the present rate level (exclusive of trend) and to current benefit level. Therefore the resulting calendar year loss and loss adjustment ratio will be comparable with the policy year loss and loss adjustment ratio. The losses have been modified to include loss adjustment expenses. The calendar year loss ratio includes transactions which arise from a number of different policy years. This loss ratio has been adjusted for these time differences to make possible a comparison of these transactions to the exposure base from which they were incurred. Derivation of the calculation making these adjustments can be found in Appendix A-III.

Table 2 below gives the adjusted loss ratio.

Table 2

Calendar Year Experience for 12 Months Ending 6-30-80

	(1)	(2)	(3)
	Actual	Factors to	Adjusted
	Basis	Adj. to	Basis
		Current Levels*	(1)x(2)
Std. Earned Premium	76,294,380	.931	71,030,068
Incurred Losses & Loss Adj. Exp.	63,051,836	1.072	67,591,568
Loss & Loss Adj. Ratio			.952

*See Appendix A-III for derivation of these factors.

C. Indicated Change in Premium Level

Our current ratemaking techniques used for determining the indicated change in premium level call for giving equal weight to both the policy year loss and loss adjustment and the calendar year loss and loss adjustment ratios. The average of these two ratios is compared with the permissible loss and loss adjustment ratio to determine the overall indicated change in premium level.

The permissible loss and loss adjustment ratio is that portion of the premium available (prior to application of the mandatory premium discount plan) to pay benefits and claim adjustment expenses. It is determined by removing that portion of the premium dollar required to pay expenses. Exhibit III shows the derivation of the permissible loss and loss adjustment ratio for your state.

When the permissible loss and loss adjustment ratio is below the average loss and loss adjustment ratio an increase in the present premium level is indicated; when the permissible is above the average a decrease is indicated. The amount of such change is determined by dividing this average loss and loss adjustment ratio by the permissible loss and loss adjustment ratio. Table 3 below details the calculations.

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Table 3

Indicated Change in Rate Level - Overall Basis

1. Policy Year Loss and Loss Adjustment Ratio (Table 1)	.656
2. Calendar Year Loss and Loss Adjustment Ratio (Table 2)	.952
3. Average of (1) and (2)	.804
4. Permissible Loss and Loss Adjustment Ratio (Exhibit III)	.727
5. Indicated Change in Premium Level (3):(4)	1.106
6. Factor to reflect completion of Transition Program	.992
7. Indicated Change in Rate Level	1.097

This means that an average increase of 9.7% in rate level is indicated.

D. Distribution of Overall Indicated Change in Rate Level by Industry Group

Since policy year aggregate data and calendar year data are not available by industry group, i.e. Manufacturing, Contracting, and All Other, the Unit Statistical Plan data for your state are summarized and used to obtain a distribution by industry group of the overall indicated change in premium level. Differential factors which accomplish this distribution are derived in Appendix A-V and are displayed in Table 4 below.

Table 4

<u>Industry Group</u>	<u>Differentials</u>
Manufacturing	.888
Contracting	.942
All Other	1.080
Overall	1.000

E. Indicated Change in Rate Level by Industry Group

Applying the industry group differentials from Table 4 above produces the changes in rate level by industry group illustrated in Table 5.

Table 5

<u>Industry Group</u>	(1) <u>Indicated Change in Rate Level</u>	(2) <u>Differentials</u>	(3) <u>Indicated Change in Rate Level By Industry Group (1)x(2)</u>
Manufacturing	1.097	.888	.974
Contracting	1.097	.942	1.033
All Other	1.097	1.080	1.185
Overall	1.097	1.000	1.097

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F. Effect of January 1, 1981 Benefit Change

The calculations up to this point have been carried through on the basis of the January 1, 1980 benefit level. The change in rate level by industry group must be further modified to recognize the effect of the January 1, 1981 benefit change. Table 6 displays this application.

Table 6

Industry Group	(1) Indicated Change in Rate Level (Table 6)	(2) Effect of January 1, 1981 Benefit Change	(3) Modified Change in Rate Level (1)x(2)
Manufacturing	.974	1.001	.975
Contracting	1.033	1.001	1.034
All Other	1.185	1.001	1.186
Overall	1.097	1.001	1.098

This produces an average final overall increase of 9.8% in rate level. By industry group the changes are:

Manufacturing	2.5% decrease
Contracting	3.4% increase
All Other	18.6% increase

The effect of the January 1, 1981 benefit change will be introduced in Appendix B-III as a step in calculating final manual rates.

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EXHIBIT II-A

Summary of the Principal Benefit Changes due to Increasing the Maximum Weekly Benefit, Effective 1-1-81

<u>Fatal</u>	<u>1-1-80</u>	<u>1-1-81</u>
% Rate of Compensation	Varies	No Change
Initial Min./Max. Weekly Compensation†	Varies/166.6% SAWW*	Varies/200% SAWW*†
Future Max. Weekly Compensation	Based on provisions in effect on date of injury	No Change
Burial Allowance	\$1,000	No Change
Second Injury Fund Payment (Non-dependency cases)	\$10,000	No Change
Remarriage Award	2 Year lump sum	No Change
Maximum Aggregate: Widows/Children	No Limit Child. to age 19	No Change
Others	\$20,000	No Change
Social Security Offset	W.C. benefits are reduced by 50% of S.S. Survivorship and retirement benefits	No Change
<u>Minimum Benefit/% Rate of Compensation</u>		
Widow Alone	\$45/66 2/3%**	No Change
Widow	\$45/33 1/3%**	No Change
Widow with 1 Child: Child	\$15/33 1/3%	No Change
Widow	\$45/20%**	No Change
Widow with 2 Children: Children	\$30/46 2/3%	No Change
Widow	\$45/20%**	No Change
Widow with 3 or more Children: Children	\$30/46 2/3%	No Change
Orphan	\$15/66 2/3%	No Change
Orphans	\$30/66 2/3%	No Change
Parent, Brother, Sister, Other	-/35%	No Change
Parents	-/35%	No Change
<u>Temporary Total</u>		
Waiting Period/Retroactive After	3/28	No Change
% Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW*†
Future Maximum Weekly Compensation	Based on provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefit are reduced by 50% of S.S. Survivorship or retirement benefits	No Change

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<u>Permanent Total</u>	<u>1-1-80</u>	<u>1-1-81</u>
% Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW**
Future Maximum Weekly Benefit	Based on Provisions in effect at date of injury	No Change
Duration	Duration of Disability	No Change
Social Security Offset	1. Disability Benefits: the sum of Social Security Benefits Plus Workers' Compensation Benefits is limited to 80% of the Workers' Wage at the time of the injury. 2. Retirement Benefits: W.C. benefit is reduced by 50% of S.S. retirement Benefit	No Change
<u>Permanent Partial - Schedule</u>		
Duration	As per Schedule	No Change
Statutory Max. Amounts Payable	As per Schedule	No Change
Nominal % Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW**
Future Maximum Weekly Benefit	Based on Provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefit is reduced by 50% of S.S. survivorship or retirement benefit	No Change
<u>Permanent Partial - Non-Schedule</u>		
Maximum Amount Payable	\$60,000	No Change
% of Wage Loss	66 2/3%††	No Change
Initial Maximum Weekly Benefit	133.3% SAWW*	200% SAWW**
Future Maximum Weekly Benefit	Based on provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefit is reduced by 50% of S.S. survivorship or retirement bene.	No Change
Second Injury Fund Assessment	8% Perm. Part. award	No Change
Healing Period		
Nominal % Rate of compensation	66 2/3%	No Change
Duration	Duration of Disability	No Change

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<u>Healing Period (Contd.)</u>	<u>1-1-80</u>	<u>1-1-81</u>
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW*†
Future Max. Weekly Benefit	Based on provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefits are reduced by 50% of S.S. survivorship or retirement benefits	No Change

"FOOTNOTES"

- * State Average Weekly Wage = \$404.91 for 1-1-80 (estimate)
166.6% SAWW = \$674.85
- *† State Average Weekly Wage = \$395.00 for 1-1-81 (estimate)
200% SAWW = \$790.00
- † If the benefit payable to two or more beneficiaries who are separately restricted to the maximum benefit should, in aggregate, exceed the maximum, the maximum weekly benefit is to be apportioned among the beneficiaries.
- ** Five years after the death of the worker, the widow's benefit is reduced by one-third of the benefit then being paid. Eight years after the death of the worker the widow's benefit is reduced to 50% of the benefit then being paid. Ten years after the death of the worker the benefit terminates - However the benefit is not further reduced after the widow attains age 52. If a child ceases to be entitled, his benefit insures to the widow, subject to future reductions.
- †† The worker's wage loss is assumed to remain constant after injury due to the difficulty of obtaining the same type of work without being physically fit.

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EXHIBIT II-B

Overall Effect of Increasing the Maximum Weekly Benefit, Effective 1-1-81

<u>Type of Injury</u>	<u>Percentage of Losses†</u>	<u>Effect (%)</u>
Death	8.8%	+0.3
Permanent Total	3.8%	+0.02
Major Permanent Partial	32.6%	+0.05
(Serious)	(45.2%)	(+0.1)†
Minor Permanent Partial	12.7%	+0.05
Temporary Total	10.6%	+0.2
(Non-Serious)	(23.3%)	(+0.1)†
Medical	31.5%	0.0
Total	100.0%	+0.1†

* Losses for policies becoming effective during the 24 month period ending 3-31-78 on the 1-1-80 law level and developed to an ultimate basis by serious, non-serious, and medical categories.

† Weighted Average

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EXHIBIT - III

Allowances for Expenses, Taxes, Profit and Contingencies

Underlying the proposed rates allowances of 21.2% of standard premium for company expenses, 2.5% of standard premium for profit and contingencies, 3.6% of standard premium for taxes, coupled with 11.5% of expected losses for loss adjustment expenses, plus an expense constant on premium of \$35.

The expense provisions are listed below by expense category. It should be noted that the expense provisions in the manual rate are established for the majority of insureds who are not eligible for the premium discount program and perhaps are not even eligible for experience rating.

The premium discount program is a mandatory set of discounts which are based upon the fact that some expenses as a percentage of premium decrease as the premium increases. The expenses affected are the general expense and acquisition expense categories.

The result is that the provisions in the premiums after discounts, namely the net premium, are less than that in the manual premium. It is the net premium which the insured will pay. The provisions in the net premium based upon a distribution of insureds by size of premium in your state may be found on page 2 of this exhibit.

The items comprising the expense allowance in manual rates are as follows:

<u>Item</u>		
(1)	Acquisition and Field Supervision	15.0%
(2)	General Expenses	<u>6.2</u>
(3)	Total for Company Expenses (1)+(2)	21.2%
(4)	Taxes, Licenses and Fees other than Federal Income Tax	
(a)	Premium Tax	3.0
(b)	Miscellaneous Tax	.6
(5)	Profit and Contingencies	<u>2.5</u>
(6)	Total for Company Expenses, Taxes and Profit and Contingencies (3)+(4)+(5)	27.3%
(7)	Permissible Loss and Loss Adjustment Ratio	72.7
<u>Loss Adjustment Expense:</u>		
(8)	Related to Premium	7.5
(9)	Related to Losses	<u>11.5</u>
(10)	Total Expense Allowance Related to Premium (6)+(8)	34.8%
(11)	Expense Constant	\$35.00

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EXHIBIT III - (CONTD.)

Allowances for Expenses, Taxes, Profit and Contingencies

It should be borne in mind that the allowances shown above apply only to the first \$5,000 of premium. For risks with premium over \$5,000 which in this state represents about 24% of the total number of risks and about 90% of the total premium, manual rules provide for a reduction of rates through application of discounts (or their equivalents included in the Retrospective Rating Plan Values). Premium discounts result from the reduction of expense requirements for Acquisition and General Administration with increasing premium size. The premium discounts are as follows:

<u>Division of Standard Premium</u>		<u>Discount</u>	<u>Non-Stock Co. Discount</u>	<u>Assigned Risks*</u>
First	\$ 5,000	-	-	-
Next	95,000	9.5%	2.0%	9.5%
Next	400,000	11.9%	4.0%	11.9%
Over	500,000	12.4%	6.0%	12.4%

* To be used by all carriers for policies issued under an assigned risk plan.

A tabulation of the state experience by risk size for the latest available policy period shows that for stock carriers the discount would have produced a net discount of 8.1%. This figure undoubtedly is on the conservative side because in actual practice the discounts, which increase by risk size, are based on the total risk premium, including premium developed by operations in all states.

The tables below indicate for the stock carriers, the expense, taxes and profit and contingencies allowances on two bases. Column (1) lists the net allowance after reduction for the premium discounts, such allowances being expressed as a percentage of standard premium. Column (2) expresses these allowances as a percentage of the net premium resulting from premium discounts.

<u>Item</u>	(1) <u>Net Allowance (% of Standard) Premium</u>	(2) <u>Net Allowance (% of Net Prem.) (Col. (1) ÷ .919)</u>
Acquisition and Field Supervision	8.7%	9.5%
General Expenses	4.9	5.3
Total for Company Expenses	13.6%	14.8%
Taxes, Licenses and Fees other than		
Federal Income Taxes	3.3	3.6
Profit and Contingencies	2.3	2.5
Loss Adjustment Expense-Related to Premium	7.5	8.2
Losses	65.2	70.9
Total	91.9%	100.0%
Premium Discounts	8.1	xxx
Total	100.0%	100.0%

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Exhibit III - (Contd.)

Allowance for Expenses, Taxes Profit and Contingencies

The proposed allowances for expenses referred to above are reviewed each year by the appropriate committees of the National Council. This annual review relies importantly on what has been the actual experience in recent years. State insurance laws and regulations require that each company file annually with each state insurance department a report on the expenses incurred, by type of expense, by line of insurance. This data is supplied via the Insurance Expense Exhibit, an official supplement to each company's Annual Statement. The National Council obtains copies of this document from each company, and at the request of the National Association of Insurance Commissioners compiles the expense data of all carriers in a series of exhibits which are distributed to all state regulatory officials and the carriers.

For your ready reference, reproduced below is the latest Three Year actual expense experience from the Insurance Expense Exhibit compilations of those expense items which are most immediately based on recent actual expense experience. These figures are related to net earned premiums. For General Expense, thus, the actual incurred expenses as a percentage of net earned premium can best be compared with the allowance expense as a percentage of net earned premium as shown in Col. (2) on the previous page.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
1. General Expense (a)	350,066	417,640	548,601
2. Net Earned Premium (a)	6,322,192	7,346,313	8,926,651
3. Percentage (1)+(2)x100	5.5.	5.7	6.1
4. Loss Adjustment Expense (b)	769,942	896,347	1,115,563
5. Losses Incurred (b)	6,696,601	7,530,579	8,511,783
6. Percentage (4)+(5) x 100	11.5	11.9	13.1

Data Source: Compilation of Insurance Expense Exhibits, all amounts in thousands
(last 000 omitted).

Notes: (a) - Data is for all stock carriers.

(b) - Data is for all stock and mutual carriers.

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ALASKA - EXHIBIT IV

PROPOSED MISCELLANEOUS CHANGES

The following additional changes are also proposed to become effective January 1, 1981:

1. Excess Loss Premium Factors

The Excess Loss Premium Factors applicable to new and renewal policies have been updated to reflect the latest available experience and law level. In particular historic claim costs have been projected to the cost level which can reasonably be expected to prevail at the time that these factors will be in effect. The revised factors are shown in the Miscellaneous Values section of Exhibit V of the filing. Excess Loss Premium Factors, of course, will only concern those insureds who have elected retrospective rating and then only where they have additionally elected to limit the amount of loss entering the rating as the result of any one accident.

2. Retrospective Rating Development Factors

In addition, Retrospective Rating Development Factors, shown in the Miscellaneous Values section of Exhibit V have been updated to reflect the latest available experience in Alaska and are proposed to become effective January 1, 1981 on new and renewal business.

CLASS 6010 EARTH OR PLACING IN CONNECTION WITH DAMS OR LOCKS

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY RENO	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	5028294	2	105600			35208	144808	20	14	17	51
76-77	576242			1	6437	3852	10259	40	43	41	124
77-78	102517										00
TOTAL	5707053	2	105600	1	6437	39060	155097	1920	113	684	272
PP PRESENT ON RATE LEVEL								2595	876	956	443
PP UNDERLYING PRESENT RATE								2717	617	1064	466
PP INDICATED BY NATIONAL RELATIVITY								2100	516	1072	409
PP DERIVED BY FORMULA								2262	786	959	401

CLASS 6045 LEVEE CONSTRUCTION

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY RENO	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76								26	21	26	73
76-77								37	39	37	113
77-78	5866079	1	201285	3	27411	32933	261629	3431	467	561	446
TOTAL	5866079	1	201285	3	27411	32933	261629	3431	467	561	446
PP PRESENT ON RATE LEVEL								3824	1536	1665	703
PP UNDERLYING PRESENT RATE								4004	1608	1743	736
PP INDICATED BY NATIONAL RELATIVITY								3372	1100	2095	657
PP DERIVED BY FORMULA								3335	1141	1537	623

CLASS 6204 DRILLING NOC

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY RENO	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	6103756	2	63365	23	78089	55543	197001	42	40	49	131
76-77	1658445	1	40043	10	19677	36126	95846	29	30	25	84
77-78	2688156	1	49830	15	79995	82408	212233	29	30	25	84
TOTAL	10450357	4	153242	52	177761	174077	505080	1466	1701	1668	483
PP PRESENT ON RATE LEVEL								4285	2258	2453	900
PP UNDERLYING PRESENT RATE								4487	2364	2569	947
PP INDICATED BY NATIONAL RELATIVITY								5186	2810	3200	1120
PP DERIVED BY FORMULA								3362	2201	2254	782

CLASS 6206 OIL OR GAS WELLS CEMENTING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY RENO	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	2257728			5	26526	7847	34373	21	20	24	65
76-77	2007871			4	10743	12308	23051	39	40	38	115
77-78	2224096			1	2064	2633	4697	39	40	38	115
TOTAL	6489695			10	39333	22788	62121	900	1006	100	2006
PP PRESENT ON RATE LEVEL								2433	1282	1331	505
PP UNDERLYING PRESENT RATE								2548	1342	1394	528
PP INDICATED BY NATIONAL RELATIVITY								3015	1300	1853	617
PP DERIVED BY FORMULA								2149	1154	1294	460

CLASS 6207 OIL RIG OR DERRICK ERECTING OR DISMANTLING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY RENO	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	212497	2	45155	4	30430	20742	96327	7	10	8	25
76-77	190916			4	11093	2273	13366	46	45	46	137
77-78	60657					323	323	46	45	46	137
TOTAL	464070	2	45155	8	41523	23336	110016	9730	8548	5029	2371
PP PRESENT ON RATE LEVEL								6275	6692	3681	1665
PP UNDERLYING PRESENT RATE								6571	7007	3854	1743
PP INDICATED BY NATIONAL RELATIVITY								6521	3117	3901	1354
PP DERIVED BY FORMULA								6630	5309	3890	1583

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REVISION 1581

CONTRACTING

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CLASS 6213 OIL OR GAS WELLS SPECIALTY TOOL OPERATION NOC

LOSSES AND LOSS ADJUSTMENT EXPENSE

POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	PURE PREMIUM PER \$100 OF PAYROLL			
1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL
75-76	1424397			2	350	1608	1958	16	17	22	55
76-77	1132346			4	8575	3698	12274	42	41	39	108
77-78	1303206			1	873	3973	4846				37
TOTAL	1859949			7	9799	9279	14078	000	254	240	49
PP PRESENT ON RATE LEVEL								2674	1785	2068	653
PP UNDERLYING PRESENT RATE								2800	1869	2165	683
PP INDICATED BY NATIONAL RELATIVITY								3702	1376	2321	740
PP DERIVED BY FORMULA								2678	1357	1765	580

CLASS 6214 OIL OR GAS WELLS PERFORATING OF CASING

LOSSES AND LOSS ADJUSTMENT EXPENSE

POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	PURE PREMIUM PER \$100 OF PAYROLL			
1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL
75-76	456549					319	319	07	8	10	25
76-77	369828			4	2201	5216	7417	46	45	45	201
77-78	353812			4	16906	8673	25779				729
TOTAL	1180189			8	19107	14408	33515	000	1619	1221	284
PP PRESENT ON RATE LEVEL								2674	1785	2068	653
PP UNDERLYING PRESENT RATE								2800	1869	2165	683
PP INDICATED BY NATIONAL RELATIVITY								4302	2383	2944	963
PP DERIVED BY FORMULA								3236	2041	2378	766

CLASS 6215 OIL OR GAS LEASE WORK NOC CONTRACTORS

LOSSES AND LOSS ADJUSTMENT EXPENSE

LOSSES AND LOSS ADJUSTMENT EXPENSE										PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	PP PRESENT ON RATE LEVEL	PP UNDERLYING PRESENT RATE	PP INDICATED BY NATIONAL RELATIVITY	PP DERIVED BY FORMULA		
75-76	40715538	28	1012226	190	783020	766964	2562210	100	100	100	99		
76-77	43284328	14	637781	116	599011	683085	1920077	0	0	0	629		
77-78	60813870	47	4071692	250	1693543	1426925	7999160				444		
TOTAL	144813736	89	6527899	556	3075574	2378974	12480447	4508	2124	1987	1315		
								2930	2234	1979	714		
								3068	2339	2072	748		
								5658	2674	3333	1167		
								4508	2124	1987	862		

CLASS 6217 EXCAVATION NOC

LOSSES AND LOSS ADJUSTMENT EXPENSE

POLICY PERIOD		PAYROLL		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL		
1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL
75-76	8964288			2	105216	32	112133	118660	376009	42	48	54	144		
76-77	7694735			1	21737	17	44731	46766	113254	29	26	23	78		
77-78	7263328			4	423283	26	98596	154240	661119				910		
TOTAL	23922351			7	550236	75	255460	304686	1110382	2300	1068	1274	4642		
PP PRESENT ON RATE LEVEL										1634	1312	1242	439		
PP UNDERLYING PRESENT RATE										1920	1374	1301	460		
PP INDICATED BY NATIONAL RELATIVITY										2952	1226	1556	573		
PP DERIVED BY FORMULA										2354	1173	1332	486		

CLASS 6225 IRRIGATION OR DRAINAGE SYSTEM CONSTRUCTION

LOSSES AND LOSS ADJUSTMENT EXPENSE

POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	PURE PREMIUM PER \$100 OF PAYROLL			
1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL	1975-76	1976-77	1977-78	TOTAL
75-76	28345							1	1	2	4
76-77	85656							49	49	49	100
77-78	24006										100
TOTAL	138007							000	000	000	100
PP PRESENT ON RATE LEVEL								2490	1847	1669	601
PP UNDERLYING PRESENT RATE								2607	1934	1748	629
PP INDICATED BY NATIONAL RELATIVITY								2341	1455	1757	556
PP DERIVED BY FORMULA								2392	1638	1679	571

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CLASS 6233 OIL OR GAS PIPE LINE CONSTRUCTION

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	18396282	10	251770	28	34302	136055	422167	72	59	70	88
76-77	11396055	5	441410	23	142973	215913	800296	14	20	15	702
77-78	5367809			16	99768	26251	125999				235
TOTAL	35160146	15	693180	67	277043	378239	1348462	1971	788	1076	384
PP PRESENT ON RATE LEVEL								2857	1200	1240	530
PP UNDERLYING PRESENT RATE								2992	1257	1298	555
PP INDICATED BY NATIONAL RELATIVITY								3544	1538	1741	682
PP DERIVED BY FORMULA								2315	1025	1200	454

CLASS 6235 OIL OR GAS WELLS DRILLING OR REDRILLING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	20144521	7	131272	125	550264	364733	1046269	100	100	100	300
76-77	30482203	14	531722	138	686587	453457	1671760	0	0	0	519
77-78	34848519	9	1083072	93	393680	517447	1994199				572
TOTAL	85475243	30	1748066	356	1630531	1335637	4712234	2043	1908	1563	551
PP PRESENT ON RATE LEVEL								2295	2833	2136	726
PP UNDERLYING PRESENT RATE								2403	2967	2237	761
PP INDICATED BY NATIONAL RELATIVITY								5579	3124	3432	1214
PP DERIVED BY FORMULA								2043	1908	1563	551

CLASS 6236 OIL OR GAS WELLS CASING INSTALLATION OR RECOVERY

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	263963			2	4364	1191	5555	17	20	20	58
76-77	538559			5	20941	7527	28468	41	40	40	121
77-78	536292	1	68847	2	14598	45050	128495				2394
TOTAL	1338814	1	68847	5	39903	53768	162518	5142	2580	4016	1214
PP PRESENT ON RATE LEVEL								8632	6254	4990	1988
PP UNDERLYING PRESENT RATE								9039	6549	5225	2081
PP INDICATED BY NATIONAL RELATIVITY								12586	5569	7037	2519
PP DERIVED BY FORMULA								9660	5325	5614	2060

CLASS 6237 OIL OR GAS WELLS INSTRUMENT LOGGING OR SURVEY WORK

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	1194850			1	189	4476	4665	15	13	17	45
76-77	1537081	1	92374	3	1141	16276	109791	42	43	41	126
77-78	2594014	2	543124	6	3616	23622	570362				2195
TOTAL	5330945	3	635498	10	4946	44374	684818	11921	993	1032	1285
PP PRESENT ON RATE LEVEL								1828	877	1032	374
PP UNDERLYING PRESENT RATE								1914	918	1081	391
PP INDICATED BY NATIONAL RELATIVITY								2305	957	1391	465
PP DERIVED BY FORMULA								3542	766	1145	545

CLASS 6251 TUNNELING NOT PREPARED

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL			
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL
75-76	400							1	1	1	3
76-77								49	49	49	147
77-78	38824										100
TOTAL	39224							50	50	50	150
PP PRESENT ON RATE LEVEL								4287	2528	2406	922
PP UNDERLYING PRESENT RATE								4480	2647	2519	966
PP INDICATED BY NATIONAL RELATIVITY								5805	3121	3738	1266
PP DERIVED BY FORMULA								4988	2793	3034	1082

NATIONAL COUNCIL ON COMPENSATION INSURANCE

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APPENDIX B-III

CALCULATION OF FINAL MANUAL RATE

A. Reviewed Classifications

The following items are combined with the derived by formula pure premium to obtain the final manual rate for a reviewed classification:

(1) Policy and Calendar Year Adjustment Factor

The derived by formula pure premiums do not recognize the effect of calendar year experience for 12 months ending 6-30-80 and have been calculated prior to the availability of revised experience for policy years 1977 and 1978 valued as of 12-31-79.

(a) Unweighted Average of Calendar Year and Policy Year Loss and Loss Adjustment Ratios (See Exh. I, Table 3, Line 3)	.804
(b) Overall effect of Serious Loss Contingency Factor	1.012
(c) Policy Year and Calendar Year Loss and Loss Adjustment Ratio used in pure premium exhibits	.737
(d) Policy and Calendar Year Adjustment Factor ((a)*(b)) + (c)	1.077

(2) Factor to Reflect Completion of Transition Program

A factor of .992 is applied to the Indicated Change in Premium Level in order to reflect the completion of the Transition Program (See Exhibit I - Table 3).

(3) Effect of January 1, 1981 Benefit Change and Serious Loss Contingency Factor

The partial pure premiums are multiplied by the three part effect of the January 1, 1981 Benefit Change (See Exhibit II-B) and the Serious Loss Contingency Factor as follows:

Table 9

	(1) Effect of 1-1-81 Benefit Change	(2) ✓ Effect of Ser. Loss Contingency Factor	(3) Product (1) x (2)
Serious	1.001	1.025	1.026
Non-Serious	1.001	1.000	1.001
Medical	1.000	1.000	1.000

(4) Ratio of Manual Premiums to Earned Premiums

The ratio of manual premiums to earned premiums by industry group have also been excluded from the classification experience, and it is necessary to apply these factors to the derived by formula pure premiums. This is done in Table 10.

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ALASKA - APPENDIX B-III (CONTD.)

Table 10

<u>Industry Group</u>	<u>Ratio Of Man.Prem.To Earned Prem.</u>
Manufacturing	1.116
Contracting	1.115
All Other	1.083

(5) Rates - Test Correction Factor

The payrolls are now extended by the rates presently in effect and by the indicated proposed rates to determine if the required change in manual premium level as calculated in Exhibit I has been achieved. Since at first this calculation may not yield the required results, an iterative process is initiated which continuously test the proposed rates including tentative Test Correction Factors until the required change in manual premium level is obtained. The test correction factors are applied to the derived by formula pure premiums.

The factors referred to in (1), (2) and (5) are set out in Table 11.

Table 11

<u>Industry Group</u>	<u>(1) Pol. & Cal. Yr. Adj. Factor</u>	<u>(2) Factor to Reflect Completion of Transition Program</u>	<u>(3) Test Correction Factor</u>	<u>(4) Composite Factor ((1)x(2))x(3)</u>
Manufacturing	1.077	.992	1.009	1.078
Contracting	1.077	.992	1.054	1.126
All Other	1.077	.992	1.060	1.132

(6) Expense Allowance

The expense allowance is introduced into the rate by dividing the product of the proposed pure premium and the appropriate factors above by the proposed permissible loss and loss adjustment ratio of .727 (See Exhibit III for derivation of this factor.) This operation produces the proposed rate prior to the addition of a disease element, if any.

(7) Disease Loadings

The proposed manual rates shown in Exhibit V include specific disease loadings for those classifications where they apply. The proposed specific disease loadings are shown in the table of Specific Disease Loadings at the end of Exhibit V.

(8) Swing Limits

As a further step a test is made to make certain that the proposed rates fall within the following departures from the present rates:

Manufacturing	from 23% above to 27% below
Contracting	from 28% above to 22% below
All Other	from 44% above to 6% below

NATIONAL COUNCIL ON COMPENSATION INSURANCE

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ALASKA - APPENDIX B-III (CONTD.)

These limits have been calculated in accordance with the following formula:

Max. Deviation = Effect of the Final Rate Level Change by Industry Group plus or minus 25% rounded to the nearest 1%.

The classification which have been so limited are listed in Table 12.

An illustrative example showing the calculation of the proposed manual rate for Code 2003 is attached as Appendix B-IV. This example demonstrates the manner in which the partial pure premiums are combined to produce a total pure premium, and shows the steps in the calculation at which rounding takes place. Revised rates for other reviewed classifications are calculated in the same manner.

B. Non-Reviewed Classifications

The proposed rates for the non-reviewed classifications are obtained as follows:

- (a) The present Alaska rates are modified by the industry group change in rate level excluding the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor, but including the factor to reflect completion of the Transition Program. This adjusted rate is then multiplied by the permissible loss and loss adjustment ratio of .727 and divided by the ratio of manual to earned premium in order to produce an adjusted total pure premium. This adjusted total pure premium is divided by the total pure premium underlying the present rate. This factor is applied to the partial pure premiums underlying the present rate to produce adjusted partial pure premiums excluding the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor.
- (b) These partial pure premiums resulting from (a) above are increased by applying the three part effect of the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor (Serious 1.026, Non-Serious 1.001, Medical 1.000). The partial pure premiums are added together resulting in a three decimal number. The serious pure premium is then adjusted in order that the three decimal place partial pure premiums add to an even two decimal place rounded total pure premium. This total pure premium is multiplied by the ratio of manual to earned and then divided by the permissible loss and loss adjustment ratio of .727.
- (c) The resulting rate is calculated to two decimal places to produce a final manual rate.

Table 12

List of Limited Classifications

0909	2070	2286	2670	3724	4113	4805	5184	7405	8607	9063
0912	2101	2302	3017	4036	4282	4808	5348	7431	8742	9154
0913	2105	2380	3270	4061	4301	4812	5462	7610	8803	9545
1430	2172	2501	3336	4062	4360	4825	6017	8033	8820	
1852	2174	2534	3372	4101	4432	5022	6216	8058	8831	
1853	2177	2560	3516	4111	4711	5040	6237	8107	9033	

NATIONAL COUNCIL ON COMPENSATION INSURANCE

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APPENDIX B-IV

CALCULATION OF PROPOSED RATE - CODE 2003 - MANUFACTURING

A. REVIEWED CLASSIFICATIONS

	<u>Serious</u>	<u>Non-Serious</u>	<u>Medical</u>	<u>Total</u>
1. Derived by formula pure premiums (Appendix B-II)	1.136	.929	.940	3.01
2. Composite factor*	1.078	1.078	1.078	xx
3. Adjusted pure premiums, unrounded (1)x(2)	1.224608	1.001462	1.013320	xx
4. Effect of the 1-1-81 Benefit Change and Serious Loss Contingency Factor, in parts	1.026	1.001	1.000	xx
5. Proposed pure premiums (3)x(4)	1.256	1.002	1.013	3.271
6. Adjusted pure premiums to rounded total	1.255	1.002	1.013	3.27
7. Ratio of manual to earned premium				1.116
8. Permissible loss and loss adjustment ratio				.727
9. Final manual rate ((6)x(7)+ (8))				5.02

* See Appendix B-III

**PLEASE NOTE: THE PRECEDING PAGES WERE TREATED
AS A UNIT IN THE ORIGINAL DOCUMENT.**

NOTE REGARDING THE FOLLOWING FRAME ON MICROFILM:

COMPLETE DOCUMENT IS AVAILABLE IN ORIGINAL FILES
IN ALASKA STATE ARCHIVES, TITLE PAGE ONLY HAS
BEEN FILMED.

U.S. DEPARTMENT OF LABOR
EMPLOYMENT STANDARDS ADMINISTRATION

Office of Workers' Compensation Programs
Office of the Director

Washington, D.C. 20210



Licia Piceno
Administrative Assistant to
Senator Terry Stimson
Workers' Compensation Study Commission
1024 West 6th St.
Anchorage, Alaska 99501

Dear Ms. Piceno:

Thank you for the interest shown in our Division and its activities at the 4th Annual National Symposium on Workers' Compensation in Orono, Maine.

Enclosed is a copy of the materials presented at the conference with the exception of the State Characteristics book which is being published. Your name is being added to our mailing list in accordance with your request.

Sincerely,

June M. Robinson
JUNE M. ROBINSON
Associate Director for State
Workers' Compensation Standards

Enclosure

U.S. Department of Labor
Employment Standards Administration
Office of Workers' Compensation Programs
Division of State Workers' Compensation
Standards
July 1, 1980

States Having "Flexible Maximum" Benefit Levels
Under Workers' Compensation Statutes

Date of Adjustment	State
7/1	Alabama -- 66-2/3%
1/1	Alaska -- 166.6% <u>1/</u>
7/1	Colorado -- 80%
10/1	Connecticut -- 100% (plus dependents' allowances)
2/	Delaware -- 66-2/3%
10/1	D.C. -- 200% of National Average Weekly Wage
1/1	Florida -- 100%
1/1	Hawaii -- 100%
1/1	Idaho -- 60 - 90 %
1/15 & 7/15	Illinois -- 133-1/3%
7/1	Iowa -- 166-2/3% <u>3/</u>
7/1	Kansas -- 72%
1/1	Kentucky -- 100%
9/1	Louisiana -- 66-2/3%
7/1	Maine -- 166-2/3% <u>3/</u>
1/1	Maryland -- 100%
10/1	Massachusetts -- 100% (plus dependents' allowances)
1/1	Michigan -- <u>4/</u>
10/1	Minnesota -- 100%
7/1	Missouri -- <u>5/</u>
7/1	Montana -- 100%
7/1	Nevada -- 100%
7/1	New Hampshire -- 100%
1/1	New Jersey -- 75%
1/1	New Mexico -- 100%
10/1	North Carolina -- 100%
7/1	North Dakota -- 100% (plus dependents' allowances)
1/1	Ohio -- 100%
10/1	Oklahoma -- 66-2/3% <u>6/</u>
7/1	Oregon -- 100%
1/1	Pennsylvania -- 100%
9/1	Rhode Island -- 100% (plus dependents' allowances)
1/1	South Carolina -- 100%
1/1	South Dakota -- 100%
9/1	Texas -- <u>7/</u>
7/1	Utah -- 100%
7/1	Vermont -- 100% (plus dependents' allowances)
7/1	Virginia -- 100%
7/1	Washington -- 75%
7/1	West Virginia -- 100%
1/1	Wisconsin -- 100%
<u>8/</u>	Wyoming -- 100%

- 1/ Alaska: Effective 1/1/81, 200%.
- 2/ Delaware: Date for changes in benefits is set at the discretion of the Governor.
- 3/ Iowa and Maine: Effective 7/1/81, 200%.
- 4/ Michigan: Maximum benefit rate is adjusted annually on the basis of a \$1 increase or decrease for each \$1.50 increase or decrease in the State's average weekly wage.
- 5/ Missouri: Effective 8/13/81, maximum weekly benefits for total disability and death will be $66 \frac{2}{3}$ percent of the State average weekly wage.
- 6/ Oklahoma: $66\frac{2}{3}\%$ as listed applies to temporary total disability. Benefits for fatalities may not exceed a maximum of 75% of the employee's average weekly wage. Effective 1/1/81, $66\frac{2}{3}$ for permanent total disability, and 50% for permanent partial disability by 1982.
- 7/ Texas: Increase is governed by increase in average weekly wage for manufacturing production workers.
- 8/ Wyoming: Changes every calendar quarter.

Source: Information from Temporary Total Disability Table.