

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672
5405 SLAB SB 322 (file 18) - SB 327 977

person will be based upon the spendable weekly wage which the person is earning at the time he or she is injured. The use of wages contemporary with the injury is to be encouraged, particularly because of the effects of Alaska's boom and bust economy when a historical earnings criteria is used. The inconsistencies between this and the next section may result in litigation. Our discussions indicate that this is a more desirable approach in Alaska's economy (see our comments in the next section).

XXVIII. BOARD MUST DETERMINE EMPLOYEE'S GROSS WEEKLY EARNINGS
COMMENTS

This amendment is imposed upon the delightful conundrum which has been AS 23.30.220(a). The section as it currently exists begins by saying that the current wage at the time of injury is the basis for computing compensation. It goes on to provide that this is current receivable wage and that this is calculated on the basis of earnings history only. There are two formulas that are customarily used in workers' compensation statutes. One bases the calculation of compensation on the earnings of the employee at the time of injury. The other bases the calculations on a wage earning history. This latter has created much of the problem on which we are currently working. In a boom and bust economy, a workers' compensation system that

is based upon earnings history finds that in boom periods, the workers benefits are calculated on his earnings during the bust period and hence, are low, and there are plenty of jobs at high wages available as an incentive to return to work. At this time then, claim payments are low and profits are high. On the other side of the mountain, when the economy is going into a bust, the payments to the injured worker are based on earnings history and hence, are high, and wages available are low (if any). This provides a disincentive to return to work and during this period, there would normally be no profit at all for the insurance carriers since the profit was drawn during the boom time. Alaska has, however, elected to try to provide profit both during boom and bust while still calculating benefits based on historical wages. The effect of these two policies makes for low premiums at the boom time and high premiums at the bust time, thus further damping the economy and permitting those employers who can come into the state from outside (using an all state endorsement without the necessary Alaska riders and rates being paid) to underbid employers who are residents of the state.

RECOMMENDATION

Consider basing benefits paid on wages earned at the time of the injury as a condition precedent to the adoption of the amendments. Beyond this, adopt the amendments and monitor for the problems set forth below.

ACTIONS PROPOSED

Adopt the proposed amendment but change the definition of spendable weekly wage to one providing that it is based on the wage being earned at the time of injury.

17
DUES
MHS

ARGUMENTS AND PROBLEM AREAS

The judgment of two years, or 18 months out of two years, eliminate much of the flexibility in determining an employees compensation as a result. Those seeking to go back to work after a workers' compensation (or other) injury lasting, say, a year to a year and five months will have virtually no workers' compensation coverage. This will undoubtedly be litigated on equal protection and probably other grounds.

XXIX. REDUCTION IN BENEFITS FOR PEOPLE COLLECTING PENSION OR PROFIT SHARING BENEFITS

COMMENTS

A wise decision since those who retire would not, in most instances, be the ones sought to be covered by workers' compensation benefits.

RECOMMENDATION

Adopt the amendment.

ACTIONS PROPOSED

Adopt the amendment.

ARGUMENTS AND PROBLEM AREAS

There will probably be equal protection problems based

on the fact that a worker may have accumulated pension benefits over a great number of years. A further problem will be the employee who, because of the compensable injury, is forced into disability retirement. Presumptively, these will be resolved in favor of the amendment.

XXX. NON-DISCRIMINATION IN HIRING AGAINST INJURED PERSONS
EXCEPT DISCRIMINATION PERMITTED IF EMPLOYER
CONSIDERS "SAFETY PRACTICES" OR "PHYSICAL AND MENTAL ABILITIES
EMPLOYER MAY REQUIRE QUESTIONNAIRE COMPLETION TO
DETERMINE "PHYSICAL AND MENTAL CAPACITY"

COMMENTS

We were unable to consider this amendment adequately because of the obvious conflict between Section (a) and Sections (b) and (c). It appears that the draftsman resolved the conflict by including everyone's proposed rule.

RECOMMENDATION

We will go along with WCCA, but do not endorse conflicting rules.

ACTIONS PROPOSED

Put this on the shelf until a clear rule can be drafted.

ARGUMENTS AND PROBLEM AREAS

The obvious conflict between the sections. There are also possible conflicts with the federal law prohibiting refusing to hire because of disability.

XXXI. REPEAL OF MOST RAGLAND BENEFITS

COMMENTS

The Ragland case provided that an employee's wage include fringe benefits paid and room and board if supplied. This removes the room and board unless it is taxable (true only with town jobs where room and board not supplied for the convenience of employer). Fringe benefits are not taxable to the employee, if they are paid into a trust, unless they are actually or constructively received by the employee. This amendment leaves only pension or profit sharing benefits for older and vested employees to be considered as part of an employee's income. This is a compromise and, in the view of Unified Fairbanks, this is an agreeable reduction in benefits offset against a possible reduction based on collateral benefits received by the employee.

RECOMMENDATION

Unified Fairbanks considered adoption of this amendment in consideration of dropping potential adoption of an offset against collateral benefits rule. We therefore recommend its adoption.

ACTIONS PROPOSED

If this amendment is not adopted, fairness would decree that we then consider an amendment to AS 23.30.225 providing, "Where an employee receives periodic disability benefits under

the provisions of a pension plan, disability or accident insurance plan, financed in whole or in part by the employer, the aggregate benefits payable for temporary total disability, temporary partial disability, permanent partial, and permanent total disability shall be reduced by an amount equivalent to such portion of the employer finance benefits paid to an employee in excess of temporary or permanent disability benefits calculated on the employees spendable weekly wages.

ARGUMENTS AND PROBLEM AREAS

Non-union employers on Davis-Bacon jobs often take the fringe benefit sums and place them in a separate account. This account is to be used to pay fringe benefits. However, if an employee does not work long enough to vest any interest in those fringe benefits (which is the rule on construction jobs), the money may return to the employer. Since the chance of vesting is minimal and since under these circumstances these payments are not deductible to the employer, they are included in gross wages paid for the purpose of calculating workers' compensation premiums. If premiums are to be based on these sums, there may be lawsuits with respect to the way they are to be considered in gross earnings. It is probable that the "vested" requirement will shortcut any court test here.

XXXII. COMPENSABLE INJURIES NOT TO INCLUDE
"MENTAL INJURY CAUSED BY MENTAL STRESS"

COMMENTS

The same ~~defect of definition~~ is found in this reference to ~~"mental injury"~~ as is found in Section XV. Please see comments on Section XV.

RECOMMENDATION

Please see comments at Section XV.

ACTIONS PROPOSED

Please see comments at Section XV.

ARGUMENTS AND PROBLEM AREAS

Please see comments at Section XV.

XXXIII. MEDICAL STABILITY (TERMINATING PAYMENT OF ALL
TEMPORARY BENEFITS) OCCURS WHEN NO OBJECTIVELY MEASURABLE
IMPROVEMENT HAS OCCURRED TO THE INJURED
EMPLOYEE IN ANY 45 DAY PERIOD

COMMENT

This may be rebutted by clear and convincing evidence, but it divorces the medical definition of "medical stability" (meaning that the patient is improved as much as he or she is reasonably expected to improve) from the meaning of medical stability for workers' compensation purposes. Because of the burden of proof associated with it, this should greatly increase the number of hearings before the Board.

RECOMMENDATION

This has been earlier discussed in Sections XXIV and XXVI. Unified Fairbanks agrees that temporary benefits should be terminated and permanent benefits (if applicable) should be started immediately upon medical stability as that term is used by the medical profession. We hope the WCCA will agree to an amendment bringing their definition more in line with that of the medical profession.

ACTIONS PROPOSED

Try to redefine "medical stability" more toward that time when an injured person first reaches a condition in which whatever disability has been caused by the compensable injury is not likely to become measurably less in the near future.

ARGUMENTS AND PROBLEM AREAS

Doctors will probably continue to apply their definition of medical stability and will take whatever reporting steps are necessary to circumvent the imposition of the "45 day rule".

XXXIV. REPEAL OF THE CURRENT METHOD OF DETERMINATION OF WAGE EARNING CAPACITY

COMMENTS

A necessary part of the new method of determination proposed.

RECOMMENDATION

We concur with WCCA providing, of course, the new sections are adopted.

ACTIONS PROPOSED

Adoption as part of the overall package.

ARGUMENTS AND PROBLEM AREAS

None not mentioned in the section amending the new method of determination of wage earning capacity.

XXXV. REPORTING DURING TRANSITION

COMMENTS

This section is only needed if we go to the annual reporting format in order to permit the State to accumulate easily accessible figures.

RECOMMENDATION

To be adopted, if we adopt the annual reporting approach.

ACTIONS PROPOSED

Same.

ARGUMENTS AND PROBLEM AREAS

These are set forth in our recommendations on the principal statutory changes.

XXXVI. EFFECTIVE DATE

COMMENTS

A good choice.

RECOMMENDATIONS

A PR campaign with recompilation of booklets available including the copies of the applicable code and regulation sections.

ACTIONS PROPOSED

A good date to start. Be sure to use lots of PR and recompile all publications, including the gray book.

ARGUMENTS AND PROBLEM AREAS

None.

XXXVII. LEGISLATIVE TASK FORCE

COMMENTS

As we addressed each of the problem areas, a number of them were set forth as needing a legislatively oriented task force, to monitor changes being made, and to resolve those problems not yet addressed.

RECOMMENDATION

Immediate creation of a task force containing legislators, insurance carriers, medical care providers, attorneys (from both sides), rehabilitation personnel, labor unions, executive and administration representatives, and employers. This task force should first address those problems which have not been addressed by legislative, executive, or administrative changes and later on, they should monitor the effect of the changes now being made. Only in this way will we

be able to hone these problems down to a workable point.

ACTIONS PROPOSED

Establishment of the above committee forthwith.

ARGUMENTS AND PROBLEM AREAS

The function of this committee is to address problems.

Its creation will do a good deal toward satisfying the
employers ^{whose Premiums} ~~that~~ are too high. Costs should be minimal.

his argument by stating that any ductwork which is not installed according to specific guidelines has the potential of being installed improperly. Thus, to alleviate the installation problem, he recommended that the State adopt—or at least reference—SMACNA's IVAC

ing" stage from all of the testimony they received. Staff members of the Commission indicate that Vermeulen made his point and that the State will more than likely adopt his recommendations. We'll keep you posted on further updates. □

Everything You Wanted to Know About the CAL SMACNA Workers Compensation Captive, But Were Afraid to Ask

By James Gullone, CPCU, President CAL SMACNA Business Insurance Agency, Inc.



In order to give you a full picture of how the captive works, I need to digress for a bit and give you a synopsis of the inside

workings of the California Workers Compensation System. Once the inner workings of this system are laid before you, it will be easy to see how the captive works to your advantage at every turn.

How are my workers comp rates calculated?

Every insurance company in the state is responsible for filing a Unit Statistical Report with the Workers Compensation Insurance Rating Bureau (WCIRB) for every employer who has workers compensation insurance with them. This report contains the premium and losses that the employer sustained during the year broken down by rating class.

The rating class is one of 232 categories where one of your workers can be categorized in order to determine his workers compensation rate. A common category in our industry is Sheet Metal Work, Erection, Installation or Repair (\$16 or more per hour), Code 5542, rate \$9.05.

By using three years worth of these statistics, the WCIRB determines by statistical analysis what rates are necessary to pay claims and insurance company expenses for each workers compensation class. For example, in the rate class 5542 mentioned above, the rate as of 1/1/86 was \$6.66. As of 7/1/87, that rate had climbed to \$9.05, almost a 36 percent increase in a year and a half.

By contrast, the rate for roofers on 1/1/86 was \$30.33. By 7/1/87, it was \$33.85 and had increased only a little less than 12 percent during the same year and a half.

Are the rates that the WCIRB promulgates the minimum rates that an insurance company can charge for workers compensation?

Yes. California is a minimum premium state. Companies can charge more than the minimum but they cannot charge less.

There is, however, a legal way for you to pay less and it involves the Unit Statistical Report that we mentioned. Not only is that report used to set the minimum rates, it is also used to set an individual company's Experience Modification Factor (EMF).

If your account develops over \$14,500 in premium using the minimum rates, you automatically qualify for Experience Rating. By a set formula, the WCIRB measures the number of claims you have, the claims you have over \$2,000 and your premium.

If you are above average, your Experience Modification will be 1.00. If you are below average, your Experience Modification will be less than one. And if your claims are worse than average, your experience Modification will be greater than one.

So the Experience Modification Factor can affect my rates?

Very much. Let's say that you have a \$200,000 payroll of sheet metal workers in the 5542 code which charges \$9.05 for each \$100 of payroll. The minimum rate that would be developed is \$18,100. If this account had a number of losses and the Experience Modification Factor was 1.25, they would be charged \$18,100 x 1.25 or \$22,625.

If the account loss history was better than average and developed an Experience Modification Factor of .75, this account would be charged only \$13,575.

Obviously, the Experience Modification Factor is very important. To my way of thinking, it is *THE* most important factor in your workers' compensation program for several reasons:

- a) You can legally pay less for your workers' compensation insurance than your competitor.
- b) A consistently low Experience Modification Factor means you probably have a good safety program and you are reaping the benefits of that program.
- c) Unlike dividends—which are not guaranteed—a good Experience Modification Factor at least guarantees your rates for that year.
- d) You can have some control over your Experience Modification Factor, whereas it is very difficult to control your dividend. □

tor of California that his a with the Trade Shows.

Both pro Association show in Annual Conference at the Wh April 6-9. Group in arrangements can be reached.

The other state Member of corporations. Acts or services. ciation. Based on other benefits have a claim. CAL SMACNA reduced rates. transactions. be able to. Association. participate in preferred region. For more information, contact SACRAMENTO.

Bipart

Business long-term legislation and signed.

In the recent history, the most important contribution of individual corporations is the passage of the 572 (Gara) and other major legislative.

The legislation is 9.3 percent per year rate for California's all business.

Corporation significant SMACNA lists. Rate was new the initiative. Settled on a rate reduction. It could be controlled.

All of them can be carried.

SB

322

(FILE 19-MILLIMAN + ROBERTSON)

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April 25, 1988

Representative John Sund
P.O. Box V
State Capitol
Juneau, Alaska 99811

Dear Representative Sund:

Milliman and Robertson, Inc. (M&R) was retained by the House Judiciary Committee to conduct an analysis of the latest version of Senate Bill 322 (i.e., as of April 20, 1988) and to evaluate the potential impact on workers' compensation insurance rates in Alaska. This letter presents the results of our analysis.

1. Estimated Impact on Cost Levels

We estimate that the proposed law will reduce benefit costs by slightly more than 6%, relative to current benefit levels. Table 1 below shows how this reduction was estimated.

TABLE 1: ESTIMATED CHANGE IN BENEFIT COSTS

	Fatal	Perma- nent Total	Perma- nent Partial Tem- porary	Award	Tem- porary Total	Medical	Total
A: Cost under Current Law	3.0%	13.4%	20.1%	30.1%	5.1%	28.3%	100.0%
<u>Proposed Law Change</u>							
B: Revision to PP Award	1.000	1.000	1.000	0.867	1.000	1.000	
C: Weekly Benefit Maximum	0.996	0.999	1.000	1.000	0.995	1.000	
D: Out-of-State Claimants	<u>0.950</u>	<u>0.950</u>	<u>0.950</u>	<u>1.000</u>	<u>0.950</u>	<u>1.000</u>	
E: Overall Impact (BxCxD)	0.946	0.949	0.950	0.867	0.945	1.000	
F: Cost Under Proposed Law (A+E)	2.8%	12.7%	19.1%	26.1%	4.8%	28.3%	93.8%

Representative John Sund

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April 25, 1988

As can be seen on Table 1, our estimates explicitly recognize the impact on costs of three provisions of the proposed law; i.e.,

1. The revised method by which permanent partial awards are to be calculated using the American Medical Association (AMA) disability guides and the whole man concept.
2. The reduction of the maximum weekly benefit to \$700.
3. The reduction in benefits to out-of-state claimants to recognize higher living costs in Alaska.

In addition to these three "hard dollar" provisions, we believe there are many "soft dollar" provisions of the proposed law that have the potential to significantly impact costs. For example, strict adherence to the letter and spirit of the administrative provisions of the proposed law, emphasis on workplace safety, successful implementation of the "independent medical evaluation" concept, and effective implementation of more stringent controls on the vocational rehabilitation program should result in additional efficiencies. On the other hand, there are some aspects of the proposed law that could have a negative impact on costs. For example, under current law many claimants settle for a lump sum with a compromise and release agreement. Under the proposed law, permanent partial cases are to be automatically settled with a lump sum without the need for a compromise and release agreement. It appears that under the new law there is the potential for greater frequency of reopenings.

We were able to obtain data to estimate the likely magnitude of the "hard dollar" savings. In addition, our judgments of these savings were influenced by potential "soft dollar" savings. However, we believe there is the potential for significant "soft dollar" savings beyond those anticipated in our estimates, provided the proposed reforms are fully and successfully implemented.

2. Impact on Rate Levels

If current rate levels are adequate, we estimate that the proposed law would justify an overall rate reduction of 6%. However, the following should be recognized:

1. Our earlier analysis conducted for the Alaska Department of Insurance indicated that current rate levels may be inadequate; i.e., insufficient to sustain costs under the current benefit structure.
2. We believe that there is a general perception within the insurance industry that the current rate level in Alaska is inadequate.
3. While the proposed law will reduce costs in the short term, it is likely that costs will begin to rise again before the January 1, 1990 rate reduction

Representative John Sund

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April 25, 1988

expiration date, due to medical inflation and the long-term trends towards greater benefit utilization.

The proposed law mandates a temporary rate reduction for the period July 1, 1988 through January 1, 1990 of at least 6%. It is not clear to us if the proposed law anticipates a rate freeze at 6% below current levels, or that any subsequent rate filing must reflect a 6% offset to recognize the proposed law.

We would advise strongly against implementing a rate freeze for a number of reasons:

1. Given the perception of current rate inadequacy, a rate freeze may precipitate market availability problems.
2. We believe it is in the long-term interests of all parties that rates reflect costs. Major problems have developed in states that have not adhered to this principle (e.g., Maine).
3. Rate reviews will measure the impact of all aspects of the proposed law as actual losses under the new law emerge. Frequent review will enable any required adjustments to rates and, if necessary, to administrative procedures, statutory provisions, etc., to be implemented before a crisis develops.
4. We believe there is the potential for savings significantly in excess of 6% if certain of the administrative provisions of the proposed law are successfully and strictly implemented. If such savings materialize, they should be reflected in the rates as soon as possible.

We suggest that the proposed law be revised to include an immediate reduction of rates of at least 6%, and a provision specifying that future rate filings (e.g., after December 31, 1988) must fully reflect the impact of the new law. This latter requirement should not be limited to the period July 1, 1988 through January 1, 1990. We would anticipate that the original estimated impact on costs of 6% would be gradually revised in future rate filings as actual data becomes available.

To assure that subsequent rate filings do fully reflect the impact of the new law, the Department of Insurance may want to consider special reporting requirements and enhanced actuarial analyses pertaining to emergence of costs under the new law.

We also note that the term "rate" used in the proposed law is somewhat ambiguous. It is not clear if the drafters mean the overall Statewide rate level or the rate charged each individual insured.

Representative John Sund

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3. Estimated Impact on Benefits

As can be seen on Table 1, permanent partial award benefits are the most affected by the proposed law.

Permanent partial award benefits are typically paid to a partially disabled worker who has recovered sufficiently to return to work. The benefit is intended to compensate for loss of work ability and future earning capacity, and is paid in addition to temporary total benefits.

Exhibit 1 provides a comparison of estimated benefits under the current and the proposed law for "average" cases of different injuries.

4. Assigned Risk Surcharge

Although not part of the current version of SB322 provided to us for analysis, we have been provided with a proposed revision impacting the assigned risk surcharge; i.e.,

"(c) An insurer may not impose a surcharge for assigned risk pool insurance unless the insured has received an experience modification debit. After the insured has received an experience modification debit, the insured may impose a surcharge if the percentage of the surcharge does not exceed the percentage applied as an experience modification debit or 25 percent of the premium developed after application of the experience modification factor, whichever is less."

While we have not had time to request data to analyze this proposal in detail, we have the following comments.

The proposal is likely to lead to a reduction of premium collected for assigned risks. This is because of small risks and new risks with few loss potential do not have enough credible experience to produce a high experience rate modification. For these risks, the new law could substantially reduce the effective assigned risk surcharge from the current value of 20%.

Any reduction in assigned risk premiums will partially offset the indicated cost savings of 6%. For example, assume that assigned risks currently account of 15% of the total earned premium. Further assume that the proposal reduces the effective surcharge from 20% to 15%. The resulting overall statewide premium will then be reduced by about 0.6%. Thus, only 5.4%, rather than 6%, is available for an overall rate reduction.

In any case it should be recognized that reductions in assigned risk premium levels can only be accomplished at the expense of the voluntary market.

Before changing the assigned risk surcharges and risking

Representative John Sund

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April 25, 1988

market dislocations, we recommend further study of relative rate adequacy of the assigned risk pool versus the voluntary market. This analysis should be extended to include the various segments of the assigned risk pool in which problems are perceived to exist (e.g., small risks, new risks, etc.). We therefore suggest postponing revision of the assigned risk surcharge at this time.

Methodology

This analysis is an extension of our earlier study for the Alaska Department of Insurance described in our report "Cost Analysis of the Alaska Workers' Compensation Program" dated February 10, 1988.

Our cost estimates are based on a modified version of the model developed by the National Council of Compensation Insurance (NCCI). The NCCI model was based on both countrywide and Alaska data. We have modified the model to reflect additional local Alaska data available from the Alaska Workers Compensation Insurance Handling System and also from the NCCI unit statistical plan for Alaska.

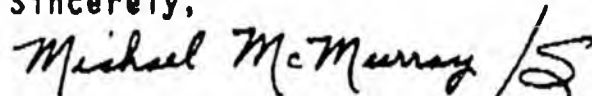
All the data was accepted for analysis without audit.

Variability

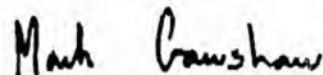
The proposed law represents a very significant revision to the Alaska Workers Compensation program. It must be recognized that there is significant variability in any actuarial estimate of future workers' compensation costs, and that variation from the estimates presented in this report are likely.

We welcome the opportunity to discuss this analysis in greater detail as the need arises.

Sincerely,



Michael A. McMurray, F.C.A.S., M.A.A.A.



Mark Crawshaw, F.C.A.S., M.A.A.A.

Exhibit 1
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File: 60A Date: 04/25/88 07:36:16
 Title: Alaska Workers Compensation
 Estimated Average Permanent Partial Awards Under Current
 Law And Under SB 322 (As Of April 20, 1988)

(1) (2) (3) (4)

SCHEDULED MINOR PP	Average % Loss	AMA Rating	Estimated	Estimated
			PP Award Under Current Law	PP Award Under Proposed Law
Thumb: 1 Phalange	100	16.0	\$8,152	\$21,600
2 or more	100	22.0	12,625	29,700
Loss of Use	25	4.0	4,197	5,400
Ind Finger: 1 Phalange	100	6.0	4,525	8,100
2 or more	100	12.5	7,476	16,875
Loss of Use	32	3.2	2,951	4,320
Mid Finger: 1 Phalange	100	5.0	2,918	4,750
2 or more	100	7.0	4,833	12,525
Loss of Use	29	2.4	1,705	3,240
Ring Finger: 1 Phalange	100	3.0	2,853	4,050
2 or more	100	4.5	4,296	6,075
Loss of Use	31	1.6	1,836	2,160
Litt Finger: 1 Phalange	100	1.0	1,148	1,350
2 or more	100	2.5	2,099	3,375
Loss of Use	36	0.8	820	1,080
Great Toe: 1 Phalange	100	4.0	4,164	5,400
2 or more	100	6.5	6,460	8,775
Loss of Use	26	1.6	2,230	2,160
Other Toes: Dismemberment	100	0.8	2,328	1,080
Loss of Use	29	0.0	754	250
Other: Hearing: One Ear	6	2.0	6,066	2,700
Arm	13	8.0	11,936	10,800
Hand	13	7.0	9,050	9,450
Leg	13	8.0	10,939	6,750
Foot	13	4.0	7,378	5,400
Eye	15	4.0	6,886	5,400
Hearing: Both Ears	17	6.0	11,149	8,100
AVERAGE - ALL INJURIES			\$6,690	\$6,515

File: BOA Date: 04/25/88 07:36:16
 Title: Alaska Workers Compensation
 Estimated Average Permanent Partial Awards Under Current
 Law And Under BB 322 (As Of April 20, 1988)

	(1)	(2)	(3)	(4)
SCHEDULED MAJOR PP	Average % Loss	A/A Rating	Estimated PP Award Under Current Law	Estimated PP Award Under Proposed Law
Arm: Above Elbow	100	58.5	\$53,580	\$78,975
Below Elbow	100	55.5	53,580	74,925
Loss of Use	53	25.6	42,202	34,560
Hand: Dismemberment	100	54.0	41,710	72,900
Loss of Use	56	24.0	33,611	32,400
Leg: Above Knee	100	38.0	49,383	51,300
Below Knee	100	32.0	49,383	43,200
Loss of Use	53	16.8	38,038	22,680
Foot: Dismemberment	100	28.0	36,234	37,800
Loss of Use	51	11.2	28,430	15,120
Eye: Enucleation	100	24.0	26,135	32,400
Loss of Use	88	16.8	27,413	22,680
Other: Hearing: Both Ears	57	20.0	30,233	27,000
			-----	-----
AVERAGE - ALL INJURIES			\$35,414	\$28,147

Exhibit 1
Page 4 of 4

File: 80A Date: 04/25/88 07:36:16
 Title: Alaska Workers Compensation
 Estimated Average Permanent Partial Awards Under Current
 Law And Under BB 322 (As Of April 20, 1988)

	(1)	(2)	(3)	(4)
UNSCHEDULED MAJOR PP	Average % Loss	AMA Rating	Estimated PP Award Under Current Law	Estimated PP Award Under Proposed Law
Head	46	36.0	N/A	\$49,080
Back	41	32.0	N/A	44,280
Hernia	53	42.4	N/A	57,240
Heart Attack	46	36.8	N/A	49,680
Neck	40	32.0	N/A	43,200
Mental	45	36.0	N/A	48,600
Multiple Injuries	47	37.6	N/A	50,760
Other General	44	35.2	N/A	47,520
AVERAGE - ALL INJURIES			\$51,113	\$46,633

ALL-STATE
RIDERS

MULLINAN & ROBERTSON - McMURRAY

HARD COST = .6% SAVINGS

ADMINISTRATIVE EFFICIENCIES & SAVINGS CAN'T BE
PROJECTED

SOFTS COULD RESULT IN SIGNIFICANT BENEFITS

SOME NEGATIVES TOO:

WHOLE MAN THRESHOLDS COULD BE INFLATIONARY

IF THIS IS SOLVED - 10% VS 11% ETC - CONCEPT W/S ALSO
SAVINGS WOULD RESULT

NCCI

STAN SPARK & MARK MULANEY

ANALYSIS CLASSIFICATION & RATING COMMITTEE RESOLUTION 2/11

FINDS COST IMPLICATIONS.

1) SOME IMPACTS CAN BE SHOWN (HARD COSTS)

COMBINED NET = +1.9%

2) DIFFERENT IN VS OUT - OF - STATE

-2%

3) OTHER PROVISIONS INTENDED TO DECREASE

COSTS - THEY MAY DECREASE OR INCREASE
COSTS

4) W/ CONTINUE TO STUDY THE BILL

.02%
DECREASE
IN HARD
COSTS
SOFTS
ONLY
THROUGH
IMPLEMENTATION

John Lewis

PRM. PARTIAL w/ INTENDED TO BE NET
SSUITS SHOW IT PROMIT 1730P
STUDIES HAVE DIFFERENT DATA
IF BROUGHT TO ~~0~~ - 1700 ~~0~~ SAVING INCREASE 4-6%

NCF HOME OFFICE PUT IN 4% 50% SAVINGS
TAKEN OUT IN AHEAD -

MILLIMAN & ROBERTSON, INC.
CONSULTING ACTUARIES

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CHAIRMAN EMERITUS

TO: Paul Roller

FROM: mike McMurray

PAGE 1 OF 38 (including this page)

DATE 2/10/88

TIME 1:45pm

COMMENTS: This is a preliminary draft copy.

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DISCUSSION DRAFT

COST ANALYSIS OF THE ALASKA WORKERS' COMPENSATION PROGRAM

Milliman & Robertson, Inc. (M&R) was retained by the Alaska Division of Insurance to perform the following tasks:

1. To provide a breakdown of current costs of the Alaska workers' compensation program.
2. To identify those elements driving the recent large rate increase indications.
3. To review and comment on SB322/HB352 as it pertains to the costs of the Alaska workers' compensation program.
4. To analyze local Alaskan data relevant to estimating the likely cost impact of SB322/HB352, the major source of this data being the Alaskan Workers' Compensation Information Handling System (WCIHS).
5. To review the National Council on Compensation Insurance (NCCI) preliminary evaluation of SB322/HB352 and where appropriate, modify the NCCI estimate using relevant local data.
6. To provide a likely cost estimate of the impact of SB322/HB352.

This report summarizes our findings.

1: BREAKDOWN OF CURRENT COSTS

In its most recent rate filing, the NCCI provides the following breakdown of the "average" premium dollar in Alaska:

Table 1: Breakdown of Current Costs

Benefit Cost:	69.1%
Claim Adjustment:	8.6
Production Expense:	9.6
General Expense:	5.8
Taxes:	4.4
Profit:	<u>2.5</u>
Total	100.0%

It must be appreciated that the above table is an average breakdown and that the breakdown for any particular insured may differ depending on the type of rating plan, premium size, etc.

It should also be noted that claim adjustment and production expenses as well as taxes and profit are essentially variable costs. Thus, if it is possible to reduce the total amount of benefit dollars, there will be corresponding savings of these costs. In contrast, general expense is largely a fixed cost, and total dollars consumed by this item are unlikely to be significantly altered by changes in benefit levels.

In their recent evaluation of the proposed law change, the NCCI provides a breakdown of total benefit costs by type of injury as follows:

Table 2: Breakdown of Benefit Costs

Fatal	3.0%
Permanent Total	13.4
Permanent Partial	50.2
Temporary Total	<u>5.1</u>
Indemnity	71.7
Medical	<u>28.3</u>
Total	100.0%

We understand that this breakdown of benefit costs is based on unit statistical plan data for Alaska. We have reviewed the unit statistical plan data and believe the NCCI breakdown of costs is reasonable.

The benefit cost breakdown is relative to the final injury type of the claimant. Thus, for example, permanent partial includes all temporary total benefits, rehabilitation and legal expense, paid to, or on behalf of, permanent partial awardees.

It should also be noted that the component "temporary total" includes only those temporary total claimants who receive benefits for less than 52 weeks. Temporary total claimants who receive benefits for more than 52 weeks are classified as permanent partial.

2: RECENT RATE LEVEL INCREASES

Using the NCCI rate filing dated October 16, 1987 as our data source, we identified ~~two primary reasons for the most recent rate increase:~~

1. ~~Medical cost trends.~~
2. ~~Increasing loss development~~ factors for indemnity.

The assumed annual increase in the medical cost component of the workers' compensation rates was about 8% in the last rate filing. This appears to be supported by actual experience. We also note that the medical component of the CPI for Anchorage increased by about 12% per annum between mid-1985 and mid-1987. Thus, while the medical trend is causing workers' compensation

costs to increase substantially, the magnitude is not surprising. Of greater significance are the loss development factors for the indemnity cost component. By loss development factors, we mean the amount the cumulative paid indemnity benefits (including plaintiffs attorney's fees and vocational rehabilitation expenses) increase as each policy year ages.

Relative to the factors used to generate the rates effective January 1, 1987, the paid indemnity development factors for the January 1, 1988 rates are 20% higher. Since indemnity accounts for about 70% of total Alaska benefit costs, this change adds approximately 14% to the indicated rate level.

A cursory review of the underlying loss development data specific to Alaska does indicate that this increase in the indemnity development factors was warranted.

In order to identify reasons for the deterioration in indemnity loss development, we analyzed claim count and severity data by injury type. This indicated a significant increase in the relative frequency of major permanent partial cases beginning in policy year 1982. This increase appears to affect all industry groups. There are also indications of large increases in average payments to major permanent partial claimants and to claimants between the time of injury and time of award.

Since permanent partial cases account for about half the total benefit dollars and are experiencing unfavorable development, this appears to be one area that must be addressed if overall costs are to be reduced or contained while leaving the benefit structure substantially intact.

We also note that we suspect the current NCCI promulgated rate levels for Alaska do not fully reflect the increased cost of permanent partial cases under existing law. If this is true, there will be further upward rate level indications in the future just to bring the rating structure in line with current Alaska workers' compensation law.

3: REVIEW AND COMMENTS ON SB322/HB352

The following outlines our understanding of the major provisions of SB322/HB352, which relate to the costs of the Alaskan Workers' Compensation System.

Compensation for Permanent Partial Benefits

Under current law, permanent partial benefits are either scheduled or unscheduled. The unscheduled benefit is subject to a maximum of \$60,000. Benefits may be paid in weekly installments. However, we understand that many cases are settled with a lump sum payment as part of a compromise and release agreement.

Under the proposed law, "all determination of the existence and degree of impairment shall be made strictly and solely under the whole person determination as set out in the American Medical Association (AMA) Guides". Benefits are to be calculated by multiplying the new maximum benefit amount of \$240,000 by the AMA impairment rating and an adjustment factor. The benefit is to be paid in a lump sum, without the need for a compromise and release agreement.

stand that the drafters of the proposed law intended that the change in permanent partial benefit determination produce no overall change in the total amount of benefits, although there may be changes in benefits received for any particular injury type.

We further understand that the proposed change in benefit determination is an attempt to increase the objectivity of benefit determinations and to reduce the potential for litigation. The change in the method of benefit determination essentially shifts the emphasis to medical rather than vocational considerations (e.g., loss of earning capacity).

Maximum Limitation on Weekly Benefits

Under current law, weekly benefits for fatal, permanent total, and temporary total are subject to a maximum of 200% of the state average weekly wage. This amount is currently about \$1,000.

Under the proposed law, the maximum weekly benefit will be \$700.

Claimants Living Out of State

The new law provides for reintroduction of a reduction in benefits for those claimants living out of state. The reduction recognizes higher living costs and correspondingly higher benefit levels in Alaska as compared to other states.

Rehabilitation Program Reform

Under present law, vocational rehabilitation services may generally be provided for a period of up to 37 weeks. Temporary

disability benefits are paid throughout the rehabilitation process.

Under the proposed law, vocational rehabilitation services may be provided for a period of up to two years. Temporary disability benefits are not paid automatically throughout the rehabilitation process. Rather, temporary total benefits are to cease once a claimant's medical condition stabilizes. From this time, permanent impairment benefits shall be available to support the claimant throughout the rehabilitation process. If permanent impairment benefits become exhausted before the rehabilitation process is complete, additional benefits are available to the claimant.

The proposed law also provides for closer supervision and oversight of all aspects of the rehabilitation process.

It is our understanding that the intent of the new law is to provide for the possibility of longer periods of vocational rehabilitation where warranted, and to attempt to curb perceived abuses in the current system.

Limitation on the Duration of Temporary Benefits

Under current law, there is no limit on the duration of temporary total disability benefits and a five-year limit on the duration of temporary partial benefits.

Under the proposed law, both temporary total and temporary partial disability benefits become subject to a duration limit of two years.

Miscellaneous

There are many other aspects of the proposed law with the potential to impact costs. For example, there is an attempt to exclude certain mental injuries, to define medical stability, to restrict the number of physicians used by the claimant, etc.

In addition, the tone of the new law may affect the attitudes of administrators of the workers' compensation program and consequently impact costs of the program.

Comments

In general, we believe that the proposed revisions to the Alaska workers' compensation law will improve the benefit delivery system. Changes such as the proposed reduction in the average weekly benefit maximum, reduction of benefits for out of state claimants, and limits on durations of temporary benefits will almost certainly reduce costs, and we have attempted to quantify their impact.

In addition, strict adherence to the letter and spirit of the administrative provisions of the proposed law, successful implementation of the "independent medical evaluation" concept, and effective implementation of the more stringent controls on the vocational rehabilitation program should result in additional efficiencies. However, it is not possible for us to quantify the impact of such changes.

We do believe that there are other aspects of the bill that could have negative implications for containing and controlling workers' compensation costs. These are summarized below:

1. The proposed change to permanent partial benefits represents a radical change in the benefit structure. If the change is implemented, economic incentives in the system will change dramatically, and consequently, any cost estimates are subject to substantial inherent variability. Thus, from a cost standpoint, the impact of the proposed revision to the permanent partial benefit structure is extremely difficult to anticipate.
2. The proposed law dramatically changes permanent partial benefits by injury type, with some injury types receiving large benefit cuts while others receive large benefit increases. From a cost standpoint, it is notable that the benefits for more serious back cases are substantially increased. For example, a claimant judged to be 40% impaired would receive an award of \$96,000 under the proposed law, which is 60% above the maximum award of \$60,000 possible under current law.
3. It is proposed that permanent partial benefits for less serious injuries be computed using an adjustment factor. This factor leads to discontinuities in benefit amounts. For example, a claimant judged to be 10% impaired would receive \$4,800, while a claimant judged 11% impaired would receive \$10,560. This situation potentially encourages the exaggeration of injuries, creates difficulties in administering the program, and increases variability of cost projections.
4. Under present law, it is our understanding that many permanent partial claimants settle with a lump sum and a

compromise and release agreement. Under the proposed law, permanent partial cases are to be automatically settled with a lump sum without a need for a compromise and release agreement. ~~It appears that under the new law there is the potential for greater numbers of reopenings.~~

5. Under the proposed law; economic incentives will change. For example, ~~permanently disabled claimants may be induced to seek permanent partial rather than permanent total awards, for in this way, possibly greater benefits could be obtained.~~ Similarly, a claimant whose disability results from a combination of vocational and medical conditions may be inclined to seek a permanent total rather than a permanent partial award since, under the proposed law, vocational evidence is not considered for permanent partial disability. ~~The impact of the change in economic incentives will depend, to a large extent, on the administration of the program.~~

4: M&R ANALYSIS OF LOCAL ALASKA DATA

This section discusses our analysis of data specific to Alaska. Due to its crucial importance, most of our analysis concentrated on permanent partial cases.

Data Sources

Two primary sources of data were utilized:

1. Unit statistical plan data for Alaska.
2. Information from the Alaska Workers' Compensation

Information Handling System (WCIHS).

All the data was accepted for analysis without audit.

Average Permanent Partial Claim Payments

Exhibit 1 shows the total average incurred cost on permanent partial claims as reported in the unit statistical reports for Alaska for policy years 1979 through 1984. As can be seen on the exhibit, during the period 1987 to 1984 the average cost of a permanent partial case more than doubled.

After consideration of the above and other factors affecting costs, we estimate the average cost for a permanent partial case in Alaska under current law to be over \$50,000, in policy year 1988. We note this is significantly greater than the amount of \$38,000 utilized by the NCCI in their evaluation of the proposed law.

Breakdown of Average Permanent Partial Benefit Costs

As a first approximation, payments to permanent partial claimants under current law can be broken down into two components:

1. Temporary disability (including healing, rehabilitation)
2. Permanent partial award

Exhibit 2 shows average temporary disability benefit durations for identified permanent partial claims in the WCIHS data base. As can be seen on this exhibit, the average temporary disability duration for injury years 1983 and 1984 is currently about 400 days. Since the average duration is likely to increase until

all open claims are settled, we believe 400 days represents a lower bound on the likely duration of temporary benefits under current law, and we judgmentally estimate an average duration of 425 days for policy year 1988. This duration is considerably greater than the 340 day duration implied in the NCCI evaluation of the proposed law change.

In their evaluation of the law change, the NCCI estimates the average temporary disability payment to be about \$328 per week. We estimate the average temporary disability payment on a permanent partial claim to be about \$20,000 ($\approx \$328 \times 425/7$).

We thus estimate the following breakdown of average permanent partial costs under current law:

Temporary Disability Benefits:	\$20,000
Permanent Partial Award:	<u>30,000</u>
Total	\$50,000

Because of data limitations, we were not able to estimate the dollar amounts of payments to claimant's attorneys or to rehabilitation providers. In our discussion we implicitly assume that these costs are in addition to the average claim cost of \$50,000 above.

Attorney Involvement in Permanent Partial Cases

As can be seen on Exhibit 2, approximately 30% of all permanent partial cases have some attorney involvement, either on behalf of the employee or the employer/insurer. This percentage appears to be relatively consistent from year to year.

Permanent partial cases with attorney involvement involve on

average 50% - 60% more days of temporary disability than does the average permanent partial claim.

Rehabilitation Benefits and Permanent Partial Cases

As can be seen on Exhibit 2, based on WCIHS data, vocational rehabilitation benefits are provided to about 25% - 30% of all permanent partial cases.

Permanent partial cases involving rehabilitation involve on average 75% - 100% more days of temporary disability than does the average permanent partial claim.

Permanent Partial Distribution by Injury

Exhibit 3 shows the distribution of injuries by body part as indicated by WCIHS data for permanent partial cases. We note that although back injuries account for 27% of all cases, they account for 57% of all cases involving attorneys and 47% of all cases involving rehabilitation.

Exhibit 4 provides a comparison of the injury distribution indicated by the WCIHS data and that implicit in the NCCI law evaluation for permanent partial cases. It is notable that the WCIHS data indicates significantly greater numbers of back injuries in Alaska than does the NCCI analysis. Similarly, there are indications of greater numbers of knee and shoulder injuries than anticipated in the NCCI analysis. We note that these types of injuries are generally those with the potential for greatly increased benefit awards under the proposed law.

We acknowledge that discrepancies in the injury distribution

may partially be due to the problems in identifying permanent partial cases in the WCIHS data base.

Exhibit 5 shows the relative average duration of temporary benefits by type of injury. We note that back injuries have an average duration of temporary benefits that is 60% - 80% greater than average.

Distribution of the Duration of Temporary Benefits to Permanent Partial Claimants

Exhibit 6 shows the distribution of the length of durations of closed permanent partial claims with injury dates from 1982 through 1984. As can be seen on this exhibit, if all durations were limited to two years, as would be the case under a strict interpretation of the proposed law, the average duration would be reduced by 78%.

Distribution of Claimants by ZIP Code

Exhibit 7 shows the distribution of claimants by ZIP code as recorded in the WCIHS data base.

It is notable that of claimants currently receiving fatal, permanent total, or temporary total benefits, approximately 30% are residing outside of Alaska.

Notes on the Workers' Compensation Information Handling System (WCIHS) Data Base

We were provided with a tape of the WCIHS. We understand that it contains records of all workers' compensation claims in Alaska beginning from January 1, 1982.

In our analysis we built a data base consisting of permanent partial claims. Due to limitations in the data base and difficulties associated with the identification of the type of award for those claims settled with a compromise and release, we identified a permanent partial claim as follows:

1. A claim with a payment code PPD (i.e., scheduled permanent partial).
2. A claim with a payment code UPD (i.e., unscheduled permanent partial)
3. A claim with a payment code MLT (i.e., multiple payment) and a body part code 420 (i.e., Back).

We are advised by personnel at the Workers' Compensation Division that these criteria would fairly accurately identify permanent partial cases.

We note that the data base described above contained about 800 claims for each year, while unit statistical data indicates about 1,200 permanent claims per year. Possible reasons for the discrepancy in counts include the broad definition of permanent partial used in the unit statistical plan, and the difficulty of identifying lump sum settlements as permanent partial cases in the WCIHS data base.

5: REVIEW OF NCCI PRELIMINARY EVALUATION OF SB322/HB352

In their preliminary evaluation of SB322/HB352, the NCCI estimated the following impact on costs:

Table 3: NCCI Preliminary Evaluation of SB322/HB352

<u>Type of Injury</u>	<u>% of Loss</u>	<u>Effect</u>
Fatal	3.0	-0.4%
Permanent Total	13.4	-0.1
Permanent Partial	50.2	+3.7
Temporary Total	5.1	-0.5
Medical	28.3	<u>0.0</u>
		1.8
Definitional and System Changes		<u>-4.0</u>
Total Combined Impact		-2.3%

NCCI Fatal, Permanent Total, and Temporary Total Estimates

The NCCI estimated cost reductions for fatal, permanent total, and temporary total reflect the impact of the reduction in the maximum weekly benefit limitation. The essential steps in the calculation of the estimated impact on costs were:

- (1) Development of an assumed distribution of wage levels using countrywide data and adjusting to the actual wage level in Alaska.
- (2) Use of countrywide data to obtain assumed distributions of the number of survivors in fatal cases.
- (3) Calculation of total benefit costs under current law and under SB322/HB352 using (1) and (2).

We believe this approach provides a reasonable estimate of the impact of the change in the maximum benefit limit. In any case, overall cost savings from this change are so small that any variations from the assumptions of the calculation are likely to have very little impact on overall cost estimates.

NCCI Permanent Partial Estimates

The NCCI estimated cost reductions for permanent partial reflect the impact of changing the basis for calculating benefits from the current scheduled/unscheduled method to the medical impairment method. The estimate does not reflect possible changes in temporary and rehabilitation benefits paid to permanent partial claimants. These latter changes are presumably included as part of the -4% "Definitional and System Change" adjustment.

The NCCI analysis indicates the following changes in permanent partial award costs for different types of injury:

Table 4: NCCI Estimated Permanent Partial Award Cost Change by Injury Type

<u>Injury Type Under Current Law</u>	<u>NCCI Estimated Cost Change</u>
Minor - Scheduled	-69%
Minor - Unscheduled	-65
Major - Scheduled	+4
Major - Unscheduled	+52

Thus, although the NCCI analysis indicates very little overall change in costs, there are large changes by type of injury.

The essential steps in the NCCI calculation of the estimated impact on costs were:

1. Developing an assumed distribution of "major" injuries and their healing periods using countrywide data.
2. Developing an assumed distribution of "minor" injuries and their healing periods using countrywide data.
3. Assuming that all "major" injuries receive 37 weeks of

rehabilitation while "minor" injuries receive more.

4. Assuming that healing periods in Alaska are double the countrywide periods.
5. Estimating total benefit costs under current and proposed laws on the basis of 1 through 4 for "major" and "minor" injuries separately.
6. Combining the estimates for "major" and "minor" injuries so that the resulting average permanent partial claim cost under current law balances to the estimated actual average permanent partial claim cost in Alaska. This step has the effect of modifying the countrywide distributions to more closely reflect actual conditions in Alaska.

Aside from problems in actually estimating benefits for a particular injury under the current and proposed laws, the indicated cost change calculated by the NCCI methodology is very sensitive to both the assumed length of healing period and the assumed current average permanent partial claim cost. The following table illustrates this sensitivity:

Table 5: Increase in Permanent Partial Costs Indicated by NCCI Methodology Under Various Assumptions

Assumed Current Average Claim Cost	Assumed Average Healing Periods as % of Countrywide Averages		
	150%	200%*	250%
38,000*	+6.5%	+3.7%*	+1.4%
45,000	+10.9	+8.3	6.1
55,000	+15.5	+13.0	+10.8

NOTE:
1. (*) Utilized by NCCI in their preliminary evaluation of SB322/HB352.

The average claim cost and healing period assumptions are closely related to the distribution of claims by injury type. Thus, the sensitivity in the NCCI methodology largely results from the fact that the new law produces radically different cost changes depending on the type of injury.

Our analysis of data from the Alaska Workers' Compensation Information Handling System (WCIS) and from the unit statistical reports for Alaska enabled us to examine if and how the key assumptions in the NCCI analysis concerning permanent partial cases differ from the actual situation in Alaska. In particular, we believe the actual average amount of a permanent partial case, the average healing period, and the distribution of injuries are all more unfavorable than assumed in the NCCI analysis, and point to the conclusion that the NCCI analysis understates the likely impact of the proposed law on permanent partial cases.

We estimate a likely increase of 11% instead of 3.7%, by using the NCCI method and a \$50,000 average claim assumption. We utilized \$50,000 rather than a higher value indicated by the data in order to judgmentally recognize the perception that many claims with low impairment ratings currently receive large awards. Had we used a higher value, a higher cost indication would have resulted. Thus, without considering any changes except the proposed revision to the calculation of permanent partial awards, we estimate the following impact on average costs:

	<u>Law:</u>		
	<u>Current</u>	<u>Proposed</u>	
Temporary Disability:	\$20,000	\$20,000	
Permanent Partial Award:	<u>30,000</u>	<u>35,500</u>	+18%
Total	\$50,000	\$55,500	+11%

Hence, we estimate the new law will increase permanent partial award costs by 18% (excluding temporary benefits). If it were desired to produce no overall increase in award costs, the proposed maximum for permanent partial awards should be reduced from \$240,000 to \$200,000.

In their preliminary analysis, the NCCI did not explicitly consider the impact of the proposed limit of two years on temporary disability payments. As discussed earlier, we estimate that this limit, strictly applied, would reduce temporary total disability payments to permanent partial claimants in the WCIRS data base by 22%.

Additional factors that may affect the costs of permanent partial cases include:

1. Attorney involvement Under the current law, about 30% of cases involve attorneys. The proposed law, which bases determinations of disability strictly on medical evidence, may result in less litigation. However, the new law may also lead to less compromise and release agreements and litigation may increase due to increased potential for reopenings.
2. Rehabilitation The reform of the rehabilitation process may lead to cost savings. However, these savings may be

offset by increasing the limit on vocational programs from 37 weeks to two years.

3. Administration The cost implications of the new law depend significantly on its administration and the extent to which strict adherence to its time limits, definitions etc. are possible.
4. Unit Statistical Plan Definition As noted earlier, not all cases classified in unit statistical reports as permanent partial involve permanent partial awards, and also, loss amounts include certain attorney fees and payments to rehabilitation providers, etc. This fact is implicitly recognized in our selection of an average claim cost of \$50,000 rather than higher values indicated by the data.

Considering these and other factors, we estimate the proposed law will decrease temporary benefit costs for permanent partial claims by 20%. To summarize, we estimate the following overall impact on average permanent partial costs:

	Law:		
	Current	Proposed	
Temporary Disability:	\$20,000	\$16,000	-20%
Permanent Partial Award:	<u>30,000</u>	<u>35,500</u>	+18%
Total	\$50,000	\$51,500	+3%

We note that if the maximum permanent partial award amount were reduced to \$200,000 so that there was no net indicated increase in the cost of permanent partial awards, there would be a net indicated decrease in permanent partial costs of about 8%.

NCCI Definitional and System Change Estimates

In their preliminary evaluation, the NCCI included an adjustment of -4% to account for aspects of the proposed law not explicitly evaluated. We understand the -4% was selected by judgment.

Using data from the WCIHS, we were able to provide some quantitative measure of the impact on the provisions of the new law relating to claimants living out of state.

Claimants Living Out of State

As discussed earlier, based on the distribution of claimant's ZIP codes in the WCIHS data base, approximately 30% of claimants now receiving temporary total, fatal, or permanent partial benefits reside out of state.

We judgmentally estimate that benefits for out of state claimants are reduced by 25% under the proposed law and that 20% of all claimants are affected. This implied a 5% ($= 20\% \times .25$) reduction in temporary total, fatal, and permanent total benefit costs.

The assumption that 20% of claimants will receive reduced benefits rather than 30% as indicated by the WCIHS data is to recognize that if the new law is implemented, the percentage of out of state claimants is likely to drop as claimants lose an incentive to leave Alaska.

6: M&R ESTIMATED COST IMPACT OF SB322/HB352

We estimate the following impact on costs:

	<u>Fatal</u>	<u>Perma- nent Total</u>	<u>Perman- ent Temp- orary</u>	<u>Partial Award</u>	<u>Temp- orary Total</u>	<u>Medical</u>	<u>Total</u>
A: Cost Under Current Law	3.0%	13.4%	20.1%	30.1%	5.1%	28.3%	100.0%
<u>Proposed Law Change</u>							
B: Revision To PP Award	1.000	1.000	1.000	1.180	1.000	1.000	
C: Weekly Benefit Maximum	0.996	0.999	0.950	1.000	0.995	1.000	
D: Out of State Claimants	0.950	0.950	1.000	1.000	0.950	1.000	
E: Duration of Temporary Benefits	<u>1.000</u>	<u>1.000</u>	<u>0.800</u>	<u>1.000</u>	<u>1.000</u>	<u>1.000</u>	
F: Overall Impact (AxBxCxD)	0.946	0.949	0.760	1.18	0.945	1.000	
G: Cost Under Proposed Law (AxF)	2.8%	12.7%	15.3%	35.5%	4.8%	28.3%	99.4%

14% SAVINGS

We thus believe the proposed law is likely to have little overall impact on total costs. We note the following:

1. If the proposed permanent partial award maximum were reduced to \$200,000, we estimate there would likely be little overall change in permanent partial award costs from present levels, and overall costs of the program would be reduced by about 6%.
2. We believe we have implicitly factored into our estimates all aspects of SB322/HB352 identified earlier as impacting costs.
3. The estimates above anticipate strict adherence to the provisions of SB322/HB352.
4. We again stress that the proposed reform of permanent

partial benefits is difficult to estimate accurately and we believe there is considerable risk that significant variances from our projections exist.

5. It must be recognized that there is significant variability in any actuarial estimate of future workers' compensation costs, and that variations from estimates presented in this report are likely.

Acknowledgements

We would like to take this opportunity to express our thanks to Meses. Hansen and McClintock of the Alaska Workers' Compensation Division, and the NCCI for their cooperation provided throughout this analysis.

We welcome the opportunity to discuss this analysis in greater detail as the need arises.

Milliman & Robertson, Inc.
February 10, 1988

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Fellow, Casualty Actuarial Society
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Files: 00000
 Date: 02/07/88 20:04:22
 Title: Alaska Workers Compensation
 Average Permanent Partial Indemnity Incurred Loss Development
 Source: NCCI Statistical Plan

Average Loss Incurred Per Claim at Report Number:

Policy Year	1	2	3	4	5
1979				820,697	821,891
1980			823,435	24,804	27,089
1981		823,723	26,132	29,686	
1982	820,299	28,831	33,769		
1983	23,877	32,648			
1984	24,690				

Report - Report Loss Development Factor:

Policy Year	1-2	2-3	3-4	4-5
1979				1.058
1980			1.058	1.092
1981		1.102	1.144	
1982	1.420	1.171		
1983	1.391			
Average:	1.405	1.136	1.101	1.075
Cumulative:	1.890	1.345	1.184	1.075

	(1)	(2)	(3)	(4)	(5)
Policy Year	Average Loss Incurred At Most Recent Report	Estimated Factor to Develop Loss to Report 5	Estimated Average Loss at Report 5 (1) x (2)	Estimated Factor to Develop Loss From Report 5 to Ultimate	Estimated Ultimate Average Loss (3) x (4)
1979	21,891	1.000	21,891	1.100	24,080
1980	27,089	1.000	27,089	1.100	29,798
1981	29,686	1.075	32,127	1.100	35,340
1982	33,769	1.184	39,982	1.100	43,980
1983	32,648	1.345	43,912	1.100	48,303
1984	24,690	1.890	46,664	1.100	51,330

				MI Claims										Claims Where Disability Has Ended									
				Claims With		Claims With		Claims With		Claims With		Claims With		Claims With		Claims With		Claims With					
				Attorney		Rehabilitation		Rehab & Attorney		Attorney		Rehabilitation		Rehab & Attorney		Attorney		Rehabilitation					
				Claim	TTB	Claim	TTB	Claim	TTB	Claim	TTB	Claim	TTB	Claim	TTB	Claim	TTB	Claim	TTB				
				Count	Duration	Count	Duration	Count	Duration	Count	Duration	Count	Duration	Count	Duration	Count	Duration	Count	Duration				
Injury	History	Rehab?	Disability																				
Year	10-0,1-yr	10-0,1-yr	10-0,1-yr																				
81	0	0	0	1	1,774	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
82	0	0	0	3	1,724	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
83	0	0	0	47	29,458	0	0	0	0	0	0	67	29,738	0	0	0	0	0	0				
84	0	0	0	985	51,821	0	0	0	0	0	0	995	51,821	0	0	0	0	0	0				
85	0	0	0	2	2,458	0	0	2	2,454	0	0	0	0	0	0	0	0	0	0				
86	0	1	1	6	6,837	0	0	6	6,837	0	0	0	0	0	0	0	0	0	0				
87	0	1	1	22	19,726	0	0	22	19,726	0	0	22	19,726	0	0	22	19,726	0	0				
88	0	1	1	36	26,625	0	0	36	26,625	0	0	36	26,625	0	0	36	26,625	0	0				
89	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
90	1	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0				
91	1	0	0	15	24,172	65	24,172	0	0	0	0	65	24,172	68	24,172	0	0	0	0				
92	1	0	0	38	26,449	38	26,449	0	0	0	0	38	26,449	38	26,449	0	0	0	0				
93	1	1	0	7	11,101	7	11,101	7	11,101	7	11,101	0	0	0	0	0	0	0	0				
94	1	1	0	4	5,293	4	5,293	0	5,293	0	5,293	0	0	0	0	0	0	0	0				
95	1	1	1	75	49,075	75	49,075	75	49,075	75	49,075	75	49,075	75	49,075	75	49,075	75	49,075				
96	1	1	1	45	31,959	45	31,959	45	31,959	45	31,959	45	31,959	45	31,959	45	31,959	45	31,959				
Total:				192	279,061	255	148,048	217	143,972	131	77,146	773	251,276	243	131,646	190	113,065	128	91,924				
Average Durations					349		301		661		746		323		302		378		973				
Relativity						222	166%	271	187%	161	112%			21.64%	167%	25.61%	187%	75.52%	268%				
85	0	0	0	10	6,647	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
86	0	0	0	16	29,133	0	0	0	0	0	0	0	0	0	0	0	0	0	0				
87	0	0	0	46	21,316	0	0	0	0	0	0	46	21,316	0	0	0	0	0	0				
88	0	0	0	179	64,133	0	0	0	0	0	0	179	64,133	0	0	0	0	0	0				
89	0	1	0	6	10,752	0	0	6	10,132	0	0	0	0	0	0	0	0	0	0				
90	0	1	0	7	7,250	0	0	7	7,250	0	0	0	0	0	0	0	0	0	0				
91	0	1	1	28	16,474	0	0	28	16,474	0	0	28	16,474	0	0	28	16,474	0	0				
92	0	1	1	51	26,633	0	0	51	26,633	0	0	51	26,633	0	0	51	26,633	0	0				
93	0	0	0	0	5,722	0	5,722	0	0	0	0	0	0	0	0	0	0	0	0				
94	0	0	0	5	3,676	5	3,676	0	0	0	0	0	0	0	0	0	0	0	0				
95	0	0	0	63	21,037	63	21,037	0	0	0	0	63	21,037	63	21,037	0	0	0	0				
96	0	0	0	51	25,222	51	25,222	0	0	0	0	51	25,222	51	25,222	0	0	0	0				
97	0	0	0	0	7,672	0	7,672	0	7,672	0	7,672	0	0	0	0	0	0	0	0				
98	0	0	0	3	6,450	3	6,450	3	6,450	3	6,450	0	0	0	0	0	0	0	0				
99	0	0	0	60	45,239	60	45,239	60	45,239	60	45,239	60	45,239	60	45,239	60	45,239	60	45,239				
00	0	0	0	46	27,968	46	27,968	46	27,968	46	27,968	46	27,968	46	27,968	46	27,968	46	27,968				
Total:				783	311,764	736	146,906	297	117,838	113	87,329	724	298,042	226	119,066	188	116,316	106	73,297				
Average Durations					399		397		710		773		343		343		379		691				
Relativity						306	138%	278	172%	192	141%			30.77%	139%	25.37%	186%	10.64%	297%				

ACTUARIES

File# 8271 Date 02/07/88 20:24:22
 Note: Durations are in days.

111111 Alaska Workers Compensation Personnel Partial
 Data from The Alaska Workers Compensation Information Handling System (January 1988)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
All Claims						Claims Where Disability Has Ended														
Injury Year	Attorney Fee (000,000)	Attorney Rehab? (000,000)	Disability Ended? (000,000)	State Count	TTB Duration	Claims With Attorney		Claims With Rehabilitation		Claims With Rehab & Attorney		Claims With Attorney		Claims With Rehabilitation		Claims With Rehab & Attorney		State Count	TTB Duration	
						State Count	TTB Duration	State Count	TTB Duration	State Count	TTB Duration	State Count	TTB Duration	State Count	TTB Duration	State Count	TTB Duration			
82-87	0	0	0	86	30,997	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
83-87	0	0	0	160	47,193	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
84-87	0	0	1	732	47,643	0	0	0	0	0	0	232	87,103	0	0	0	0	0	0	0
85-87	0	0	0	1,800	264,130	0	0	0	0	0	0	1,004	344,330	0	0	0	0	0	0	0
86-87	C	0	0	37	30,913	0	0	37	30,913	0	0	0	0	0	0	0	0	0	0	0
87-87	0	0	0	32	42,843	0	0	32	42,843	0	0	0	0	0	0	0	0	0	0	0
88-87	0	0	0	118	70,271	0	0	118	70,271	0	0	118	70,271	0	0	118	70,271	0	0	0
89-87	0	0	0	229	163,321	0	0	229	163,321	0	0	229	163,321	0	0	229	163,321	0	0	0
90-87	0	0	0	13	9,994	13	9,994	0	0	0	0	0	0	0	0	0	0	0	0	0
91-87	0	0	0	13	6,981	13	6,981	0	0	0	0	0	0	0	0	0	0	0	0	0
92-87	0	0	0	267	80,254	267	80,254	0	0	0	0	267	80,254	267	80,254	0	0	0	0	0
93-87	0	0	0	214	84,890	214	84,890	0	0	0	0	214	84,890	214	84,890	0	0	0	0	0
94-87	0	0	0	20	20,707	20	20,707	20	20,707	20	20,707	0	0	0	0	0	0	0	0	0
95-87	0	0	0	31	32,323	31	32,323	31	32,323	31	32,323	0	0	0	0	0	0	0	0	0
96-87	0	0	0	281	193,356	281	193,356	281	193,356	281	193,356	281	193,356	281	193,356	281	193,356	281	193,356	281
97-87	0	0	0	186	149,273	186	149,273	186	149,273	186	149,273	186	149,273	186	149,273	186	149,273	186	149,273	186
Total:				3,476	1,261,993	1,029	354,872	954	621,163	510	345,643	3,327	1,064,830	148	477,773	814	478,233	667	294,533	652
Average Duration:					338		344		651		706		302		360		359		432	632
Relativity:						288	1408	262	1972	142	2493			287	1171	248	1832	142	2112	2112

WILLIAM B ROBERTSON, INC CONSULTING ACTUARIES

File: INJURY
 Date: 02/09/88 20:54:37
 Title: Alaska Workers Compensation
 Distribution of Permanent Partial Claims By Injured Body Part
 Data From The Alaska Workers Compensation Information Handling System
 (January 1988)

Body Part	Total Number Of Cases	Cases Involving Attorneys	Cases Involving Rehab	Scheduled Awards
-----	-----	-----	-----	-----
Other	105	15	14	90
Ear	6	2	0	6
Eye	55	5	6	52
Head	24	7	8	18
Neck	22	8	11	10
Hand	262	30	50	250
Fingers	565	33	19	560
Arm	190	37	40	178
Back	997	586	453	165
Other Trunk	217	58	61	183
Foot	222	30	37	213
Toes	30	3	2	29
Leg	682	113	141	642
Multiple	297	100	112	231
	-----	-----	-----	-----
Total:	3,676	1,027	954	2,627

File: INJURY
 Date: 02/07/88 20:54:37
 Title: Comparison of The Distribution of
 Permanent Partial Injuries By Body Part
 In The Alaska Workers Compensation Information
 Handling System And That Implicitly Used By The
 NCCI In Their Preliminary Evaluation Of 88322/HB352.

Body Part	NCIS	NCCI
Other	3%	4%
Ears	0%	1%
Eyes	1%	1%
Head	1%	2%
Neck	1%	1%
Hand	7%	10%
Fingers	15%	23%
Arm	5%	9%
Back	27%	22%
Other Trunk	6%	1%
Foot	6%	6%
Toes	1%	2%

File: ME714

Date: 02/09/88 20:53:02

Title: Alaska Workers Compensation Permanent Partial
 Data From Alaska Workers Compensation Information Handling System
 (January 1983)
 Relative Durations of Different Injuries For With Disability Ended
 Note: Durations are in days.

(1)	(2)	(3)	(4)	(5)	(6)
Injury Year	Body Part	Claim Count	Total TTB Duration	Average TD Duration (4)/(3)	Relativity (5)/Total (5)
82	Other	14	6,246	303	93%
82	Ears	2	19	10	3%
82	Eyes	12	1,532	129	40%
82	Head	5	3,304	661	203%
82	Neck	6	2,386	398	122%
82	Hand	54	15,661	290	89%
82	Fingers	117	10,271	88	27%
82	Arm	42	9,309	222	68%
82	Back	188	106,736	568	175%
82	Other Trunk	53	15,899	300	92%
82	Foot	47	7,692	164	50%
82	Toes	4	251	63	19%
82	Leg	148	36,076	244	75%
82	Multiple	81	37,874	468	144%
Total:		773	251,276	325	
83	Other	24	2,048	85	25%
83	Ears	0	0	—	—
83	Eyes	14	1,416	101	29%
83	Head	3	2,069	690	201%
83	Neck	6	3,482	580	169%
83	Hand	51	7,916	155	45%
83	Fingers	97	11,045	114	33%
83	Arm	41	10,713	261	76%
83	Back	199	111,574	561	164%
83	Other Trunk	38	15,671	412	120%
83	Foot	49	14,645	299	87%
83	Toes	12	777	65	19%
83	Leg	122	32,323	265	77%
83	Multiple	68	34,343	505	147%
Total:		724	248,042	343	

File: REP14

Date: 02/09/88 20:53:02

Title: Alaska Workers Compensation Permanent Partial
 Data From Alaska Workers Compensation Information Handling System
 (January 1988)
 Relative Durations of Different Injuries For With Disability Ended
 Note: Durations are in days.

(1)	(2)	(3)	(4)	(5)	(6)
Injury Year	Body Part	Claim Count	Total TTB Duration	Average TTB Duration (4)/(3)	Relativity (5)/Total (5)
84	Other	21	3,641	173	49%
84	Ears	1	0	0	0%
84	Eyes	7	2,229	318	91%
84	Head	5	2,272	454	129%
84	Neck	3	266	89	25%
84	Hand	49	9,971	203	58%
84	Fingers	109	10,886	100	28%
84	Arm	27	8,569	317	90%
84	Back	199	119,934	603	172%
84	Other Trunk	54	20,478	379	108%
84	Foot	41	11,348	277	79%
84	Toes	8	759	95	27%
84	Leg	144	38,198	265	75%
84	Multiple	54	25,078	464	132%
Totals		722	253,629	351	
85	Other	21	1,810	86	30%
85	Ears	3	137	46	16%
85	Eyes	8	1,637	205	72%
85	Head	3	512	171	60%
85	Neck	1	716	716	251%
85	Hand	57	10,492	184	65%
85	Fingers	106	11,405	108	38%
85	Arm	39	11,100	285	100%
85	Back	186	86,064	463	162%
85	Other Trunk	35	10,511	319	112%
85	Foot	48	12,074	252	88%
85	Toes	4	474	119	42%
85	Leg	120	28,575	238	84%
85	Multiple	36	14,066	391	137%
Totals		645	189,573	285	

File: REP14

Date: 02/09/88 20:53:02

Title: Alaska Workers Compensation Permanent Partial
Data Free Alaska Workers Compensation Information Handling System
(January 1988)

Relative Durations of Different Injuries For With Disability Ended

Note: Durations are in days.

(1)	(2)	(3)	(4)	(5)	(6)
Injury Year	Body Part	Claim Count	Total TTD Duration	Average TTD Duration (4)/(3)	Relativity (5)/Total (5)
86	Other	15	60	4	3%
86	Ears	0	0	--	--
86	Eyes	8	470	59	38%
86	Head	3	84	28	18%
86	Neck	2	605	303	195%
86	Hand	27	3,810	141	91%
86	Fingers	88	5,424	62	40%
86	Arm	19	3,163	166	107%
86	Back	109	30,586	281	181%
86	Other Trunk	13	3,137	241	155%
86	Foot	17	1,944	114	74%
86	Toes	2	163	82	53%
86	Leg	62	6,573	106	68%
86	Multiple	7	1,466	209	133%
Total:		372	57,485	155	
87	Other	1	0	0	0%
87	Ears	0	0	--	--
87	Eyes	2	134	67	99%
87	Head	1	121	121	178%
87	Neck	0	0	--	--
87	Hand	2	52	26	38%
87	Fingers	33	1,818	55	81%
87	Arm	4	204	51	75%
87	Back	13	1,272	98	144%
87	Other Trunk	2	89	45	64%
87	Foot	2	109	55	81%
87	Toes	0	0	ERR	ERR
87	Leg	10	849	87	128%
87	Multiple	1	157	157	231%
Total:		71	4,825	68	

File: REP14
 Date: 02/09/88 20:53:02
 Title: Alaska Workers Compensation Permanent Partial
 Data From Alaska Workers Compensation Information Handling System
 (January 1988)
 Relative Durations of Different Injuries For With Disability Ended
 Note: Durations are in days.

(1)	(2)	(3)	(4)	(5)	(6)
Injury Year	Body Part	Claim Count	Total TTD Duration	Average TTD Duration (4)/(3)	Relativity (5)/Total (5)
82-87	Other	96	11,805	123	41%
82-87	Ears	6	156	26	9%
82-87	Eyes	51	7,438	146	48%
82-87	Head	20	8,362	418	138%
82-87	Neck	18	7,455	414	137%
82-87	Hand	240	47,902	200	66%
82-87	Fingers	550	50,869	92	30%
82-87	Arm	172	43,058	250	83%
82-87	Back	894	456,166	510	169%
82-87	Other Trunk	193	65,785	341	113%
82-87	Foot	204	47,812	234	77%
82-87	Toes	30	2,424	81	27%
82-87	Leg	606	142,614	235	78%
82-87	Multiple	247	112,984	457	151%
Totals:		3,327	1,004,830	302	

File: DURATION
 Date: 02/09/88 20:51:04
 Title: Alaska Workers Compensation (Permanent Partial
 Duration of Temporary Benefits Received by Claimants
 Injured In 1982-84 Whose Disability Is Now Ended.
 Data From The Alaska Workers Compensation Information Handling System
 (January 1988)

DISTRIBUTION OF NUMBER OF CLAIMANTS BY DURATION OF TEMPORARY BENEFITS

Injury Year	Number of Years Temporary Benefits Paid				Total
	0-1	1-2	2-3	>3	
1982	557	120	52	44	773
1983	522	101	50	51	724
1984	495	112	56	59	722
	1574	333	158	154	2,219

ACTUAL TOTAL DURATION OF TEMPORARY BENEFITS

	Number of Years Temporary Benefits Paid				Total
	0-1	1-2	2-3	>3	
1982	66,712	60,625	45,512	78,427	251,276
1983	62,595	53,273	43,508	88,666	248,042
1984	53,347	59,542	50,887	90,633	253,629
	182,654	173,440	139,107	257,746	752,947

ACTUAL TOTAL DURATION OF TEMPORARY BENEFITS LIMITED TO TWO YEARS PER CLAIMANT

	Number of Years Temporary Benefits Paid				Total
	0-1	1-2	2-3	>3	
1982	66,712	60,625	37,960	32,120	197,417
1983	62,595	53,273	36,500	37,230	189,598
1984	53,347	59,542	40,880	43,070	196,839
	182,654	173,440	115,340	112,420	583,854

IMPACT OF TWO YEAR LIMITATION

	Number of Years Temporary Benefits Paid				Total
	0-1	1-2	2-3	>3	
1982	100%	100%	83%	41%	79%
1983	100%	100%	84%	42%	76%
1984	100%	100%	82%	48%	78%
	100%	100%	83%	44%	78%

File: ZIP
 Date: 02/10/88 08:01:48
 Title: Alaska Workers Compensation
 Distribution of Claimants' ZIP Codes
 Data from the Alaska Workers Compensation Information System (January 1988)

	(1)	(2)	(3)	(4)	(5)
ZIP Code	Fatal	Permanent Total	Open Temporary Total	Total (1)+(2)+(3)	Distribution of (4)
Alaska	65	11	886	962	69%
9	21	3	236	260	19%
8	4	1	49	54	4%
7	3	2	36	41	3%
6	0	0	4	4	0%
5	0	1	33	34	2%
4	3	0	7	10	1%
3	1	0	11	12	1%
2	2	1	4	7	1%
1	1	0	4	5	0%
0	0	0	3	3	0%
Total:	100	19	1,273	1,392	

Note: * Open = Disability not ended.

MILLIMAN & ROBERTSON, INC.
CONSULTING ACTUARIES

281 SOUTH LAKE AVENUE, SUITE 400
PASADENA, CALIFORNIA 91101
916/877-1144

WERCLELL MILLIMAN, F.B.A. (1976)
STUART A. ROBERTSON, F.B.A.
CHAIRMAN EMERITUS

MES A. BERQUIST, F.C.A.S.
DAVID R. GREYSTAFF, F.C.A.S.
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LARRY S. ENLOF, F.S.F.
ENNIS L. GRAVES, F.B.A.
JOHN M. HAYNE, F.C.A.S.
DAVID D. HILL, A.C.A.S.
CHAS. A. MCMURRAY, F.C.A.S.

February 19, 1988

RECEIVED

FEB 23 1988

STUART A. ROBERTSON

Mr. Paul Roller
ALASKA DIVISION OF INSURANCE
3601 "C" Street, Suite 722
Anchorage, Alaska 99503

RE: MODIFIED PERMANENT PARTIAL DISABILITY AWARD SCHEDULE

Dear Paul:

M&R was requested by the Division of Insurance to test alternatives to the permanent partial disability award schedule contained in draft bills HB352 and SB322. Attached is one such alternative with the following characteristics:

1. We estimate that the attached schedule will develop approximately the same total dollars of permanent partial awards as the current Alaska workers' compensation law.
2. Combined with all other aspects of HB352 and SB322, we estimate that incorporation of the attached alternative schedule will result in an overall cost reduction of approximately 6%.
3. The proposed schedule is designed to smooth the award "adjustment factors" such that the factor becomes 1.000 at a 50% impairment rating. The awards begin to exceed those available under the current law at a 33% impairment rating.
4. The M&R cost estimate associated with this table assumes that the "whole man" value is maintained at \$240,000.

M&R has also evaluated an alternative schedule developed by David Gottstein. This table is similar to the attached; however, the "adjustment factor" reaches 1.000 at a 35% impairment rating. We estimate that this alternative would result in a 14% increase in permanent partial awards. Combined with all other aspects of HB352 and SB322, we estimate that this alternative schedule would result in an overall cost reduction of approximately 2%.

We emphasize that the cost estimates presented herein reflect only M&R's evaluation. We do not know to what extent the NCCI evaluation may differ from our own.

Exhibit C Page 2

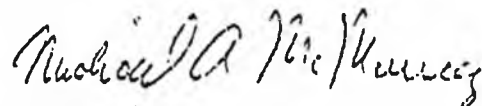
Mr. Paul Roller .

-2-

February 19, 1988

Please contact me if you have any questions.

Best regards,



Michael A. McMurray

MAM:cap
Enclosure

cc: Mark Crawshaw

Exhibit C Page 3

Exhibit 1

<u>Degree of Actual Impairment</u>	<u>Adjustment Factor</u>	<u>Degree of Actual Impairment</u>	<u>Adjustment Factor</u>
0%	0.000	26%	0.620
1	0.000	27	0.640
2	0.000	28	0.660
3	0.000	29	0.680
4	0.000	30	0.700
5	0.000	31	0.720
6	0.060	32	0.740
7	0.120	33	0.760
8	0.180	34	0.780
9	0.240	35	0.800
10	0.300	36	0.820
11	0.320	37	0.840
12	0.340	38	0.860
13	0.360	39	0.880
14	0.380	40	0.900
15	0.400	41	0.910
16	0.420	42	0.920
17	0.440	43	0.930
18	0.460	44	0.940
19	0.480	45	0.950
20	0.500	46	0.960
21	0.520	47	0.970
22	0.540	48	0.980
23	0.560	49	0.990
24	0.580	50% or greater	1.000
25	0.600		

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TO: ~~XXXXXXXXXX~~ John Ringstad
~~XXXXXXXXXX~~ Kelly's office

FROM: PAUL COLLIER
Division of Insurance

Attn: Esther

NUMBER OF PAGES, INCLUDING TRANSMITTAL SHEET: 48 4

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BYRON A. ROBERTSON, F.R.A. (1944)
CHIEF EXECUTIVE OFFICERS

February 19, 1988

RECEIVED
FEB 22 1988
ALASKA DIVISION OF INSURANCE

Mr. Paul Roller
ALASKA DIVISION OF INSURANCE
3601 "C" Street, Suite 722
Anchorage, Alaska 99503

RE: MODIFIED PERMANENT PARTIAL DISABILITY AWARD SCHEDULE

Dear Paul:

M&R was requested by the Division of Insurance to list alternatives to the permanent partial disability award schedule contained in draft bills HB352 and SB322. Attached is one such alternative with the following characteristics:

1. We estimate that the attached schedule will develop approximately the same total dollars of permanent partial awards as the current Alaska workers' compensation law.
2. Combined with all other aspects of HB352 and SB322, we estimate that incorporation of the attached alternative schedule will result in an overall cost reduction of approximately 6%.
3. The proposed schedule is designed to smooth the award "adjustment factors" such that the factor becomes 1.000 at a 50% impairment rating. The awards begin to exceed those available under the current law at a 33% impairment rating.
4. The M&R cost estimate associated with this table assumes that the "while man" value is maintained at \$240,000.

M&R has also evaluated an alternative schedule developed by David Gottstein. This table is similar to the attached; however, the "adjustment factor" reaches 1.000 at a 35% impairment rating. We estimate that this alternative would result in a 14% increase in permanent partial awards. Combined with all other aspects of HB352 and SB322, we estimate that this alternative schedule would result in an overall cost reduction of approximately 2%.

We emphasize that the cost estimates presented herein reflect only M&R's evaluation. We do not know to what extent the NCCI evaluation may differ from our own.

Mr. Paul Roller .

-2-

February 19, 1988

Please contact me if you have any questions.

Best regards,

Michael A. McMurray

Michael A. McMurray

MAH:cap
Enclosure

cc: Mark Crawshaw

Exhibit 1

Degree of Actual Increase	Adjustment Factor	Degree of Actual Increase	Adjustment Factor
0	0.000	26	0.620
1	0.000	27	0.640
2	0.000	28	0.660
3	0.000	29	0.680
4	0.000	30	0.700
5	0.000	31	0.720
6	0.060	32	0.740
7	0.120	33	0.760
8	0.180	34	0.780
9	0.240	35	0.800
10	0.300	36	0.820
11	0.320	37	0.840
12	0.340	38	0.860
13	0.360	39	0.880
14	0.380	40	0.900
15	0.400	41	0.920
16	0.420	42	0.940
17	0.440	43	0.960
18	0.460	44	0.980
19	0.480	45	0.990
20	0.500	46	0.990
21	0.520	47	0.970
22	0.540	48	0.980
23	0.560	49	0.990
24	0.580	50 or greater	1.000
25	0.600		

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TO: ELDON MULDARE
Senator Tim Kelly's office

FROM: PAUL ROLLER, Dep. Director
Division of Insurance

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January 29, 1988

The Honorable John George
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

Dear Director George:

This letter discusses our progress so far on our assignment. Please understand these conclusions represent very preliminary findings, and that we are continuing our analysis. We have not yet received the National Council on Compensation Insurance (NCCI) evaluation of the proposed law change and so have no comments on this evaluation.

We have the following observations regarding the factors underlying the recent rate increases and our initial assessment of the cost saving potential of the proposed amendments to the Alaska workers' compensation law.

Recent Rate Level Increases

Using the NCCI rate filing dated October 16, 1987 as our data source, we have identified two primary reasons for the most recent rate increase:

- i. Medical cost trends.
- ii. Increasing loss development factors for indemnity.

The assumed annual increase in the medical cost component of the workers' compensation rates was about 8% in the last rate filing. This appears to be supported by actual experience. We also note that the medical component of the CPI for Anchorage increased by about 12% per annum between mid-1985 and mid-1987. Thus, while the medical trend is causing workers' compensation costs to increase substantially, the magnitude is not surprising.

ALBANY-ATLANTA-CHICAGO-DALLAS-DENVER-HARTFORD-HOUSTON-INDIANAPOLIS-LOS ANGELES-MILWAUKEE-MINNEAPOLIS
NEW YORK-OMAHA-PHILADELPHIA-PHOENIX-PORTLAND-ST. LOUIS-SAN FRANCISCO-SEATTLE-WASHINGTON, DC.

AFFILIATED COMPANIES
BACON & WOODROW IN THE UNITED KINGDOM
ECLAIR PARTNERS LTD. IN CANADA

Of greater significance are the loss development factors for the indemnity cost component. By loss development factors, we mean the amount the cumulative paid indemnity benefits (including plaintiffs attorney's fees and vocational rehabilitation expenses) increase as each policy year ages.

Relative to the factors used to generate the rates effective January 1, 1987, the paid indemnity development factors for the January 1, 1988 rates are 20% higher. Since indemnity accounts for about 64% (see below) of the total Alaska benefit costs, this change added approximately 13% to the indicated rate level.

A cursory review of the underlying loss development data specific to Alaska does indicate that this increase in the indemnity development factors was warranted.

In order to identify reasons for the deterioration in indemnity loss development, we have analyzed claim count and severity data by injury type. This analysis indicated a significant increase in the relative frequency of major permanent partial cases beginning in policy year 1982. This increase appears to affect all industry groups. There are also indications of large increases in average payments to major permanent partial claimants and to claimants between the time of injury and time of award.

Potential to Reduce Costs

In its rate filing, the NCCI provided the following breakdown of benefit costs:

Fatal	4%
Permanent Total	8
Major Permanent Partial	41
Minor Permanent Partial	4
Temporary Total	7
Medical	<u>36</u>
Total	100%

As discussed earlier, only the major permanent partial injury category is experiencing unusual developments of a significant magnitude. Therefore, this category of workers' compensation costs appears to be the one area that must be addressed if overall costs are to be reduced or contained while leaving the benefit structure substantially intact. If, for example, major permanent partial costs could be reduced 25%, a rate level decrease of 10% would be indicated.

In our opinion, the proposed changes in the law that were sent to us by the Division of Workers' Compensation do offer some possibility of reducing costs in this area.

Specifically, the time limitations of temporary benefits may encourage the earlier awarding of permanent partial awards and consequent reduction in temporary benefits. The rehabilitation process may also have contributed to the indicated increase in

temporary benefits preceding an award. If this is so, the new rules regarding rehabilitation may be beneficial. Both of the above will impact claim severity and we believe may be subject to quantification.

The proposed law does not appear to directly address the problem of the frequency of major permanent partial cases. It would seem likely that at least some of the recent increase in frequency may be due to increased liberalization of benefit entitlement standards. It is possible that the tone of the new law may encourage a change of attitude in the system and reduce the number of future awards. At this time, we do not believe it is possible to quantify this possible effect.

Despite the cost saving potential previously discussed, we are very concerned that the new law may actually increase major permanent partial costs. Specifically, the new higher maximum on permanent partial benefits and the proposal for benefits to be payable in a lump sum appear to make these benefits more attractive to claimants, and thus have the potential to further increase frequency and severity.

We are also concerned that the incremental adjustment factors used to compute benefits may lead to "impairment rating inflation" and increases in minor permanent partial costs. For example, a claimant judged 10% impaired will receive \$4,800 ($= \$240,000 \times 0.1 \times 0.2$), while a claimant judged 11% impaired will receive \$10,560 ($= \$240,000 \times 0.11 \times 0.4$).

The new law may result in some savings of medical costs. However, due to external economic pressures, short of radical revision to benefit entitlements, we believe savings in this area will be difficult to sustain in the long run.

The proposed maximum of \$700 per week on benefits can, of course, be expected to reduce costs of fatal, permanent total, and temporary total benefits. However, since these benefits account for only about 20% of total benefit costs, the potential for really significant savings is limited. There are other aspects of the law, for example, the rules relating to out-of-state claimants, which may have a beneficial effect. However, again we would not expect these changes to have a major impact on overall costs of the program.

In summary, the proposed law amendments may have a beneficial impact on the some aspects of the Alaska workers' compensation system. However, we are not yet convinced that the proposed law will result in significant overall cost reductions and are concerned that it may even increase costs. We are attempting to at least partially quantify the impact on costs.

* We are not yet sure that the current NCCI promulgated rate levels fully reflect the increased frequency of major permanent partial awards under the existing law. If this is true, there will be further upward rate level indications necessary in the future just to bring the rating structure in line with the current Alaska workers' compensation law.

We hope that these preliminary observations are useful to you.

Honorable John George

-4-

January 29, 1988

We are, of course, continuing with the study and hope to be able to provide more quantitative findings soon.

Please contact us if you have any questions.

Best regards,



Michael A. McMurray

MAM:cap

cc: Paul Roller
Don Koch
Mark Crawshaw

SB

327



Senate Labor and Commerce Committee

Senator Tim Kelly, Chairman

John -

AMENDMENTS which
have also been included
in House No. 25
as Companion -

Have also talked w/DEC
& concerned

Will be by later
before leaving today -

Judy Eisen

STANDARD ALASKA PRODUCTION CO.

6 April 1988

Senate Labor & Commerce Committee

Senate Bill 327 - Oil Discharge Contingency Plans

Standard Alaska Production Company supports Senate Bill 327,
with the following amendments:

Line 19, delete [DISCHARGE] and insert response team

Line 20, add: verifying access to inventories ...

Judy Elisen



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 11, 1988

The Honorable Jan Faiks
President of the Senate
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Faiks:

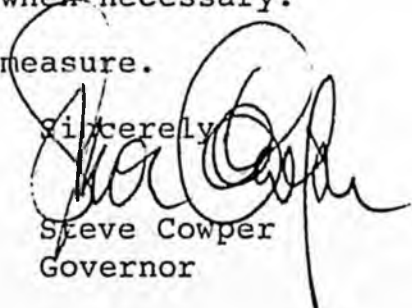
Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to the requirements for oil discharge contingency plans.

Under AS 46.04.030, the operators of large oil terminal facilities, offshore exploration or production facilities, tank vessels, and oil barges must submit oil spill contingency plans to the Department of Environmental Conservation. The purpose of the contingency plans is to demonstrate the operator's ability to contain, clean up, and mitigate the effects of oil spills into the environment. Recent spills have shown that the contingency plan requirement may be inadequate if the operators do not in fact have the capability of carrying out their own contingency plans. This bill would clarify that the department may require operators to show that they are actually capable of implementing their contingency plans, and that filing a plan without having the capability of carrying it out is a violation of state law.

Section 1 of the bill amends AS 46.04.030(e) to make explicit that the department may require an operator to demonstrate its ability to carry out the plan, by requiring training, spill exercises, and inventories of equipment and personnel that would actually be available in the case of a spill.

Section 2 makes explicit that the operator is actually required to have the capability to carry out its plan, and that the existing sanctions for violations of the chapter would apply if the operator failed to maintain that capability and failed to use it when necessary.

I urge your support of this measure.

Sincerely,

Steve Cowper
Governor

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Oil Discharge Contingency Plans
Sponsor: Rules Committee
Requestor: Governor

Agency Affected: DEC
BRU: Environmental Quality
Components: All

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The proposal will have no fiscal impact.

Prepared by: Amy Kyle ask
Division: Commissioner's Office

Phone: 465-2600
Date: 8 Dec 87

Approved by Commissioner: [Signature]
Agency: DEC

Date: 9 Dec 87

- Distribution (by preparer):
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 - Impacted Agency(ies)