



AMERICAN ACADEMY *of* ACTUARIES

LARGE DEDUCTIBLE
WORKERS' COMPENSATION
INSURER SURVEY

REPORT TO THE
NAIC/IAIABC JOINT WORKING GROUP

American Academy of Actuaries
Workers' Compensation Subcommittee

July 28, 2004

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In early June 2004 at the request of the National Association of Insurance Commissioners (NAIC)/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint Working Group, the American Academy of Actuaries' Workers' Compensation Subcommittee issued a survey pertaining to large deductible business to 25 carrier groups. The groups presented with the survey were known to be prominent (and collectively dominant) in the writing of workers' compensation business countrywide, representing some 65% of countrywide premium writings. These carriers were also thought to write a substantial majority of all large deductible workers' compensation business countrywide.

Ten carrier groups representing approximately 15% of countrywide premium writings provided responses to the survey. A synopsis of the questions posed with summaries of the responses received follows. Question synopses are shown underlined, and response summaries follow each question in order.

Does your company sell workers' compensation insurance?

Yes – 10

No – 0

Does your company currently sell large deductible workers' compensation business, and/or did it previously sell such business or has it never written such business?

Currently – 9

Previously – 4

Never – 0

Based on your experience, how likely are employers written on guaranteed cost policies to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

Always or almost always (95% to 100% of the time) – 6

Most of the time (50% to 94% of the time) – 4

Sometimes (6% to 49% of the time) – 0

Seldom or never (0% to 5% of the time) – 0

Insufficient writings to comment – 0

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

Attempts to avoid administrative costs associated with reporting first aid or medical only cases
Attempts to avoid premium impacts (experience rating, dividend plan eligibility or level of return) of small cases

Self-handling of medical benefits by selected insureds
Perceived adverse implications for renewal of posting small losses

Based on your experience, how likely are employers written on small deductible policies (policies with deductible amounts less than \$100,000) to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

- Always or almost always (95% to 100% of the time) – 3
- Most of the time (50% to 94% of the time) – 4
- Sometimes (6% to 49% of the time) – 0
- Seldom or never (0% to 5% of the time) – 0
- Insufficient writings to comment – 3

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

- Attempts to avoid premium impacts of small cases
- Lack of perceived benefit to reporting small cases

Based on your experience, how likely are employers written on incurred loss retrospectively rated policies to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

- Always or almost always (95% to 100% of the time) – 2
- Most of the time (50% to 94% of the time) – 4
- Sometimes (6% to 49% of the time) – 1
- Seldom or never (0% to 5% of the time) – 0
- Insufficient writings to comment – 3

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

- Attempts to avoid premium impacts of small cases
- Efforts to improve loss outcomes through direct intervention
- Savings of administrative costs and time involved in filing
- Lack of perceived benefit to reporting small cases
- Self-provided medical efficiencies and controls

Based on your experience, how likely are employers written on incurred loss large deductible policies (policies with deductible amounts of \$100,000 or higher) to report all workers'

compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

- Always or almost always (95% to 100% of the time) – 2
- Most of the time (50% to 94% of the time) – 3
- Sometimes (6% to 49% of the time) – 1
- Seldom or never (0% to 5% of the time) – 0
- Insufficient writings to comment – 3

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

- Efforts to improve loss outcomes through direct intervention
- Savings of administrative costs and time involved in filing
- Lack of perceived benefit to reporting small cases
- Self-provided medical efficiencies and controls

Based on your experience, how likely are employers written on paid loss retrospectively rated policies to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

- Always or almost always (95% to 100% of the time) – 2
- Most of the time (50% to 94% of the time) – 4
- Sometimes (6% to 49% of the time) – 1
- Seldom or never (0% to 5% of the time) – 0
- Insufficient writings to comment – 3

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

- Attempts to avoid premium impacts of small cases
- Efforts to improve loss outcomes through direct intervention
- Self-handling of medical benefits by selected insureds
- Savings of administrative costs and time involved in filing
- Lack of perceived benefit to reporting small cases

Based on your experience, how likely are employers written on paid loss large deductible policies (policies with deductible amounts of \$100,000 or higher) to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

- Always or almost always (95% to 100% of the time) – 1
- Most of the time (50% to 94% of the time) – 5

Sometimes (6% to 49% of the time) – 1
Seldom or never (0% to 5% of the time) – 0
Insufficient writings to comment – 3

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

Attempts to avoid premium impacts of small cases
Efforts to improve loss outcomes through direct intervention
Self-handling of medical benefits by selected insureds
Savings of administrative costs and time involved in filing
Lack of perceived benefit to reporting small cases

Based on your experience, how likely are employers written on policies reinsured by a captive (e.g., fronted policies) to report all workers' compensation claims that their employees have reported to them (including small medical only claims) to their insurance company?

Always or almost always (95% to 100% of the time) – 2
Most of the time (50% to 94% of the time) – 2
Sometimes (6% to 49% of the time) – 0
Seldom or never (0% to 5% of the time) – 0
Insufficient writings to comment – 6

What do you see as the primary motivation(s) for failures to report claims for these employers, and do these incentives vary by type of claim (death, permanent total, permanent partial, temporary total and/or medical only)?

Attempts to avoid premium impacts of small cases
Efforts to improve loss outcomes through direct intervention
Lack of perceived benefit to reporting small cases
Savings of administrative costs and time involved in filing
Self-handling of medical benefits by selected insureds

For several different types of workers' compensation insurance policies, respondents were asked to indicate the percentages of instances in which several alternative approaches to claims handling were used. The alternatives suggested were as follows:

“Carrier” – claims handled by insurance company staff claims professionals

“TPA” – claims handled by a third party administrator(s)

“Other” – any alternative arrangement(s) not described as “carrier” or “TPA” above

No response(s) indicated that any arrangement(s) other than those described as “carrier” or “TPA” were in use. Following is a summary of the distributions of business between those two alternatives by type of policy:

Guaranteed cost policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 4, (90-99) – 4, (80-89) – 0, (70-79) – 0, 50 – 0, (21-30) - 0, (11-20) – 0, (1-10) – 1, 0 – 1

No Responses – 0

Small deductible policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 2, (90-99) – 4, (80-89) – 0, (70-79) – 0, 50 – 0, (21-30) - 0, (11-20) – 0, (1-10) – 1, 0 – 2

No Responses – 2

Incurred loss retrospectively rated policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 3, (90-99) – 2, (80-89) – 1, (70-79) – 0, 50 – 0, (21-30) - 1, (11-20) – 0, (1-10) – 1, 0 – 0

No Responses – 3

Incurred loss large deductible policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 2, (90-99) – 2, (80-89) – 1, (70-79) – 1, 50 – 1, (21-30) - 0, (11-20) – 0, (1-10) – 1, 0 – 0

No Responses – 3

Paid loss retrospectively rated policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 3, (90-99) – 2, (80-89) – 1, (70-79) – 0, 50 – 0, (21-30) - 0, (11-20) – 0, (1-10) – 0, 0 – 1

No Responses – 3

Paid loss large deductible policies:

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 1, (90-99) – 3, (80-89) – 0, (70-79) – 1, 50 – 1, (21-30) - 0, (11-20) – 0, (1-10) – 0, 0 – 1

No Responses – 3

Policies reinsured by a captive (fronted policies):

Carrier/TPA Percentage Splits: (Shown as Carrier Percent – number of responses)

100 – 1, (90-99) – 2, (80-89) – 0, (70-79) – 0, 50 – 2, (21-30) - 0, (11-20) – 0, (1-10) – 0, 0 – 0

No Responses – 5

Survey respondents were asked to consider several possible approaches to the initial disbursement of benefits and recovery of appropriate amounts of such payments under terms of the large deductible policies. For each such approach respondents were asked to indicate how commonly the approach was used in their experience. Each scenario presented is described below, followed by a summary of the responses.

Option 1 – Your company pays the amount below the deductible and then seeks reimbursement from the employer.

Always or almost always (95% to 100% of the time) – 6
Most of the time (50% to 94% of the time) – 2
Sometimes (6% to 49% of the time) – 2
Seldom or never (0% to 5% of the time) – 0

Option 2 – Your third party administrator pays the amount below the deductible and then seeks reimbursement from the employer.

Always or almost always (95% to 100% of the time) – 1
Most of the time (50% to 94% of the time) – 0
Sometimes (6% to 49% of the time) – 3
Seldom or never (0% to 5% of the time) – 6

Option 3 – The employer pays amounts below the deductible, eliminating the need for reimbursement to either the carrier or carrier's TPA.

Always or almost always (95% to 100% of the time) – 0
Most of the time (50% to 94% of the time) – 0
Sometimes (6% to 49% of the time) – 3
Seldom or never (0% to 5% of the time) – 7

Option 4 – A third party administrator retained by the employer pays amounts below the deductible, eliminating the need to reimburse the carrier.

Always or almost always (95% to 100% of the time) – 0
Most of the time (50% to 94% of the time) – 0
Sometimes (6% to 49% of the time) – 1
Seldom or never (0% to 5% of the time) – 9

Finally, survey respondents were asked whether their company could accurately report loss amounts both net and gross of the large deductible provision for unit statistical reports and in financial data when required to regulators and advisory organizations. A summary of responses follows:

Yes – 10
No – 0