COMPNEWS

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SC approves 7.4% decrease in loss costs

The South Carolina Department of Insurance has approved NCCI's loss cost filing of -7.4%, effective September 1, 2014. South Carolina is among several states in the southeast benefiting from improved combined ratios and stable claims frequency.

Accident-year combined ratios in the state have improved in each of the past three years, from 117% in 2010 to 112% in 2011, and 102% in 2012. Also, workers' compensation premium volume continues to increase in South Carolina, from $533 million in 2010 to $643 million in 2013, and the number of workers' comp insurers has increased from 272 in 2011 to 288 in 2013.

The recent gains in South Carolina reflect the improving picture nationwide, characterized by increasing premium volume, improving combined ratios, and declining claims frequency. NCCI reports rates/loss costs declined -1.4% in Arkansas, -5.1% in Louisiana, -6.95% in Tennessee, -7.9% in Kentucky, and -8.8% in West Virginia.

However, North Carolina will see an increase of 0.3%, Georgia an increase of 2.3%, and Virginia an increase of 4.1%. NCCI characterizes the current state of the industry as "balanced." Steve Klingel, the group's president & CEO, says "today, industry costs are largely contained, claims frequency continues to decline, and the system in most states is operating efficiently. In short, the market is operating as it should on behalf of most stakeholders."

Nationwide, the calendar-year combined ratio in 2013 was 101, a seven-point decrease from 2012 and a 14-point decline since 2011. But some troublesome signs remain, among them the slow growth in employment which is impeding robust growth in premiums, and the uncertain impact of the Affordable Care Act on workers' compensation.

It may take at least a couple of years before analysts can confidently assess the impact of healthcare reform. "Frankly, this could go either way. Indeed, healthcare reform may end up being both a plus and a minus for workers' comp carriers," writes Sam Friedman, insurance research leader with Deloitte's Center for Financial Services, in NCCI's ***Workers Compensation 2014 Issues Report***.

While some analysts think broader insurance coverage required by the Affordable Care Act means injured workers will have less of an incentive to use comp benefits for non-work related conditions, others question whether this is in fact the case now. Indeed, NCCI chief actuary Kathy Antonello says it is the workers' comp system that is adept at pushing work-related injuries onto the public health system.

"The long-standing provisions related to Medicare set asides are directly related to concerns of cost shifting from workers compensation to Medicare," she notes in NCCI's ***Workers Compensation 2014 Issues Report***.

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Employers will pay more

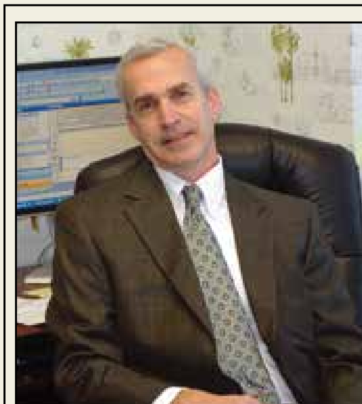
The South Carolina Workers' Compensation Commission approved implementation of new net present value tables during its June, 2014 business meeting. These tables became effective on June 27 when they were published in the *State Register*.

This follows the changes made in May by the South Carolina General Assembly to the underlying regulation concerning lump sum payments for weeks 101 through 500, R 67-1605.

The present value for lump sum payments, also known in South Carolina as commuted value, will now be determined by using the yield to maturity rate of the 5-year U.S. Treasury Note reported by the Federal Reserve on the first business day following January 1 each year.

Furthermore, the regulation provides that the discount rate shall not exceed six percent or be less than two percent. Since the 5-year U.S. Treasury note for 2014 was only 1.72%, the Commission determined the new discount rate for weeks 101 through 500 will be 2% per annum.

This results in a significant increase in indemnity costs to employers for lump sum payments above 100 weeks, due to the reduced discount when compared with the prior rate of 5% per annum.



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For example, the new commuted value of 500 weeks (maximum indemnity weeks absent exceptions) is 454.7830 weeks, whereas the commuted value prior to this change was only 396.8116 weeks.

Using the maximum compensation rate for 2014 of $752.16 this change results in an increased indemnity cost to employers in a permanent and total disability claim in the amount of $43,603.77 over the prior discount rate, where the award or settlement is paid in a lump sum.

In light of this change, employers should be sure to have their claims representatives and workers' compensation risk managers update reserves, exposure estimates, settlement authority levels, and mediation target goals accordingly.

As a reminder, and as noted above, this rate is subject to change in January each year. If you would like a copy of the new present value table, please contact me at the e-mail reflected below.

Comments: This does not constitute legal advice. You should seek the counsel of your attorney concerning the application of the information in this article to your particular situation. Please e-mail any comments to Mike at mchaseturnerpadget.com.

President's note

Tosca Walls
President

Outcomes in healthcare

Medical benefits account for nearly 60% of the total cost of workers' compensation benefits nationwide and, not surprisingly, there is keen interest among insurers and providers to find ways to control medical costs.

At the recently held annual meeting of the National Council on Self-Insurers, the theme seemed to be outcome-based provider networks and how to measure provider outcomes. As one speaker noted, for too long employers and insurers have focused on access to medical care and on obtaining discounts, instead of concentrating on quality of care and outcomes.

Now, it seems, everywhere the focus is on outcomes as researchers report more medical care is not necessarily better medical treatment. Provider networks remain important, but the industry is really looking at which providers are giving them the best results.

Another interesting presentation at the annual meeting was by Phil LeFevre, director of business development at the Work Loss Data Institute. He spoke about evidence-based medicine and Occupational Disability Guidelines (ODG), which seek to control utilization while also promoting quality medical care. He provided figures which show states that have implemented disability guidelines attract competent doctors who practice evidence-based medicine.

For instance, Ohio, Texas, and North Dakota have implemented the guidelines and seen substantial improvements in medical outcomes and lower costs. Based on this performance, several states are considering adopting the Occupational Disability Guidelines.

Until next time,

Tosca

Heightened concerns about compounded drugs

Compounded drugs account for less than 3% of prescribed medications in workers' compensation but their use is expanding rapidly and prices are skyrocketing, according to a report from Express Scripts, the largest pharmacy benefits manager in the country.

The company reports per-user-per-year costs rose 126% between 2012 and 2013, with the average cost of compounds per prescription around $1,300. Analysts note compounding is growing rapidly in group health and workers' compensation as states have controlled other cost drivers, such as drug repackaging and physician dispensing.

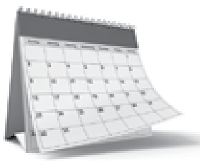
"Even though the absolute percentage of users is small, the doubling in the percentage of injured workers obtaining medications that, on average, cost $1,299.13 per prescription, will undoubtedly impact payers financially," Express Scripts says in its ***Workers' Compensation 2013 Drug Trend*** report.

One argument in favor of compounded analgesic drugs is they have the potential to offer pain relief when a commonly used drug does not work, or when a patient cannot tolerate its side effects. But Express Scripts reports that in at least 25% of cases in 2013, injured workers were prescribed compounded medications before they had even tried commonly used drugs.

The difference in price is striking. For instance, the average cost per prescription for compounded versions of diclofenac, a widely used anti-inflammatory drug, was $770 in 2013, versus $46 per prescription for a commercially available alternative. Diclofenac often is compounded in strengths other than those in commercial preparations.

"In the past compounds would typically combine two or three different ingredients. Today, it's not unusual for us to see claims for compounds that combine up to a dozen or more active ingredients," David Calabrese,vice president and chief pharmacy officer at pharmacy benefit manager Catamaran Corp., commented to ***Business Insurance***.

"And that's obviously going to increase the cost of the compound, but simultaneously increase some of the safety concerns that we have relative to these products," he added.



Calendar

Oct 12 - 15, 2014	38th Annual Educational Conference on Workers' Compensation. Westin Resort & Spa, Hilton Head.
March 25-27, 2015	Annual Conference, NC Association of Self-Insurers. Holiday Inn Resort, Wrightsville Beach.
April 15-17, 2015	Members-Only Forum, SC Self-Insurers Association. Litchfield Beach & Golf Resort.

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Claimants who fear being fired less likely to return to work

Injured workers who fear being fired are less likely to return to work, reports the Workers Compensation Research Institute in its recent studies on worker outcomes in eight states.

The following are some findings from the studies regarding this predictor:

- Workers who were strongly concerned about being fired after the injury experienced poorer return-to-work outcomes than workers without those concerns.
- One in five workers who were concerned about being fired reported that they were not working at the time of the interview. This was double the rate that was observed for workers without such concerns. Among workers who were not concerned about being fired, one in ten workers was not working at the time of the interview.
- Concerns about being fired were associated with a four-week increase in the average duration of disability.

The studies also identified workers with specific comorbid medical conditions (existing simultaneously with and usually independently of another medical condition) by asking whether the worker had received treatment for hypertension, diabetes, and heart problems. The medical condition may have been present at the time of the injury or may have manifested during the recovery period. Among those findings:

- Workers with hypertension (when compared with workers without hypertension) had a 3 percentage point higher rate of not working at the time of the interview predominantly due to injury.
- Workers with heart problems reported an 8 percentage point higher rate of not working at the time of interview predominantly due to injury and had disability duration that was four weeks longer.
- Workers with diabetes had a 4 percentage point higher rate of not working at the time of the interview predominantly due to injury than workers without diabetes.

The studies are based on telephone interviews with 3,200 injured workers in Indiana, Massachusetts, Michigan, Minnesota, North Carolina, Pennsylvania, Virginia, and Wisconsin. The Cambridge, Massachusetts–based WCRI is recognized as a leader in providing high-quality, objective information about public policy issues involving workers' compensation systems. To purchase any one of these reports, visit http://www.wcrinet.org/recent_pub.html.