

# **NEW YORK COMPENSATION INSURANCE RATING BOARD**

**October 1, 2016 Loss Cost Filing**

## **Supplemental Written Comments of Ziv Kimmel, FCAS, Senior Vice President and Chief Actuary**

Please consider this submission as a supplement to the oral testimony that I provided at the June 28, 2016 Public Hearing, and a further response to the written and oral testimony provided by Mr. Robert Grey on behalf of the Workers Compensation Alliance.

First, in Part II of Mr. Grey's written testimony, Mr. Grey quotes several statistics included in the filing document, and draws a conclusion regarding the contribution of a particular injury type to the overall indication (page 2). By taking the statistics out of context, Mr. Grey mischaracterizes them and draws false conclusions. Specifically, the indication of 9.3%, derived in the loss cost filing, is largely based on overall aggregate data, and not attributed to a specific injury type. The information by injury type that appears in the filing is part of the development adjustment for reforms, and cannot be manipulated in isolation to generate reliable conclusions. Further, it is purposeful that the information by injury type used is from years past. This is because this specific data is used to adjust information from years preceding the reform. The intent of including these percentages was not to draw conclusions on the contributions of different injury types to the overall indications.

Second, Mr. Grey asserts that the information in Policy Years 2013 and 2014 is "inaccurate and incomplete" (page 2). Mr. Grey is incorrect, and his assertion only demonstrates his lack of familiarity with actuarial science. The data from the aforementioned policy years is evaluated as of December 31, 2015, and is the most recent complete policy year information available. It includes information on both premiums and losses -- the most basic elements needed for ratemaking procedures. Furthermore, as I explained orally at the Public Hearing, the data is thoroughly checked, verified, validated and reconciled to ensure that it is of the highest quality for use in the analysis. Indeed, Mr. Grey's suggestion that the Rating Board utilize data from alternative sources further underscores his lack of familiarity with ratemaking as the sources he suggests contain no information on premium and loss amounts.

Third, in Part III of Mr. Grey's written testimony, he once again takes statistics in the lost cost filing out of context and attempts to draw conclusions from statistics in isolation, resulting in false statements. For example, he includes a conclusion regarding the increased costs in SLUs (page 5), and the "fact" that they represent 8% of indemnity costs. This actually conflicts with other assumed percentages of SLU elsewhere in Mr. Grey's document: on Page 2 Mr. Grey suggested SLU's percentage of indemnity costs as 28.8%.

Fourth, Mr. Grey's written testimony provides misleading information. For example, with respect to section 32 settlements, Mr. Grey compares information between private carriers (table on page 6), and the State Insurance Fund and Public Self Insurers (table on page 7). The table on page 6 appears to display information for all types of Section 32 settlements whereas the tables on page 7 are labeled as Section 32 on PPD Non-Scheduled Claims. Comparing these tables is tantamount to comparing apples with oranges; and it is no surprise that the conclusions drawn are not accurate and should be disregarded.

Fifth, in Part IV of his written testimony, Mr. Grey asserts that the Rating Board's filing ignores third party recoveries (page 12). This is simply not true. Loss information reported to the Rating Board is net of all subrogation recovered by the carriers.

Sixth, in Part V of his written testimony, Mr. Grey relies heavily on the State Fund's posted underwriting profits. Note, however, that the financial results of the State Fund have been, in recent years, significantly affected by legislative money transfers, and should not be relied upon for determination of loss cost level. The loss ratios derived in the Rating Board's filing rely on paid losses and case reserves from a defined set of policies, which is the appropriate manner to determine the adequacy of the current loss cost levels.

Finally, in Part VI, Mr. Grey questions the role of the Rating Board in the rate setting process (page 25). Regardless of Mr. Grey's assertions, the Rating Board plays an integral role in the New York State workers' compensation system, and provides useful services and information to all stakeholders. Further, as described above, the Rating Board takes painstaking efforts to thoroughly verify its data, and thoroughly vet and peer review its methodologies.

With respect to the composition of the Rating Board's Board of Governors, the inclusion of four public members following the 2007 reform – the Department of Financial Services, the Workers' Compensation Board, the New York State Business Council, and the New York State AFL-CIO – has provided transparency and a voice to the public on issues considered by the Rating Board, including the rate filing.



## 2016 ANNUAL MEETING

# **New York Workers Compensation Actuarial Update**

**Presented by**

**Ziv Kimmel**

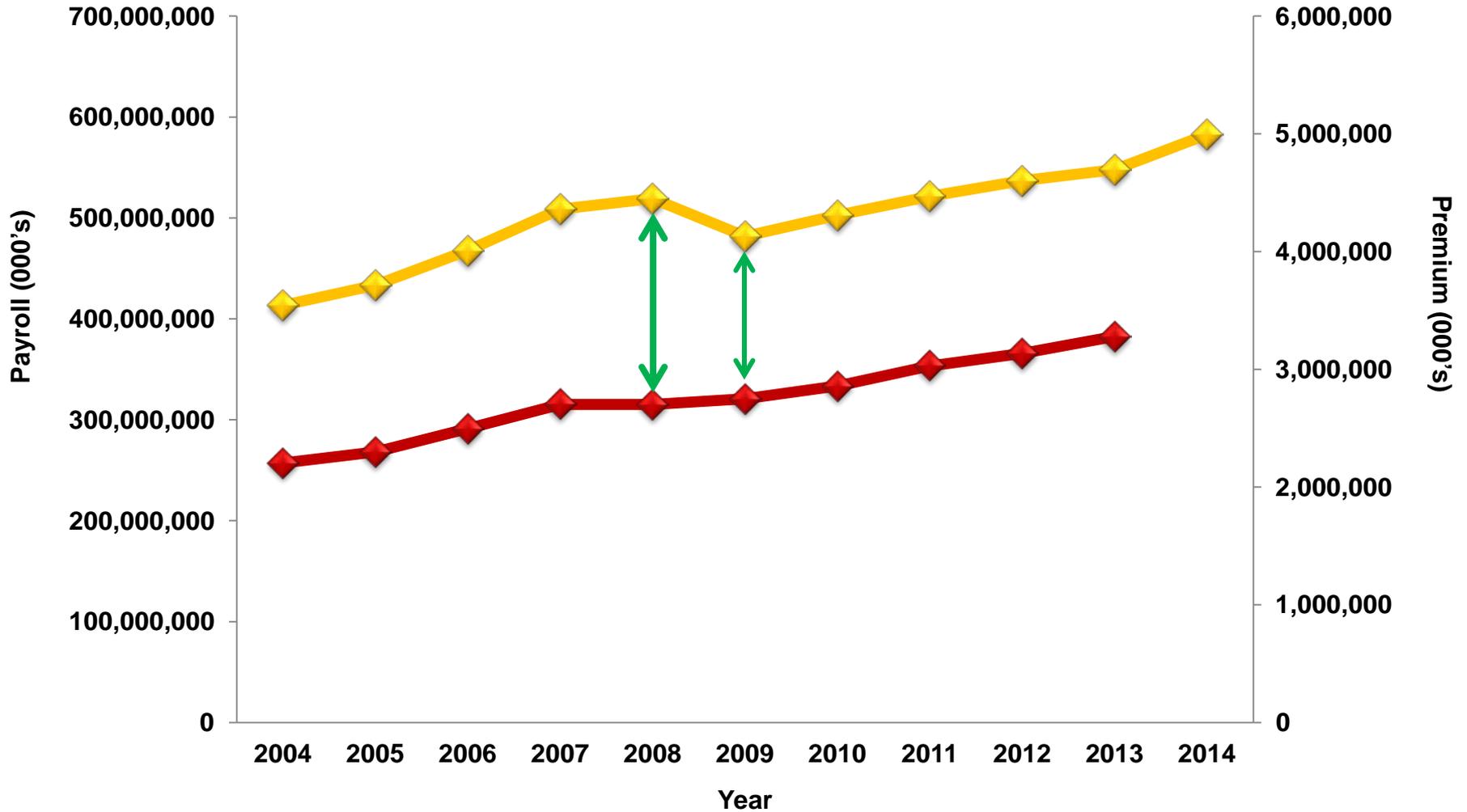
**Senior Vice President & Chief Actuary**

# AGENDA

- State of the Market
  - Exposures and Premiums
  - Benefit Level Changes
  - Losses
- Update from the Actuarial Department

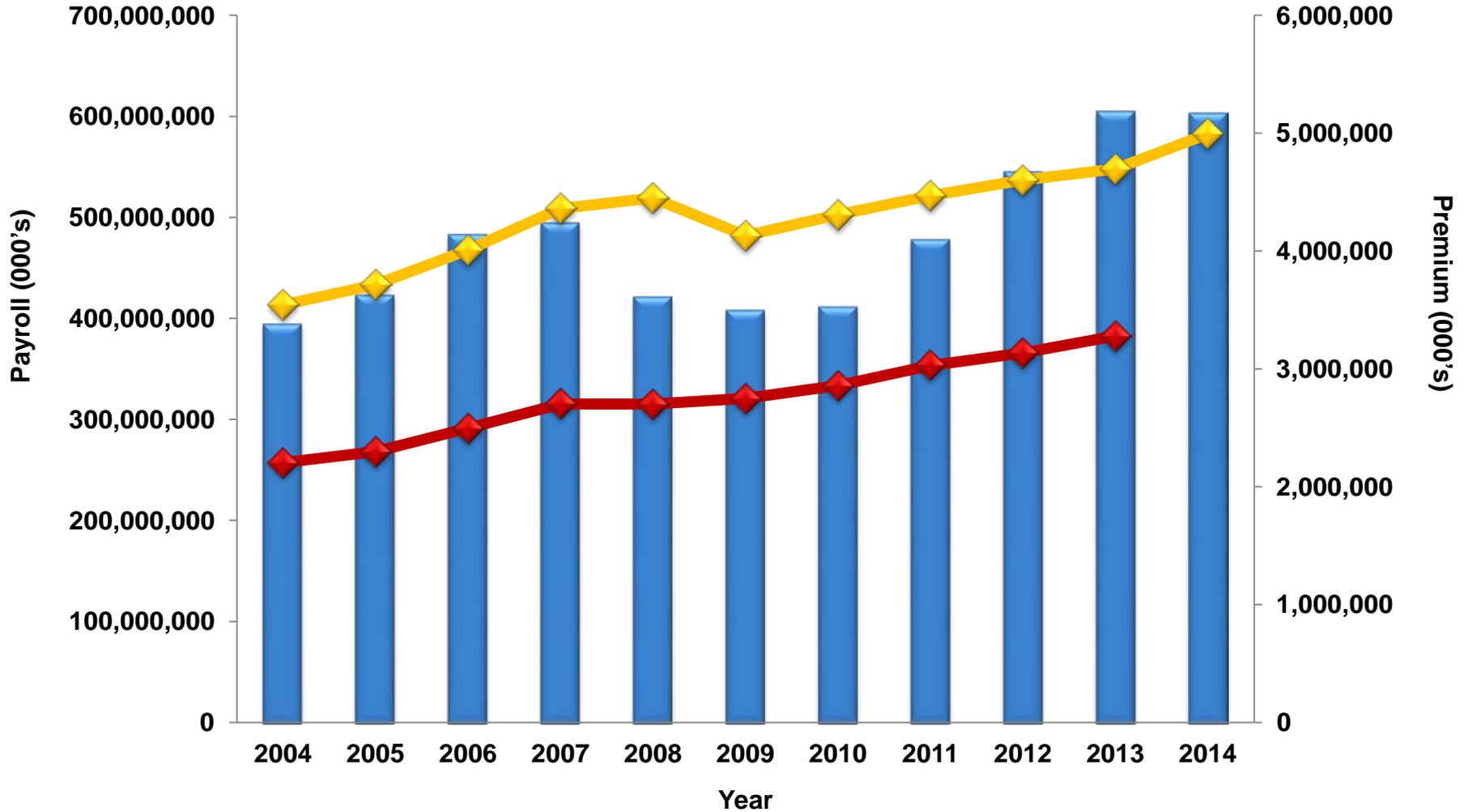
# Payrolls and Premiums

◆ Dept of Labor Payroll    ◆ USR Payroll



# Payrolls and Premiums

Direct Earned Premium    Dept of Labor Payroll    USR Payroll



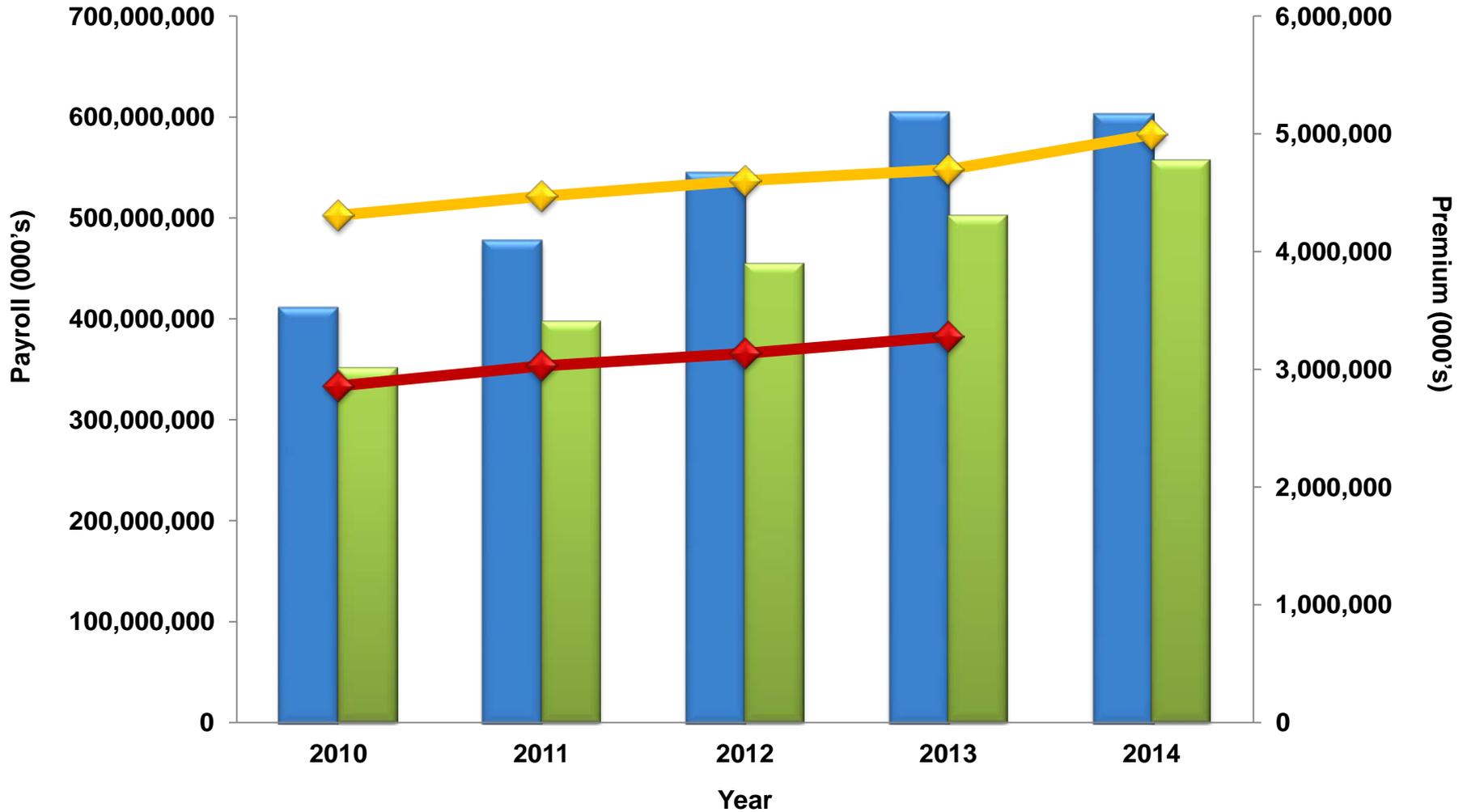
# Payrolls and Premiums

Direct Earned Premium

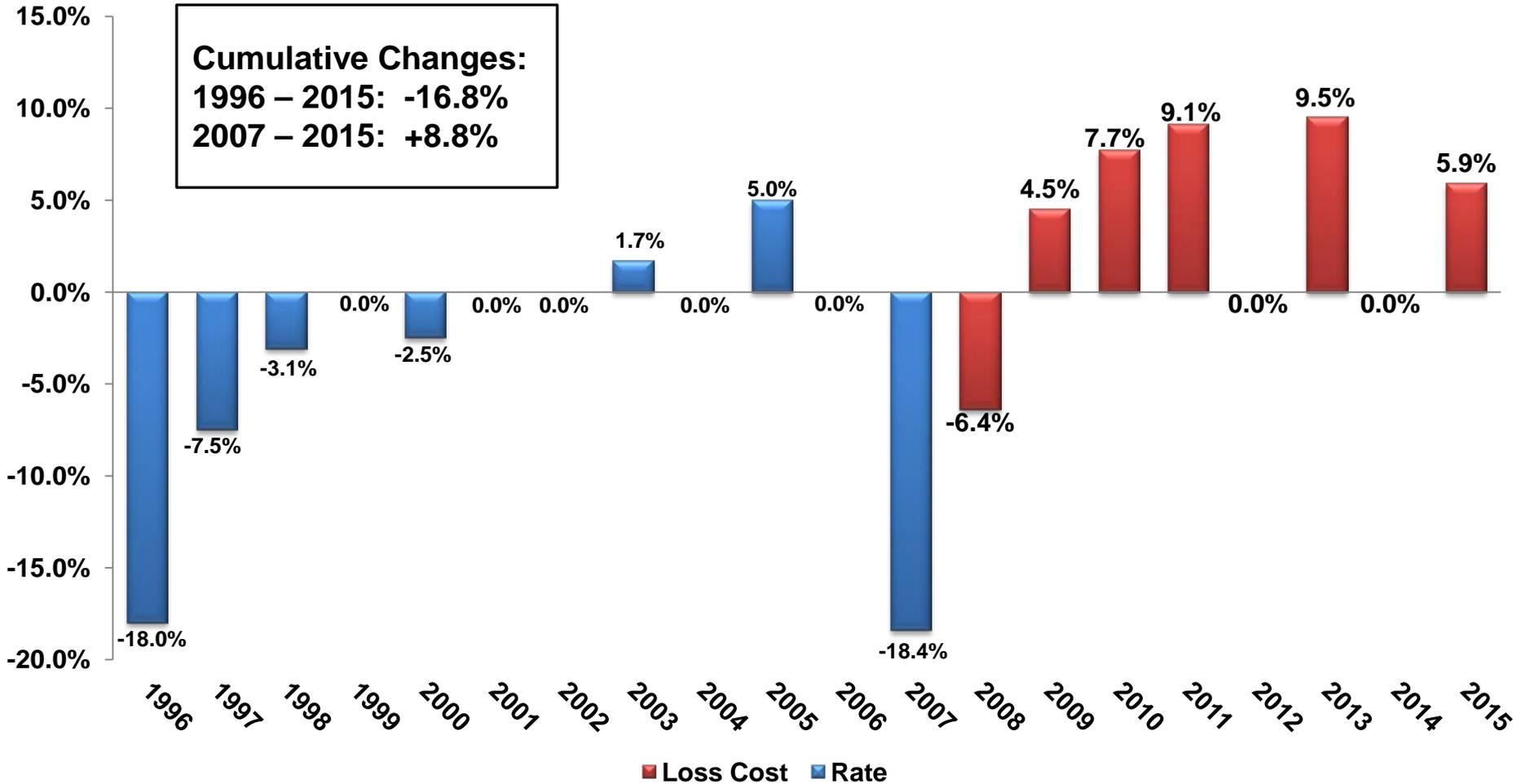
Direct Earned Premium (NYCIRB Financial Calls)

Dept of Labor Payroll

USR Payroll



# New York Manual Rate/Loss Cost Level History



# Maximum and Minimum Weekly Benefit Changes

Effective Date	Benefit Level Change	Maximum/Minimum Weekly benefit	Impact on Indemnity	Total Impact
7/1/2007	Maximum Weekly Benefit Change	\$500	9.4%	6.0%
7/1/2008	Maximum Weekly Benefit Change	\$550	3.9%	2.1%
7/1/2009	Maximum Weekly Benefit Change	\$600	3.1%	1.7%
7/1/2010	Maximum Weekly Benefit Change	\$739.87	7.8%	4.1%
7/1/2011	Maximum Weekly Benefit Change	\$772.96	1.3%	0.8%
7/1/2012	Maximum Weekly Benefit Change	\$792.07	0.7%	0.3%
5/1/2013	Minimum Weekly Benefit Change	\$150	0.7%	0.4%
7/1/2013	Maximum Weekly Benefit Change	\$803.21	0.3%	0.2%
7/1/2014	Maximum Weekly Benefit Change	\$808.65	0.2%	0.1%
7/1/2015	Maximum Weekly Benefit Change	\$844.29	0.8%	0.4%
	<b>Total</b>			<b>17.1%</b>

# Medical Related Provisions

Effective Date	Benefit Level Change	Impact on Medical	Total Impact
7/11/2007	Implementation of Pharmaceutical Fee Schedule and Other Medical Provisions	-6.6%	-2.4%
12/1/2009	Hospital Inpatient Fee Schedule Change	1.2%	0.5%
12/1/2010	Evaluation and Management Physician Fee Schedule Change	3.2%	1.4%
12/1/2010	Medical Treatment Guidelines	-5.0%	-2.2%
	<b>Total</b>		<b>-2.7%</b>

# Closing of Funds

Effective Date	Benefit Level Change	Total Impact
7/1/2007	Elimination of the Special Disability Fund	13.3%
1/1/2014	Closing of Reopened Case Fund	4.5%
	<b>Total</b>	<b>18.4%</b>

# Total Benefit Level Change 2007- 2015

Benefit Level Change	Total Impact
Maximum and Minimum Weekly Benefit Changes	17.1%
Medical Related Provisions	-2.7%
Closing of Funds	18.4%
<b>Total Benefit Level Change*</b>	<b>34.9%</b>

\* Excluding savings from implementation of duration caps on Non-Scheduled Permanent Partial Disability claims

# Benefit Level Change vs. Loss Cost Level Change

Total Benefit Level Change*	34.9%
Total Loss Cost Level Change	8.8%
<b>Difference</b>	<b>19.3%</b>

\* Excluding savings from implementation of duration caps on Non-Scheduled Permanent Partial Disability claims

# Implied Savings From Implementation of Duration Caps

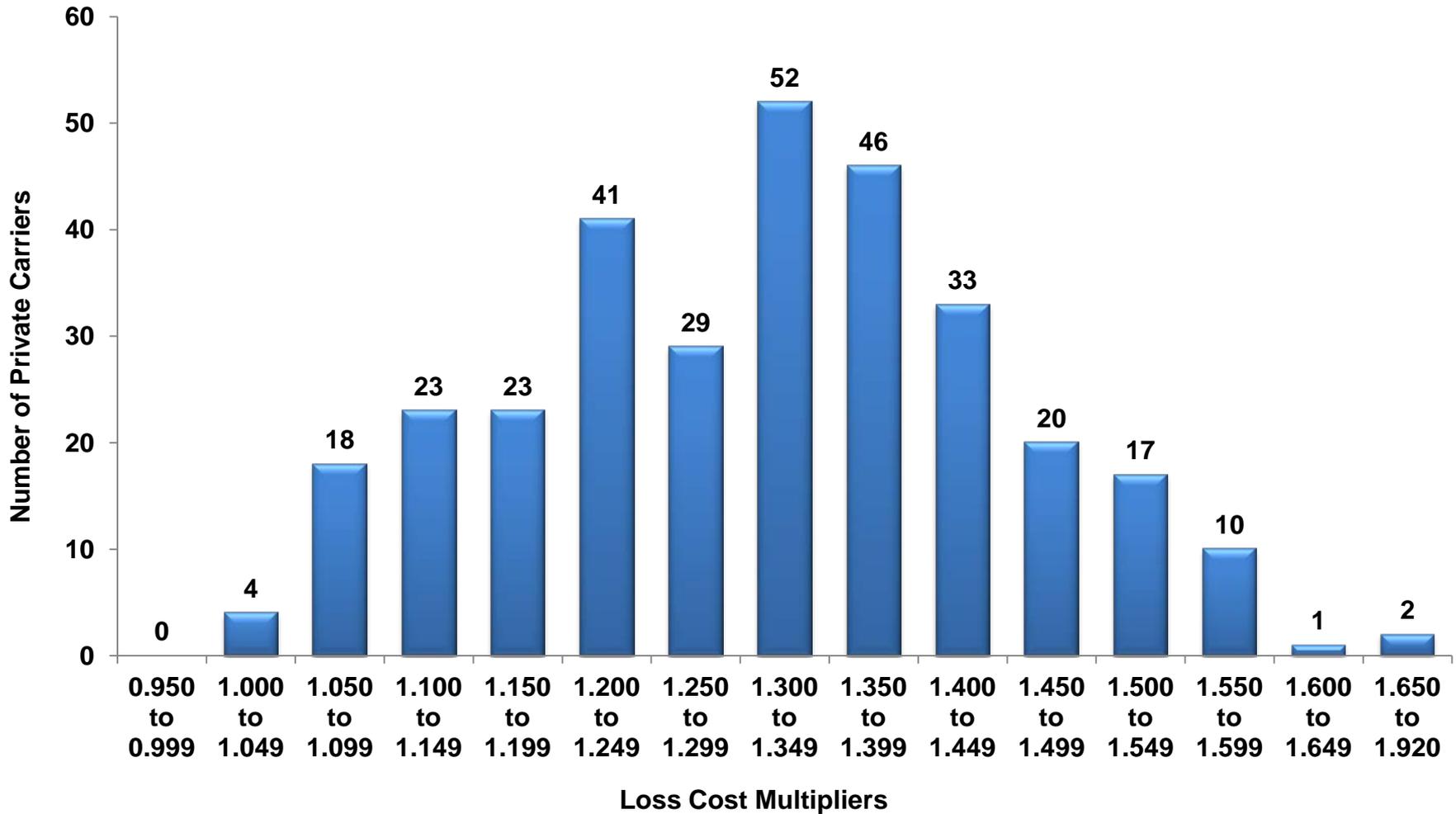
- If loss costs were adequate
  - The implied savings on overall system costs is 19.3%
  - The implied savings on Non-Scheduled Permanent Partial Disability claims (NSPPD) is 49.2%

# Implied Savings From Implementation of Duration Caps

- If loss costs were 10% inadequate
  - The implied savings on overall system costs is 11.3%
  - The implied savings on Non-Scheduled Permanent Partial Disability claims (NSPPD) is 28.9%

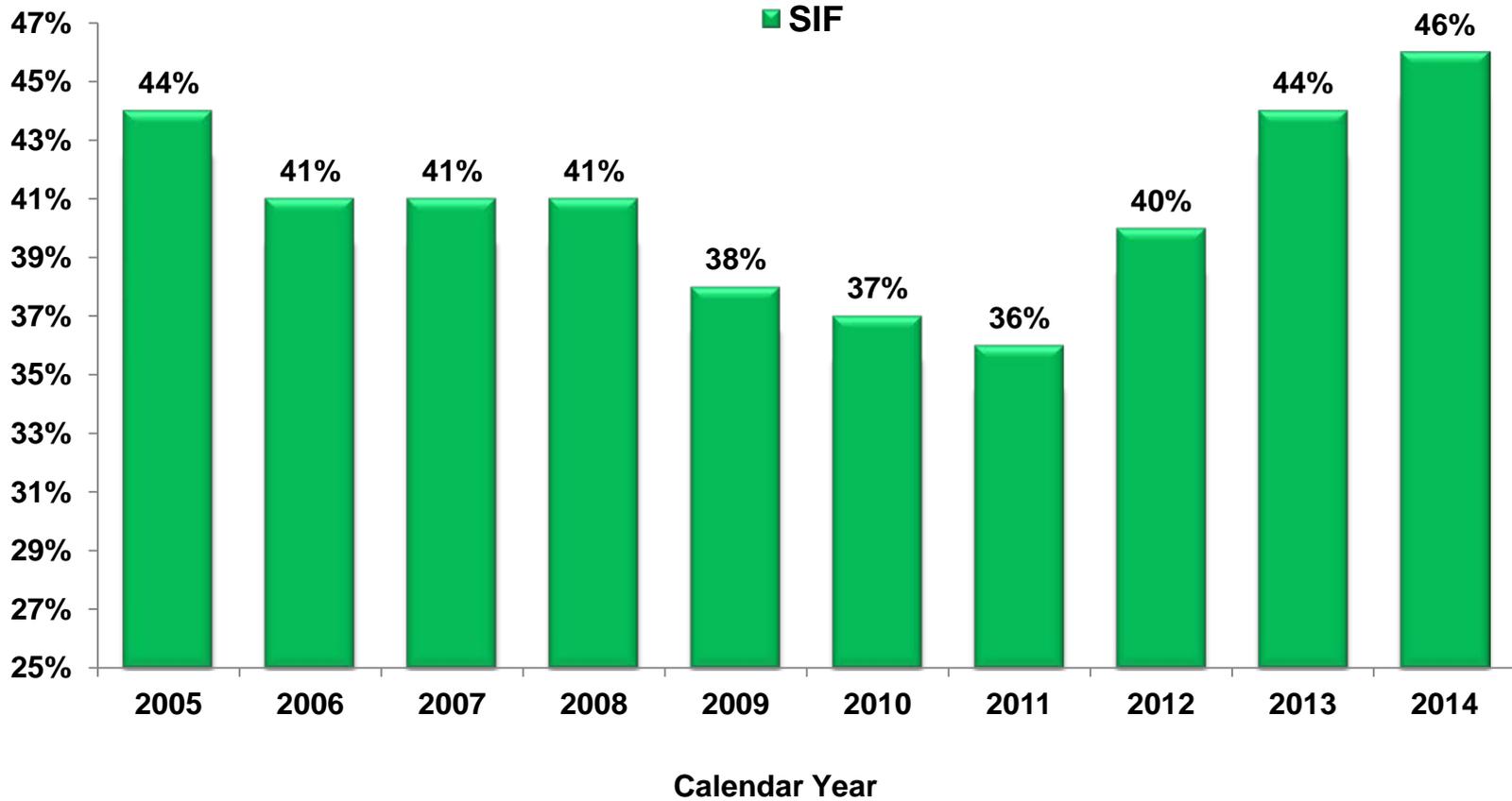
# Distribution of Approved Loss Cost Multipliers

## Weighted Average LCM = 1.29



Source: New York State Department of Financial Services (December 2015)

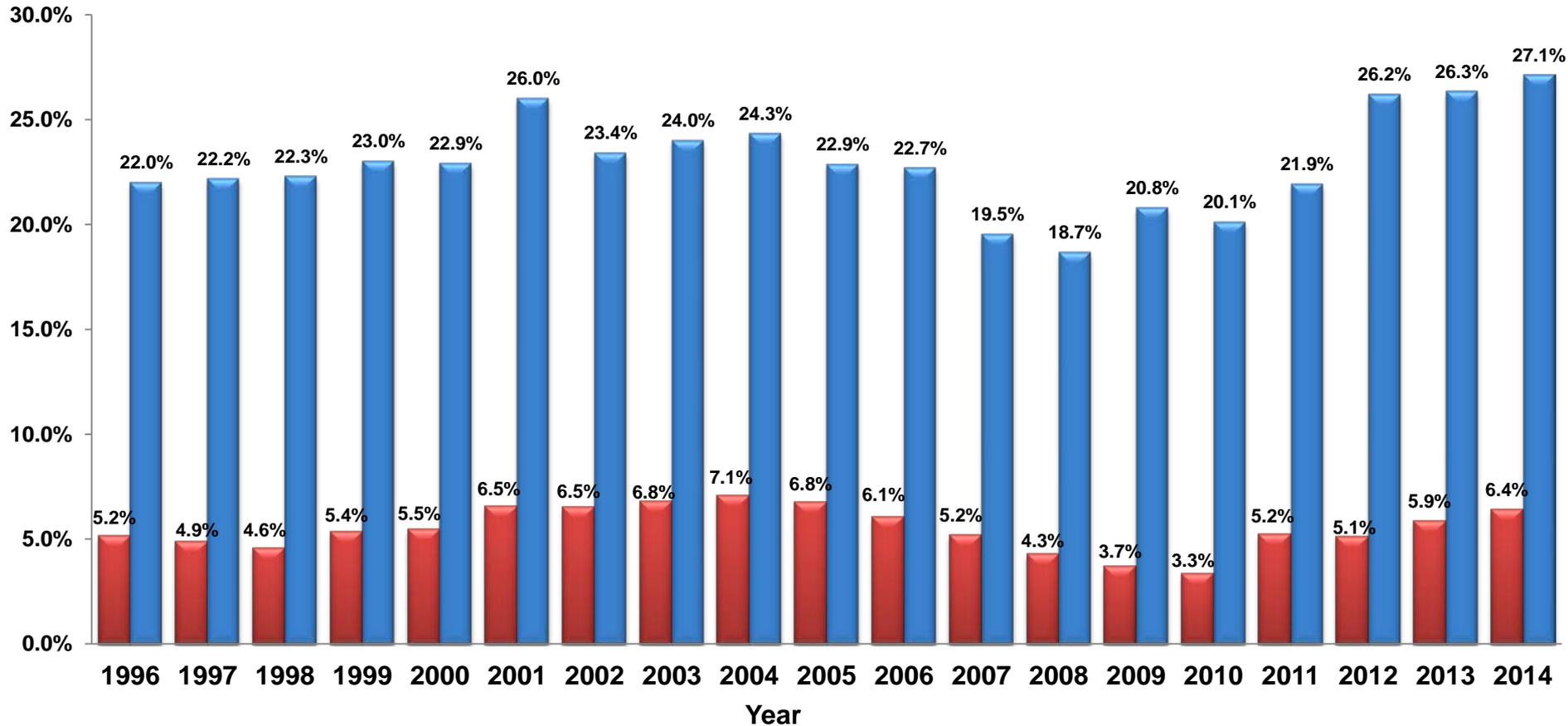
# New York Market Shares



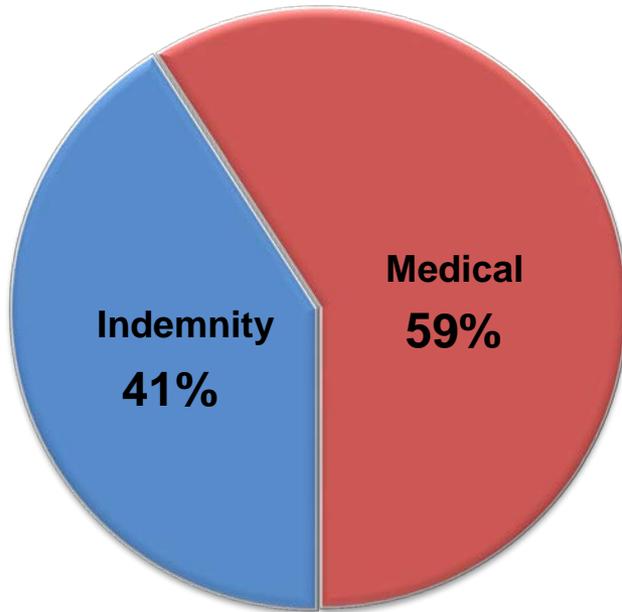
Source: NYCIRB Financial Data

# Portion of Large Deductible Standard Earned Premiums and Net Earned Premiums As of December 31, 2014

■ Net Earned Premium    ■ Standard Earned Premium

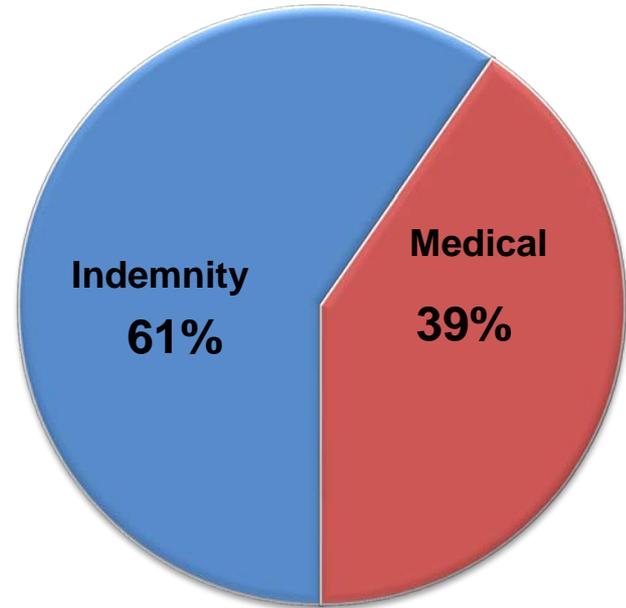


# New York Indemnity vs. Medical Costs



**Countrywide**

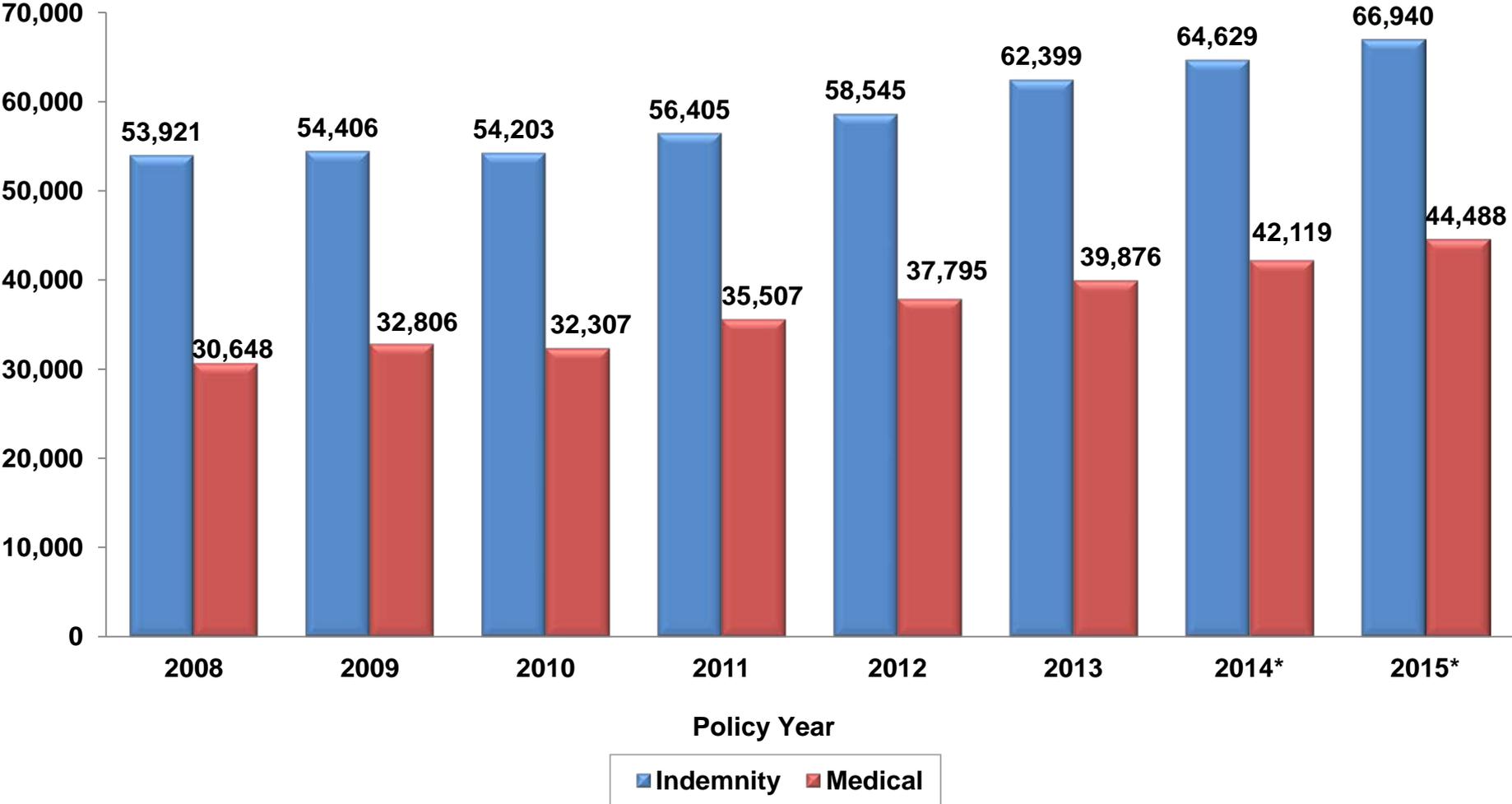
Source: NCCI



**New York**

Source: NYCIRB Financial Data

# New York Average Claim Costs per Lost Time Claims

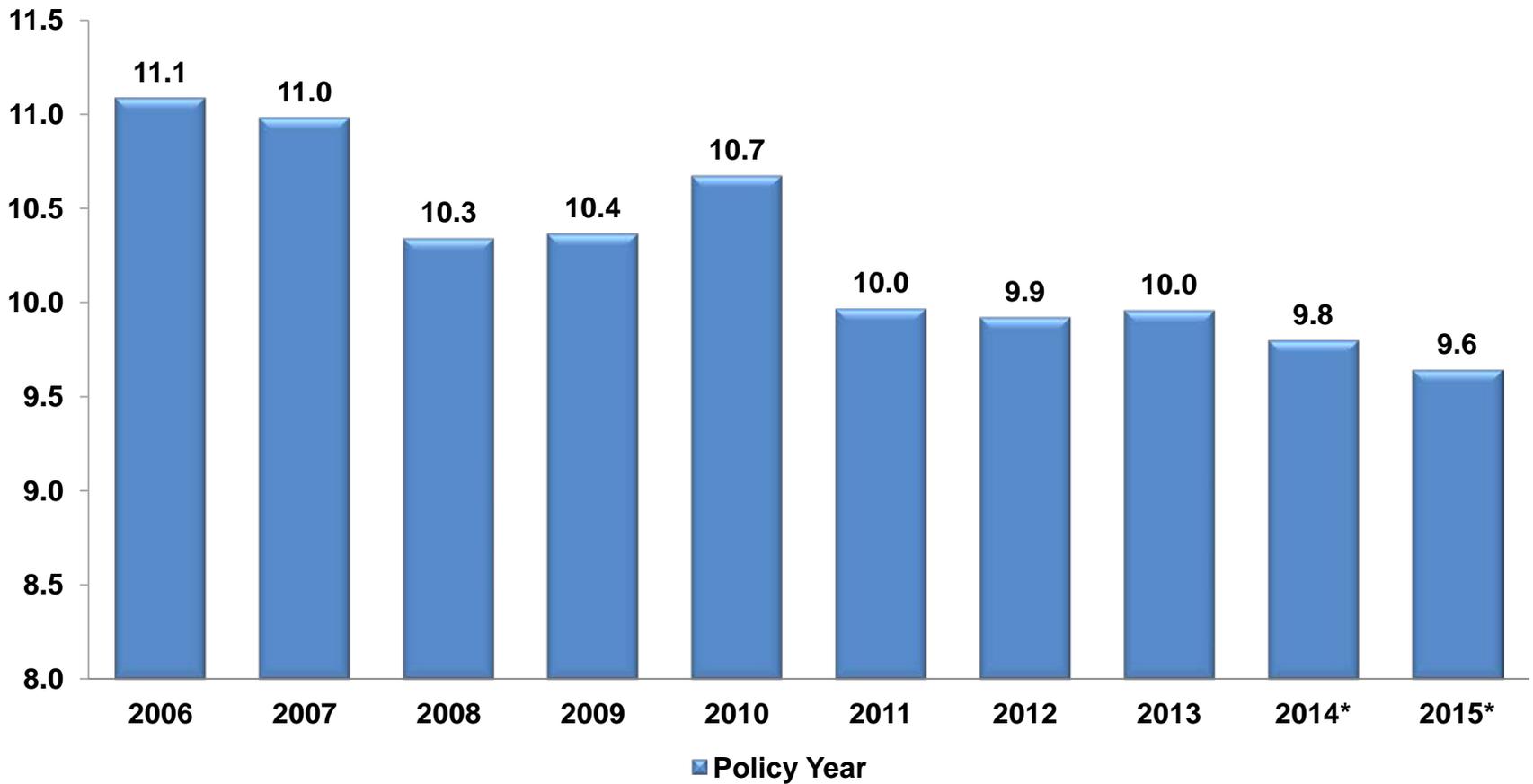


\* Projected

Source: NYCIRB Financial Data

# New York Claim Frequency

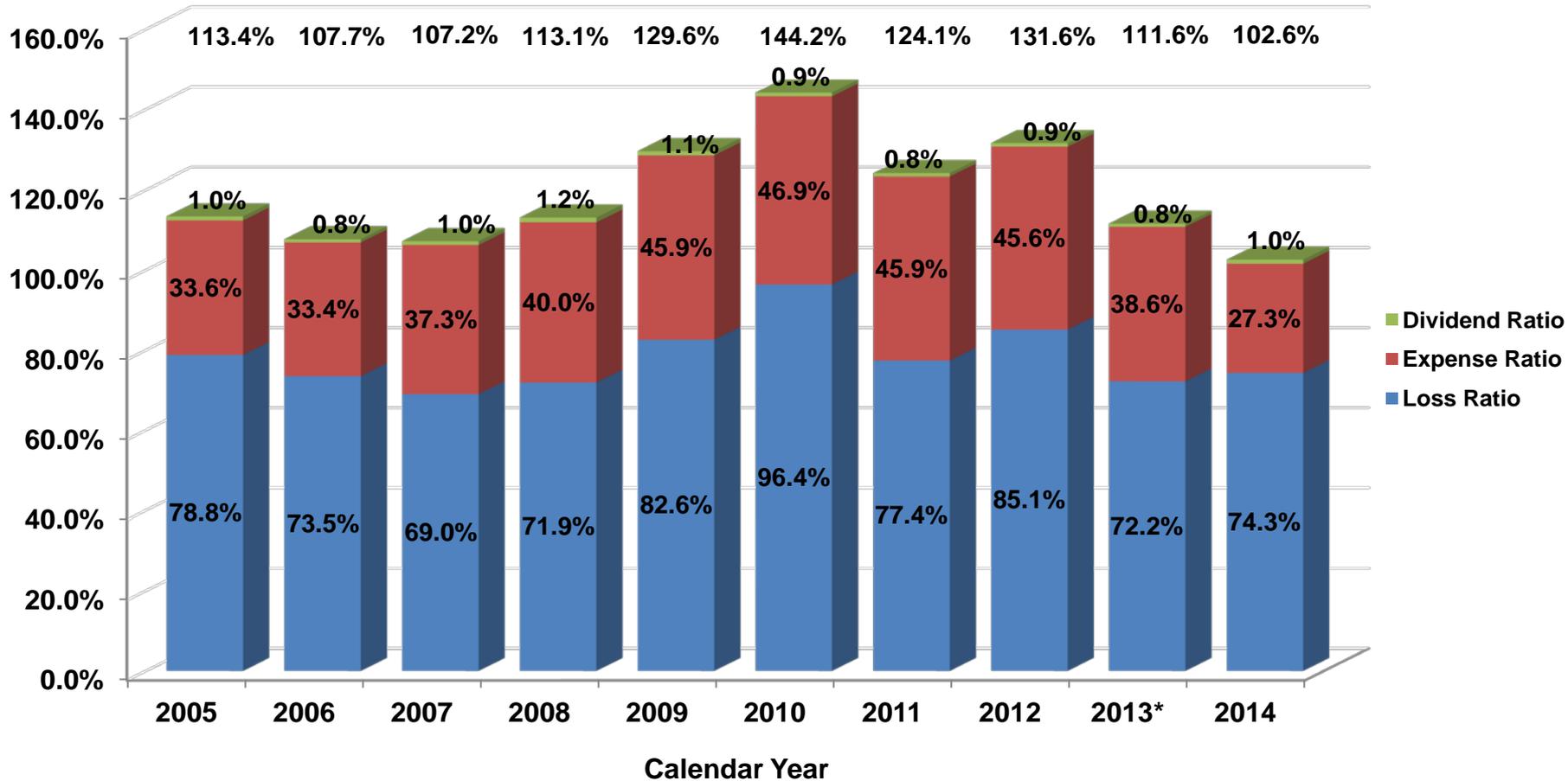
## Lost Time Claims per \$1M Premium



\* Projected

Source: NYCIRB Financial Data

# New York Historical Combined Ratios



Source: NYCIRB Financial Data and Insurance Expense Exhibit.  
 SIF data is excluded for dividend ratio and expense ratio.  
 \*Private carriers only.