

To C&R or Not To C&R? That is the Question!

**The Benefits of Early Claims Closure for Workers Compensation
Using Compromise and Release.**

**PARMA Bay Area Chapter Meeting
Thursday, August 8, 2019**

**Mike Harrington, FCAS, MAAA
President and Principal, Bickmore Actuarial**

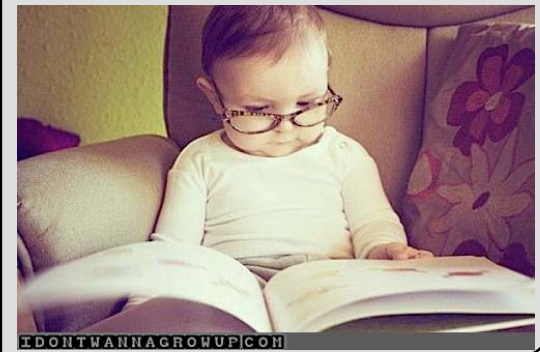


This document was designed for discussion purposes only and is not intended to present detailed information on our analysis and findings. It is incomplete, and not intended to be used, without the accompanying oral presentation and discussion.

Topics of Discussion

- Vocab Test
- Discussion of Methodology
 - Loss Development
 - Inflationary Trend
- Ways to Close Claims
- Cost of Settled vs. Open Claims
- Results

Plus Some Color
Commentary from a
Legal Perspective
by **Keith Epstein,**
WC Attorney with
Hanna & Brophy



Actuarial Relationships

Getting the relationship started...

- What's your sign?
- What's your cosine?
- Your calculator or mine?



Keeping the fire kindled...

- Since the first time I set eyes on you, my interest in you has compounded daily, at a 4% effective annual rate of return.
- My love for you is endless, like the tail on workers' compensation liabilities.

Vocab and Methodology

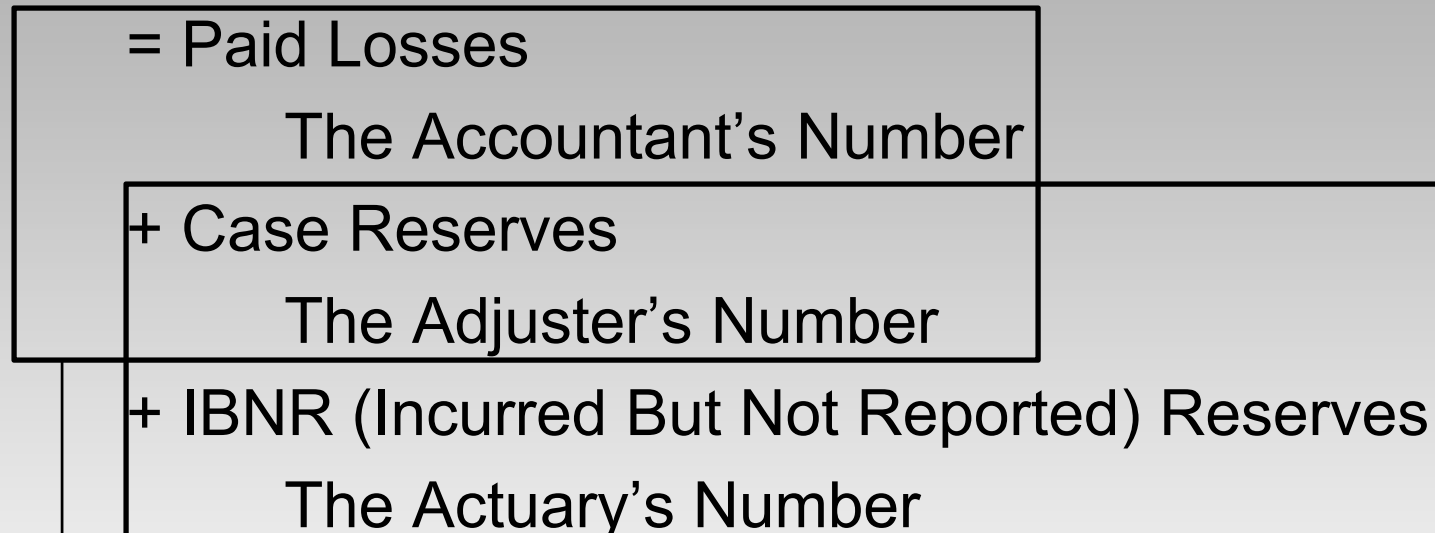


The Lingo

- Loss – Indemnity and Medical Benefits to Employees
- ALAE – Allocated Loss Adjustment Expenses, which consist primarily of legal fees, usually analyzed together with loss
 - **Included in this study**
- ULAE – Unallocated Loss Adjustment Expenses, which consist primarily of claims administration expenses (in-house or TPA), usually analyzed separately from loss
 - **Not included in this study**

Outstanding Liabilities (Reserves)

➤ Components of Ultimate Losses



➤ Incurred = Paid + Case

➤ Reserves = Case Reserves + IBNR Reserves

Ultimate Losses

- Total claim cost for a given year, when all claims are closed.



- Yes, That's The Final Answer!

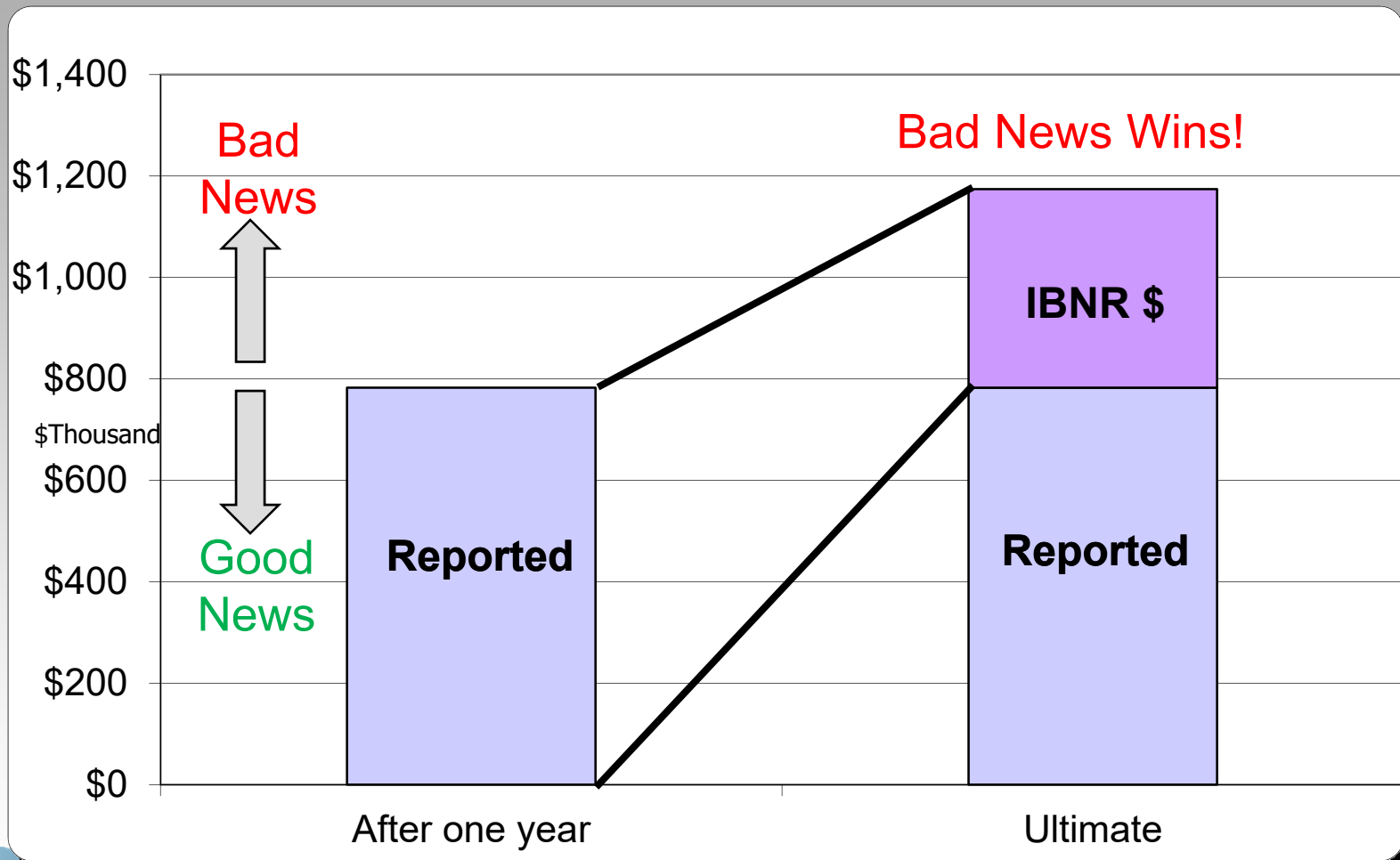
- Reflects Loss Development

Loss Development



But Wait...
There's More!

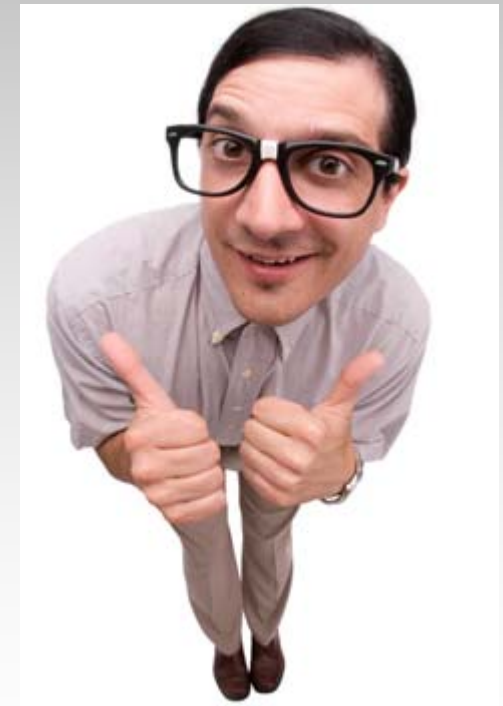
What is Loss Development ??



Loss Development



Favorable or
Adverse?



Favorable Development



Adverse Development



Favorable Development



Adverse Development



Favorable Development



Adverse Development



Loss Development

OK. LET'S DO AN EXAMPLE...



The Details

Consider 2008-09 workers' compensation claims, which have dates of loss between 7/1/08 and 6/30/09.

- At 6/30/09 (@1 year of development), there were 100 **closed** claims, each of which cost \$5,000, total value \$500,000
- At 6/30/09 (@ 1 year of development), there were 5 **open** claims, whose total value was \$193,421
- Total Reported Losses at 6/30/09 = \$500,000 + \$193,421 = \$693,421

Open Claim # 1

Joe, a city employee was delivering office supplies on a city-owned bicycle, when he ran into a dumpster. Bystanders then threw Joe into the dumpster.

- @ 6/30/09, medical expenses/lost wages, value \$8,421
- @ 6/30/10, more medical expenses and claim closed, final value \$13,309
- @ 6/30/11, claim still closed, value \$13,309
- @ 6/30/12, claim still closed, value \$13,309
- @ 6/30/13, claim still closed, value \$13,309

Open Claim # 2

Sally was walking on the roof of a city building, trips and falls to the first floor roof, then gets up and trips again, falling to the ground, landing on Joe, the office supply delivery guy.

- @ 6/30/09, medical expenses, value \$55,000
- @ 6/30/10, surgery needed, value \$205,000
- @ 6/30/11, more medical, value \$330,000
- @ 6/30/12, expenses added, value \$380,000
- @ 6/30/13, Sally not an employee, claim closed for expenses incurred only, final value \$49,664

Open Claim # 3

Joe, the office supply delivery guy, was biking in front of a city building, when Sally fell off the building, landing on Joe.

- @ 6/30/09, medical expenses, value \$40,000
- @ 6/30/10, lower medical, value \$5,000
- @ 6/30/11, bike was Joe's and being used on personal time, claim closed for expenses incurred only, final value \$216
- @ 6/30/12, claim still closed, value \$216
- @ 6/30/13, claim still closed, value \$216

Open Claim # 4

George, a public works employee, has a tree limb fall on him while doing maintenance, hurting his back and destroying Joe's bicycle which George was standing on at the time.

- @ 6/30/09, wages and medical, value \$50,000
- @ 6/30/10, more medical, value \$100,000
- @ 6/30/11, more medical, value \$130,000
- @ 6/30/12, claim closed, value \$165,136
- @ 6/30/13, claim still closed, value \$165,136

Open Claim # 5

Frank, a peace officer, becomes addicted to donut holes, rendering him unable to work and function in society. Claim is compensable for peace officers under the “Donut Presumption”. Joe now works at the donut shop.

- @ 6/30/09, wages and medical, value \$40,000
- @ 6/30/10, no change, value \$40,000
- @ 6/30/11, no change, value \$40,000
- @ 6/30/12, no change, value \$40,000
- @ 6/30/13, adjuster realizes misplaced decimal point, claim still open, value \$400,000

Let's Add It All Up – After 1 Year...

	<u>@ 1 Year</u>
Closed	500,000
Claim # 1	8,421
Claim # 2	55,000
Claim # 3	40,000
Claim # 4	50,000
Claim # 5	40,000
Total	693,421

Let's Add It All Up – After 2 Years...

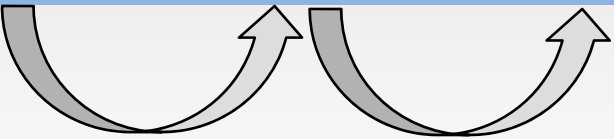
	<u>@ 1 Year</u>	<u>@ 2 Year</u>
Closed	500,000	500,000
Claim # 1	8,421	13,309
Claim # 2	55,000	205,000
Claim # 3	40,000	5,000
Claim # 4	50,000	100,000
Claim # 5	40,000	40,000
Total	693,421	863,309



+ \$170K

Let's Add It All Up – After 3 Years...

	<u>@ 1 Year</u>	<u>@ 2 Year</u>	<u>@ 3 Year</u>
Closed	500,000	500,000	500,000
Claim # 1	8,421	13,309	13,309
Claim # 2	55,000	205,000	330,000
Claim # 3	40,000	5,000	216
Claim # 4	50,000	100,000	130,000
Claim # 5	40,000	40,000	40,000
Total	693,421	863,309	1,013,525



+ \$170K



+ \$150K

Let's Add It All Up – After 4 Years...

	<u>@ 1 Year</u>	<u>@ 2 Year</u>	<u>@ 3 Year</u>	<u>@ 4 Year</u>
Closed	500,000	500,000	500,000	500,000
Claim # 1	8,421	13,309	13,309	13,309
Claim # 2	55,000	205,000	330,000	380,000
Claim # 3	40,000	5,000	216	216
Claim # 4	50,000	100,000	130,000	165,136
Claim # 5	40,000	40,000	40,000	40,000
Total	693,421	863,309	1,013,525	1,098,661

+ \$170K

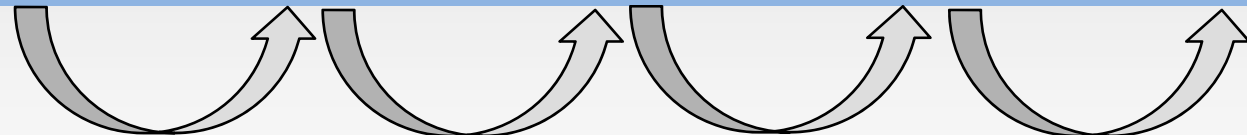
+ \$150K

+ \$85K

Let's Add It All Up – After 5 Years...

THIS IS LOSS DEVELOPMENT !

	<u>@ 1 Year</u>	<u>@ 2 Year</u>	<u>@ 3 Year</u>	<u>@ 4 Year</u>	<u>@ 5 Year</u>
Closed	500,000	500,000	500,000	500,000	500,000
Claim # 1	8,421	13,309	13,309	13,309	13,309
Claim # 2	55,000	205,000	330,000	380,000	49,664
Claim # 3	40,000	5,000	216	216	216
Claim # 4	50,000	100,000	130,000	165,136	165,136
Claim # 5	40,000	40,000	40,000	40,000	400,000
Total	693,421	863,309	1,013,525	1,098,661	1,128,325



+ \$170K

+ \$150K

+ \$85K

+ \$30k

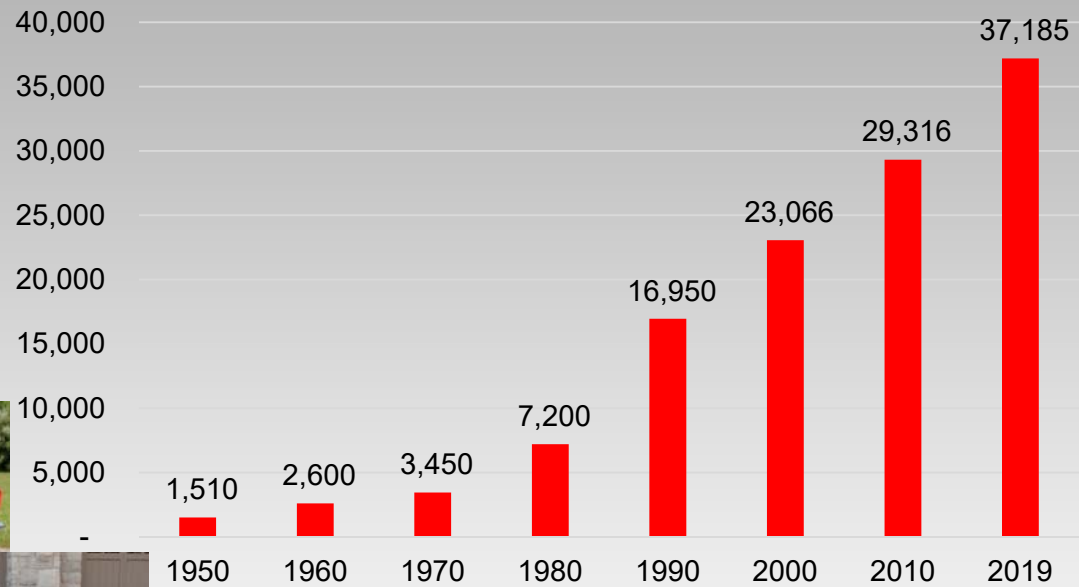
This is why closing claims earlier results in lower costs 😊

Inflationary Trend

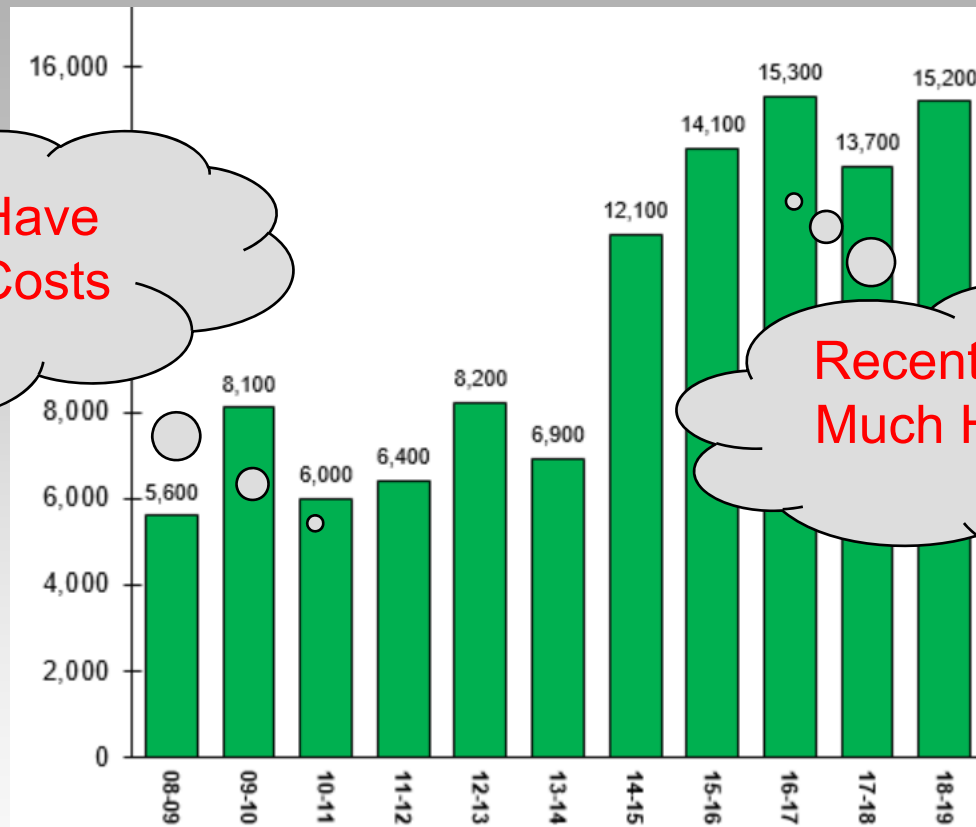


Inflation Example... Price of a New Car

New Car Prices



A Claims Example...WC Average Cost Per Claim



Older Years Have Much Lower Costs

Recent Years Have Much Higher Costs

Trended Losses

- Total cost of claims occurring in an old year, if all those claims were to happen next year.



- Literally, Back to the Future!

- Reflects Inflation

Inflation

It's Not That Bad...Is It??

Prices Are High



But...Some Prices Are Decreasing



Emphasize Stability



Put A Positive Spin on Increases



To combine data from different years, we have to adjust them so they are comparable!

Close The Claim Already...



Ways to Close a Claim

Administrative Close - Nothing is happening, so close the file...



Stipulated Settlement – Make the indemnity stop...



Compromise and Release – Make the indemnity AND medical stop...



Ways to Close a Claim

Administrative Close - Nothing is happening, so close the file...

Closing a File with No Award or Settlement may be a good idea when:

1. The claimant is not receiving treatment & is doing relatively well medically
2. The claimant is working with a new employer and not actively pursuing the old injury claim

Closing a File with No Award or Settlement may not be a good idea when:

1. Some injuries get Worse With Time – e.g. Chronic conditions, diabetes, severe obesity
2. The claimant is receiving treatment but not submitting medical bills for payment

Stipulated Settlement – Make the indemnity stop...

Closing a File by Stipulated Award with Open Medical Care may be a good idea when:

1. You are at or beyond the 5 year point to Petition to Reopen, and the PD may get worse
2. Future medical costs are high and in dispute, and the claimant is not expected to live long
3. Paying a Large Permanent Disability Award over time is preferred because
 - a. PD Award and Life Pension too high to pay now
 - b. Claimant may improve – Petition to Reduce Award possible

Ways to Close a Claim

Compromise and Release – Make the indemnity AND medical stop...

1. Aggressive & Early C&R Negotiations Can Pay Off

- a. Closing a claim early before the Claimant digs into their “illness” and is ready to make their life all about their injury and litigation
- b. Claimant may prefer to avoid the lengthy hassle of litigation

2. Approach and Attitude are Important to Close Claims by Compromise and Release

- a. Non-Litigated – make the Claimant feel understood, convince them of the benefit of moving on, removing the “cement backpack”
- b. Attorneys Like to Fight - approaching the litigated claim with empathy for the claimant, and cooperation to help the claim to conclusion, can pay off with early and reasonable C&R settlements
- c. Have the Mind of a Mediator - from the start of the claim to conclusion, keep in mind a goal to move the claim to closure, including:
 - (1) Provide early, appropriate treatment
 - (2) Ask Treating Physicians for early Permanent & Stationary reports
 - (3) Early AME or QME Evaluation pushing for Permanent & Stationary status

Finally Closed...

So when we close a claim, we have to worry about it, right?



Re-Opened Claims

Occasionally, WC claims are reopened after closure...ugh...



Full Employment for Actuaries, Adjusters, and Lawyers !!

Workers' Compensation *The Gift That Keeps On Giving!*



The Analysis...

$$\begin{aligned}\int_0^x \phi_U(vt)dv &= \frac{1}{it} \left[\left(1 - \frac{ixt}{r}\right)^{-r} - 1 \right] \\ &= \frac{1}{it} \left[\left(1 - \left(\frac{xt}{r}\right)^2\right)^{-r/2} e^{ir \arctan(xt/r)} - 1 \right] \\ \int_0^x \phi_U(-vt)dv &= \frac{1}{it} \left[1 - \left(1 + \frac{ixt}{r}\right)^{-r} \right] \\ &= \frac{1}{it} \left[1 - \left(1 + \left(\frac{xt}{r}\right)^2\right)^{-r/2} e^{-ir \arctan(xt/r)} \right]\end{aligned}$$



Actuary = Person - Personality

Actuary = Calculator + Pulse

The Data and Adjustments

- Started with large WC claims database (over 100,000 claims)
- Excluded the following
 - Info Only Claims
 - First Aid Claims
 - Medical Only Claims
 - Claims for former members
- Nearly 40,000 historical claims remaining from which to do the analysis
- Developed all claims to ultimate (Loss Development)
- Trended all claims to current cost levels (Inflationary Trend)

Methodology

- Compared claims costs of C&R settlements to other types of settlements.
- Grouped claims into permanent disability rating group. (Comparing claims of similar seriousness)
- Compared the following
 - All claims
 - Large claims (\$100K+)
 - Cost Type (Indemnity, Medical, Expenses)
 - Department (Police, Fire, Non Safety)
 - Injury Type (Sprain/Strain, Other)
 - Time Period (Latest 10 Years and Older Claims)

The Results

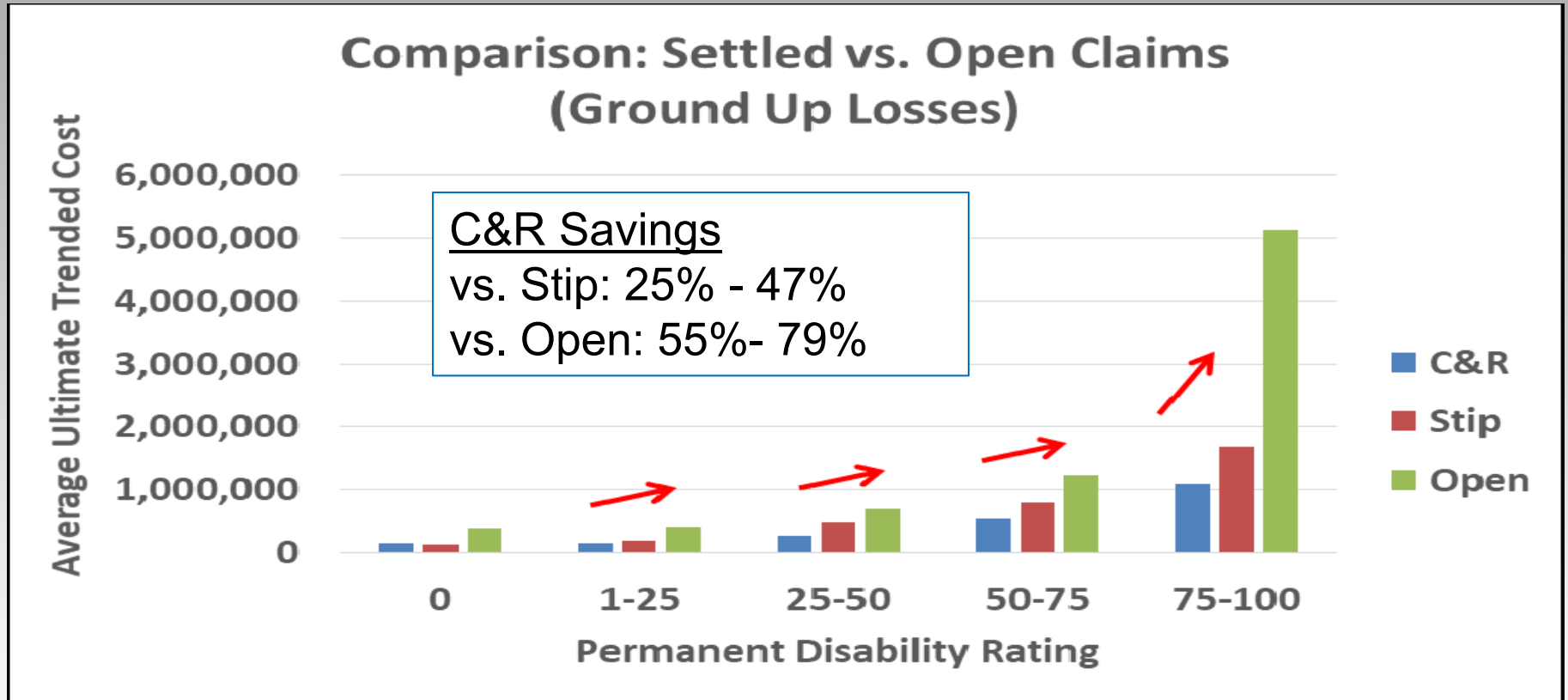


Main Findings

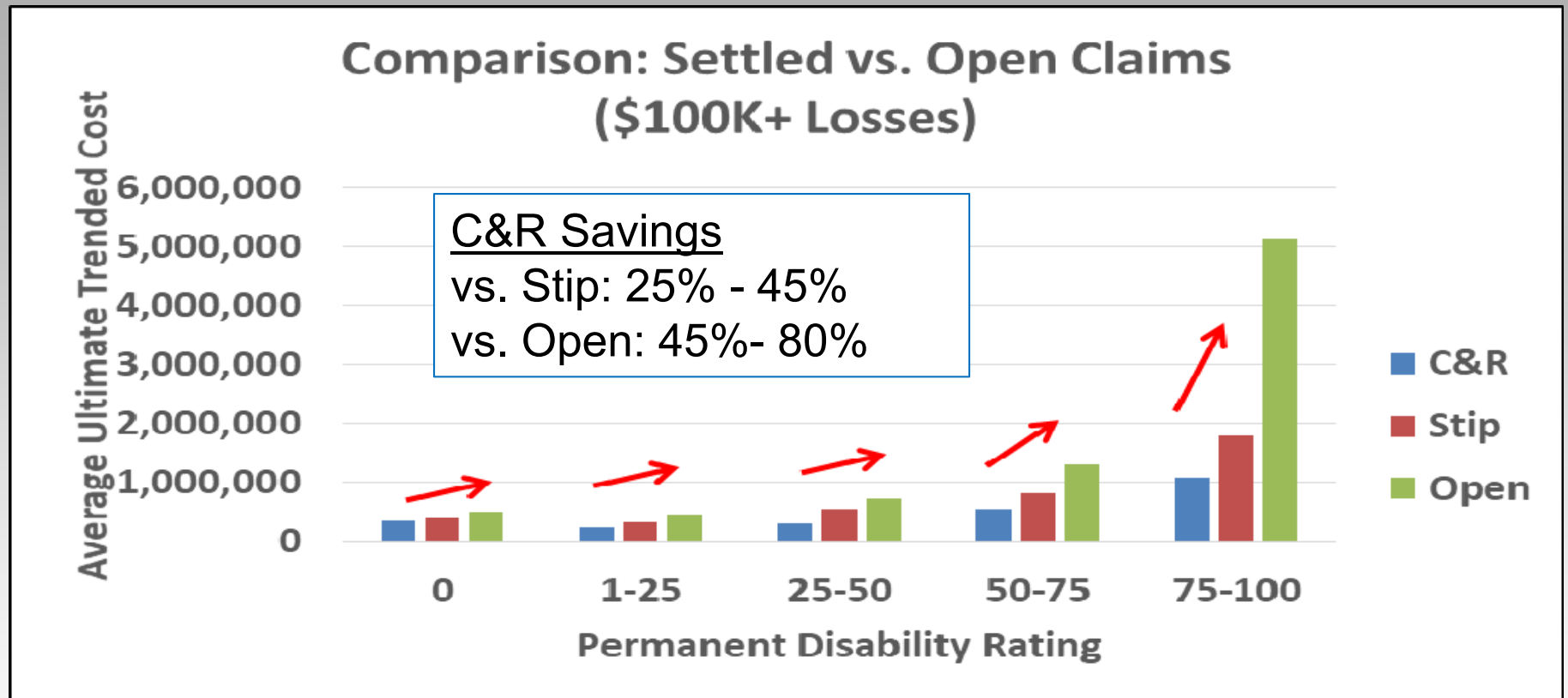
- Overall Savings C&R
 - vs. Stipulated Settlements: 25% - 47%
 - vs. Open Claims: 55% - 79%
- C&R Savings across many “slices” of data



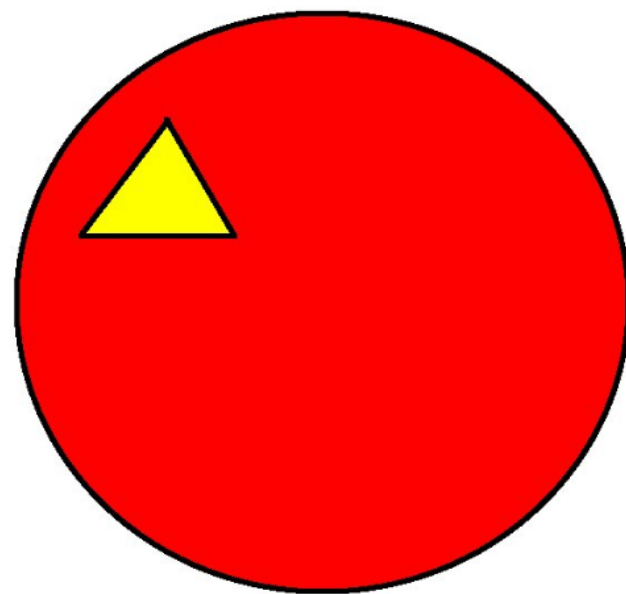
Cost of Settled vs. Open Claims – All Claims



Cost of Settled vs. Open Claims – Large Claims (\$100K+)



Understanding Pie Charts

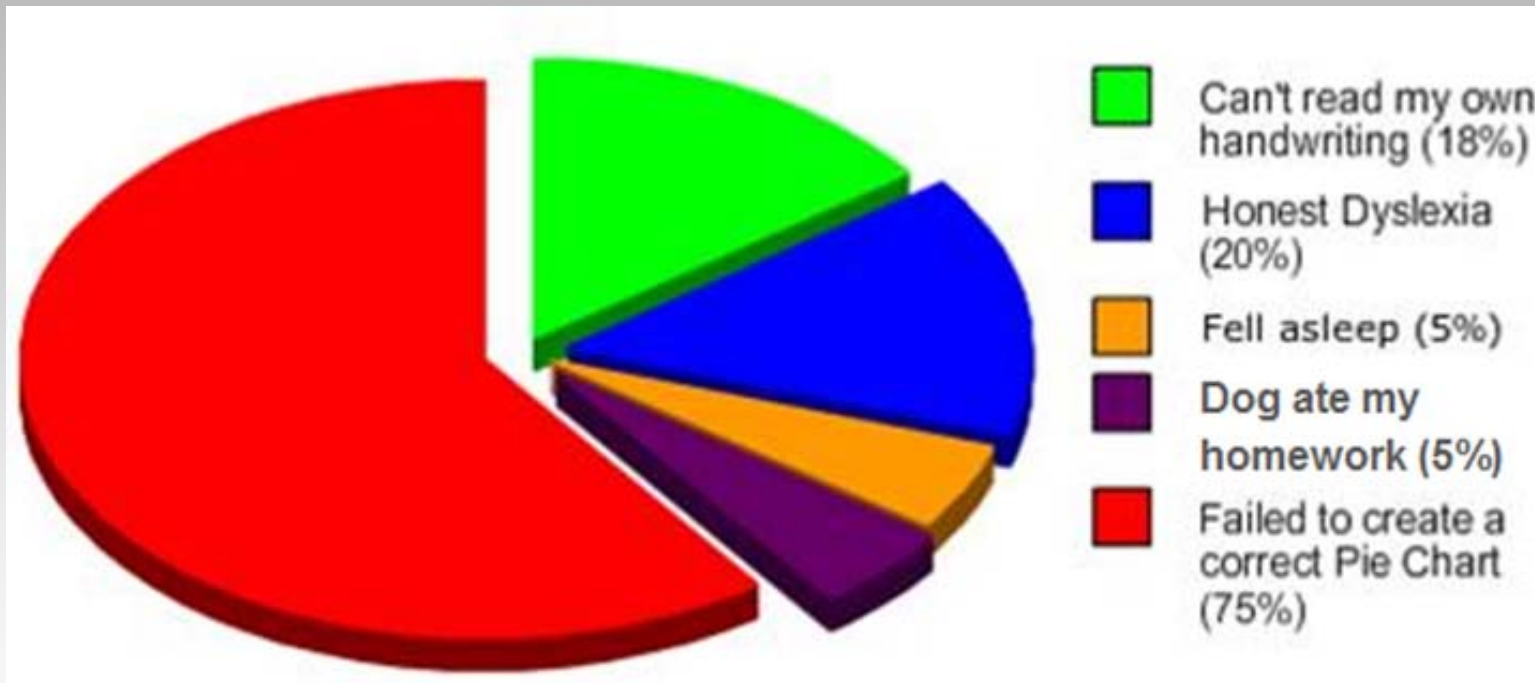


People Who Understand
Pie Charts

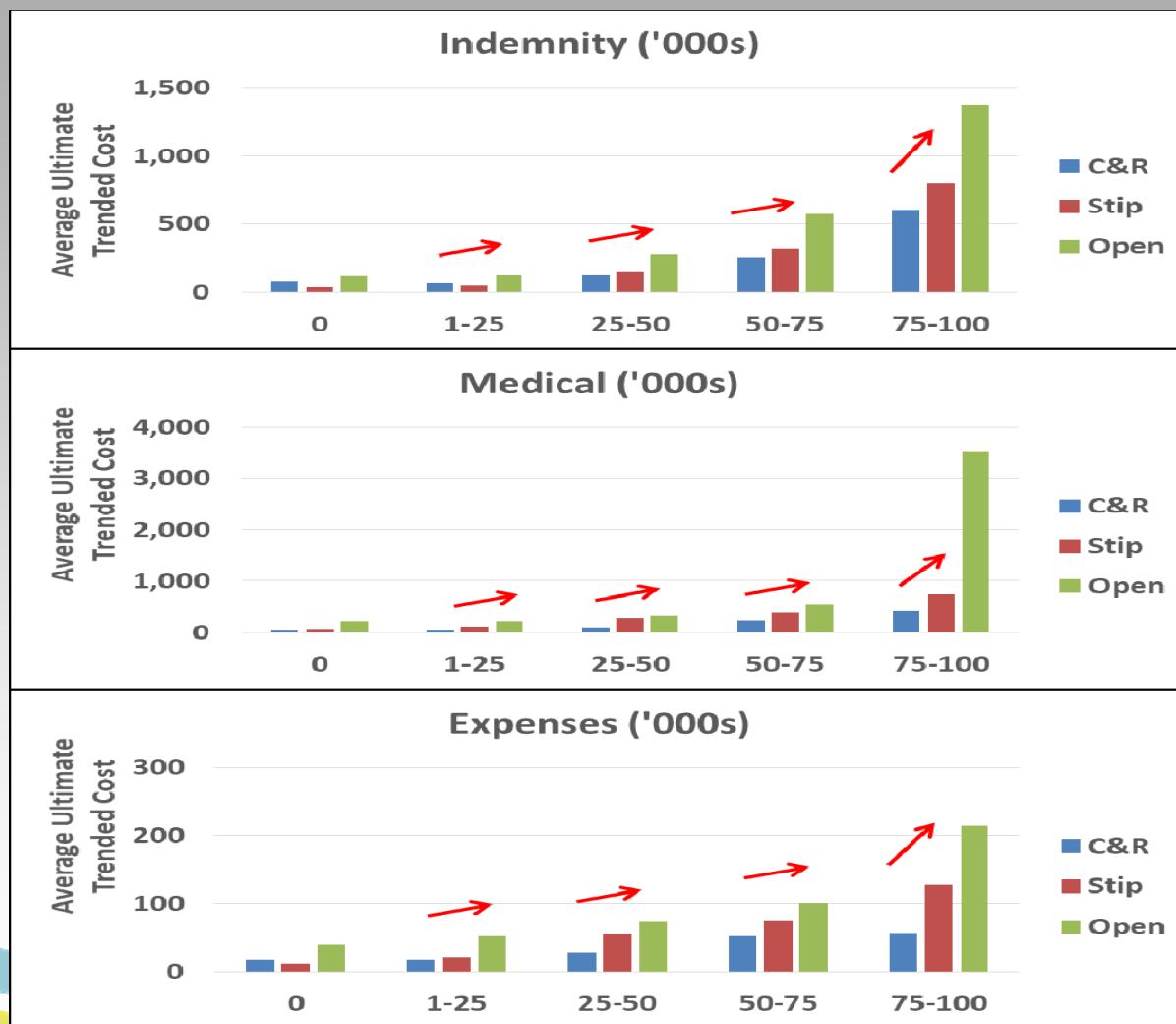


People Who Do Not
Understand Pie Charts

Why I Failed The Math Test



Cost of Settled vs. Open Claims – Cost Type



C&R Savings

vs. Stip: 0% - 25%

vs. Open: 50%- 55%

C&R Savings

vs. Stip: 40% - 65%

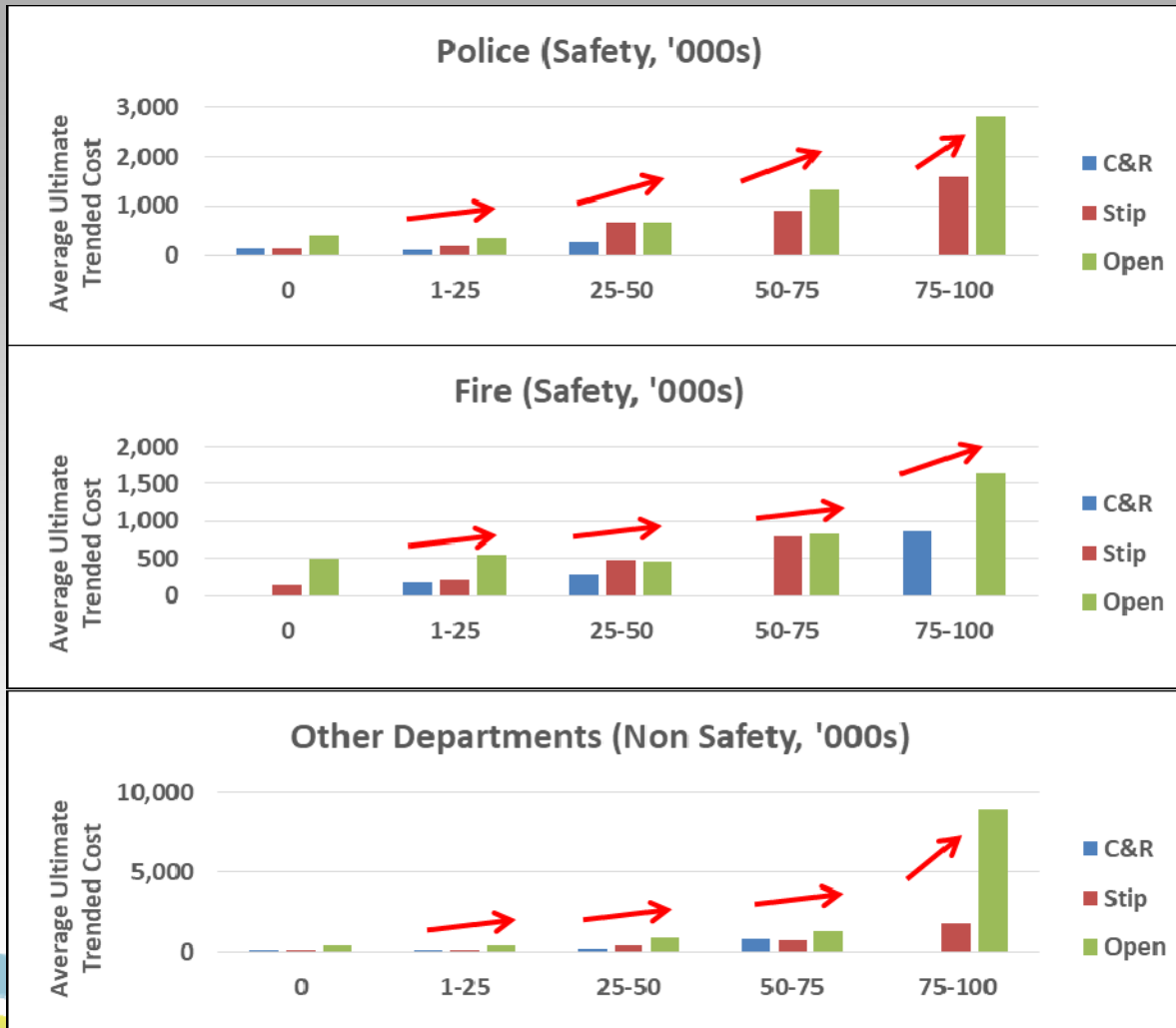
vs. Open: 55%- 90%

C&R Savings

vs. Stip: 20% - 55%

vs. Open: 50%- 75%

Cost of Settled vs. Open Claims – Department



C&R Savings

vs. Stip: 40% - 60%
vs. Open: 60%- 65%

C&R Savings

vs. Stip: 20% - 40%
vs. Open: 40%- 65%

C&R Savings

vs. Stip: 0% - 40%
vs. Open: 40%- 70%

Cost of Settled vs Open Claims - Department

Police, Fire & Other Department Types – makes a difference

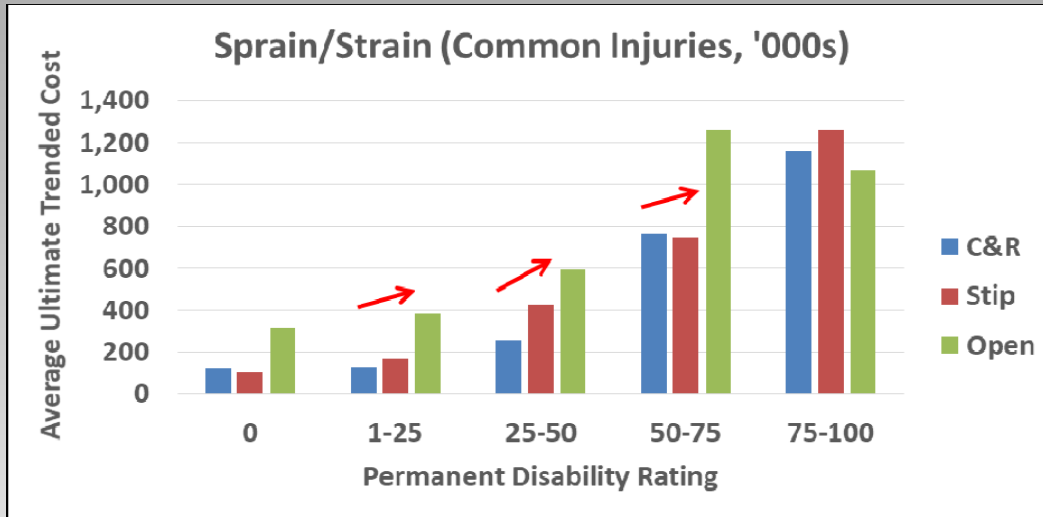
1. Police & Fire Safety Officers

- a. Injuries are an Expected and Part of a Safety Officer's Job
- a. Costs associated with Training and Lost Time for Safety is High
 - (1) Academy and Post-Academy Training
 - (2) Value to your Constituents for Experienced Safety Officers
 - (3) LC 4850 and Overtime to cover Lost Time
- b. Safety Officers Should Want to Recover and RTW
 - (1) Most officers are dedicated to their work, if not . . .
 - (2) Injuries are a part of a safety officer's job – be sure they understand they will be supported and cared for if hurt

2. Non-Safety Departments

- a. Watch Out for Problem Departments –
 - (1) Some Departments Inherently Difficult –
e.g. Social Services, Maintenance
 - (2) Education and Management Training can help reduce a culture within problem departments of extended injury litigation and entitlement
 - (3) Psyche Claims can be a symptom of bad management within the Department

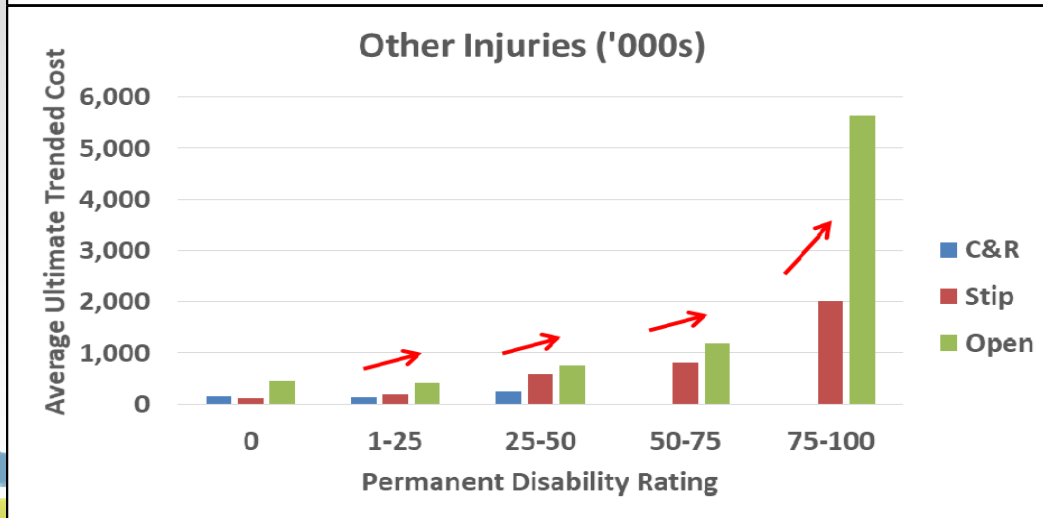
Cost of Settled vs. Open Claims – Injury Type



C&R Savings

vs. Stip: 0% - 40%

vs. Open: 0%- 65%

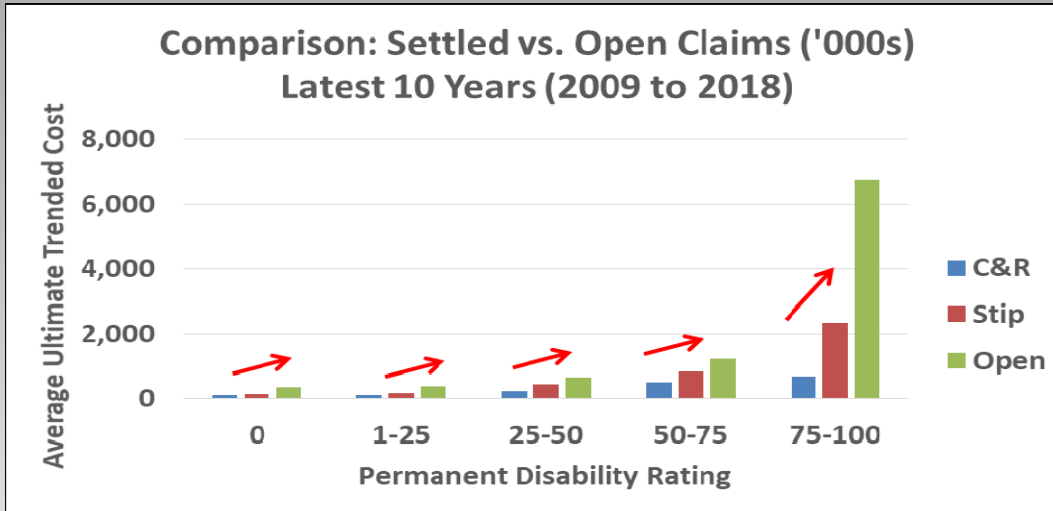


C&R Savings

vs. Stip: 25% - 55%

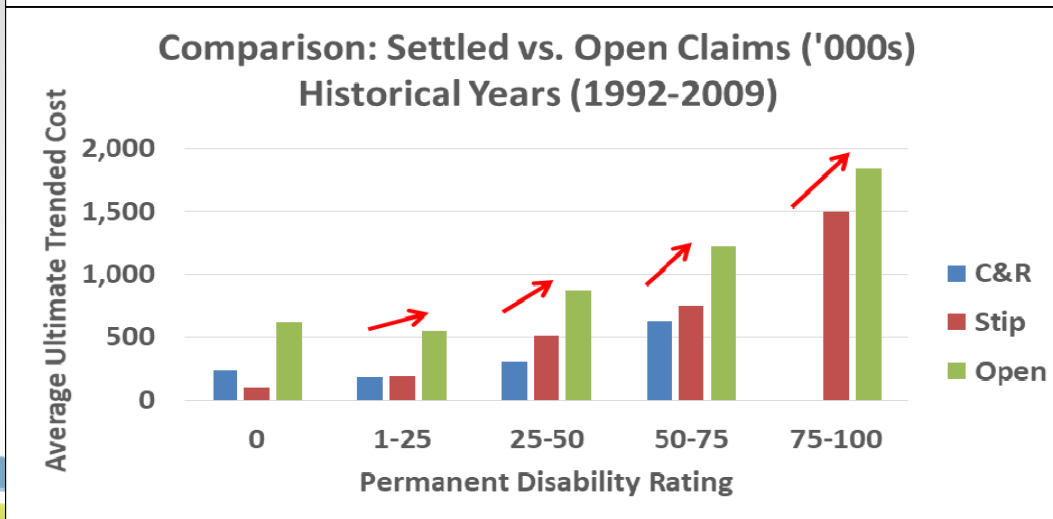
vs. Open: 60%- 65%

Cost of Settled vs. Open Claims – Time Period



C&R Savings

vs. Stip: 30% - 70%
vs. Open: 60%- 90%

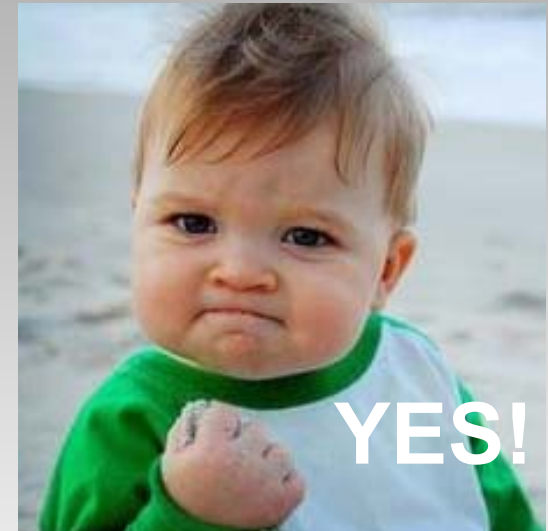


C&R Savings

vs. Stip: 5% - 40%
vs. Open: 50%- 65%

Recap

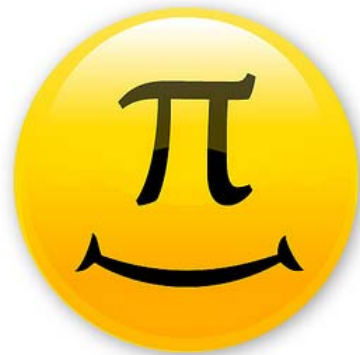
- Significant Savings for C&R
 - vs. Stipulated Settlements
 - vs. Open Claims
- C&R Savings for all subgroupings
 - Claim Size
 - Cost Type (Indemnity, Medical, Expenses)
 - Department (Police, Fire, Non Safety)
 - Injury Type (Sprain/Strain, Other)
 - Time Period (Latest 10 Years and Older Claims)



Math Questions ??

Ask an Actuary !

Call 1-800-[(10x)²-2x+34]



Have an
Irrational Day
3.14

