



ANALYSIS OF LEGISLATIVE CONCEPT 697

As Drafted on July 6, 2016

NCCI estimates that changes proposed in Legislative Concept 697 (LC 697), if introduced and ultimately enacted, may impact Oregon workers compensation system costs by +2.5% (\$17M)¹.

Summary of Proposed Changes

LC 697 proposes the following changes to Permanent Total Disability (PTD) and Permanent Partial Disability (PPD) benefits:

- Increase the basis for determining PPD impairment benefit from 100% of the State Average Weekly Wage (SAWW) to 133% of the SAWW
- Increase the minimum PTD weekly benefit from the lesser of \$50 or 90% of the workers' wage to 33% of the SAWW
- Increase the maximum PTD weekly benefits from 100% of the SAWW to 133% of the SAWW

There is no explicit effective date included in the proposal. NCCI has assumed an effective date of January 1, 2018 for this analysis.

Actuarial Analysis

Permanent Partial Disability Benefits

Currently in Oregon, injured workers who are eligible for PPD benefits receive an impairment benefit and, in some cases, work disability benefits. The impairment benefit is calculated as the product of the impairment percent (multiplied by 100) and the SAWW. The work disability benefit is an additional benefit awarded to injured workers who have not been released to return to work or have not returned to regular work.

LC 697 proposes to increase the basis of the impairment benefit portion of PPD benefits from 100% of the SAWW to 133% of the SAWW. This change is expected to increase PPD impairment benefit costs by 33% $[(133\% / 100\%) - 1]$. No change is proposed to the work disability portion of PPD benefits. NCCI estimates that impairment benefits comprise

¹ Overall system costs are based on NAIC Annual Statement data. The estimated dollar impact is the percentage impact(s) displayed multiplied by 2015 written premium of \$679M from NAIC Annual Statement data for Oregon. This figure does not include self-insurance, the policyholder retained portion of deductible policies, or adjustments for subsequent changes in premium levels. The use of premium as the basis for the dollar impact assumes that expenses and other premium adjustments will be affected proportionally to the change in benefit costs. The dollar impact on overall system costs inclusive of self-insurance is estimated to be \$21M, where data on self-insurance is approximated using the National Academy of Social Insurance's October 2016 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2014."

CONTACT: JESSICA EPLEY
Telephone: (503) 892-8919 • Cell (360) 904-7315 • Fax: (561) 893-5704
E-mail: Jessica_Epley@ncci.com

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approximately 24%² of indemnity PPD injury costs in Oregon; therefore, such an increase in impairment benefits would result in a direct impact of +7.9% (= +33% x 24%) on indemnity PPD claim costs. As indemnity PPD claim costs account for approximately 31.4%³ of total benefit costs in Oregon, the direct impact on total system costs due to the proposed change to PPD benefits is estimated to be +2.5% (= +7.9% x 31.4%), if introduced and ultimately enacted.

Studies⁴ indicate that significant benefit increases are typically accompanied by changes in claimant behavior resulting in increased claim filings and an increase in the associated indemnity benefits. The cost impact of such behavioral changes is known as utilization. The changes proposed to impairment benefits in LC 697, however, are not expected to have a notable effect on claimant behavior and therefore no provision is included for utilization in this analysis.

Permanent Total Disability Benefits

Under Oregon statutes, injured workers eligible for PTD benefits receive 66 2/3% of their weekly wage, subject to a maximum of 100% of the SAWW and a minimum of either 90% of their weekly wage or \$50, whichever is less. LC 697 would raise the minimum benefit to 33% of the SAWW and would also increase the maximum benefit cap to 133% of the SAWW. The benefit rate would remain at 66 2/3% of the worker's pre-injury average weekly wage, subject to the specified minimum and maximum boundaries.

NCCI estimates that this proposed change would result in an impact of +2.6% on PTD benefit awards⁵. As indemnity PTD benefits make up approximately 0.7% of total benefit costs in Oregon, the direct impact on WC system costs in Oregon is expected to be less than +0.1% (= +2.6% X 0.7%). Note that changes in utilization are not expected to apply to PTD benefits.

NCCI estimates that the PPD and PTD changes proposed in LC 697, if introduced and ultimately enacted, may impact Oregon workers compensation system costs by +2.5% (\$17M).

² Based on data from the Oregon Department of Insurance and Finance for accidents occurring between 1/1/2008 and 12/31/2012 and the assumption that a majority of the dollars associated with claim disposition agreements are for work disability benefits

³ Based on NCCI Workers Compensation Statistical Plan data for Oregon for policies becoming effective between January 2011 and December 2012, and NCCI Financial Call data for Oregon for Policy Years 2012 and 2013, projected to 1/1/2018

⁴ For example: Moss, Robert., Pistole, Ashley., Ritter, Bruce. "Impact on Utilization From an Increase in Workers Compensation Indemnity Benefits" (National Council on Compensation Insurance, 2009)

⁵ In Oregon, PTD benefits are offset, to some extent, by Social Security Disability Insurance (SSDI) benefits received. This had the impact of mitigating the potential increase in PTD benefit costs contained in the proposal.

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