

Delaware Compensation Rating Bureau, Inc.



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Delaware Compensation Rating Bureau, Inc.

**Trends in Experience – December 1, 2007 Loss Cost Filing and Bureau Filings in
Response to Selected Provisions of Senate Bill 1 of 2007**

Questionnaire for Leading Carrier Groups

The Bureau's work toward the December 1, 2007 Loss Cost Filing is presently in the process of data collection and assembly. Senate Bill 1, signed into law in January 2007, includes requirements that the Bureau submit rating value filings within specified time frames after the promulgation of a new "health care payment system" (essentially a medical fee schedule) and "health care practice guidelines." Barring an unusual circumstance aligning the effective dates of one of SB 1's required filings with the Bureau's normal annual rating value filing, the filings mandated by SB 1 will have separate and different effective dates from the annual (December 1, 2007) filing.

In order to supplement the quantitative information that we will ultimately have at our disposal for use in preparing these filings with observations arising from our members' participation in the Delaware workers compensation system on an ongoing basis, we are presenting a series of questions here for carrier consideration and response. A similar survey effort was conducted in support of our December 1, 2006 filing last year.

We have made our best effort to direct this questionnaire to a company representative who can knowledgeably complete it. In the event you know someone else in your company who would be better suited for that purpose, please forward the questionnaire to them and advise us who you sent it to, as well as providing an e-mail address for that individual.

It is imperative that responses be returned promptly and, in any event, not later than Friday, June 15, 2007. Replies should be sent to BOTH the following e-mail addresses:

twisecarver@dcrb.com

mdoyle@dcrb.com

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Summary of Carrier Responses to Questionnaire for Leading Carrier Groups
Trends in Experience – December 1, 2007 Loss Cost Filing and Bureau Filings in Response to
Selected Provisions of Senate Bill 1 of 2007

1. Bureau data from previous filings has shown substantial and persistent downward trends in claim frequency. The trends in question have been measured comparing indemnity claims to on-level expected losses, so that medical-only losses are excluded from the data, and shifts in employment between classifications and/or industry groups are recognized in the frequency calculations over time.

The December 1, 2006 Loss Cost Filing reflected an annual effective rate of decline in claim frequency of 6.7 percent. The December 1, 2007 filing will consider the most recent available data and develop appropriate projections for ongoing claim frequency changes through the mid-point of the proposed schedule of loss costs.

What has your group observed with respect to claim frequency in the period from 2002 to date?

Declining – 13
Flat – 2
Declining with recent acceleration – 1
No response – 4

To what do you attribute the changes you have seen?

Safety emphasis and/or incentives – 8
Book of business written – 5
Economic conditions – 3
Increased Productivity – 3
Workplace conditions (distinguished from safety measures per se) – 2
No response – 6

What do you expect claim frequency data for the period from 2006 through 2009 will show when that experience becomes available?

Declining – 6
Declining at a slowing rate – 6
Flat – 1
No response – 6

What factors do you think will cause the claim frequency experience you anticipate, and why?

Economic conditions - 4
Book of business written – 3
Maturation of previously-applied initiatives – 3
Continuation of past trends – 2
Safety emphasis and/or incentives – 2
Workplace conditions – (distinguished from safety measures per se) – 2
No response – 7

2. Bureau data from the December 1, 2006 Loss Cost Filing showed an increasing trend in indemnity claim severity, measured at approximately +4.5 percent per year. This trend was down appreciably from that measured in the previous annual rating value filing, which had been +6.6 percent per year.

What has your company seen in terms of changes in indemnity claim severity over the period from 2002 to date?

Increasing – 9
Flat – 3
Declining – 2
No response – 4

What factors do you find notable in terms of either controlling or increasing indemnity claim severity over this period of time?

Benefit administration system and procedures - 5
Book of business written – 4
Litigation – 4
Loss control measures – 2
Wage and benefit changes – 2
Workforce demographics – 2
Federal benefit programs - 1
No response – 5

What do you expect indemnity claim severity data for the period from 2006 through 2009 will show when that experience becomes available?

Increases – 11
Flat – 2
Declining – 1
No response – 5

What factor(s) do you think will be most important in contributing to the indemnity claim severity changes that you foresee, and why?

Wage and benefit changes – 4
Benefit administration system and procedures – 3
Economic conditions – 3
Litigation – 3
Book of business written – 2
Safety and loss control initiatives – 2
Federal benefit programs – 1
Maturation of previously-applied initiatives – 1
No response – 8

3. Bureau data from the December 1, 2006 Loss Cost Filing showed a medical claim severity trend of +10.1 percent per year. This trend was up appreciably from that measured in the previous annual rating value filing, which had been +8.2 percent per year.

What has your company seen in terms of changes in medical claim severity over the period from 2002 to date?

Increasing – 11
Flat – 2
Declining – 1
Limited, inconclusive data – 1
No response – 4

What factors do you find notable in terms of either controlling or increasing medical claim severity over this period of time?

Absence of a fee schedule and/or other cost containment provisions – 6
Utilization – 6
Price inflation – 5
Administrative initiatives – 1
Technological expansion of services – 1
Limited provider resources in market – 1
Continuation of prior trends – 1
Law changes – 1
Workforce demographics – 1
Limited, inconclusive data – 1
No response – 4

What do you expect medical claim severity data for the period from 2006 through 2009 will show when that experience becomes available?

Increasing – 10
Declining – 2
Increasing at slowing rate – 1
No response – 5

What factor(s) do you think will be most important in contributing to the medical claim severity changes that you foresee, and why?

Utilization – 6
Price inflation – 5
Recently enacted reforms – 4
Absence of fee schedule and/or other cost containment provisions – 2
Book of business written – 1
Technological expansion of services – 1
Reserve adjustments – 1
Limited availability of providers and/or treatment facilities – 1
No response – 7

4. While possessed of a substantial body of data pertaining to the Delaware workers compensation market, Bureau staff is not exposed to or familiar with all aspects of the spectrum of analyses and research conducted by individual carriers as part of their competitive operation in the marketplace. We value any opportunity to learn more about the system for which we endeavor to establish pricing benchmarks that such independent work may provide.

What factors NOT mentioned in your responses to the above questions do you think will be significant drivers of loss cost experience in Delaware from 2006 through 2009?

Legislative changes – 5
Administrative processes – 1
Economy – 1
Wage inflation – 1
Utilization – 1
No response – 10

How do you think each of the factors identified in your response to Question 4 above will affect loss costs?

Decrease – 3
Increase- 2
No response – 13

5. On January 17, 2007 Senate Bill 1 was signed into law by Delaware Governor Ruth Ann Minner. Bureau Circulars No. 812 and 816 described and/or discussed this legislation in whole or in part.

Among the more important provisions of Senate Bill 1 are the authority for formation of a Health Care Advisory Panel charged with the responsibility of approving and proposing a "health care payment system" establishing maximum fees payable for medical treatment, goods and/or services provided to injured workers in workers compensation cases, and adopting and recommending a coordinated set of health care practice guidelines and associated procedures for use in conjunction with workers' compensation claims. Within 90 days after the establishment of both the health care payment system,

and again within 90 days after the subsequent establishment of health care practice guidelines, the Bureau is required to submit separate rating value filings reflecting the estimated effect of each of those provisions on workers compensation costs to the Delaware Department of Insurance.

The Bureau expects to be able to compare the maximum reimbursements provided under the health care payment system for a robust sample of the more numerous and important medical services, procedures and/or products with historical and prevailing payment amounts as a means of estimating the impact of the health care payment system on benefit costs.

What other and/or additional approaches might the Bureau consider as a means of estimating the costs or savings associated with the implementation of the health care payment system?

Reprice historical medical bills with new fee schedule – 3
Benchmark changes of costs to other state(s) – 3
Compare costs and/or averages before and after system change(s) – 3
Audit provider bills - 2
No response –7

For non-hospital services, Senate Bill 1 prescribes the approach to be used in establishing the health care payment system, which is generally required to set the maximum allowable payment at 90 percent of the 75th percentile of medical charges as of October 1, 2006. Hospital services are to be established at 85 percent of actual charges as of October 31, 2006. Various other specific approaches are prescribed for emergency treatments; Ambulatory Surgical Treatment Centers; pathology, laboratory and radiological services; pharmacy services, prescription drugs and durable medical equipment; and non-clinical services.

Please identify any pertinent data resources, other state systems with similar provisions to those set forth in Senate Bill 1 and/or related considerations that the Bureau might consider to advantage in attempting to evaluate the affect of the prescribed health care payment system on Delaware system costs.

Benchmark changes or costs to other state(s) – 7
Hire independent experts/consultants – 1
Re-price historical medical bills with new fee schedule – 1
Be alert to utilization changes – 1
No response – 10

Health care practice guidelines or other similar constructs are relatively new features in workers compensation systems, and the Bureau is aware of limited instances of comparative analyses or estimates of the effects of implementing such system features.

Please identify any pertinent data resources, methods of analysis and/or related considerations that the Bureau might consider to advantage in attempting to evaluate the affect of the health care practice guidelines on Delaware system costs once such guidelines have been published.

Benchmark changes or costs to other state(s) – 2
Compare closed claims costs before and after change – 1
Re-price historical medical bills with new fee schedule – 1
No response – 14

6. In its December 1, 2006 filing, the Bureau measured loss development patterns for paid and case-incurred losses separately for indemnity and medical benefits. For medical benefits, that analysis produced cumulative case-incurred loss development factors that were larger than their paid loss counterparts at some maturities.

Note: Some carriers, for which the relationships observed between paid and case incurred loss development in aggregate data were replicated in their own experience, were given data specific to their company or insurer group, and asked to provide insight into factors contributing to the observed relationships between paid and case incurred loss development. Other carriers were given statewide data and asked their opinions as to why the observed relationships might be occurring. All carriers were asked for suggestions that the Bureau might consider in performing its estimates of ultimate losses in light of the recent behavior of development patterns.

The questions and summaries shown following are composites of the questions posed to, and responses provided by, both groups of carriers.

What approach(es) would you suggest as most appropriate in resolving the anomalies noted in last year's Bureau filing and arriving at a best estimate of ultimate loss under those conditions?

Case reserve strengthening – 8
Issues of management of methodologies – 2
Volatile (small) database – 1
Large claims in data – 1
No response – 8

What approach(es) would you suggest as most appropriate in resolving these observed anomalies and arriving at a best estimate of ultimate loss?

Introduce new methodologies – 4
(Berquist-Sherman, Expected Emergence)
Extend experience period – 3
Modify development factor selections – 4
Review individual carrier data or other detail to locate case(s) of anomalies - 2
No response – 7

While the Bureau may develop broad summaries of these responses and make them available to participants in public policy discussions in Delaware, we will not disclose individual responses or attributions of such ideas without advance specific authorization of the responding carrier(s).

Thank you for providing your responses to these questions. Please provide the following identifying information with your reply:

- Carrier Group Name:
- Contact Person's Name:
- Contact Person's Title:
- Contact Person's Telephone Number:
- Contact Person's Preferred E-mail Address: