Workers' Compensation Insurance Oversight Report

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2014

Illinois Department of Insurance, Market Analysis Unit

INTRODUCTION

Revisions to the Illinois Workers' Compensation Act (820 ILCS 305/29) in the summer of 2011 require the Department of Insurance (Department) to annually prepare and submit to the Governor, the Chairman of the Commission, the President of the Senate, the Speaker of the House of Representatives, the Minority Leader of the Senate, and the Minority Leader of the House of Representatives a written report detailing the state of the workers' compensation insurance market in Illinois.

Section 29.2 of the Workers' Compensation Act, (Act) titled "Insurance Oversight" is organized into two distinct areas. Section 29.2(a) addresses issues and conditions primarily related to the overall market, while Section 29.2(b) of the Act addresses claims specific information reported by individual companies to the Department of Insurance. This report examines both aspects of the Illinois workers' compensation market.

MARKET SUMMARY

A total of 333 different insurance companies wrote a total of $2.7 billion in workers' compensation insurance premium in Illinois during 2013. At 333 different companies, Illinois had more insurers writing workers compensation in 2013 than any other state in the country. Pennsylvania ranked second with 332 companies and Tennessee was third with 327 different companies. A review of the nationwide workers' compensation market indicated that Illinois ranked third in written premium at 5.16 percent of the nationwide market, behind California (19.79 percent) and New York (9.98 percent).

Employer's that cannot obtain insurance through the voluntary insurance market may obtain coverage through the assigned risk market. There were a total of 27,334 assigned risk policies in force as of December 31, 2013. The assigned risk market share, defined as the percentage of assigned risk policies issued in Illinois to all workers' compensation policies issued in Illinois was 5.30 percent.

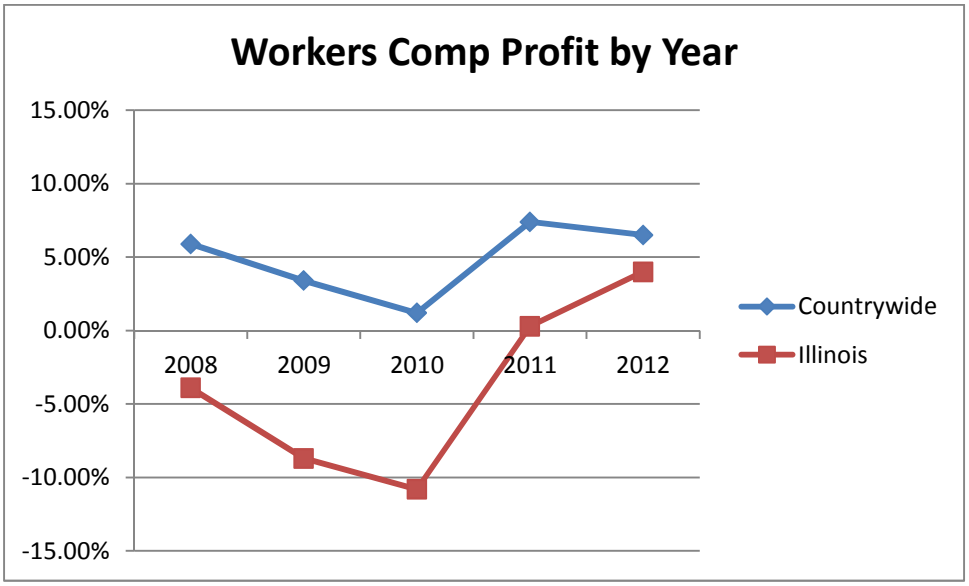
The National Council on Compensation Insurance (NCCI) files advisory rates on behalf of workers compensation insurers in Illinois. The advisory rates effective as of January 2015, are 18.1 percent lower than the 2011 advisory rate level, the year that significant workers' compensation reform legislation was enacted.

The estimated average voluntary manual rate for policies effective in 2013 was $2.32 and $4.82 for assigned risk. These estimates are calculated using a weighted average of NCCI advisory rates effective January 1, 2013, based on Illinois payroll. The payroll weighting was the latest available, based on policies effective between April 1, 2010, and March 31, 2011.

NCCI reports indemnity payments paid in Illinois during 2013 were approximately $820 million, down approximately $25 million from 2012. Medical payments totaled $650 million during 2013, up approximately $7 million from 2012. This information is based on NCCI Financial Call data from

those carriers reporting to NCCI on policies effective in 2013 and prior, for transactions occurring through December 31, 2013. This excludes data for large deductible policies; self-insured companies; underground coal mine and federal classes; excess policies; maritime and FELA classes for policies effective January 1, 2003, and subsequent; National Defense Projects Rating Plan; and Reinsurance assumed.

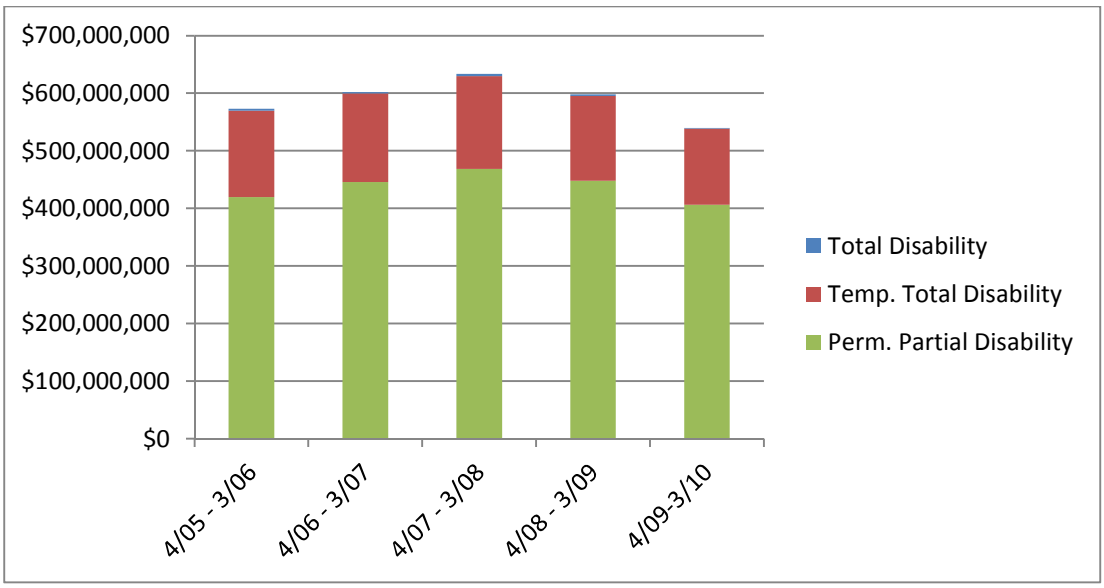
According to the National Association of Insurance Commissioners (NAIC), the workers' compensation market profit within Illinois grew to 4.0 percent in 2012, up from 0.3 percent during 2011. It should be noted that this profit was a reversal of the 10.8 percent loss experienced within the Illinois market during 2010. Profits slightly decreased on a national basis. The NAIC reported a profit of 6.5 percent for the nationwide market during 2012, compared to a 7.4 percent return during 2011. These figures are not yet available for 2013.



NAIC data also reflects a general improvement in the loss ratio for the workers' compensation market in Illinois. According to data collected by the NAIC, the loss ratio associated with the Illinois workers' compensation market dropped from 70.9% in 2012 to 59.2% in 2013. On a national basis, the loss ratio for the market remained stable in 2012 (64.6 percent) and 2013 (62.3 percent).

The following graph illustrates the amount of disability payments by type of disability. To compare year to year, payments are reported on a policy-year basis as of a 30 month maturity. For example, a total of $539,740,303 was paid in disability benefits for all policies issued between April 1, 2009, and March 31, 2010, as of September 30, 2012.

Indemnity Payment – at 30 Months Maturity



	4/05 - 3/06	4/06 - 3/07	4/07 - 3/08	4/08 - 3/09	4/09-3/10
Total Disability	$3,041,457	$2,347,612	$3,431,865	$2,622,053	$1,043,335
Temp. Total Disability	$150,209,960	$154,139,218	$161,304,785	$147,028,783	$132,754,480
Perm. Partial Disability	$419,632,851	$445,411,168	$468,630,618	$448,069,614	$405,942,488
TOTALS:	$572,884,268	$601,897,998	$633,367,268	$597,720,450	$539,740,303

ILLINOIS CLAIMS SUMMARY

As mentioned above, the Department collects claim specific data from individual Illinois workers' compensation insurers. Of the 333 companies, 13 insurers with small premium volumes requested and were granted an exemption from filing. The 2014 survey consisted of 25 different data elements as outlined in Section 29.2 of the Workers' Compensation Act. The experience period was as of January 1 through December 31, 2013. The following is a summary of this data.

- A comparison of the medical-only claims reported in 2013 to the 83,828 medical-only claims reported during 2012 indicates a decrease of 3.4 percent. Medical-only claims are defined as any request for recovery that was limited to medical expenses only.
- A total of 132,205 workers' compensation claims were opened during 2013, compared to 142,808 claims opened during 2012, a decrease of 7.42 percent.
- Of the 132,205 total claims, companies indicated that 80,958 (62.24 percent) were medical-only claims.
- The companies reported a total of 11,240 contested claims during the survey period. This number is virtually unchanged from the 11,629 contested claims reported during 2012. Contested claims are defined as any claim where resolution was delayed due to a dispute regarding policy language or litigation was involved.

- A total of 57,250 of the claims opened during the survey period included lost work by the insured claimant. A breakdown of these claims reveal
  - 31,248 (54.58percent) involved a loss of less than 3 working days
  - 9,268 (16.19 percent) involved a loss of between 3 and 14 working days
  - 16,734 (29.23 percent) involved a loss of greater than 14 working days

CONCLUSION

This 2014 report is hereby submitted pursuant to Sections 29.2 (a) and 29.2 (b) of the Workers' Compensation Act. The improvement in both profits and loss ratio within the workers' compensation market should be noted. The Department will continue to monitor the market in order to identify long-term trends of the overall workers' compensation market.

It should be noted that both the Department and insurers continue to address issues related to the collection of accurate information for several elements contained in this data call. All possible efforts are being taken to provide complete and meaningful results to the specific items outlined in the Act; however, the Department continues to have difficulties identifying any source or collection procedure capable of producing credible data for several of the topics within the Act.

The following table identifies and describes each data element included in the survey.

Data Field	**Data Definition**
Number of claims opened	A formal request for payment related to an event or situation that is covered under an in-force insurance policy received by the insurer during the survey period.
Number of reported medical-only claims	The number of claims that are opened during the survey period in which recovery was limited to medical expenses only.
Number of contested claims	The number of claims that are opened during the survey period in which resolution was delayed due to a dispute regarding policy language or litigation was involved.
Number of claims for which the employee has attorney representation.	The number of claims that are opened during the survey period in which the insurer has received notice that the insured has retained legal counsel.

Number of claims with lost time and Number of claims for which temporary total disability was paid.	a) The number of claims that are opened during the survey period in which the insured incurred time off of less than 3 working days. b) The number of claims that are opened during the survey period in which the insured incurred time off of between 3 and 14 working days. *c)* The number of claims that are opened during the survey period in which the insured incurred time off of greater than 14 working days.
Number of claim adjusters employed to adjust workers' compensation claims.	The total number of man-hours allocated to adjust workers' compensation claims received by the company during the survey period.
Number of claims for which temporary total disability was not paid within 14 days from the first full day off, regardless of reason.	The number of temporary total disability claims that are opened during the survey period in which temporary total disability benefits were not paid within 14 days from the first full day off, regardless of reason.
Number of medical bills paid 60 days or later from date of service and the average days paid on those paid after 60 days for the previous calendar year.	The total number of medical bills paid during the survey period where the time between the date of service and the date paid was greater than 60 days. and The average number of days for all claim payments identified above.
Number of claims in which in-house defense counsel participated, and total amount spent on in-house legal services.	The total number of claims in which internal defense counsel expenses were paid on, applied to, or associated with during the survey period. and The total amount of all internal defense costs associated with the above claims.
Number of claims in which outside defense counsel participated, and total amount paid to outside defense counsel.	The total number of claims in which external defense counsel expenses were paid on, applied to, or associated with during the survey period. and The total amount of all defense costs associated with the above claims.

Total amount billed to employers for bill review.	a) The total amount billed to employers for all medical bill review services provided by the insurer during the survey period. b) The total allocated expenses for bill review paid on behalf of employers for all medical bill review services during the survey period.
Total amount billed to employers for fee schedule savings.	The total amount of allocated expenses for all fee schedule review services provided by the insurer during the survey period.
Total amount charged to employers for any and all managed care fees.	The total amount of allocated expenses for all managed care fees provided by the insurer during the survey period.
Number of claims involving in-house medical nurse case management, and the total amount spent on in-house medical nurse case management.	The total number of claims in which internal medical nurse management expenses were applied to or associated with during the survey period, regardless of when the claim was opened. and The total amount of all internal nurse management expenses associated with the above claims.
Number of claims involving outside medical nurse case management, and the total amount paid for outside medical nurse case management.	The total number of claims in which external medical nurse management expenses were applied to or associated with during the survey period, regardless of when the claim was opened. and The total amount of all outside nurse management expenses associated with the above claims.
Total amount paid for Independent Medical Examinations.	The total amount paid for all independent medical exams by the insurer during the survey period.
Total amount spent on in-house Utilization Review for the previous calendar year.	The total amount of all internal Utilization Review expenses incurred by the insurer during the survey period.
Total amount paid for outside Utilization Review for the previous calendar year.	The total amount of all external Utilization Review expenses incurred by the insurer during the survey period.