

Mega-Trends Influencing the Workers' Comp Insurance Industry



By Linda Howell
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Source: Steven N. Weisbart, Ph.D. CLU, Vice President and
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INTRODUCTION



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Insurance actuaries and analysts devote a great deal of time to examining historical data and information. This combined with forward thinking and identification of anticipated trends often yields

great insight into future conditions. Businesses who recognize and are prepared to manage or capitalize upon these trends and conditions are those who gain competitive advantages in the marketplace and enjoy greater profitability over the long term.

Earlier this year, Dr. Steven Weisbart, Vice President and Chief Economist with the Insurance Information Institute, made a presentation entitled, "Mega-Trends Influencing the Workers Compensation Insurance Industry" at the 5th Annual National Workers' Compensation Insurance ExecuSummit in New York, New York.

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It is with Dr. Weisbart's permission that Midwest Employers Casualty Company is pleased to share the highlights of his presentation in this edition of our Self-Insurance Bulletin.

Of the mega trends presented, there are four that self-insured employers should understand.

These are:

1. Medical Claim Cost Inflation
2. Indemnity Claim Cost Inflation
3. The Aging Workforce
4. The Obesity Epidemic

Let's examine each of these four mega-trends in more detail.

MEGA-TREND #1 MEDICAL CLAIM COST INFLATION.

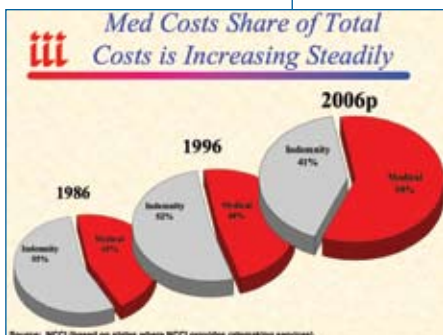
The first workers' compensation mega trend is rooted in the observation that workers' compensation medical severity

It is not surprising that medical costs as a percentage of total costs are increasing steadily. In 1986, medical costs comprised an estimated 45% of total costs; in 2006, medical costs accounted for 59% of total costs.

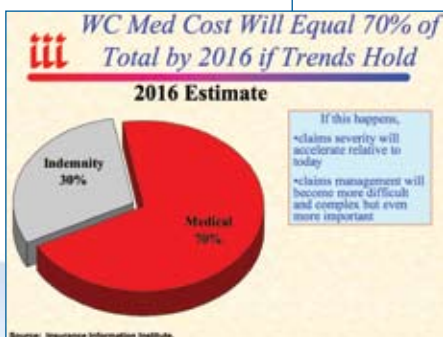
complex but will be more important than ever under these conditions.

MEGA-TREND #2 INDEMNITY CLAIM COST INFLATION.

The second workers' compensation mega trend is based on indemnity claim cost inflation. Workers' compensation indemnity claims costs have accelerated. According to NCCI, from 1991 to 1996, the annual change in indemnity claims costs was 1.2%; from 1997 to 2005, the annual change had increased to 6.6%. This resulted in a cumulative change of 108.5% during this timeframe. Workers' compensation indemnity severity is once again outpacing wage inflation.



is rising far faster than the medical consumer price index (CPI). Examining data from the U.S Bureau of Labor Statistics and the National Council on Compensation Insurance from 1995 to 2006, workers' compensation medical severity rose 8.8% versus 4.0%. This was more than twice as fast as the medical CPI.

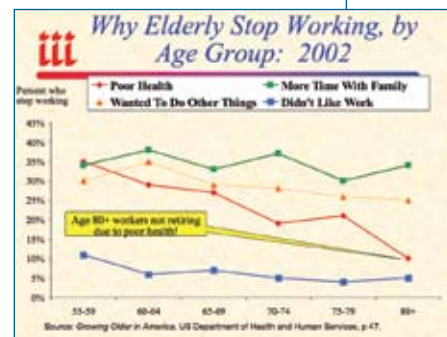


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that workers' compensation medical costs will equal 70% of total workers' compensation costs by 2016 if these trends continue. Claims management will become more difficult and

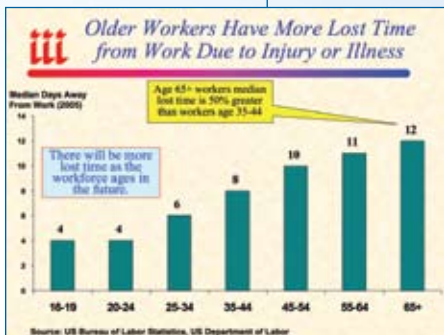
MEGA-TREND #3 THE AGING WORKFORCE

The third mega trend that bears watching is the impact of an aging workforce. Based on data from the U.S. Census Bureau, it is projected that there will be nearly as many +85 year old people in 2025 as there are 70-74 year old people today. The question becomes how does this mega-trend apply to workers' compensation.



The labor force participation rate for older workers is expected to grow in the future as seniors find they cannot fully retire on their retirement savings. The labor force participation rate for workers' 70 to 74 years of age has grown by about 50% since 1998 according to the U.S. Bureau of Labor Statistics, the U.S. Department of Labor and the Insurance Information Institute.

Information from the U.S Bureau of Labor Statistics, U.S. Department of Labor shows that

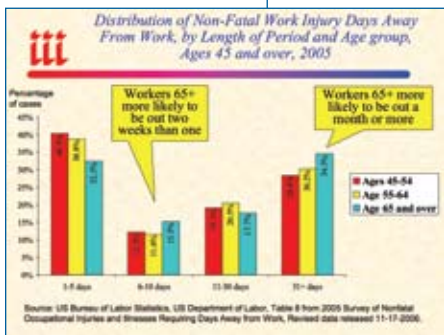


older workers have more lost time from work due to injury or illness. For example, the median lost time of workers over the age of 65 is 50% greater than workers between the ages of 35 to 44 years old. Statistics also show that the fatality rate for

workers 65 years of age and older is triple that of workers age 35 to 44. The workplace of the future will have to be completely redesigned to accommodate the surge in older workers.

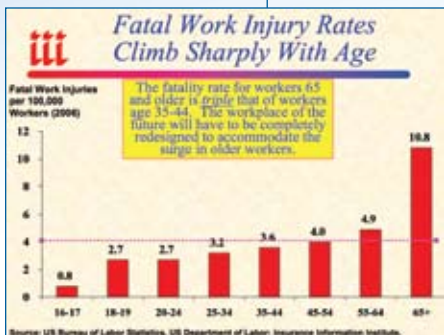
In addressing the aging workforce, businesses can expect little or no help from Medicare.

Medicare law has long specified that if workers



compensation is available, Medicare will pay nothing. Medicare will pay if costs remain after all workers' compensation medical benefits are exhausted. Furthermore, if Medicare does pay a bill, it has a right of recovery from the employer or workers'

compensation insurer. Medicare is worried that for workers who are covered by or eligible for Medicare, it will be stuck with costs shifted from



those responsible for paying workers' compensation costs. In those cases, Medicare will likely want to review and may disapprove workers' compensation settlements, if it believes there is insufficient workers' compensation money to pay for future medical costs.

This may align Medicare with workers and against employers and workers' compensation insurers.

Increased workers' compensation administration costs could be expected in this environment.

Another question centers on the effect workers' compensation claims would have on social security retirement income. When a social security disability income recipient reaches the full benefit retirement age, the disability benefit becomes a retirement benefit. Social security retirement income is not offset for workers' compensation indemnity payments. In essence, disabled workers age 66 and over could collect both. Many raise the question as to whether this creates a moral hazard.

MEGA-TREND #4 THE OBESITY EPIDEMIC.

The fourth mega trend that is currently and will continue to impact workers' compensation is U.S workers are becoming more and more obese. The Journal of the American Medical Association

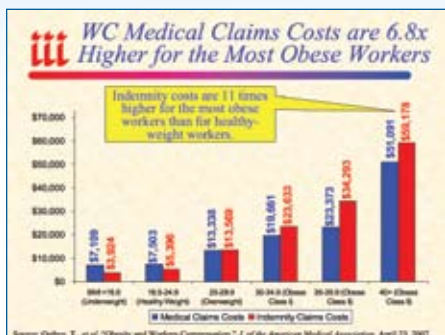
reported that extremely obese workers file twice as many workers' compensation claims as healthy-weight workers.

Similarly, obese workers have 13 times more lost workdays than healthy weight workers.

Indemnity costs are 11 times higher for the most obese workers than for healthy weight workers.

Wellness and lifestyle management programs are likely to





play an even more prominent role in the workplace in the future.

SUMMARY

In summary, trends in medical

and indemnity costs are worrisome. Preventing accidents and controlling costs through aggressive loss control and claims management must continue to play a predominant role within virtually all organizations. Of significant importance, the aging of the population and the obesity epidemic could cause workers' compensation claims to explode. Those employers who recognize these trends and

are prepared to manage these conditions are those who will succeed over the long term.

At Midwest Employers Casualty Company, we are prepared to work with employers to develop effective strategies aimed at combating these and other developing trends within the business environment. For a complete copy of Dr. Weisbart's presentation, "Mega-Trends Influencing the Workers' Compensation Insurance Industry," contact Dr. Weisbart at the Insurance Information Institute at 212.346.5540, stevenw@iii.org, or visit www.iii.org. For more information regarding how Midwest Employers Casualty Company can assist your organization, contact Steve Link at 1.877.WRK.COMP or via email at slink@mwecc.com.



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