

## Workers' Compensation Pure Premium Rate Questions and Answers

The Department of Consumer and Business Services recently announced a 5.9 decrease in the workers' compensation "pure" premium rate for 2009. The reduction marks the third straight year for a rate decrease and the 19th consecutive year with no rate increase.

### What is the pure premium rate?

The pure premium rate is the base rate employers pay to their insurance company for workers' compensation coverage. It reflects the actual cost of workplace injury and illness claims before insurance carriers' administrative expenses and profit are added. The 5.9 percent reduction represents an average across all types of businesses. Rates for specific businesses and industry groups may be higher or lower depending on group and individual claim experience.

### How does the department calculate the rate each year?

The department sets the pure premium rate based on a recommendation from the National Council on Compensation Insurance Inc. (NCCI). Based in Boca Raton, Fla., NCCI manages the nation's largest database of workers' compensation insurance information and prepares workers' compensation insurance rate recommendations for many states.

When making its rate recommendations, NCCI looks at various trends in Oregon claims experience and benefits to forecast "loss costs" – or the estimated cost of injury and illness claims.

### What is driving the pure premium rate decrease in 2009?

This year, NCCI forecasted a 5.9 percent decrease in Oregon's loss costs based on the fact that claims frequency and costs per claim are continuing to decline and medical costs are increasing but at a slower rate. Improvements in workplace safety have resulted in decreasing frequency and severity of claims. Workplace injury and illness rates in the state have declined more than 10 percent since 2004 and more than 50 percent since the late 1980s.

In addition, the Department of Consumer and Business Services has worked with management and labor to reduce claims costs by helping workers return to work faster, controlling medical costs, and several other initiatives. The following are some of the recent measures that have contributed to reduced workers' compensation costs:

- Pharmacy costs in the workers' compensation system have decreased since the Workers' Compensation Division introduced a new pharmacy fee schedule that encourages the use of generic drugs. Generic drugs now make up nearly 80 percent of prescriptions dispensed. In addition, recent decreases in drug prices and dispensing fees are expected to save \$3.6 million per year, 21.8 percent of pharmacy costs or more than 1 percent of total medical costs.
- The Workers' Compensation Division has made several recent enhancements to its return-to-work programs, which help injured workers return to work faster with good wages. The division has simplified the requirements for these programs, provided more flexibility, and streamlined

processes. As a result, the use of the Employer-at-Injury Program – the most widely used return-to-work program – has grown 30 percent during the past four years.

- The Workers' Compensation Medical Advisory Committee screens the use of new and experimental medical procedures, such as IDET back surgery and lumbar disc replacements, to ensure workers receive quality and cost-effective care.
- By piloting a Voluntary Coverage Assistance Program and making other changes, the department, NCCI, and insurers helped 492 small employers obtain coverage in the voluntary market instead of the assigned risk pool in 2007. Fewer employers in the assigned risk pool reduces the expense for the majority of employers in the voluntary market that subsidize the pool.

### **What is happening with worker benefits?**

Worker benefits have improved significantly in Oregon as costs have gone down. The following are examples of changes that have benefited workers:

- Benefits for permanent partial disability have increased between 600 and 800 percent since the late 1980s, depending on type of injury, and they now go up automatically as statewide wages increase, due to statutory changes in the past three legislative sessions.
- Oregon's benefits for time loss are now among the highest nationally.
- Workers who are permanently and totally disabled no longer lose their benefits even if they become able to work a few hours a week.
- The rate at which workers' claims are denied has held steady in the past 15 years and has declined slightly since 2002.
- Injured workers have more rights in the independent medical examination process, with the ability to contest the examination location, bring in an observer during the examination, and file complaints. The Workers' Compensation Division developed training and certified more than 400 independent medical exam providers in ethical and practice standards, and established procedures to investigate and address violations.
- Injured workers are receiving medical benefits more quickly. By using alternative dispute resolution, the Workers' Compensation Division has reduced the average time it takes to resolve medical disputes 57 percent since 2005.
- Payments to doctors for office visits have been increased, enabling doctors to more thoroughly manage injured workers' recovery and return to work.
- Workers have greater access to more types of providers, such as nurse practitioners, chiropractors, and others as a result of legislation passed in 2007.

### **Will the pure premium rate continue to decrease in upcoming years?**

Through the Management-Labor Advisory Committee, the Department of Consumer and Business Services continues to work with employers and workers to monitor the system and evaluate areas of potential improvement. The department also continues to work on improving workplace safety to keep injury and illness rates down.

However, the system remains susceptible to outside pressures, such as the increasing cost of health care, which could put upward pressure on the rates.

###