



## ANALYSIS OF GEORGIA HOUSE BILL 154 *Requested on February 11, 2013*

**NCCI has estimated that the provisions of Georgia House Bill (HB) 154 to limit medical treatment beyond 400 weeks for non-catastrophic injuries and to increase the maximum weekly wage replacement benefits would result in an impact on workers compensation system costs ranging from -4.4% (-\$45 million) to -2.6% (-\$27 million)<sup>1</sup>.**

**The proposed reduction in the discount and interest rates from 7% to 5% per annum for Georgia State Board of Workers' Compensation (Board) directed settlements and advance payments may have an impact on system costs in the state, but the magnitude is uncertain, though expected to be small. The other proposed changes not explicitly quantified are anticipated to have only a minimal impact, if any, on system costs. Altogether, any impact resulting from the enactment of the provisions not explicitly quantified would emerge over time and be reflected in subsequent NCCI filings in Georgia.**

This analysis is prospective in nature. For some claims occurring on or after July 1, 2013 the impact would be retroactive in nature, as policies outstanding on that day may not have contemplated these proposed changes in benefits.

### **Summary of Georgia HB 154**

The following provisions of HB 154 are expected to result in an impact on workers compensation system costs ranging from -4.4% to -2.6%.

- Limiting medical benefits beyond 400 weeks with exception to reasonably required benefits for injuries defined as catastrophic according to section 34-9-200.1(g) of the Georgia statute (i.e., permanent total disability claims)
- Increases the maximum weekly benefit for Temporary Total Disability (TTD) from \$500 to \$525
- Increases the maximum weekly benefit for Temporary Partial Disability (TPD) from \$334 to \$350

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<sup>1</sup> Overall system costs are based on NAIC Annual Statement data as provided by A.M. Best. The estimated dollar impact is the percent impact(s) displayed multiplied by A.M. Best 2011 written premium of \$1.03B for Georgia. 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 between \$-60M and \$-35M, where data on self-insurance is approximated using the National Academy of Social Insurance's August 2012 publication "Workers' Compensation: Benefits, Coverages, and Costs, 2010"



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Note that in Georgia, the weekly maximum benefit for all benefit types, except TPD, is tied to the TTD weekly maximum. No effective date is specified for the proposed changes related to the increase in wage replacements benefits. For the purposes of this analysis, NCCI has assumed an effective date of July 1, 2013 for these changes.

The following provision of the bill has not been quantified:

- A change in the interest rate used for both discounting Board directed lump sum settlements and calculating advance payments from 7% to 5% per annum

The following provisions of HB 154 are anticipated to have only a negligible impact, if any, on loss costs in Georgia:

- Shorten the mileage reimbursement payment schedule to 15 days from receipt of required documentation
- Quantify the minimum hourly work standard for the refusal of suitable employment

**Actuarial Analysis of HB 154**

**Limiting medical benefits to 400 weeks, except for catastrophic claims**

Currently, medical benefits for workers compensation injuries are provided as long as they are “reasonably required and appear likely to affect a cure, give relief, or restore the employee to suitable employment.”<sup>2</sup>

The Georgia Bill limits medical benefits to 400 weeks, unless the claim is of a catastrophic nature. In Georgia, there is a definition of the types of injuries that qualify as catastrophic<sup>3</sup>. The list includes serious bodily harm – loss of limbs, loss of sight, and loss of mental capacity, as well as burns and paralysis. Carriers report this data to NCCI using the permanent total disability (PTD) classification.

The ultimate savings from this portion of HB 154 would depend on what portion of losses associated with claims having long-term benefits would be considered catastrophic claims.

Additional attorney involvement may be expected if this language is enacted due to both potential legal challenges and possibly a greater number of injured workers seeking catastrophic status. The resultant cost savings may be lower by an indeterminate amount. NCCI’s cost

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<sup>2</sup> Georgia Statute 34-9-200

<sup>3</sup> Georgia Statute 34-9-200.1(g)



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impact analysis does not reflect the potential diminished savings related to these issues (i.e. increased attorney involvement).

Since catastrophic claims' benefits are not limited, and assuming medical-only and TTD claims are not open 400 weeks after the injury date, NCCI relied on permanent partial disability (PPD) data to estimate the cost savings of portion of HB 154. In order to estimate the savings from limiting medical benefits to 400 weeks, the estimated medical payments after 400 weeks from the accident date for PPD claims were subtracted from their estimated ultimate settlement value. Medical cost savings are estimated to be 7.2% to 10.5%. Since medical benefits comprise 54.8%<sup>4</sup> of overall workers compensation benefits in Georgia, the overall system cost impact from HB 154 if enacted in its current form is estimated to be between -5.8% (= -10.5% x 54.8%) and -3.9% (= -7.2% x 54.8%).

### **Increase in Maximum Benefits for Total Disability**

HB 154 proposes to increase the cap on Georgia TTD and TPD weekly benefits by approximately 5% (from \$500 to \$525 and \$334 to \$350, respectively). In Georgia, the weekly maximum benefit for all benefit types, except TPD, is tied to the TTD weekly maximum. Therefore, if enacted, these changes would impact all workers compensation indemnity benefit types in Georgia. Using a countrywide distribution of workers and their wages indexed to Georgia's average wage level, NCCI estimated the impact of this change on overall system costs. Based on this same distribution, the benefits for approximately 53% of Georgia's injured workers (which account for 73% of workers' wages) would be affected by the proposed changes to the maximum weekly benefit amounts.

Given the proposed increases in the maximum weekly benefits and the distribution of workers and their wages, indemnity benefits are expected to increase by +3.0%. Indemnity benefits represent 45.2% of Georgia's overall workers compensation system costs. Therefore, NCCI estimates that increasing the maximum weekly benefit amounts may increase overall system costs in Georgia by +1.4%.

Research has shown that substantive increases in workers compensation benefits may lead to longer durations of disability, an increase in the number of lost-time claims filed, and greater utilization of medical care. Due to the relatively limited magnitude of this proposed benefit level increase, no provision for such changes in claimant behavior was incorporated into the impacts described above.

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<sup>4</sup> Based on NCCI Financial Call data for policy years 2009 and 2010 trended to 7/1/2013.



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**A change in the interest rate used for discounting Board directed lump sum settlements and calculating advance payments from 7% to 5% per annum**

Currently, when lump sum settlements are calculated, the time value of money is included through a discount rate, currently 7% per annum in Georgia, for settlements that are determined by the Board to be in the best interests of the claimant in order to prevent extreme hardship or hinder their rehabilitation. Likewise, when a carrier is ordered by the Board to advance payments to the injured worker, a rate of interest is applied, which is also 7% per annum in Georgia.

HB 154 includes language reducing the aforementioned discount rate from 7% to 5% per annum. The impact of the proposed interest rate change is uncertain, but is anticipated to be a minimal<sup>5</sup> increase overall. Any subsequent system cost impact associated with this change would be reflected in future loss experience and subsequent NCCI filings in Georgia.

**Other provisions**

These provisions of HB 154 are expected to have a negligible, if any, impact on system costs.

1. Shorten mileage reimbursement payment schedule from the current 30 days to 15 days. This proposed change is not expected to impact the reimbursement amount, just the timing of the payment.
2. Quantify how long a returning worker has to attempt to work at an offered job and be unable to perform, in order to qualify for the rebuttable presumption resulting in the immediate reinstatement of benefits. HB 154 states that the worker must attempt an offered job for the longer of 8 cumulative hours or one scheduled work day, and be unable to perform for more than 15 working days, to qualify for reinstatement of benefits. Currently, the statutes are silent as to how long an employee must attempt to work a job, before it is considered unsuccessful, and benefits resume. This proposed change provides a clear measurement for both the worker and the employer in instances where an employee is attempting to return to work, and is expected to only impact benefits in a very limited number of situations. Stakeholder feedback suggests that this clarification may be helpful in providing a clear standard for the returning worker and potentially reduce litigation in some instances.

**NCCI has estimated that the provisions of Georgia HB 154 to limit medical treatment beyond 400 weeks for non-catastrophic injuries and to increase the maximum weekly**

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<sup>5</sup> Minimal is defined in this context to be an impact on overall system costs of less than 0.2%.



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**wage replacement benefits would result in an impact on workers compensation system costs ranging from -4.4% to -2.6%.**

**The proposed reduction in the discount and interest rates from 7% to 5% per annum for Board directed settlements and advance payments may have an impact on system costs in the state, but the magnitude is uncertain, though expected to be minimal. The other proposed changes not explicitly quantified are anticipated to have only a minimal impact, if any, on system costs. Altogether, any impact resulting from the enactment of the provisions not explicitly quantified would emerge over time and be reflected in subsequent NCCI filings in Georgia.**