



Cost Impact Analysis

Montana Senate Bill (SB) 3 As Requested on 10/29/2014

NCCI has completed a preliminary cost impact analysis of Montana SB 3. This analysis includes a description of the change, an indication as to the approximate magnitude of its cost impact, and identifies potential unintended consequences or other notable items.

The analysis is considered preliminary. NCCI may supplement this document with a complete and final analysis of the bill at a later date. It is possible that the estimated impact of the final analysis will differ materially from what is provided in this document. Note that the absence of an update to the preliminary analysis does not signify that this is NCCI's final assessment of the cost impact of the bill.

Cost Impact

If Montana SB 3 is enacted in its current form, the increase on the overall Montana workers compensation (WC) system costs is expected to be negligible. Any potential cost impact resulting from this change would be reflected in subsequent experience and reflected in future Montana loss cost filings.

Summary and Analysis

Montana SB 3 proposes to change the vocational rehabilitation (VR) eligibility requirements. The bill would reduce the minimum impairment rating in order for a worker to be eligible for VR.

Under current statutes (Montana Code Section 39-71-1006), an injured employee initially qualifies for VR benefits if they meet either of the following two main conditions:

- The injured worker meets the definition of a disabled worker as provided in Montana Code Section 39-71-1011, meaning the worker has a permanent impairment and "has an actual wage loss as a result of the injury".
- The injured worker has a whole person impairment rating of 15% or higher and has no actual wage loss.

The bill would modify the second condition and render an injured employee eligible for VR benefits if they have an impairment rating of 10% or higher with no actual wage loss. Therefore, SB 3 is only expected to directly affect injured employees with an impairment rating between 10-14% and no actual wage loss.

The ratio of permanent partial disability (PPD) claims with an impairment rating between 10-14% and no actual wage loss to total PPD claims with VR benefit payments is

CONTACT: MIKE TAYLOR
10300 SW Greenburg Road, Suite 550 • Portland, OR 97223
Telephone: (503) 892-1858 • Fax: (503) 244-7570
E-mail: Mike_Taylor@NCCI.com



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approximately 2%¹ in Montana; this represents the expected increase in cases eligible for VR benefits under proposed SB 3. Assuming that the average VR cost per case for these newly eligible claims would be the same as the current average VR cost per case, a +2% cost impact to total VR benefits would be expected. Since VR benefits are estimated to comprise 6.3%² of total PPD indemnity costs, this bill would result in a +0.1% (= +2% x 6.3%) impact on total PPD indemnity costs in Montana. PPD Indemnity costs are estimated to comprise 57.6%³ of total indemnity costs, and indemnity costs are projected to comprise 32.0%⁴ of total WC costs in Montana. NCCI estimates that expanding the eligibility for VR benefits as proposed in SB 3 would result in a negligible (= 0.1% x 57.6% x 32.0%) impact to total WC costs in Montana as shown in the following table:

(1)	Estimated Newly Eligible VR Cases, as a Percent of Cases Which Currently Receive VR Benefits ¹	2%
(2)	VR Costs as a Percent of PPD Indemnity Costs ²	6.3%
(3)	Estimated Cost Impact of SB 3 as a Percent of PPD Indemnity Costs in Montana = (1) x (2)	0.1%
(4)	PPD Indemnity Costs as a Percent of WC Indemnity Costs ³	57.6%
(5)	Estimated Cost Impact of SB 3 as a Percent of WC Indemnity Costs in Montana = (3) x (4)	0.1%
(6)	Indemnity Costs as a Percent of Total WC Costs ⁴	32.0%
(7)	Estimated Cost Impact of SB 3 as a Percent of Overall WC System Costs in Montana = (5) x (6)	0.0%

Notable Items

The bill includes an effective date is July 1, 2015, but does not explicitly state whether the proposed change in benefits would only apply to accidents occurring on or after this date. As such, this bill may have a retroactive impact. The benefit provisions at the time the premiums were calculated for policies written prior to the effective date of the proposed change may be different than the benefit provisions under this bill. To the extent that the provisions of this bill result in higher system costs, such costs were not contemplated in premiums determined for such prior policies, and thus may generate an unfunded liability for the workers compensation system.

¹ Based on data received from the Montana Department of Labor and Industry (Accident Years 2009-2013)

² Based on Montana Workers Compensation data licensed to NCCI.

³ Based on NCCI Workers Compensation Statistical Plan data for Montana for the two-year policy period ending 12/31/2011 on the 7/1/2013 law level.

⁴ Based on Policy Years 2009-2011 NCCI Financial Call data for Montana projected to 7/1/2015.

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