

Texas Nonsubscriber Option

Actuarial Data Analysis – Fact Sheet

December 07, 2016

PartnerSource announces a new analysis showing that Texas nonsubscriber Option injury benefit plans¹ commonly result in shorter duration of disability and improved initial and sustained return to work, as confirmed by an independent actuary. Although the Oklahoma Option has been in existence only 2.5 years and is now in runoff, similar shortened durations and faster return to work have been achieved under that program as well.

Following is a summary of the Texas Option findings:

Background on New Study: PartnerSource has worked with [Leigh J. Halliwell, FCAS, MAAA](#), an independent actuary previously with the National Council of Compensation Insurance (NCCI), to review and confirm PartnerSource data compilations and findings which suggest better medical outcomes under the Texas nonsubscriber Option. This review complements the existing body of publicly available research.²

Scope of Review: Using a database of over 160,000 Texas Option injury benefit claims from 33 claim administration sources over a 10-year period (2005-2015) – without excluding any available data or source – PartnerSource compared statistics against information from the Workers' Compensation Research Institute and Texas Department of Insurance.³ This comparison was validated by Mr. Halliwell.

¹ Alternatives to traditional workers' compensation are known by several names: Option, Nonsubscription, Workers' Comp Option, Nonsubscriber, Opt-out, Occupational Injury Benefit Plans, ERISA Option, etc.

² See, for example:

- [ARAWC Oklahoma Performance Report](#) (includes data on fewer claim disputes and better disability benefits)
- [Stanford University Study](#)
- [ARAWC Summary of Analyses and Reports](#)

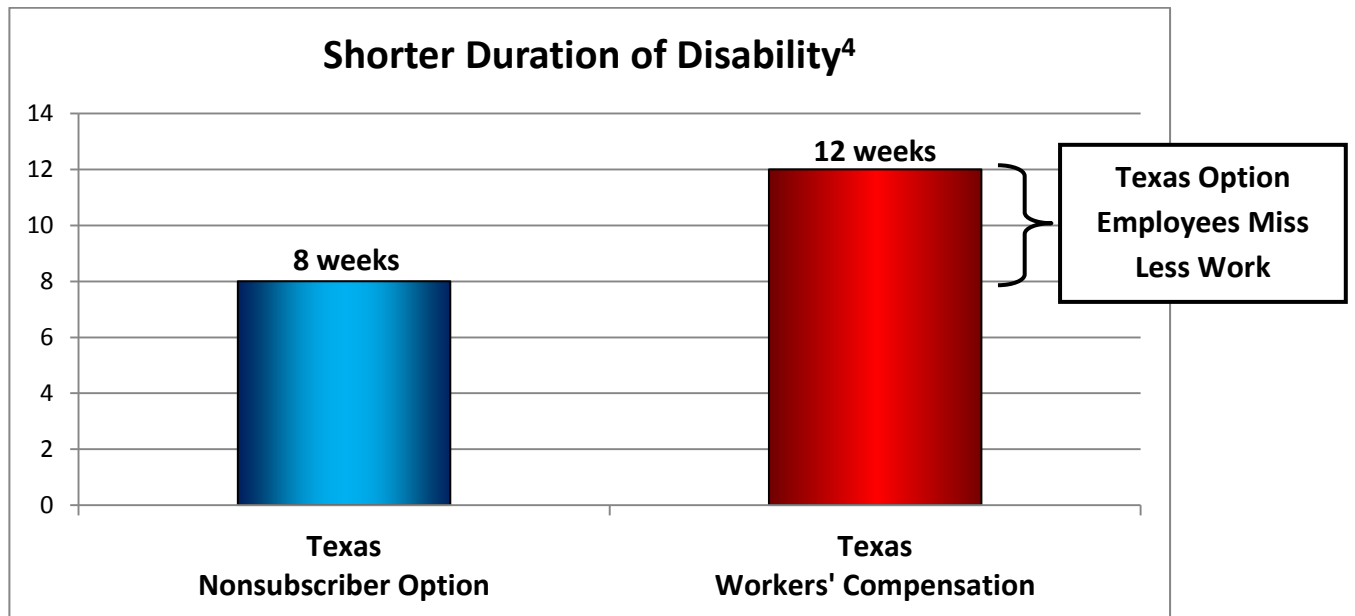
Numerous [workers' compensation industry leaders](#) also maintain private data on Option programs. See also [Comparing Workers' Comp Industry and Option Program Transparency and Data Reporting](#).

³ See [Setting the Standard - An Analysis of the Impact of the 2005 Legislative Reforms on the Texas Workers' Compensation System - 2014 Results](#); [Texas Department of Insurance, Division of Workers' Compensation - Biennial Report to the 85th Legislature](#) (December 2016); [Return to Work in the Texas Workers' Compensation System, 2015](#); [WCRI Average Duration of Temporary Disability \(in Weeks\) for Claims with More Than 7 Days of Lost Time, 2013/2014](#). This data analysis relies upon established Texas workers' compensation system metrics and good faith comparisons to Texas Option data.

I. Shorter Duration of Disability

For claims with 8 or more days of lost time:

- a. The average time lost in workers' comp is 12 weeks.
- b. The average time lost in Texas nonsubscriber Option programs is 8 weeks.

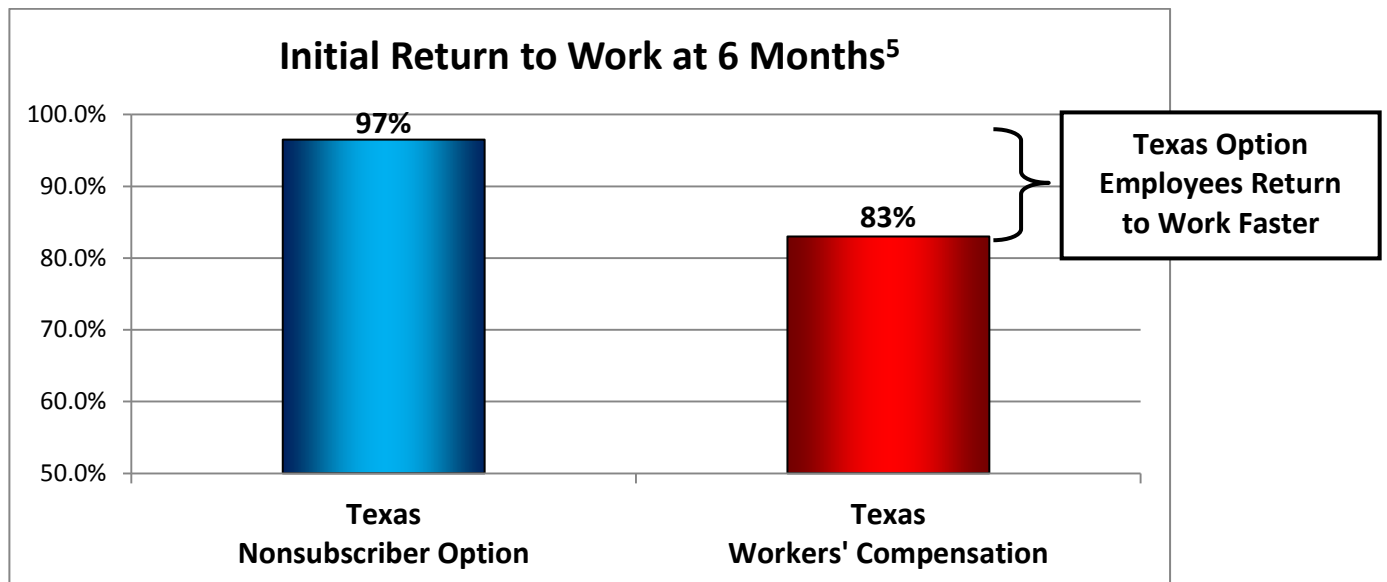


⁴ See [WCRI Average Duration of Temporary Disability \(in Weeks\) for Claims with More Than 7 Days of Lost Time, 2013/2014](#).

II. Improved Return to Work

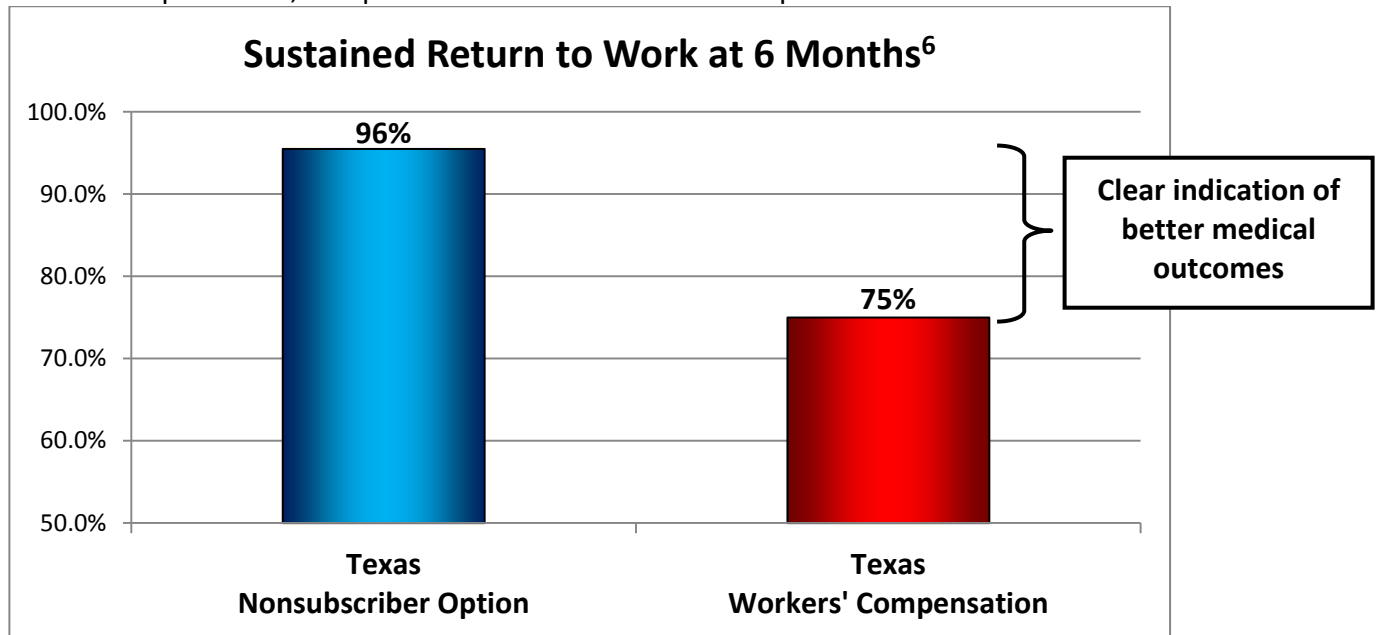
For claims with 8 or more days of lost time:

- a. **Initial Return to Work.** The initial return to work rate measures the percentage of injured employees receiving income benefits who returned to work within six months of a work-related injury. The initial return to work rate at 6 months is 83% in Texas workers' compensation, compared to 97% under the Texas Option.



⁵ See [Return to Work in the Texas Workers' Compensation System](#), (2015).

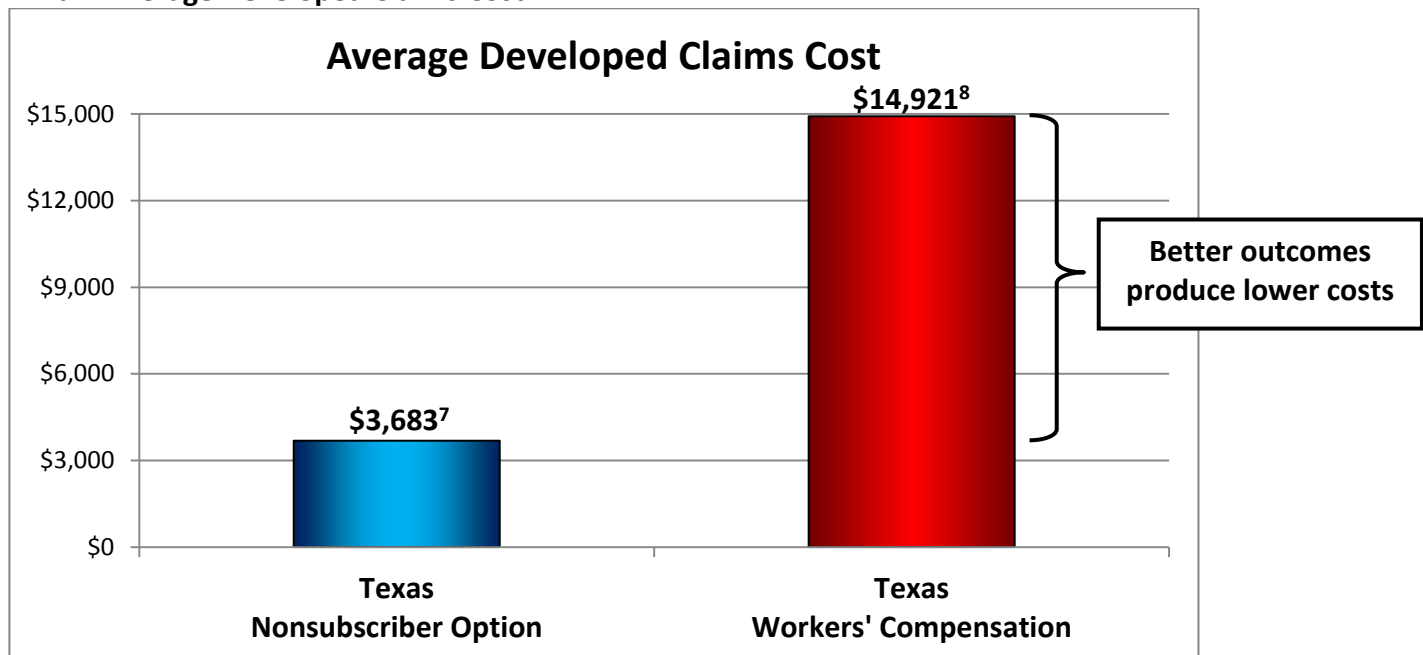
- b. **Sustained Return to Work.** The sustained return to work rate measures the percentage of injured employees receiving income benefits who have been able to sustain their return to work status. The sustained return to work rate at 6 months is 75% in Texas workers' compensation, compared to 96% under the Texas Option.



⁶ See [Return to Work in the Texas Workers' Compensation System](#), (2015).

III. Claims Cost Comparison

a. Average Developed Claims Cost



⁷ PartnerSource loss development factors utilized. Results identified are trended to 2016 levels, and are greater than the range identified by actuary (\$2,994 to \$3,147). Includes allocated loss adjustment expense (ALAE), legal costs, settlements and judgments.

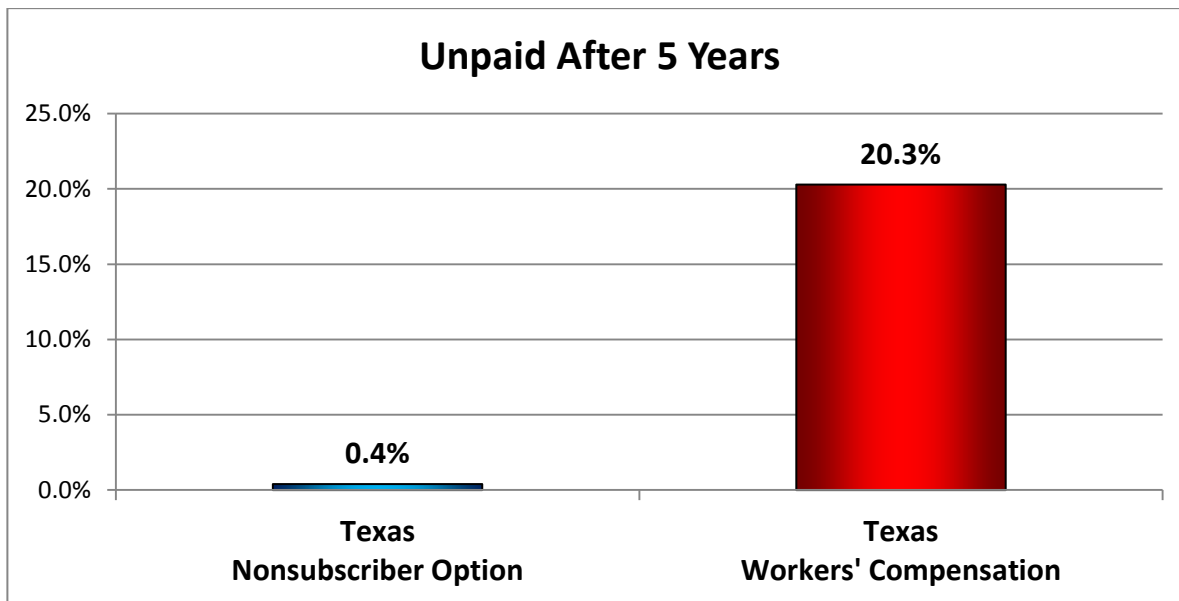
⁸ Based on NCCI claim costs and adding an 11% ALAE cost based on information from [Best's Aggregates and Averages](#).

b. Average Paid & Incurred Claims Cost⁹

Topic	Texas Nonsubscriber Option	Texas Workers' Compensation
Average Paid Claims Cost	\$2,585	Comparable Data Not Found
Average Incurred Claims Cost	\$2,759	

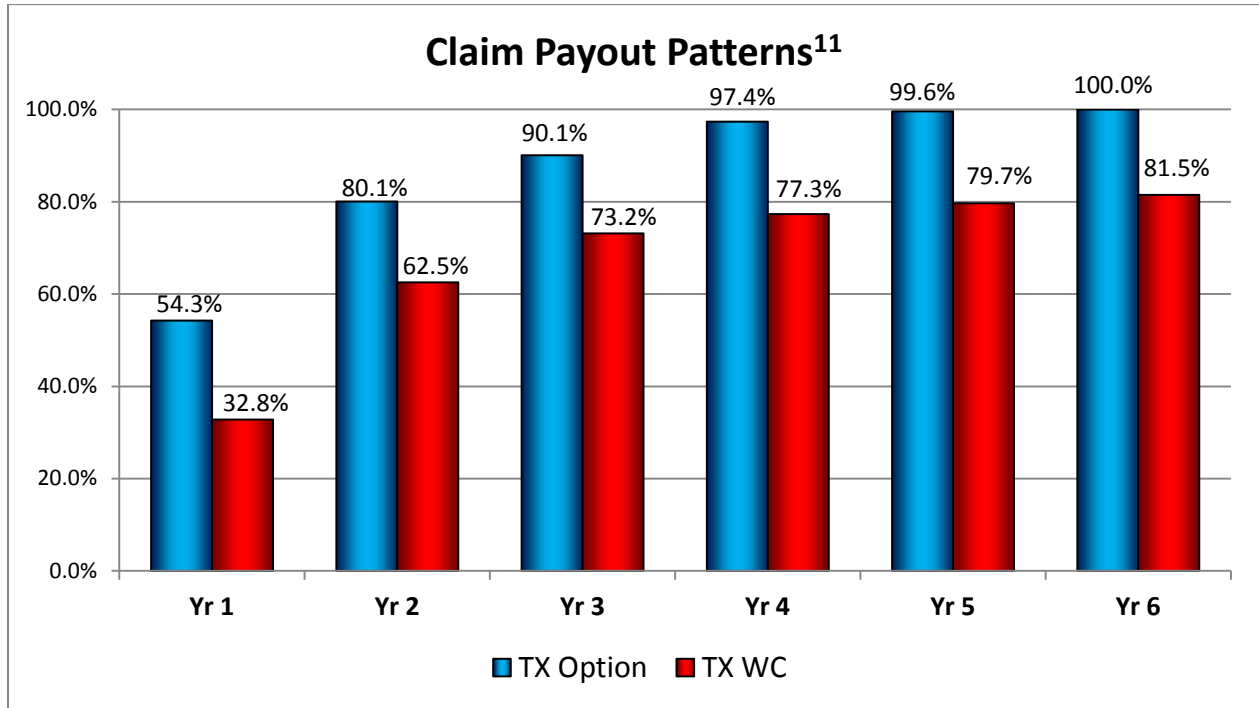
⁹ Based on over 160,000 claims over a ten-year period. Paid and Incurred costs are based on loss runs from claims administrators and are not developed or trended. All known claim costs are included, e.g. settlements, defense costs, medical and indemnity benefits, and allocated loss adjustment costs.

IV. Loss Development Factors¹⁰



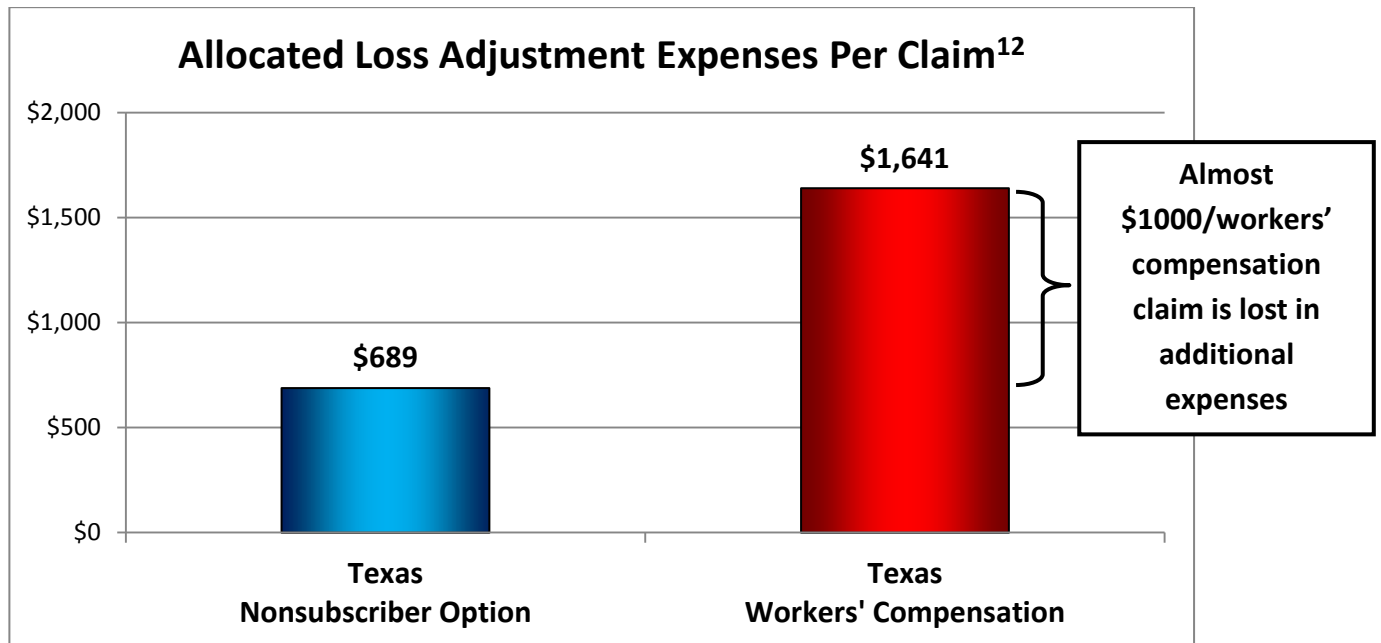
¹⁰ Nonsubscriber Option and Workers' Compensation incurred LDFs are similar in the first couple of years, but WC has a long tail that does not exist in NSO. At the end of 5 years, NSO is virtually closed, while WC has only paid 80% of the claim costs. NSO LDFs are based on PartnerSource patterns and WC LDFs are based on data from *National Council on Compensation Insurance, Annual Statistical Bulletin, 2015 edition*.

V. Claim Payout Patterns



¹¹ Texas workers' compensation performance is based on data from *National Council on Compensation Insurance, Annual Statistical Bulletin, 2015 edition*. This chart indicates that on average, at the end of the first year, over half of the cost of the Texas nonsubscriber Option claim has been paid, compared to only 33% of the workers' compensation claim. At the end of year 3, only 10% of the Texas nonsubscriber Option claim is still outstanding, while 27% of the workers' compensation claim is still outstanding. By year 6, the Texas nonsubscriber Option claim is completely paid, while the workers' compensation claim still has 18% to go. Incurred loss development patterns are consistent with this paid loss development pattern.

VI. Allocated Loss Adjustment Expenses Per Claim



¹² NS Option is based on actual claim data. WC is estimated based on NCCI medical and indemnity claim costs for Texas and an ALAE factor of 11% based on information from [Best's Aggregates and Averages](#).