

**Options to Workers' Compensation¹:
Industry Aggregate Data Reflects
Positive Outcomes for Injured Workers and Employers**

(revised November 19, 2016)

Section I: [Texas Nonsubscriber Option Actuarial Data Analysis – Fact Sheet](#), Confirmed by Former NCCI Actuary

The charts commonly include a comparison to Texas workers' compensation when a meaningful metric can be found:

- A. Shorter Duration of Disability
- B. Improved Return to Work
 - 1. Initial Return to Work
 - 2. Sustained Return to Work
- C. Claims Cost Comparison
 - 1. Average Developed Claims Cost
 - 2. Average Paid and Incurred Cost
- D. Loss Development Factors - % Unpaid at 5 Years
- E. Claim Payout Patterns
- F. Allocated Loss Adjustment Expenses per Claim

Section II: [Texas Data from Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation](#), December 2014, by Tim Banick and Andrea Bode

The charts commonly include a comparison to Texas workers' compensation when a meaningful metric can be found:

- A. Claim Closure Rates
- B. Average Cost per Claim – Retail Stores
- C. Legal Defense Costs – Retail Stores
- D. Loss Costs per \$100 of Payroll – Retail Stores

Section III: [Additional Data](#) from PartnerSource on Texas Nonsubscriber Option Performance

- A. Average Cost per Claim – Six Industries
- B. Claim Payout Patterns

Although we have attempted to accurately reflect all information provided. Much of the work is from [Leigh J. Halliwell, FCAS, MAAA](#) or Aon and therefore, no guaranty is made and these summaries have not been reviewed or endorsed by Aon.

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.

Section I

Texas Nonsubscriber Option Actuarial Data Analysis – Fact Sheet

PartnerSource announces a new analysis showing that Texas nonsubscriber Option injury benefit plans 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 is a relatively new program, similar shortened durations and faster return to work appear to be achieved under that program as well.

Following is a summary of the Texas Option findings:

Background on New Study: Over the past six months, 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.

² See, for example:

- [ARAWC Oklahoma Performance Report](#)
- [Stanford University Study](#)
- [Texas Performance Study](#)
- [Oklahoma Performance Study](#)
- [ARAWC Summary of Analyses and Reports](#)

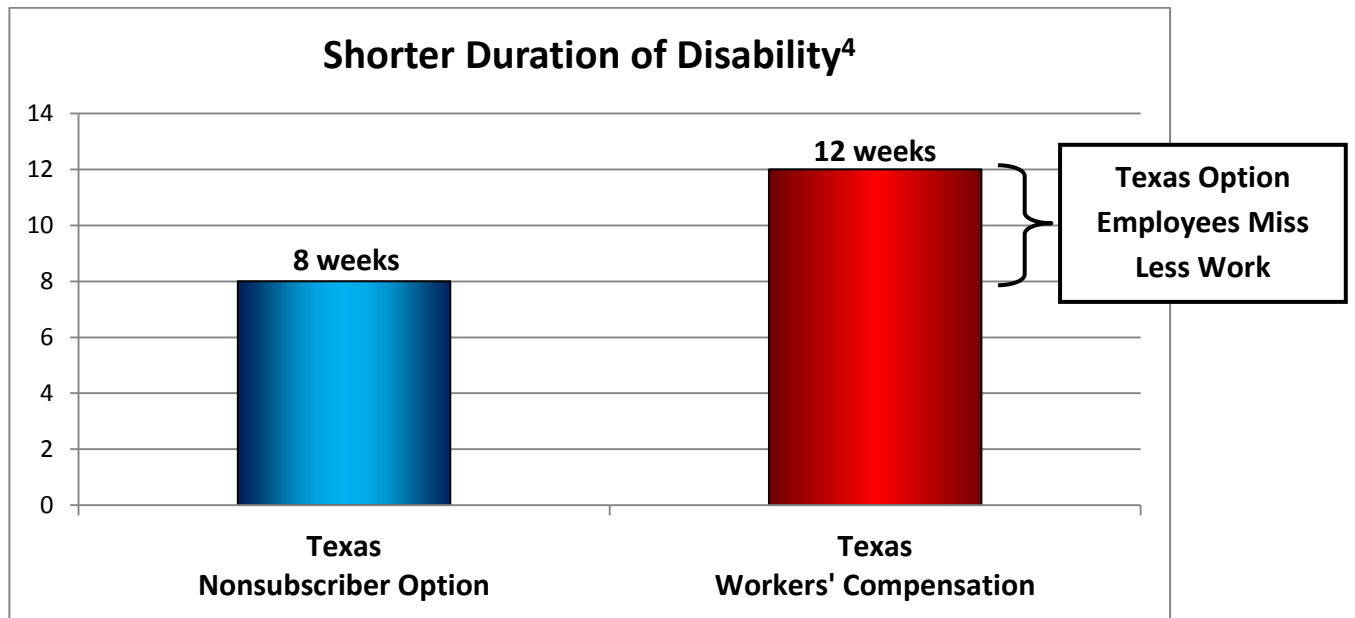
Numerous [workers' compensation industry leaders](#) also maintain private data on Option programs. See also [Comparing Workers' Comp Industry and Option Program Transparency and Data Reporting](#).

³ See [Setting the Standard - An Analysis of the Impact of the 2005 Legislative Reforms on the Texas Workers' Compensation System - 2014 Results](#); [Biennial Report of the Texas Department of Insurance to the 84th Legislature - Division of Workers' Compensation \(2014\)](#); [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.

A. Shorter Duration of Disability

For claims with 8 or more days of lost time:

1. The average time lost in workers' comp is 12 weeks.
2. The average time lost in Texas nonsubscriber Option programs is 8 weeks.

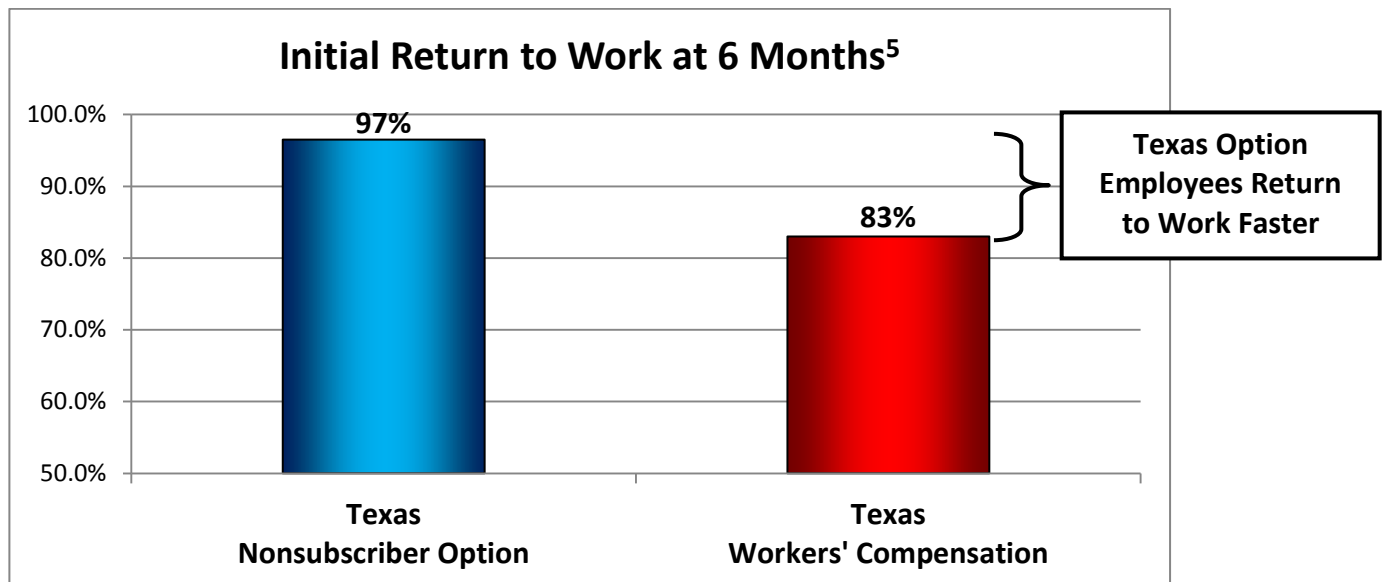


⁴See [WCRI Average Duration of Temporary Disability \(in Weeks\) for Claims with More Than 7 Days of Lost Time, 2013/2014](#).

B. Improved Return to Work

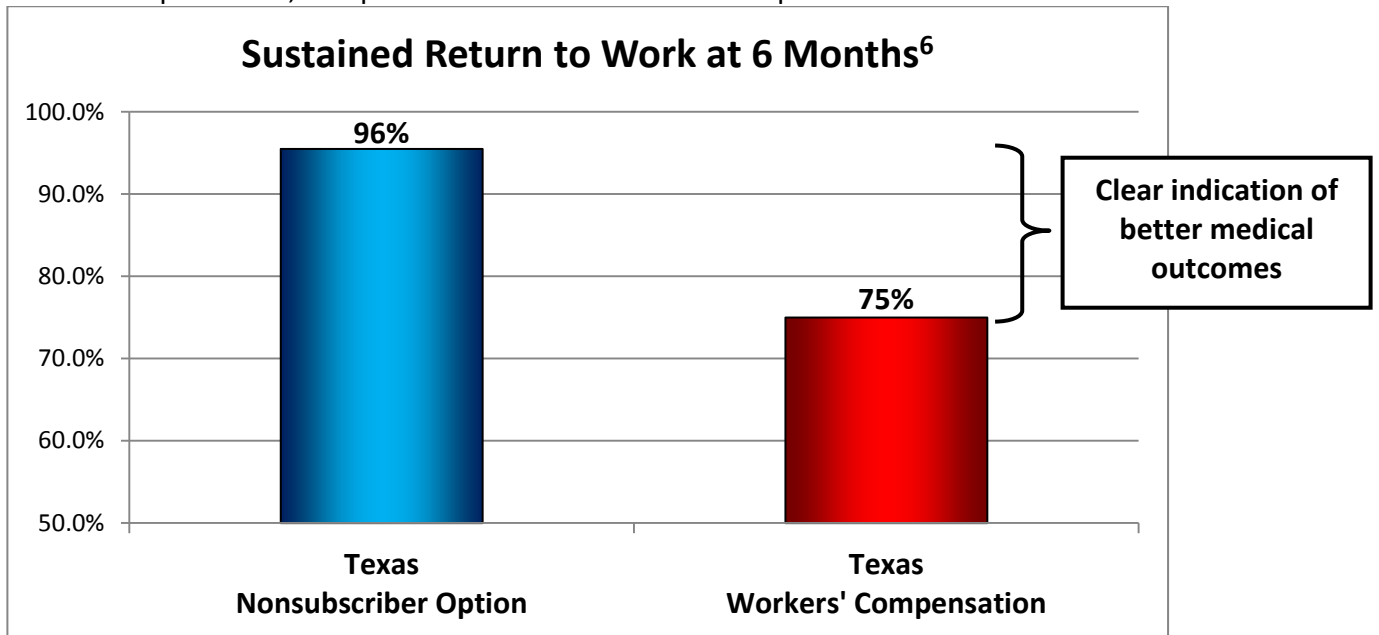
For claims with 8 or more days of lost time:

1. **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.



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

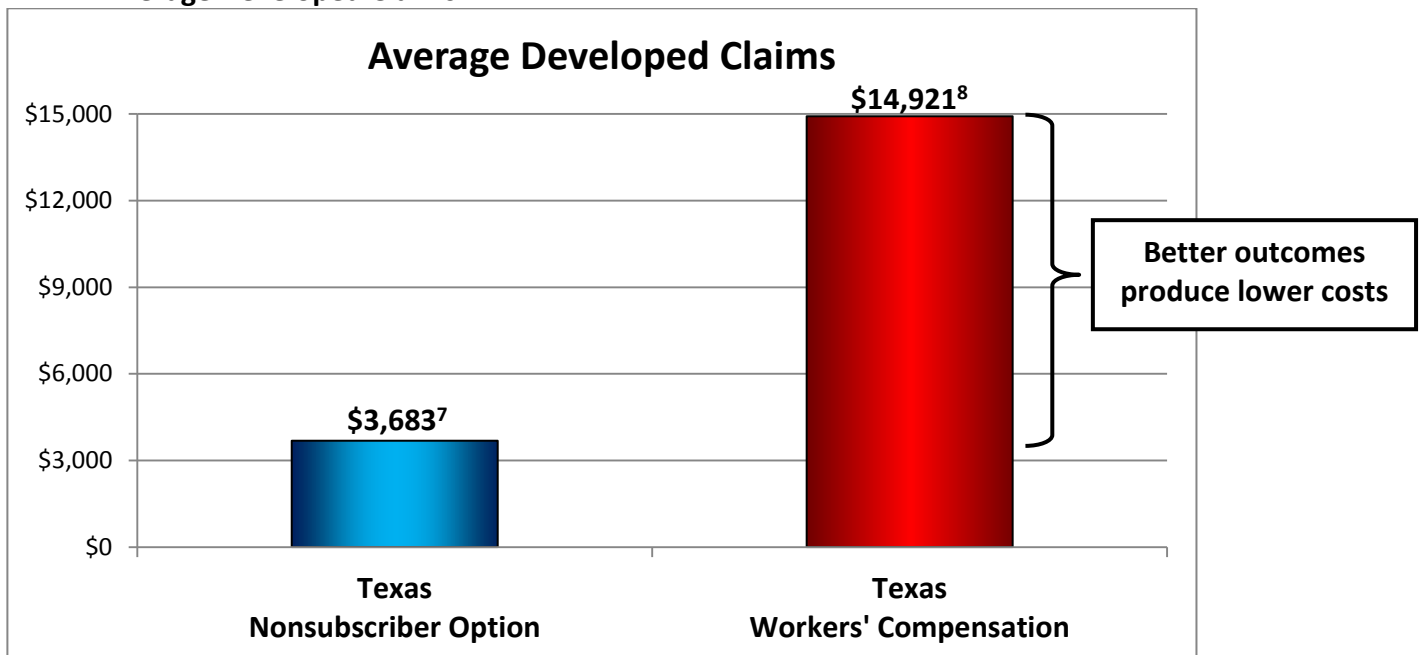
2. **Sustained Return to Work.** The sustained return to work rate measures the percentage of injured employees receiving income benefits who have been able to sustain their return to work status. The sustained return to work rate at 6 months is 75% in Texas workers' compensation, compared to 96% under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



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

C. Claims Cost Comparison

1. Average Developed Claims



⁷PartnerSource 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.

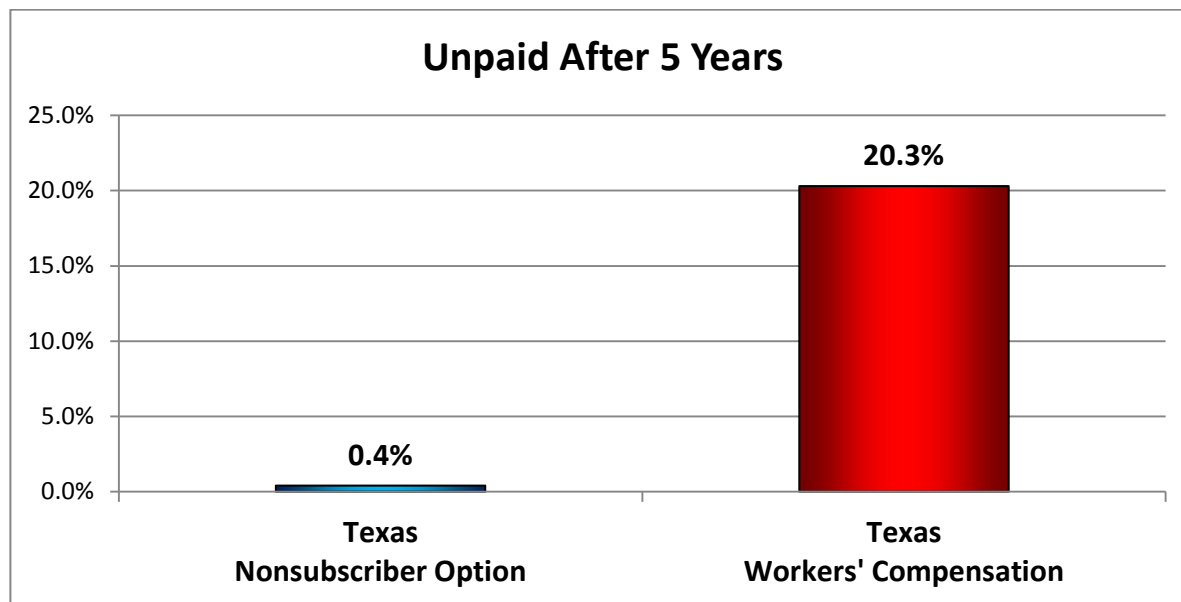
⁸Based on NCCI claim costs and adding an 11% ALAE cost based on information from [Best's Aggregates and Averages](#).

2. 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	

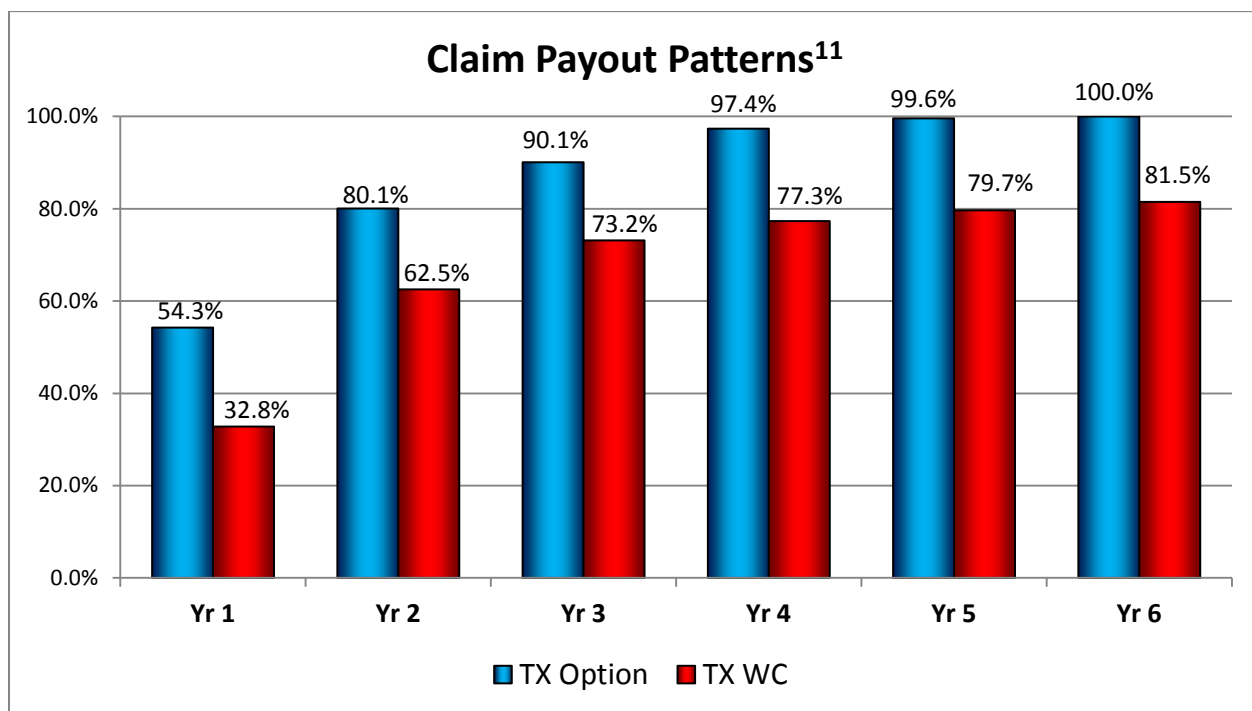
⁹Based on over 160,000 claims over a ten year period. Paid and Incurred costs are based on loss runs from claims administrators and are not developed or trended. All known claim costs are included, e.g. settlements, defense costs, medical and indemnity benefits, and allocated loss adjustment costs.

D. Loss Development Factors¹⁰



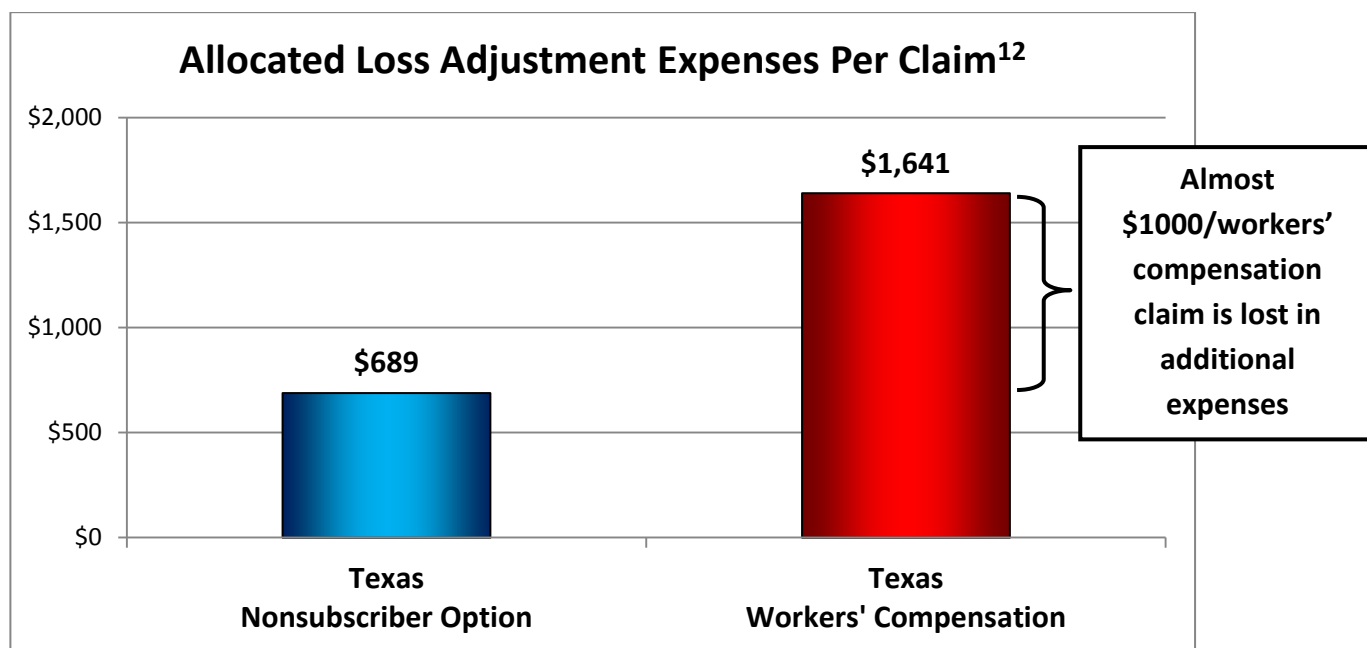
¹⁰Nonsubscriber Option and Workers' Compensation incurred LDFs are similar in the first couple of years, but WC has a long tail that does not exist in NSO. At the end of 5 years, NSO is virtually closed, while WC has only paid 80% of the claim costs. NSO LDFs are based on PartnerSource patterns and WC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

E. Claim Payout Patterns



¹¹Texas 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.

F. Allocated Loss Adjustment Expenses Per Claim



¹²NS 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](#).

Section II

Texas Data from Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation, December 2014, by Tim Banick and Andrea Bode

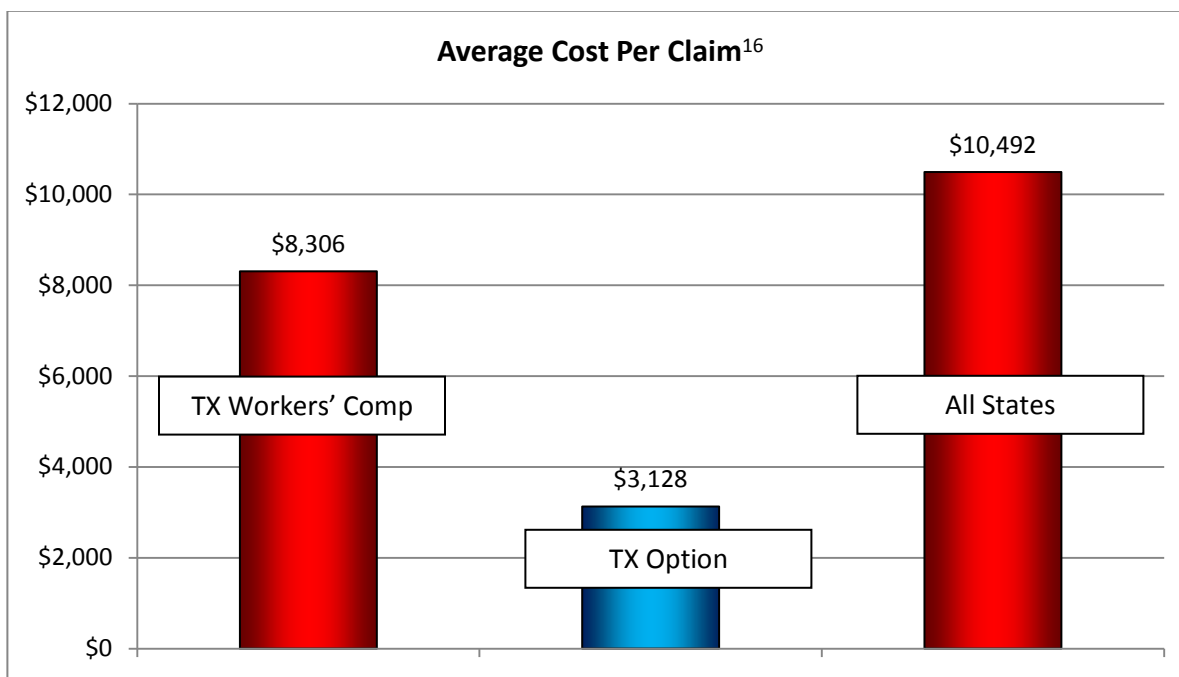
A. Claim Closure Rates

Year		1	2	3	4	5	6
A.	Texas Workers' Compensation – Retail ¹⁴	70.0%	94.7%	97.3%	98.9%	98.9%	99.3%
	Texas Option – Retail ¹⁴	80.2%	98.4%	99.6%	99.8%	100%	100%
B.	Texas Option – All Industries ¹⁵	97.2%	99.8%	99.9%	100%	100%	100%

¹⁴Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation, December 2014, by Tim Banick and Andrea Bode, page 54, Retail Stores- Claim Closure Percentage As of a Point in Time. "Loss development patterns vary significantly for Texas non-subscriber programs. Both incurred and paid development patterns display much shorter tails than typical work comp loss development." Page 3.

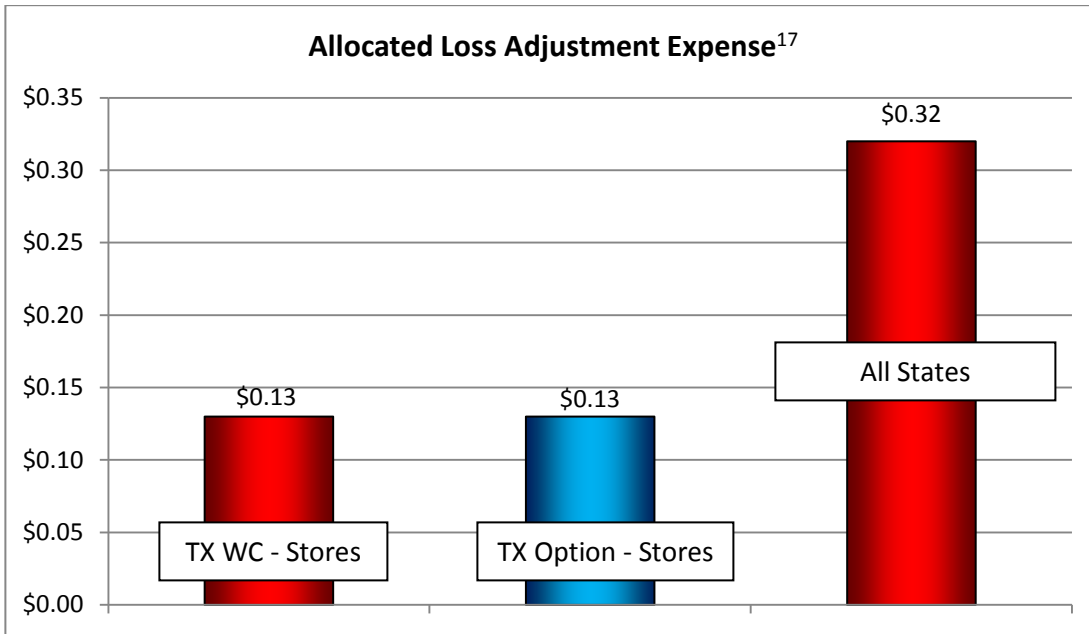
¹⁵This second chart depicts faster claim closure rates for PartnerSource clients across all industries, including trucking/distribution, manufacturing, hospitality, healthcare, restaurant and retail.

B. Average Cost Per Claim – Retail Stores



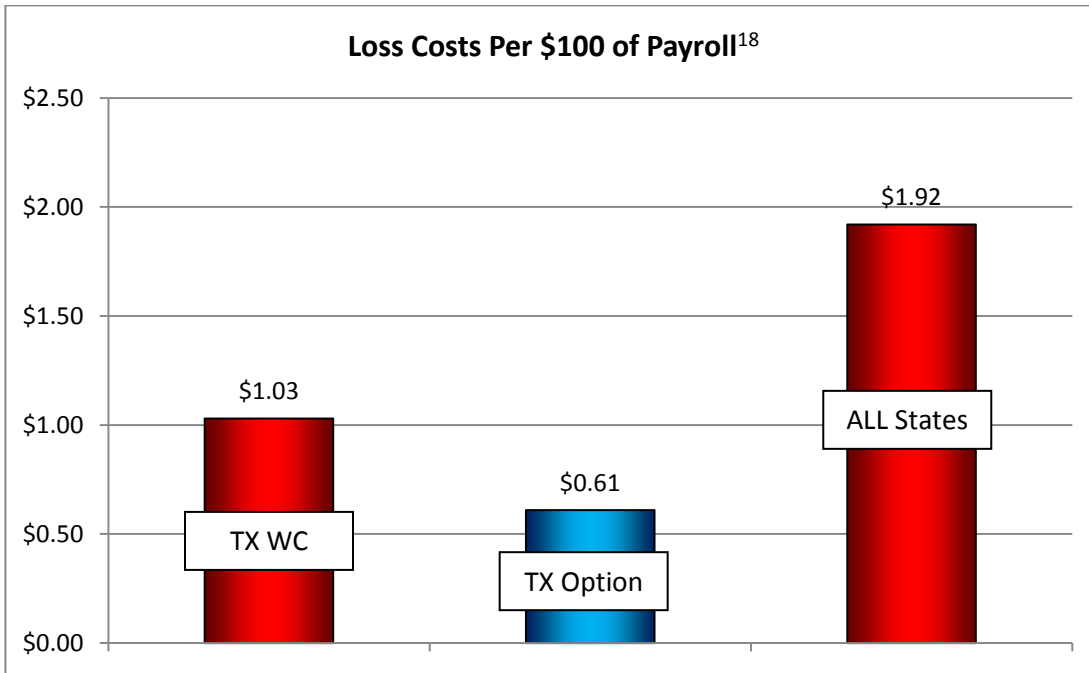
¹⁶Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation, December 2014, by Tim Banick and Andrea Bode, page 27, Retail Stores, Average Severity Per Claim, Limited to \$1 Million Loss and Allocated Loss Adjustment Expense Per Occurrence Retention, 2/1/14-2/1/15. "A very favorable impact in loss severities and loss costs has been experienced by those retailers who have opted out of the Texas work comp environment and formed a Texas Non-Subscriber program. In the most recent years, retailers have experienced Texas non-subscriber severities and loss costs approximately 40% to 50% lower than retailers who subscribe to the work comp environment." Page 4.

C. Legal Defense Costs – Retail Stores



¹⁷Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation, December 2014, by Tim Banick and Andrea Bode, page 29, Retail Stores- Workers' Compensation Allocated Loss Adjustment Expense Per Hundred Dollars of Payroll, 2/1/14-2/1/15. "Typically, these costs are comprised of legal fees paid by the entity in investigating and defending specific claims." Page 28. "Texas (both subscriber and non-subscriber) litigated claim frequencies are much lower than All Other States." Page 4. However, both litigation frequency and costs for Texas workers' compensation and the Texas Option in retail stores were found to be equivalent. Aon found litigation frequency for distribution centers to vary widely by year. In some years, the rates were substantially higher in the Texas Option than in Texas workers' compensation. Page 99.

D. Loss Costs Per \$100 of Payroll – Retail Stores

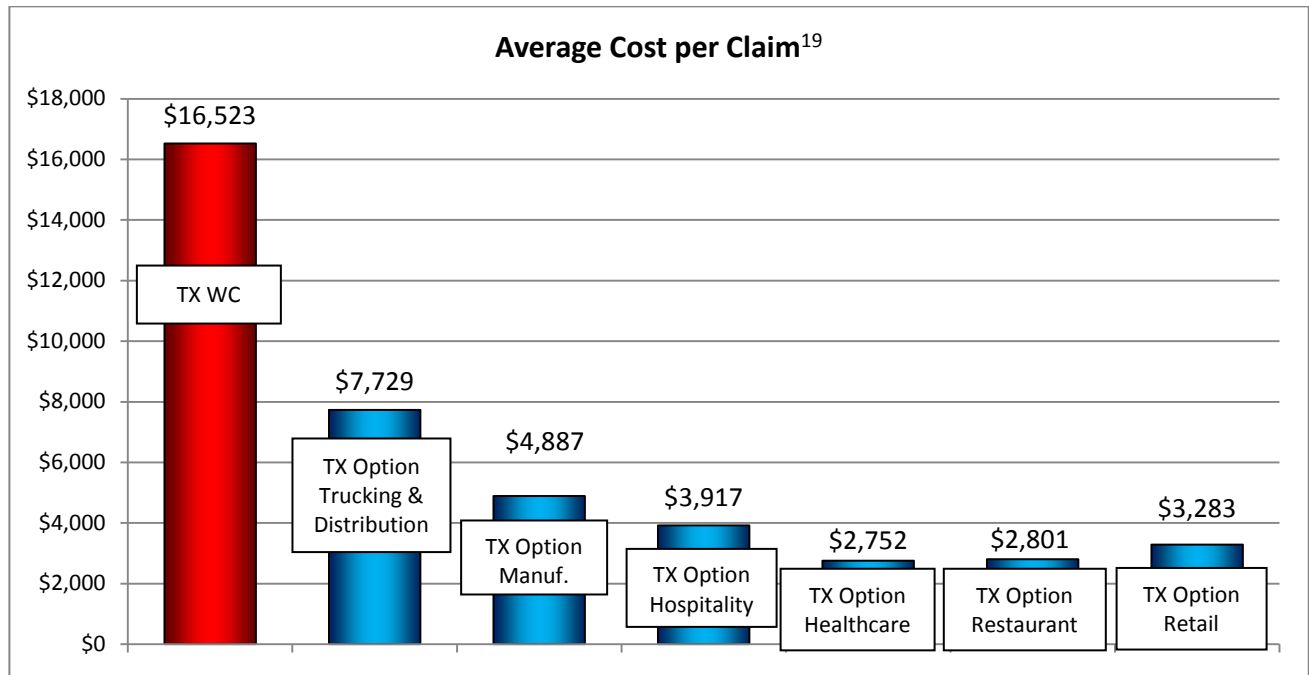


¹⁸Aon Risk Solutions 2014 Retail Benchmark Analysis, Workers' Compensation, December 2014, by Tim Banick and Andrea Bode, pages 43, 44, and 62-63, Retail Stores, Loss Cost Per Hundred Dollars of Payroll, Limited to \$1 Million Loss and Allocated Loss Adjustment Expense Per Occurrence Retention, 2/1/14-2/1/15.

Section III

Additional Data from PartnerSource on Texas Nonsubscriber Option Performance

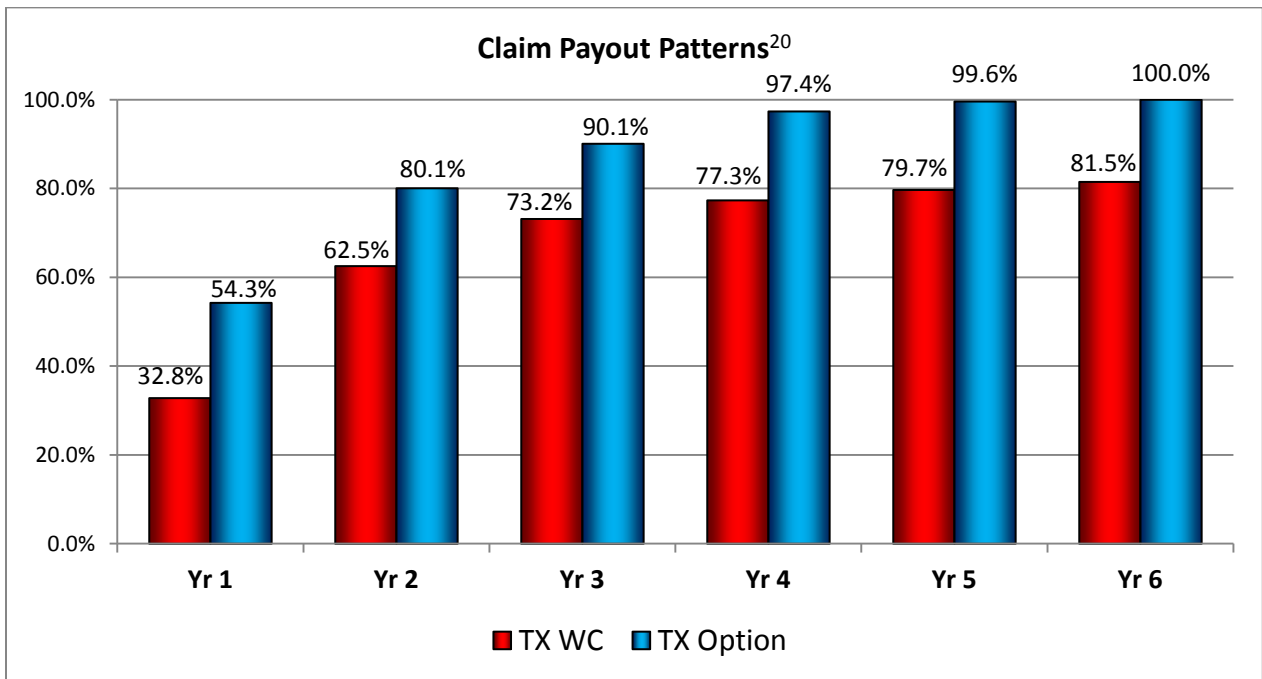
A. Average Cost Per Claim – Six Industries



¹⁹Texas Workers' Compensation average cost per claim is based on *NCCI 2015 Annual Statistical Bulletin*, Ultimate Average Cost per Case by Injury Type, pages 424-433. From page 399, "Direct Defense and cost containments expenses (allocated loss adjustment expense) are not included." Accordingly, an additional 15% was added for ALAE and losses were trended to 2016 cost levels.

The Texas Option data presented from the PartnerSource Benchmark Studies for 2014-2015, has been trended and developed, including all allocated loss adjustment expenses (that is, defense costs, medical management costs, and any other expense allocated to the claim file).

B. Claim Payout Patterns



²⁰Texas 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 Option claim has been paid, compared to only 32% of the workers' compensation claim. At the end of year 3, only 10% of the Texas Option claim is still outstanding, while 27% of the workers' compensation claim is still outstanding. By year 6, the Texas 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.