

To: Workers' Compensation Advisory Council

**From: James E. Marsh, Labor and Management Division Director
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Date: August 1, 2010

Subject: 2010 Division Report on the State Workers' Compensation System

This report is prepared for submission at the August 23, 2010, meeting of the Workers' Compensation Advisory Council.

The 2010 Legislature passed the provisions recommended by the Council to increase the maximum burial reimbursement from \$7,500 to \$10,000, and to allow insurers to apply the fee schedule of the state in which medical services are provided while prohibiting provider balance-billing.

The State Division of Insurance announced average base rates for the voluntary insurance market were increased by 4.4 percent for the period from July 1, 2010, to June 30, 2011, and assigned-risk rates were increased by 5.8 percent. These increases were mostly due to increased claim costs; nine claims costing \$3 million or more occurred during the five-year period used to calculate rates.

The National Council on Compensation Insurance (NCCI) reports the frequency of South Dakota claims continues to decrease, though that decrease is leveling off. The severity of those claims, particularly the cost of medical treatment, continues to rise. This has been the trend for the last several years and is mostly associated with the increasing age and experience of South Dakota's workforce. It is unclear how long this trend will continue.

Medical expenses continue to be a major driver of overall costs. In claims involving lost work time, those costs increased from \$36.8 million in 2000 to \$60.1 million in 2009, based on monthly cost reports submitted to the Division of Labor and Management (L & M). NCCI estimated medical benefit costs at 74 percent of overall benefit costs in 2008, compared with 65 percent of actual overall costs in 1999. L & M monthly reports (which include claims involving no lost time) show medical benefits were 65 percent of overall costs in 2009, compared with 49 percent in 1999. NCCI reported that for 2008, medical costs were 63 percent of total benefits paid in states in the region and 58 percent nationally.

L & M reports for 2009 show medical costs to be broken down as follows:

| 2009 Medical Costs by Category | | |
|---------------------------------------|--------------------|-------------------|
| | Total Costs | % of Total |
| Chiropractic | 1,378,681 | 2.3% |
| Counseling | 7,386 | 0.0% |
| Dental | 129,176 | 0.2% |
| Medical Doctors and Osteopaths | 11,642,401 | 19.4% |
| Equipment | 920,104 | 1.5% |
| Home Health | 288,776 | 0.5% |
| Hospital | 30,386,802 | 50.5% |
| Pharmacy | 3,797,491 | 6.3% |
| Physical Therapy | 4,002,519 | 6.7% |
| Radiology | 1,439,463 | 2.4% |
| Other | 6,145,296 | 10.2% |
| Total | 60,138,095 | |

NCCI attributes the increases in medical costs to general medical inflation, changes in our state's workforce demographics, and changes in utilization. Comparing diagnosis mix, number of treatments, and other factors (including price changes) from 1996-97 to 2001-02, NCCI found 52 percent of the increase in medical benefit costs was attributable to increases in the number of treatments.

While nationwide average lost-time costs increased by a third from 2004 to 2008, South Dakota's costs remained flat. In addition, South Dakota's percentage of claims involving lost time (17.1 percent) was smaller than states in the region (21.2 percent) and nationwide (22.9 percent).

In summary, workers' compensation costs are beginning to rise, mostly because of medical expenses, particularly in larger claims. Whether this represents a temporary phenomenon or a long-term issue remains to be seen. No particular initiatives are being recommended as a response.

Respectfully submitted,

James E. Marsh
Director