



ANALYSIS OF S. 1970-A

The NYCIRB estimates that S. 1970-A, if enacted in its current form, may result in an overall workers compensation system cost increase of between 1.9% and 5.0%.

Summary of proposal

With respect to injuries occurring on or after the proposed bill effective date, S. 1970 proposes to increase fatal and permanent total benefits as follows:

- Increase the death benefit reimbursement rate from 66 2/3% to 75% of the weekly wage, with some variations depending on the type and number of dependents.
- Provides for a cost of living adjustment for death and permanent total benefits.

In addition, the bill proposes to increase benefits for fatal and permanent total benefits occurring prior to the proposed effective date as follows:

- Provides for the same increases as described above for deaths occurring on or after January 1st, 1978
- Provides for cost of living adjustment on fatal benefits for deaths occurring prior to 1978 (without the increase in reimbursement rate), and an increase in the benefit rate in certain cases.
- Provides for a cost of living adjustment to death benefits relating to employees of private voluntary hospital killed in the World Trade Center rescue.

Cost of living adjustment is defined in the bill as 2/3rds of the increase in the Consumer Price Index as promulgated by the U.S. Department of Labor (although the bill does not specify which CPI specifically should be referenced), with a maximum increase of \$20 in weekly benefits per COLA adjustment.

It is unclear from the language of the bill if cost of living adjustments would apply for permanent total injuries occurring prior to the proposed effective date of the bill.

The NYCIRB analysis, as described below, provides a cost estimate only for injuries and deaths occurring on and after the effective date of the bill. If injuries occurring prior to the dates described in the proposed legislation are also eligible for benefit increases, the cost for such retroactive increases is not contemplated in this analysis since premiums to be collected by insurance carriers only anticipate losses incurred during the prospective policy periods. This would create an unfunded liability unless another mechanism for payment of these increased benefits is established (e.g. supplemental benefits under the Reopened Case Fund).

Actuarial Analysis

Based on data from unit statistical reporting collected by the NYCIRB, it was determined that, after the 2007 reforms, fatal indemnity benefits are expected to represent 6.5% of total indemnity costs and PT benefits are expected to be 10.2% of total indemnity.



The direct impact on fatal cases of the increase in benefits from 66 2/3% to 75% is 12.5% (= .75 / .667). However, the calculation uses wage distribution tables to account for the fact that a certain percentage of beneficiaries are already getting the maximum weekly benefit allowed by law, and therefore would not receive the additional increase. After accounting for this, the impact on fatal indemnity costs becomes an increase of 4.0%. Since fatal indemnity benefits represent 6.5% of total indemnity benefits, the impact on indemnity benefits is 0.3%. Indemnity benefits represent 52.3% of total system costs, so overall estimated system cost impact of this section of the proposal is 0.2%.

In estimating the cost impact of the COLA provisions, the following assumptions were made:

- The average age of injury for a permanent total case is between 30 and 50
- The average age of a surviving spouse of a work related fatality is between 30 and 50
- Long term COLA will be on average between 1.5% and 3%.
- A reserve discount rate would have a long-run average of between 0% and 3.5%
- For fatal benefits, a social security offset has been taken into account

Using a life expectancy table, future payments on permanent total and fatal claims were made based on the assumptions above, first based on the current law, i.e. without a COLA, and then with the COLA assumption as described above. The resulting impact for each of the injury types examined is the total calculated future payments with COLA compared to the payments without COLA.

The impacts were then multiplied by the percentage of fatal and PT costs out of indemnity costs, and then by the percentage of indemnity costs to overall system costs to result in the estimated overall system cost impact.

The results are summarized in the following chart:

Assumptions	Age	50	30
	COLA %	1.5%	3.0%
	Discount Factor	3.5%	0.0%
Fatal	Fatal Impact	17.4%	49.1%
	Fatal percentage out of Indemnity Costs	6.5%	6.5%
	Total Indemnity Cost Impact due to fatal COLA	1.1%	3.2%
Permanent Total	PT Impact	22.0%	57.7%
	PT percentage out of Indemnity Costs	10.2%	10.2%
	Total Indemnity Cost Impact due to PT COLA	2.2%	5.9%
Combined Impact	Combined Indemnity Impact	3.3%	9.1%
	Indemnity portion of total system costs	52.3%	52.3%
	Overall system cost impact	1.7%	4.8%



Adding to the impacts in the above charts the 0.2% impact as a result of the increase in the fatal benefit reimbursement rates, the estimated overall impact of this bill is an increase in overall system costs of between 1.9% and 5.0%.

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