



## Workers Compensation Mega Claims

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Multimillion dollar claims have recently received considerable attention in workers compensation. While relatively infrequent, they can generate a significant amount of loss dollars. The vast majority of these costs are associated with medical services.

This article explores workers compensation mega claims, *defined as claims for which \$10M or more has been paid or is expected to be paid*, and expands on information presented at NCCI's **Annual Issues Symposium 2018**. Using data from NCCI's Financial Call 31, Unit Statistical data, and the Medical Data Call, we will review the recent history of mega claims and examine characteristics of these claims.

### Recent History of Mega Claims

There was an uptick in the number of mega claims in Accident Year (AY) 2016, as shown in Exhibit 1. Ten claims of at least \$10M have been observed for AY 2016 evaluated at 24 months. This is more than for any of the previous 15 AYs at a comparable maturity.

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## Recent Accident Years Show an Uptick in Mega Claims at 24 Months



Exhibit 1

Source: NCCI's Financial Call 31 data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV. Claims on large-deductible policies are excluded.

The experience from large deductible policies (policies with deductible amounts of \$100,000 and greater) is not included in the first three exhibits. We have recently begun collecting that data, but it was not available for all the years shown in these exhibits. In AY 2016, there were four mega claims from large deductible policies, but there have been none so far in AY 2017.

Increasing costs over time will naturally push more and more claims into the high-cost categories. To see how much of an impact this has had on our recent mega claim history, refer to the results in Exhibit 2.

In this exhibit, we have included an additional graphic, which adjusts all AYs to 2017 dollars. The indemnity costs associated with each claim have been adjusted with wage indices, while the medical costs have been adjusted using the Personal Health Care index.

After inflation-adjusting past AYs to today’s dollars, the 2016 level of mega claims, while relatively high, is not unprecedented. The same number of adjusted mega claims occurred in AY 2006 and nearly as many in AY 2007.

However, as a proportion of lost-time claims, AY 2016 stands alone over the last 15 years. Lost-time claim frequency has been declining by about 4% per year. So, while 2006 and 2016 had the same number of adjusted mega claims, 2016 had significantly fewer lost-time claims in total than did 2006. Thus, mega claims make up a larger proportion of total lost-time claims in 2016 than they did in 2006.

## Recent Accident Years Show an Uptick in Mega Claims at 24 Months

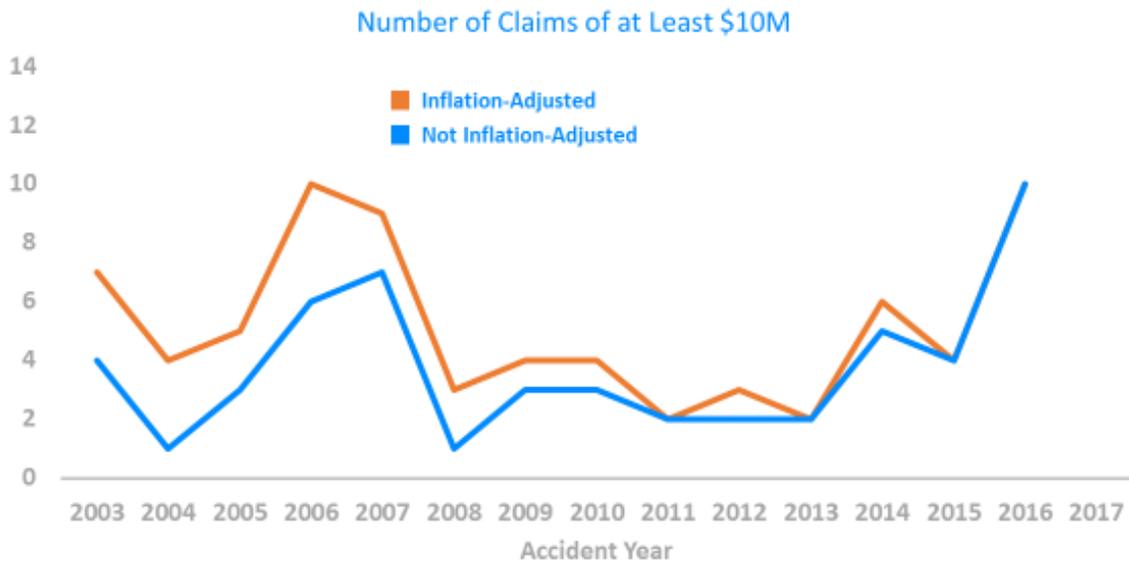


Exhibit 2

Sources: NCCI’s Financial Call 31 data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV. Claims on large-deductible policies are excluded. Inflation-adjusted values use Quarterly Census of Employment and Average Weekly Wage for indemnity, and Personal Health Care index for medical, and adjust to 2017.

Comparing mega claim activity at 24 months maturity (shown on the previous exhibits) to 12 months maturity also provides some insight. This is shown in Exhibit 3. The data on this slide has not been adjusted for inflation.

Viewing claim activity at 12 months allows us to get an early glimpse of AY 2017. While this early view does not show an unusually high number of mega claims, it is too early to draw any firm conclusions about the ultimate number of mega claims for AY 2017.

The comparison on this slide also reveals six new mega claims emerging between 12 and 24 months for AY 2016. This is high by historical standards, as is evident from the other AYs shown.

More information on large loss and excess loss development is given in a recent NCCI research paper.<sup>1</sup>

## Recent Accident Years Show an Uptick in Mega Claims at 24 Months



Exhibit 3

Source: NCCI's Financial Call 31 data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV. Claims on large-deductible policies are excluded.

<sup>1</sup> Raben, D., and Benzshawel, D., Workers Compensation Excess Loss Development, NCCI, 2016, on [ncci.com](http://ncci.com) at [www.ncci.com/Articles/Pages/II\\_2016\\_Excess\\_Loss\\_Research\\_Brief.aspx](http://www.ncci.com/Articles/Pages/II_2016_Excess_Loss_Research_Brief.aspx)

### Characteristics of Mega Claims

Next, we begin to examine some of the characteristics of mega claims. The left side of Exhibit 4 shows a distribution of lost-time claims by hazard group. Hazard group C has more lost-time claims than any other single hazard group, reflecting the relatively large amount of payroll in that group. The right side of this exhibit shows the hazard group distribution of mega claims. In contrast to all lost-time claims, mega claims are concentrated in the high hazard groups: E, F, and G. This is consistent with the expectation that higher hazard groups have a higher propensity for severe losses than do the lower hazard groups.

## 70% of Mega Claims Are in Hazard Groups E, F, or G

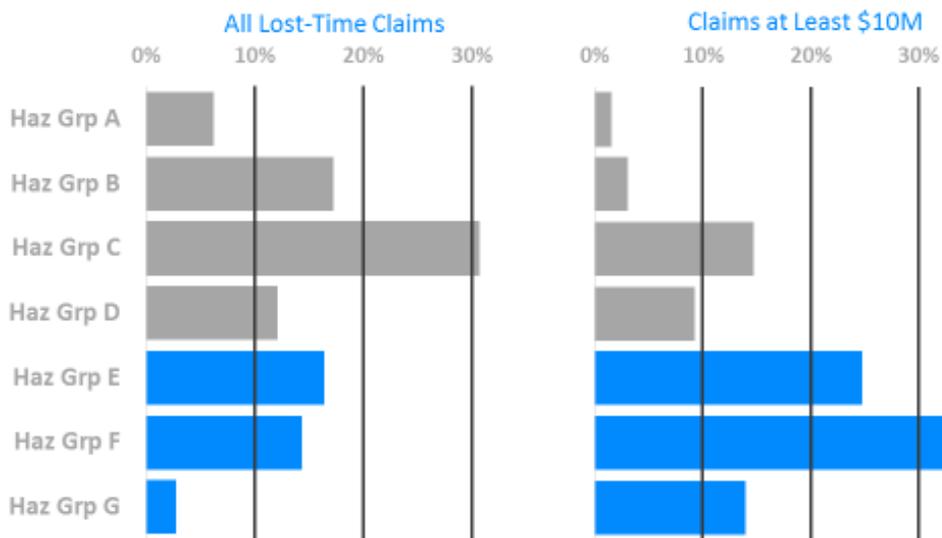


Exhibit 4

Source: NCCI's Unit Statistical data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV—for Accident Years 2001–2015 at 1st–5th reports.

When comparing the distribution of lost-time claims and mega claims by industry group, significant differences are again apparent. Exhibit 5 shows that even though the Goods & Services industry has at least double the number of lost-time claims of any other industry group, it is the Contracting industry group that has by far the greatest share of mega claims.

## 44% of Mega Claims Are From the Contracting Industry Group



Exhibit 5

Source: NCCI's Unit Statistical data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV—for Accident Years 2001–2015 at 1st–5th reports.

Drilling down further, Exhibit 6 displays the top five classifications with the most mega claims. The data is from claim activity over a 15-year period.

The carpentry classification (Code 5645) has had more mega claims than any other class over the past 15 years. For comparison purposes, it ranks 11th with respect to the number of all lost-time claims over this period.

The trucking classification (Code 7219—representing short-haul and long-haul) ranks 2nd in both mega claims and all lost-time claims.

Note that fifth on the list is workers compensation’s largest class: Code 8810—Clerical Office Employees NOC. This single class accounts for approximately 30% of total payroll. The large number of mega claims is primarily a reflection of the sheer size of this class.

## The Five Classes With the Most Mega Claims

Accident Years 2001–2015, Claims of at Least \$10M, Inflation-Adjusted

Class Code	Description	Number of Mega Claims	Industry Group	Hazard Group	Mega Claim Rank	Lost-Time Claim Rank
5645	CARPENTRY—CONSTRUCTION OF RESIDENTIAL DWELLINGS NOT EXCEEDING THREE STORIES IN HEIGHT	12	Contracting	F	1	11
7219	TRUCKING NOC—ALL EMPLOYEES & DRIVERS	8	Miscellaneous	F	2	2
5551	ROOFING—ALL KINDS & DRIVERS	6	Contracting	G	3	43
8742	SALESPERSONS OR COLLECTORS—OUTSIDE	6	Office & Clerical	E	4	13
8810	CLERICAL OFFICE EMPLOYEES NOC	5	Office & Clerical	C	5	1
ALL	ALL CLASS TOTAL	129	ALL	ALL		

Exhibit 6

Source: NCCI’s Unit Statistical data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV—for Accident Years 2001–2015 at 1st–5th reports.

The most common causes of mega claims are displayed in Exhibit 7. While strains are the leading cause of loss for all lost-time claims, falls from elevation and motor vehicle accidents are the leading causes when it comes to mega claims. Combined, those two categories account for nearly 70% of all mega claims.

## Nearly 70% of Mega Claims Are a Result of Motor Vehicle Accidents or Falls From Elevation



Exhibit 7

Source: NCCI's Unit Statistical data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV—for Accident Years 2001–2015 at 1st–5th reports.

As one might expect, distributions by part of body injured also differ significantly when comparing all lost-time claims to mega claims, as displayed in Exhibit 8.

Central nervous system injuries (neck/spine or head/brain) and injuries to multiple body parts account for nearly 95% of mega claims. For lost-time claims, these categories make up only 16% of the claim total.

## Nearly 95% of Mega Claims Are for Injuries to the Central Nervous System or Multiple Body Parts

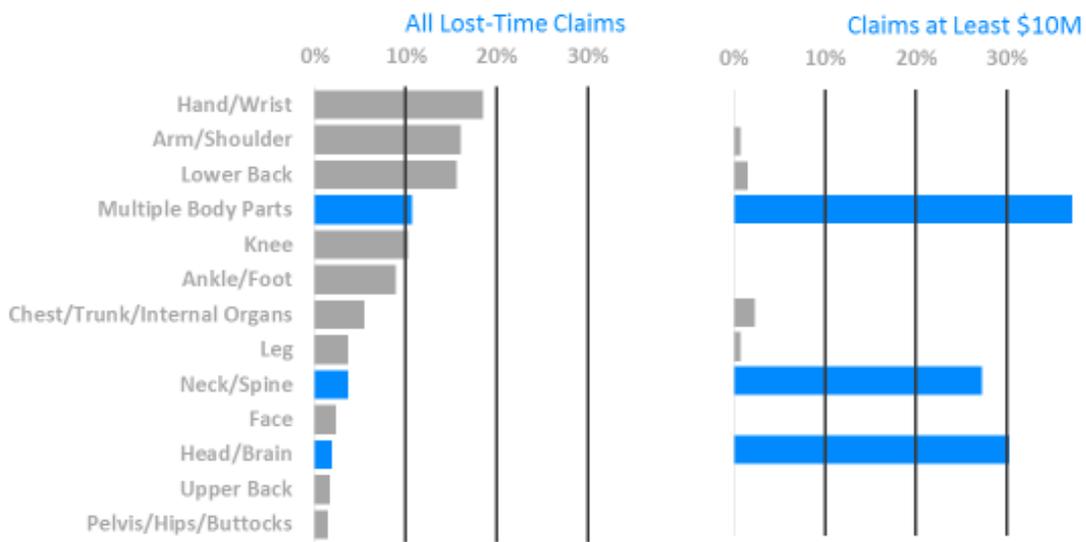


Exhibit 8

Source: NCCI's Unit Statistical data for 36 states—states where NCCI provides ratemaking services, excluding TX and WV—for Accident Years 2001–2015 at 1st–5th reports.

Next, we explore the medical expenses associated with mega claims since medical is typically 90% or more of these claims' costs. For these analyses, the Medical Data Call for 39 claims was utilized after having identified them as mega claims using Unit Statistical data from AYs 2010 to 2016.

We see in Exhibit 9 that hospital inpatient and home health care account for more than half of the mega claim medical costs. This is in stark contrast to all lost-time claims where physician expenses and hospital outpatient represent most of the medical costs.

## Hospital Inpatient and Home Health Care Are the Majority of Medical Costs for Mega Claims

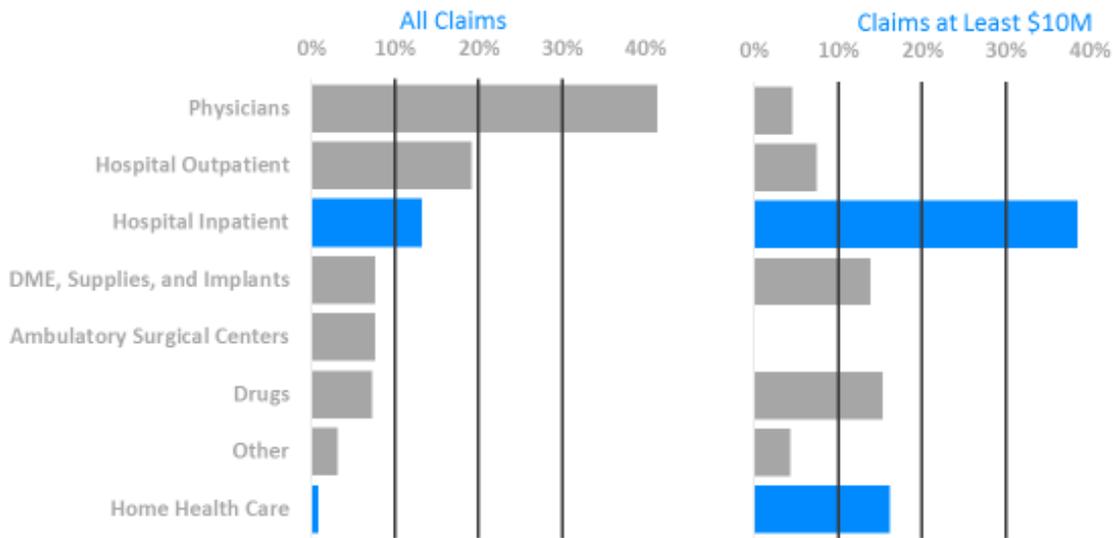


Exhibit 9

Source: NCCI's Medical Data Call for Service Year 2016 and AY 2010–2016 including lost-time and medical-only claims for 36 states where NCCI provides ratemaking services, excluding TX and WV. Mega claim analysis is based on 39 claims.

Finally, with hospital inpatient being the single largest category of medical costs for mega claims, we explore total length of hospital inpatient stay per mega claim. Most mega claimants experience multiple inpatient stays. The results shown in Exhibit 10 reflect the total combined days of hospital inpatient stay for each mega claimant, over all inpatient stays.

Approximately two out of three mega claimants (66.7%) spend at least three months as a hospital inpatient. Approximately one in five (20.5%) are in the hospital for more than a year.

## 67% of Mega Claimants Spend 3+ Months as Hospital Inpatients

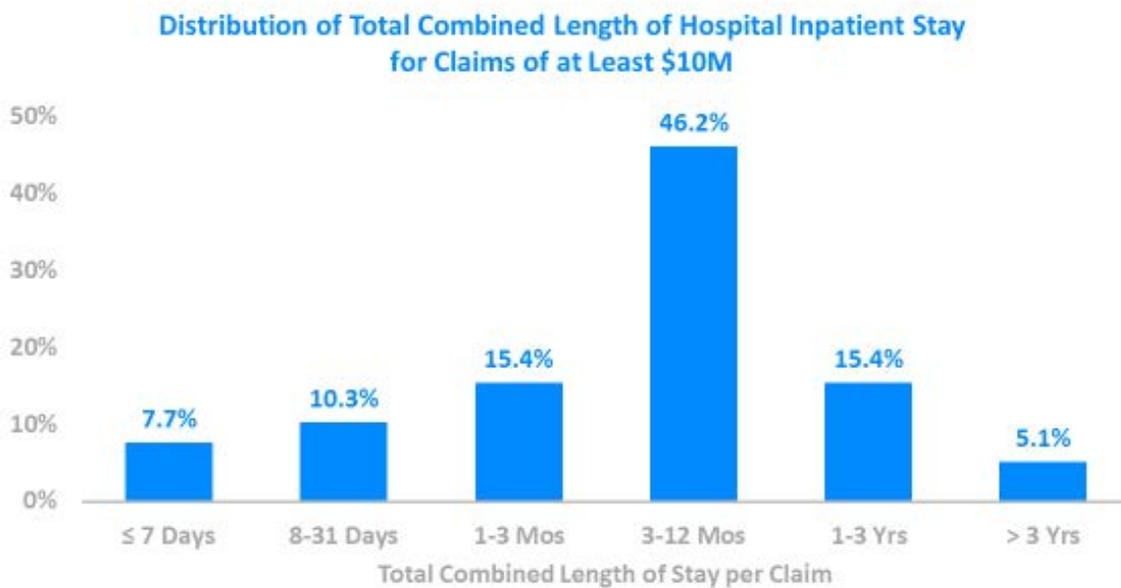


Exhibit 10

Source: NCCI's Medical Data Call. Analysis is based on 39 claims from AY 2010–2016 and services from 7/1/2010–12/31/2016 for 36 states—states where NCCI provides ratemaking services, excluding TX and WV.

### SUMMARY

- There were more mega claims in AY 2016 than in the immediately prior accident years. Because mega claims do not occur frequently, it is unclear whether this occurrence is a one-time blip or a sign of things to come.
- These multimillion dollar claims are frequently the result of motor vehicle accidents or falls from elevated levels.
- Hospital inpatient and home health care account for more than half of the mega claim medical costs.

NCCI will continue to monitor high-cost claims. Look for new research on this and other topics at [ncci.com](http://ncci.com).