Workers’ Compensation Loss Trends

The pandemic edition

March 2021

LOCKTON

When COVID-19 emerged as a global pandemic in 2020, most insurers, brokers and employers expected that workers' compensation (WC) could be negatively impacted. Some of the most pressing concerns included:

- How would insurers respond to claims during the pandemic?
- Could employers put measures in place to reduce the spread of COVID-19 in the workforce? If not, would a rise in COVID-19 claims offset the drop in claim volume due to reduced operations?
- Would demands on the medical system delay treatment for WC losses, increasing severity?
- How would modified duties or work from home impact loss trends?
- What would happen to WC profitability / pricing as unemployment grew and WC premium volume fell?

As these and many other concerns were identified, industry leaders hypothesized about how policies would respond and how claim activity might play out. While the pandemic is still ongoing, Lockton's analytics team examined claim patterns to validate which of the initial predictions materialized.[1]

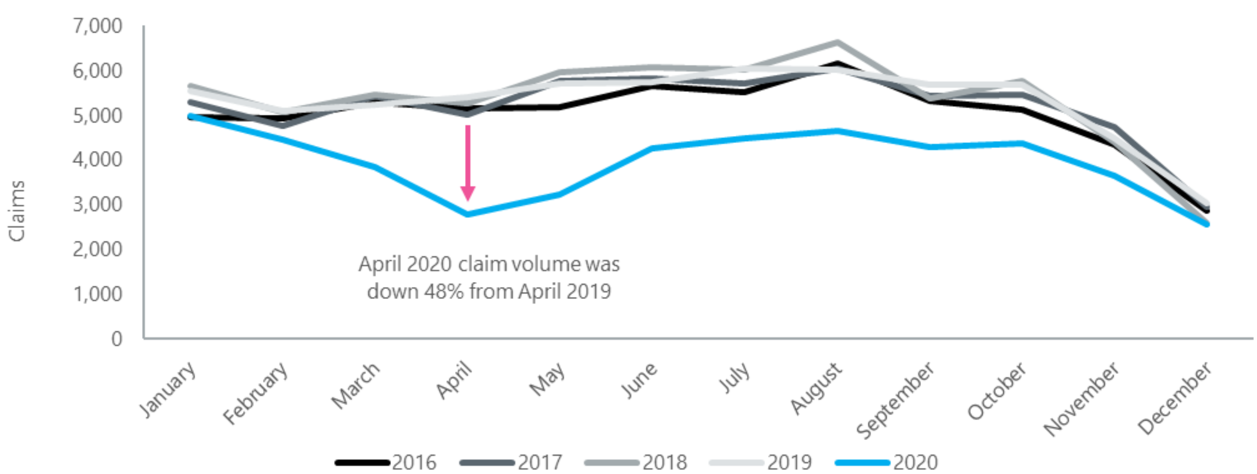
1 Five years of data was analyzed from Lockton's claim database, valued as of December 31 of each respective calendar year (green-to-green valuation). To ensure consistency, data was filtered to include only companies that were Lockton clients for all five years. The resulting data set includes 298K total claims.

Prediction: Temporary lockdowns imposed by state and local governments would lead to a decrease in claim volume. Initial hope was that businesses could reopen safely and claim volume would revert to normal levels in line with the economic recovery.

Outcome: As the pandemic sent shockwaves through the economy, many companies were forced to reduce operations and shrink payrolls, leading to a noticable drop in claim volume for 2020.

We compared claim volume by month for the past five years and noticed that a deviation from normal levels began in February 2020, corresponding to when local governments began declaring a state of emergency. When the state of emergency orders turned into widespread lockdowns, claim counts took an even more drastic dip, with April volume being 48% lower than in 2019. As the economy gradually reopened, claim counts slowly started to normalize, with December's count resembling historical norms.

CLAIM COUNTS BY MONTH

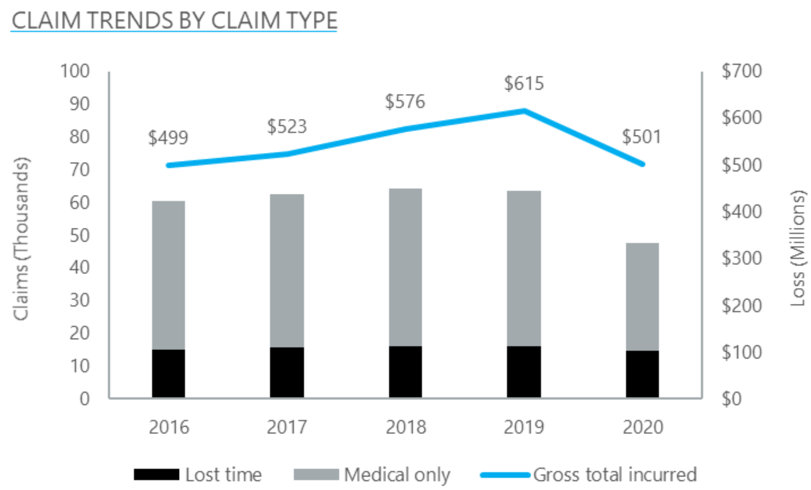


Takeaway: Claim activity is closely tied to company operations and exposures. When approaching renewal, clients should be careful to evaluate their 2020 loss experience on actual versus estimated exposures. This establishes a truer picture of loss experience and potential collateral need, and helps reserves be set at appropriate levels on the balance sheet.

Prediction: COVID-19 claims would drive up claim frequency and severity, eroding WC profitability.

Outcome: Fortunately, employers were able to put preventive measures in place to help mitigate the spread of COVID-19 in the workplace. As a result, COVID-19 claim volume was not high enough to offset the drop in volume due to reduced operations and exposures.

The decrease in volume was achieved despite more than 20 states enacting COVID-19 related WC presumption legislation acts, shifting the burden of proof from the exposed worker to the employer.[2]



As shown in this graph, Medical Only claims drove the decrease in volume, with a 31% drop from 2019. Lost Time claims decreased, but only by about 8% from the 2019 level. [3]

Incurred loss dollars were down proportionately to claim volume, indicating that average cost per claim was not overly impacted by COVID-19 claim costs.

While all current measures indicate the WC system was able to endure the pandemic, there are still many unknowns about the future, including possible long-term health risks related to COVID-19. Lockton's Interim Market Update (published in March 2021) discusses future challenges for the WC market and much more.

Takeaway: Lockton's analytics team can help companies evaluate historical loss experience and program structures, and identify areas for opportunity in managing risk. Lockton's clients benefit from all of the available support services, from the analytics team to the claims advisory practice to industry verticals expertise.

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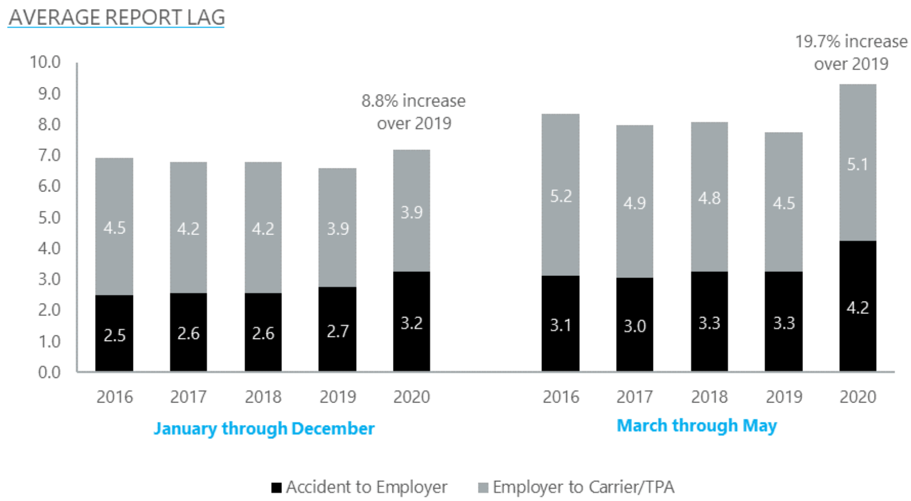
[2] See Lockton's Coronavirus State Report for more information and detail on an individual state basis.

[3] Lockton defines Medical Only claims as having ≥$1 in medical incurred or >$50 expense incurred, and <$1 in indemnity incurred. Lost Time claims are defined as having ≥$1 in indemnity incurred.

Prediction: As some companies shifted to a remote workforce or suspended operations, there were fears that fewer interactions between employees and employers could lead to increased latency in the reporting of new claims. This slower reporting might lead to treatment delays and drive WC costs higher.

Outcome: There was a marked increase in the lag time metric in 2020. Lag time is measured as the average number of days between an accident and the date it is reported to the carrier or third-party administrator (TPA).

Our analysis revealed a 9% increase in lag time in 2020 over the prior year, primarily driven by a delay in reporting accidents to employers.



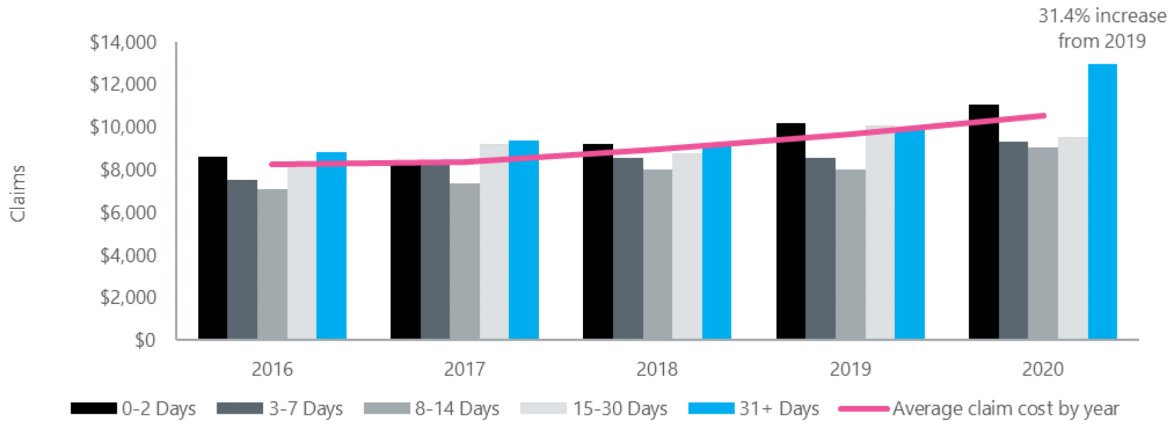
During the initial stages of the pandemic, states began to lock down and companies pivoted to survival. Uncertainty reigned, and in the months of March through May, lag time was about 1.5 days longer (or 20% higher) than 2019. Both intervals studied — accident to the employer and employer to carrier or TPA — experienced an upward shift during this period.

That notable delay in reporting of claims raises the question: Did this translate to additional expense in 2020? Unfortunately, there has not yet been enough time to analyze the impact of these delays on average claim costs. This will the topic of a future white paper.

Further investigation: A relatively steady increase in the average claim cost was observed year to year, and this aligns with industry severity trends. Lockton's initial conclusion is that the additional delays in reporting of claims were probably not detrimental to overall average costs.

One early observation is that the 2020 period did experience a spike in severity for claims with reporting lag of 31 days or more. A close look found that while COVID-19 claims are present in that grouping, the spike in severity still exists when COVID-19 claims are excluded.

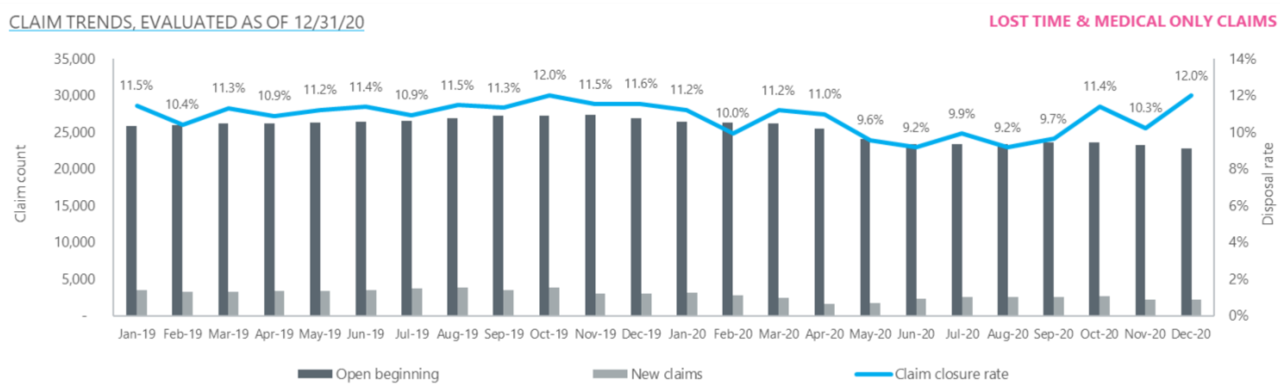
AVERAGE CLAIM COST BY REPORT LAG GROUP



Takeaway: Annual report lag metrics should be monitored to help identify whether there's opportunity for improvement within a company's claim reporting system. While lag time doesn't dictate claim outcomes, it can help indicate whether there are barriers for employees to file claims. States have different rules around the time in which employees can file claims, so ensuring prompt reporting can help with compliance, boost employee morale and lead to better outcomes.

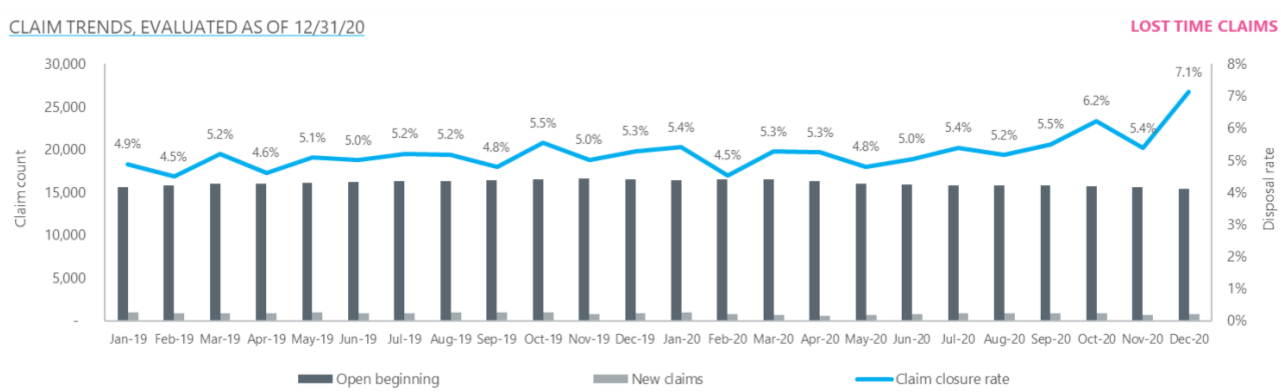
Prediction: Shutdowns and remote staffing would impact claim management and medical treatment.

Outcome: The claim closure rate in our study reached a low point in May 2020, perhaps because many put less critical medical treatments on hold. However, the closure rate has quickly returned to — and even surpassed — pre-pandemic levels. That rebound in the closure rate, combined with a lower volume of new claims, led to a decrease in open claims inventory.



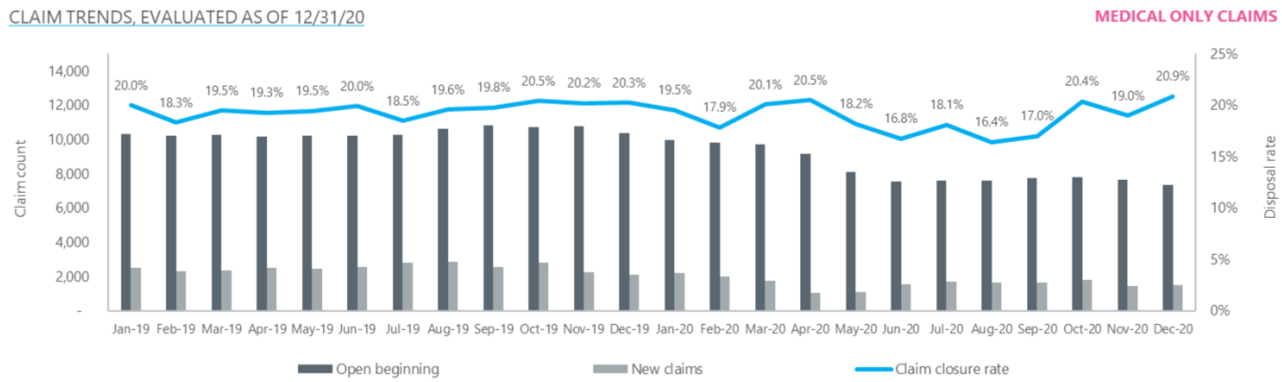
Further investigation: Given variances in claim patterns between Lost Time and Medical Only claims, the data was segregated for additional analysis.

Lost Time claims declined in 2020, and the closure rate on these claims has increased in pace over the prior year. The lower volume likely results from reductions in workforce, slower operations and/or remote work. With regard to the increased closure rate, there are a number of theories, including adjusters having more time to work on them, claimants being more inclined to settle while courts were closed or a desire to return to work during a time of economic uncertainty.



The **Medical Only** claim category experienced a much sharper decline in new claims. Employees who experienced minor injuries during this time may have found it difficult to file a claim for a minor incident or may have skipped or delayed medical treatment due to fear of the risk of contracting COVID-19 at a medical facility.

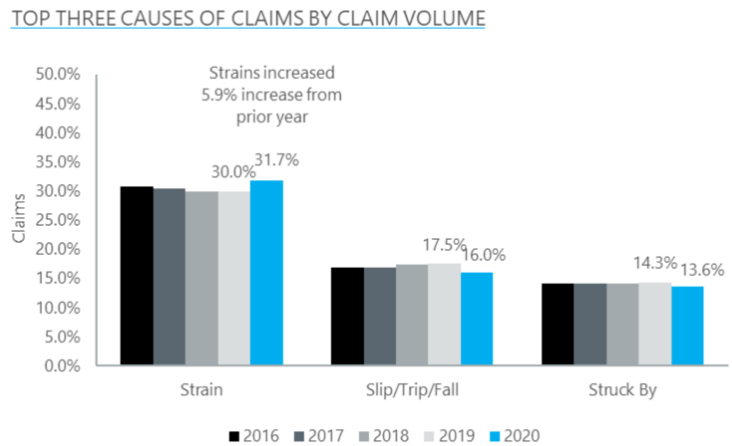
May and June both had slower-than-usual closure rates, but it should be noted that closure rates on Medical Only claims tended to be volatile even prior to COVID-19. December 2020 did have the fastest claim closure of the past two years.



Takeaway: Claim closure rates provide insight into the efficiency of a company’s claim handling team, whether that group sits “in house” or is outsourced to a carrier or TPA. Best practice is to keep the closure rate steady to increasing over time, reducing the potential for additional development that can happen when injuries aren’t addressed quickly and effectively.

Prediction: Remote work and modified duties would lead to changes in claim mix.

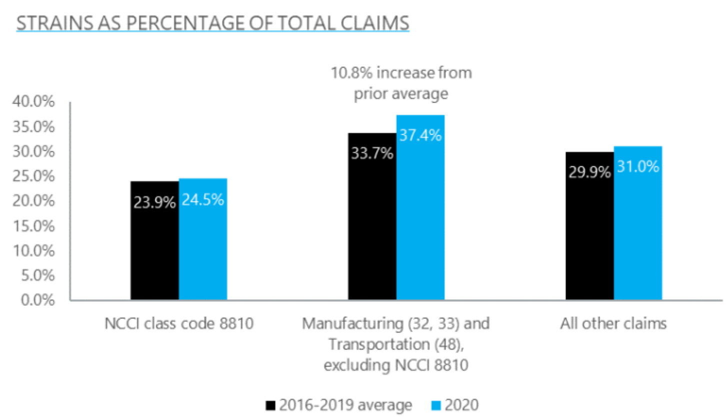
Outcome: There was a noticeable shift in the distribution of claim types in 2020, partially due to the new COVID-19 cause of loss being introduced, and partially due to a shift in employee work patterns.



COVID-19 claims accounted for about 4% of claim volume in the 2020 period. While many COVID-19 claims closed with no amount incurred, these claims have potential to be very costly, reaching over $1,000,000 in worst-case scenarios.[4]

Strain claims were more a more prevalent part of the overall mix in 2020 than in previous years, increasing by 5.9% from 2019.

Certain manufacturing, transportation and warehousing industries experienced the worst of the increase in ***Strain*** claims. After the removal of NCCI class code 8810, those industries show a 10.8% increase from the average of 2016-2019 years.[5]



This increase in ***Strains*** does not appear to be tied to an increase in hours worked. According to the Bureau of Labor Statistics, average weekly hours for manufacturing and transportation industries were below or on par with prior year averages.[6] It is possible that inconsistencies in reporting of exposures could mask an increase in hours worked. Another possible reason for the increase in ***Strains*** could be that some employees were pulled from their typical operations and put into new work situations where they were not as familiar with best practices that could help prevent strains.

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[4] COVID-19 claims were identified using one of three methods: 1: Cause Code 83, 2: Nature Code 83, 3: Text in the Accident description relating to COVID Keywords, with a nature that included Infectious Disease, Part Lungs, Cause Exposure, or some combination of those.

[5] Manufacturing industries are defined by NAICS sectors 32 and 33. Transportation and warehousing industries include NAICS sector 48.

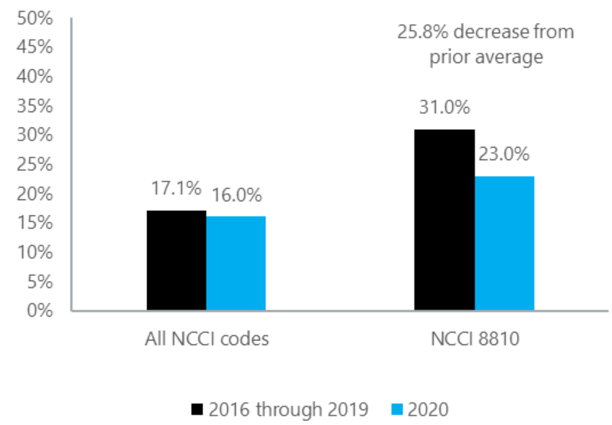
[6] Average weekly hours for NAICS sectors 31-33 were down slightly (38.0 in April 2020), according to BLS statistics. Similar activity is observed for the BLS snapshot of data for Transportation (NAICS 48-49).

Remote workforce concerns: Working on laptops from couches, tables and other work areas that are not ergonomically correct could lead to additional musculoskeletal issues. Although NCCI class code 8810 did not see much change in strains as of the 12-month valuation point for 2020, ergonomic problems often take time to develop, so this should be revisited at 18 and 24 months.

Inverse to the increase in proportion of Strains and COVID-19, some claim types experienced a decrease in prevalence, including the categories of ***Slip/Trip/Fall, Struck By and Vehicle***.

Decreases in ***Slip/Trip/Fall*** claims were observed most predominantly in industry groups with employees likely to be working from home during the pandemic. Clerical employees (defined by NCCI class code 8810) may have been the most likely employees to transition to a remote work environment; slip/trip/fall claims made up a significantly lower portion of claims filed by these employees in 2020.

SLIP/TRIP/FALL AS A PERCENTAGE OF CLAIMS



Takeaways: Strain claims pose the highest development risk for companies, so an upward trend in this claim type should be watched. Lockton's Risk Control Services experts recommend the use of virtual risks assessments in targeted areas where a client is experiencing an increased exposure to an identified loss driver. If we use strains as an example, this may include remote ergonomics assessment tools.

For companies that may be bringing the employee base back into the office after an extended period of remote work, it would be wise to be sure safety measures are widely known and policies are readily visible. Some associates may be new and showing up to a location for the first time, so it will be important for all associates to be reminded of company policies (areas off limits due to hazards, protocols in the event of a fire or storm, security policies on the premises, etc.)

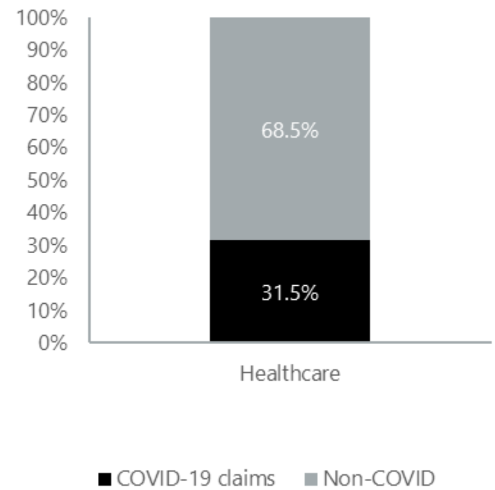
Prediction: Specific industry sectors would be adversely affected by COVID, dramatically impacting claims experience

Outcome: Perhaps not surprisingly, healthcare industry employees (NAICS sector 62) bore the brunt of COVID-19 illness and claim activity. COVID-19 was the cause of almost a third of all healthcare claims in this study.[7]

Despite the shift in claim mix to include many COVID-19 claims, average cost per claim for the healthcare group in the study was not materially different from prior years.

Other industries in Lockton's analysis experienced much lower prevalence of COVID claims.

COVID-19 PREVALENCE AMONG 2020 HEALTHCARE CLAIMS



Takeaway: The healthcare industry is in a particularly challenging position as regards COVID-19 claims, but all companies have a responsibility to provide safe work environments for their employees. Employers should endeavor to stay on top of COVID-19 prevention efforts for as long as the pandemic is ongoing; efforts may look different depending on the line of work and geographic location. Look to state and local government resources for rules and regulations.

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[7] As of 12/31, Lockton identified 573 lost time claims, 282 medical only claims, and 638 report only claims with a COVID classification or description.

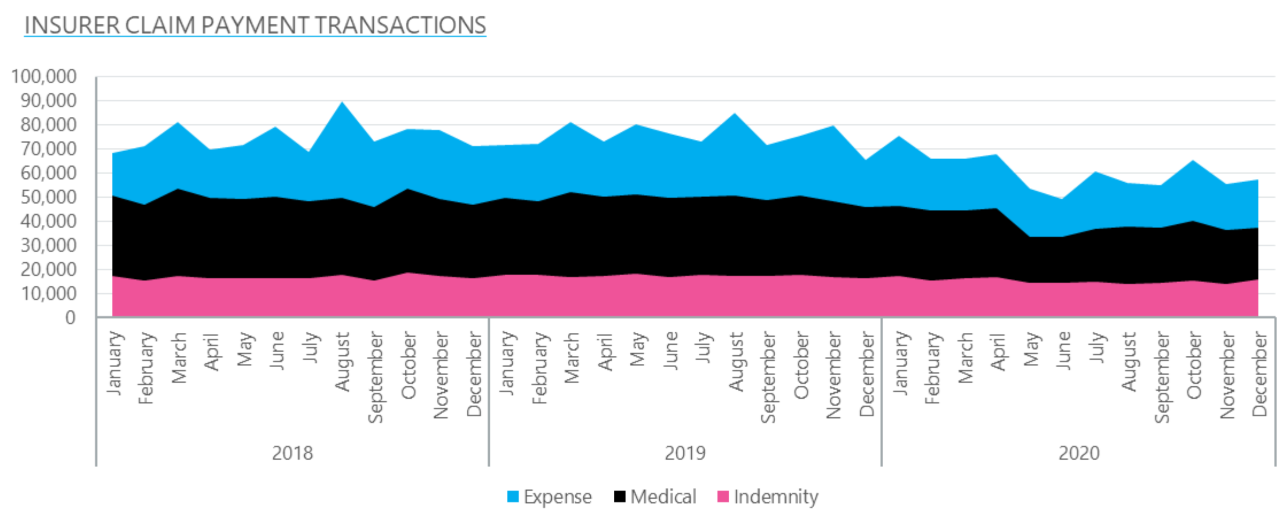
Prediction: With hospitals focusing on COVID-19 patients, WC claimants would have difficulty receiving necessary medical treatment.

Outcome: To evaluate this prediction, Lockton analyzed claim payment transaction volume — the count of WC claim payments made — by month. These payments include any medical, indemnity or expense costs involved in the life cycle of a claim. Checks written for doctor visits, medications, wage replacement, managed care services and claims handling fees are a few examples of individual payments that could be paid out during the life of a claim.

A downturn in claim payment transactions during COVID is observed, but it happened later than initially expected. While transactions in February through April were slightly depressed, medical and expense payments were most significantly impacted in May and June.

The delayed drop in volume is likely attributable to the fact that the date being used to measure payment volume in this study is the date of *payment* rather than the date of *treatment*. There is always a delay in treatment reimbursement. Because medical treatment was slow in March and April and there were fewer new claims reported, the data does not reflect the same slowdown in payment transactions until May and June.

Transaction volume began to increase again in July but is still not back to pre-pandemic levels. Expense and medical payments were the most impacted transactions; indemnity payments only experienced a slight decrease from prior months.



Takeaway: Lockton will continue to monitor payment volume in the months to come. An increase in payments back to pre-pandemic levels has not yet been observed, and that could be due to a few things. Positively, the market could have trimmed out excess payments and we may not see a return to pre-pandemic levels. Adversely, employees could need additional treatment and not be receiving it due to the virtual environment. We don't know yet what a "new normal" might look like.

Looking to the future:

Despite vaccines being rolled out across the globe, employers have already established a “new normal” in the workplace, and remote work, modified duties and enhanced safety efforts are likely here to stay. Further, COVID-19 had a profound impact on healthcare, leading to delays in treatment and a rapid rise in telemedicine. How these will changes will ultimately impact workers’ compensation loss patterns going forward remains to be seen.

Lockton recognizes that we don’t have the full picture of the pandemic’s impact at 12 months, so further studies are planned. However, our current view indicates that the workers’ compensation system was able to absorb COVID-19 as a new cause of loss without a significant increase in loss costs. Future analysis will confirm if these early trends are valid or simply the lull before the storm.

If you have questions about this paper, or if you would like to discuss an opportunity to partner with Lockton, please call 816.960.9000 or email CustomerInquiries@lockton.com, and you’ll be put in touch with a team that can help.

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