

The truth of mega-claims:

some comfort, some causes for concern

When a workers compensation claim for a 19 year old who has sustained life-changing injuries hits, it can cost a company many millions of dollars. But is the frequency of these claims rapidly increasing, as many believe?

One of the most significant concerns for workers compensation writers is a potential surge in claim costs stemming from new medical technology. As treatments become more complex, more effective and more expensive, there is a fear that these costs will be reflected in the cost of the technology as well as an increase in utilization – as the technology extends lives and generates additional medical treatment. This was the premise of the large loss study recently conducted by Willis Towers Watson.

The study included 30 insurers and self-insureds, representing more than 30% of the U.S. workers compensation market. It looked at claims of over \$1 million, and its headline findings were reassuring. Contrary to the fears of many people, the frequency of these claims has remained relatively flat.

Flatter graphs, gradual increases

For a start, the uptick in loss trends is consistent when measured against the overall inflationary trends. Furthermore, newer, more expensive medical technology and more widespread use of advanced techniques has not caused a significant increase in claim amounts. While the statistics show an upward trend, applying the average industry trends to the data set transforms it to reveal increases that are merely in line with overall medical inflation.

Once the premium increases are factored in, the graph flattens further. However, there is some cause for concern, which may yet suggest that the picture described by these two graphs is not all it appears. The National Council of Compensation Insurance reports that the frequency of all claims has dropped by 6% in each of the last two years, a significant amount. So while the frequency of mega-claims remains steady, they are happening more frequently relative to the overall claim counts. There is some further detail behind the composition of the claims, particularly the behavior of claims higher than \$10 million, which deserves more attention.

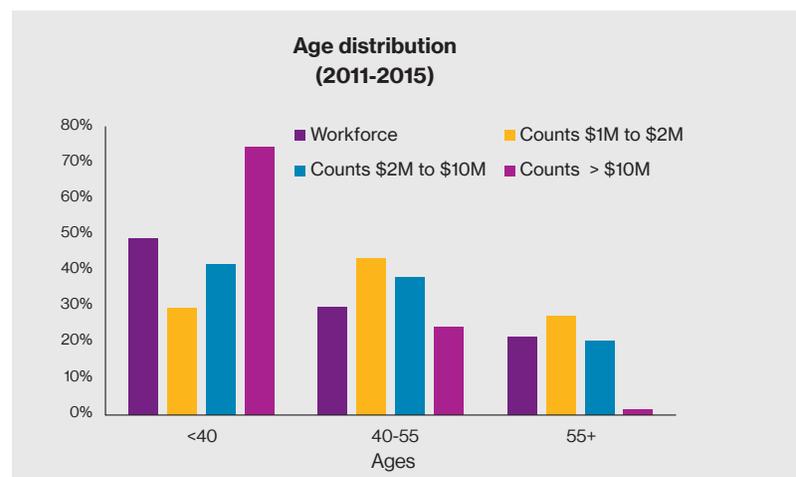
Understanding large claim behavior

Larger companies report a higher frequency of mega-claims than their smaller peers. Six companies surveyed had workers compensation premiums in excess of \$1 billion, and were shouldering 2,907 claims over \$1 million and 84 claims over \$10 million (based on the 30% market share included in the study).

The most frequent causes of injury are falls, trips or slips, which account for a staggering 28% of \$10 million claims. While these may sound like minor happenings, evidence suggests that falls often occur from heights, which makes the potential for serious injury much greater and can also involve slipping on ice, which can result in major brain trauma.

Motor vehicle accidents, and being struck by an object or machine contribute 24% and 23% of claim counts, respectively. And the most significant type of injury is multiple trauma, which accounts for 54% of the claim count, followed by brain injury, which accounts for 14%.

A significant distinguishing factor between \$2 million and \$10 million claims is age. For claims between \$1 million and \$2 million, 30% of the average of claimants at the date of loss is under 40 years of age. For claims in excess of \$10 million, nearly 75% of claimants are under 40 at the date of loss, and will face a lifetime of complicated and costly medical interventions.



Source: Willis Towers Watson Workers Compensation Large Loss Study

The takeaway is that a surge in mega-claims that was expected in recent accident years has yet to materialize. But insurance industry fears about expensive new treatments are not groundless. The development of new drugs and treatments seems almost certain to bring with it higher costs, which will remain unknown until after the coverage has been priced. And more medical professionals using more expensive treatments more widely is a trend that requires close attention.

Note: This survey was produced through the Risk and Reinsurance practice of Willis Re.

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