LEGISLATIVE BUDGET AND FINANCE COMMITTEE

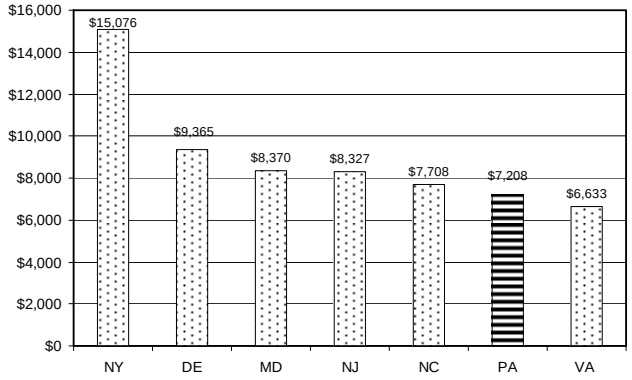
Report Highlights
Pennsylvania's Workers' Compensation System Compared to Nearby States

House Resolution 660 calls on the LB&FC to review the Commonwealth's workers' compensation system as it compares to nearby states with regard to various costs and procedures.

Findings:

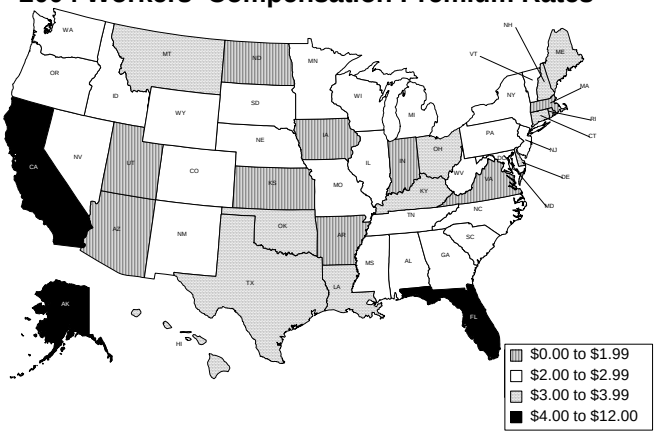
- Benefit Payments – For the 12 states included in the most recent Workers' Compensation Research Institute (WCRI) study, PA had the fifth lowest total benefit payment per claim. PA had the sixth highest indemnity payment per claim, but the fourth lowest medical payment per claim. As shown in the exhibit below, PA benefit payments also compare favorably against nearby states.

Average Overall Cost Per Claim



- Medical Fee Schedule – PA's relatively low medical costs are attributable primarily to the workers' compensation medical fee schedule. This schedule is based on the 1994 Medicare fee schedule, adjusted annually for changes in the statewide average weekly wage. Basing fees on the 1994 Medicare schedule results in significant disparities both against current Medicare fees and in comparison to other state workers' compensation fees.
- Administrative Costs and Performance – PA falls in the mid-range for all administrative measures reviewed except "medical-legal" expense per claim. These include costs such as medical depositions and medical exams initiated by one of the litigating parties. PA average defense attorney payments ($3,500) are also high compared to the WCRI 12-state median ($2,415). PA has high claim frequency rates, but this appears attributable primarily to high numbers of medical-only claims, which are relatively inexpensive.
- Employers Costs – PA's workers' compensation costs to employers are in the mid-range compared to other states.

2004 Workers' Compensation Premium Rates



- Insurance Industry Reserving and Profitability – Insurer initial reserves cover only about 35% of ultimate payouts. The workers' compensation line of insurance has had an 8.3% return on net worth since 1993, compared to a 5.9% average return for all lines of property and casualty insurance written in PA.

Recommendation:

The Legislature and/or Department of Labor and Industry should consider:

- establishing a new workers' compensation medical fee schedule, to be administered with assistance from a new Workers' Compensation Medical Fee Advisory Council;
- developing treatment guidelines for chiropractors, physical therapists, and occupational therapists; and
- creating incentives to reduce litigation. Possible steps include promoting prompt payments to claimants, creating an Ombudsman program, reducing serial hearings (e.g., by requiring one day/one trial), mandatory mediation before formal hearings, reducing attorney fees, and eliminating both the Supersedeas Fund and Workers' Compensation Appeal Board.

For a full copy of the report, please call 717-783-1600 or e-mail us at info@lbfc.legis.state.pa.us

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