



FRANK NEUHAUSER, Project Director

UC DATA/Survey Research Center
2538 Channing Way, #5100
Berkeley, California 94720-5100

Tel: (510) 643-0667
Fax: (510) 643-8292
E-mail: frankn@uclink4.berkeley.edu

Memorandum

Date: February 23, 2007
To: Christine Baker, Executive Officer, CHSWC
Dave Bellusci, Senior VP & Chief Actuary, WCIRB
CC: Ward Brooks, WCIRB
From: Frank Neuhauser
Re: Analysis of ratings under the new PD schedule, through January 2007

At the request of the Commission on Health and Safety and Workers' Compensation (CHSW) and the Workers' Compensation Insurance Rating Bureau (WCIRB) I compare the average ratings under the 2005 PDRS to comparable groups of ratings under the pre-2005 PDRS. The comparison includes all ratings done under the 2005 PDRS through January, 2007. This includes 30,537 ratings under the new schedule.

Current estimates:

- Through January 17, 2007 there were 30,537 reports rated under the 2005 PDRS, excluding reports where no ratable impairment was found. A very small number of cases rated under the new schedule had missing data, such as incomplete impairment category numbers, and were excluded from these analyses.
- 13,832 of these ratings were "summary" ratings and are included in the primary estimate.
- 16,705 of the ratings were for "consults" where the comparison between the two schedules should be considered more carefully.

The data in this report were weighted to correct for the slightly less mature nature of claims under the new schedule. These data should reflect the ultimate average ratings.

Average ratings

- The average rating on Summary ratings was 11.95% compared to an average of 20.50% for a comparable group of claims under the pre-2005 PDRS. This represents a decline of 41.7% in the average rating
- The average rating for Consults was 19.72% compared to an average of 33.50 for a comparable group of cases rated under the pre-2005 PDRS, a decline of 41.1%.

Average Ratings (Sept. 2006 estimate in parentheses)			
	2005 PDRS	Pre-2005 PDRS	Difference
Summary	11.95% (11.75)	20.50% (20.62)	-41.7% (-43.0)
Consults	19.72% (20.44)	33.50% (33.83)	-41.1% (-39.6)

Average PD award (Sept. 2006 estimate in parentheses)			
	2005 PDRS	Pre-2005 PDRS	Difference
Summary	\$10,592 (\$10,338)	\$22,508 (\$22,639)	-52.9% (-54.3)
Consults	\$20,840 (\$21,680)	\$42,514 (\$43,168)	-51.0% (-49.8)

Apportionment

The extent of apportionment was evaluated for Summary rated claims. (Summary ratings are submitted to a judge to determine whether apportionment is appropriate. Consults are not submitted to a judge and apportionment is generally not considered by the DEU).

- 1,318 of 13,649 summary rated cases (9.7%) included apportionment.
- The average percent of the rating apportioned to other cases or causes was 40.4%, that is, on average, 59.6% was awarded in the current case when any apportionment was applied.
- The impact was to reduce the average rating on all cases by 4.9.
- Apportionment reduced the average PD award by 5.8%.

Apportionment—Summary Ratings (Sept. 2006 in parentheses)		
		% of all
Number of ratings	13,649	
Number with apportionment	1,318	9.7% (9.9)

On cases with apportionment, an average of 41% was apportioned to non-industrial cause (The DEU has not yet seen a case where a party claimed apportionment to a prior disability under the pre-2005 PDRS.) Overall, apportionment has reduced the average award on all summary ratings by 4.7%

Apportionment—Summary Ratings	
Average % apportioned to non-industrial	40.4% (39.4)
Percent impact on rating	-4.9% (-5.0)
Percent impact on PD award	-5.8% (-6.1)

Preliminary—Subject to change

Average ratings by impairment type:

<u>Summary Ratings</u>		Average Rating		
	N	2005 PDRS	Pre-2005 PDRS	Difference
Wrist/Hand	1,772	5.91	10.29	-42.5%
Arm/Elbow/ Shoulder	3,554	8.69	15.85	-45.2%
Lower Extremity	3,035	9.12	15.77	-42.2%
Spine	4,596	14.01	23.51	-40.4%
Psych	170	25.50	17.78	+43.4%
Other	495	15.42	16.22	- 4.9%

<u>Consult Ratings</u>		Average Rating		
	N	2005 PDRS	Pre-2005 PDRS	Difference
Wrist/Hand	36	7.06	18.13	- 61.1%
Arm/Elbow/ Shoulder	159	13.16	25.85	- 49.1%
Lower Extremity	110	10.74	23.34	- 54.0%
Spine	382	18.85	32.18	- 41.4%
Psych	45	30.76	27.99	+ 9.9%
Other	61	26.30	24.13	+ 9.0%

Preliminary—Subject to change

It is important to treat these findings as preliminary. While the estimates have remained reasonably stable over the past 3 months, the number of cases rated under the 2005 PDRS is still small, 1501 of the more than 70,000 DEU ratings done in 2005. Second, we are working with the DEU to compare all case they have identified manually as rated under the new schedule to the set of cases I identify through computer programming. This process should be completed next week. This is a new rating process and the initial ratings may be less indicative of claims than a similar sample drawn from a prior period when the rating schedule was well understood by all parties.

Data:

These data were extracted from the Disability Evaluation Unit database by the Division of Workers' Compensation. We obtained all ratings with in the database, from 1987 to the present, about 1.5 million records. However, for this analysis we restricted the ratings to those performed from 1/1/04 to 6/15/05. The most important reason for this restriction is that the coding of the rating type was changed at the beginning of 2004. Rating type refers to whether it is a formal rating (requested by a WCJ), a report by a QME, a report by a treating physician, a report mailed in, or a rating done on a walk-in basis, usually for an attorney. The type of rating was a key criterion for establishing a comparison group of ratings done under the pre-2005 schedule.

Comparison cases:

In discussion with the WCIRB and DEU, we developed four key criteria to establish comparability across the two rating schedules.

1. **Rating type:** Average ratings vary considerably by rating type, and at this early stage, the distribution of rating types for the 2005 PDRS varied from the distribution seen for all ratings done during the period. Rating types include:
 - a. Formal = At request of WCJ
 - b. QME reports
 - c. Treating physician reports
 - d. "Walk-ins" = usually reports handled on for attorneys walking in.
 - e. M = Mail-in, similar to walk-in.
2. **Disability category:** Ratings vary greatly depending upon the underlying disability. At this initial stage, the distribution of disabilities is different from the long-term distribution, most important, there is a higher concentration of spinal impairments in the new PDRS ratings. There are a large number of disability categories which makes it necessary to collapse disabilities to a limited number of categories. We did this along the lines of major categories with two special cases.
 - a. Group 1: wrist, hands, and fingers
 - b. Group 2: all other upper extremity
 - c. Group 3: lower extremity
 - d. Group 4: spine

Preliminary—Subject to change

- e. Group 6: psychiatric
- f. Group 9: all other

Psychiatric cases were few, but they represent a major change between schedules.

(Vision impairments might, category 5, were examined in the previous work, however they were very infrequent and in the future will be collapsed into the “all other” group.

3. **Date from injury to rating:** Previous work has shown that as the time between injury and rating increases, the average rating increases. Consequently, we broke the time from injury to rating into 100 day increments and matched on this criterion.
4. **Multiple disabilities:** This was the most difficult criterion to design. Not surprisingly, multiple disability cases receive much higher ratings on average than single disability cases. But, the listing of multiple impairments will be more frequent under the 2005 schedule because of the design of the AMA process. Consider spinal impairments. The pre-2005 schedule had only one category. The AMA process allows one to assign at least 3 different impairments (lumbar, thoracic, and cervical) to a spine disability. I decided that we would define multiple impairments as those where the impairments involved two or more of the 7 groups listed above. That is, if two impairments were listed for the lower extremity, they were treated as a single impairment case. An impairment to the lower extremity and upper extremity would be treated as a multiple case. Also, because the number of combinations created the potential for very small cell sizes or a failure to match, I defined multiple impairment on just as a dichotomous choice. This means that the primary impairment was taken as the impairment category for matching and then the additional requirement of multiple or single impairment was required. That is, a primary back impairment with a lower extremity impairment and a primary back impairment with an upper extremity impairment were both treated as a multiple back impairment.

After creating these specific cells, we failed to match the new PD rating to a comparison group in only one case. In a small number of cases (16), the comparison group had fewer than 30 pre-2005 ratings.

Apportionment: Apportionment to causation was introduced as part of the SB-899 reform package. Apportionment is identified by inclusion of the percentage apportioned to the current case (when less than 100%). This indication appeared in 10.6% of cases. We are not positive at this stage whether all DEU raters adhere to this format. We have had discussions with the DEU about being sure that this format is standardized for future ratings. At this stage, the 10.6% figure can be thought of as a lower bound estimate.