



**STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

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March 17, 2016

To: The Honorable Gilbert Keith-Agaran, Chair,  
The Honorable Maile Shimabukuro, Vice Chair, and  
Members of the Senate Committee on Judiciary & Labor

Date: March 17, 2016

Time: 9:30 a.m.

Place: Conference Room 016, State Capitol

From: Linda Chu Takayama, Director  
Department of Labor and Industrial Relations (DLIR)

**Re: H.B. No. 2715 HD2 Relating to Workers' Compensation**

**I. OVERVIEW OF PROPOSED LEGISLATION**

HB2715 HD2 will require the Department of Labor & Industrial Relations (DLIR) to contract with an actuarial firm with experience conducting workers' compensation closed claims studies in the United States and to perform a comprehensive review of the workers' compensation in the State. The study is to be completed at an undefined time and resubmitted to the Legislature upon completion.

DLIR supports the intent of this proposal. The department supports the closed claim study but believes a comprehensive review of the workers' compensation is not warranted at this time.

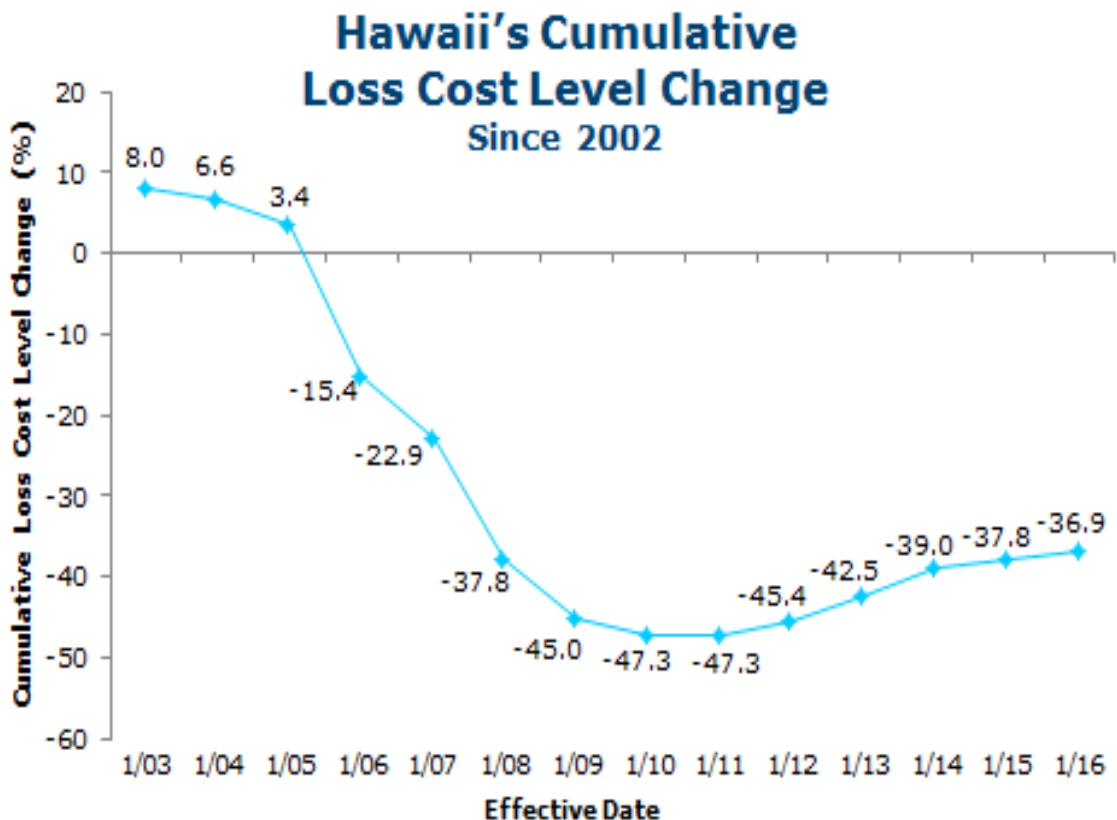
**II. CURRENT STATUS**

There have been no recent closed claims studies on workers' compensation in Hawaii since the 1993 study by Tillinghast.

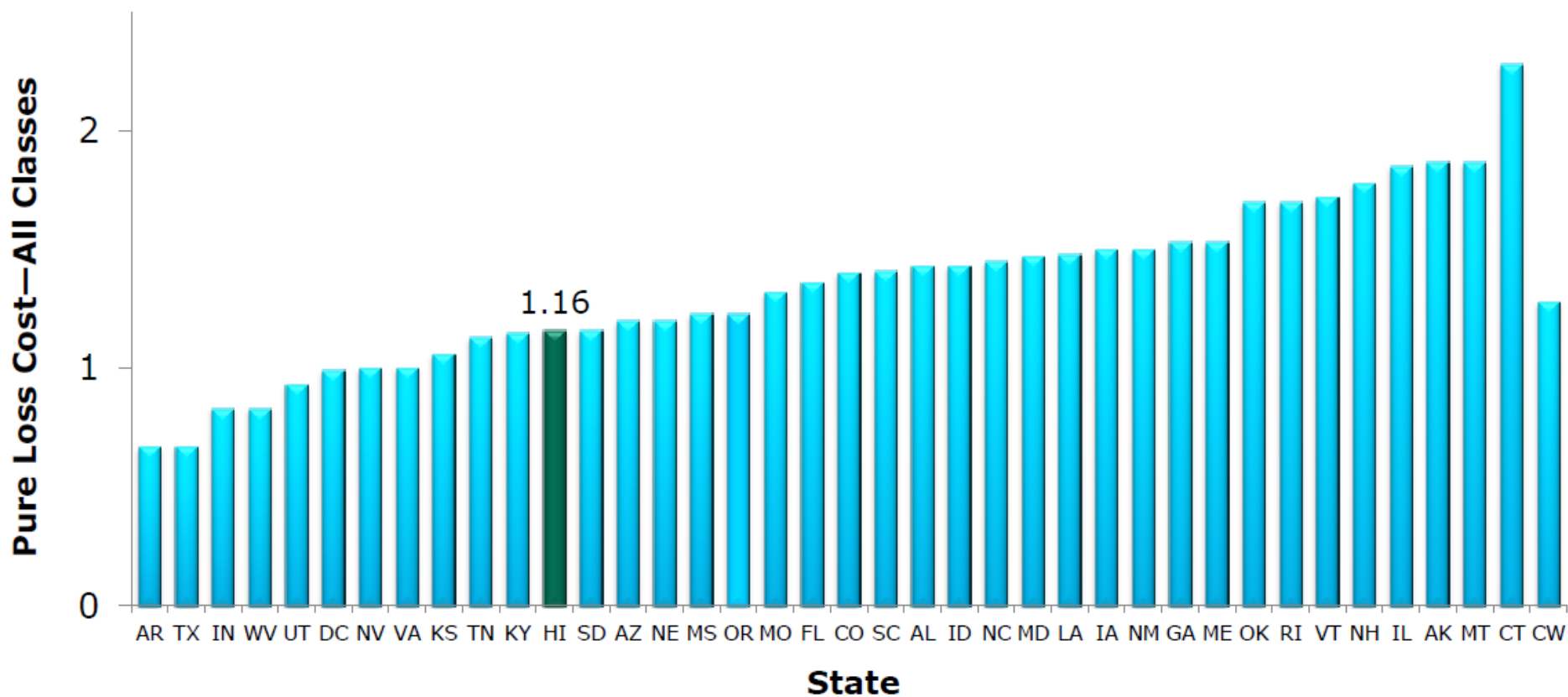
The Disability Compensation Division (DCD) is currently undertaking a comprehensive review of the Workers' Compensation laws and systems through a Business Process Optimization Analysis and Case System Modernization Study. (The 2015 legislature appropriated \$905,000 to conduct the study). A report is due to the 2017 Legislature.

### III. COMMENTS ON THE HOUSE BILL

1. The department supports a closed-claims study as outlined on page 2, lines 8 – 13.
2. DLIR suggests that a closed claims study could highlight important data, a comprehensive review of the State's laws and systems is not necessary with the current Gartner consultation underway. Note that the costs in the workers' compensation system have fallen dramatically since the reform in the mid-90s (see charts below), which was based on the last closed claims study.
3. The department is concerned that the total costs of the study not to exceed \$400,000 may not be sufficient as previous estimates were close to seven-digit figures. The department is in the process of contacting actuarial firms to develop cost estimates based on the measure for a closed-case study.
4. With sufficient funding, the department could submit the completed closed-case study to the legislature in the 2018 session.



# Current Average Voluntary Pure Loss Costs Using Hawaii's Payroll Distribution



Based on the latest NCCI-approved rates and loss costs in the various states

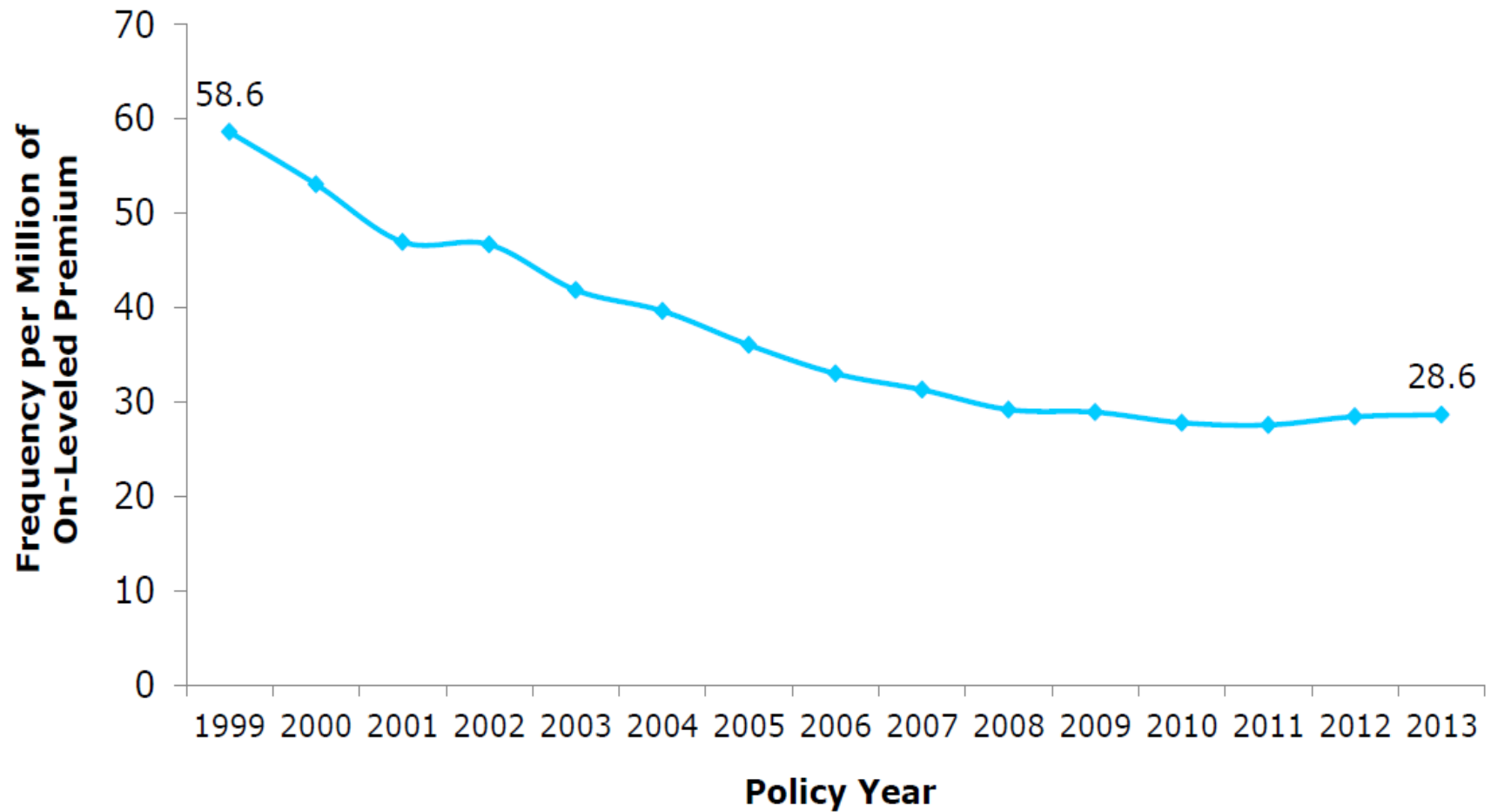
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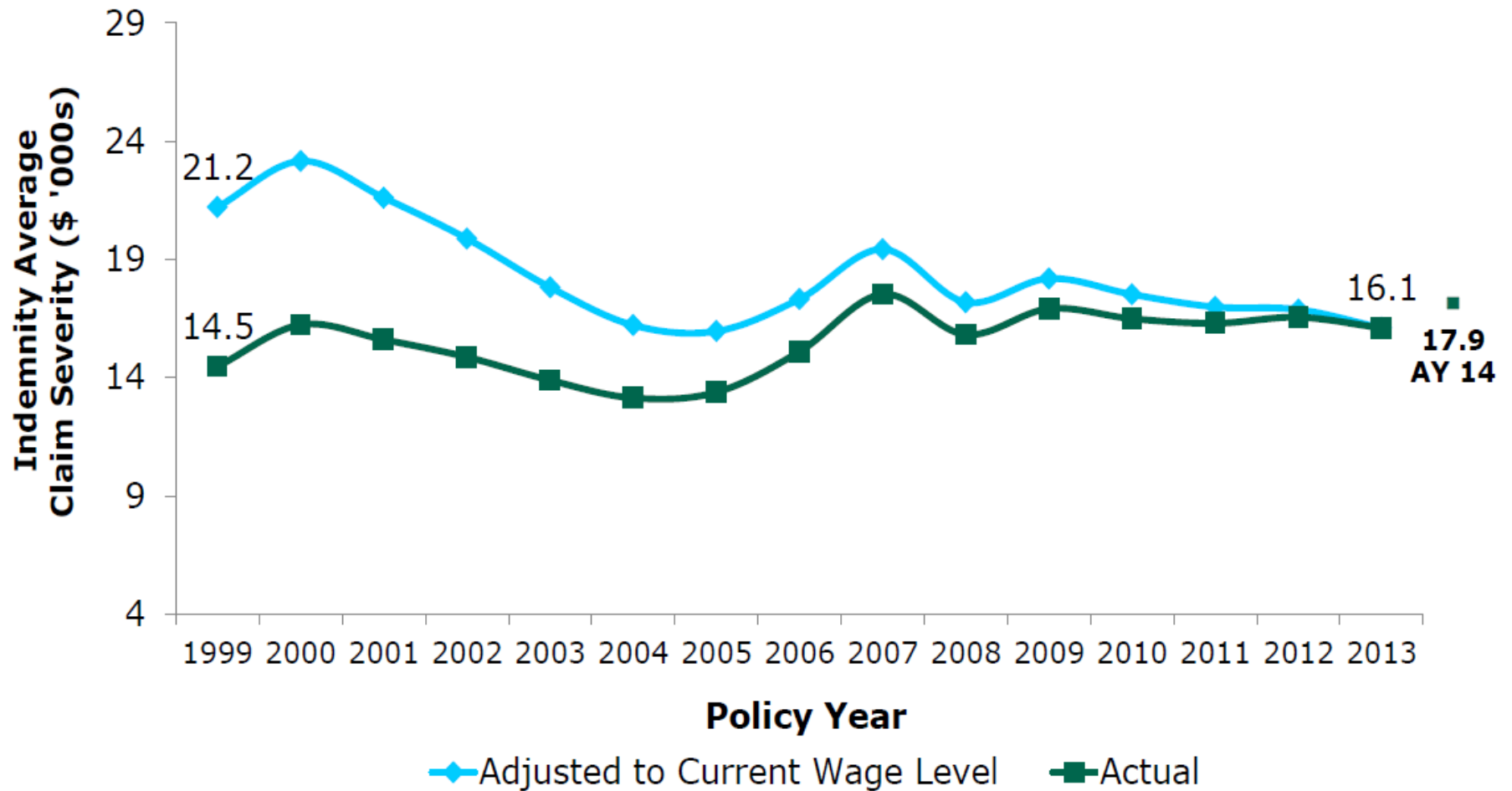
Auxiliary aids and services are available upon request to individuals with disabilities.  
TDD/TTY Dial 711 then ask for (808) 586-8866

# Hawaii Claim Frequency



Based on NCCI's financial data  
Frequency of lost-time claims adjusted to a common wage level

# Hawaii's Average Indemnity Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate

## **TESTIMONY OF ALISON UEOKA**

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COMMITTEE ON JUDICIARY AND LABOR  
Senator Gilbert S.C. Keith-Agaran, Chair  
Senator Maile S.L. Shimabukuro, Vice Chair

Wednesday, March 17, 2016  
9:30 a.m.

### **HB 2715, HD2**

Chair Keith-Agaran, Vice Chair Shimabukuro, and members of the Committee on Judiciary and Labor, my name is Alison Ueoka, President of Hawaii Insurers Council. Hawaii Insurers Council is a non-profit trade association of property and casualty insurance companies licensed to do business in Hawaii. Member companies underwrite approximately sixty-three percent of all workers' compensation insurance premiums in the state.

Hawaii Insurers Council **supports** this bill if the Legislature believes the workers' compensation system needs law changes. From a market standpoint, workers' compensation insurance is performing well because the marketplace is competitive, the residual market insurer has depopulated from its inception, rates are low in comparison to other states, and benefits remain high.

The DLIR is mid-way through their study of the system and we believe the consultants will recommend administrative changes that will streamline and make more consistent the delivery of services. We look forward to the report prior to the 2017 Legislature and offer our support of increasing electronic transmissions and leverage other technologies to streamline the delivery of benefits to the injured worker.

Despite these initiatives mentioned above, legislation to make major changes to the workers' compensation system persist and we believe the only way to objectively

analyze a complex system such as this is to have a closed claims study performed. The scope of a closed claims study can vary depending on its focus. Some include closed claims from prior studies with added new claim information as the claims close. A statistically sound study contains at least 1,000 closed claims and we recommend state data be included which can be analyzed with and without private sector claims. A comprehensive closed claims study will look at the entire system with most costs being allocated to medical, indemnity, and administrative areas. With the data compiled, the study will reveal where costs associate with certain situations, allowing policymakers to determine a course of action based on an objective basis.

We believe this approach is prudent and the best method in which to make law changes, if necessary, to a system that is complex and works with many stakeholders.

Thank you for the opportunity to testify.