

MEMORANDUM

July 31, 2006

To: Management-Labor Advisory Committee

From: John Shilts, Administrator
Workers' Compensation Division

Subject: Recommendations for Permanent Partial Disability Sunset

The 2003 Legislature changed the way permanent partial disability (PPD) benefits are awarded in the workers' compensation system via Senate Bill 757. The 2005 Legislature refined these changes in HB 2408. The law changes in both bills sunsets on January 1, 2008.

The law changes were made to accomplish some specific public policy goals. The goals were:

- To provide better PPD benefits to workers who were expected to experience greater loss of earning capacity by being disabled from returning to their regular work;
- To ensure the changes did not produce any net effect on total system PPD costs.

The department recommends that the Management-Labor Advisory Committee (MLAC) advise the legislature to remove the sunsets and make these law changes permanent. In addition, the department should continue to monitor the impact of the law changes and report to MLAC prior to the 2009 legislative session. The department makes these recommendations for the following reasons.

The study illustrates that the law changes have effectively implemented MLAC's 2003 and 2005 public policy decisions. The implementation of SB 757 and HB 2408 have achieved MLAC's policy goals of providing higher PPD awards to more disabled workers and ensuring the law changes were cost neutral within the overall system. The lack of statistical difference in the three methods of benefit calculation supports MLAC's 2003 policy decision to make the PPD changes cost neutral system-wide. The study also demonstrates that as MLAC designed the system, PPD benefits have been redistributed from workers that are able to return to work more quickly toward workers with longer term injuries and work disability.

The study shows that system-wide there is no statistical difference between the three methods of PPD benefit calculation. While the study showed that mean PPD awards increased after SB 757, then decreased slightly after HB 2408, there is no statistically significant difference between the mean results of the three methods of PPD benefit calculation. The study applied two different statistical tests to determine whether the benefit calculations were truly different from

each other. Both tests showed that within the chosen confidence level (95 percent), the differences in the benefit amounts are so close that they may be due to sampling variation rather than to differences in the calculation. While, individual worker PPD award benefits are affected by the new laws, the data does not demonstrate a significant difference in overall cost impact to the system.

DCBS should continue to monitor the implementation of the PPD law changes. The study used a sample of claims that were managed prior to full implementation of the 2003 and 2005 law changes. While the study methodology is sound, the department recommends that system participant behavior be monitored for an additional two years to ensure that MLAC policy decisions continue to be consistent with expectations. The department should report to MLAC on any findings prior to the 2009 legislative session.