



Safety National Casualty Corporation

WC Case Reserving

By: Carl Reynolds
Senior Vice President
Workers' Compensation Claims

WC Case Reserving

- Loss Reserving Basics
- Case Reserving Process
- Reserving Red Flags
- What to Look for in a Claim Audit
- Audit Follow-up
- Consequences of Poor Case Reserving Practices

Loss Reserving Basics

Case reserves

- ◆ Claims adjuster looks at trees; one case at a time
- ◆ Estimate of ultimate cost of the most probable outcome based upon the facts known today
- ◆ Does not include cost estimate for future development on reported cases or true IBNR

IBNR reserves

- ◆ Actuaries look at the forest; historical patterns of case development over time
- ◆ IBNR reserves include cost estimate for future development on reported case and true IBNR
- ◆ Rely on case reserving practices consistency for past and future reserves
- ◆ Subjective adjustments must be made to account for changes in reserve practices

Case Reserving Process

Reserve basis

- Facts of the case
- Knowledge of the law
- Claims judgment / experience
- Not worst case, not best case – most probable outcome

Facts that impact case reserves

- Claimant profile
(age, weight, marital status, dependants)
- Occupation
- Prior medical history
- Availability of modified duty RTW
- AWW
- Compensability
- Apportionment
- PTD COLA
- Attorney Involvement

Case Reserving Process

- Review reserve every time the claim file is touched; revise reserve whenever significant facts change
- Use reserve worksheet whenever possible; always document basis for reserve change
- Common deviations in reserving practices
 - Medical inflation
 - LE tables
 - RLE
 - Remarriage
 - Contested cases
 - Expected recoveries

Reserving Red Flags

- Stair stepping
- PV on long-term payout cases (PTD, death benefit)
- Capping at SIR
- Limiting reserves at client's request

What to Look for in a Claim Audit

- Round numbers
- Frequent small changes preceding payments
- Documentation
- Connection between reserve and disposition plan
- Supervisor involvement; authority levels

What to Look for in a Claim Audit

- Settlement authority granted or negotiations begun but reserve does not match
- Behind the curve; reserve posted to match outcome after the fact
- Multiple increases just prior to audit
- High adjuster caseloads (reserving takes a back seat)

Audit Follow-up

- Apply objective measurements where possible
- Calculate total reserve increase percentage on audit sample
 - ◆ Expect some increase (10% - 15%) due to re-reserving book out of sequence
 - ◆ Compare to norm
- Report back to TPA with constructive commentary

Consequences of Poor Case Reserving Practices

Over-reserving

- ◆ Increased mod factor
- ◆ Overpricing coverage terms
- ◆ Budget impact

Under-reserving

- ◆ Under-pricing coverage terms
- ◆ False picture of ultimate outcome
- ◆ Misrepresents financial viability of payor