



ANALYSIS OF S. 2776-B

The NYCIRB estimates that S. 2776-B, if enacted in its current form, will have no direct impact on the value of benefit costs, but may result in increased premiums to compensate for lost investment income by insurance carriers.

Summary of Proposal

Currently, benefit payments for scheduled permanent partial injuries may be paid out over time for the number of weeks stipulated by the schedule of injuries. Generally, payments are to be made in bi-weekly installments, or at any other period as determined by the Workers Compensation Board. S. 2776-B proposes to require payments for scheduled permanent partial injuries to be made as a lump sum, without commutation to present value, upon the request of the injured employee.

In addition, for injuries to multiple body parts under the schedule, currently payments are to be paid out over time for the sum of the number of weeks as stipulated by the schedule. S.2776-B proposes that a lump sum payment will also be required for these injuries upon the request of the injured employee.

Actuarial Analysis

The ultimate value of benefits will not change under this proposal. However, the manner of payments will change from bi-weekly installments to one lump sum. Ordinarily, lump sum settlements are made for less than the full value of payments to account for the time value of money. However, S. 2776-B requires that the payments be made as a lump sum "without commutation for present value". Thus, insurance carriers would potentially lose investment income on the reserves for such claims.

For example, if an employee loses an arm, the schedule stipulates that he or she is entitled to 312 weeks, or 6 years of compensation. If we assume a weekly benefit of \$400 per week, then the total payment for this injury would be \$124,800 (400 x 312). The present value of this hypothetical claim, assuming a 3.5% discount rate, would be \$112,500. Paying this claim over time allows the insurer to earn investment income, which in theory, would fund the difference between the discounted amount of \$112,500 and the ultimate claim value of \$124,800. If the insurer pays the entire amount up-front as a lump sum, there is a negative impact on the insurer's cash flow and the opportunity to earn the investment income on this claim is lost.

Since the ultimate value of the claims will not change, there will not need to be a change in the loss costs. However, carriers may opt to increase the value of their loss cost multipliers (LCM), in order to recoup the loss of investment income. Different carriers may choose different LCMs based on their own experience and investments.



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