

DAVID Y. IGE  
GOVERNOR

SHAN S. TSUTSUI  
LIEUTENANT GOVERNOR



LINDA CHU TAKAYAMA  
DIRECTOR

LEONARD HOSHIJO  
DEPUTY DIRECTOR

STATE OF HAWAII  
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS  
830 PUNCHBOWL STREET, ROOM 321  
HONOLULU, HAWAII 96813  
[www.labor.hawaii.gov](http://www.labor.hawaii.gov)  
Phone: (808) 586-8844 / Fax: (808) 586-9099  
Email: [dilir.director@hawaii.gov](mailto:dilir.director@hawaii.gov)

March 28, 2016

To: The Honorable Jill Tokuda, Chair,  
The Honorable Donovan Dela Cruz, Vice Chair, and  
Members of the Senate Committee on Ways & Means

Date: Wednesday, March 30, 2016  
Time: 9:15 a.m.  
Place: Conference Room 211, State Capitol

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

**Re: H.B. No. 2715 HD2 SD1 Relating to Workers' Compensation**

**I. OVERVIEW OF PROPOSED LEGISLATION**

HB2715 HD2SD1 will require DLIR to contract with an actuarial firm with experience conducting workers' compensation closed claims studies in the United States to perform a study of closed claims in the private employment sector in the State, and closed claims involving State employees. The study is to be completed by November 30, 2017 and submitted to the Legislature no later than twenty days prior to the convening of the regular session of 2018.

DLIR supports this proposal.

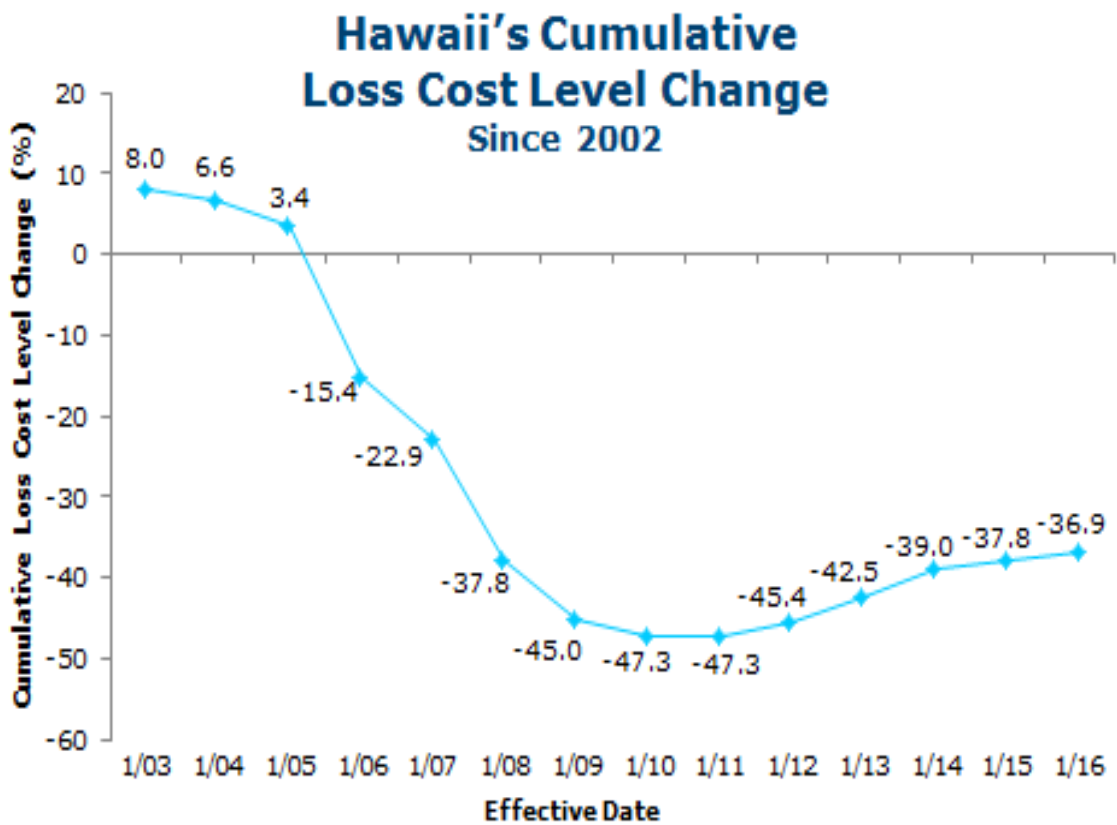
**II. CURRENT STATUS**

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

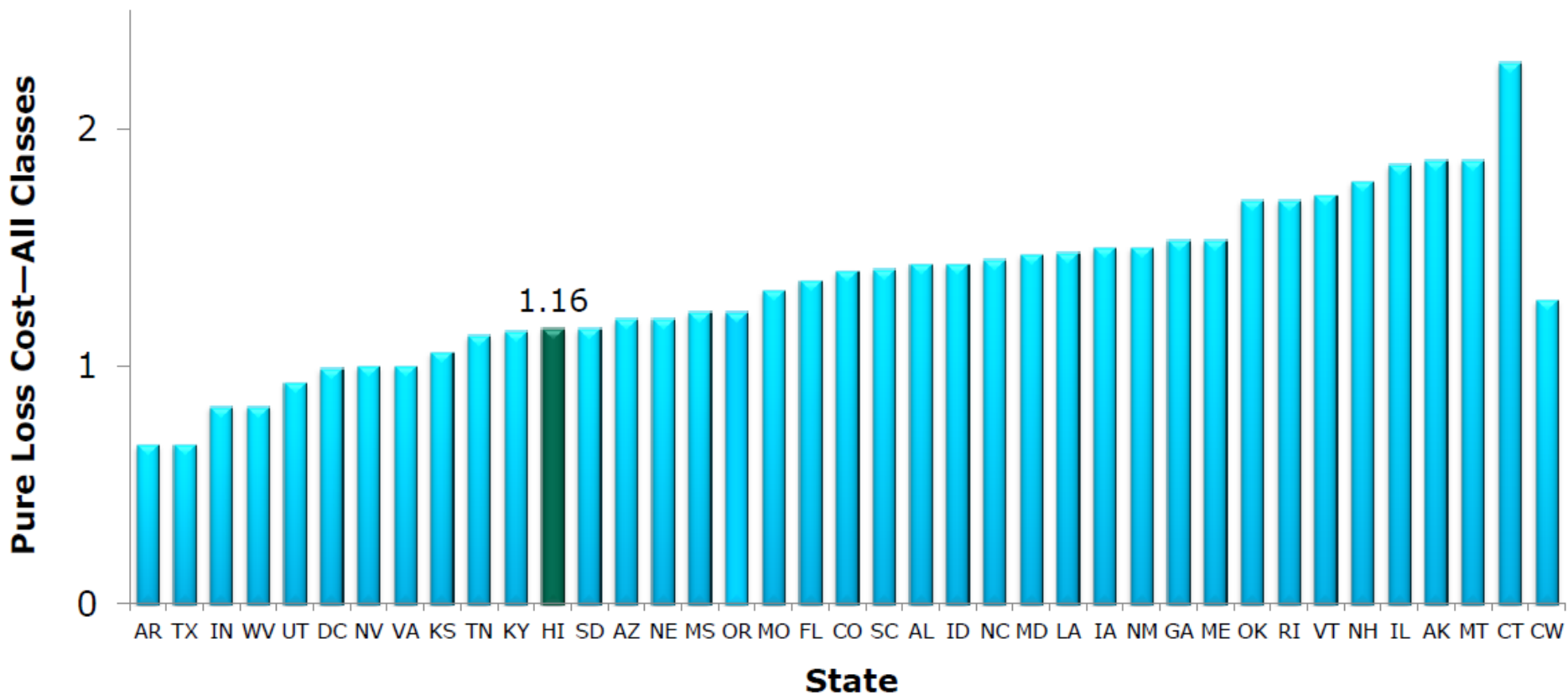
The Disability Compensation Division (DCD) is currently undertaking a comprehensive review of the Workers' Compensation laws and systems through a Business Process Optimization Analysis and Case System Modernization Study. (The 2015 legislature appropriated \$905,000 to conduct the study). A report will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

### III. COMMENTS ON THE HOUSE BILL

1. The department supports a closed claims study as outlined in Section 2. (a).
2. DLIR suggests that a closed claims study could highlight important data, and 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. With sufficient funding and as long as its passage does not replace or adversely affect priorities identified in the Governor's Supplemental Budget request, the department recommends an appropriation of \$250,000 be inserted in Section 3.



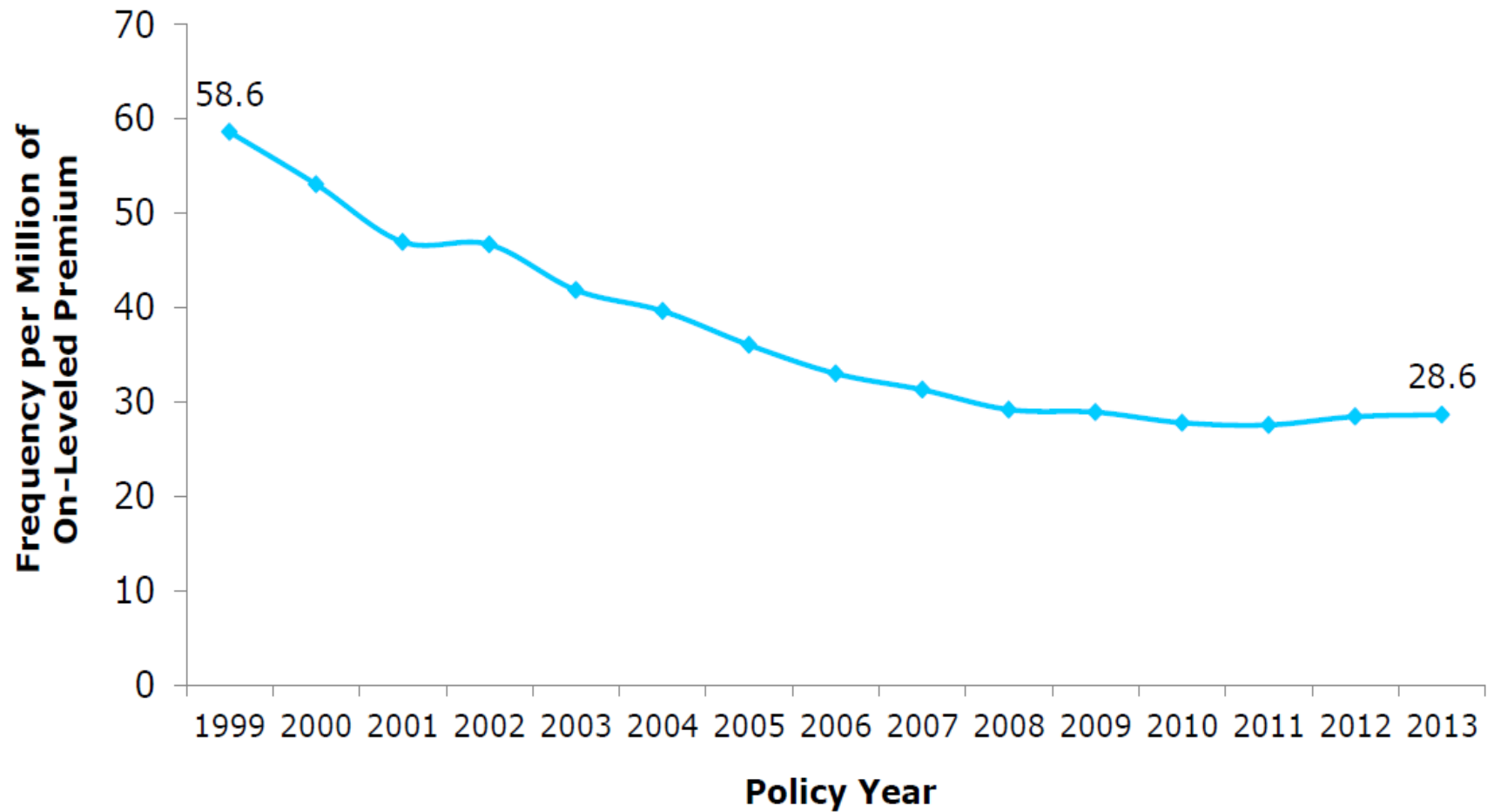
# Current Average Voluntary Pure Loss Costs Using Hawaii's Payroll Distribution



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



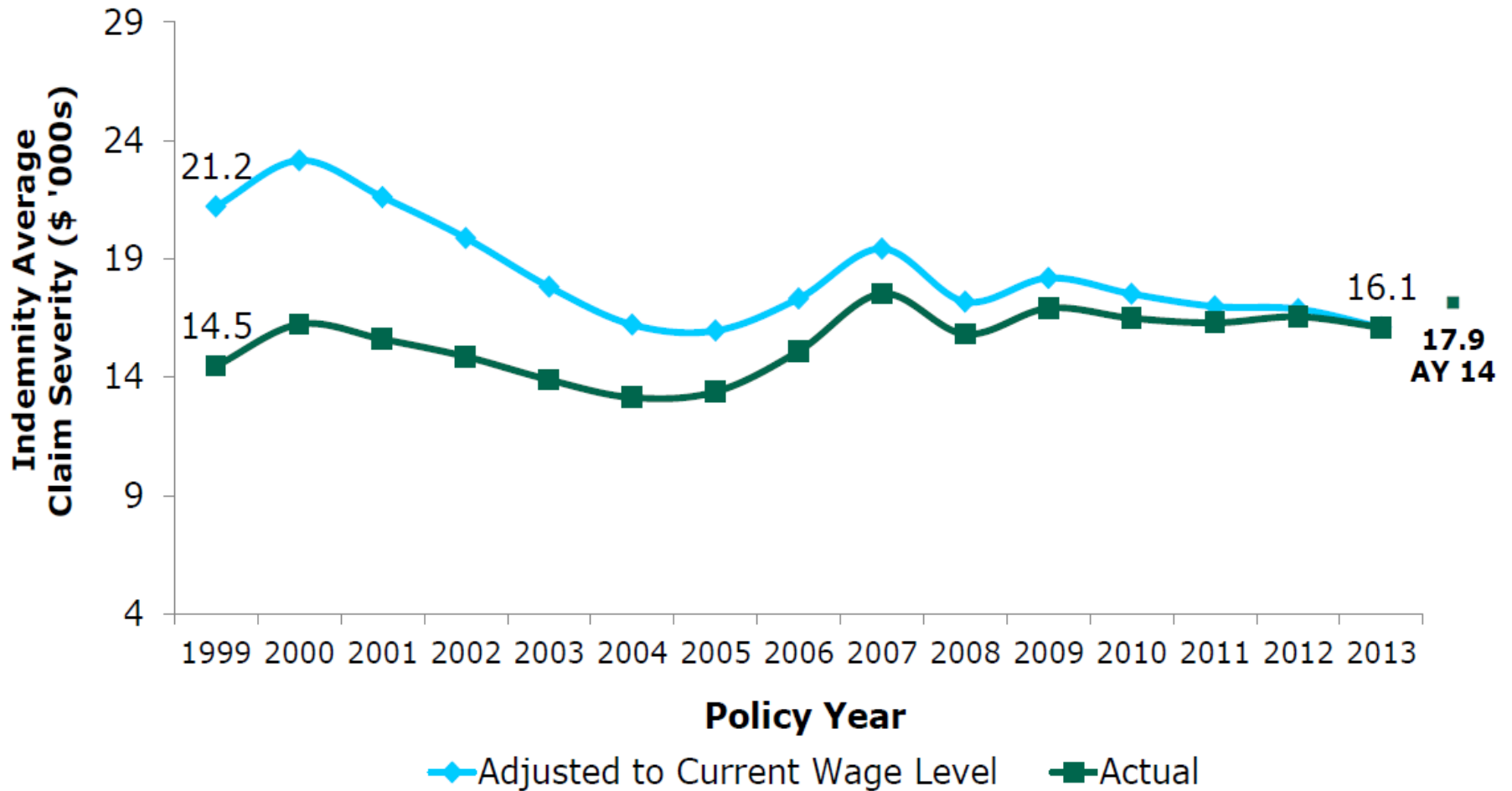
# Hawaii Claim Frequency



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 to the Senate Committee on Ways & Means  
Wednesday, March 30, 2016 at 9:15 A.M.  
Conference Room 211, State Capitol**

**RE: HOUSE BILL 2715 HD 2 SD 1 RELATING TO WORKERS' COMPENSATION**

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **supports** HB 2715 HD2 SD1, which requires the Department of Labor and Industrial Relations to contract with an actuarial firm that has experience conducting workers' compensation closed claims studies in the United States to perform a study of closed claims in the State's workers' compensation system. Appropriates funds and requires matching funds.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber supports a study of the workers' compensation claims to determine where the issues are within the system and how to better address them. There is much discussion on how unfair or ineffective the system is but never data to give a clear picture of the problem and work on a solution to resolve them.

Thank you for the opportunity to testify.



Pauahi Tower, Suite 2010  
1003 Bishop Street  
Honolulu, Hawaii 96813  
Telephone (808) 525-5877

**Alison H. Ueoka**  
President

## TESTIMONY OF ALISON UEOKA

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COMMITTEE ON WAYS AND MEANS  
Senator Jill N. Tokuda, Chair  
Senator Donovan M. Dela Cruz, Vice Chair

Wednesday, March 30, 2016  
9:15 a.m.

### **HB 2715, HD2, SD1**

Chair Tokuda, Vice Chair Dela Cruz, and members of the Committee on Ways and Means, 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.

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.