

November 6, 2007

To: Family Leave Taskforce members
From: Marilyn Watkins, Economic Opportunity Institute

Re: Initial Research on Administrative Costs

Because there has been so much discussion and concern about the administrative cost projections for the family leave insurance program, I've compiled administrative costs for some other systems to get additional perspective on the issue.

In looking at the data, two problems with making comparisons across systems become clear:

1. Different programs will inevitably have very different costs relative to benefits. Two of the major variables are size and duration of typical benefits (since it basically costs as much to administer a big payout as a small payout), and the extent to which each claim is scrutinized.
2. What gets included in reported administrative costs varies greatly. In discussing the FLI program, the Taskforce has divided costs into 2 categories: benefits and administration. However, usually when agencies report their costs or researchers present analyses, they use 3 or more categories: benefits, administration of benefits, and other expenses.

Obtaining sufficient data to do a fair comparison is difficult. In the attached table, I've tried to the extent possible to include comparable expenses in administration, and have expressed each as a percentage of benefit payments.

As you can see, the ratios are all over the place. In the 3 highest (NY State Ins Fund, and the 2 US averages for Workers' Comp companies), over 90% of the costs I attributed to administrative expenses are from 2 categories, "Loss adjustment expenses" (LAE) and "underwriting expenses." According to the National Conference of Insurance Guarantee Funds website, LAE includes staffing, operating, legal, investigative, and damage assessment expenses. Underwriting expenses include salaries, commissions, overhead, rent, membership fees, and some taxes, according to answers.com.

Administrative Costs

	Total Benefits Paid	Admin. Costs as % of Benefits	Notes
WA Family Leave Insurance, L&I estimates 10/13/07	\$76 million	19.1% 28.4%	2011-13, not including loan payback 2011-13, including payback of loan + 8.4% over 2 yrs (based on payback schedule in fiscal note on E2SSB5659)
WA Family Leave Insurance, ESD estimates 10/15/07	\$76 million	20.9% 29.8%	2011-13, not including loan payback 2011-13, including payback of loan + 8.4% over 2 yrs (based on payback schedule in fiscal note on E2SSB5659)
California Disability and Family Leave Program	\$3.9 billion	4.8%	2006 data. Source: CA Employment Development Dept. "October 2007 Disability Insurance Fund Forecast," http://www.edd.ca.gov/edd-diforecast.pdf .
NY State Insurance Fund, Disability Benefits	\$10.7 million	52.3%	2006 (loss adj. exp., other underwriting exp) – Source: NYSIF 2006 Annual Report, www3.nysif.com (NYSIF is one of several private sector providers of NY state disability insurance.)
Workers' Comp.			
WA L&I	\$3.3 billion	13.2%	2005-07 Biennium, L&I Budget Overview, Projected Expenditures, www.lni.wa.gov/main/budget/default.asp .
US avg of state WC funds – 13 orgs	\$1.9 billion	49.5%	1998 (loss adj exp, underwriting exp, other exp, taxes). Source: <i>Best's Aggregates & Averages – Property-Casualty</i> , 1999 ed., p. 71.
US avg of private WC companies - 85 WC Predominating Orgs. (excluding state funds)	\$3.1 billion	70%	1998 (loss adj exp, underwriting exp, other exp, taxes). Source: <i>Best's Aggregates & Averages – Property-Casualty</i> , 1999 ed., p. 47.
Medical Insurance			
Medicare Parts A&B	\$354.9 billion	1.7%	2006 - Source: 2007 Annual Trustees' Report, www.ssa.gov
Council for Affordable Health Insurance calculation of Medicare's "true" admin cost		5.2%	Source: Merrill Matthews, "Medicare's Hidden Administrative Costs," Council for Affordable Health Insurance, www.cahi.org .
HMOs		27.6%	2002 – admin costs/health care expenses. Source: Kaiser Family Foundation, <i>Trends & Indicators in the Changing Health Care Marketplace</i> , Exhibit 6.10, www.kff.org .
Private health insurance		26.6%	admin cost of insurance/all other costs. Of health care dollar, 21% goes to insurance admin, 13% to other admin, 66% for patient care. Source J.G. Kahn et al, "The Cost of Health Insurance Administration in California," <i>Health Affairs</i> , vol 24:6, 2005, http://content.healthaffairs.org/