



## **Economic Impact Analysis Virginia Department of Planning and Budget**

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**16 VAC 30-91 – Procedural Regulations for Filing Claims Reports Under the Virginia Workers' Compensation Act**  
**Virginia Workers' Compensation Commission**  
July 9, 2008

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### **Summary of the Proposed Regulation**

The Virginia Workers' Compensation Commission (commission) proposes to repeal the existing regulations on claims reporting and promulgate a new replacement regulation to conform its electronic data reporting methods to the industry standard. The proposed regulation requires that the claims reports be filed with the commission through Electronic Data Interchange (EDI) or through the internet portal established by the commission effective July 1, 2009.

### **Results of Analysis**

There is insufficient data to accurately compare the magnitude of the benefits versus the costs. Detailed analysis of the benefits and costs can be found in the next section.

### **Estimated Economic Impact**

Adopted in 1996, the existing regulation allows both paper submission of the claim reports and electronic transmission via a non-standardized format developed specifically for the commission, with paper submission being the primary data transmission method. In order to conform to the significant changes in technology and data standards that have occurred over the years, the commission proposes to repeal the current regulation and promulgate a replacement regulation. The proposed regulation will require that effective July 1, 2009, all claims reports shall be filed electronically either through Electronic Data Interchange (EDI) or through the internet portal established by the commission. This proposed action will only change the way the claims reports are transmitted to the commission without making any substantive changes to the content of data to be reported. The commission will describe the technical specifications and

update any changes to the technical formats in the “implementation Guide” which will be published by May 1 of each year.

The proposed regulations will provide a consistent, efficient, and accurate electronic collection, based on the standard that is industry-created, tested, and controlled, through the International Association of Industrial Accident Boards and Commissions (IAIABC). According to the commission, using EDI within the workers’ compensation community has been a long established practice. Currently thirty states use an IAIABC data standard for transacting EDI. Four states, including Virginia, are using a “proprietary” EID format to some degree<sup>1</sup> and are moving to an IAIABC format.

The organizations that are required to file workers’ compensation claims reports to the commission include the insurance carriers and the self-insured employers. According to the commission, about 80-90% of the insurance companies and self-insured employers either use a workers’ compensation vendor or purchase a claim management system from the vendors to do the reporting. Currently most of the vendors and the multi-state insurance companies are performing EDI reporting in some other jurisdictions. This proposed action will allow them to utilize their existing resources in a more efficient way and will likely generate economy of scales. The commission reports that it will cost these organizations a one-time expense ranging from \$2,300 to \$6,150 to modify their current data transmission systems to conform to Virginia’s specifications. Part or all of the costs on the vendors may later be passed on to the insurance companies and self-insured employers they serve in the form of higher prices. The other 10-20% of the insurance companies and self-insured are mostly small-volume reporters that submit fewer than 100 claims annually. They may use the commission’s free internet-based submission method as an alternative to EDI processing. The use of alternative data transmission method will keep reporting consistent among all filers while minimizing the negative impact on small filers.

The commission will incur a one-time cost of about \$3,537,772 to implement the new claims management system, half of which is attributed to electronic reporting. The commission will also spend \$95,000 annually for using a data ingestion and cleansing service.

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<sup>1</sup> The “proprietary” EDI format means that basic, fundamental data elements common to every workers’ compensation report, such as employee name and address, employer name and address, policy number, date of injury, etc., result in programming that is unique.

Moving from paper reporting to EDI processing will likely save the amount of time spent on transmitting the claims reports. The commission reports that on average each claim requires 2 claims reports<sup>2</sup>, which may take 180 minutes to complete. EDI processing will replace these two paper reports with four EDI reports which will take 60 minutes to finish. Therefore, switching to EDI processing may cause an approximate saving of 120 minutes for each claim. The savings in time may reduce the service fees charged by the vendors. The commission estimates that approximately 200,000 claims are filed every year.

### **Businesses and Entities Affected**

According to the commission, there are approximately 215 affiliated insurance companies and self-insured companies. Approximately 80-90% of them use vendors to do the reporting. Currently there are four reporting vendors and about 14 vendors who develop and sell the claims management systems.

### **Localities Particularly Affected**

The proposed regulations will affect all of the localities in the Commonwealth.

### **Projected Impact on Employment**

Moving from paper reporting to EDI processing will likely save the amount of time spent on transmitting the claims reports. For organizations that already perform EDI processing in other states, it may take a full-time employee two to four weeks to adjust their existing systems to Virginia's specifications.

### **Effects on the Use and Value of Private Property**

Moving from paper reporting to EDI processing will likely save the amount of time spent on providing the claims reports for the reports, which may have a positive impact on the value of filers. Filers who are currently conducting EDI processing in some other jurisdictions will incur a one-time cost ranging from \$2,300 to \$6,150 to modify their current data transmission systems to conform to Virginia's specifications. This cost may slightly reduce their profit and may have a slight adverse impact on the value of their properties.

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<sup>22</sup> Each claim will also require on average five other paper reports which will not be affected by this regulation.

## **Small Businesses: Costs and Other Effects**

There are approximately 25 insurance companies or self-insured companies who are small businesses. They may use the free internet-based submission method as an alternative to EDI processing. Therefore, they will not be significantly affected by the proposed regulations.

## **Small Businesses: Alternative Method that Minimizes Adverse Impact**

Small businesses will likely not be significantly affected by the proposed amendments.

## **Real Estate Development Costs**

The proposed amendments are unlikely to significantly affect real estate development costs.

## **Legal Mandate**

The Department of Planning and Budget (DPB) has analyzed the economic impact of this proposed regulation in accordance with Section 2.2-4007.04 of the Administrative Process Act and Executive Order Number 36 (06). Section 2.2-4007.04 requires that such economic impact analyses include, but need not be limited to, the projected number of businesses or other entities to whom the regulation would apply, the identity of any localities and types of businesses or other entities particularly affected, the projected number of persons and employment positions to be affected, the projected costs to affected businesses or entities to implement or comply with the regulation, and the impact on the use and value of private property. Further, if the proposed regulation has adverse effect on small businesses, Section 2.2-4007.04 requires that such economic impact analyses include (i) an identification and estimate of the number of small businesses subject to the regulation; (ii) the projected reporting, recordkeeping, and other administrative costs required for small businesses to comply with the regulation, including the type of professional skills necessary for preparing required reports and other documents; (iii) a statement of the probable effect of the regulation on affected small businesses; and (iv) a description of any less intrusive or less costly alternative methods of achieving the purpose of the regulation. The analysis presented above represents DPB's best estimate of these economic impacts.