



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

In the Matter Of:

Filing of National Council on Compensation Insurance, Inc. for a Change in Voluntary Market Advisory Loss Costs and a Change in Assigned Risk Rates for Workers' Compensation Insurance, Effective January 1, 2013

MEMORANDUM AND ORDER

I. INTRODUCTION

On September 27, 2012, National Council on Compensation Insurance, Inc. ("NCCI") submitted a workers' compensation insurance filing for a change in Voluntary Market Advisory Loss Costs ("Loss Costs") and a change in Assigned Risk Rates for Workers' Compensation Insurance pursuant to Conn. Gen. Stat. §38a-665(a) proposed to be effective January 1, 2013.

The filing requests revisions of the current loss costs and assigned risk rates that were approved effective January 1, 2012. NCCI proposes an overall Loss Cost level change of +7.1% and an overall +0.4% change in assigned risk rates. Changes to individual classification costs have been limited to $\pm 20\%$ of the industry group change.

In order to give the public an opportunity to comment on NCCI's filing, the Department published the filing and Executive Summary on its webpage on October 15, 2012 at: <http://www.ct.gov/cid/cwp/view.asp?a=1270&Q=512482> and provided a thirty (30) day period for the public and interested parties to review and comment on the filing. The Department did not receive any public comments and did not hold a public hearing.

The following sections are (i) a review of the NCCI filing requests; (ii) Insurance Department Staff's recommendations; and (iii) my determination regarding approval of the filing.

II. NCCI FILING REQUESTS

1. NCCI's proposed changes in Loss Costs reflects the following pure premium level changes:

| Industry Group | Average Loss Cost Level Change (%) |
|---|---|
| Manufacturing | +6.8 |
| Contracting | +9.9 |
| Office & Clerical | +0.9 |
| Goods & Services | +7.6 |
| Miscellaneous | +8.8 |
| Overall Loss Cost Level Change Requested | +7.1% |

2. The proposed change in Assigned Risk Rates reflects the following rate level changes:

| Industry Group | Average Assigned Risk Plan Rate Change (%) |
|--|---|
| Manufacturing | +0.1 |
| Contracting | +3.0 |
| Office & Clerical | -5.4 |
| Goods & Services | +0.9 |
| Miscellaneous | +2.0 |
| Overall Rate Level Change Requested | +0.4% |

3. The components of the Loss Costs and Assigned Risk Rate changes are comprised of the following elements:

| Component | Voluntary Market Pure Premium Change (%) | Assigned Risk Plan Premium Level Change (%) |
|----------------------|---|--|
| Experience and Trend | +7.1 | +7.1 |
| Benefits | -0.7 | -0.7 |
| Change in Expenses | N/A | -6.4 |

| | | |
|---|--------------|--------------|
| Offset for Change in Employers Liability ILF's | +0.9 | +0.9 |
| Loss-Based Expenses | -0.2 | N/A |
| Overall Change Requested | +7.1% | +0.4% |

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 1.84% of losses. Insurance carriers pass through these assessments to employers. For the Voluntary Market and the Assigned Risk Market, the assessment rate converted to a percentage of premium is 1.2% of standard premium. The assessment rate for "F" classifications, which provides coverage under the United States Longshore and Harbor Workers' Compensation Act and its extensions, is changing to 7.9% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 4.8%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,600 per week to \$1,900 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams from \$1,100 per week to \$1,150 per week.
7. The code 9186 – "Carnival Traveling" no longer has a maximum payroll.
8. The Practitioner Fee Schedule was revised effective July 15, 2012. NCCI estimates the impact of this change to be -0.8% on medical benefits.
9. The proposed Permissible Loss Ratio for the Assigned Risk Rate filing is 66.7%.

III. DISCUSSION AND RECOMMENDATIONS

Conn. Gen. Stat. §38a-665 establishes the standards, methods and criteria for the making and use of workers' compensation insurance rates in Connecticut. Conn. Gen. Stat. §38a-665 provides that no rates shall be excessive or inadequate, nor shall they be unfairly discriminatory. Conn. Gen. Stat. §38a-665(b) provides that consideration shall be given, to the extent possible, to: past and prospective loss experience; reasonable margin for profit and contingencies; past and prospective expenses both countrywide and those specially applicable to this state; investment income earned or realized both from unearned premium and loss reserve funds; and other relevant factors, including judgment factors.

Department staff determined that the overall cost level components are increasing for the assigned risk rates and for the advisory loss costs. The cost levels for this filing are based on Connecticut loss experience for policy years 2009 and 2010. NCCI adjusts past losses to current conditions using adjustment methods, which make the magnitude of the change very sensitive to their assumptions. Critical assumptions include those for trend, loss development and experience

period. Department Staff reviewed the assumptions included in these filings for reasonableness, including the econometric forecast values and recommends the following:

NCCI is proposing a decrease of 6.4% in the expense components of the assigned risk rate. Most of the decrease (4.6%) is due to a reduction in the Servicing Carrier Allowance and the balance of the decrease is due to a change in the Permissible Loss Ratio. The Total Initial Price bid by the Servicing Carriers resulted in over a 5% decrease. The average commission is increasing by .1% and the NCCI Administration is increasing by .2%. Department staff recommends this decrease.

The State Labor Commissioner determined effective October 1, 2012 that the average weekly wage of all employees in Connecticut will be \$1,172. NCCI estimates this will have an increase impact on indemnity benefits of .1%.

NCCI changed the split point for experience rating (to figure individual Experience Modifications) from \$5,000 to 10,000 effective January 1, 2013. This is part of a three year phase-in change since the last experience rating plan was adjusted 20 years ago. Without this change, the result was that the experience modifications were giving less weight to each businesses' actual experience. This change along with the changes in the next two years should make experience modifications more responsive to individual risk experience and Department staff agrees with this change.

The Executive Officers or Members of Limited Liability Companies maximum payroll is changing from \$1,600 per week to \$1,900 per week. This is the second phase of a transitional program. In the third and final phase, the maximum payroll will be equal to twice the state average weekly wage. The minimum payroll has completed its final phase of transition. The Minimum Payroll for Executive Officers or Members of Limited Liability Companies will be equal to the state average weekly wage.

NCCI is proposing to eliminate the maximum payroll for code 9186 – “Carnival Traveling”. NCCI reviewed its records for this class and did not find anyone in Connecticut at the maximum payroll. In addition, no other NCCI state has a maximum payroll for this class. We recommend elimination of the maximum payroll for code 9186.

IV. ORDER

Based on the foregoing recommendations and analysis by Department staff and my review of the filing, I hereby order that:

- A. NCCI's Loss Costs are accepted as filed.
- B. The Assigned Risk Rates are accepted as filed.

- C. The split point for experience rating from \$5,000 to \$10,000 under the three year phase-in has been previously approved by the Department and the proposed increase in the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,600 per week to \$1,900 per week is approved in this filing.
- D. The proposed increase in the maximum payroll for Athletic Teams from \$1,100 per week to \$1,150 per week is approved.
- E. “Carnival Traveling”—code 9186—no longer having a maximum payroll is approved.
- F. The proposed Workers’ Compensation Commission industrial classification assessment fund rate be changed to 1.2% of standard premium and “F” industrial classification assessment fund rate be changed to 4.8% of standard premium for voluntary market and assigned risk market insurers for policies effective on or after January 1, 2013 is approved.
- G. The thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for filings received prior to January 1, 2013 is hereby waived in order to allow for the adoption of the change in Loss Costs effective January 1, 2013.

Dated at Hartford, Connecticut this 30 day of November, 2012.



Thomas B. Leonardi
Insurance Commissioner