



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

In the Matter of:

The National Council on Compensation Insurance, Inc.' s Workers' Compensation Voluntary Loss Costs and Assigned Risk Rates Filing, Effective January 1, 2012

MEMORANDUM AND ORDER

I. INTRODUCTION

On September 29, 2011, the National Council on Compensation Insurance, Inc. ("NCCI") filed a workers' compensation insurance application with the Connecticut Insurance Department (the "Department") for a change in Voluntary Market Advisory Pure Premium Loss Costs and a change in Assigned Risk Plan Rates for Workers' Compensation Insurance pursuant to Conn. Gen. Stat. §38a-665(a) proposed to be effective January 1, 2012.

The filing requests revisions of the current loss costs and assigned risk rates that the Department approved effective January 1, 2011. NCCI proposes an overall +4.5% change for pure premium loss costs and an overall +2.9% change in assigned risk plan 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 19, 2011 at: http://www.ct.gov/cid/lib/cid/CT_1-1-2012_Filing.pdf 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 a review of the NCCI filing requests; Insurance Department Staff's recommendations; and my determination regarding approval of the filing.

II. NCCI FILING REQUESTS

1. NCCI’s proposed changes in Voluntary Market Advisory Loss Costs reflects the following pure premium level changes:

<u>Industry Group</u>	Voluntary Market Pure Premium Advisory Loss Costs <u>Change (%)</u>
Manufacturing	+6.0
Contracting	+5.3
Office & Clerical	+3.0
Goods & Services	+3.4
Miscellaneous	+6.2
Overall Change Requested	+4.5%

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

<u>Industry Group</u>	Assigned Risk Plan Rate Change (%)
Manufacturing	+4.3
Contracting	+3.7
Office & Clerical	+1.5
Goods & Services	+1.8
Miscellaneous	+4.5
Overall Change Requested	+2.9%

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

<u>Component</u>	Voluntary Market Pure Premium <u>Change (%)</u>	Assigned Risk Plan Premium <u>Level Change (%)</u>
Experience, Trend and Benefits	+4.9	+4.9
Loss Adjustment Expenses	-0.3	N/A
Expenses	N/A	-5.6
Assigned Risk Differential	N/A	+2.8
Change in		
Uncollectible Premium Provision	N/A	+1.2
Change in		
Maximum Minimum Premium	-0.1	-0.1
Overall Change Requested	+4.5%	+2.9%

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.98% of losses. Insurance carriers pass through these assessments to employers. For the Voluntary Market and the Assigned Risk Plan, the assessment rate converted to a percentage of premium is 1.9% 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 6.7% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 3.9%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,300 per week to \$1,600 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams from \$900 per week to \$1,100 per week.
7. The filing proposes to increase the maximum payroll for Carnival—Traveling from \$900 per week to \$2,100 per week.
8. The filing for the Assigned Risk Plan proposes a 5.2% provision for uncollectible premium.
9. The Average Weekly Wage on October 1, 2011 changed to \$1,168. NCCI estimates the impact of this change to be +0.6 on indemnity benefits.
10. The Practitioner Fee Schedule was revised effective July 15, 2011. NCCI estimates the impact of this change to be +0.7% on medical benefits.
11. The proposed Permissible Loss Ratio for the Assigned Risk Rate filing is 62.4%.
12. Experience Rating Off-Balance was revised. Per NCCI, a reduction will be incorporated into NCCI's aggregate ratemaking methodology. Also an adjustment to the loss costs/rates will be included in the ratemaking process. NCCI expects the overall impact of this change to be revenue neutral.

III. DISCUSSION AND RECOMMENDATIONS

A. Overall Advisory Loss Costs and Assigned Risk Plan Rates

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.

The Department's staff determined that overall cost levels are increasing for the assigned risk rates and for the voluntary market advisory loss costs. The cost levels for this filing are based on Connecticut loss experience for policy years 2008 and 2009. 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 recommend the following:

B. Assigned Risk Uncollectible Premium

NCCI is proposing a 5.2% provision for uncollectible premium for the assigned risk plan from 4.0% last year. The filing states that 5.2% is arrived at based on the latest information available. It is noted that in 2009 NCCI proposed 5.2% provision for uncollectible premium for the assigned risk plan.

NCCI provided supporting information for the latest 10 policy years (2000 through 2009) as of 12/31/10. The data is from the Servicing Carriers which comprises 60% of the assigned risk market. The balance of the assigned risk market is handled by the Direct Assignment Carriers (40% of the assigned risk market). The Direct Assignment Carriers are not included in the information provided by NCCI as these carriers are responsible for their uncollectible premiums. The Direct Assignment could have a higher or lower uncollectible percentage. NCCI has asked Direct Assignment Carriers about their uncollectible premiums and was told the uncollectible premiums were about the same as the Servicing Carriers.

Department staff do not have actual uncollectible premium numbers for the Direct Assignment Carriers but believe they have some uncollectible premiums and, therefore, a need to increase assigned risk uncollectible premiums. Department staff recommends that part of the increase be granted. Assuming Direct Assignment Carriers have at least 4% uncollectible premiums, they believe that it would be reasonable to grant a 4.7% provision for uncollectible premium.

Prior to the next filing, the Department requests that NCCI determine what is driving the uncollectible premiums and make efforts to address marketplace workers' compensation premium collection issues rather than increasing the provision for uncollectible premiums.

C. Maximum Payroll for Executive Officers or Members of Limited Liability Companies

The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,300 per week to \$1,600 per week. Department staff believe this requested increase is reasonable and will make the maximum payroll used in Connecticut responsive to the state's economy.

D. Maximum Payroll for Carnival—Traveling

NCCI is proposing to increase the current maximum payroll for Carnival—Traveling from \$900 per week to \$2,100 per week.

To temper the increase for Carnival –Traveling, Department staff believe that this class should not pay more than the Executive Officers or Members of Limited Liability Companies class and, therefore, the increase should be limited to \$1,600.

IV. ORDER

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

- A. The 5.2% for uncollectible premiums for the assigned risk plan be reduced to 4.7%.
- B. NCCI's voluntary market advisory loss costs are accepted as filed.
- C. The proposed increase in the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,300 per week to \$1,600 per week is approved.
- D. The proposed increase in the maximum payroll for Athletic Teams from \$900 per week to \$1,100 per week is approved.
- E. The proposed increase in the maximum payroll for Carnival—Traveling be changed to \$1,600 per week (same as Executive Officers or Members of Limited Liability Companies).
- F. The proposed Workers' Compensation Commission industrial classification assessment fund rate be changed to 1.9% of standard premium and "F" industrial classification assessment fund rate be changed to 3.9% of standard premium for voluntary market and assigned risk plan insurers for policies effective on or after January 1, 2012.
- G. The thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for filings received prior to January 1, 2012 be waived in order to allow for the adoption of the change in advisory pure premium loss costs effective January 1, 2012.

Dated at Hartford, Connecticut this 17th day of December, 2011



Thomas B. Leonardi
Insurance Commissioner