



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, 2017

MEMORANDUM AND ORDER

I. INTRODUCTION

On September 22, 2016, 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, 2017.

The filing requests revisions of the current loss costs and assigned risk rates that the Department approved effective January 1, 2016. NCCI proposes an overall -10.9% change for pure premium loss costs and an overall -10.9% change in assigned risk plan rates. Changes to individual classification costs have been limited to 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 September 26, 2016 at: <http://www.ct.gov/cid/cwp/view.asp?Q=585996&A=1270> 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> | <u>Voluntary Market Pure Premium Advisory Loss Costs Change (%)</u> |
|-------------------------------------|---|
| Manufacturing | -12.1% |
| Contracting | -12.7% |
| Office & Clerical | -12.2% |
| Goods & Services | -9.1% |
| Miscellaneous | -10.7% |
| Overall Change Requested | -10.9% |

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

| <u>Industry Group</u> | <u>Assigned Risk Plan Rate Change (%)</u> |
|-------------------------------------|---|
| Manufacturing | -12.1% |
| Contracting | -12.7% |
| Office & Clerical | -12.2% |
| Goods & Services | -9.1% |
| Miscellaneous | -10.7% |
| Overall Change Requested | -10.9% |

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

| <u>Component</u> | <u>Voluntary Market Pure Premium Change (%)</u> | <u>Assigned Risk Plan Premium Level Change (%)</u> |
|------------------------------------|---|--|
| Experience, Trend | -11.8% | -11.8% |
| Benefits | +0.7% | +0.7% |
| Loss-based Expenses | +0.3% | +0.3% |
| Change in Assigned Risk Multiplier | N/A | +0.0% |
| Overall Change Requested | -10.9% | -10.9% |

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.62% 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 1.8% 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 6.4% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 3.7%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$2,500 per week to \$2,600 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams from \$1,250 per week to \$1,300 per week.
7. The Average Weekly Wage on October 1, 2016 changed to \$1,292. NCCI estimates the impact of this change to be +0.8% on indemnity benefits.
8. Connecticut's Ambulatory Surgical Center Fee Schedule and Practitioner Fee Schedule were revised effective April 1, 2016 and July 15, 2016 respectively. NCCI estimates the impact of these changes to be +0.5% on medical benefits.
9. The filing proposes to increase the Permissible Loss Ratio for the Assigned Risk Rate filing from 69.0% to 69.7%.
10. The filing proposes no change to the currently approved \$160 expense constant.
11. The filing proposes to decrease the Uncollectible Premium Provision from 4.1% to 3.5%.

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 decreasing 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 2013 and 2014. 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 Differential

The filing proposes to increase the Assigned Risk Differential from 27.5% to 30%.

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 \$2,500 per week to \$2,600 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.

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. NCCI's Assigned Risk Plan rates and voluntary market advisory loss costs are **accepted** as filed.
- B. The proposed decrease in the uncollectible premiums for the assigned risk plan from 4.1% to 3.5% is approved.
- C. The proposed increase in the Assigned Risk Differential from 27.5% to 30% is approved.
- D. The proposed increase in the Permissible Loss Ratio for the Assigned Risk Rate filing from 69.0% to 69.7% is approved.
- E. The proposed increase in the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$2,500 per week to \$2,600 per week is approved.
- F. The proposed increase in the maximum payroll for Athletic Teams from \$1,250 per week to \$1,300 per week is approved.
- G. The proposed Workers' Compensation Commission industrial classification assessment fund rate be changed to 1.8% of standard premium and "F" industrial classification assessment fund rate be changed to 3.7% of standard premium for voluntary market and assigned risk plan insurers for policies effective on or after January 1, 2017.

- H. The thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for filings received prior to January 1, 2017 be waived in order to allow for the adoption of the change in advisory pure premium loss costs effective January 1, 2017.

Dated at Hartford, Connecticut this 31 day of October, 2016



Katharine L. Wade
Insurance Commissioner