



In the Matter of:

The National Council on Compensation Insurance, Inc.'s Workers' Compensation Voluntary Loss Costs, Assigned Risk Rates, and Rating Values Filing, Effective January 1, 2022

MEMORANDUM AND ORDER

I. INTRODUCTION

On September 16, 2021 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 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, 2022.

The filing requests revisions of the current loss costs and assigned risk rates that the Department approved effective January 1, 2021. NCCI proposes an overall -14.1% change for pure premium loss costs and an overall -8.2% 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 24, 2021 at: <https://portal.ct.gov/CID/Public-Notices/2022-NCCI-Notice-Rate-and-Loss-Cost-Filing> 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 Loss Costs reflects the following loss cost level changes:

<u>Industry Group</u>	<u>Voluntary Market Average Loss Cost Level Change (%)</u>
Manufacturing	-13.2%
Contracting	-13.7%
Office & Clerical	-16.6%
Goods & Services	-14.3%
Miscellaneous	-13.4%
Overall Change Requested	-14.1%

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

<u>Industry Group</u>	<u>Assigned Risk Market Average Rate Level Change (%)</u>
Manufacturing	-7.2%
Contracting	-7.7%
Office & Clerical	-10.8%
Goods & Services	-8.4%
Miscellaneous	-7.4%
Overall Change Requested	-8.2%

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

<u>Component</u>	<u>Voluntary Market Average Loss Cost Level Change (%)</u>	<u>Assigned Risk Market Average Rate Level Change (%)</u>
Experience and Development	-13.3%	-13.3%
Trend	-1.7%	-1.7%
Benefits	+0.6%	+0.6%
Loss-based Expenses/Expenses	+0.2%	+7.1%
Overall Change Requested	-14.1%	-8.2%

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.70% 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 1.9% 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 decreasing to 6.1% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 3.8%.

5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$2,700 to \$2,900.
6. The filing proposes to increase the maximum payroll for Athletic Teams from \$1,350 to \$1,450.
7. NCCI estimates that the changes to the Connecticut’s medical fee schedule, effective April 1, 2021, will result in an impact of +0.6% on overall workers compensation system costs.
8. The filing proposes to increase the Permissible Loss Ratio for the Assigned Risk Rate filing from 70.9% to 71.3%.
9. The filing proposes no change to the currently approved expense constants.
10. The filing proposes no change to the currently approved Uncollectible Premium Provision.
11. The filing proposes no change to the minimum premium multiplier.
12. The filing proposes no change to the currently approved Terrorism voluntary loss cost. The filing proposes no change to the currently approved assigned risk Terrorism rate.
13. The filing proposes to increase the annual payroll for Partners and Sole Proprietors from \$71,400 to \$75,200.
14. The filing proposes to increase the current voluntary loss adjustment expense (LAE) provision from 19.7% to 19.9%.
15. The filing proposes a -0.6% decrease to the current assigned risk expense provision.
16. The filing proposes no change to the United States Longshore and Harbor Workers’ Compensation Coverage Percentage.

III. DISCUSSION AND RECOMMENDATIONS

A. Overall Voluntary Loss Costs and Assigned Risk 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 loss costs. The cost levels for this filing are based on Connecticut loss experience for policy years 2018 and 2019. 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 changes below and concluded the proposed voluntary loss cost and assigned risk rate changes in this filing are appropriate.

B. Assigned Risk Loss Cost Differential

The filing proposes an increase to the Assigned Risk Loss Cost Differential from 1.3 to 1.439 (including the impact of the reduction in assigned risk premium discounts). The increase reflects a deterioration in the assigned risk market loss cost experience relative to the voluntary market loss cost experience.

C. COVID-19 as a Catastrophic Event

NCCI recently reviewed its actuarial catastrophe methodology as a result of the COVID-19 pandemic. Currently, NCCI's Catastrophe (other than Certified Acts of Terrorism) Provision accounts for single-event losses resulting only from earthquakes, noncertified acts of terrorism, or catastrophic industrial accidents that exceed \$50 million in aggregate workers compensation losses. However, the COVID-19 pandemic has shown that there are other perils that can result in catastrophic losses.

In the calculation of loss costs, NCCI is proposing to use data that excludes the impact of the catastrophic COVID-19 event. NCCI is proposing for the Catastrophe (other than Certified Acts of Terrorism) Provision to contemplate the exposure to all events or perils that could result in aggregate workers compensation losses in excess of \$50 million (which may include pandemics). At this time, NCCI is proposing no change to the currently approved advisory Miscellaneous Value for Catastrophe (other than Certified Acts of Terrorism).

Due to the uncertainty surrounding quantifying the impact future pandemics could have on the workers compensation system, it is appropriate to contemplate all catastrophic perils, including pandemics, within the Catastrophe (other than Certified Acts of Terrorism) definition without a change in the advisory value. This handling recognizes that there are additional catastrophic exposures (which may include pandemics) on workers compensation system costs that should be considered in the calculation of loss costs in adherence with the Actuarial Standards of Practice (ASOPs).

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 Voluntary Loss Costs and Assigned Risk Rates are **accepted** as filed.
- B. The proposed Workers' Compensation Commission industrial classification assessment fund rate will be changed to 1.9% of standard premium and "F" classification assessment fund rate will be changed to 3.8% of standard premium for voluntary market and assigned risk insurers for policies effective on or after January 1, 2022.
- C. The proposed increase to the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$2,700 to \$2,900 is approved.
- D. The proposed increase to the maximum payroll for Athletic Teams from \$1,350 to \$1,450 is approved.
- E. The proposed increase to the Permissible Loss Ratio for the Assigned Risk Rate filing from 70.9% to 71.3% is approved.
- F. The proposed increase to the annual payroll for Partners and Sole Proprietors from \$71,400 to \$75,200 is approved.
- G. The proposed increase to the current voluntary loss adjustment expense (LAE) provision from 19.7% to 19.9% is approved.
- H. The proposed -0.6% decrease to the current assigned risk expense provision is approved.
- I. The proposed increase in the Assigned Risk Loss Cost Differential to 1.439 (including the impact of the reduction in the assigned risk premium discounts) is approved.
- J. The thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for filings received prior to January 1, 2022 be waived in order to allow for the adoption of the change in advisory pure premium loss costs effective January 1, 2022.

Dated at Hartford, Connecticut this 28 day of October, 2021



Andrew N. Mais
Insurance Commissioner