STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter of:)
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Workers' Compensation Advisory Pure Premiums) **Docket No.: PC 10-140**
Voluntary Market, Effective January 1, 2011)
)
Workers' Compensation Rates and Rating Values)
Assigned Risk, Effective January 1, 2011)
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ORDER

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having read the record in the above-captioned matter, do hereby adopt the findings and recommendations of Richard J. Marcks, Hearing Officer in this matter, which are contained in the attached Memorandum of Findings and Proposed Final Decision, and issue the following orders, **TO WHIT**:

1. The 5.8% Pure Premium Loss Cost Change for the voluntary market be approved.

2. The 5.7% change for the Experience, Trend and Benefits component of the Assigned Risk Plan Rate Change be approved.

3. The 1.2% change for the Assigned Risk Expenses component of the Assigned Risk Plan Rate Change be approved.

4. The 1.3% change for the 'Provision for Uncollectible Premium' component of the Assigned Risk Plan Rate Change is unsupported and excessive and disapproved pursuant to Conn. Gen. Stat. Sections 38a-665 and 38a-8.

5. The 4.0% change for the 'Assigned Risk Differential' component of the Assigned Risk Plan Rate Change is unsupported and excessive and disapproved pursuant to Conn. Gen. Stat. Sections 38a-665 and 38a-8.

6. NCCI is authorized to submit revised Assigned Risk Plan Rates for review and they shall be approved effective January 1, 2011 if they are found to be consistent with the recommendations set forth in the Memorandum of Findings and Proposed Final Decision issued by Richard Marcks, Hearing Officer.

7. The Department hereby waives the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676 to allow for the adoption of the advisory pure premium loss cost changes effective January 1, 2011.

Dated at Hartford, Connecticut, this 9th day of November, 2010.

Thomas R. Sullivan

Thomas R. Sullivan
Insurance Commissioner

In the Matter of:	)	
	)	
Workers' Compensation Advisory Pure Premiums Voluntary Market, Effective January 1, 2011	)	**Docket No.: PC 10-140**
	)	
Workers' Compensation Rates and Rating Values Assigned Risk, Effective January 1, 2011	)	

MEMORANDUM OF FINDINGS AND PROPOSED FINAL DECISION

I. INTRODUCTION

The National Council on Compensation Insurance, Inc. ("NCCI") on September 23, 2010 submitted a workers' compensation insurance filing for Advisory Loss Costs and Assigned Risk Rates pursuant to Conn. Gen. Stat. §38a-665(a). The Insurance Department held a public hearing on Tuesday, October 26, 2010 to consider the filing. In accordance with the authority granted by Conn. Gen. Stat. §38a-8 and §38a-16, it was in the public interest to hold a public hearing on this filing to aid in the Department's determination of compliance with standards for the making and use of rates contained in Conn. Gen. Stat. §38a-665 and to allow for public comment. Insurance Commissioner Thomas R. Sullivan appointed the undersigned to serve as hearing officer in this matter.

NCCI's filing for voluntary market loss costs and assigned risk plan rates is proposed to be effective January 1, 2011. The filing proposes revisions of the current loss costs and assigned risk rates that were approved effective January 1, 2010. NCCI proposes an overall +5.8% change for pure premium loss costs and an overall +12.7% change in assigned risk rates. Changes to individual classification costs have been limited to ±20% of the industry group change.

II. FINDINGS

After reviewing the exhibits entered into the hearing record and the testimony given by NCCI representatives and utilizing the Insurance Department's experience, technical competence and specialized knowledge, the undersigned makes the following findings of fact:

1. The proposed change in Advisory Loss Costs reflects the following pure premium level changes:

Industry Group	Voluntary Market Pure Premium Loss Change (%)
Manufacturing	+6.1
Contracting	+4.4
Office & Clerical	+0.1
Goods & Services	+7.1
Miscellaneous	+10.6
Overall Weighted Average Change Requested	**+5.8%**

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

Industry Group	Assigned Risk Plan Rate Change (%)
Manufacturing	+13.0
Contracting	+11.2
Office & Clerical	+6.6
Goods & Services	+14.1
Miscellaneous	+17.8
Overall Weighted Average Rate Level Change Requested	**+12.7%**

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

Component	Pure Premium Voluntary Market Change(%)	Assigned Risk Premium Level Change (%)
Experience, Trend and Benefits	+5.7	+5.7
Loss Adjustment Expenses	+0.1	N/A
Assigned Risk Expenses	N/A	+1.2
Provision for Uncollectible Premium	N/A	+1.3
Assigned Risk Differential	N/A	+4.0
Overall Change Requested	**+5.8%**	**+12.7%**[1]

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 1.72% of losses. Insurance carriers pass through these assessments to employers. The proposed assessment rate as a percentage of premium is 1.0%. The assessment rate for "F" classifications, which provides coverage under the United States Longshore and Harbor Workers' Compensation Act and its extensions, is 10.4% of total losses. The proposed assessment rate as a percentage of premium is 5.3%.

5. The filing proposes to keep the annual medical trend at +0.5% and to increase the annual indemnity trend from -3.5% to -2.5%.

6. The filing proposes to increase the overall impact of indemnity and medical benefit changes by +0.5%.

7. As in previous filings, changes to individual class loss costs are limited to 20% above and below the overall change in loss costs of the industry groups.

8. NCCI testified that they believe the assigned risk rate level should move in concert with the voluntary loss costs, while maintaining a price differential which is adequate over the long term. (Transcript p.18) NCCI does not base the Experience, Trend and Benefit component of Assigned Risk rates solely on Assigned Risk Data, noting that to do so would result in volatile swings in Assigned Risk rates from year to year. The NCCI approach is to maintain a consistent pricing differential between Assigned Risk and the Voluntary Market.(Exhibit A-2, Part I)

9. In response to Department request for additional information NCCI asserted the importance of an adequate rate level in the assigned risk market, allowing that market to be as self funding as possible. In addition, NCCI asserted that Assigned Risk ("A/R") programs are intended to ensure:

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[1] Overall impact is the multiplicative aggregation of individual impacts

- the A/R market will not be competitive with the voluntary market;
- incentives for A/R employers to seek voluntary market coverage;
- emphasis on a safe workplace and loss control programs; and
- reduce the potential for A/R deficits. (Exhibit B)

10. The allowance to compensate servicing carriers for expenses incurred in handling assigned risk business is 31.87%.

11. The NCCI testified that administration expenses have remained relatively flat (Transcript p. 18). Exhibit A-2, Part I, Assigned Risk Exhibit II-D indicates that these expenses have increased at an annual rate just over 2% during the latest five year period for which data is provided.

12. The NCCI testified that the premium volume in the assigned risk market has decreased substantially as the market has depopulated in recent years (Transcript p. 18). Exhibit A-2, Part I, Assigned Risk Exhibit II-D indicates that premium volume has decreased at an annual rate of approximately 18% during the latest five year period for which data is provided.

13. NCCI testified that a large portion of uncollectible (premium) occurs at audit. In response to a question from the Hearing Officer, NCCI did not disagree that audit premium is skewed toward the contracting classes. (Transcript p. 30)

14. The Assigned Risk provision for uncollectible premium is applied to all Assigned Risk classes (Exhibit A-2, Part I, Explanatory Memorandum).

15. In response to Department inquiries (Exhibit C) regarding the high level of uncollectible premium in the Assigned Risk Market NCCI reported that they continue to research the uncollectible premium issue; and that NCCI is developing incentives for Producers in the collection effort. (Exhibit B, item 1)

16. NCCI testified, and the stipulated documents reiterate, that the premium volume in the assigned risk market has decreased substantially as the market has depopulated in recent years. (Transcript p.18; Exhibit A-2, Part I, Assigned Risk Exhibit II-D; Exhibit H, p. 29; Exhibit I, p. 3)

III. DISCUSSION AND RECOMMENDATIONS

A. Voluntary Market Overall Loss Costs

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 cost levels for this filing are based on Connecticut loss experience for policy years 2007 and 2008, evaluated as of 12/31/2009. Calendar-accident year 2009 was also used to make judgments regarding the continuation of patterns observed in the experience period into future time periods. NCCI adjusts losses from the experience period to the policy period beginning 1/1/2011 using appropriate actuarial methods and assumptions for loss development, trend, and changes in benefit levels. NCCI also evaluates the provision for loss adjustment expenses based on the latest ten years of countrywide LAE to Loss ratio, adjusted for Connecticut experience. My review of the methods and assumptions included in the filing finds them to be reasonable and consistent with accepted actuarial practice.

Based on this review, it is recommended that the overall cost level change for advisory loss costs be approved as filed.

B. Assigned Risk Key Components

1. Experience, Trend and Benefits. The statewide indication for this component reflects the corresponding analysis and indication for voluntary market loss costs. As a result it is recommended that the +5.7% change for Experience, Trend and Benefits be approved as filed.

2. Assigned Risk Expenses. This component provides for NCCI administrative and servicing carrier other expenses. The NCCI testified that these expenses have remained relatively flat. Exhibit A-2, Part I, Assigned Risk Exhibit II-D shows an annual increase of just over 2% during the latest five year period for which data is provided. At the same time Assigned Risk premium volume has declined approximately 18% on an annual basis. This presents a bit of a conundrum. Voluntary market competitive conditions and the higher cost structure of the Assigned Risk program have had the favorable outcome of depopulation. Yet that same favorable outcome results in a higher expense charge to the smaller market that continues. The fixed costs of administering a program that ensures continued availability for all do not respond as quickly as the voluntary market forces that have made lower costs available to more over the last five years. As a result it is recommended that the +1.2% change for Administrative & Servicing Carrier Other Expenses be approved as filed.

3. Provision for Uncollectible Premium. The indicated deficiency due to uncollectible premiums has increased significantly over the eleven year period for which data is provided by NCCI. While some level of collection problems may be unavoidable, the proposed increase brings two flaws to attention.

First, uncollectible premiums are acknowledged to be skewed toward audit premiums which are primarily attributed to the contracting industry group; yet the charge is distributed equally to all groups and classes (Transcript P. 31). This raises a question of the appropriateness in the methodology and assignment of the charge.

Second, there are three other parties who bear responsibility for premium collection. Servicing carriers (Transcript P. 33) are compensated over 31% of premium for services that include premium collection. NCCI (Exhibit A-2, Part I) are compensated for administrative expenses that include servicing carrier collection activity. That administrative expense charge is rising in part due to the depopulation of the Assigned Risk market. Finally, Producers are compensated with commissions on premiums, some of which is not collected.

NCCI commented on the efforts to identify drivers of the situation and incentives to enhance collection. Those efforts deserve further attention prior to adding the burden solely to the Assigned Risk market across the board. Given the continuing depopulation of this market, NCCI should have resources available for these efforts. As a result it is recommended that the change for Uncollectible Premium be denied as unsupported and excessive.

4. Assigned Risk Differential. The purpose of this differential is to adjust rates upward from voluntary rates to account for the historically poorer experience of the Assigned Risk market when compared to the voluntary market which forms the basis of the pure premium component within the rates. NCCI does not establish the Assigned Risk rate level based solely on Assigned Risk experience. This avoids volatile swings in rates. A consistent pricing differential adjusts for the experience difference. The differential also provides appropriate incentives for safe workplaces and for the lower costs available in the voluntary market.

   The recent and continued depopulation of the Assigned Risk market are evidence that those incentives are working.

   In concert with the depopulation of this market one must also note the volatility of experience within that market. The proposed increase in the differential is based on data from 1994 to 2008. Analysis of the data provided by NCCI shows that the most extreme values in the ratios of Assigned Risk to the Voluntary market have occurred in the last three years. Those are the years for which the continuing pattern of depopulation is observed. The *Statement of Principles Regarding Property and Casualty Insurance Ratemaking* of the Casualty Actuarial Society indicates that the credibility of a body of data is a consideration in ratemaking methodology, further stating that "credibility is increased by making groupings more homogeneous or by increasing the size of the group analyzed." With the significant depopulation of the Assigned Risk market, one must consider with skepticism the weight given to the data in this part of the analysis.

The current 25% differential contributes heavily to the objectives of ensuring the Assigned Risk market will not be competitive with the Voluntary market, and making the Assigned Risk market more self-funded. As a result it is recommended that the change for the Assigned Risk differential be denied as unsupported and excessive.

IV. RECOMMENDATIONS

On the basis of the foregoing Facts and Discussion, it is recommended to the Commissioner that the following orders be entered, to wit:

A. For voluntary market advisory loss costs, approve the overall cost level changes of 5.8% as filed by NCCI.

B. For the Assigned Risk market, approve the following changes in the Key Components and Overall Premium and Rate Level change:

- Experience, Trend and Benefits +5.7%
- Assigned Risk Expenses +1.2%

Overall Premium and Rate Level +7.0%[2]

C. Waive the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for the adoption of the changes set forth herein effective January 1, 2011.

Dated at Hartford, Connecticut, this 9TH day of November, 2010.

Richard J. Marcks
Hearing Officer

[2] Overall impact is the multiplicative aggregation of individual impacts