

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

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In the Matter Of: :
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Application of the National Council on : Docket No. PC 00-97
Compensation Insurance for a Change :
in Advisory Pure Premiums and a Change : :
in Assigned Risk Rates for Workers' :
Compensation Insurance :
: :
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MEMORANDUM OF FINDINGS AND RECOMMENDATION

1. INTRODUCTION

The National Council on Compensation Insurance (NCCI) on [October 20, 2000](#) submitted an Advisory Pure Premium filing and an Assigned Risk Rate filing for workers' compensation insurance pursuant to Connecticut General Statute §38a-665(a). In accordance with Connecticut General Statute Section 4-177, the Insurance Department held a public hearing on Tuesday November 14th to consider the filings. In accordance with the authority granted by Connecticut General Statute §38a-16, it was in the best interest of the public to hold a public hearing on these filings to aid in the Department's determination of compliance with standards for the making and use of rates contained in Connecticut General Statute §38a-665 and to allow for public comment.

NCCI's filing for voluntary market pure premium loss costs and assigned risk plan rates are proposed to be effective January 1, 2001. Both filings propose revisions of the current costs, which were approved effective January 1, 2000. NCCI proposes an overall 0.0% change for pure premium loss costs and an overall +12.2% change in assigned risk rates. Changes to individual classification costs have been limited to 20% plus or minus the industry group change.

11. FINDINGS

After reviewing the exhibits entered into the record of this hearing and the presentations given at the hearing, 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 components:

| Component | Voluntary Market Pure Premium Loss Cost Change (%) |
|-----------------------|--|
| Manufacturing | +5.6% |
| Contracting | +3.1% |
| Office & Clerical | -3.2% |
| Goods & Services | -1.7% |
| Miscellaneous | -6.0% |
| Overall Change | 0.0% |

2. The proposed change in Assigned Risk Market Rates reflects the following components:

| Component | Assigned Risk Plan Rate Change (%) |
|-----------------------|---------------------------------------|
| Manufacturing | +9.2% |
| Contracting | +6.6% |
| Office & Clerical | +0.1% |
| Goods & Services | +1.6% |
| Miscellaneous | -2.8% |
| Overall Change | +12.2% |

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

| Component | Pure Premium Voluntary Market Change | Assigned Risk Rate Level Change |
|---------------------------------|---|------------------------------------|
| Experience, Trend and Benefit | +0.6% | +0.6% |
| Loss Adjustment Expenses | -0.7% | -- |
| Expense Constant change | | -1.2% |
| Expense Provision change | | +19.4% |
| Elimination of 15% Differential | | -13.0% |
| Implementation of 25% Diff. | | +7.3% |
| Offset for Assigned Risk Change | +0.1 | +0.1% |
| Overall Change | +0.0% | +12.2% |

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are changing to 3.74% of losses from 4.67% of losses. These assessments are passed through to employers by insurance carriers. For the Voluntary Market, the proposed assessments are 3.74% of losses. For the Assigned Risk Market, the proposed assessments on premiums are 2.2% of premium, rather than 3.3% of premium. Assessments for "F" classifications that cover losses under State Act and Federal Act are changing from 11.8% to 14.4%, with a proposed assessment on assigned risk premiums of 9.9%, rather than 9.7% of premium.
5. The Assigned Risk Market Rate filing proposes a differential over the loss costs of the Voluntary Market filing of +25.0% in place of the current 15.0%. The current differential is applicable to all assigned risk policies. The revised differential is proposed to apply only to the portion of premium that is excess of \$5,500.
6. The filings propose to use essentially the same ratemaking methods used for last year's filing to determine overall change levels and individual classification loss costs and rates. As with 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.
7. The proposed Permissible Loss Ratio (PLR) for the Assigned Risk Rate filing is 0.5937.

111. DISCUSSION

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

The overall cost levels are level for advisory loss costs and are increasing for assigned risk rates. The cost levels for both filings are based on Connecticut loss experience for policy years 1997 and 1998. The 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. The assumptions included in these filings, including the econometric forecast values, were reviewed for reasonableness.

I recommend approval of the overall cost level change for advisory loss costs and assigned risk rates to be effective January 1, 2001 and recommend that the Insurance Department continue to review these assumptions in future filings.

The Commissioner decided during the 1992 NCCI rate hearing that the Assigned Risk rate level should reflect a differential, see Docket No. PC 92-15. The introduction of the Assigned Risk Adjustment Program (ARAP) effective January 1, 1992 provided a partial differential, however, even with ARAP, it was possible for assigned risk prices to be below prices in the voluntary market. Such a situation does not encourage safe work place practices and does not equitably allocate the cost of production among competitors.

I recommend the current fifteen percent differential applicable to all premium dollars be revised to twenty-five percent applicable only to premium dollars in excess of \$5,500.

The Workers' Compensation Commission establishes the amount needed to fund the Commission. The assessment to fund the Workers' Compensation Commission decreased from 4.67% of paid losses to 3.74%. Pursuant to the Commissioner's decision in the NCCI 1991 workers' compensation rate filing, the assessment based on paid loss must be translated to a percent of premium, giving consideration to the expense provision in the rates.

I recommend approval of 2.2% as the assessment fund rate effective January 1, 2001, for voluntary market and assigned risk market insurers, for policies effective on or after January 1, 2001.

IV. CONCLUSION

On the basis of the foregoing, Facts, Discussion and Recommendations, I recommend approval of the advisory pure premium filing and the assigned risk rate filing as filed, approval 2.2% as the industrial classification assessment fund rate for Voluntary Market and assigned risk plan insurers effective January 1, 2001 and waiver of the thirty (30) day advance filing required by Connecticut General Statute §38a-676(b) to allow for adoption of the advisory pure premium change effective January 1, 2001.

Dated at Hartford, Connecticut, the 17th of November, 2000.


Walter S. Bell
Hearing Officer