



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

----- X  
**In the Matter Of:**

Application of the National Council on  
Compensation Insurance, Inc. for a Change  
in Advisory Pure Premiums and a Change  
in Assigned Risk Rates for Workers'  
Compensation Insurance

**Docket No. PC 07-116**

----- X  
**MEMORANDUM OF FINDINGS  
AND RECOMMENDATION**

### I. INTRODUCTION

The National Council on Compensation Insurance, Inc. ("NCCI") on October 5, 2007 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 Friday, October 26, 2007 to consider the filing. In accordance with the authority granted by Conn. Gen. Stat. §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, 2008. The filing proposes revisions of the current loss costs and assigned risk rates that were approved effective January 1, 2007. NCCI proposes an overall +3.4% change for pure premium loss costs and an overall +1.2% 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:

<u>Industry Group</u>	<u>Voluntary Market Pure Premium Loss Cost Change (%)</u>
Manufacturing	+0.5
Contracting	+3.0
Office & Clerical	-0.1
Goods & Services	+4.1
Miscellaneous	+10.8
<b>Overall Change</b>	<b>+3.4%</b>

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

<u>Industry Group</u>	<u>Assigned Risk Plan Rate Change (%)</u>
Manufacturing	-1.6
Contracting	+0.8
Office & Clerical	-2.2
Goods & Services	+1.9
Miscellaneous	+8.5
<b>Overall Change</b>	<b>+1.2%</b>

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

<u>Component</u>	<u>Pure Premium Voluntary Market Change(%)</u>	<u>Assigned Risk Premium Level Change (%)</u>
Experience, Trend and Benefits	+1.7	+1.7
Loss Adjustment Expenses	+1.7	N/A
Expenses	N/A	-0.5
Rate Offset Due to Change in Maximum Minimum Premium	0	0
<b>Overall Change</b>	<b>+3.4%</b>	<b>+1.2%</b>

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.87% 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 changing to 13.8% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 6.3%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$750 per week to \$1,000 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams and Carnival—Traveling from \$600 per week to \$700 per week.
7. The filing proposes to increase the expense constant from \$200 to \$220 for other than per-capita classes and from \$100 to \$125 for the per-capita classes.
8. Both medical and indemnity trends have been lowered and there was a slight change in the methodology used for the loss adjustment expense (LAE). 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.
9. The proposed Permissible Loss Ratio for the Assigned Risk Rate filing is 64.90%.

### III. DISCUSSION AND RECOMMENDATIONS

#### A. Overall 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 overall cost levels are increasing for both the advisory loss costs and the assigned risk rates. The cost levels for this filing are based on Connecticut loss experience for policy years 2004 and 2005. 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 Department reviewed the assumptions included in these filings for reasonableness, including the econometric forecast values.

Based on the foregoing, it is recommended that the overall cost level change for advisory loss costs and assigned risk rates be approved as filed.

**B. 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 \$750 per week to \$1,000 per week. In the late 1970's, NCCI introduced a formula for the determination of the maximum remuneration for executive officers. The purpose of the formula was to be responsive to the state's economy and to eliminate the need for periodic adjustments. That formula was not approved and the maximum remained at five hundred dollars until last year when it was increased to \$750 per week.

Partners and Sole Proprietors are charged an annual payroll of \$55,900, which is equal to \$1,075 per week. The Department believes that the maximum payroll for Executive Officers or Members of Limited Liability Companies should approximate that of partners and sole proprietors. The increase to \$1,000 per week payroll for Executive Officers or Members of Limited Liability Companies produces an annual payroll of \$52,000. This increase in the per week payroll is almost equal to that of partners and sole proprietors. Therefore, the Department recommends that the payroll for Executive Officers or Member of Limited Liability Companies be increased to \$1,000 per week for 2008.

**C. Maximum Payroll for Athletic Teams and Carnival—Traveling**

NCCI is proposing to increase the current maximum payroll for Athletic Teams and Carnival—Traveling from \$600 per week to \$700 per week.

The maximum payroll had not changed for these classes in a number of years. Last year the weekly payroll was increased by \$100. In the late 1970's NCCI introduced a formula for the determination of the maximum remuneration for these classes. The purpose of the formula was to be responsive to the state's economy and to eliminate the need for periodic adjustments. That formula was not approved and the maximum remained at five hundred dollars until last year when it was increased to \$600 a week. The maximum payroll should continue to be increased for these classes. To temper the effect on employers with these classes, the increase should be no more than \$100.

**D. Expense Constant**

NCCI is proposing to increase the expense constant from \$200 to \$220 for other than per-capita classes and from \$100 to \$125 for the per-capita classes. Since some policies are too small to cover basic expenses associated with policy issuance, the expense constant is intended to cover these basic expenses. The expense constant has not been increased since January 2001 and this will be the first increase for the per-capita expense constant in at least twenty years. NCCI analysis indicated that this change is "revenue neutral".

#### 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. Approve the overall cost level changes for advisory loss costs and assigned risk rates filed by NCCI.
- B. Approve the proposed increase in the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$750 per week to \$1,000 per week.
- C. Approve the proposed increase in the maximum payroll for Athletic Teams and Carnival—Traveling from \$600 per week to \$700 per week.
- D. Approve the proposed increase in the expense constant from \$200 to \$220 for other than per-capita classes and from \$100 to \$125 for the per-capita classes.
- E. Approve the proposed Workers Compensation Commission industrial classification assessment fund rate to 1.9% of standard premium and "F" industrial classification assessment fund rate to 6.3% of standard premium for voluntary market and assigned risk market insurers for policies effective on or after January 1, 2008.
- F. Waive the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. §38a-676(b) for filings received prior to January 1, 2008 in order to allow for the adoption of the change in advisory pure premium loss costs effective January 1, 2008.

Dated at Hartford, Connecticut, this 9 day of November, 2007.

  
Thomas J. Taggart  
Hearing Officer