



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

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IN THE MATTER OF:	:	
	:	
APPLICATION OF THE NATIONAL	:	
COUNCIL ON COMPENSATION	:	Docket No. PC 09-87
INSURANCE, INC. ("NCCI")	:	
FOR A CHANGE IN ADVISORY PURE	:	
PREMIUMS AND A CHANGE IN	:	
ASSIGNED RISK RATES FOR	:	
WORKERS' COMPENSATION INSURANCE	:	
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### **MODIFIED ORDER**

By Order made effective on November 4, 2009 (the "Order"), I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, after having read the record in the above-captioned matter, adopted the findings and recommendations of the Hearing Officer, Thomas J. Taggart. Thereafter, NCCI filed a Petition for Reconsideration dated November 9, 2009 (the "Petition")<sup>1</sup> pursuant to Conn. Gen. Stat. Section 4-181a.

Thereafter, members of NCCI and its counsel met with me and Insurance Department staff in order to provide new information concerning the following items set forth in the Order: items A. (uncollectible premium percentage for assigned risk policies); B. (NCCI Administration & Servicing Carrier Other Expenses); and D. (Change in Statewide Average Weekly Wage). Correspondence from NCCI concerning these matters is attached hereto as Exhibit A.

As a result of my review of this additional information and reconsideration by Insurance Department staff pursuant to Conn. Gen. Stat. Section 4-181a.(a), the Order is hereby modified, for the reasons set forth hereinbelow, solely with respect to the use of estimated Statewide Average Weekly Wages. As a result, this Modified Order requires NCCI to use, as originally filed, estimates of average weekly earnings. Such use produces an impact of + 0.3% due to the increase in the minimum and maximum benefits.

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<sup>1</sup> The Petition may be examined in the Insurance Department's offices during normal business hours.

Use of estimated average weekly wages has been used by NCCI in prior filings and reflects a consistent rate development methodology. While the original Order required the use of actual wages rather than an estimate, upon further review, the use of estimated average weekly wages in the calculation is self-correcting as applied from year-to-year which avoids distortions in the rate making methodology. In each prior annual rate filing made by NCCI, it compares the new maximum weekly benefit to the prior maximum weekly benefit. The prior year's maximum weekly benefit is consistently based upon the wages used in the prior filing. As a result of this self-correction, there is no under calculation or over calculation of benefits. Use of estimated average weekly wages is consistent with sound actuarial principles and properly matches the maximum weekly benefit calculation from year-to-year. Accordingly, the Order is hereby modified to allow for the use of estimated average weekly benefits. In all other respects, the Order remains unchanged.

This **MODIFIED ORDER** is effective this 14<sup>th</sup> day of November, 2009 for the calendar year 2010 NCCI rate filing.



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Thomas R. Sullivan  
Insurance Commissioner



Regulatory Services Division

Laura Backus Hall  
State Relations Executive

November 12, 2009

Honorable Thomas R. Sullivan  
Insurance Commissioner  
State of Connecticut  
Insurance Department  
153 Market Street  
Hartford, CT 06103

Attention: George Bradner

Dear Commissioner Sullivan:

Thank you for taking the time to meet with us this morning.

As a follow-up to our meeting, you requested additional information on assigned risk expenses, uncollectible premium, and NCCI expenses in general.

Attached please find the requested information.

As always, please feel free to contact me if I may provide further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Laura Backus Hall", is written over a faint, larger version of the same signature.

Laura Backus Hall  
State Relations Executive

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Attachments



## NATIONAL COUNCIL ON COMPENSATION INSURANCE (NCCI)

### CONNECTICUT LOSS COST AND ASSIGNED RISK FILING

EFFECTIVE 01/01/2010

#### DATA REQUESTS FROM CONNECTICUT INSURANCE DEPARTMENT

1. You asked for more detail on the Assigned Risk Plan Administrative Expenses. The Assigned Risk Plan Administrative Expenses are comprised of three categories of expenses; many of these expenses are fixed in nature, and are not dependent on the size of the pool. The expenses reflected in each category are described in more detail below.

**NCCI Administrative Expenses** include expenses incurred by NCCI in the administration of both the Residual Market Plan and the National Workers Compensation Reinsurance Pool. Plan expenses include items such as processing residual market applications, overseeing insurer Plan participation (direct assignment carriers versus Pool participants), filing the Plan and other residual market items for regulatory approval, servicing carrier oversight and enforcement of performance requirements, and administration of the servicing carrier bid process. Pool expenses include items such as the cost of providing financial and accounting services for the Pool, actuarial services including the quarterly Pool reserving process, and support for the Pool Board of Governors and Reserving Committee.

The Plan Administrative Expenses are allocated to the various Plan states (including Connecticut) based on a combination of residual market premiums and assigned risk application counts. Therefore, a reduction in premiums may not affect a particular state due to: 1) timing, 2) a similar reduction in premiums in other states, 3) the state's application counts not decreasing relative to the other Plan states.

The Pool Administrative Expenses relate to NCCI's contract with the National Pool. These expenses are not allocated based on premiums, but rather on record counts for data reported by servicing carriers. Therefore, if the Pool contract amount remains relatively stable and the number of servicing carriers in each state remains relatively stable, the expenses will not change significantly from year to year.

**General Administrative Expenses** include statistical rating agency expenses, interest on quarterly net balances due to servicing carriers, legal fees from outside firms, and audit fees relating to the annual financial audits by independent auditors.



## NATIONAL COUNCIL ON COMPENSATION INSURANCE (NCCI)

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**Servicing Carrier Other Expenses** represent costs incurred by servicing carriers that are not part of the servicing carrier allowance, but rather are reimbursed directly by the pool. These include items such as collection, litigation and indemnification expenses, USLH assessments levied by the Department of Labor, Second Injury Fund assessments and subrogation expenses.

In the pending filing, the proposed NCCI and General Administrative Expense provisions reflect averages of the expenses for the latest five calendar years. Servicing Carrier Other Expenses reflect the average of the latest five policy years.

2. You asked what NCCI has undertaken to reduce its costs. Outlined below are initiatives that NCCI has taken.

- Reduced 40 positions in our residual market processing application area over time
- Implemented a number of "green initiatives" to cut down on paper and postage costs
- Eliminated a number of IT contractors by bringing work in-house
- Reduced headquarters real estate costs by consolidating Boca operations into one building
- Reduced outside legal expenses
- Reduced data entry costs by stimulating data submissions to an electronic form over time

In addition, one of NCCI's current initiatives is to further reduce experience rating worksheet costs by moving to an electronic form of distribution.

3. You asked what NCCI and the industry propose to reduce the size of the uncollectible premiums.

This is a concern of all assigned risk stakeholders. As a result, NCCI is planning to hold a summit at its assigned carrier conference in February to discuss this issue. Servicing carriers, regulators, and NCCI staff will meet to develop and implement proposals to counteract the growing size of uncollectible premiums.



National  
Council on  
Compensation  
Insurance, Inc.

Laura Backus Hall  
State Relations Executive  
Regulatory Service Division

November 16, 2009

Honorable Thomas R. Sullivan  
Insurance Commissioner  
State of Connecticut  
Insurance Department  
153 Market Street  
Hartford, CT 06103

Attention: George Bradner

Dear Commissioner Sullivan:

As a follow-up to our meeting, you requested additional information on the reasons NCCI employs an estimate of the State Average Weekly Wage (SAWW) and the Production Workers Average Weekly Wage (PWAWW) calculation.

Attached please find the requested information.

As always, please feel free to contact me if I may provide further information.

Sincerely,

A handwritten signature in black ink, appearing to read "Laura Backus Hall".

Laura Backus Hall  
State Relations Executive

LBH:ah



National  
Council on  
Compensation  
Insurance, Inc.

## **NATIONAL COUNCIL ON COMPENSATION INSURANCE (NCCI)**

### **CONNECTICUT LOSS COST AND ASSIGNED RISK FILING**

**EFFECTIVE 01/01/2010**

#### **DATA REQUESTS FROM CONNECTICUT INSURANCE DEPARTMENT**

**You asked us to provide supplemental information concerning the reasons NCCI employs an estimate of the State Average Weekly Wage (SAWW) and the Production Workers Average Weekly Wage (PWAWW) calculation in the proposed loss cost/assigned risk rate filings rather than using the actual. Also, you asked for further information on how the delay in releasing the official SAWW data impacts the production of NCCI's rate filing.**

NCCI commenced production of the 1/1/10 loss costs and assigned risk rates prior to receipt of the actual State Average Weekly Wage (SAWW) and the Production Workers Average Weekly Wage (PWAWW). Until an actual SAWW has been released, NCCI utilizes a regression methodology on the prior 10 actual SAWWs to estimate a proposed SAWW for a filing. This is the accepted actuarial practice consistently utilized by NCCI in all of the states where we are the licensed rating organization, including Connecticut (CT).

The CT Department of Labor (DOL) calculates the SAWW in August to be effective October 1 of every year. This information is then released by the DOL to the CT Workers' Compensation Commission (WCC) for inclusion in their annual "AWW, Max Comp Rate, and COLA Memorandum". The CT WCC then releases their memorandum to all CT Workers' Compensation stakeholders, including NCCI. This annual memorandum is released at varying times each year ranging from mid August to mid September.

In five of the past ten filings, estimated wages were used in CT, with three of those five years using an estimate which was higher than the actual value. It is important to note that the procedure is self correcting; in each filing, NCCI compares the new Maximum Weekly Benefit (MWB) to the prior MWB. The prior MWB is always based upon the wages used in the prior filing regardless of whether it was calculated with actual or estimated wages, so there are no gaps in the benefits.

In general, if there are components that are going to have an impact that NCCI is not able to obtain in time for the production of the filing, we make actuarial judgments to

employ reasonable methods to account for them. This is the first time that the CT Insurance Department questioned this practice.

Adoption of the Hearing Officer's proposed decision will have both an immediate and future impact on the production of the annual filing. The immediate impact is that reproducing the voluntary loss costs to account for the actual SAWW would take at minimum three to four weeks to process. The components that go into the production of a filing are numerous. Although the impact of unwinding this single indemnity benefit component would result in an overall decrease of 0.1%, there is no guarantee that all loss costs would go down. There are several other moving parts that are involved in producing loss costs. The overall change is first distributed among the industry groups. Then individual class changes within an industry group must roll up to the industry group change, and in turn, the industry group changes balance to the overall proposed loss cost level change - a labor intensive, prolonged and detailed process involving extensive quality control reviews. In addition, manual pages and other exhibits for the filing have to be rerun to reflect these changes. Rate tapes must be rerun and checked against the approved values contained in the revised exhibits to ensure that all values match and are accurate. Revised filing exhibits are submitted to our publishing department for posting online and subsequent distribution to carriers.

With regard to future impact, the uncertainty of the timing of the release of the actual SAWW by the Department of Labor dramatically effects NCCI's timeline for making the annual filing to the Insurance Department. NCCI typically begins production on a loss cost filing two to three months before it is delivered to the insurance department. If NCCI had been required to await the actual SAWW for this year's filing, the filing would likely have been delayed for approximately a month leaving a shorter period of time for the Department to review, hold a hearing and issue a final order for 1/1 effective date.