



# 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 06-99  
 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

#### I. INTRODUCTION

The National Council on Compensation Insurance ("NCCI") on October 5, 2006 submitted a workers' compensation insurance filing for Advisory Pure Premiums and Assigned Risk Rates pursuant to Conn. Gen. Stat. §38a-665(a). The Insurance Department held a public hearing on Thursday, November 9, 2006 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 Susan F. Cogswell appointed the undersigned to serve as hearing officer in this matter.

NCCI's filing for voluntary market pure premium loss costs and assigned risk plan rates is proposed to be effective January 1, 2007. The filing proposes revisions of the current loss costs and assigned risk rates that were approved effective January 1, 2006. NCCI proposes an overall -0.9% change for pure premium loss costs and an overall -0.1% 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	+1.2
Contracting	-1.5
Office & Clerical	+1.6
Goods & Services	-2.4
Miscellaneous	-1.4
<b>Overall Change</b>	<b>-0.9</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	+2.0
Contracting	-0.7
Office & Clerical	+2.4
Goods & Services	-1.6
Miscellaneous	+0.1
<b>Overall Change</b>	<b>-0.1%</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	-0.8	-0.8
Loss Adjustment Expenses	-0.1	N/A
Expenses	N/A	+0.7
Rate Offset Due to Change in Maximum Minimum Premium	0	0
<b>Overall Change</b>	<b>-0.9%</b>	<b>-0.1%</b>

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.76% 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 1.8% 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 16.2% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 6.5%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$500 per week to \$750 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams and Carnival—Traveling from \$500 per week to \$600 per week.
7. The filing proposes to increase the annual maximum minimum premium from \$850 to \$1000.
8. The filing proposes 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.
9. The proposed Permissible Loss Ratio for the Assigned Risk Rate filing is 64.16%.

### 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 decreasing 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 2003 and 2004. 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 by the Department for reasonableness.

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 \$500 per week to \$750 per week. NCCI stated that in the late 1970's, they introduced a formula for the determination of the maximum remuneration for executive officers. That formula was not approved and the maximum has remained at five hundred dollars since then.

Partners and Sole Proprietors are charged an annual payroll of \$56,200 which is approximately \$1,081 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. If the maximum payroll is increased from \$500 to \$1,081 in one year this could cause hardships for small corporations and limited liability companies. Also increasing the maximum payroll in one year could substantially effect companies with numerous corporate officers. The Department believes that the weekly maximum payroll should be increased gradually until the payroll is 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 \$750 for 2007.

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 \$500 per week to \$600 per week.

The maximum payroll has not changed for these classes in a number of years. This results in athletic teams with players earning less than \$500 a week subsidizing athletic teams that have players earning over \$500 a week. The maximum payroll should be increased for these classes but, due to loss costs and rates for Athletic Teams and Carnival—Traveling, the Department believes that the increase should not be more than \$100 per week.

D. Maximum Minimum Premium

NCCI is proposing to increase the current annual maximum minimum premium from \$850 to \$1000. Their analysis indicated that 91% of the classes reached the current

annual maximum premium of \$850. Also the NCCI stated that 100% of the contracting classes are reaching the maximum premium.

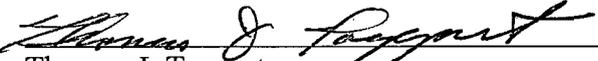
In the 2005 filing, NCCI proposed to increase the annual maximum minimum premium from \$750 to \$1,000. The Department determined that the increase to \$1,000 should be transitioned and only approved \$850 in the 2005 filing. Since 91% of the classes have reached the current maximum minimum premium of \$850 annually, the Department believes that increasing to \$1000 in this filing is appropriate.

#### IV. CONCLUSIONS

On the basis of the foregoing Facts, Discussion and Recommendations, 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 \$500 per week to \$750 per week.
- C. Approve the proposed increase in the maximum payroll for Athletic Teams and Carnival—Traveling from \$500 per week to \$600 per week.
- D. Approve the proposed increase in the annual maximum minimum premium to \$1,000.
- E. Approve the proposed Workers Compensation Commission industrial classification assessment fund rate of 1.8% and “F” industrial classification assessment fund rate of 6.5% for voluntary market and assigned risk market insurers for policies effective on or after January 1, 2007.
- 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, 2007 in order to allow for the adoption of the advisory pure premium change effective January 1, 2007.

Dated at Hartford, Connecticut, this 21 day of November, 2006.

  
Thomas J. Taggart  
Hearing Officer