



REGULATORY ORDER NO. R 22-04

APPROVAL OF THE 2023 WORKERS' COMPENSATION LOSS COST FILING AND ASSIGNED RISK RATE FILING

BACKGROUND

On August 23, 2022, the Division of Insurance (Division) received the 2023¹ Alaska Workers' Compensation Filing for Voluntary Loss Costs and Assigned Risk Rates from the National Council on Compensation Insurance, Inc. (NCCI). This filing proposed an overall 6.5% decrease in voluntary loss costs and an overall 4.1% decrease in assigned risk rates from current approved levels.

On August 22, 2022, the director issued Notice of Public Hearing H22-04 notifying interested parties that, in accordance with Alaska Statute (AS) 21.39.043, a hearing would be held on September 13, 2022. The purpose of the hearing was to allow interested parties to provide testimony or evidence as to whether the filing's prospective loss costs met the requirements of AS 21.39. Interested parties were also invited to include a recommendation for approval, disapproval, or modification of the filing.

No requests for information or interrogatories were submitted to NCCI by member or subscriber companies prior to the hearing, and no written testimony was received by the Division prior to the hearing. At the hearing, Alaska National Insurance Company provided oral testimony and related supporting exhibits. The hearing record was held open for 10 days after the hearing; no written comments were received during that time.

The Division requested and received additional supporting material from NCCI as allowed under AS 21.39.043(e) as detailed below.

DISCUSSION OF FILING METHODOLOGY

1. Consistent with what was approved in the 2022 filing, NCCI:
 - a. used four policy years for the experience period;
 - b. used a three-year average for premium development;
 - c. based the experience projection on an average of the indications from paid and paid plus case;

¹ Within this Order, the year used to identify filings refers to the year the filing is effective. For example, the "2023 filing" refers to the filing that will become effective January 1, 2023.

- d. used a three-year average for paid loss development factors (LDFs);
 - e. used a five-year average for paid plus case LDFs
 - f. selected 1.010 for the Indemnity tail factor
 - g. selected 1.055 for the Medical tail factor
 - h. selected 0.945 for the Indemnity loss ratio trend factor
 - i. selected 0.955 for the Medical loss ratio trend factor
 - j. used a threshold of 2% of premium from the four policy years underlying the 2022 filing to limit losses, and applied an excess ratio of 1.9%;
 - k. reflected anticipated changes in benefit levels related to updates to medical reimbursement fees and changes to benefit levels that occur by statute; and
 - l. excluded COVID-19 losses from the analysis and instead treated COVID-19 as a catastrophic loss.
2. NCCI did not change its methodology in the 2023 filing, though NCCI did consider additional indications of loss ratio trend in selecting trend assumptions. The additional indications excluded the policy years used in the experience period.
 3. The limited indication is based on NCCI's Large Loss Procedure (LLP)². To accommodate the LLP, annual updates to the large loss limit threshold and excess ratio³ were made, based on Alaska premium and loss data.
 4. NCCI proposed a loss adjustment expense (LAE) provision of 20.9%, as a percent of losses. This is unchanged from the 2022 filing.
 5. NCCI proposed annual trends of -5.5% and -4.5% to adjust historical indemnity and medical loss ratios, respectively. Consistent with the 2022 filing, the loss ratios used to determine trends are based on experience data limited by the LLP and consider paid and paid-plus-case indications over experience periods ranging from five to fifteen years. Losses are adjusted to a common wage level, so these trends are in excess of wage inflation. These selections are unchanged from the loss ratio trends approved in the 2022 filing.
 6. NCCI provided estimates of frequency and severity trends underlying the selected loss ratio trends as follows:
 - a. Frequency trend: -4.0%
 - b. Indemnity severity trend: -1.5%
 - c. Medical severity trend: -0.5%
 7. NCCI included adjustments to incorporate the expected impact of benefit changes as follows. The combined impact of these changes on loss costs is +2.7%:
 - a. Changes to the medical fee schedule are expected to reduce costs by 0.3%
 - b. SB 131 is expected to increase costs by 3.0%.

² NCCI's LLP is described in detail in the NCCI paper "Catastrophes and Workers Compensation Ratemaking".

³ Unless the context suggests otherwise, references to "excess ratio", "excess experience", or "excess losses" refers to losses in excess of the large loss limit threshold, \$6,666,255 in this filing.

8. The assigned risk portion of the filing includes changes to the following items. The combined impact of these changes on assigned risk rates is +2.6%:
 - a. The servicing carrier allowance increased from 28.7% to 29.2%.
 - b. The assigned risk reinsurance expense increased from 9.6% to 10.4%.

REQUESTED MODIFICATIONS, COMMENTS, AND INTERROGATORIES

At the hearing, NCCI provided a presentation summarizing the components and impacts proposed in the filing. Representatives from Alaska National Insurance Company (ANIC) then provided oral testimony and presented related supporting exhibits at the hearing and made requests for modifications. The testimony focused on NCCI's trend assumptions. ANIC provided an alternative trend analysis, which entails a two-step procedure. The first step is to bring the experience to the Policy Year 2020 cost levels (the most recent year in the experience period). The second step is to bring the experience to the cost levels expected for Policy Year 2023. ANIC testified that more conservative trend assumptions were appropriate for the second step, specifically -2.0% frequency (versus NCCI's -4.0% estimate) and 0% medical severity trend (versus NCCI's -0.5% estimate). ANIC noted that frequency has increased in Policy Year 2020, and early indications are that frequency may be increasing for Policy Year 2021 as well. ANIC also noted that medical inflation may lag core inflation, and that several factors such as the impact of COVID-19, the decline in elective surgeries, medical staff shortages and high wage increases may cause medical inflation to escalate. ANIC noted that the overall indications are highly sensitive to the trend assumptions, and that the NCCI's overall loss cost indication using its alternative assumptions would change from -6.5% to +0.6%.

No other interested parties provided testimony or posed questions to NCCI during the hearing. The hearing record remained open for 10 days after the hearing date, in accordance with AS 21.39.043(d)(7). No additional written testimony or proposed modifications to the filing were received by the division within that timeframe.

Questions and concerns raised during the hearing were incorporated by the division into an interrogatory letter sent to NCCI on October 10, 2022. The letter requested additional supporting information related to both the hearing testimony and other items identified by the Division, including:

- NCCI's component trend estimates, specifically the risk of higher prospective frequency trends;
- the excess load; and
- the catastrophe provision.

NCCI responded with the requested information and rebuttal, as required by AS 21.39.043(e) and (f) on October 19, 2022.

FINDINGS

The Director of the Division of Insurance finds:

1. NCCI's methodology is appropriate.

2. NCCI's assumptions appropriately balance responsiveness and stability. In particular, the 2023 filing includes substantive discussion of the considerations underlying NCCI's trend selections. Those considerations include not just a variety of trend indications, including indications from years both within and prior to the experience period, but also the economic environment (including forecasted medical and wage inflation), and the recent observed claim frequency in Alaska not included in the experience period. NCCI noted that wage inflation is expected to result in an overall reduction in indemnity and medical loss ratios. Statutory provisions cap indemnity benefits and permanent partial awards are capped at a fixed dollar amount. Therefore, only a portion of wage increases flows through to indemnity benefits, while the full impact of wage increases flows through to premium. Wage inflation is also expected to outpace medical inflation in at least the near term based on economic forecasts, which would result in lower medical loss ratios.
3. In future filings, NCCI should include additional support comparing the excess loss provision to actual excess loss experience in Alaska. NCCI should provide a comparison of the proportion of total losses above the large loss limit for both the experience period and for policy periods prior to the experience period that are considered in NCCI's analysis to the selected excess ratio.
4. In future filings, NCCI should include additional support for the catastrophe provision including narrative discussion of the considerations related to the potential for future losses related to COVID-19.
5. NCCI should continue to include all supplemental information found in the "Supplemental Data" section of the 2023 filing.

The above findings do not represent a comprehensive list of the information reviewed and considered by the director, nor does the list imply relative importance or materiality. Also, these findings are specific to the subject filing and are not meant to apply generally to past or future filings or to provide guidance for future filings unless specifically noted.

The Director of the Division of Insurance Hereby Orders:

For the reasons set forth above and in accordance with AS 21.39.043, the Director orders:

1. In the 2024 filing, NCCI should include:
 - a. Support comparing the excess loss provision to actual excess loss experience in Alaska. NCCI should provide a comparison of the proportion of total losses above the large loss limit for both the experience period and for policy periods prior to the experience period that are considered in NCCI's analysis to the selected excess ratio.
 - b. Support for the catastrophe provision including narrative discussion of the considerations related to the potential for future losses related to COVID-19.
 - c. All supplemental information found in the "Supplemental Data" section of the 2023 filing.

2. All carriers issuing workers' compensation insurance in Alaska shall use and apply, in strict accord, the loss costs, rating plans, rules, and classifications approved for NCCI, except to the extent a carrier has a deviation approved.

This order is effective November 21, 2022.



Lori Wing-Heier
Director