



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 08-101
Compensation Insurance, Inc. for a Change	:	
in Advisory Pure Premium 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, Inc. ("NCCI") on September 22, 2008 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 Monday, October 27, 2008 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, 2009. The filing proposes revisions of the current loss costs and assigned risk rates that were approved effective January 1, 2008. NCCI proposes an overall -1.4% change for pure premium loss costs and an overall +1.6% 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	-4.6
Contracting	-1.1
Office & Clerical	-3.5
Goods & Services	+2.3
Miscellaneous	-4.5
Overall Change	-1.4%

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	-1.7
Contracting	+1.9
Office & Clerical	-0.5
Goods & Services	+5.5
Miscellaneous	-1.5
Overall Change	+1.6%

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	+0.3	N/A
Expenses	N/A	+0.4
Change in Uncollectible Premium Provision	N/A	+2.9
Overall Change	-1.4%	+1.6%

4. The assessments due from employers for funding the cost of the Workers' Compensation Commission are 2.99% 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 12.0% of total losses, with a proposed assessment on assigned risk standard premium and voluntary market standard premium of 6.9%.
5. The filing proposes to increase the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,000 per week to \$1,200 per week.
6. The filing proposes to increase the maximum payroll for Athletic Teams and Carnival-Traveling from \$700 per week to \$800 per week.
7. The filing for the Assigned Risk Market proposes a 5.0% provision for uncollectible premium.
8. The filing proposes to increase the minimum premium multiplier from 300 to 320.
9. The Practitioner Fee Schedule was revised effective July 15, 2008. NCCI estimates the impact of this change to be 0.3% on medical benefits.
10. The proposed Permissible Loss Ratio for the Assigned Risk Rate filing is 64.62%.

III. DISCUSSION AND RECOMMENDATIONS

A. Overall Loss Costs and Assigned Risk Rates

Conn. Gen. Stat. 438a-665 establishes the standards, methods and criteria for the making and use of workers' compensation insurance rates in Connecticut. Conn. Gen. Stat. 938a-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 the assigned risk rates and decreasing for the advisory loss costs. The cost levels for this filing are based on Connecticut loss experience for policy years 2005 and 2006. 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 the advisory loss costs be approved as filed.

B. Assigned Risk Uncollectible Premium

NCCI is proposing a 5% provision for uncollectible premium for the assigned risk market. The filing states that the uncollectible premium has been approximately 6.8% of the net assigned risk premiums. In the prior year the provision for uncollectible premium was 2% with the remaining 3.3% in the IRR model. Per NCCI this would result in a slight decrease in the uncollectible premium percentage from 5.3% to 5.0%.

Based on this filing and the 2007 filing the 10 year average (1997-2006) for uncollectible premium is 4.6%. In reviewing the percentage of the uncollectible premiums for the past 10 years we note 2004,2005 and 2006 are over 6% year 2005 is 5% all other years are 4% or less. The uncollectible premium percentage should be no higher than 4.6%.

C. 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 \$1,000 per week to \$1,200 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. Two years ago it was increased to \$750 per week and last year it was increased to \$1,000 per week.

The Department believes that the maximum payroll for Executive Officers or Members of Limited Liability Companies should be approximately that of partners and sole proprietors. Partners and Sole Proprietors are charged an annual payroll of \$58,400, which is equal to \$1,123 per week. The increase to \$1,200 per week payroll for Executive Officers or Members of Limited Liability Companies produces an annual payroll of \$64,200. This increase in the per week payroll results in the maximum payroll being only slightly more than for partners and sole proprietors. The Department recommends that the payroll for Executive Officers or Member of Limited Liability Companies be increased to \$1,200 per week for 2009.

D. Maximum Payroll for Athletic Teams and Carnival-Traveling

NCCI is proposing to increase the current maximum payroll for Athletic Teams and Carnival – Traveling from \$700 per week to \$800 per week.

The maximum payroll had not changed for these classes in a number of years. For the last two years the weekly payroll has been 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. Two years ago it was increased to \$600 a week and last year it was increased to \$700 a week. The maximum payroll should continue to be gradually increased for these classes. To temper the effect on employers with these classes, the increase should be no more than \$100.

E. Minimum Premium Multiplier

NCCI is proposing to increase the current minimum premium multiplier of 300 to 320. The minimum premium multiplier was last increased in the 2006 filing. At that time the NCCI recommended that the minimum premium multiplier be increased until it nears \$400 (the indicated level in 2004). The NCCI has not proposed to increase the minimum premium multiplier since 2006.

The United States Department of Labor shows the average weekly wage in Connecticut in the second quarter of 2007 to be \$1,033 which translates to an average salary in hundreds of \$537. The Department recommends the minimum premium multiplier be increased to 320.

NCCI needs to monitor the weekly wage put out by the United States Department of Labor and recommend changes in minimum premium multiplier based on the change in the weekly wage in Connecticut. The minimum premium multiplier should not be more than the Connecticut average salary in hundreds.

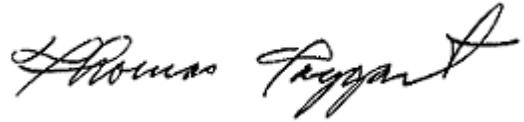
IV. RECOMMENDATIONS

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 filed by NCCI.
- B. The 5.0% for uncollectible premiums for assigned risk be changed to 4.6%.
- C. Approve the proposed increase in the maximum payroll for Executive Officers or Members of Limited Liability Companies from \$1,000 per week to \$1,200 per week.
- D. Approve the proposed increase in the maximum payroll for Athletic Teams and Carnival-Traveling from \$700 per week to \$800 per week.
- 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 6.9% of standard premium for voluntary market and assigned risk market insurers for policies effective on or after January 1, 2009.
- F. Approve the proposed increase in the Minimum Premium Multiplier from 300 to 320.

- G. Waive the thirty (30) day advance filing requirement set forth in Conn. Gen. Stat. 538a-676(b) for filings received prior to January 1, 2009 in order to allow for the adoption of the change in advisory pure premium loss costs effective January 1, 2009.

Dated at Hartford, Connecticut, this 13th day of November, 2008

A handwritten signature in cursive script, reading "Thomas J. Taggart". The signature is written in black ink and is positioned above a horizontal line.

Thomas J. Taggart
Hearing Officer