



John W. Hickenlooper
Governor

Barbara J. Kelley
Executive Director

BEFORE THE DIVISION OF INSURANCE
STATE OF COLORADO

Order O-12-048

ORDER OF APPROVAL OF THE NATIONAL COUNCIL ON COMPENSATION
INSURANCE REQUEST FOR AN AVERAGE CHANGE IN WORKERS'
COMPENSATION LOSS COSTS AND RATING VALUES.

On July 28, 2011, the National Council on Compensation Insurance (NCCI) submitted a workers' compensation loss costs and rating values filing to the Colorado Division of Insurance (Division). This filing was submitted pursuant to §10-4-405, C.R.S., and is properly before the Commissioner of Insurance for review.

This loss costs and rating values filing was placed on public review on July 28, 2011. A public hearing was scheduled for the purpose of gathering additional information and receiving public comments on the proposed loss costs and rating values.

In accordance with §10-4-406(3.5), C.R.S., the Commissioner of Insurance sought the advice of an independent actuary in making his determination. Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman), an independent actuarial consulting firm, reviewed the filing to determine the reasonableness of the proposed loss costs and rating values.

The hearing took place on September 21, 2011. Presentations were made by NCCI and Oliver Wyman, and public testimony was received. The results of the presentations provided by Oliver Wyman and NCCI, along with public written and oral testimony, have been considered by the Commissioner in this Order.

TESTIMONY

National Council on Compensation Insurance, Inc. (NCCI)

On September 21, 2011, the actuary for NCCI presented NCCI's request for an average increase of 3.7% in workers' compensation loss costs and rating values.

The average changes to the five industry groups are as follows:

Manufacturing:	+1.9 %
Contracting:	+4.5 %
Office and Clerical:	+1.2 %
Goods and Services:	+4.8 %
Miscellaneous:	+3.1 %

The filing was based upon an indemnity loss trend that decreases 5.0% per year, and a medical loss trend that decreases 2.0% per year.

NCCI targeted a statewide average experience rating modification factor of 0.981. After reflecting this decrease, the overall average change to the statewide premium is +3.4%.

The filing also establishes upper and lower bounds for the loss costs, resulting in a limit on the amount of increase or decrease for a given individual classification. This limit is the average pure premium level change for the industry group to which the classification is assigned, plus or minus 25% (+/-25%).

The filing has a proposed effective date of January 1, 2012.

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) Recommendations

In his presentation, the actuary for Oliver Wyman recommended an average increase of 2.5% to the loss costs and rating values. A statewide average experience rating modification of 1.000 was targeted in his analysis. After reflecting this increase in the target statewide average experience rating modification factor, the overall average change to statewide premium is +4.2%.

Differences between NCCI's and Oliver Wyman's loss trends and loss development factors resulted in relatively minor differences in the overall indications. The remaining recommendations deal with how large losses are distributed among the various classification codes, loss costs for coal mine classifications and federal classifications, and the swing limits.

Class Ratemaking Methodology

In the NCCI's loss cost filing effective January 1, 2012, a change in the class ratemaking methodology is being proposed to calculate the loss costs for the various classification codes. Concerning this new methodology, Oliver Wyman had the following alternative recommendations.

In its new class ratemaking methodology, the NCCI allocates all losses in excess of \$500,000 to a hazard group based on a theoretical claim distribution. The theoretical claim distribution was determined by an analysis of the underlying national and state specific claim data. Oliver Wyman believed this was an appropriate methodology up to \$2 million, but did not believe this was an appropriate methodology for losses in excess of \$2 million because the excess factors calculated by the theoretical claim distribution did not follow the underlying workers' compensation data for losses in excess of \$2 million. Oliver Wyman recommended losses in excess of \$500,000 and less than \$2 million to be distributed by hazard group using the theoretical claim distribution, and that claims in excess of \$2 million to be socialized among all classification codes. Oliver Wyman recommended the \$500,000 and \$2 million thresholds to be reviewed annually for appropriateness.

D-Ratios

D-ratios are integral factors used in the calculation of an employer's experience modification factor. NCCI proposed limiting changes to D-ratios at +/-0.03, whereas Oliver Wyman recommended limiting D-ratio changes to +/-0.02.

Coal Mine Classifications

In a separate filing, NCCI combined loss experience from classification code 1015 with 1016, and loss experience from classification code 1019 with 1005. This revision to the classification codes ensured the Colorado coal mine classification codes are consistent with the national coal mine classification codes. Due to the significant changes in loss costs as a result of these combinations, Oliver Wyman recommended a three-year transition program be implemented to mitigate these changes.

F Classifications

Due to the fact that there is little or no premium for F classifications in Colorado, Oliver Wyman recommended that the national pure premium be adopted as the basis for their loss costs.

Swing Limits

Finally, Oliver Wyman recommended that the maximum upper and lower bounds for the loss costs remain at the currently approved swing limits of +/-15%.

Public Testimony

Sonja Guenther of Willis of Colorado provided written and oral comments in which she noted insurers are increasingly moving insureds from companies with lower loss cost multipliers to affiliated companies with higher loss cost multipliers, and that insurers are currently giving fewer schedule rating credits than in years past. These changes have had a significant impact to an insurer's revenue. She also noted that the statewide target experience modification factor has increased significantly from 0.93 in 2003 to the NCCI's proposed target factor of 0.981. This increase has had an impact on employers who bid on certain projects. Lastly, she requested a \$10,000 net reporting deductible be introduced in Colorado, noting that this will require a statutory revision.

John Berry and Chad Mathis representing the Workers' Compensation Coalition provided oral comments supporting NCCI's proposed class ratemaking methodology, and the current swing limit of +/-15%.

John Putnam provided written and oral comments noting premiums have decreased 25% to 40% since 2008 as a result of previous rate reductions and the recent state of the economy. He noted that recent claim frequency has been relatively flat, while severity has increased. As this data is too recent to be considered in NCCI's and Oliver Wyman's analysis, he believes additional loss cost increases could be forthcoming.

FINDINGS, CONCLUSIONS AND ORDERS

Large Loss Methodology

As it has done in recent loss cost revisions, the Division recognizes that the new class ratemaking methodology that was introduced in the loss cost filing effective January 1, 2010 is a significant improvement from the prior methodology. Oliver Wyman presented concerns with the treatment of losses in excess of \$2 million, and presented an alternate methodology.

The NCCI's class ratemaking methodology allocates losses from claims in excess of \$500,000 to hazard groups based on the theoretical distribution of claims. The theoretical distribution is estimated from an analysis of the underlying workers' compensation claims data.

Oliver Wyman recommended that the NCCI's class ratemaking methodology be modified such that losses in excess of \$500,000 but less than \$2 million are allocated to hazard groups based on the theoretical distribution of claims, and that losses in excess of \$2 million are socialized among all classification codes.

NCCI's proposed methodology, currently approved in 33 of the 35 states in which it has been filed, relies upon national data to supplement the sparse amount of large losses that have occurred in Colorado. This practice is permitted under Colorado statutes and is an acceptable actuarial practice. As such, the proposed large loss methodology is deemed to be appropriate for ratemaking purposes.

However, the Division continues to have concerns that various economic forces may render the \$500,000 large loss threshold inappropriate at some time.

The Commissioner **ORDERS** the NCCI's class ratemaking methodology to be approved as filed, and **ORDERS** the \$500,000 threshold to be reviewed periodically to ensure it remains appropriate.

D-Ratios

The Commissioner **ORDERS** the D-ratios to be capped at +/-0.03 of the currently approved D-ratios.

Occupational Disease Advisory Loss Costs for Coal Mine Classifications

The Commissioner **ORDERS** the proposed loss costs and occupational disease advisory loss costs for coal mine classifications be approved as filed. The swing limits ordered below will act as a *de facto* transition program recommended by Oliver Wyman.

F Classifications

Due to the limited credibility of the data for these classifications in Colorado, the Division believes that the NCCI methodology for calculating these loss costs is appropriate. As such, the NCCI's loss costs for F classifications are **APPROVED AS FILED**.

Experience Rating Off-Balance

The Commissioner **ORDERS** the experience rating off-balance target be established at 0.981.

Swing Limits

The Commissioner **ORDERS** the upper and lower bounds for the loss costs in any given classification to be plus or minus 15% of the average pure premium level change for the industry group to which the classification is assigned.

Loss Cost Change


After consideration of all evidence presented, the Commissioner **ORDERS** the proposed filing be amended to reflect an average increase to the loss costs and rating values of 3.7%.

In reaching this decision, careful consideration was given to the testimonies and arguments presented at the September 21, 2011 hearing, the loss costs and rating values filing submitted by NCCI and the actuarial report submitted by Oliver Wyman.

This results in a total increase in the overall standard premium of 3.4%. The impact of each component can be summarized as follows:

Change due to Experience / Trend / Benefits:	+4.2 %
Change in Loss Adjustment Expenses:	<u>-0.5 %</u>
Change in Loss Cost:	+3.7%
Change due to Off-balance:	<u>-0.3 %</u>
Overall Change in Standard Premium:	+3.4 %

The filing is approved as amended, effective January 1, 2012.



Jim Riesberg
Commissioner of Insurance

October 13, 2011
Signed This Date