

Workers' Compensation Legislative & Regulatory Update

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The National Council on Compensation Insurance has submitted its annual rate filing to the Office of Insurance Regulation, which calls for a statewide average 13.3 percent rate decrease. The proposed rate change is expected to be the fourth consecutive rate reduction since the legislature enacted the 2003 reforms, which according to a recent survey of insurers are meeting the goals of reducing overall system costs. Among other things, the survey found there are fewer permanent total disability claims and a drop off in litigation. NCCI's analysis of the market also found that although medical costs continue to increase, the costs are more than offset by a decline in claims frequency.

If the rate filing is approved as submitted, employers' rates will have been reduced by a cumulative 38.9 percent

since the enactment of the 2003 reforms. Immediately following the reform bill's passage, Insurance Commissioner Kevin McCarty signed off on a 14 percent rate cut that applied to all policies. He later approved a statewide average 5.1 percent rate reduction that applied to all new and renewal policies as of January 2005. That rate change was followed by a 13.5 percent rate decrease that went into effect as of January 2006. Looking at the five major industrial groups, the overall cumulative decreases have been evenly distributed. Including the proposed rate change, manufacturing classes will have fallen by 34.8 percent and contracting classes by 40 percent. Office and clerical classes will see a total 35.7 percent decrease while goods and services will have dropped by 38.6 percent and miscellaneous classes by 43 percent.

Regulators are expected to set a date for a public hearing on NCCI's rate filing

that will be held some time in September or October. The new rates will apply to all new and renewal policies as of January 1, 2007.

2006 Rate Filing

NCCI's annual filing is based on the two most recent calendar-accident years, which for the current filing includes 2004 and 2005. Calendar-accident years include the premiums collected in that year along with insurers' losses. For the purposes of the filing, NCCI actuaries examine the losses from two perspectives. Losses are looked at from a paid basis, meaning the dollar amount insurers of benefits and expenses paid in that year. The losses are also looked at from a paid plus case basis, which not only includes benefits and expenses paid out in that year but also the reserves set aside by insurers to pay future benefits. NCCI then averages the two methodologies to project the premiums needed to

be collected by insurers to pay 2007 claims.

The main component of the filing covers insurers' experience, trend, and losses. To arrive at that figure actuaries look at claims trends and the indemnity and medical costs paid by insurers. Looking at the indemnity side of the equation, NCCI's data shows that while the cost per indemnity claim has risen slightly since 2002, the loss ratio has been steadily declining over the past five years. As a result, the rate filing contains a minus 0.3 percent indemnity factor as opposed to the minus 0.2 percent factor currently in place. On the medical side of the equation, the state's medical cost per case continues to increase. However, the increase is significantly offset by a sharp decline in claims' frequency. Based on the data, the filing contains a medical trend factor of 0.5%. The rate filing also factors in changes to the Florida Workers' Compensation Health Care Provider Reimbursement Manual.

The filing also calls for a change to NCCI's premium discount program by raising the premium level an employer must reach to qualify for the program. Florida currently provides premium discounts for manual premiums over \$5,000, an amount set in the 1980s. NCCI is calling for the program to be

updated to raise the premium level to \$10,000. The filing would move the premium level to \$10,000. If approved, some employers would no longer qualify for the discounts while other larger employers may receive lower discounts. However, the change in the program would translate into a minus 2.6% rate reduction for all employers.

A complete summary of the proposed rate change is as follows:

- Experience, trend, and benefits: -9.8%
- Trend: -0.8%
- Benefits: -0.1%
- Loss Adjustment Expenses: -0.0%
- Production and General: -0.4%
- Taxes and Assessments: 0.0%
- Profit and Contingencies: 0.0%
- Overall Premium Level Change: -11.0%
- Offset for Premium Discount Program: -2.6%
- Overall Rate Level Change Requested: -13.3%

If regulators approved the filing as submitted, the statewide average rate change would equal 13.3 percent. That would translate into a \$400 million savings for employers. Individual employers' premiums would vary by class code, experience modification factor,

and any discounts, deductibles, or other credits. Under the law, employers can receive a five percent discount for implementing a drug-free workplace and/or a two percent credit for instituting a safe workplace program.

Looking at the five industrial classifications, all posted an overall decrease of roughly 13 percent. They also had similar changes in the maximum rate increases or decreases in the classification group.

A summary of the rate changes in the five major industry groups are as follows:

- Manufacturing: a maximum increase of 2.0 percent and decrease of minus 28 percent.
- Miscellaneous: a maximum increase of 2 percent and decrease of minus 28 percent.
- Contracting: a maximum increase of 0.8 percent and decrease of minus 30 percent.
- Office and Clerical: a maximum increase of 1.0 percent and decrease of minus 29 percent.
- Goods and Services: a maximum increase of 2 percent and decrease of minus 29 percent.