

Workers' Compensation Legislative & Regulatory Update

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*Volume 8, Issue 7
August 30, 2007*

The National Council on Compensation Insurance has submitted its annual rate filing to the Office of Insurance Regulation, which calls for a statewide average 16.5 percent rate reduction. The larger than expected rate decrease means employers will see their premiums drop for the fifth time since the legislature enacted the 2003 reforms. The reforms targeted a number of cost drivers including claimant attorneys' fees and permanent total disability benefits. NCCI's proposed rate reduction is mostly attributable to a sharp fall off in claims' frequency that has driven down carriers' loss experience. The filing also shows that the average indemnity cost per claim has remained relatively stable while the medical cost per claims continues its upward climb.

If the rate filing is approved as submitted, employers' rates will have been cut in half when compared to pre-2003 levels. 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 Jan. 2005. That rate change was followed by a 13.5 percent rate decrease that went into effect as of Jan. 2006, which was subsequently followed by another 13.5 percent decrease that went into effect this year. Taking into account this year's proposed rate filing, the overall cumulative decreases have been evenly distributed over the five major industrial groups. Manufacturing classes will have fallen by a total 50.4 percent and contracting classes by 50.6 percent. Office and clerical classes will see a total 55.1 percent decrease

while goods and services will have dropped by 55.7 percent and miscellaneous classes by 55.2 percent.

Regulators are expected to set a date for a public hearing on NCCI's rate filing that will be held sometime in Sept. or Oct. The new rates will apply to all new and renewal policies as of Jan. 1, 2008. Each individual employer's premiums will be based on their class codes, experience modification factor, and any discounts, deductibles, or premium credits. Under the law, employers can receive a five percent premium credit for instituting a drug-free workplace program and/or a two percent credit for implementing a safety program.

2007 Filing

NCCI's annual filing is based on the two most recent calendar-accident years, which for the current filing includes 2005 and 2006. Calendar-accident years

include the premiums collected in that year along with insurers' losses. For 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 2008 claims.

The main components of the filing cover 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 the cost per indemnity claim has risen slightly since 2002. On a paid basis, the indemnity cost per claim equaled \$15,500 in 2006. However, changes in claims frequency combined with the benefit reductions in the 2003 reforms have sharply reduced the indemnity loss ratio. As a result, the rate filing contains a minus 0.6 percent indemnity factor as opposed to the minus 0.4 percent factor currently in effect.

On the medical side of the equation, the state's medical cost per case continues to increase. On a paid basis, the average cost per medical claim reached \$34,000 last year. However, the increase has been more than offset by the reduction in claims frequency. The currently approved medical trend is plus 0.5 percent. The rate filing proposes that the trend factor be dropped to minus 0.1 percent. The filing also factors in decreases in the Workers' Compensation Health Care Provider Reimbursement Manual and the Florida Hospital Workers' Compensation Reimbursement Manual. Among the changes is a reduction in hospitals' reimbursements for orthotics, prosthetics, and other medical devices.

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

- Experience, trend, and benefits: minus 12.5%
- Trend: minus 5.7%
- Benefits: minus 0.6%
- Loss Adjustment Expenses: plus 2.1%
- Production and General: plus 0.1%
- Taxes and Assessments: 0.0%
- Profit and Contingencies: 0.0%
- Overall Premium Level Change: minus 16.2%
- Overall Rate Level Change Requested: minus 16.5 percent

Looking at the five industrial classifications, the average rate reduction ranged from minus 13.2 percent for miscellaneous classes to minus 19.4 percent for office and clerical classes. Goods and services had the second highest average at minus 17.1 percent, which was followed by contracting at minus 16 percent and manufacturing at minus 15.6 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 4.0 percent and decrease of minus 36 percent.
- Miscellaneous: a maximum increase of 7 percent and decrease of minus 33 percent.
- Contracting: a maximum increase of 4 percent and decrease of minus 36 percent.
- Office and Clerical: a maximum increase of 1 percent and decrease of minus 39 percent.
- Goods and Services: a maximum increase of 3 percent and decrease of minus 37 percent.