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REGULATORY ORDER NO. R 24-03

APPROVAL OF THE 2025 WORKERS' COMPENSATION LOSS COST AND ASSIGNED RISK RATE FILING

BACKGROUND

On August 15, 2024, the Division of Insurance (Division) received the 2025[1] 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 5.5% decrease in voluntary loss costs and an overall 17.6%[2] decrease in assigned risk rates from current approved levels.

On August 2, 2024, the director issued Notice of Public Hearing H24-01 notifying interested parties that, in accordance with Alaska Statute (AS) 21.39.043, a hearing would be held on September 4, 2024. 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 2024 filing, NCCI:
    a. used five policy years for the experience period;

[1] Within this Order, the year used to identify filings refers to the year the filing is effective. For example, the "2025 filing" refers to the filing that will become effective January 1, 2025.

[2] NCCI's initial filing indicated a -17.9% rate change for the assigned risk market, based on a preliminary provision for the Servicing Carrier Allowance. The final -17.6% rate change for the assigned risk market reflects the approved Servicing Carrier Allowance.

   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;
   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 0.940 for the Indemnity loss ratio trend factor;
   h. selected 0.950 for the Medical loss ratio trend factor;
   i. reflected anticipated changes in benefit levels related to updates to medical reimbursement fees and changes to benefit levels that occur by statute; and
   j. 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 2025 filing.

3. The limited indication is based on NCCI's Large Loss Procedure (LLP)[3]. To accommodate the LLP, annual updates to the large loss limit threshold and excess ratio[4] were made, based on Alaska premium and loss data.

4. NCCI selected 1.050 for the Medical tail factor, which is a reduction to the approved Medical tail factor of 1.055 from the 2024 filing.

5. NCCI proposed a loss adjustment expense (LAE) provision of 21.5%, as a percent of losses. This is an increase to the approved value of 20.9% from the 2024 filing.

6. NCCI proposed annual trends of -6.0% and -5.0% to adjust historical indemnity and medical loss ratios, respectively. Consistent with the 2024 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. Loss ratio trends consider severity, frequency, and exposure (wage) inflation. These selections are unchanged from the loss ratio trends approved in the 2024 filing.

7. NCCI included adjustments to incorporate the expected impact of benefit changes related to changes to the medical fee schedule. The impact of these changes on loss costs is +0.1%.

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 -17.6%:
   a. The assigned risk loss cost multiplier decreased from 1.630 to 1.421, primarily as a result of the discontinuation of an excess of loss reinsurance contract for the state residual market pool.
   b. The permissible loss ratio increased from 51.5% to 58.8%, primarily due to the discontinuation of the excess of loss reinsurance contract discussed in (a).

[3] NCCI's LLP is described in detail in the NCCI paper "Catastrophes and Workers Compensation Ratemaking".
[4] 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, $6,930,305 in the filing.

c. The profit and contingencies provision decreased from 1.5% to 0.5%, which recognizes an observed increase in interest rates.

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. ANIC noted that NCCI's loss cost filing meets the statutory requirement. The testimony focused on three areas of NCCI's analysis: loss development factors, frequency, and large losses. ANIC provided observations related to each of these items.

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 September 10, 2024. The letter requested additional supporting information related to both the hearing testimony and other items identified by the Division, including:

- A revised indication based on a two-step trending procedure (differentiating prospective versus historical loss ratio trends);
- Change in mix of claims by size of loss;
- Trends based on losses capped at $500,000;
- Alaska trends compared to other states;
- Further support for the assigned risk profit provision; and
- Further support for the assigned risk expense provisions.

NCCI responded with the requested information and rebuttal, as required by AS 21.39.043(e) and (f) on September 27, 2024.

Additional items were requested by the Division in an interrogatory letter sent to NCCI on October 10, 2024. The letter requested the following:

- Indemnity and medical severity by policy year, limited to $500,000; and
- An explanation for any observed decreases in Alaska WC medical severity in recent policy years, given the contrast between such decreases in severity and medical inflation.

NCCI responded with the requested information and rebuttal, as required by AS 21.39.043(e) and (f) on October 16, 2024.

FINDINGS

The Director of the Division of Insurance finds:

1. NCCI's methodology is appropriate.

2. NCCI's assumptions are appropriate.

3. NCCI's catastrophe loading is $0.01, which is intended for pandemic and all other catastrophes was not justified sufficiently. The modeled pandemic load is $0.02. NCCI should provide additional justification in future filings for selecting a catastrophe loading that is lower than the modeled load for pandemic alone.

4. In the 2026 filing and going forward, NCCI should differentiate between historical and prospective loss ratio trend selections or provide narrative in the filing to justify not doing this.

5. NCCI should continue to include all supplemental information found in the "Supplemental Data" section of the 2025 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 2026 filing, NCCI should include further justification for the $0.01 catastrophe loading, with consideration given to the modeled catastrophe loads, including pandemic.

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, 2024.

Lori Wing-Heier
Director