



# Florida 1/1/2015 Workers Compensation Rate Filing

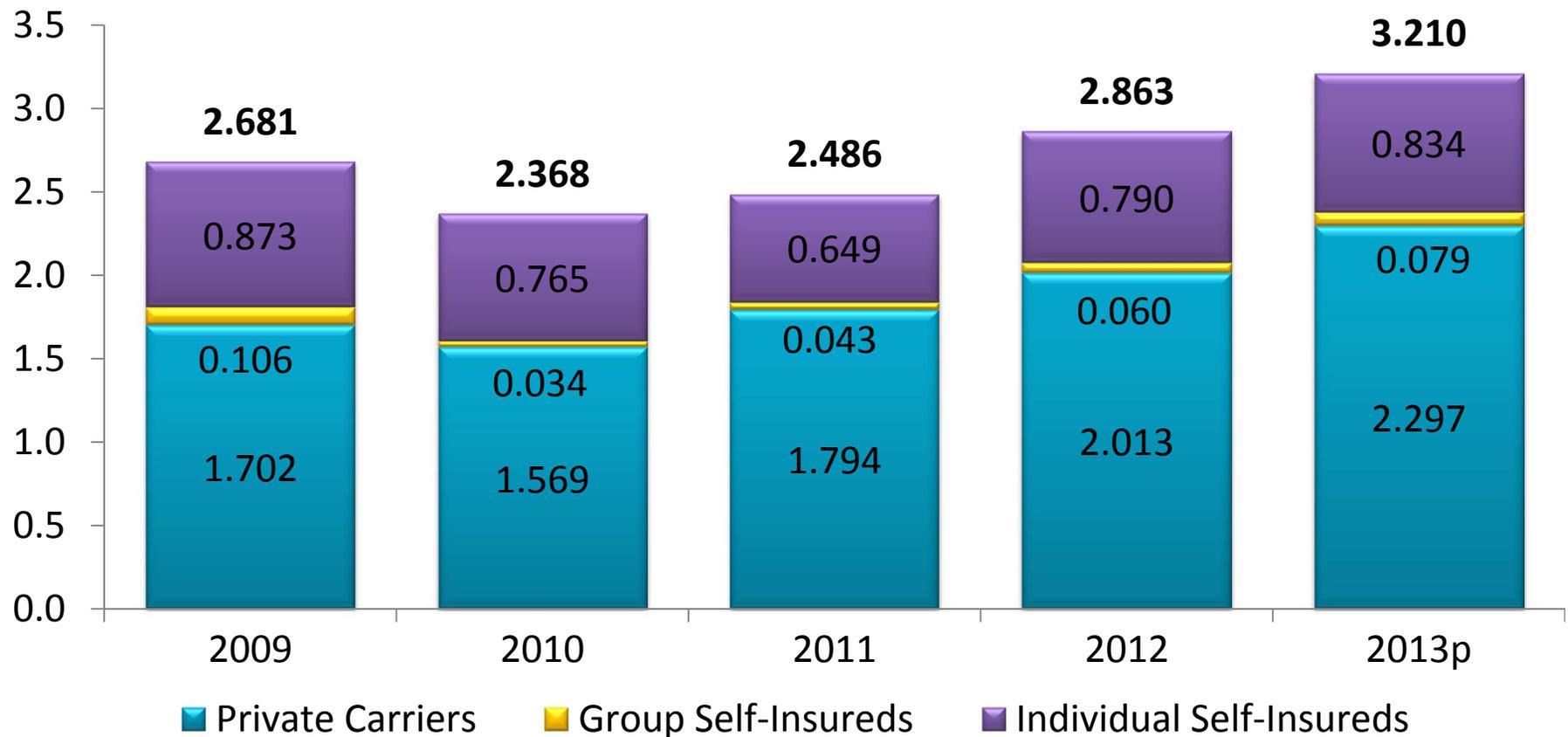
Kirt Dooley, FCAS, MAAA

October 14, 2014

# Florida's Workers Compensation Premium Volume

## Direct Written Premium

\$ Billions

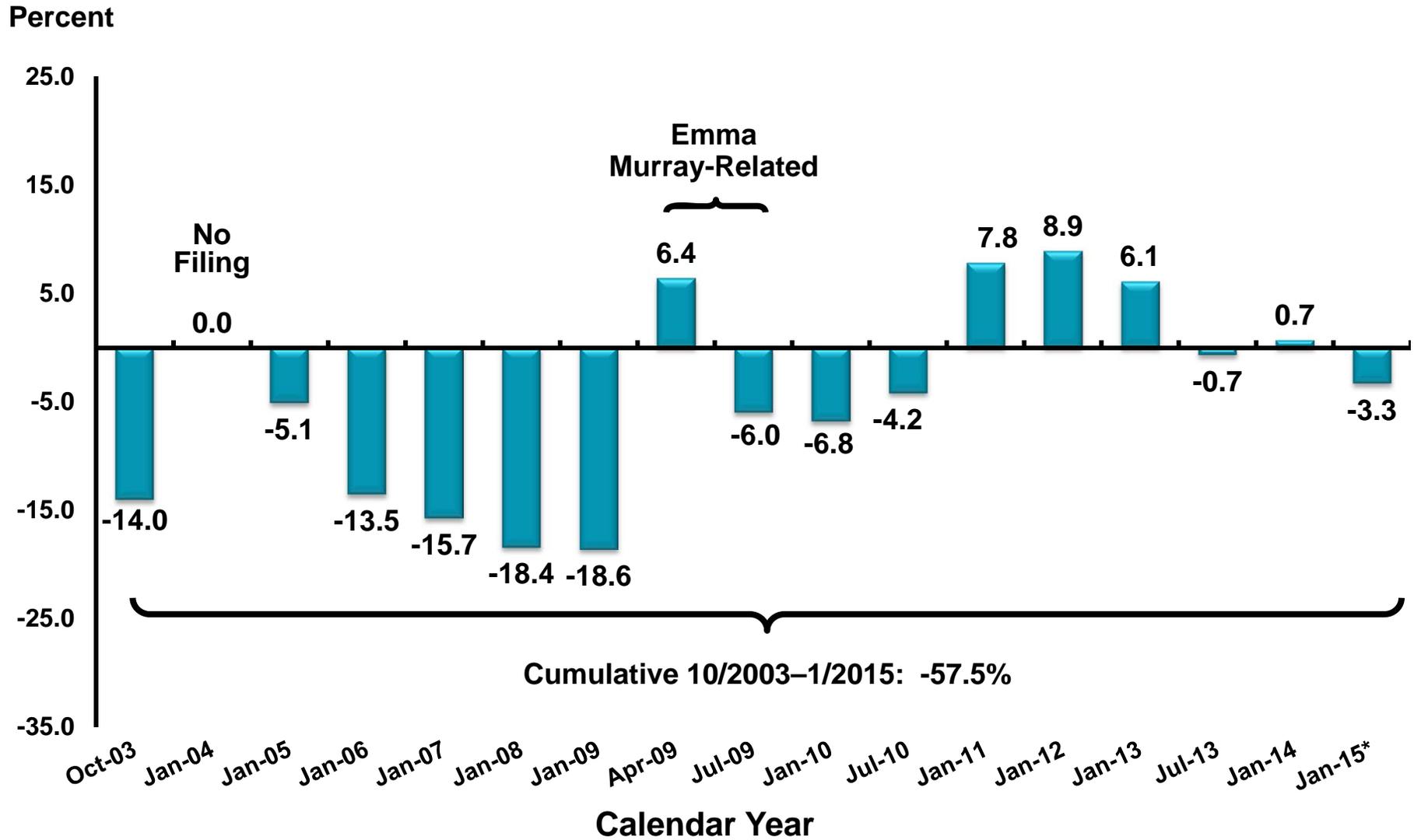


p Preliminary

Source for Private Carriers: NAIC Annual Statement data, state page, line 16—Workers Compensation



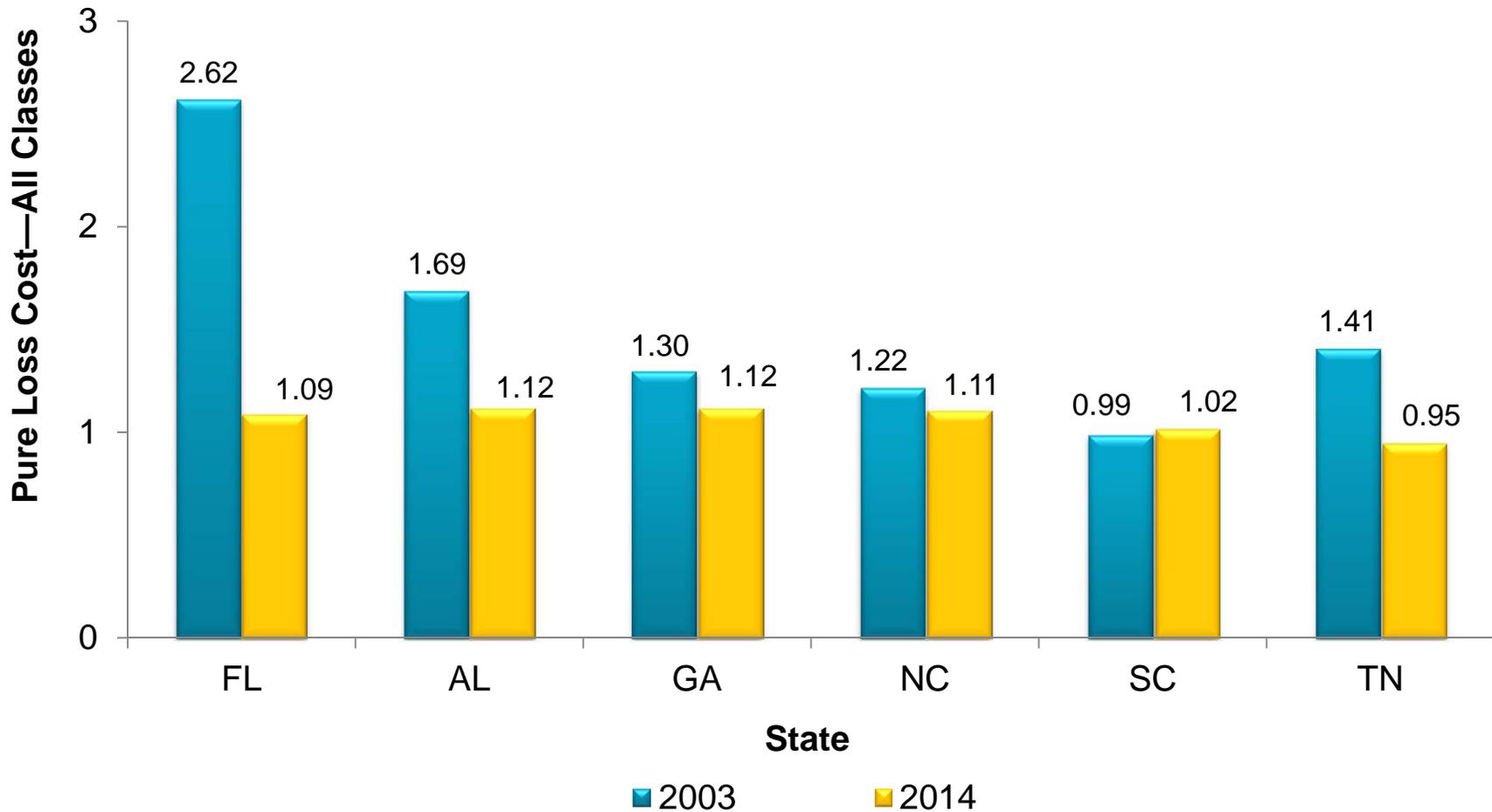
# Florida's Historical Rate Changes



\*Pending



# Current Average Voluntary Pure Loss Costs Using Florida's Payroll Distribution

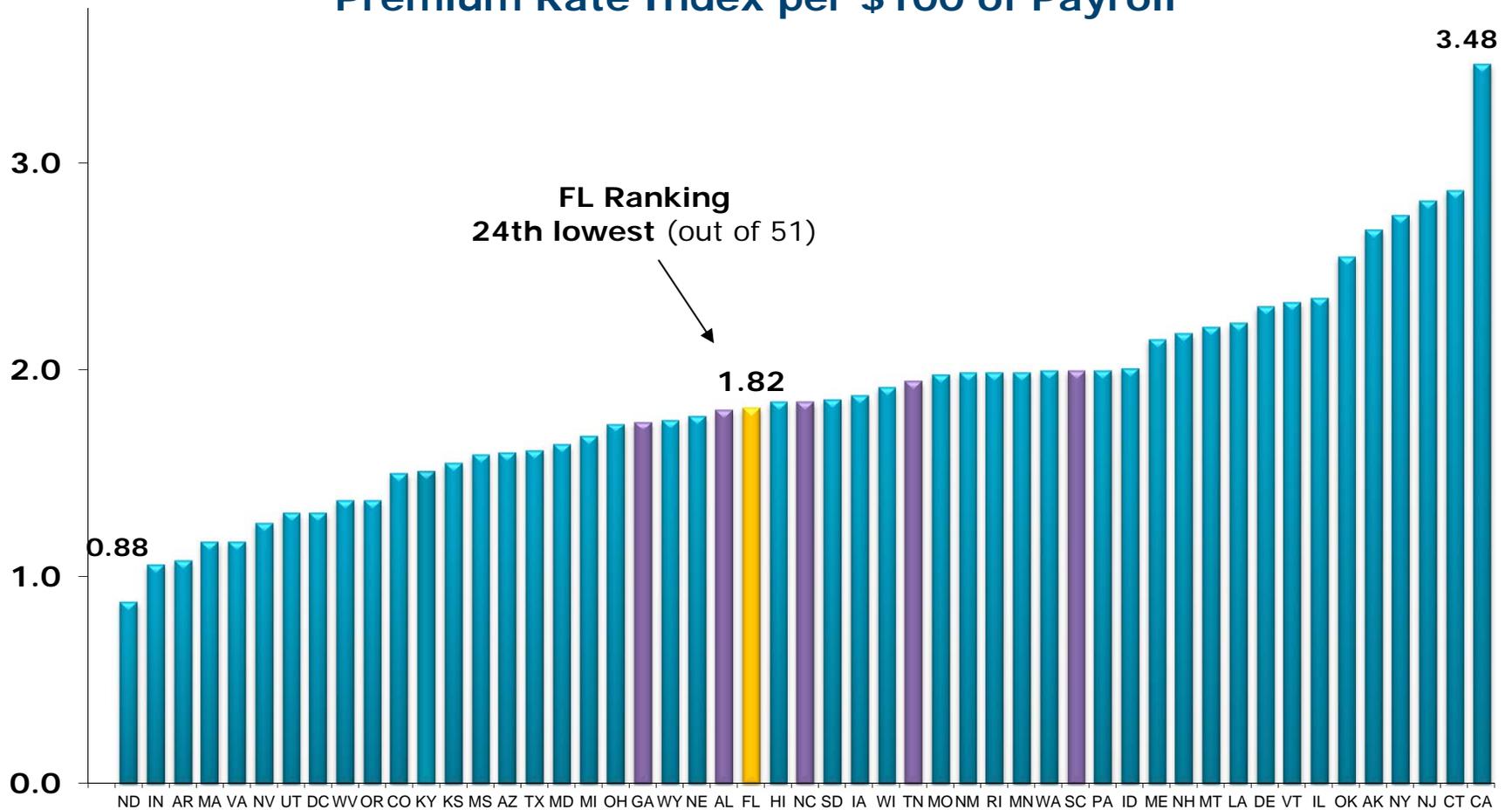


Based on the latest NCCI approved rates and loss costs in the various states



# Workers Compensation Premium Rate Ranking

Premium Rate Index per \$100 of Payroll



Source: 2014 Oregon Workers' Compensation Premium Rate Ranking Summary  
 Indexes based on rates in effect on January 1, 2014



# Florida January 1, 2015 Workers Compensation Filing Summary of Proposed Rate Change

Component	Impact
Change in Loss Experience	-2.9%
Change in Trend	-2.3%
Change in Benefits	-0.8%
Change in Production & General Expenses	+0.7%
Change in Loss Adjustment Expense	-0.7%
Change in Profit & Contingencies	+2.9%
Change in Taxes and Assessments	-0.1%
<b>Total Average Rate Change</b>	<b>-3.3%</b>



# Florida January 1, 2015 Workers Compensation Filing Changes by Industry Group\*

	Proposed Change 1/1/2015	Cumulative Change** 10/1/2003 – 1/1/2015
Manufacturing	-4.0%	-55.7%
Contracting	-3.7%	-59.2%
Office & Clerical	-2.1%	-59.1%
Goods & Services	-3.4%	-55.9%
Miscellaneous	-3.2%	-55.6%
<b>Overall Average</b>	<b>-3.3%</b>	<b>-57.5%</b>

\*Changes by industry group are preliminary estimates

\*\*Cumulative changes assume full approval of 1/1/2015 filing



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# Experience Period

- Two policy years are again used as the experience base in this year's filing
  - This is consistent with the last three filings
- Policy year data reflects a more accurate matching of losses and premium
- Use of two calendar-accident years would have resulted in a change of  $-3.4\%$

# Loss Development

- Average of paid and paid + case loss development
  - Consistent with previous Florida filings
  - Neither method clearly superior to the other
  - Makes use of all available information
- Three-year average development factors
  - Consistent with last four Florida filings
  - Loss development factors relatively stable
- No changes to methodology with a material impact on the overall rate level change



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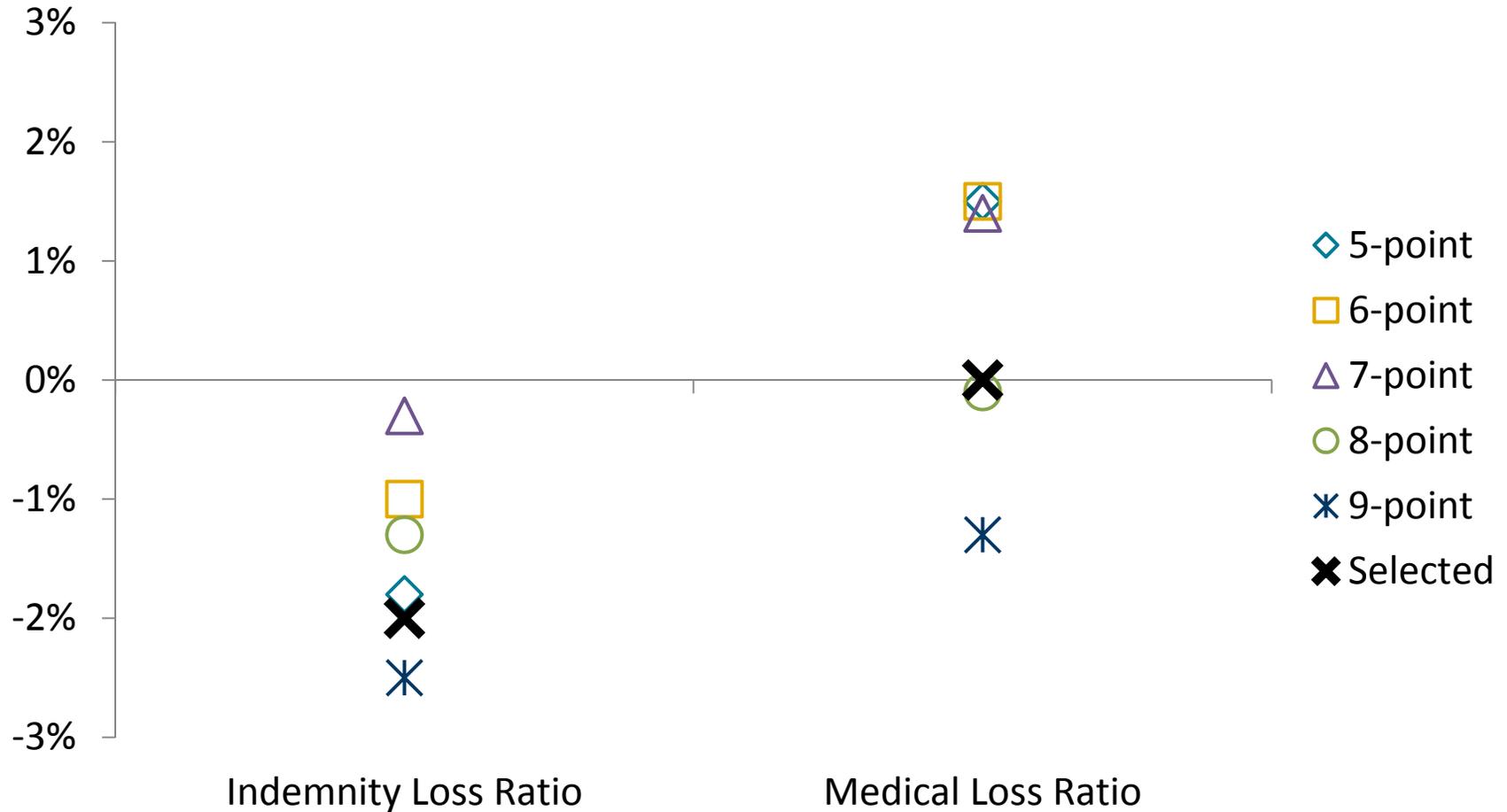


# Trend Summary

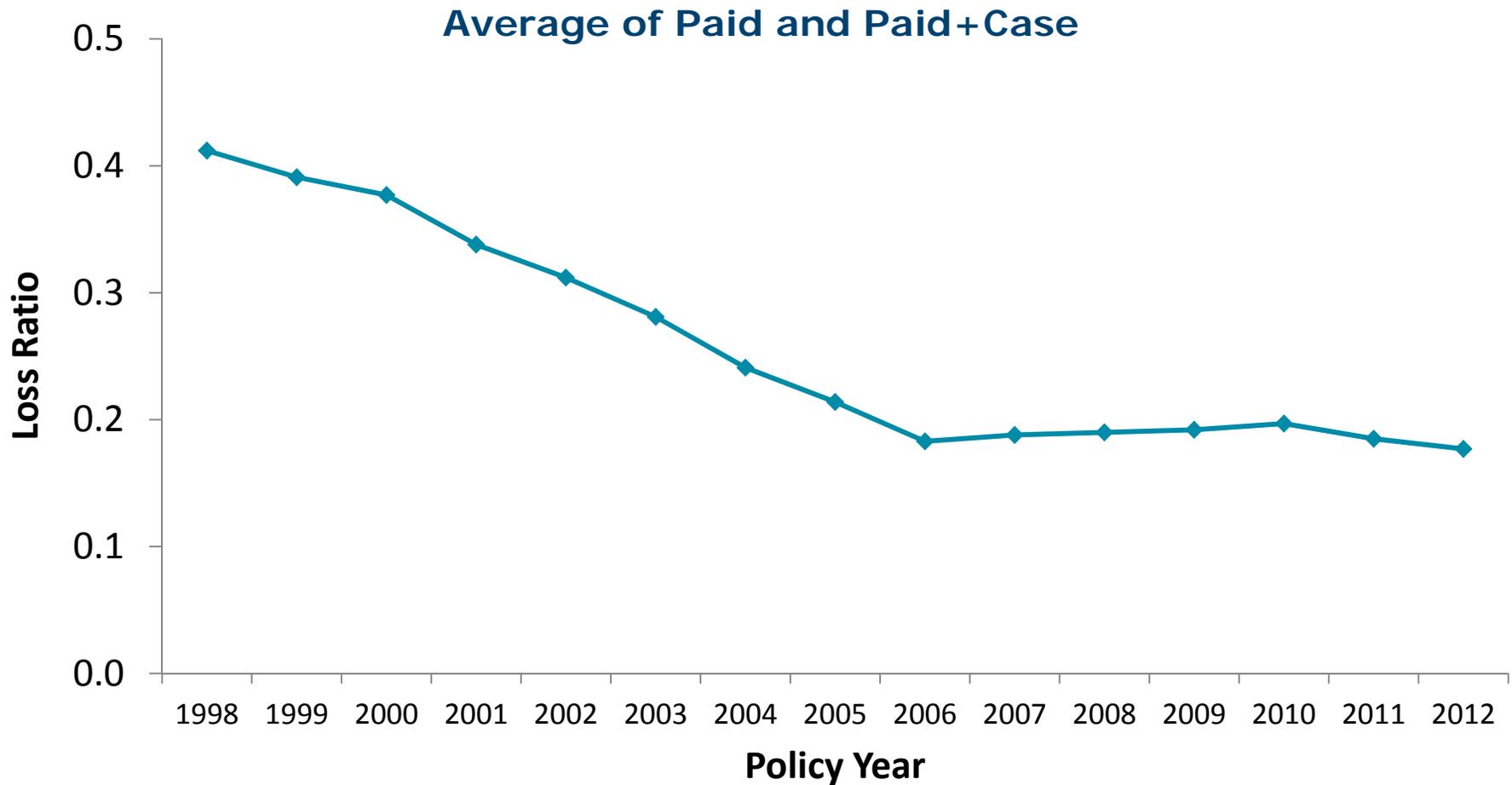
The selected trends are based, in part, on a review of observed loss ratios for policies effective after 2003.

Exponential Trend Fits		Indemnity Loss Ratio	Medical Loss Ratio
(1)	5-point (PY 2008-2012)	-1.8%	+1.5%
(2)	6-point (PY 2007-2012)	-1.0%	+1.5%
(3)	7-point (PY 2006-2012)	-0.3%	+1.4%
(4)	8-point (PY 2005-2012)	-1.3%	-0.1%
(5)	9-point (PY 2004-2012)	-2.5%	-1.3%
(4)	Current approved trend	-1.0%	+0.5%
(5)	Selected annual trend	-2.0%	0.0%

# Exponential Trend Fits



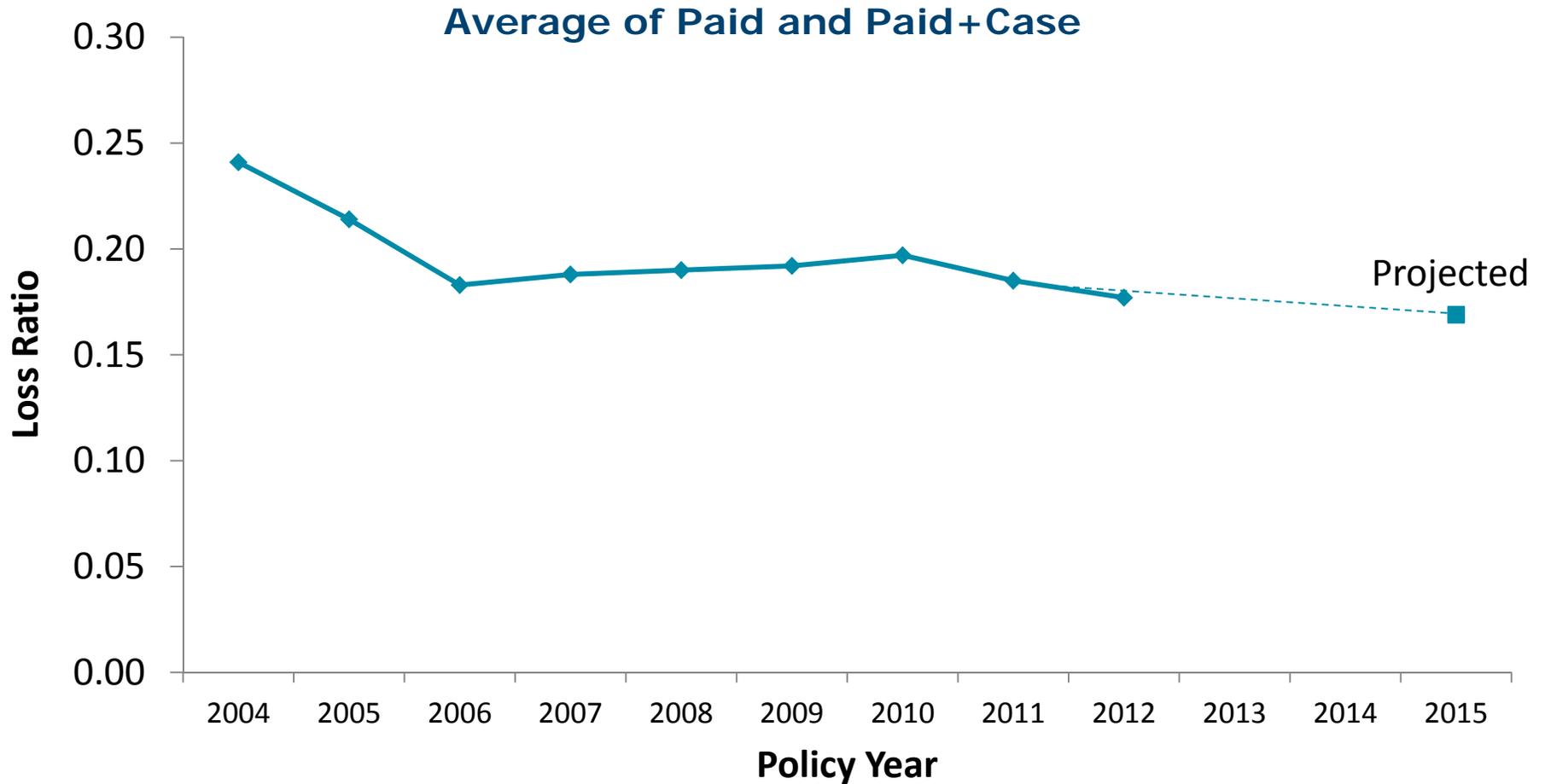
# Florida's Indemnity Loss Ratio Standard Coverage



Based on NCCI's financial data developed to ultimate and adjusted to the current level.



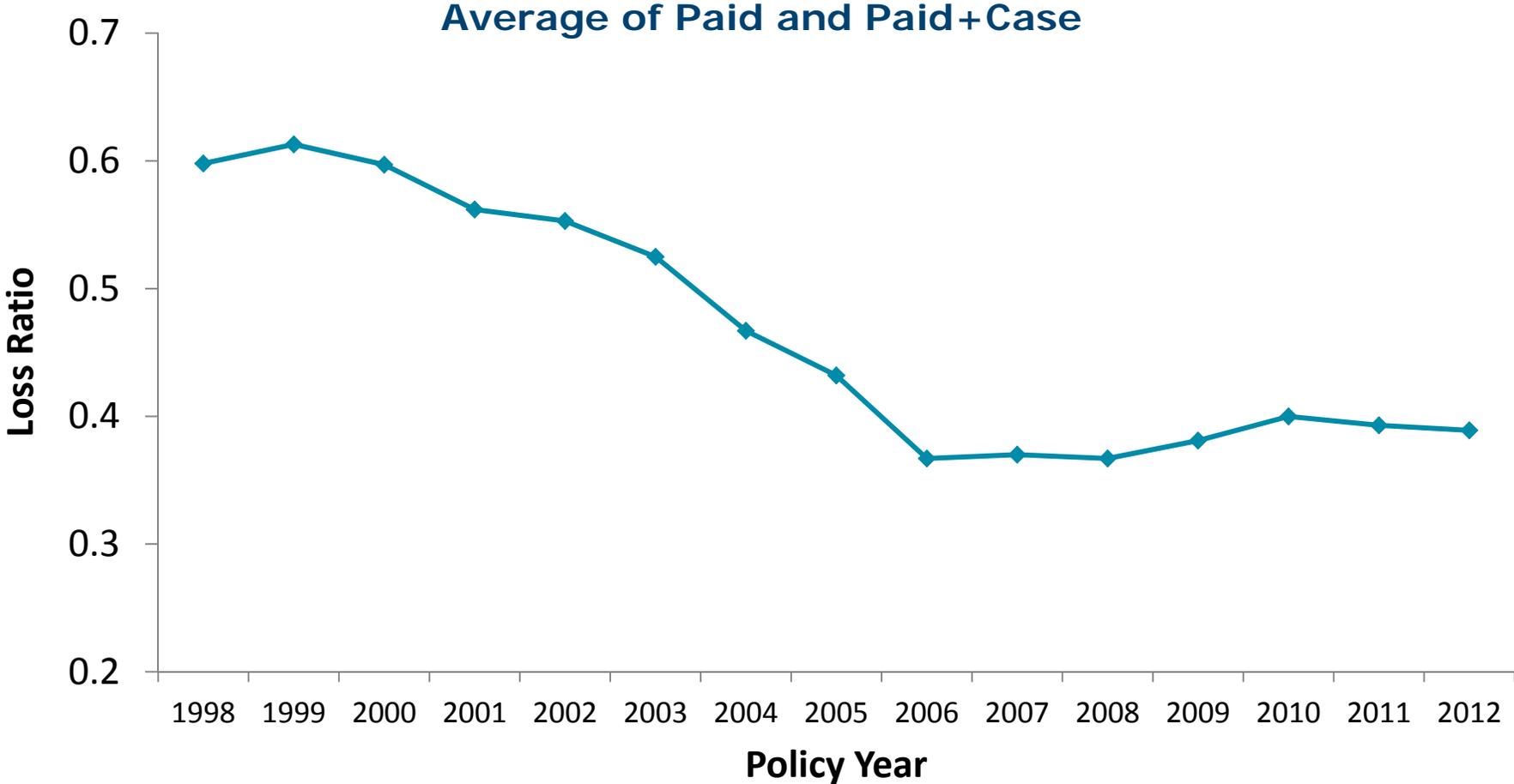
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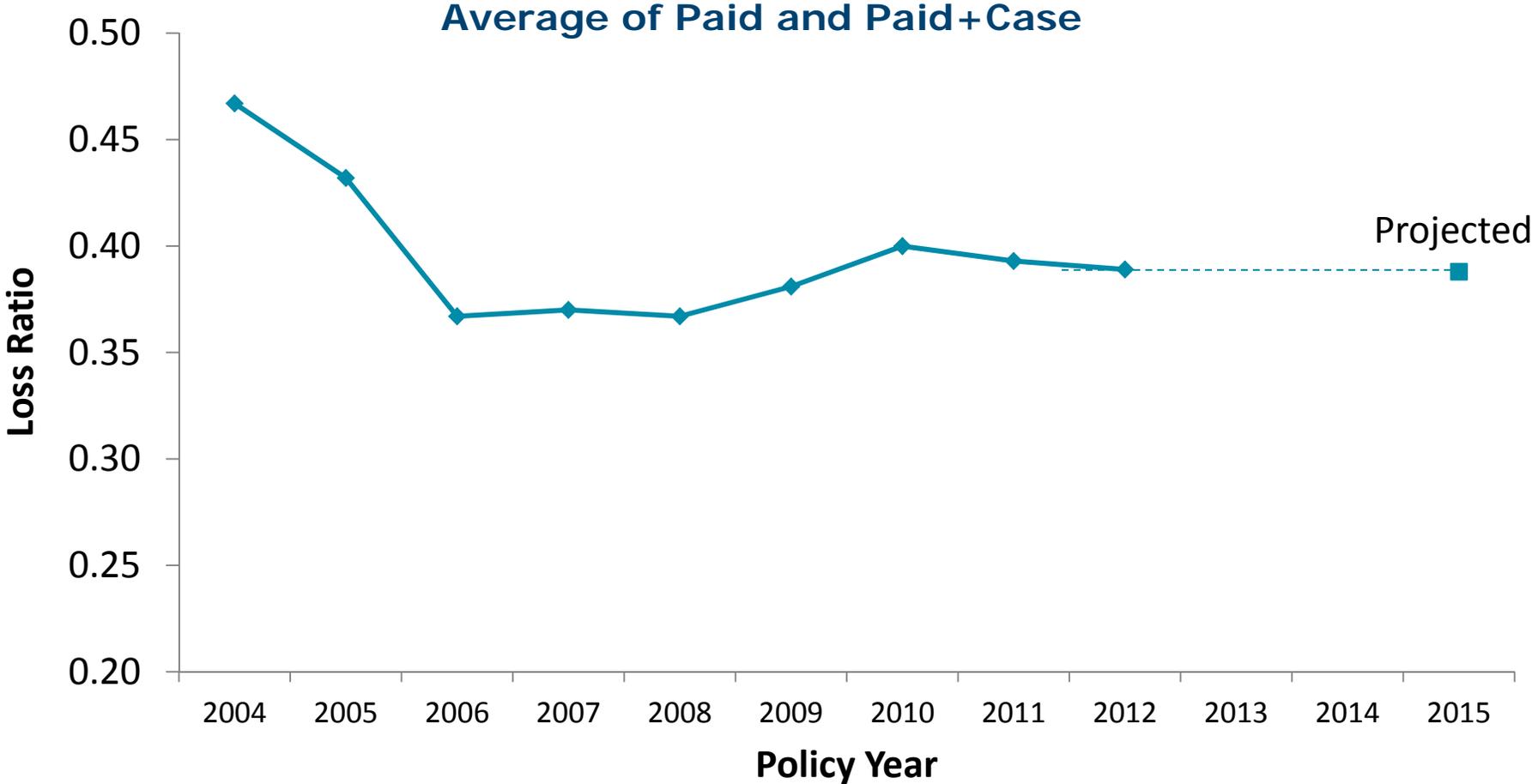
# Florida's Medical Loss Ratio Standard Coverage



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# Florida's Medical Loss Ratio Standard Coverage

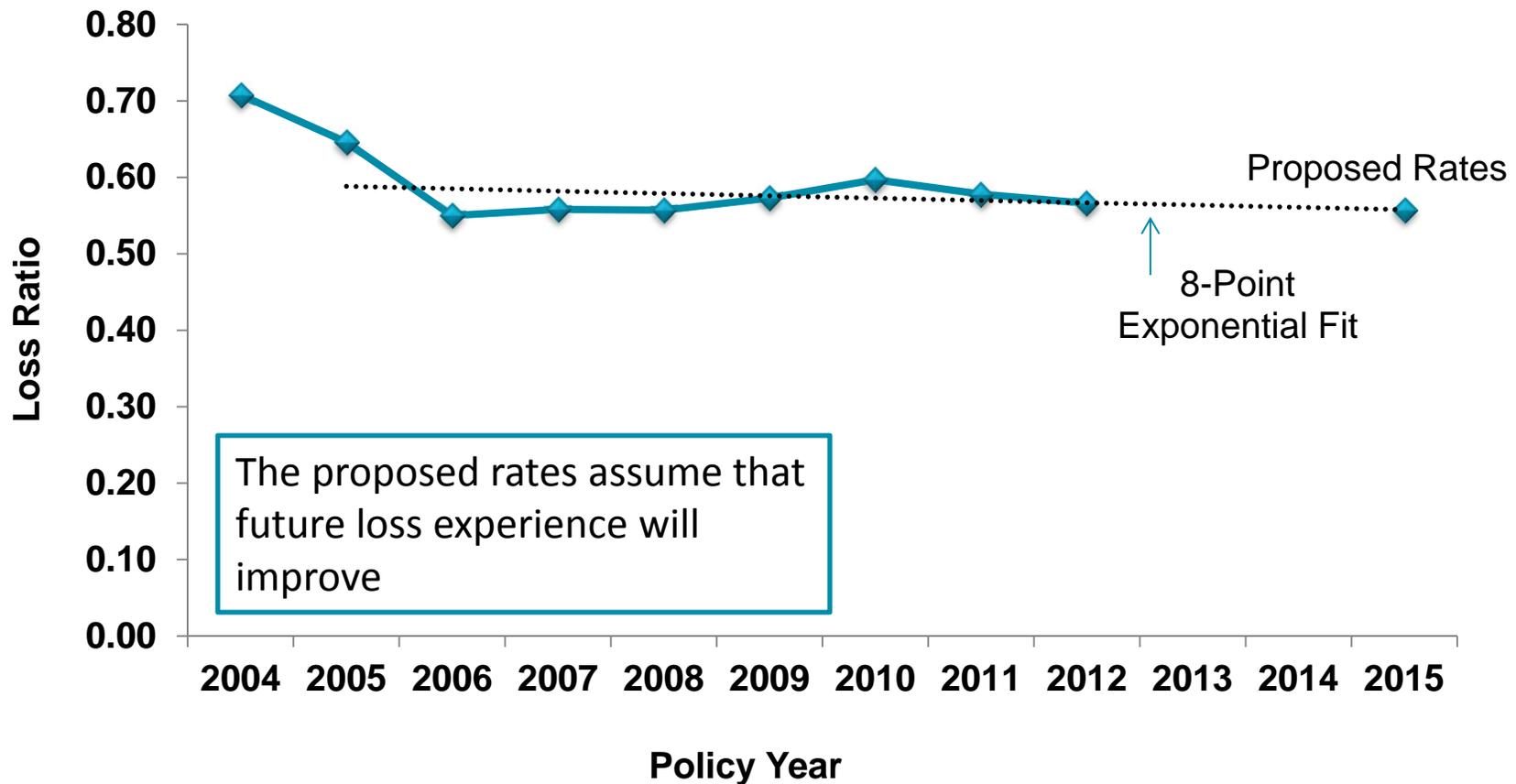


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# Florida's Total Loss Ratio (Excl. LAE) Standard Coverage

Average of Paid and Paid+Case



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# Benefit Change

- Revisions to the *Florida Workers' Compensation Reimbursement Manual for Hospitals*
- Service categories affected:
  - Hospital Inpatient
  - Hospital Outpatient
  - Surgical Implants
- Estimated impact on medical costs =  $-1.1\%$
- Estimated impact on overall costs =  $-0.8\%$

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# Profit & Contingencies Provision

- In order to generate a total rate of return commensurate with the industry's cost of capital, the indicated P&C provision is 6.6%
  - Based on an economic internal rate of return analysis
  - Excludes anticipated policyholder dividends
  - Cost of capital is approximately 10.5%
- Targeted P&C provision increased from 2.5% to 4.5% in the proposed filing



# Profit & Contingencies Provision

- In past filings, NCCI limited the targeted P&C provision to 2.5%
- Unprecedented economic conditions have caused interest rates to remain near historic lows for an extended period
  - This is expected to negatively impact the insurance industry's investment income for the foreseeable future
- In light of these conditions, NCCI is no longer limiting the targeted P&C provision to 2.5%



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# Florida January 1, 2015 Workers Compensation Filing Summary

- Over the past several years, total loss experience has been relatively stable
- A stable system still requires minor periodic adjustments to the average rate level
- Full approval is important to help maintain stable rates going forward

