

FLORIDA

WORKERS COMPENSATION RATE FILING – JANUARY 1, 2022

Direct Testimony of Jay A. Rosen

1 1. Q. Please state your name, title, employer, and position you hold.

2 A. My name is Jay Rosen and I am a Practice Leader and Senior Actuary for the
3 National Council on Compensation Insurance, Inc. (NCCI) in Boca Raton, Florida.
4 My current responsibilities include the preparation of rate filings and the
5 presentation of expert actuarial testimony for four states in NCCI's Eastern
6 Region—one of which is Florida.

7

8 2. Q. Please outline your academic and professional training.

9 A. I have a Bachelor of Science degree and a Master of Science degree, both in
10 Mathematics, from the University of Florida, in Gainesville, Florida. I am a Fellow
11 of the Casualty Actuarial Society and a Member of the American Academy of
12 Actuaries. A copy of my vitae is attached as Exhibit JR-1.

13

14 3. Q. How long have you been employed by the National Council?

15 A. I have been employed by NCCI since June of 1992.

16

17 4. Q. Are you responsible for the production of the pending Florida filing?

18 A. Yes.

19

20 5. Q. What is the purpose and scope of your testimony?

1 A. I will provide testimony on key actuarial issues in connection with NCCI’s proposed
2 revision to Florida’s workers compensation rate level. Specifically, my testimony
3 will discuss the development of the proposed overall average voluntary market
4 rate level change via a description of the actuarial analyses performed.

5

6 6. Q. What overall average change to the current voluntary market rate level does this
7 filing propose?

8 A. For the industrial classifications, an overall average rate level change of –4.9%
9 from the current rate level is requested.

10

11 7. Q. If this rate filing was approved as filed, would all employers insured in the
12 voluntary market receive a rate level change equal to the overall average proposed
13 change?

14 A. No. The proposed rate level indication represents the overall average change for
15 the voluntary market. The actual percentage change may vary across individual
16 classification codes—both above and below this average.

17

18 8. Q. What is the proposed effective date of the revised voluntary market rates?

19 A. The revised rates would apply to new and renewal policies that are effective on or
20 after January 1, 2022.

21

1 9. Q. Please summarize the components of the proposed overall average rate level
2 change.

3 A. The components of the overall average voluntary market rate level change are as
4 follows:

5	Change in Experience, Trend and Benefits	-6.9%
6	Change in Production and General Expenses	+0.6%
7	Change in Taxes and Assessments	0.0%
8	Change in the Profit and Contingency Provision	+0.7%
9	<u>Change in Loss-Based Expenses</u>	<u>+0.7%</u>
10	Overall Average Rate Level Change	-4.9%

11 (Components are multiplicative)

12

13 10. Q. Please summarize the actuarial decisions affecting the change in the experience,
14 trend and benefits component of the overall indication.

15 A. The experience, trend and benefits component is affected by actuarial decisions
16 on the type of data to use, the number of years to include in the experience
17 period, the loss development methodology (i.e., whether to use paid losses or paid
18 losses plus case reserves), the link ratio averaging technique, and the tail factor
19 calculation. These decisions affect the loss ratios on which the experience
20 indication is based as well as the loss ratios reviewed to determine the projected
21 annual trend. The key selections that have been incorporated are as follows:

- 1 • The experience period is based on the two most recently available full policy
- 2 years (Policy Years 2018 and 2019 evaluated as of December 31, 2020);
- 3 • An average of the (i) paid and (ii) paid plus case loss development
- 4 methodologies;
- 5 • Three-year average link ratios for premium development;
- 6 • Three-year average paid loss development and three-year average paid+case
- 7 loss development to a nineteenth report;
- 8 • Selected nineteenth report-to-ultimate loss development tail factors after
- 9 reviewing the most recent ten years of available data;
- 10 • Selected annual trend factors.

11

12 11. Q. What data is used for the experience period in these applications?

13 A. The experience period is based on the two most recently available full policy years
14 (Policy Years 2018 and 2019 evaluated as of December 31, 2020) of Florida
15 financial data. This data consists of earned premiums and losses during these
16 periods reported to NCCI by those companies writing workers compensation
17 business in Florida.

18

19 12. Q. Was it necessary to include any adjustments to the experience period premiums?

20 A. Yes. Premium on-level factors were applied to reflect the impact of recent rate
21 level changes that are not fully reflected in the data. The premium was also

1 developed to an ultimate basis based on an average of the three most recent
2 historical factors at each age interval.

3
4 13. Q. What loss development methodologies were analyzed in connection with this
5 year's filing?

6 A. The loss development projection methodologies examined in this year's analysis
7 were based on (i) paid losses (benefit amounts already paid by insurers on
8 reported claims) and (ii) the sum of paid losses plus case reserves ("paid+case"),
9 which are paid losses and the amounts set aside to cover future payments on
10 those claims. For use in this filing, NCCI utilized loss development factors based on
11 each of these loss aggregations.

12
13 14. Q. After identifying the most appropriate loss development methodology, what is the
14 next step in the process to compute the actual loss development factors?

15 A. In calculating the loss development factors, actuaries examine how prior years'
16 losses evolve from the time they are first reported to the time they are finally
17 settled. For inclusion in this filing, final loss development factors through a
18 nineteenth report were derived based on an average of the three most recent
19 historical factors at each age interval for both paid losses and paid+case losses.

20
21 15. Q. Beyond a nineteenth report, what loss development factors were used?

1 A. Loss development tail factors from a nineteenth to an ultimate report were
2 selected based on a review of the ten most recently available factors. This
3 facilitates a relatively long-term view of loss development beyond a nineteenth
4 report—that, in general, may not be expected to vary significantly from year-to-
5 year.

6
7 16. Q. What is trend in the context of this filing?

8 A. Trend adjusts the historical data to account for the impact of inflation on losses
9 and premiums between the time of the historical data and the period when the
10 rates will be in effect. If losses were changing at the same rate as payrolls, trend
11 would not be needed since the change in losses would be matched by a
12 corresponding change in payrolls and, therefore, premiums. In Florida, losses have
13 historically been changing at a different rate than payroll. This makes trend
14 necessary if historical data is to be used as a predictor of future losses.

15
16 17. Q. Please describe how the trend factors were selected for use in this filing.

17 A. In addition to historical changes in Florida indemnity and medical loss ratios,
18 changes in claim frequency and average cost per case over time were also
19 reviewed. Consideration of the trend component included a review of loss ratio
20 patterns observed over an extended period of time. This allows one to review
21 trends over an entire underwriting cycle and smooth out year-to-year fluctuations.

1 The proposed annual loss ratio trend factors selected for use in this filing were
2 based on actuarial judgment. This year’s trend analysis is fully documented in
3 Appendix A-III of the filing.

4
5 18. Q. What are the annual loss ratio trends proposed in this filing?

6 A. For this filing, the indemnity losses have been trended by –3.0% per year and the
7 medical losses have been trended by –4.0% per year.

8
9 19. Q. Once the loss experience has been developed, brought to the current benefit level,
10 and trended, what are the next steps in determining the overall average rate level
11 change?

12 A. After the above-mentioned adjustments have been made, total indemnity and
13 medical cost ratios are computed by comparing the total estimated indemnity and
14 medical costs to the total estimated premium that would be available to fund
15 these losses. After combining separate indications for Policy Years 2018 and 2019,
16 the resulting experience, trend and benefit change indicates that current rate
17 levels should be decreased by 6.9% to be just adequate in providing for losses
18 which are expected to arise from policies becoming effective between January 1
19 and December 31, 2022.

20

1 20. Q. Please briefly describe the changes to the various expense-related provisions in
2 the filing.

3 A. The expense-related provisions are described in the filing sections titled
4 “Selections Underlying the Proposed Changes” (page 18) and “Exhibit II – Workers
5 Compensation Expense Program” (page 52). A brief description of these
6 components is as follows:

7 • Production and general expenses: Production expenses include items such as
8 commissions and costs associated with processing policies. General expenses
9 primarily consist of salaries and overhead costs. This filing proposes a +0.6%
10 change to currently approved combined production and general expense
11 provision;

12 • Premium taxes and assessments: This provision reflects changes to the
13 Workers’ Compensation Administration Trust Fund assessment and the Special
14 Disability Trust Fund assessment. This filing proposes a 0.0% change to the
15 currently approved provision for taxes and assessments;

16 • Profit and contingency (P&C) provision: Florida workers compensation rates
17 must be determined so that insurers can be expected to earn a reasonable rate
18 of return. This filing proposes to revise the currently approved P&C provision
19 from 1.0% to 1.5%;

- 1 • Loss-based expenses: Loss adjustment expenses (LAE) are those associated
2 with the handling of workers compensation claims. This filing proposes a +0.7%
3 change to the currently approved LAE provision.

4
5 21. Q. After incorporating the proposed change in expenses, what is the final proposed
6 overall average rate level change in this filing?

7 A. A final overall average rate level change of –4.9% is being proposed.

8
9 22. Q. Please describe how the proposed P&C provision was selected in this filing.

10 A. The P&C provision was selected based on the results of NCCI’s Internal Rate of
11 Return (IRR) model. The IRR model accounts for all cash flows related to the
12 insurance transaction and the timing of these cash flows to determine expected
13 returns for the insurance industry. More specifically, the P&C provision included in
14 this filing was judgmentally selected after reviewing the resulting “static” and
15 “dynamic” P&C indications along with the provision currently approved. NCCI’s
16 economist has provided expert testimony on this item—including detail on the IRR
17 model, its components, and the resulting P&C indications.

18

19 23. Q. Are there additional changes in miscellaneous rating values contained in the filing?

1 A. Yes. Along with the proposed manual rate pages, Part 2 of the filing contains
2 additional changes, including proposed miscellaneous values, experience rating
3 values, and retrospective rating values.

4
5 24. Q. Please describe what is meant by the term “F-classifications.”

6 A. The “F” or “Federal” classifications are those operations conducted on or about
7 navigable waters for which benefit levels and related costs are determined by the
8 United States Longshore and Harbor Workers’ Compensation Act, rather than
9 individual state laws. Typical F-classifications include those covering ship builders
10 and stevedores.

11
12 25. Q. What rate change is being proposed for the Federal classifications?

13 A. The filing proposes an overall average rate level change of –14.1%.

14
15 26. Q. Is it your testimony that this filing results in rates that are not excessive,
16 inadequate, or unfairly discriminatory?

17 A. Yes.

18
19 27. Q. Does this conclude your testimony?

20 A. Yes, it does.

JAY A. ROSEN

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PROFESSIONAL DESIGNATIONS

Fellow of the Casualty Actuarial Society (FCAS)	1996
Member of the American Academy of Actuaries (MAAA)	1995

EDUCATION

M.S., Mathematics, University of Florida	1992
B.S., Mathematics, University of Florida	1989

PROFESSIONAL EXPERIENCE

National Council on Compensation Insurance (NCCI)	1992 to present
Practice Leader and Senior Actuary	
<ul style="list-style-type: none"> - Oversight of the actuarial function including the preparation of rate filings and the presentation of expert actuarial testimony - Products and Results Management Practice Leader - Ratemaking Research Practice Leader 	

PROFESSIONAL ACTIVITIES

Casualty Actuarial Society Ratemaking, Product and Modeling Seminar Committee Member	2017 to present
Casualty Actuarial Society Ratemaking and Product Management Seminar Committee Member	2008 to 2017
Casualty Actuarial Society Seminar on Ratemaking Committee Member	2000 to 2008
Casualty Actuarial Society Examination Committee Member	1996 to 1999

EXPERT TESTIMONY

NCCI Workers Compensation State Rate Filings by Effective Year

Alabama (Montgomery)	2000, 2001, 2002, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021
Florida (Tallahassee)	2016, 2018, 2019, 2020, 2021
North Carolina (Raleigh)	1998, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014, 2015, 2016
Oklahoma (Oklahoma City)	2002, 2003, 2004, 2005
South Carolina (Columbia)	2006, 2008, 2012
Virginia (Richmond)	2008, 2009, 2010, 2011, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022

PUBLIC PRESENTATIONS

NCCI State Advisory Forums

Alabama (Birmingham)	2000, 2001, 2004
Alabama (Montgomery)	2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019
Arkansas (Little Rock)	2015
Florida (Tampa)	2016, 2017
Florida (Orlando)	2018, 2019
Georgia (Atlanta)	2001, 2002, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015
Louisiana (Baton Rouge)	2006, 2009
Mississippi (Jackson)	2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015

PUBLIC PRESENTATIONS (CONTINUED)

Oklahoma (Oklahoma City)	2001, 2002, 2003, 2004, 2005, 2006
South Carolina (Columbia)	2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019
Virginia (Richmond)	2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019
Ratemaking, Product and Modeling Seminar	
Massachusetts (Boston)	2019
Illinois (Chicago)	2018
Ratemaking and Product Management Seminar	
California (San Diego)	2017
Texas (Dallas)	2015
Washington, DC	2014
California (Huntington Beach)	2013
Pennsylvania (Philadelphia)	2012
Louisiana (New Orleans)	2011
Illinois (Chicago)	2010
Nevada (Las Vegas)	2009
Seminar on Ratemaking	
Massachusetts (Boston)	2008
Georgia (Atlanta)	2007
Utah (Salt Lake City)	2006
Louisiana (New Orleans)	2005
Pennsylvania (Philadelphia)	2004
Texas (San Antonio)	2003
Conference of Consulting Actuaries Annual Meeting	
Texas (San Antonio)	2001