FLORIDA

WORKERS COMPENSATION RATE FILING – JANUARY 1, 2024

Direct Testimony of Brett S. Foster

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

A. My name is Brett Foster and I am an Executive Director and Actuary for the National Council on Compensation Insurance, Inc. (NCCI) in Boca Raton, Florida. My current responsibilities include oversight of the actuarial function, including the preparation of rate filings and presentation of actuarial testimony, for three jurisdictions (including Florida).

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

A. I have a Bachelor of Science degree with majors in mathematics and economics from Missouri State University, in Springfield, Missouri. I am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries and am in good standing with both of those organizations.

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

A. I have worked for NCCI since June of 2012, during which time I have contributed in various areas of NCCI's Actuarial and Economic Services division, including class ratemaking, individual risk rating research, legislative analysis, and aggregate ratemaking. In addition to overseeing the actuarial function for three jurisdictions, I am currently responsible for leading NCCI's individual risk rating research area.

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

A. Yes.

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

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

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

A. For the industrial classifications, an overall average rate level change of –15.1% from the current rate level is requested.

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

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

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

A. The revised rates would apply to new and renewal policies that are effective on or after January 1, 2024.

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

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

Change in Experience, Trend, and Benefits	–13.6%
Change in Production and General Expenses	+0.1%
Change in Taxes and Assessments	–0.1%
Change in the Profit and Contingency Provision	–2.0%
Change in Loss-Based Expenses	+0.2%
Overall Average Rate Level Change	–15.1%

(Components are multiplicative)

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

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

- The experience period is based on the two most recently available full policy years (Policy Years 2020 and 2021 evaluated as of December 31, 2022)
- An average of the (i) paid and (ii) paid plus case loss development methodologies
- Three-year average link ratios for premium development
- Three-year average paid and paid+case loss development to a nineteenth report
- Selected nineteenth report-to-ultimate loss development tail factors after reviewing the most recent ten years of available data
- Selected annual trend factors

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

A. The experience period is based on the two most recently available full policy years (Policy Years 2020 and 2021 evaluated as of December 31, 2022) of Florida financial data. This data consists of earned premiums and losses during these periods reported to NCCI by those companies writing workers compensation business in Florida. Consistent with last year's filing, the losses from reported COVID-19-related claims have been excluded from the data underlying the analysis.

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

A. Yes. Premium on-level factors were applied to reflect the impact of recent rate level changes that are not fully reflected in the data. The premium was also developed to an ultimate basis based on an average of the three most recent historical factors at each age interval.

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

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

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

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

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

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

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

A. Trend adjusts the historical data to account for anticipated changes in the amount of indemnity and medical benefits between the experience period years and the period when the rates will be in effect. If losses were changing at the same rate as payrolls, trend would not be needed since the change in losses would be matched by a corresponding change in payrolls and, therefore, premiums. In Florida, losses have historically been changing at a different rate than payroll. This makes trend necessary if historical data is to be used as a predictor of future losses.

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

A. In addition to historical changes in Florida indemnity and medical loss ratios, changes in claim frequency and average cost per case over time were also reviewed. Consideration of the trend component included a review of loss ratio patterns observed over an extended period of time. This allows one to review trends over an entire underwriting cycle and smooth out year-to-year fluctuations. The proposed annual loss ratio trend factors selected for use in this filing were based on actuarial judgment. This year's trend analysis is fully documented in Appendix A-III of the filing.

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

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

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

A. After the above-mentioned adjustments have been made, total indemnity and medical cost ratios are computed by comparing the total estimated indemnity and medical costs to the total estimated premium that would be available to fund these losses. After combining separate indications for Policy Years 2020 and 2021, the resulting experience, trend, and benefit change indicates that current rate levels should be decreased by 13.6% to be just adequate in providing for losses which are expected to arise from policies becoming effective between January 1 and December 31, 2024.

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

A. The expense-related provisions are described in the filing sections titled "Additional Proposed Changes" (page 18) and "Exhibit II – Workers Compensation Expense Program" (page 54). A brief description of these components is as follows:

- Production and general expenses: Production expenses include items such as commissions and costs associated with processing policies. General expenses primarily consist of salaries and overhead costs. This filing proposes a +0.1% change to the currently approved combined production and general expense provision.
- Premium taxes and assessments: This provision reflects changes to the Workers' Compensation Administration Trust Fund assessment and the Special Disability Trust Fund assessment. This filing proposes a –0.1% change to the currently approved provision for taxes and assessments.

- Profit and contingency (P&C) provision: Florida workers compensation rates must be determined so that insurers can be expected to earn a reasonable rate of return. This filing proposes a –1.5% change to the currently approved P&C provision.
- Loss-based expenses: Loss adjustment expenses (LAE) are those associated with the handling of workers compensation claims. This filing proposes a +0.2% change to the currently approved LAE provision.

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

A. A final overall average rate level change of –15.1% is being proposed.

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

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

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

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

24. Q. Please describe what is meant by the term "F-classifications."

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

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

A. The filing proposes an overall average rate level change of –12.6%.

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

A. Yes.

27. Q. Does this conclude your testimony?

A. Yes, it does.