

NCCI Proposes Increase for Workers Compensation Rates in Florida

On August 18, 2010, the National Council on Compensation Insurance (NCCI)* delivered its annual workers compensation rate filing to the Florida Office of Insurance Regulation (OIR). Based upon its review of the most recent data available, NCCI has proposed, effective January 1, 2011, an overall workers compensation rate level increase of 8.3%.

| Rate Filing Components | Impact |
|--|--------------|
| Due to Change in Experience | +3.4% |
| Due to Change in Trend | +3.9% |
| Due to Change in Benefits | 0.0% |
| Due to Change in Expenses (excl P&C) | +0.8% |
| Due to Change in Profit & Contingency Factor | 0.0% |
| OVERALL RATE LEVEL CHANGE | +8.3% |

There are two main reasons for the proposed rate level increase:

1. **Florida claims experience has deteriorated slightly in the last two years. The resulting indicated experience change (+3.4%) is, however, within the range of a typical annual adjustment.**

The experience base used in the filing, accident years 2008 and 2009, reflects a slight deterioration in workers compensation experience (+2.2%). The expected upward development of this base (i.e., projected ultimate cost of claims) is also slightly higher than estimated last year (+1.2%). The additional year to year improvements Florida had been seeing in its workers compensation loss experience since the 2003 reform stopped after 2007. After any reform, it would be expected that eventually improvements stop and the system reaches a new baseline reflecting the total cumulative effects of the reform. This filing is the first in the post-reform era where the two years included likely reflect the new baseline.

2. **The forecast for Florida workers compensation has been changed from an extremely favorable outlook to a favorable outlook. Adjusting to less negative trends results in a positive rate impact (+3.9%).**

After several years of unprecedented claim frequency decline in the post-reform era, claim frequency has now flattened in the last couple of years. While NCCI is not giving the latest claim frequency numbers full weight, it is necessary to adjust the very optimistic outlook, or trend, over the next several years from that underlying the current rates. The new outlook still calls for continued improvement (i.e., negative trends), but at a slightly slower pace (i.e., less negative than current trends).

Excluding the Emma Murray-related filings, this is the first filed increase since prior to the SB 50A workers compensation reform in 2003. Since then, there have been eight decreases. The previous rate reductions approved by the OIR are as follows:

| | | | |
|------------------|-----------------|-----------------|-----------------|
| -14.0% (10/1/03) | -5.1% (1/1/05) | -13.5% (1/1/06) | -15.7% (1/1/07) |
| -18.4% (1/1/08) | -18.6% (1/1/09) | -6.8% (1/1/10) | -4.2% (7/1/10) |

The cumulative impact of the above eight decreases was -64.7%. During this period, Florida dropped from a ranking of #1 or #2 highest workers compensation rates in the country to among the 10 states with the lowest workers compensation rates in the country. Assuming the filing is approved as proposed, the cumulative impact for the period 10/1/03 through 1/1/11 is -61.8%. Even if the proposed increase is implemented, Florida will likely retain the distinction of being among the 10 states with the lowest workers compensation rates in the country.

Assuming the filing is approved as proposed, the overall average rate impact at an industry group level would be as follows:

| | 1/1/11 Filing | 10/1/03-1/1/11 |
|---------------------|----------------------|-----------------------|
| Manufacturing | +9.9% | -57.8% |
| Contracting | +7.3% | -64.4% |
| Office and Clerical | +7.3% | -62.3% |
| Goods and Services | +7.9% | -60.9% |
| Miscellaneous | +10.8% | -59.7% |
| TOTAL | +8.3% | -61.8% |

The OIR is expected to schedule a public rate hearing in October.

*National Council on Compensation Insurance, Inc., based in Boca Raton, FL, manages the nation's largest database of workers compensation insurance information. NCCI analyzes industry trends, prepares workers compensation insurance rate recommendations, determines the cost of proposed legislation, and provides a variety of services and tools to maintain a healthy workers compensation system.