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National
Council
on Compensation
Insurance

ALASKA

WORKERS' COMPENSATION

INSURANCE

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Attachment: Restatement of the Consideration of Investment Income in
Workers' Compensation Insurance Ratemaking.



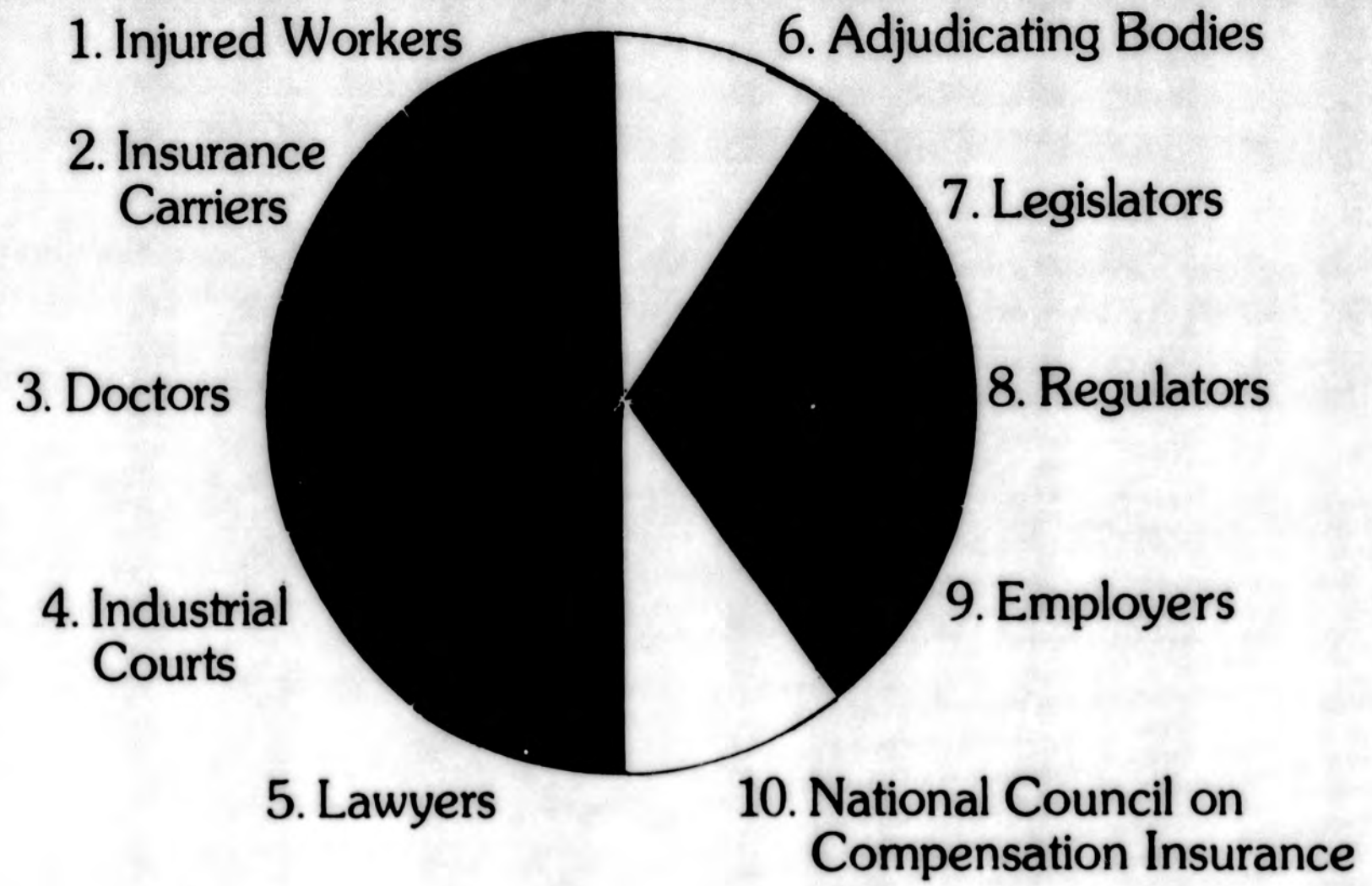
THE NATIONAL COUNCIL

AND

WORKERS' COMPENSATION INSURANCE



Principals Involved in Workers' Compensation



NATIONAL COUNCIL ON COMPENSATION INSURANCE

NATIONAL COUNCIL ON COMPENSATION INSURANCE

1. NCCI is licensed as the workers' compensation rating organization in 31 jurisdictions.

Alabama	<u>Florida</u>	Kentucky	Montana	Rhode Island
Alaska	Georgia	Louisiana	Nebraska	South Carolina
Arizona	Idaho	Maine	New Hampshire	South Dakota
Arkansas	Illinois	Maryland	New Mexico	Tennessee
Colorado	Iowa	Mississippi	Oklahoma	Utah
Connecticut	Kansas	Missouri	<u>Oregon</u>	Vermont
Dist. of Col.				

2. NCCI is advisory to the licensed workers' compensation rating organization in 7 states.

Hawaii	Michigan	North Carolina	Wisconsin
Indiana	Minnesota	Virginia	<u> </u>

3. NCCI Organization

a. Association of Insurers - represents 542 insurance companies (Stock, Mutual, Reciprocal, Competitive State Fund)

b. Voluntary

NATIONAL COUNCIL ON COMPENSATION INSURANCE

NCCI OBJECTIVES

1. Compute classification rates which are adequate, not excessive and not unfairly discriminatory.
2. Establish classification rules, rating plans, policy forms and endorsements.
3. Develop statistical plans for the collection of loss and expense experience.
4. Collect, compile and analyze statistical data.
5. File with supervisory authorities, on behalf of members and subscriber companies, rates, rating plans, rules, manuals of classifications and policy forms.
6. Administer rating systems.
7. Act as statistical agent for insurance supervisory officials, at their request and designation, for the collection, tabulation, and analysis of statistical data.
8. Conduct research activities for the continuing achievement and furtherance of other objectives.



ALASKA

Northwestern Compensation Rating Bureau

- 1. Reviews Policies**
- 2. Alaska Experience Rating**
- 3. Inspects and Classifies**
- 4. Administers Alaska Workers'
Compensation
Assigned Risk Plan**
- 5. Correspondence on all Aspects of
Workers' Compensation**
- 6. Audits Data of Carriers**



RATEMAKING METHODS

AND PROCEDURES



Purposes of Ratemaking

- 1. Provide funds sufficient to cover the costs of benefit payments to injured workers.**
- 2. Provide funds sufficient to operate the benefit system.**

A CONCISE STATEMENT OF THE WORKERS' COMPENSATION
RATEMAKING SYSTEM FOLLOWED BY THE NATIONAL COUNCIL
ON COMPENSATION INSURANCE

It is the intent of this memorandum to present the salient features of the ratemaking approach of the National Council on Compensation Insurance, omitting technical detail. If details in any area are desired, the National Council will be glad to provide them.

First, the ratemaking procedure is prospective in its application. It does not attempt to recover any deficiencies of the past or return any gains of the past. It is designed to provide rates for future use that meet the standards of the state rating law.

"Ratemaking" generally means the process which develops manual rates. In workers' compensation, such rates are calculated for roughly 700 classifications of industry. While manual rates actually produce the final premium for a large percentage of the policyholders, the total volume of premium from such policyholders is small. This occurs because the premium from manual rates is modified by the application of different types of rating plans. These include the mandatory Experience Rating Plan, mandatory Premium Discounts and optional Retro-spective Rating.

The intent when determining manual rates is, by using past state experience, to reproduce the expected premiums and losses that will occur during the period the new rates will be in force. There are many actuarial techniques employed to reach this point. Since this memorandum is an abbreviated version of the ratemaking system, however, it will not deal with them here.

The approach taken is as follows:

1. An overall change in rate level is determined by using the individual state's own statistics and is distributed to three industry groups, namely, the

classifications for Manufacturing industries combined together, the same for Contracting industries and the same for the remaining All Other industries.

2. The overall change in rate level by industry group then is distributed among the individual classes in the group in accordance with the volume and characteristics of the individual class experience.

To obtain the overall change in rate level there are two forms of data used. One is all of the transactions derived from policies with effective dates within a one year period. This might be, for instance, policies with effective dates between January 1, 1975 through December 31, 1975. Since policies run for a 12-month term, the last policy in that period expired December 31, 1976. (Where the state premium volume is less than 75,000,000 annually, the two latest policy years are used.) The carriers are required to keep records as respects the premiums and incurred losses for such group of policies separately, valuing each as of the end of the policy year and reporting them annually for an indefinite period, each annual reporting valuing the same block of data one year later. These data are called Policy Year Aggregate Data. (Incurred losses used for ratemaking include not only the amounts paid but the amounts reserved for future payments.)

The policy year aggregate experience is up-dated, that is, the premiums are adjusted to reflect the present rate level and the losses are adjusted to the level of benefits required by the existing state law.

The results on an up-dated basis, including the allowance for loss adjustment expense, are compared with a permissible loss and loss adjustment ratio. This ratio is derived by subtracting from unity (1.000) the allowance in the rates for expenses. If the permissible loss ratio is less than the policy year indicated loss ratio, the policy year would show the need for higher rates; if the permissible is greater than the loss ratio then the policy year would show the need for decreasing rates. The impact of policy year experience is given a 50% weight in the determination of the overall change in rate level by industry group.

NATIONAL COUNCIL ON COMPENSATION INSURANCE

The other 50% comes from the use of statewide calendar year experience for the latest period. This might be the 12 months ending December 31st of a year or the 12 months ending June 30th, whichever is later. Calendar year experience differs from policy year experience in that the calendar year represents all transactions taking place within the timeframe of the year regardless of the policies from which the transactions were derived. Thus, a reserve on a long term case incurred 10 years ago that is taken down in a particular calendar year would go in as a negative figure in that calendar year; conversely, an old case that turned out to be more costly than originally estimated would have to have its reserve increased and this also would be reflected in the calendar year during which the increase took place.

Calendar year data also are up-dated and the results of the calendar year experience are given a 50% weight in determining the change in rate level. The combination of the two types of data, e.g., policy year and calendar year, thus, gives the overall change in rate level by industry group and for the state.

Then, another step occurs, namely, a project beyond the time of the actual statistics underlying the calculations to the point of the time during which the new rates will be in force. This is accomplished through use of a Trend Factor. Trending is an accepted ratemaking technique which only recently has been utilized in the workers' compensation field. It is another tool that makes the rates more accurate and responsive to the ever-changing economic climate.

After the industry group average change in rate level is known, the individual class experience within the industry group is reviewed through a different kind of statistic known as Unit Statistical Data. This is derived from individual reports by policy sent to the National Council after each policy expires pursuant to the Unit Statistical Plan approved by the state regulatory agency. This contains very detailed information by classification, the kind of statistic which cannot be obtained from policy year aggregate or calendar year figures.

Through actuarial processes the unit plan data also are up-dated and the overall change in rate level by industry group distributed among the classes in each industry group in accordance with the actual experience of the class. The concept of credibility is employed here, that is, if the volume of a class' state experience is not sufficiently large so that its results cannot be believed, it does not receive as much weight as another class that might have a very large volume and therefore be entitled to higher credibility. For other classes with limited state data, experience is used from other states adjusted to conditions in the state for which rates are being made.

Final rates are composed of an allowance for expenses plus an allowance for losses. The expense allowance is determined from an annual review of the actual incurred countrywide expenses of stock companies compiled by the National Council from the Insurance Expense Exhibits filed by the carriers with regulatory authorities. With an eye on these figures an allowance for expenses is selected and included in the rates. This would include allowances for acquisition, general overhead, taxes, licenses, fees and loss adjustment expense. In addition, as part of the expense listing is an allowance of 2.5% for underwriting profit and contingencies. This very nominal allowance for profit and contingencies recognizes that there will be other sources of income to the carriers from investing the unearned premium reserves and loss reserves.

Final rates calculated pursuant to this approach must be approved by the state Insurance Commissioner before being used. Accordingly, the ratemaking system is one that is subject to continual scrutiny and review by such officials. The National Council also continuously examines its programs to assure their responsiveness and accuracy. This ratemaking system, with occasional single state modifications, is generally followed in all states where private carriers can write workers' compensation insurance.

Rate Filing Process

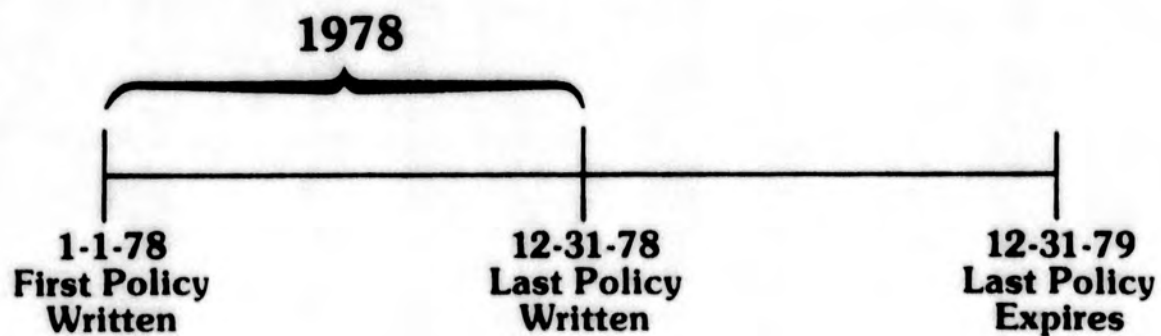




Policy Year Data

Policy Year 1978 –

This data reflects all premiums earned and losses incurred for policies becoming effective from January 1, 1978 through December 31, 1978.

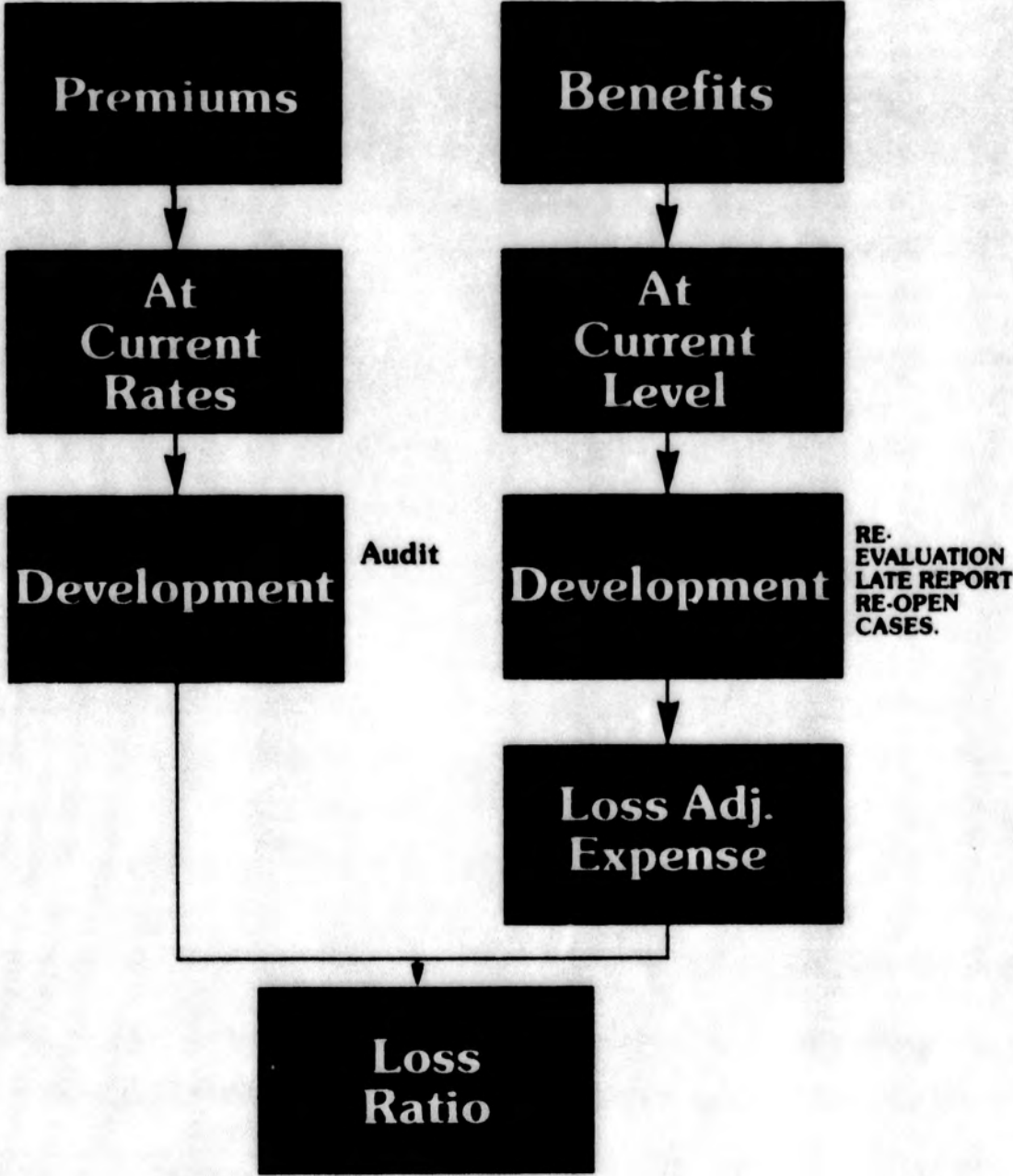


Analogy:

The Policy Year Data is similar to considering income and outgo on items manufactured in a single, fixed year, regardless of when sold.



Analysis Policy Year





LOSS DEVELOPMENT

What It Is

**Changing Value
of Losses
at Successive
Evaluation Dates**



LOSS DEVELOPMENT

Why It Occurs

A) Uncertainty

- 1) Length of Disability**
- 2) Amount of Medical Care
Needed**

B) Inflation

- 1) Escalating Life Pensions**
- 2) Cost of Future
Medical Care**



LOSS DEVELOPMENT

How It Is Evaluated

- 1) Individual State
Experience**
- 2) Historical
Development Pattern**
- 3) Most Recent
Two Years of Data
For Each
Valuation Point**



LOSS DEVELOPMENT

Numerical Example

Losses in Millions

<u>Policy Year</u>	<u>1st Report</u>	<u>2nd Report</u>	<u>3rd Report</u>	<u>4th Report</u>	<u>5th Report</u>
1973				39	41
1974			42	45	47
1975		45	48	51	
1976	45	50	54		
1977	50	57			

Development Factors

<u>Policy Year</u>	<u>1st to 2nd Report</u>	<u>2nd to 3rd Report</u>	<u>3rd to 4th Report</u>	<u>4th to 5th Report</u>
1973				1.051
1974			1.071	1.044
1975		1.067	1.063	
1976	1.111	1.080		
1977	1.140			
<u>Average</u>	<u>1.126</u>	<u>1.074</u>	<u>1.067</u>	<u>1.048</u>

Final Factors

1st to 5th	1.352
5th to Ultimate	1.040
1st to Ultimate	1.406



Calendar Year Data

Calendar Year 1979 –

This data reflects all premiums earned and losses incurred during the twelve month period, January 1, 1979 through December 31, 1979, regardless of the effective date of the policies producing the data.

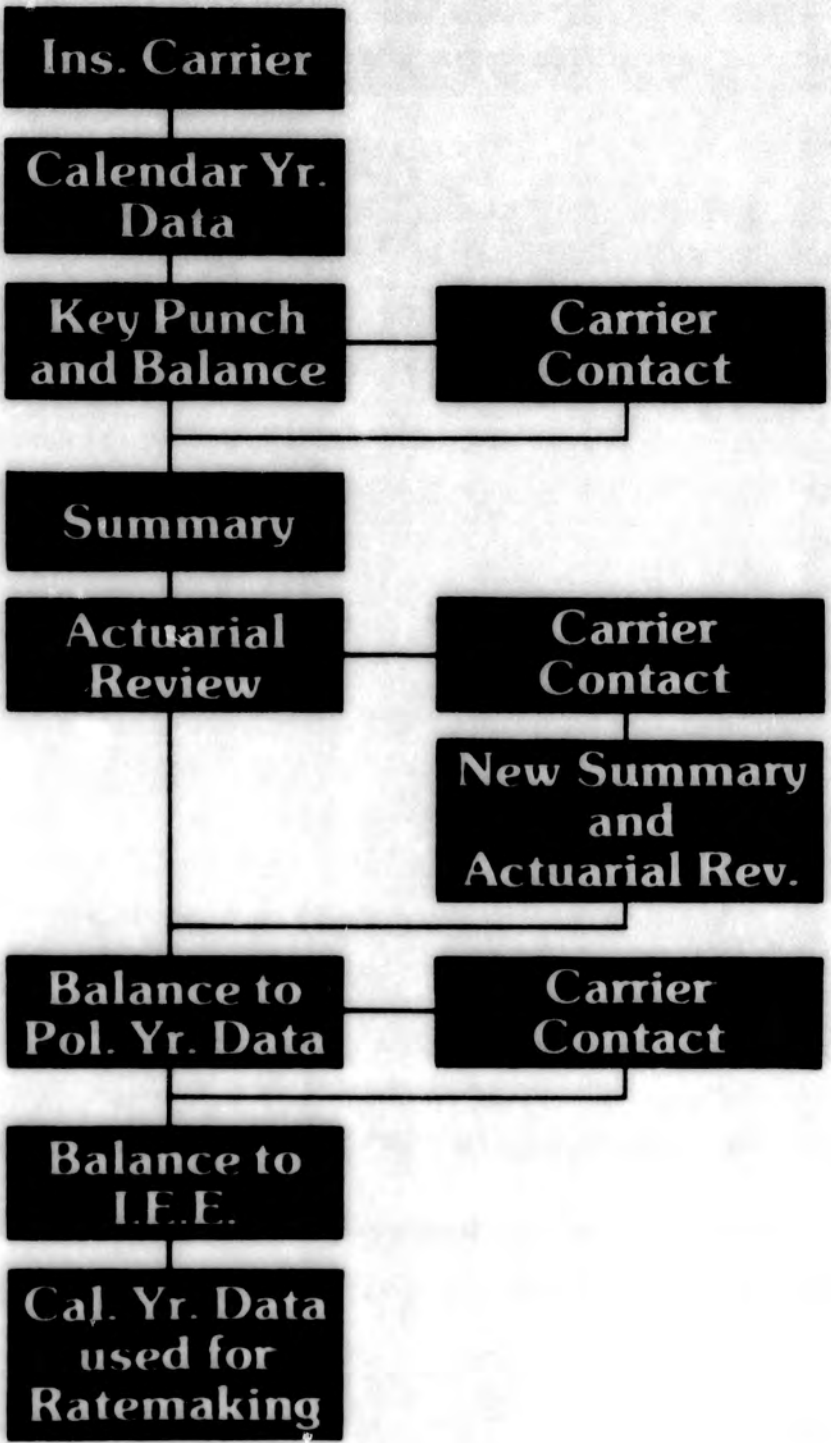


Analogy:

The Calendar Year Data is similar to considering the income and outgo for items in a fixed year, regardless of the year of manufacture.

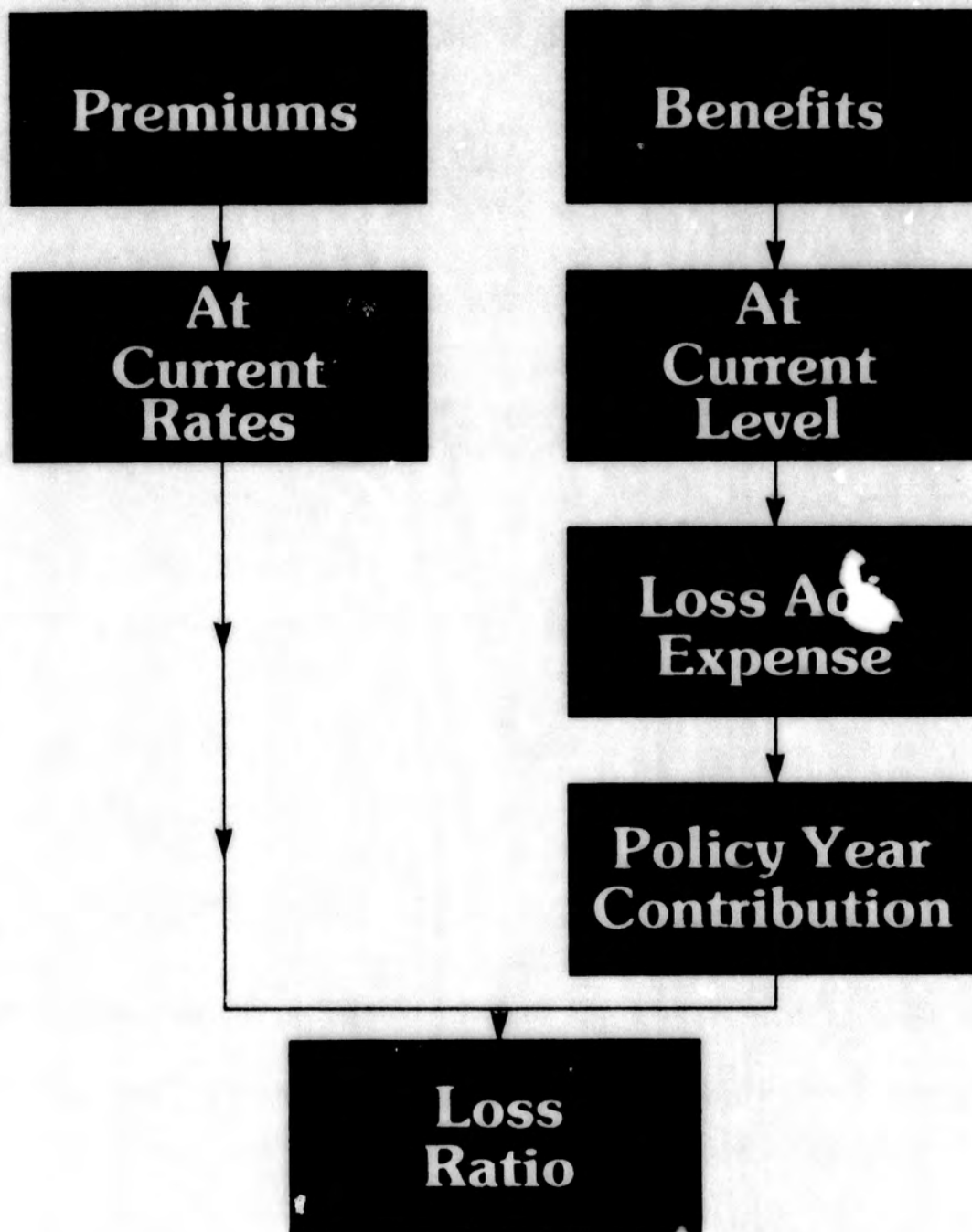


Aggregate Data Verification Calendar Year Data





Analysis Calendar Year



NCCI

Analysis

**Pot. Yr
Loss Ratio**

**Cal. Year
Loss Ratio**



Average



Permissible

**=1.0-Expense
Factor**



**Overall
Rate Change**



**Industry
Group**



Trend



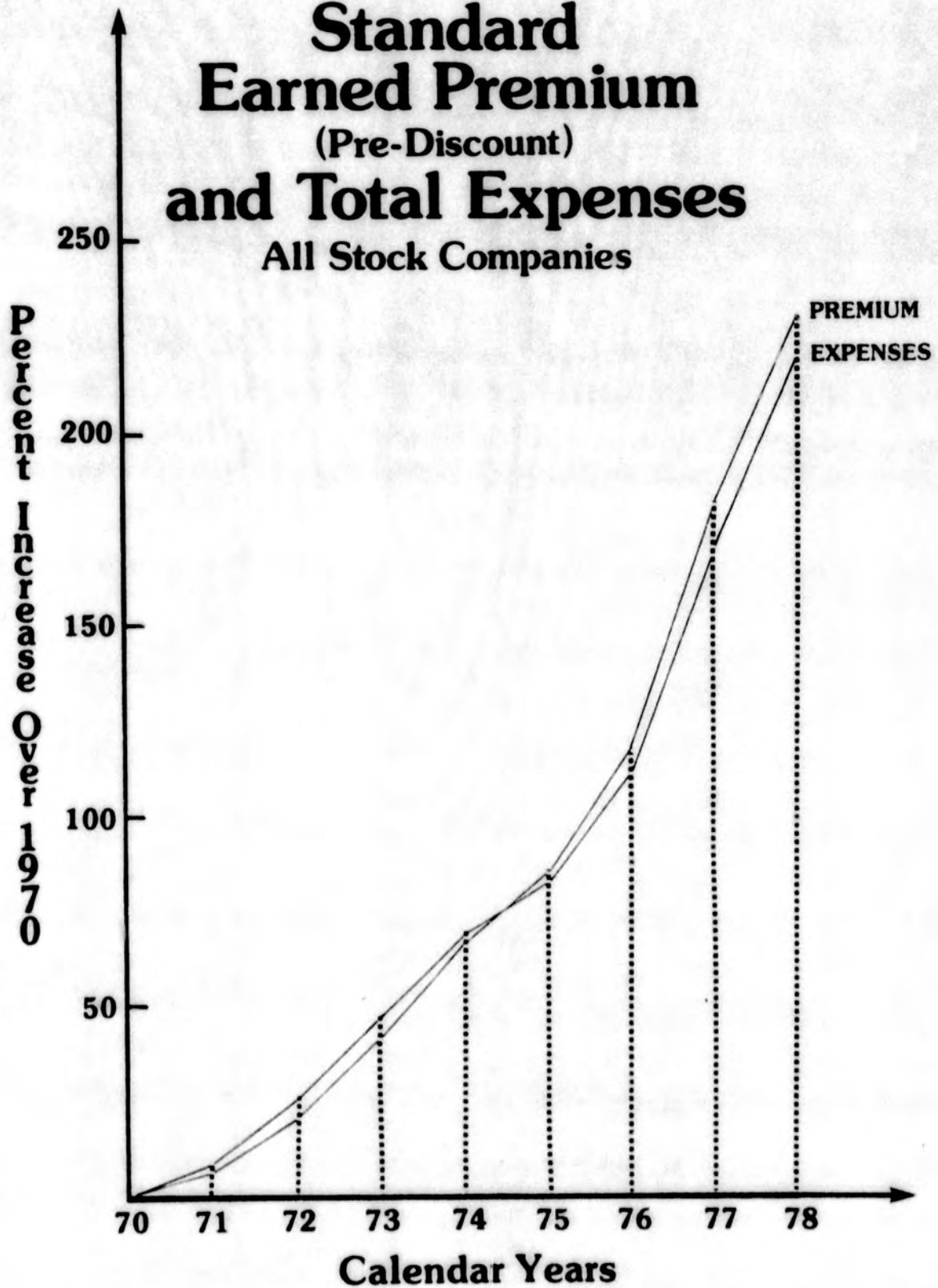
**Benefit
Change**



**Final Rate
Indicator**

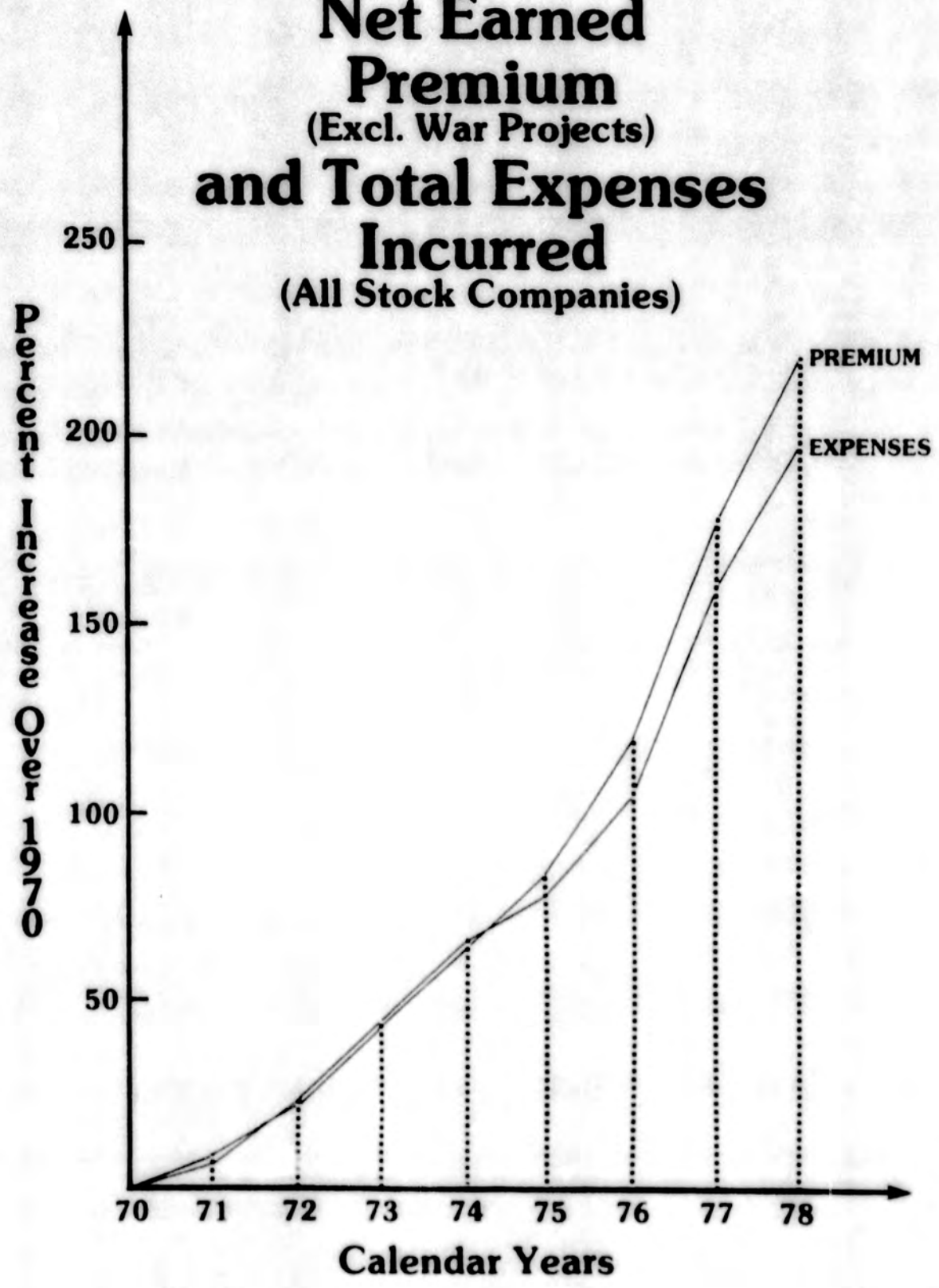


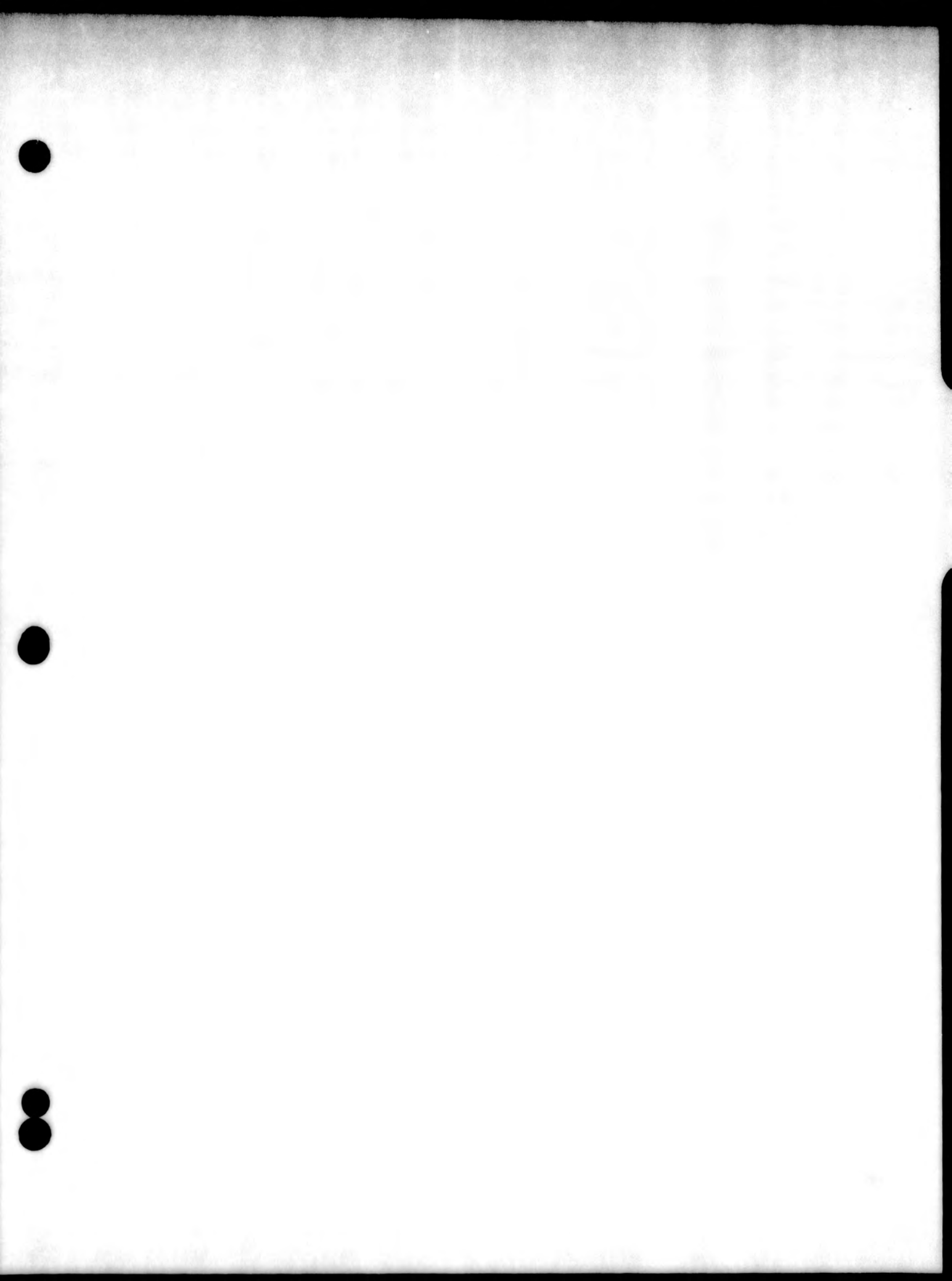
Standard Earned Premium (Pre-Discount) and Total Expenses All Stock Companies





Net Earned Premium (Excl. War Projects) and Total Expenses Incurred (All Stock Companies)





EXPERIENCE RATING



EXPERIENCE RATING BASICS

- 1) Mandatory for all
Eligible Insureds**
- 2) Adjustment to
Manual Premium
Based on Individual
Insureds' Experience**



EXPERIENCE RATING DATA

- 1) Unit Stat Plan Data**
- 2) Three Years Experience**
- 3) Losses Split Into Primary
and Excess Portions**
 - a) For Added Credibility**
 - b) To Eliminate Effect of
a Single Large Loss**



EXPERIENCE RATING CALCULATION

- 1) Actual Losses Are Credibility
Weighted Based On Size of The Insured**
- 2) For Large Insureds – No Adjustment
is Made and Actual Losses are
Used As Is**
- 3) Insureds Losses are Compared With
Expected Losses**
- 4) Expected Losses Are the Norm For
the Class the Insured Is In**

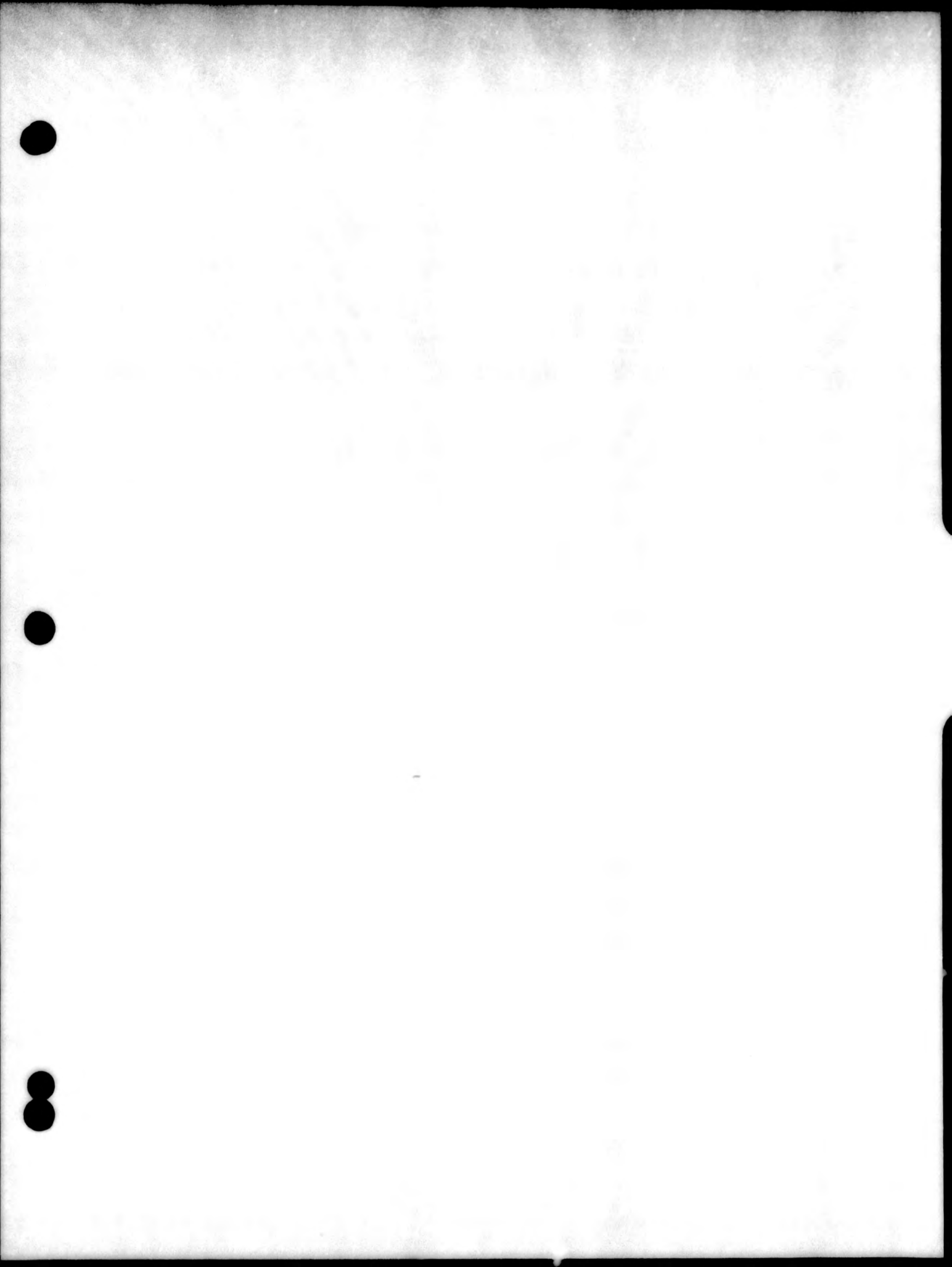


EXPERIENCE RATING APPLICATION

- 1) Calculation Results in a Factor Which Is Applied to Manual Premium**

- 2) Insureds Whose Experience Is Worse Than Expected For The Class Receive a Surcharge**

- 3) Insureds Whose Experience Is Better Than Expected For The Class Receive a Discount**



ALASKA

WORKERS' COMPENSATION

BENEFITS

NATIONAL COUNCIL ON COMPENSATION INSURANCE

ALASKA

LAW MEMO - EXHIBIT I

Summary of the Principal Benefit Changes due to Increasing the
Maximum Weekly Benefit, Effective 1-1-80

<u>Fatal</u>	<u>1-1-79</u>	<u>1-1-80</u>
% Rate of Compensation	Varies	No Change
Initial Min./Max. Weekly Compensation†	Varies/166.6% SAWW*	Varies/166.6% SAWW**
Future Max. Weekly Compensation	Based on provisions in effect on date of injury	No Change
Burial Allowance	\$1,000	No Change
Second Injury Fund Payment (Non-dependency cases)	\$10,000	No Change
Remarriage Award	2 year lump sum	No Change
Maximum Aggregate: Widows/Children	No Limit, Child. to age 19	No Change
Others	\$20,000	No Change
Benefit Reduction	A	No Change
Social Security Offset	W.C. benefits are reduced by 50% of S.S. Survivorship and retirement benefits	No Change
<u>Minimum Benefit/% Rate of Compensation</u>		
Widow Alone	\$45/66 2/3%**	No Change
Widow	\$45/33 1/3%**	No Change
Widow with 1 Child: Child	\$15/33 1/3%	No Change
Widow	\$45/20%**	No Change
Widow with 2 Children: Children	\$30/46 2/3%	No Change
Widow	\$45/20%**	No Change
Widow with 3 or more Children: Children	\$30/46 2/3%	No Change
Orphan	\$15/66 2/3%	No Change
Orphans	\$30/66 2/3%	No Change
Parent, Brother, Sister, Other	-/35%	No Change
Parents	-/35%	No Change
<u>Temporary Total</u>		
Waiting Period/Retroactive After	3/28	No Change
% Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/166.6% SAWW**
Future Maximum Weekly Compensation	Based on provisions in effect at date of injury	No Change
Benefit Reduction	None	No Change
Social Security Offset	W.C. benefit are reduced by 50% of S.S. Survivorship or retirement benefits	No Change

NATIONAL COUNCIL ON COMPENSATION INSURANCE

ALASKA - LAW MEMO - EXHIBIT I (CONTD.)

-2-

Permanent Total

% Rate of Compensation
Initial Min./Max. Weekly Benefit
Future Maximum Weekly Benefit

1-1-79

66 2/3%
\$65/166.6% SAWW*
Based on provisions
effect at date of

1-1-80

No Change
\$65/166.6% SAWW**

Duration
Benefit Reduction
Social Security Offset

injury
Duration of Disability
A

No Change

No Change

No Change

No Change

1. Disability Benefits:
the sum of Social Se-
curity Benefits Plus
Workers' Compensation
Benefits is limited to
80% of the Workers'
Wage at the time of
the injury.

2. Retirement Benefits:
W.C. benefit is reduced
by 50% of S.S. retire-
ment benefit

No Change

Permanent Partial - Schedule

Duration
Statutory Max. Amounts Payable
Nominal % Rate of Compensation
Initial Min./Max. Weekly Benefit
Future Maximum Weekly Benefit

As per schedule

No Change

As per schedule

No Change

66 2/3%

No Change

\$65/166.6% SAWW*

\$65/166.6% SAWW**

Based on provisions in
effect at date of
injury

No Change

A

No Change

Benefit Reduction
Social Security Offset

W.C. benefit is reduced
by 50% of S.S. survivor-
ship or retirement bene.

No Change

Permanent Partial - Non-Schedule

Maximum Amount Payable
% of Wage Loss
Initial Maximum Weekly Benefit
Future Maximum Weekly Benefit

\$60,000

No Change

66 2/3%⁺⁺

No Change

133.3% SAWW*

166.6% SAWW**

Based on provisions in
effect at date of
injury

No Change

A

No Change

Benefit Reduction
Social Security Offset

W.C. benefit is reduced
by 50% of S.S. survivor-
ship or retirement bene.

No Change

8% Perm. Part. award

No Change

Second Injury Fund Assessment

Healing Period
Nominal % Rate of Compensation
Duration

66 2/3%

No Change

Duration of Disability

No Change

NATIONAL COUNCIL ON COMPENSATION INSURANCE

ALASKA - LAW MEMO - EXHIBIT I (CONTD.)

-3-

<u>Healing Period (Contd.)</u>	<u>1-1-79</u>	<u>1-1-80</u>
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/166.6% SAWW**
Future Max. Weekly Benefit	Based on provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefits are reduced by 50% of S.S. survivorship or retirement benefits	No Change

"FOOTNOTES"

A Benefit for recipient who moves out of Alaska =

$$\text{Benefit payable in Alaska} \times \frac{\text{SAWW of state or territory of residence}}{\text{SAWW of Alaska}}$$

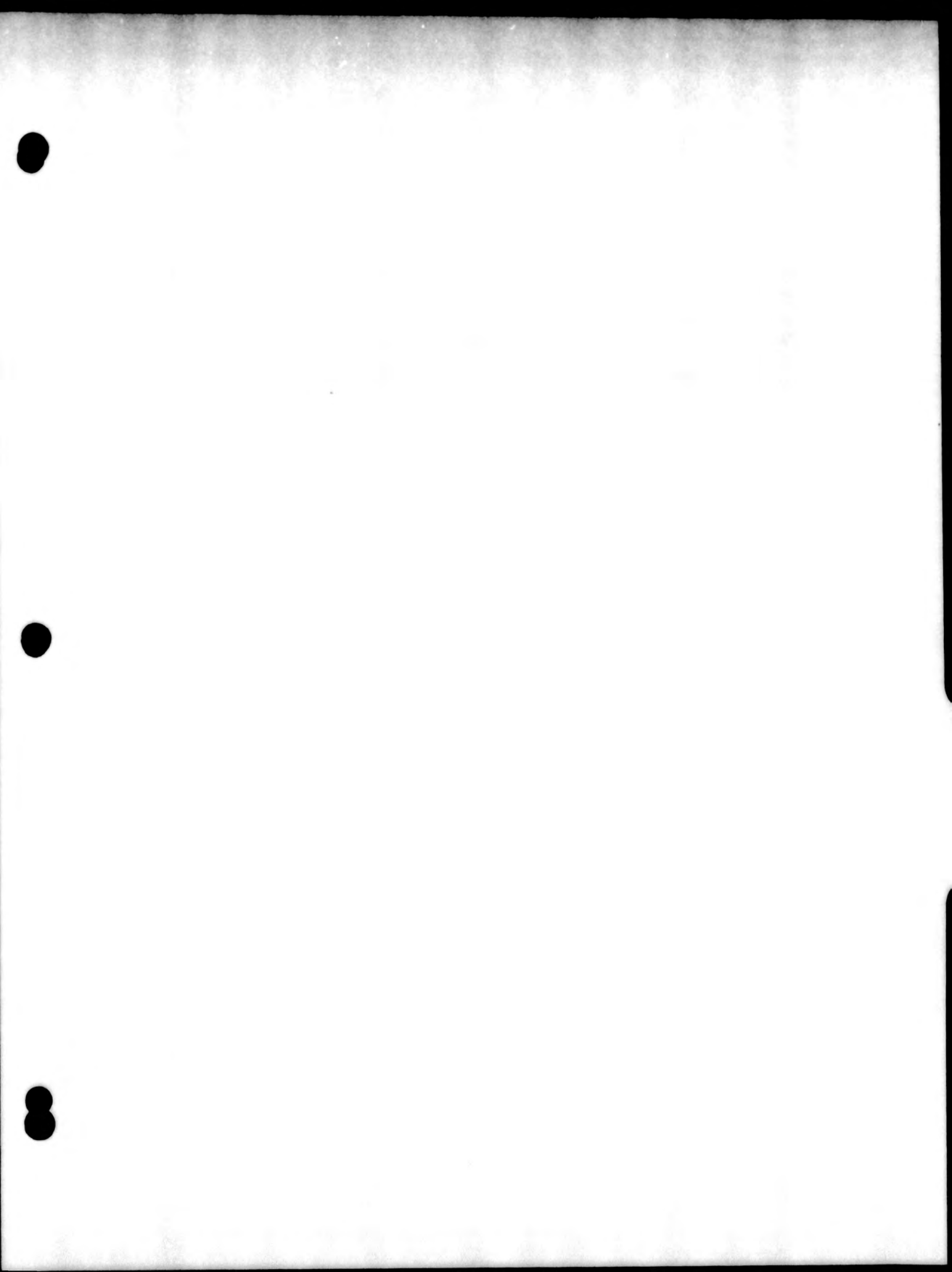
The provision that the maximum weekly benefit is that in effect on the date of payment rather than the date of injury is not in effect for recipients residing outside Alaska.

+ If the benefit payable to two or more beneficiaries who are separately restricted to the maximum benefit should, in aggregate, exceed the maximum, the maximum weekly benefit is to be apportioned among the beneficiaries.

** Five years after the death of the worker, the widow's benefit is reduced by one-third of the benefit then being paid. Eight years after the death of the worker the widow's benefit is reduced to 50% of the benefit then being paid. Ten years after the death of the worker the benefit terminates - However the benefit is not further reduced after the widow attains age 52. If a child ceases to be entitled, his benefit inures to the widow, subject to future reductions.

++ The worker's wage loss is assumed to remain constant after injury due to the difficulty of obtaining the same type of work without being physically fit.

N.B. Maximum Weekly benefits increases to 200% of the State Average Weekly Wage on 1-1-81



ALASKA

WORKERS' COMPENSATION

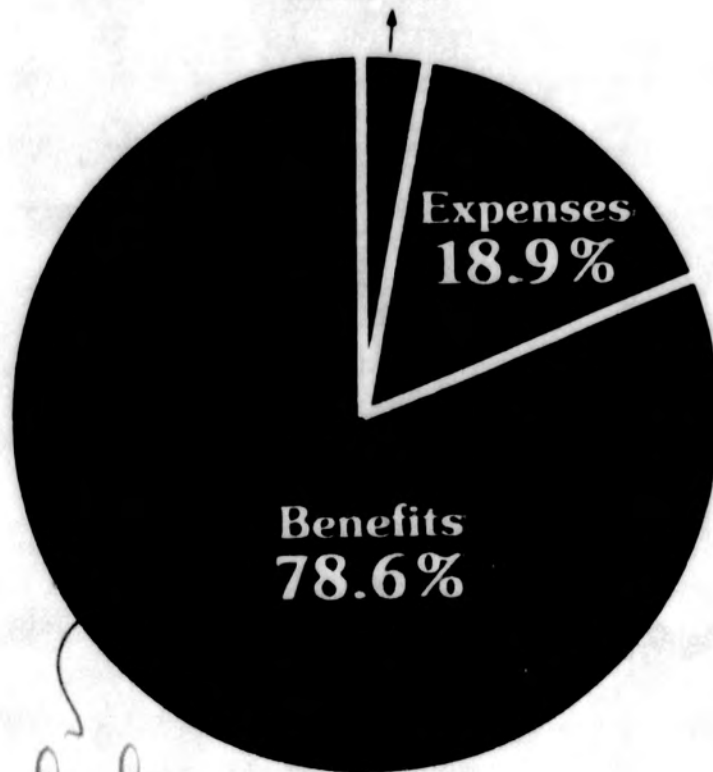
DATA



ALASKA

Net Premium Dollar

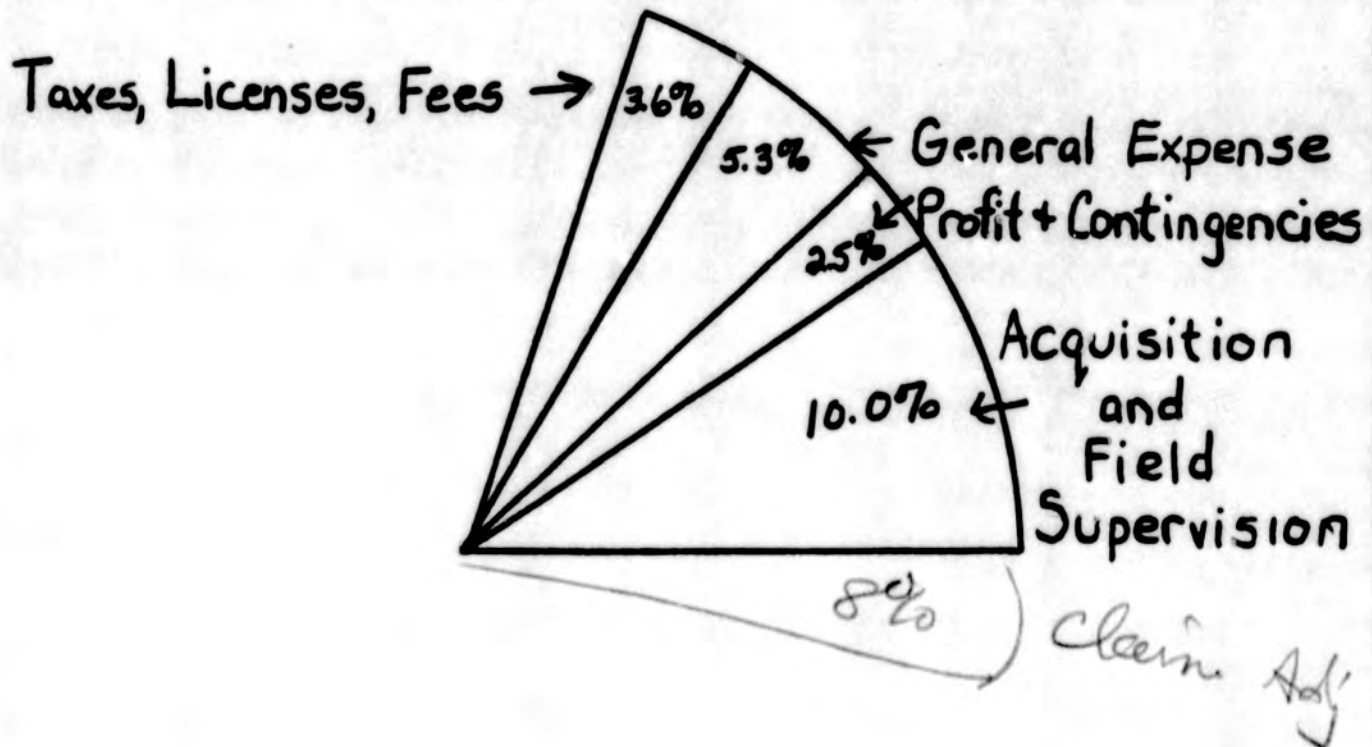
Profit and
Contingencies
2.5%



*includes
claim Adj.*

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Percentages of Net Earned Premium

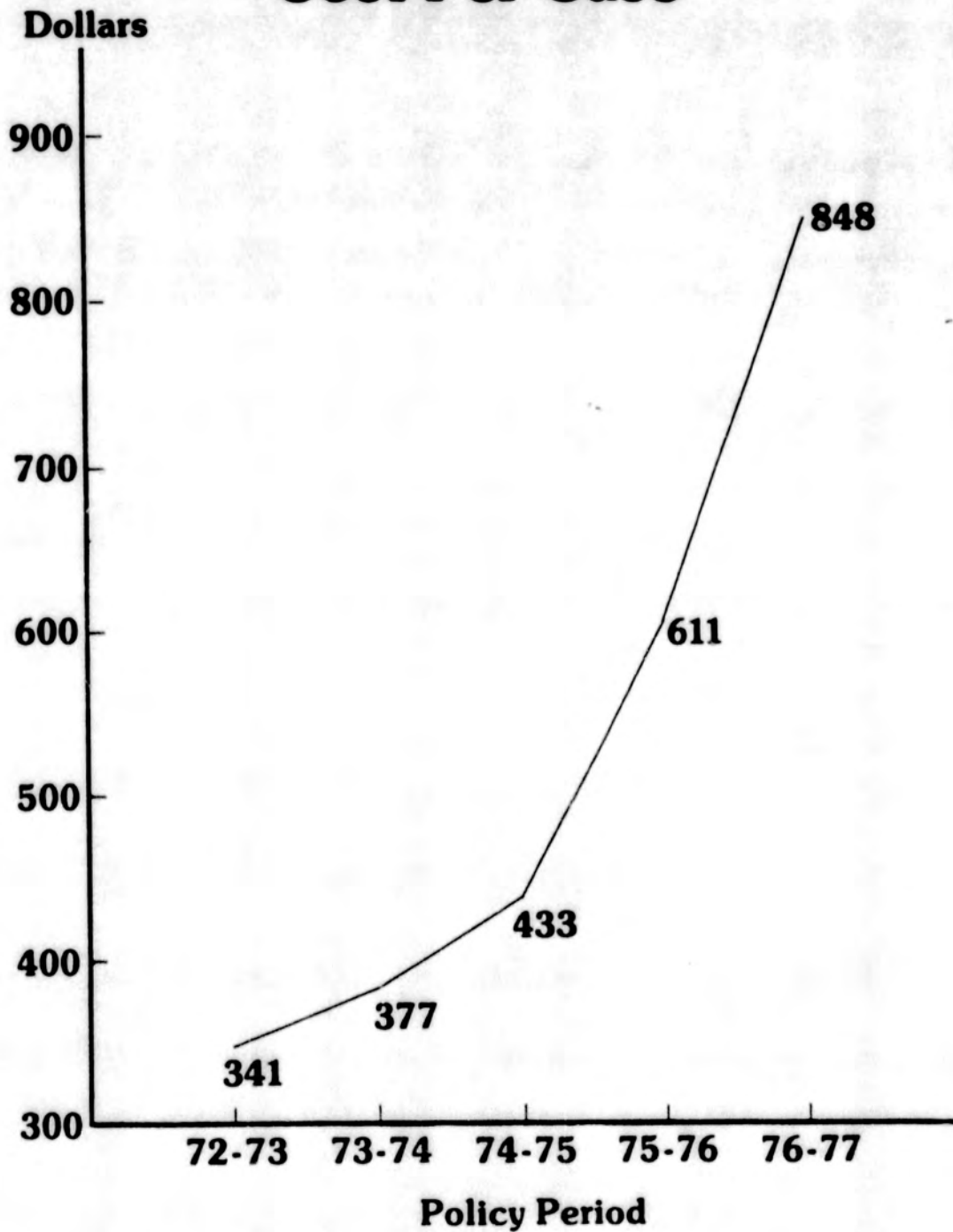


Total is 21.4%, allowing 78.6% of the Net Premium Dollar for injured workers.



ALASKA

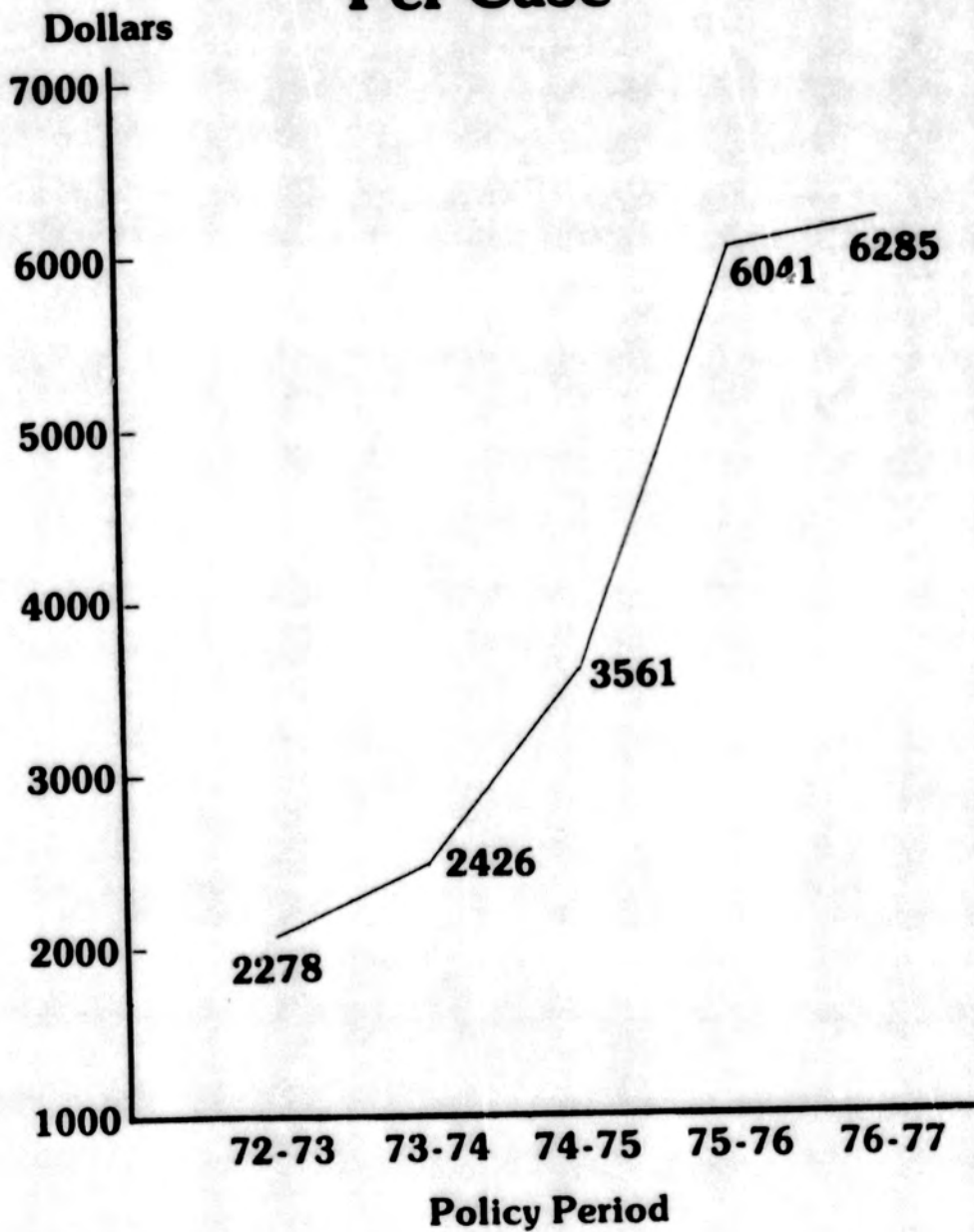
Average Medical Cost Per Case





ALASKA

Average Indemnity Cost Per Case





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Assigned Risk Plan Data

<u>Calendar Year</u>	<u>Number of Risks Afforded Coverage</u>	<u>Net Earned Premium</u>	<u>Incurred Losses</u>
1976	1,425	\$3,503,242	\$3,180,976
1977	2,162	7,494,081	4,125,736
1978	2,235	7,066,124	6,138,954



ALASKA

Income Replacement Levels

Worker, Working Spouse
and Two Children

<u>Worker's Gross Weekly Wage</u>	<u>Spouse's Gross Weekly Wage</u>	<u>(1) Net Income Before Injury</u>	<u>(2) Net Income After Injury</u>	<u>(2) as a Percentage of (1)</u>
\$200	\$200	\$322	\$309	96%
300	200	394	375	95%
400	200	463	442	96%
500	200	527	509	97%
600	200	590	575	98%



ALASKA

Income Replacement Levels

**Worker, Non-Working Spouse
and Two Children**

Worker's Gross Weekly Wage	(1) Net Pay	(2) Weekly Benefit	(3) Weekly Benefit as a Percentage of Net Pay
\$200	\$175	\$133	76%
300	251	200	80%
400	322	267	83%
500	394	333	85%
600	463	400	87%