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The Workers' Compensation Committee of Alaska (WCCA) is a political action committee. The committee was formed by a group of Alaskan employers concerned about the economic impact on businesses of the workers' compensation system in Alaska.

The Committee does not want to deprive workers of legitimate benefits. Our objectives are to establish a mechanism for the handling of disputed claims, to encourage a well structured rehabilitation program, and to establish an awareness of the fact that workers' compensation costs are passed on directly to the consumer.

To these ends, we have been actively working with and communicating with employers and employer groups all over the State. We have encouraged these employers and groups to appear at hearings before this Committee offering input based on a wide range of experiences, and showing the broad base of employer concerns with the problems in the current system.

At this time, we would like to enter formally our recommendations for legislative and administrative changes in the Workers' Compensation system in the State of Alaska. If you desire any further clarification of our position, WCCA will be happy to provide you with additional information.

Jack Thompson

IN THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to injury leave;
and providing for an effective
date."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

*Section 1. AS 39.20.260 is amended by adding a new
paragraph to read:

AS 39.20.265 Injury leave for state police officers.

*Section 2. AS 39.20.265. INJURY LEAVE. (a) An officer
who incurs an injury as defined in AS 23.30.265(13), in the
course of his employment with the State, is entitled to injury
leave until such time as he is able to return to full duty or is
determined to be permanently disabled and has qualified for
medical retirement. A doctor's certificate shall be required
as proof of disability or recovery. An officer who is entitled
to injury leave under this section is not required to take
personal or banked medical leave as a prerequisite to taking
injury leave.

(b) The amount of such injury leave shall be calculated
to provide that the officer will receive full base pay,
medical benefits, annual/sick and/or personal leave and full
retirement benefits when combined with Workman's Compensation
payments made under the Alaska Workman's Compensation Act
(AS 23.20)

*Section 3. Section 2 of this Act takes effect immediately in accordance with AS 01.10.070(c). Section 1 of this Act takes effect 90 days after the effective date of Section 2 of this Act.

Workers' Compensation in the State of Alaska:

An Introduction

December 13, 1980

Prepared by

The Workers' Compensation Committee of Alaska (WCCA)

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INTRODUCTION AND PURPOSE OF REPORT

In 1978, the cost of Workers' Compensation insurance in the State of Alaska had increased a total of 132% over the rates in effect in 1968. This dramatic leap in premiums and fees paid by Alaska Employers (as required by law) for the financial protection of their employees for on-the-job injuries resulted in the formation of the Alaska Conference of Employers. This non-profit corporation is helping to determine strategy to reduce Worker's Compensation costs borne directly by all Alaskan employers.

To determine ways which might be effective in containing or reducing costs, the Alaska Conference of Employers contracted with Richard L. Block and Associates to conduct a study. Its purpose was to identify and evaluate strategies which would result in a long term reduction in payroll related costs for the broadest base of Alaskan employers to a level commensurate with employers in the remaining forty-nine (49) states while concentrating on preserving the legitimate entitlement of injured Alaskan workers.

The Workers' Compensation Committee of Alaska is a political action organization dedicated to the task of reforming the current Workers' Compensation Statutes. The Committee was specifically formed for this purpose as well as to encourage a program of rehabilitation and establish an awareness that all Workers' Compensation costs are passed on, in one form or another, to the Alaskan consumer. It is our intention that we present an unbiased as well as informative look into the system and the statutes.

WORKERS' COMPENSATION HISTORY

Workers' Compensation is a means for providing financial reimbursement to an injured worker for wages lost and medical bills incurred due to an on-the-job injury. The program was designed to replace employers' liability statutes and common law remedies and to apply the economic and legal principle of liability without fault.

In the late 19th century, the high industrial injury rate coupled with the difficulty of recovery under existing common law brought about limited statutory relief. Employers' liability statutes as adopted removed or weakened the three (following) defenses available to employers;

1. Contributory negligence-an employee could not recover if his own negligence had been even partly responsible for the injury,
2. The "fellow servant" doctrine-there could be no recovery if a fellow worker's negligence was a contributing cause of injury,
3. Assumption of the risk-no award was allowed if the injury resulted from an inherent hazard of that employment of which the worker was, or should have been, aware.

The objectives of the new compensation laws were;

1. To eliminate wasteful litigation and legal fees
2. To provide predetermined, adequate and prompt benefits through the use of fixed scales.
3. To increase the certainty of payment despite the financial condition of the employing business

However, despite the changes made in the law in general which were less than satisfactory, each state labored with its own problems of its' employers.

HISTORY OF WORKERS' COMPENSATION IN ALASKA

- 1915 - First Workers' Compensation Law passed covering mining industry only
Permissive law-allowing employer and employee to choose or reject coverage
- 1923 - Broadening of the statute
- 1947 - National Council on Compensation Insurance supported the insurance industry by making available advisory rates on behalf of almost all carriers for approval or disapproval by the Alaska Commissioner (new Director) of Insurance
- 1956 - Inauguration of an effective insurance regulatory agency
- 1915 - Underwriters at Lloyds (London) are (near) sole under-
1967 writers in Alaska
- 1968 - Workers' Compensation rates increased 132% between 1968
1978 and 1978
- 1974 - Impact of the Trans-Alaska Pipeline reflects rapid escalation in rates coupled with more workers making additional claims in the high income brackets
- 1976 - In May, Senate Bill 146 made the following changes;
 1. A worker became entitled to a benefit equal to two-thirds of his wages at the time of the injury and continuing for the period of disability,
 2. Permanent total benefits were payable for the life of the injured worker,
 3. Death benefits were payable for the life of the surviving spouse with exceptions.
 4. Permanent partial scheduled benefit maximums were doubled,
 5. The limit of unscheduled permanent partial benefits were removed,
 6. The maximum indemnity benefit was fixed at 100% of the State's average weekly wage with the maximum to increase from 1979 and 1980 rate of 166.7% to 200% for 1981.

STATUS OF PRESENT LAW

Workers' Compensation in Alaska consists of several hundred provisions inclusive in Alaska Statute 23.30. Probably the most serious problem existent in these provisions is the ambiguity and lack of clarity to those for whom the law should benefit... the injured worker. Because of the complexity of workers' compensation law, employers and legal personnel administering it have equal difficulty with its meaning.

One of the goals incorporated in this writing (and indeed of the Workers' Compensation Committee of Alaska) is to provide a better understanding for all the above mentioned in the hope that this law itself might become a better tool.

It is, in the opinion of many, a critical time for change in Alaska's Workers' Compensation System. As the reader is aware, every employer (with one or more employees) must have viable workers' compensation insurance coverage. Under the present law/system, even the smallest employer must carry adequate coverage to protect his employees and sometimes the very existence of his business.

We in Alaska are presently expecting and awaiting another surge in our economy with the construction of the Alas-Can Gas Pipeline. So that equity can prevail for both injured workers and their employers, several provisions relating to disability-both temporary and permanent, partial and total, and finally death, need complete revision.

Before we elaborate on our position on possible changes to the current law and administrative handling of the system, we should compare Alaska Workers' Compensation Law with that of other states;

1. Alaska premiums are the highest of any of the remaining forty-nine (49) states.
2. Alaska benefit levels are also the highest of any state's, even adjusting for the higher cost of living.
3. Alaska has a higher ratio of hazardous occupations covered under Workers' Compensation.

PROPOSED COURSE OF ACTION

It is the intent that each member of WCCA be individually informed to aid others in the community and State-wide as well, to understand needed and recommended reform in the current Alaska Statues. We shall attempt to explain guidelines included in those recommendations listed as well as the general reasons for their inclusion or omission.

As time permits, we as interested, concerned citizens will actively participate and lobby toward those ends to improve the quality of the law for other Alaskans who will become victims of misfortune and for those who must pay to insure the benefits paid those injured.

WCCA will participate in community involvement programs and hopes to be asked to interface with interested personnel from all businesses.

In order to amend, change or add to any of the recommended Alaska Statutes, we shall need a more informed public and a more informed legislative body. To change the administrative systems and other areas of Workers' Compensation will require the dedication of many. It is our hope that many persons from all kinds of Alaska businesses will become involved as they see a need for change.

It is of course understandable that many of those with whom we as members of WCCA come into contact, will not agree with our position. Some, but perhaps not many, will feel that the law as it stands is adequate. We recognize the very fact that perhaps those not in total agreement shall have to have become

more informed to have arrived at that position. This document has been prepared as an overview of a very complex and critical portion of Alaska Law and Procedure, and those for whom the law is to protect have been carefully considered so as to be protected fully. The injured worker is everyone's concern, directly or indirectly. But fairness and equity must exist.

The effect on all business owners, particularly small business owners, should be one for the good. Present high costs to them can be reduced with careful planning. It is necessary to consider the effect of the law as applied to those whose margin of profit is dwindling as costs to operate soar.

IN CONCLUSION

Workers' Compensation costs in Alaska continue to spiral upward at a rate far in excess of other health related programs. This has a direct effect on the prices consumers pay for products and services.

It is the WCCA position that the costs of the Workers' Compensation Program can be contained by legislation encompassing the proposed changes. WCCA feels the injured worker will still derive full benefits under the law if the proposed changes are made to the Workers' Compensation Program of the State of Alaska. We solicit your support on the proposed changes.

WCCA
Position Paper

December 13, 1980

Prepared by
The Workers' Compensation Committee of Alaska (WCCA)

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SECTION I: LEGISLATIVE CHANGES

MAXIMUM BENEFITS:

Currently, maximum weekly benefits allowed under Alaska Law (AS 23.30.175) are based upon 66-2/3% of actual wages, but never more than 167% of the average weekly wage in the state. In 1981, the average weekly wage factor will increase to 200%.

This formula does not recognize that workers whose salaries are much higher than the state average weekly wage have considerable discretionary income.

WCCA POSITION: that the following benefit schedule be used in place of the current method of calculating benefits:

1. 66-2/3% of wages up to 150% of the average weekly wage, PLUS,
2. 40% of wages falling between 150% and 200% of the average weekly wage, PLUS,
3. 20% of wages falling between 200% and 300% of the average weekly wage.
4. No benefits for wages in excess of 300% of the average weekly wage.

The following table shows what will happen to benefit payments based upon a \$393 average weekly wage under the current formula using the 200% factor to be applied in 1981. To the right is the benefit payment indicated by the recommended new formula.

WEEKLY WAGE Time of Injury	WEEKLY BENEFIT Existing	WEEKLY BENEFIT Proposed
\$ 200.00	\$133.00	\$133.00
393.00	262.00	262.00
600.00	400.00	397.00

\$ 800.00	\$533.00	\$475.00
1,000.00	667.00	515.00
1,179.00	786.00	550.00

PERMANENT TOTAL DISABILITY:

Based upon medical facts and the worker's occupation, an injured worker may be classified as having a permanent injury. Permanent injuries are then further distinguished as being totally disabling or partially disabling, and long term wage loss benefits are paid accordingly.

Currently a worker can be classified as totally disabled rather than partially disabled in two ways: One (1) Automatically presumes a worker to be totally disabled if he/she loses both or any mix of two hands, arms, feet, legs or eyes, and Two (2), a determination is made of the actual facts of the injury case in question.

Actual case histories show that some workers who have lost the use of two or more limbs can, and have, returned to their former employment successfully.

Transfers disagree

WCCA POSITION: that the Alaska Statue (AS 23.30.180) which automatically presumes a worker to be totally disabled be repealed and (second) that an actual case by case determination shall establish the level of disability of the injured.

PERMANENT PARTIAL BENEFITS-UNLIMITED

Currently, a worker with a permanent partial injury can collect benefits for an unlimited period of time. This results in a loss to the workforce for workers who can return to some form of work but are not encouraged to do so since benefit payments continue.

WCCA POSITION: that a worker with a permanent partial injury be entitled to benefits for a thirty-six (36) month maximum period. To receive benefits beyond thirty-six (36) months, the worker must qualify for a permanent total disability status, in which case benefits would extend for life.

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AVERAGE WEEKLY WAGE CALCULATION

When calculating the wage loss benefit payable to an injured worker, an average weekly wage is determined by finding the highest annual wage earned by the worker in any one of the three years prior to injury and dividing that total by fifty-two (52). As a result, wages earned during a "boom" period over the last three years can significantly increase the wage loss benefit payable to the injured. That benefit may be even greater than the worker's wages at the time of injury.

WCCA POSITION: AS 23.30.220 One (1) be amended to read as follows, "The formula for calculating average weekly wage be the total of the injured worker's preceding years wages (including self-employment wages) divided by fifty-two (52)."

FILING TIME LIMITATIONS

The time limitation (AS 23.30.105) for filing a Workers Compensation Claim in Alaska is as follows:

- A. Within one year after job-related death
- B. Within two years after knowledge of a job-related disability
- C. Within two years after the last compensation payment
- D. No time limit for latent injuries (example-asbestos related cancer).

Those (above listed) limitation are significantly broader than those of other states.

WCCA POSITION:

- A. No change
- B. No change
- C. An injured must file within one year after the last compensation payment (for a recurring/disabling injury).
- D. No change

OFFSETS TO WORKER'S COMPENSATION BENEFITS

Current law allows for duplication of benefits in some instances. Although these situations are rare, the law should be amended to prevent benefit duplications.

- 1) If a worker is receiving unemployment benefits and files a worker's compensation claim (for an on-the-job injury), he can legally collect both benefits.

WCCA POSITION: that if worker's compensation benefits are currently being paid, then unemployment benefits should cease. It is the intent of the law that benefits are intended to pay wage loss only for the period of time a worker is unable (due to injury) to work.

- 2) It is possible for an injured worker to collect both sick pay benefits and worker's compensation benefits for a short period of time.

WCCA POSITION: that the sum of these weekly payments be limited to 100% of the worker's wage, with the worker's compensation benefit being paid first.

- 3) An injured worker may currently collect retirement benefits to which he/she is entitled in addition to worker's compensation benefits.

WCCA POSITION: that worker's compensation benefits be reduced by the amount being paid in retirement benefits.

CHOICE OF PHYSICIAN

*Existent
law of*

In order to ensure quality medical treatment and to contain costs at the same time, the treating physician should give direction to the injured worker's care. Alaska's liberal policy of free and open choice of physicians sometimes result in duplicate treatment, lack of coordination between treating physicians and specialists, or an occasional "shopping spree" by the injured for the elusive "cure" to pain. A malingering worker may search for a physician who will support his claim to injury.

With exceptions (which follow), the employer or insurer should be allowed to provide an injured worker with a list of at least two physicians in the geographic area for treatment. These physicians should be specialists (where necessary) based upon the nature of the injury. They should not be selected based upon their fees charges, but on their interest in the industrial injured and desire to provide efficient medical services to return the work to a productive life.

The exceptions to the use of physicians as described above are twofold:

1. If an injured worker has seen a family physician or a physician in the specialty required to treat his injury in the prior twelve (12) months, he may be treated by that physician.

2. If the injured worker is not responding to treatment or is otherwise dissatisfied with the first selected physician, he may choose another physician from a list of three other physicians in the geographical area. This list will also be provided by the employer or insurer.

WCCA POSITION: sufficient change in the law to reflect the preceding statement and/or policies.

PAIN CLINICS

In addition to the pain associated with an injury during treatment and healing, pain often persists after complete healing in the form of chronic or "learned" pain behavior. To the worker experiencing such "learned" pain, it is real and often prevents the worker from feeling prepared to return to work.

Pain clinics existent in Alaska have developed techniques for treating such pain. The Worker's Compensation Board and the adjustors of insurers should be encouraged to utilize pain clinics to eliminate any significant extensions of benefit payments period, and costly, time-consuming legal arguments over the preparedness of a worker to return to work.

WCCA POSITION: that the applicable Alaska Statutes be amended to reflect the above position.

HEARING REPRESENTATIVES

The role of the Worker's Compensation Board is to expedite the resolution of disputes between the injured and employers of their insurers. This system is intended to provide rapid and fair determination on the factual issues being disputed.

It is intended that the Board itself be a point of initial review of disputes and cases can later be appealed to Superior or a higher Court. Often there is no need for either party to be represented by counsel. However, a large per cent of disputes heard by the Board involve attorney representation.

It would be determined that when appearing before the Board the injured needs to be or not to be represented by counsel. The insured should be encouraged not to utilize counsel but rather hearing representatives (trained claims people). In short, a fairness in adequacy of representation should be examined, and procedures at the hearing be established. Better hearing procedures can and should result in a significant expense savings due to reduced attorney costs for both employer or insurer and the injured.

WCCA POSITION: that the appropriate Alaska States be changed to reflect the preceding statements and opinions.

EXTRAORDINARY CONSTRUCTION

The development of the Trans Alaska Pipeline System resulted in a tremendous increase in the number of workers in the state. In addition, wages paid to many workers were much higher than those previously paid. Worker's Compensation claims costs for pipeline development injuries were much higher than for other work-related injuries in Alaska during 1977 and 1978. The cost of all pipeline injuries included in loss experience data supplied to the Division of Insurance for company premium rate purposes drove the cost of all insurance for all Alaska employers to a new high.

If another extraordinary construction project (Alaska-Canada Gas Pipeline or the Capitol Relocation) occurs in the future, the Division of Insurance should segregate the actual premiums

and losses of this (these) project from other Alaska experience. This will allow other employers in the state a fair rate from which to pay benefits to the injured worker.

WCCA POSITION: that the applicable Alaska Statutes be amended to reflect the above position.

SECTION II: ADMINISTRATIVE CHANGES

COMPROMISE AND RELEASE AGREEMENTS

A permanently and totally disabled worker will receive wage loss benefits and medical expense payments on a continuing basis unless the worker and the employer or insurer agree to a compromise and release agreement in a lump sum payment in lieu of weekly wage loss benefits.

Currently, compromise and release agreements are not permitted on the future medical expense portion of benefits.

WCCA POSITION: that such agreements be allowed on medical expenses with approval of the Worker Compensation Board to ensure that the settlement amount is in the best interest of the injured worker.

PHYSICIANS' FEES

Physicians treating injured workers often incur additional costs to provide employers or insurers with written reports on the treatment given. These costs are passed on as additional fees which is appropriate and equitable. However, there are not adequate means of limitation on the many fees charged by different physicians for the identical services.

WCCA POSITION: that the Division of Worker's Compensation accumulate and publish "average or customary" fees charged for specific treatments by physicians. This publication should be used to evaluate the propriety of fees charged for worker's compensation injuries.

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of not in interest
of employees
compensation to take
cash in hand*

DELAYS IN HEARINGS AND RULINGS

The Division of Worker's Compensation has not been provided a sufficient budget to staff the Board sufficiently to expedite hearings and rulings. As a result, a worker can be without income for extended period of time until the backlog before the Board is cleared. Disputes between workers and employers or insurers over benefits must be resolved quickly to prevent any undue hardship.

WCCA POSITION: that the Division of Worker's Compensation should be funded to hire additional qualified (as needed) hearing officers to expedite decisions. It is further recommended that initial hearings should be conducted by one hearing officer and that appeals should be presented to the entire Board in a timely manner.

BROCHURE

Small employers and most workers within the state do not have a clear understanding of the benefits and responsibilities accruing from the Worker's Compensation Laws in Alaska. This is true in almost all other states as well.

The State of California has addressed this problem by developing an easy-to-read brochure for workers describing the benefit plans, claim filing procedures, grievances and differences with insurers. Although voluntary, insurers have provided these brochures to insured employers for distribution to workers.

WCCA POSITION: developing and distributing such a brochure (voluntary) in Alaska will improve the knowledge of workers

regarding the benefits and procedures applicable under Alaska Worker's Compensation Laws. This should result in reduced hearings to resolve compensation disputes and also reduce the need for attorneys costs on behalf of injured workers unsure of certain legal rights.

SELF INSURANCE

Self-insurance is a legitimate means for a large organization to provide benefits to injured workers directly from the assets of the company or corporation rather than purchasing insurance coverage from an insurer. The Worker's Compensation Division is granted the authority to approve self-insurance plans but lacks the staff and technical knowledge necessary to evaluate the ability of a self-insured organization to absorb the cost of claims. Without appropriate evaluation, there is a substantial risk that an organization will not be able to fulfill its financial responsibilities to the injured.

WCCA POSITION: that the Worker's Compensation Division develop a unit to monitor activity and effectively regulate self-insured organization to ensure that injured workers will receive all benefits due them.

CASH FLOW PROGRAMS

A Cash Flow Program is an alternative to self-insurance enabling the large employer to reimburse the insurer for all claims costs whenever those costs are paid. Re-insurance is usually purchased for costs exceeding a specific amount, (usually \$100,000.00 or more) on any one claim.

Under this concept, premiums are not paid to the insurer until after the claims payments have been made. The employer (by irrevocable bond or bank letter of credit) is generally required to guarantee payment of premiums when due.

Currently, the State of Alaska does not allow premiums receivable (under Cash Flow Programs) to be included in the assets of an insurer.

WCCA POSITION: that the Division of Insurance develop regulations which will allow Cash Flow Programs to be utilized as outlined above by large employers and insurers.

HEALTH CARE INSURERS

Large employers must administer plans for health and disability insurance through Health Care Insurers. Worker's Compensation on the other hand, is administered through Casualty Insurers. Large employers may also utilize self-insurance plans.

Employers are not presently permitted to utilize Health Care Insurance for the purchase of Worker's Compensation insurance. Although there is not assurance that cost savings may result from combining health and disability insurance and Worker's Compensation insurance into a single plan with one insurer, employers should be allowed an opportunity to pursue such combined insurance plans.

WCCA POSITION: that the Division of Insurance develop regulations permitting coverage as outlined above on a combined basis.

ACCIDENT YEAR STATISTICS

The National Council on Compensation Insurance (NCCI) is a

statistics gathering organization licensed by the Division of Insurance. NCCI computes Worker's Compensation costs in Alaska and proposes premium rate levels for each of the (approximately) five hundred (500) classifications of work activity. Each insurer is required to submit its Worker's Compensation data for Alaska to the organization on a timely schedule.

The NCCI currently uses two methods to record and analyze Worker's Compensation experience:

- A. POLICY YEAR DATA: using this method, premiums and cumulative losses attributable to claims occurring during a particular policy year are then collected (over time) to provide indications of necessary rate changes.

- B. CALENDAR YEAR DATA: using this method, premiums collected and claims costs incurred during a calendar year are reviewed to provide indications of necessary rate changes.

Policy year data is considered more accurate than calendar year data. Calendar year data however, requires a period of at least eighteen (18) months for an accurate picture of loss payout, (for a twelve (12) month period). Claims remaining open after eighteen (18) months must continue to be reported by insurers for each year they remain active.

In 1977, a study conducted by order of Legislative Affairs Agency recommended that a third method of analyzing experience be used, the accident year method. Experience in other states shows that the accident year method is more accurate than the calendar year data and more recent than policy year data.

WCCA POSITION: that the Division of Insurance direct the NCCI to accumulate accident year data and to utilize this data for premium rate level analysis in lieu of any other method.

SAFETY GROUPS

Employer trade associations can reduce their insurance costs through the effective use of safety groups. Under the Safety Group Concept, employers may purchase needed insurance through one insurer and receive a portion of the profit as returnable premiums or dividends should the experience warrant same. In the event the group has been unprofitable for the insurer, additional charges would result. The Trade Association would aid in monitoring and promoting safety programs for member employers to reduce costs through fewer or less serious injuries.

Safety Groups are more common in other states, and have been a benefit to the consumer insurance market.

WCCA POSITION: that industry Trade Groups investigate and explore opportunities for Safety Group Programs more fully for use in Alaska.

ASSIGNED RISK POOL SERVICING CARRIERS

Currently, insurers who act as servicing carriers for the assigned risk pool are paid 37.5% of assigned risk premium for the expense of handling assigned risk accounts. Rates developed for voluntary risks, however, reflect an allowance of 31.6% of premiums.

WCCA POSITION: that the Division of Insurance reduce the expense allowance for assigned risk pool servicing carriers to the per cent allowed for expenses for voluntary risks; currently 31.6% of premiums.

SECTION III: SECOND INJURY FUND

SECOND INJURY FUND

The term "second injury" classifies a worker's injury as the result of a pre-existing impairment from a prior work-related injury.

A Second Injury Fund exists in Alaska to pay the benefits for second injuries after a period of one hundred four (104) weeks. The funds to pay these benefits are contributed by insurers and for each permanent partial injury benefit paid (for second injury), an additional eight per cent (8%) surcharge is paid into the Second Injury Fund.

The purpose of the Fund is to encourage the hiring of previously disabled workers by funding the long term costs of a second injury, should it occur.

Review by claims adjustment personnel and Second Injury Fund Management, indicates some question as to the ability of the fund to pay potential claims.

WCCA POSITION: that rather than increasing the surcharge which in turn increases premium rates, general fund revenues should be utilized for anticipated costs which exceed current surcharge premium levels.

MEDICAL EXPENSES UNDER SECOND INJURY FUND

Currently only wage loss payments are covered by the Second Injury Fund. However, there is no clear evidence as to the reason for non-inclusion of medical expenses to be paid from the fund.

Transfer No. pos. 820

WCCA POSITION: that medical expenses be covered by the Second Injury Fund for any claims which otherwise meet the criteria for Second Injury Fund Payment.

SECOND INJURY FUND, FIRST INJURY PROOF

In order to use the Second Injury Fund, an employer or insurer is required to show written evidence of a prior injury before the second injury occurs. This results in additional costs to screen, document and preserve the medical history of all injured workers.

WCCA POSITION: that the employer or insurer not be required to prove written documentation preceding the second injury. If the above can prove the existence of a prior injury at any time before or after the second injury, then use of the Second Injury Fund shall be allowed.

LUMP SUM SETTLEMENT FROM SECOND INJURY FUND

WCCA POSITION: that the Second Injury Fund be allowed and be properly funded to make lump sum reimbursements to any carrier or employer who provides a lump sum payment to an injured worker, this to include self-insured as well.

BENEFITS

- Widows + ~~dependents~~ ^{not} (limited)
- Indexing inflation
- Lump Sum - TT, AP, TP
- Remove scheduled maximums
- Benefit schedule
- Offsets
- Bunkhouse Rule
- Effect of loss of benefit package
- Average weekly wage

INSURANCE

- Cash flow pgms.
(Actuarial study)
- State Fund ^{Synching}
- Assigned Risk ^{Expense}
- Guarantee/self-ins.
- State backstop fund

PROCEDURES

- Compromise + release medical
- Physicians fees
- ~~Medical expense officer~~
- ~~Accident file data~~
- Insurance form + penalties
- Uninsured Investigations

REHABILITATION

- DVR Review in depth
(look @ field representation
caseworkers' problems)
- Rehab. Consultant
- Reduce delays
- Accentuate incentives
- Timetable

Streamlined language
in W Comp

[Signature]

- 1) FY 82 Admin 2nd Inj GF
- 2) FY 81 Supp →
- 3) Fiscal note Dir. Ins
- 4) Workers' brochure
- 5) Employers' brochure
- 6) F.N. - ~~Adm~~ ~~Unjany~~ Staffing

**THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE**

FISCAL NOTE

I. REQUEST

Bill/Resolution No. _____
 Title Workers' Compensation
 Requested by W. C. Study Commission Date 1-29-81

II. FISCAL DETAIL

Agency Affected Department of Commerce/Division of Insurance
 Program Category Affected Public Protection
 BRU, Program, or Subprogram(s) Affected Division of Insurance

(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES		116.0	127.6	140.0	154.0	169.4
200 TRAVEL		5.0	6.0	6.0	7.0	8.0
300 CONTRACTUAL		15.0	15.0	16.5	17.0	18.0
400 COMMODITIES		2.0	2.0	2.5	2.5	3.0
500 EQUIPMENT		5.0	0	0	0	0
600 LAND & STRUCTURES		0	0	0	0	0
700 GRANTS, CLAIMS, ETC.		0	0	0	0	0
TOTAL		143.0	150.6	165.0	180.5	198.4

FUNDING (Thousands of Dollars)

GENERAL FUND		143.0	150.6	165.0	180.5	198.4
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME		3	3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

Range 21 Chief Workers Compensation Surveillance (self Insurer)
 Range 18 Workers' Compensation Analyst
 Range 10 Document Processing Clerk

Salary	90,156
Benefits	24,912
	<u>115,068</u>
Travel to interview self insureds, administrators etc.	5,000
Contractual Services for accounting card statistical review	15,000
Misc. Supplys	2,000
Equipment 3 each Desks, Chairs, Calculators etc.	5,000
	<u>142,068</u>

(see Attachments)

IV. DATE 1-29-81 PREPARED BY John George Div. of Insurance
 AGENCY Department of Commerce
 PHONE 2515

Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

**THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE**

FISCAL NOTE

I. REQUEST

Bill/Resolution No. _____
 Title Workers' Compensation
 Requested by W. C. Study Commission Date 1-29-81

II. FISCAL DETAIL

Agency Affected Department of Commerce/Division of Insurance
 Program Category Affected Public Protection
 BRU, Program, or Subprogram(s) Affected Division of Insurance
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)
EXPENDITURES (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
100 PERSONAL SERVICES		116.0	127.6	140.0	154.0	169.4
200 TRAVEL		5.0	6.0	6.0	7.0	8.0
300 CONTRACTUAL		15.0	15.0	16.5	17.0	18.0
400 COMMODITIES		2.0	2.0	2.5	2.5	3.0
500 EQUIPMENT		5.0	0	0	0	0
600 LAND & STRUCTURES		0	0	0	0	0
700 GRANTS, CLAIMS, ETC.		0	0	0	0	0
TOTAL		143.0	150.6	165.0	180.5	198.4

FUNDING (Thousands of Dollars)

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
GENERAL FUND		143.0	150.6	165.0	180.5	198.4
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86
FULL TIME		3	3	3	3	3
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

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(see Attachments)

IV. DATE 1-29-81 PREPARED BY John George Div. of Insurance
 AGENCY Department of Commerce
 PHONE 2515
 Original: Legislative Finance
 cc: Budget and Management
 Prime Sponsor (First Legislator Named)

2
3 WORKERS' COMPENSATION DIVISION
4 DEPARTMENT OF LABOR

5 A BILL

6 For an Act entitled: "An Act relating to the second injury
7 fund established under the Alaska Workers'
8 Compensation Act; and providing for an
9 effective date."

10 *Sec. 1. AS 23.30.040 is repealed and re-enacted to read:

11 Sec. 23.30.040. SECOND INJURY FUND. (a) There is
12 created a second injury fund, administered by the commis-
13 sioner of labor. Money in the second injury fund may
14 only be paid for the benefit of those persons entitled to
15 payment of benefits from the second injury fund under
16 this chapter. Payments from the second injury fund must
17 be made by the commissioner of labor in accordance with
18 the orders and awards of the board.

19 (b) If an employee suffers a compensable injury
20 which results in temporary total disability, temporary
21 partial disability, permanent partial disability, or
22 permanent total disability, the employer or insurance
23 carrier shall ~~make a contribution to the second injury~~ ^{pay quarterly into the second injury fund a}
24 ~~fund. The contribution amount will be the product of the~~ ^{Sum equal to}
25 compensation to which the employee is entitled for tempo-
26 rary total disability, temporary partial disability,
27 permanent partial disability, permanent total disability,
28 or for rehabilitation under AS 23.30.191 and the appli-
29 cable contribution rate set forth in column A of the
30 table in this subsection. By December 15 of each year
31 the Commissioner shall determine and make available to

*3000 med-ny
over 4000*

*1) this bill 1% on rates
2) 2.5% of med incl
change death - remove from
go to 6% 1.4% rate
14517K*

*Up to 20%
Aviation, Logging
Construction*

1 the public the applicable contribution rate for the follow-
2 ing calendar year, according to Column B, the Reserve Rate
3 as set forth in this subsection:

Column A Second Injury Fund Contribution Rate (Percent)	Column B Reserve Rate	
	At Least (Percent)	But Less Than (Percent)
7	-	25
6	25	50
5	50	75
4	75	100
3	100	125
2	125	150
1	150	175
0	175	-

11 (c) Notwithstanding the provisions of AS 23.30.040(b)
12 the contribution rate shall be 6% beginning July 1, 1981 through
13 calendar year 1982 ending December 31, 1982.

14 (d) If an employee suffers a compensable injury
15 which results in death and the employee is not survived by a
16 widow, widower, child or dependent relative eligible to receive
17 death benefits under AS 23.30.215, the employer or insurance
18 carrier shall pay \$10,000 to the second injury fund.

19 (e) The board ^{shall} ~~may~~ refund a payment made into the sec-
20 ond injury fund if the employer or insurance carrier shows that
21 it made the payment by mistake or inadvertence, or if it shows
22 there existed at the time of the death of the employee a benefi-
23 ciary entitled to benefits under AS 23.30.215.

24 (f) The board may direct and provide the vocational
25 retraining and vocational rehabilitation of a permanently dis-
26 abled person whose condition is a result of an injury compen-
27 sable under this chapter by making cooperative arrangements
28 with insurance carriers, private organizations and institu-
29 tions, or state or federal agencies. The person being retrain-
30 ed or rehabilitated is entitled to receive compensation from
31
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1 the second injury fund for maintenance during the period of
2 retraining and rehabilitation in the sum which the board con-
3 siders necessary, not to exceed \$200 a month. The total ex-
4 penditures for maintenance, retraining, rehabilitation, and
5 necessary transportation may not exceed \$10,000 for one person.

6 (g) All amounts collected as civil penalties under
7 this chapter must be paid into the second injury fund.

8 (h) The attorney general may investigate claims and
9 hire expert witnesses necessary to prevent fraudulent or exces-
10 sive claims for money in the second injury fund and, subject
11 to an appropriation for this purpose, may be reimbursed from
12 the second injury fund for the cost of investigating claims
13 and defending against those claims.

14 (i) Administrative expenses of the state under this
15 section and AS 23.30.205 must be paid from an appropriation
16 from the second injury fund. 7

17 *Sec. 2. AS 23.30.045(c) is amended to read:

18 (c) For a person eligible for vocational rehabili-
19 tation service under AS 23.15.080 [AND] who is placed with an
20 employer for service [WITHOUT WAGES] at the request of the
21 office of vocational rehabilitation to give him on the job
22 training, work readiness, [OR] work therapy experience, or
23 work sampling, the liability set out in (a) of this section
24 applies to the state rather than to the employer.

25 *Sec. 3. The amount of a payment to the second injury fund and
26 the conditions under which a payment is required of an employer
27 or insurance carrier must be in accordance with the version of
28 AS 23.30.040(b) in effect on the date that the injury to the
29 employee occurred.

30 *Sec. 4. AS 23.30.265 is amended to read:

31 (28) "reserve rate" means the unencumbered fund balance
32

*held to
next meet*

1 on October 31 of each year as a percent of fund disbursements
2 during the 12 month period ending on June 30 of the same calendar
3 year.

4 *Sec. 5. Sections 1 - 4 of this Act take effect on July 1, 1981.

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October 24, 1980

Licia Piceno

Attached is a copy of the only bill that I know of which relates to worker's compensation. And, a quick review of that bill indicates that it is not directly related to insurance. This is the bill that the Division of Worker's Compensation, Dept. of Labor has submitted to the Governor's office for introduction. At this point in time it is impossible to if the Governor will actually introduce it, but I suspect that he probably will.

Bob Williams

M E M O R A N D U M

TO: ALL COMMISSION MEMBERS
FROM: Licia Piceno
REF: Proposed legislation from the Division of
Workers' Compensation

As per my telephone conversation with Jackie McClintock of November 13, 1980 she has requested that the following changes be made to your copies of their draft:

Section 2 (b) December 31, 1981, be deleted

Section 2 (i), be deleted, considered
constitutionally invalid.

Section 4, the date has been changed from
January 1, 1982 to July 1, 1981.

Section 5, This Act takes effect January 1, 1982,
be deleted and should read: Section
One of this Act, takes effect immedi-
ately in accordance with AS 01.10.070 (c)

An addition of Section 6 to read: Section 2 through 4 of
this Act takes effect on July 1, 1981

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

November 12, 1980

SUBJECT: Worker's Compensation
(Work Order No. 12-0110)

TO: Worker's Compensation Study Commission

FROM: Thomas A. Sofo *TAS*
Legislative Counsel

After conferring with Licia I have decided to send along this short memo with the specific statutory amendments which I have been requested to draft as of this date. Based upon the commission's recommendations, any or none of these amendments can eventually be placed in a longer bill which will cover the area of worker's compensation.

Amendment Number 1 - The amendments contained in the group marked number one are merely directed toward involving the Director of Insurance in the self insurance process available to employers. The term used in the draft is Commissioner of Insurance based on definitions which appear later in AS 23.30. I have also drafted a new section AS 23.30.087 which takes up the only distinctive element of the Minnesota statute which Bob Williams has asked me to review. As you can see AS 23.30.087 deals with the concept of group self insurance.

Amendment Number 2 - This short amendment removes many of the constraints which formerly existed concerning the formation of fictitious groups for insurance purposes.

Amendment Number 3 - The language at this point is directed toward affirmatively authorizing the issuance of worker's compensation insurance policies which contain provisions for deductibles. The reference to AS 21.39.070 has been included in order to make it clear that a carrier who wishes to offer a deductible does not have to make written application for a deviation from the rates which may have been filed by the licensed rating organization. Although I have retained the requirement that the Commissioner of Insurance review such

Page 2
November 12, 1980

policies with deductibles in order that they comply with this new statute, I have not required the Commissioner to make a separate finding that the employer is capable of paying such a deductible. It would seem that the self-interest of the insurers would operate as a check on the marketing of such policies to employers who could not in fact afford to pay the deductible. Since the initial payment of the deductible to the employee is to be by the insurer on behalf of the employer, the employee is not in jeopardy of an employer who purchases a policy with a deductible which it is unable to pay. Carriers are not likely to put themselves in the position of advancing the amount of the deductible on behalf of employers who they feel cannot afford to pay the deductible.

TAS:msp

Enclosure

Casualty Insurance Marketing — 1979

- Workers' Compensation
- General Liability
- Medical Malpractice

MARKETING TRENDS in 1979 for workers' compensation, general liability and medical malpractice insurance are surveyed in this issue, continuing our series of annual reviews of major lines of property/casualty business. The three classes covered this month produced nearly \$23.9 billion in premiums in 1979, representing 26.5% of the total property/casualty insurance volume. In 1978, these classes accounted for 26.1% of the total; in 1977, 24.9%; and in 1976, 23%.

WORKERS' COMPENSATION

An 18% gain in premiums for workers' compensation in 1979, on top of a 22% gain in 1978, a 27% gain in 1977 and a 23% gain in 1976 brought this line to more than \$14.3

billion in premiums. Five years earlier, workers' compensation premiums were \$5.6 billion. This line now represents 15.9% of the total property/casualty insurance volume. In 1974 it was 12.9%. Despite the rapid growth in premium volume, workers' compensation still suffers from a combined loss and expense ratio in excess of 100%. However, the pure loss ratio in 1979 improved by 2.7 points to 75.3% from 78% in 1978.

The main problem in workers' compensation continues to be the near impossibility of securing adequate rates to keep up with higher benefits and increasingly liberal interpretations of what is compensable.

The national agency companies increased their workers' compensation premiums at the industry average

of 18%, while the regional/specialty companies were ahead 25%, and the direct writers gained 13%. This slip by the direct writers, which have been steadily increasing their market share until now, cost them a full point in the market to 25.7%. The national agency companies gained two-tenths of a point to 57.7% and the regional/specialty companies went to 16.6%. The movement in market share over the last five years looks like this:

	% Market Share				
	1979	1978	1977	1976	1975
National Agency Cos.	57.7	57.5	53.0	50.4	50.0
Regional/Specialty Cos.	16.6	15.7	15.7	15.8	15.9
Direct Writers	25.7	26.8	26.2	24.8	24.2

The Old Republic Group, the largest regional/specialty writer in this field, showed the greatest percentage gain in premiums among the top 50 writers of workers' compensation as it advanced 85% and moved up seven places in the rankings to 14th. It had far and away the largest increase as the next largest was the 34% gain of CNA Insurance Group. There were no decreases in premiums among the top 50 writers.

Among the 10 leading writers of workers' compensation, the top four were the same as in 1978. The number five spot was taken by the Hartford, which moved up one place on a 16% gain, while Fireman's Fund dropped to sixth on an 8% gain. Home Insurance, on a 28% premium increase, moved to eighth place from ninth, displacing U.S.F.&G., which fell one place to ninth position.

The top 10 writers of workers' compensation insurance in 1979 ac-

(Continued)

Leading Writers of Workers' Compensation Insurance

	1979 Direct Premiums*	% of Market Share				1979 Gain Premiums*	% Gain	Loss Ratios		% of Total Premiums
		1979	1978	1977	1976			1979	1978	
Liberty Mutual	1,300,372	9.1	9.7	8.9	8.2	123,306	10	75.0	86.5	43.3
Aetna L&C	836,280	5.8	5.7	5.5	4.7	142,738	21	79.0	80.6	22.1
Travelers	823,423	5.7	5.6	6.2	7.8	138,207	20	85.5	96.8	30.6
INA	688,904	4.8	4.7	4.2	3.8	120,334	21	84.5	89.4	26.2
Hartford Group	536,014	3.7	3.8	3.8	4.0	74,203	16	72.5	85.8	20.3
Fireman's Fund	531,868	3.7	4.1	4.2	4.1	39,240	8	82.0	87.0	22.2
Wausau Group	528,196	3.7	3.6	4.3	4.6	87,963	20	79.1	86.6	32.5
Home Group	442,976	3.1	2.8	2.9	2.8	97,034	28	68.2	83.3	22.8
U.S.F.&G.	437,593	3.1	3.2	3.1	3.0	52,074	14	74.7	71.0	22.6
Crum and Forster	393,649	2.8	2.8	3.1	3.2	64,037	19	65.1	66.7	24.4
CNA	391,608	2.7	2.4	2.4	2.3	99,068	34	79.2	94.2	26.4
Continental	349,455	2.4	2.6	3.0	3.7	31,407	10	74.4	72.1	14.2
Kemper Group	346,321	2.4	2.5	2.4	2.1	45,772	15	73.7	73.4	26.3
Old Republic	286,497	2.0	1.3	1.4	2.2	131,361	85	158.9	55.5	72.2
AIG	277,764	1.9	1.8	1.3	1.0	58,167	26	57.6	68.1	13.8

*In dollars, 000 omitted.

Notes: Loss ratio is losses incurred to premiums earned, not including loss adjustment expense, but adjusted for dividends to policyholders.
% of total premiums is percent of workers' compensation premiums to insurer's total property/casualty premium volume.

Marketing — Continued

counted for 45.5% of the business, five-tenths of a point less than they handled in 1978. Six of the top 10 companies showed increases better than the industry average of 18% and only one — Fireman's Fund — had an increase of less than 10%.

In addition to the more than \$14 billion of workers' compensation business written by insurance companies, approximately \$3 billion is handled by state insurance funds, some of it on a monopolistic basis. In many states, including California (which is the leading state in workers' compensation premiums for insurance

companies), the state funds are the largest single writers of compensation business. Other states where this is true are Arizona, Colorado, Nevada, New York, Ohio, Oregon, and Washington. Nationally, the funds handle about 20% of the more than \$17 billion aggregate workers' compensation insurance that is purchased in this country.

Leading states in workers' compensation premiums written by insurance companies are California, Texas, Pennsylvania, New York and Illinois. The volume of workers' compensation is influenced by legislation, the nature of the economy of the state and the presence or absence of state insurance

funds (although in three of the top five states, the funds play an important competitive role — in California, the state fund wrote \$457 million in premiums; in New York, the fund wrote \$463 million; and in Pennsylvania, the fund was the second largest writer with \$129 million in direct premium writings). The five leading states account for 44.6% of the workers' compensation business handled by insurance companies.

In California, where more than 15% of the commercial workers' compensation business is conducted, premiums rose 13%, with the national agency companies advancing the aver-

(Continued)

Workers' Compensation Insurance Premium Distribution and Leading Writers by State

Rank	State	Total Direct Prem.*	% of U.S. Total	Loss Ratio %	Market Share			Leading Writer	% of State Market	Second and Third Leaders and Market Share			
					National Cos.	Regional Cos.	Direct Writers			U.S.F.&G.	Travelers	Other	
26	Alabama	144,113	1.0	70.3	58.9	18.7	22.4	Liberty Mutual	11.2	U.S.F.&G.	10.7	Travelers	8.0
37	Alaska	77,265	.5	87.4	75.2	16.2	8.8	INA	45.6	Providence Wash.	14.3	Crum and Forster	10.2
24	Arizona	176,130	1.2	56.9	54.9	28.7	16.4	Liberty Mutual	12.4	Crum and Forster	8.2	Fireman's Fund	8.1
30	Arkansas	105,867	.7	74.9	63.6	15.6	20.8	Aetna L&C	5.9	Hartford Group	5.7	Travelers	6.7
1	California	2,195,460	15.3	67.5	53.1	26.6	20.3	INA	7.7	Fireman's Fund	6.5	Travelers	6.5
34	Colorado	80,807	.6	63.8	67.5	8.7	23.8	Liberty Mutual	8.0	Employers of Wausau	7.8	U.S.F.&G.	6.4
16	Connecticut	251,747	1.8	77.1	71.2	4.8	24.0	Aetna L&C	15.7	Liberty Mutual	15.0	Travelers	11.7
41	Delaware	39,976	.3	71.6	61.5	13.7	34.8	Liberty Mutual	11.5	Pa. Manufacturers	8.2	Aetna L&C	7.8
28	D.C.	120,951	.8	84.7	76.5	1.4	22.1	Liberty Mutual	19.1	Kemper Group	15.2	Aetna L&C	12.6
7	Florida	669,728	4.7	63.0	58.6	19.4	21.9	Liberty Mutual	9.8	Travelers	7.2	Aetna L&C	6.3
14	Georgia	270,134	1.9	73.6	55.3	15.3	29.3	Liberty Mutual	14.9	Aetna L&C	6.2	Travelers	6.0
36	Hawaii	70,584	.6	82.8	65.2	27.9	6.8	Continental	21.8	Hawaiian Group	15.3	Hartford Group	11.2
40	Idaho	47,040	.3	78.0	54.4	23.3	22.4	Telodyne Group	19.8	Crum and Forster	15.3	Employers of Wausau	10.4
5	Illinois	901,469	6.3	89.4	61.6	15.8	22.6	Liberty Mutual	3.0	Travelers	6.8	Aetna L&C	5.5
23	Indiana	177,255	1.2	66.4	61.3	17.6	21.1	Liberty Mutual	6.6	U.S.F.&G.	6.4	Employers of Wausau	5.9
25	Iowa	171,847	1.2	69.5	45.5	31.4	23.1	Liberty Mutual	7.2	Employers Mutual	7.0	Aetna L&C	5.7
29	Kansas	116,972	.8	74.3	69.8	11.4	18.8	Travelers	12.0	U.S.F.&G.	7.3	Hartford Group	6.5
12	Kentucky	320,918	2.2	123.8	45.1	33.5	21.4	Old Republic	27.7	Liberty Mutual	11.0	Travelers	6.4
10	Louisiana	383,430	2.7	88.9	59.4	24.3	16.4	Aetna L&C	8.0	Highlands Group	6.9	Liberty Mutual	6.6
33	Maine	86,170	.6	112.3	64.7	3.0	32.3	Liberty Mutual	19.8	Aetna L&C	10.7	Comm. Union	10.6
15	Maryland	252,311	1.8	86.8	68.8	8.9	22.3	Travelers	10.3	Liberty Mutual	9.7	Home Group	6.7
11	Massachusetts	367,392	2.6	91.2	67.7	6.8	36.4	Liberty Mutual	21.3	Aetna L&C	10.4	Travelers	6.9
6	Michigan	650,317	6.0	61.4	62.5	0.1	22.4	Mich. Mutual	8.7	Liberty Mutual	8.4	Travelers	5.9
9	Minnesota	422,783	3.0	83.3	58.0	11.3	30.8	Liberty Mutual	8.5	Travelers	8.1	Employers of Wausau	8.1
32	Mississippi	86,340	.6	74.5	75.5	8.0	16.5	U.S.F.&G.	23.8	Travelers	10.0	Liberty Mutual	8.3
20	Missouri	202,759	1.4	76.8	64.0	9.6	26.5	Liberty Mutual	11.6	Aetna L&C	5.6	Employers of Wausau	5.3
42	Montana	25,992	.2	85.3	61.5	19.5	18.9	INA	13.6	Capri Group	9.3	U.S.F.&G.	6.3
39	Nebaska	89,653	.4	83.5	59.3	24.4	16.3	Travelers	6.3	Aetna L&C	6.2	U.S.F.&G.	5.5
50	Nevada	1,116	.0	52.4	73.3	2.8	23.8	Aetna L&C	60.2	Liberty Mutual	18.7	Hartford Group	5.6
35	New Hampshire	79,820	.6	70.5	68.1	6.5	25.4	Liberty Mutual	12.8	Home Group	11.6	Comm. Union	8.9
8	New Jersey	573,775	4.0	84.0	47.1	8.2	44.7	N.J. Manufacturers	26.6	Liberty Mutual	8.6	Aetna L&C	5.5
31	New Mexico	87,168	.6	75.2	65.2	20.8	13.9	Mountain States	9.4	U.S.F.&G.	9.2	Travelers	6.5
4	New York	938,814	6.6	68.2	67.4	11.2	21.4	Liberty Mutual	10.1	Travelers	7.0	Aetna L&C	7.0
22	North Carolina	177,482	1.2	82.5	57.1	11.1	31.8	Liberty Mutual	19.0	Aetna L&C	10.8	Travelers	6.3
61	North Dakota	342	.0	56.2	81.8	4.5	13.7	Aetna L&C	32.3	Hartford Group	17.8	Home Group	16.5
43	Ohio	25,574	.2	70.4	60.7	43.5	5.8	Old Republic	38.6	Aetna L&C	27.8	ERC Corp.	6.3
21	Oklahoma	177,676	1.2	65.3	62.5	19.5	18.0	Home Group	10.4	Liberty Mutual	7.9	U.S.F.&G.	7.5
19	Oregon	293,893	1.4	61.4	35.4	8.9	55.6	Employee Benefits	32.8	Crum and Forster	13.2	Liberty Mutual	8.4
3	Pennsylvania	1,114,476	7.8	75.9	45.6	24.7	29.7	Pa. Manufacturers	13.3	Liberty Mutual	9.4	Old Republic	7.8
38	Rhode Island	63,631	.4	109.1	62.3	7.1	30.7	Liberty Mutual	21.0	Aetna L&C	19.4	Travelers	8.0
27	South Carolina	121,282	.9	72.2	58.7	7.7	33.6	Liberty Mutual	19.8	U.S.F.&G.	10.6	Aetna L&C	7.5
45	South Dakota	23,210	.2	61.6	65.3	15.4	19.3	Western Group	10.6	St. Paul Cos.	6.8	Employers of Wausau	5.9
18	Tennessee	207,239	1.4	64.2	69.7	9.0	21.4	Liberty Mutual	12.4	Aetna L&C	9.0	Travelers	8.7
2	Texas	1,233,580	8.6	69.1	56.2	10.9	32.9	Texas Employers	18.1	Liberty Mutual	6.0	Travelers	5.3
47	Utah	18,991	.1	60.8	71.1	6.4	22.5	Liberty Mutual	14.6	INA	12.9	Travelers	7.3
44	Vermont	24,700	.2	64.8	70.2	6.8	23.1	Aetna L&C	9.8	Liberty Mutual	8.3	AIG	6.1
13	Virginia	254,542	2.1	86.6	59.3	16.6	22.1	Liberty Mutual	12.6	Old Republic	11.6	Travelers	7.9
46	Washington	19,300	.1	127.4	74.9	9.1	15.9	INA	42.3	Aetna L&C	10.6	Employers of Wausau	10.9
49	West Virginia	1,325	.0	999.9	33.4	15.8	50.9	Liberty Mutual	36.6	Old Republic	14.3	Travelers	11.8
17	Wisconsin	243,072	1.7	77.7	44.0	13.2	42.8	Employers of Wausau	23.8	Liberty Mutual	6.9	Aetna L&C	6.4
48	Wyoming	2,022	.0	101.9	48.3	40.2	11.4	Aetna L&C	46.5	Old Republic	36.2	Amer. Mut. Liab.	4.1
	Total	14,329,534	100.0	75.3	57.7	16.6	25.7	Liberty Mutual	9.1	Aetna L&C	5.8	Travelers	5.7

*In dollars, 600 omitted.

Note: Loss ratio is losses incurred to premiums earned, not including loss adjustment expense, but adjusted for dividends to policyholders.

ALASKA WORKERS' COMPENSATION

(000 OMITTED)

CALENDAR YEAR	1973*		1974		1975		1976		1977		1978		1979		TOTAL	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Line 1- STANDARD EARNED PREMIUM	17,335		19,443		32,956		59,806		76,357		68,005		74,039		347,011	
Line 2- NET EARNED PREMIUM (est.)	16,122	100.0	17,670	100.0	29,159	100.0	51,585	100.0	67,490	100.0	62,423	100.0	63,835	100.0	308,284	100.0
Line 3- PROVISION IN RATES FOR:																
Line 4- LOSSES	10,175	63.1	11,452	64.8	19,468	66.8	34,754	67.4	45,221	67.0	40,327	64.6	44,349	69.5	205,746	66.7
Line 5- EXPENSES & LOSS ADJUSTMENT	5,544	34.4	5,776	32.7	8,952	30.7	15,541	30.1	20,582	30.5	20,536	32.9	17,899	28.0	94,830	30.8
Line 6- PROFIT & CONTINGENCY	403	2.5	442	2.5	729	2.5	1,290	2.5	1,687	2.5	1,561	2.5	1,596	2.5	7,708	2.5
Line 7- TOTAL	16,122	100.0	17,670	100.0	29,159	100.0	51,585	100.0	67,490	100.0	62,423	100.0	63,204	100.0	308,284	100.0
Line 8- ACTUAL INCURRED LOSSES	10,435	64.7	16,309	92.3	19,731	67.7	41,216	79.9	46,611	69.1	60,465	96.9	50,573	82.2	245,340	79.6
Line 9- PROVISION FOR LOSSES MINUS TOTAL	(259)	(1.6)	(4,857)	(27.5)	(263)	(.9)	(6,462)	(12.5)	(1,390)	(2.1)	(20,138)	(32.3)	(6,224)	(9.8)	(39,594)	(12.5)

SOURCE: NCCI CIRCULARS COMPENSATION EXPERIENCE AS OF DECEMBER 31 FOR 1973-1979, AND NCCI RATE FILINGS.

DETAIL MAY NOT ADD TO TOTALS DUE TO ROUNDING.

*INCLUDES ALEYESKA.

11/11/80
DCC:ibh

MEMORANDUM

TO: Bill Berrier
FROM: Senator Terry Stimson
Rep. Brian Rogers
VIA: Bob Williams
DATE: November 2, 1980

Rep. Brian Rogers and Senator Terry Stimson would like you to begin drafting some legislation for the Workmen's Compensation Study Commission.

First, they would like a draft which amends AS 21.36.190(d). As you can see, AS 21.36.190(d) places a number of conditions upon an association of employers which apply for a group insurance plan. We would like to remove all of those restrictions, except the filing procedure under paragraph (4), assuming that the employer group can be rated in one rating classification. So sub-paragraph (d) would read something like;

(d) This section does not apply to workmen's compensation insurance when issued to an association of employers in the same rating classification and which as a group has filed and received approval from the director for the rating program to be applied to the group.

Second, we would like to transfer the responsibility of licensing self-insurers from the Worker's Comp Board, where it now rests, to the Director of Insurance. The provisions for self-insurance are spelled out in AS 23.30.075, AS 23.30.085, and AS 23.30.090 of the Workmens' Comp Act.

As a first crack on self-insurance I would like to go with two approaches, or in other words, two drafts. The first would be to leave the requirements and provisions for self-insurance under AS 23.30 intact, and merely transfer the function to the Director of Insurance. The second approach would be to take (Sec. 50. Minnesota Statutes; 1978, Section 176.181, Subdivision 2) which is attached to this memorandum, and use that as a model. The Minnesota law allows employer groups to self-insure, and we feel that this

Memorandum
Page two

is a good idea. Also, we would like to see built into this draft the opportunity for an individual or a group to self-insure all or part of his liability for payment of comp benefits. Please have the draftsmen contact me if there are any questions.

of any default upon the part of a self-insurer to abide by any final order or decision of the commissioner of labor and industry directing and awarding payment of compensation and benefits to any employee or the dependents of any deceased employee, then upon at least ten days notice to the self-insurer, the commissioner of insurance may by written order to the state treasurer require him to sell the pledged and assigned securities or a part thereof necessary to pay the full amount of any such claim or award with interest thereon. This authority to sell may be exercised from time to time to satisfy any order or award of the commissioner of labor and industry or any judgment obtained thereon. When securities are sold the money so obtained shall be deposited in the state treasury to the credit of the commissioner of insurance and awards made against any such self-insurer by the commissioner of insurance shall be paid to the persons entitled thereto by the state treasurer upon warrants prepared by the commissioner of insurance and approved by the commissioner of finance out of the proceeds of the sale of securities. Where the security is in the form of a surety bond or personal guaranty the commissioner of insurance, at any time, upon at least ten days notice and opportunity to be heard, may require the surety to pay the amount of the award, the payments to be enforced in like manner as the award may be enforced.

(2)(a) No association, corporation, partnership, sole proprietorship, trust or other business entity shall provide services in the design, establishment or administration of a group self-insurance plan under rules adopted pursuant to this subdivision unless it is licensed to do so by the commissioner of insurance. An applicant for a license shall state in writing the type of activities it seeks authorization to engage in and the type of services it seeks authorization to provide. The license shall be granted only when the commissioner of insurance is satisfied that the entity possesses the necessary organization, background, expertise, and financial integrity to supply the services sought to be offered. The commissioner of insurance may issue a license subject to restrictions or limitations, including restrictions or limitations on the type of services which may be supplied or the activities which may be engaged in. The license is for a two year period.

(b) To assure that group self-insurance plans are financially solvent, administered in a fair and capable fashion, and able to process claims and pay benefits in a prompt, fair and equitable manner, entities licensed to engage in such business are subject to supervision and examination by the commissioner of insurance.

(c) To carry out the purposes of this subdivision, the commissioner of insurance may promulgate administrative rules, including emergency rules, pursuant to sections 15.0411 to 15.052. These rules may:

(i) establish reporting requirements for administrators of group self-insurance plans;

(ii) establish standards and guidelines to assure the adequacy of the financing and administration of group self-insurance plans;

(iii) establish bonding requirements or other provisions assuring the financial integrity of entities administering group self-insurance plans;

(iv) establish standards, including but not limited to minimum terms of membership in self-insurance plans, as necessary to provide stability for those plans;

(v) establish standards or guidelines governing the formation, operation, administration and dissolution of self-insurance plans; and

(vi) establish other reasonable requirements to further the purposes of this subdivision.

Sec. 51. Minnesota Statutes 1978, Section 176.181, is amended by adding a subdivision to read:

Subd. 5. A political subdivision or association of political subdivisions which is self insured, may be indemnified by the special compensation fund

ing, may demand that the physician be produced for purposes of cross-examination. The signed certificate of a neutral physician is competent evidence of the facts stated therein. The expense of the examination shall be paid as ordered by the commissioner of labor and industry, compensation judge, or the workers' compensation court of appeals.

The commissioner of labor and industry shall develop and maintain a list of neutral physicians available for designation pursuant to this subdivision or section 176.391, subdivision 2.

Sec. 49. Minnesota Statutes 1978, Section 176.179, is amended to read:
176.179 Payments of compensation received in good faith

Notwithstanding section 176.521, subdivision 3, or any other provision of this chapter to the contrary, except as provided in this section, no lump sum or weekly payment, or settlement, which is voluntarily paid to an injured employee or the survivors of a deceased employee in apparent or seeming accordance with the provisions of this chapter by an employer or insurer, or is paid pursuant to an order of the workers' compensation division or court of appeals relative to a claim by an injured employee or his survivors, and received in good faith by the employee or his survivors shall be refunded to the paying employer or insurer in the event that it is subsequently determined that the payment was made under a mistake in fact or law by the employer or insurer. When the payments have been made to a person who is entitled to receive further payments of compensation for the same injury, the mistaken compensation may be taken as a credit against future benefit entitlement; provided, however, that the credit applied against further payments of temporary total disability, temporary partial disability, permanent total disability, retraining benefits or death benefits shall not exceed 20 percent of the amount that would otherwise be payable.

Sec. 50. Minnesota Statutes 1978, Section 176.181, Subdivision 2, is amended to read:

Subd. 2. Compulsory insurance; self-insurers. (1) Every employer, except the state and its municipal subdivisions, liable under this chapter to pay compensation shall insure payment of compensation with some insurance carrier authorized to insure workers' compensation liability in this state, or obtain a written order from the commissioner of insurance exempting the employer from insuring his liability for compensation and permitting him to self-insure the liability. The terms, conditions and requirements governing self-insurance shall be established by the commissioner pursuant to chapter 15. The commissioner shall also adopt, pursuant to clause (2)(c) of this subdivision, rules permitting two or more employers in the same industry to enter into agreements to pool their liabilities under this chapter for the purpose of qualifying as group self-insurers. With the approval of the commissioner of insurance, any employer may exclude medical, chiropractic and hospital benefits as required by this chapter. An employer conducting distinct operations at different locations may either insure or self-insure the other portion of his operations which may be determined by the commissioner of insurance to be a distinct and separate risk. An employer desiring to be exempted from insuring his liability for compensation shall make application to the commissioner of insurance, showing his financial ability to pay the compensation, whereupon by written order the commissioner of insurance may make an exemption as he deems proper. The commissioner of insurance may require further statements of financial ability of the employer to pay compensation. Upon ten days written notice the commissioner of insurance may revoke his order granting an exemption, in which event the employer shall immediately insure his liability. As a condition for the granting of an exemption the commissioner of insurance may require the employer to furnish such security the commissioner considers sufficient to insure payment of all claims under this chapter. If the required security is in the form of currency or negotiable bonds, the commissioner of insurance shall deposit it with the state treasurer. In the event

(CHPT. 15)

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MEMORANDUM

TO: Senator Terry Stinson
Representative Brian Rogers

FROM: Bob Williams

RE: Review of "Draft Legislation"

DATE: November 12, 1980

Pursuant to the request made by the Insurance Subcommittee for Worker's Compensation, I have requested legislation be drafted. This memorandum will outline, briefly, those pieces of draft legislation.

The draft legislation covers four specific points. These are: (1) the licensing of self-insurers, (2) eliminating restrictions on employers obtaining group insurance policies, (3) allowing deductible policies for worker's comp, and (4) establishing competitive pricing for worker's compensation.

Self-Insurance

The first work draft, entitled Amendment #1, shifts the responsibility of licensing self-insurers from the Division of Worker's Compensation to the Division of Insurance. That function involves financial and insurance expertise, not available at the Division of Worker's Compensation.

The draft by Mr. Sofo is the same as a work draft prepared by the Division of Worker's Compensation. Requirements

for self-insurers are in A.S. 23.30, the worker's comp law. Those requirements have not changed. The work draft merely changes each reference to the (Board) to the Insurance Commissioner. We have, however, made one addition based on a Minnesota statute. We have added a new section, A.S. 23.30.087, which allows group self-insurance as approved by the Insurance Commissioner.

The specific provisions in the work draft on self-insurance are as follows:

Section 1 repeals A.S. 23.30.005 (f), a requirement that the Board notify the contracting agency of the state, when it revokes a self-insurance certificate.

Section 2 disallows the awarding of state contracts to any person who cannot show proof of self-insurance.

Section 3 grants the authority to any state agency to terminate a contract with any person if they receive notice that the person's worker's comp policy has been cancelled, and grants the agency the right to terminate the policy if the Insurance Commissioner revokes a certificate of self-insurance.

Section 4 requires an employer to maintain insurance for worker's comp or furnish to the Insurance Commissioner proof that he is financially able to self-insure. The Insurance Commissioner may require a bond as security.

Section 5 exempts self-insurers, certificated by the Insurance Commissioner, from filing evidence of compliance with the Board.

Section 6 authorizes group self-insurance under regulations adopted by the Insurance Commissioner. This provision was added by the Sub-Committee, and taken from a Minnesota statute.

Section 7 shifts the responsibility for issuing self-insurance certificates to the Insurance Commissioner. It also reinstates A.S. 23.30.005 (f) repealed in Section 1. The Insurance Commissioner is now directed to notify any state contracting agency regarding verification of any self-insurance certificate.

Section 8 defines "self-insurer" as an employer who has furnished the Insurance Commissioner satisfactory proof of his ability to make payments.

Group Insurance

Amendment #2 amends A.S. 21.36.190 (d), the Fictitious Group Law. This statute prohibits the issuance of group insurance plans to fictitious groups, or groups formed solely for the purpose of obtaining a preferred rate. Sub-section (c) of this section exempts workmen's compensation insurance if the group meets a list of conditions. The proposed amendments remove those conditions, as long as the group is in the same employer rating classification, and receives approval from the Insurance Director.

This amendment allows small employers to unite and obtain a group insurance policy. This has two advantages for the small employer. First, assuming the group can generate enough premium, it would allow them to be taken out of the assigned risk pool. This represents an 8% savings in premiums. Second, if the policy becomes large enough, the group would become eligible for premium discounts. These range from 9.4% for policies over \$1,000 up to 16.3% for policies above \$100,000. (See, Restatement of Worker's Compensation Expense Program, National Council on Compensation Insurance, May 1, 1978).

Section 1 removes the requirement that an association of employers have constitution and bylaws, incorporate a safety program, have preferred characteristics over similar risks written on an individual basis, and be formed for a purpose other than obtaining a group policy.

Deductibles

This section allows carriers to issue deductible policies for worker's compensation. Deductibles are a limited form of self-insurance. Currently, members or subscribers to the NCCI cannot offer deductible policies, because deductibles are not part of the NCCI's filings.

Since worker's compensation is a socially mandated form of insurance, deductibles have to be structured in a special fashion. This is to assure each employee is covered. First, the carrier is responsible for payment on any deductible policy. Second, the carrier has the right to recover the deductible amount from the employer. Third, since

the insurer is responsible for payment, the issuance of that type of policy is at his discretion.

Deductibles offer two advantages: They allow a limited form of self-insurance, thereby reducing premiums, and they provide a strong incentive for an employer to implement a safety program to curtail losses.

Section 1 allows deductible policies under A.S. 23.30.025 an exemption from the requirement that a policy cover the entire compensation for liability.

Section 2 allows the carrier to write deductible policies as approved by the Director of Insurance.

Open Competitive Rating

This section re-regulates insurers writing worker's compensation, and is a significant change. It prohibits filings by any rating organization from including allowances for expenses, taxes, or underwriting profit. In insurance jargon, this means the NCCI would file only the "pure premium". The effect is that insurers would have to actively compete for the expenses and profit portions of the premium. The provisions have been lifted for Commissioner W.W. Fritz's proposal in Oregon.

We have also included a requirement that they report investment income. This too, was taken from the Oregon proposal on competitive rating.

Further, we have drafted a bill, at the request of a Commission member, that exempts the Guaranty Association from

insolvencies arising from open competition for worker's compensation.

Section 1 exempts filings for worker's compensation made by a rating organization from "Prior Approval".

Section 2 prohibits rating organization filings from including provisions for expenses, taxes, or profits.

Section 3 requires that investment income be reported to the Division of Insurance.

Section 4 exempts the Guaranty Association from insolvencies arising out of A.S. 21.39.045.

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MEMORANDUM

TO: Senator Terry Stinson
Representative Brian Rogers

FROM: Bob Williams

RE: Progress Report - Insurance Sub-Committee

DATE: November 14, 1980

Summary

This report has been prepared as an update on the activities and preliminary recommendations by the Insurance Sub-Committee of the Worker's Comp Study Commission. Briefly, the Sub-Committee has recommended that four suggestions be written into draft bill form. These suggestions are: (1) that licensing of self-insurers be transferred from the Division of Worker's Compensation to the Division of Insurance, (2) that carriers be given the opportunity to write deductible policies for worker's comp, (3) that restrictions be lessened for employers wishing to purchase group policies, and (4) that a limited form of "File and Use" rating be used to promote competitive pricing.

In addition, the Sub-Committee has requested that Blue Cross consider the feasibility of writing worker's comp insurance. We are awaiting their response.

The fact should be stressed that these are preliminary recommendations. The only motion made by the Sub-Committee was to draft legislation. The Sub-Committee has not passed these bills out. The Committee decided that examining draft legislation

would enable them to understand the mechanics of the approaches that had been discussed in a conceptual manner.

Activities of the Insurance Sub-Committee

The Insurance Sub-Committee was formed at the September 20 meeting of the Commission in Fairbanks. At that meeting, the Commission heard testimony that very little competition existed in the worker's compensation insurance market, by virtue of a very rigid method of insurance rate regulation.

Insurers writing worker's compensation and other lines of casualty insurance are regulated under AS 21.39. Chapter 39 of the Insurance Code requires that insurers make filings with the Division of Insurance for every manual, minimum, class rate, rating schedule or rating plan and each modification of them which it proposes to use. That filing becomes effective after 15 days, or an extension for another 15 days, unless disapproved by the Director. An insurer may meet its filing obligation by becoming a member of, or subscriber to, a licensed rating organization. This type of insurance rate regulation is called "prior approval".

If an insurer is a member of, or subscriber to, a rating organization, that insurer must adhere to the filings made by the rating organization on its behalf, or file a deviation. Deviations from the rate filed by a rating organization must be in accordance with AS 21.39.070. In the case of workmen's compensation, all

insurers writing comp in this state are members of the National Council on Compensation Insurance (NCCI). The NCCI is a licensed rating bureau, and has been since the issuance of Order 76-1 by the Director of Insurance.

At the Fairbanks meeting, the Commission also heard testimony that insurers writing worker's comp are not actively filing deviations. That deviations are an important component of competition is stated in a September 5, 1980 letter from Thomas W. Jenkins of the Illinois Department of Insurance. Mr. Jenkins states:

"Mr. William Bailey, Chairman of the Advisory Committee, has suggested we must look beyond the mere fact that rates are being made in concert and determine what actual effect that has had on competition. It is his opinion that, if rates are not being used, evidenced by substantial deviations, then ratemaking does not have an anticompetitive effect." (See Letter from Thomas W. Jenkins, Special Counsel, Illinois Department of Insurance, To: All State Insurance Commissioners, September 5, 1980.

The plain fact is that in Alaska, the NCCI rates are being used, and there are very few deviations.

The Commission also heard testimony stating that the NCCI actively opposes the filing of deviations by their member

companies. In a June 16, 1976 letter to the Division of Insurance regarding a downward deviation filed by Industrial Indemnity, they state:

"The National Council, as you know, takes position that the only permissible deviations under the Alaska Insurance Law, are uniform deviations. See, March 25, 1976 letter to your attention relative to independent filing for Loggers Association by Alaska Pacific Insurance Company.

The Industrial Indemnity Company of Alaska is a member of the National Council, and as such must adhere to National Council's filings under the Alaska Insurance Law, Section 21.39.070, which reads in part, 'Each member of or subscriber to a rating organization shall adhere to the filings made on behalf by the rating organization' (See, Letter from Donald T. De Carlo, National Council on Compensation Insurance, to Richard L. Block, Director of Insurance, June 16, 1976.)

The Council's position was subsequently explained to the Commission. The NCCI was not objecting to the fact that the

filing deviation reduced the rate, but rather that the filing did not conform to their interpretation of the Alaska Insurance Code. The Division of Insurance approved the filing after some modifications, but the incident points to one clear fact: The system of regulation is rigid and not conducive to flexible pricing or to competition.

At the conclusion of the Fairbanks meeting, Commission member Mr. Tom O Keefe requested that the NCCI be invited to testify. And, in Anchorage on October 16, 1980 they did. However, prior to that meeting, the Sub-Committee met with two insurance industry officials, Mr. Tom Conneely, Vice President for Western Operations for the Alliance of American Insurers, and Mr. Bill Molman, Special Counsel for the American Insurance Association. The Alliance of American Insurers or the "Alliance" and the American Insurance Association (AIA) are the two major insurance trade associations for the industry and operate on the industry's behalf, countrywide.

At the October 16 meeting in Anchorage, a number of issues related to insurance and worker's comp were discussed with Mr. Conneely and Mr. Molman. Among the issues discussed was the question of open competitive rating. It was brought out at the meeting that open competition is a national issue, the effort being spearheaded by the National Association of Insurance Commissioners (NAIC). The NAIC report entitled Report of the National Advisory Committee on Competitive Rating to The National

Association of Insurance Commissioners, prepared by the Advisory Committee on Competitive Rating, May 1980, was distributed to the Sub-Committee and discussed.

That report recommended that state regulators adopt open competitive rating. However, that recommendation included three caveats in the area of worker's compensation. The report states:

1. "Worker's compensation be included in the competitive rating law and not be separately regulated in a law that requires mandatory rating organization membership and/or permits members or subscribers to depart from bureau rates only by deviation;
2. Worker's compensation insurance rates be subject to a prior filing procedure before they become effective, but not subject to specific prior approval; and
3. Statistical data for worker's compensation insurance be collected on a uniform basis."

(See, Report of the National Advisory Committee on Competitive Rating, May 1980, pp. 45-46.)

At the meeting Mr. Conneely indicated that his organization was firm in their opposition to any form of competitive rating. Mr. Molman's association took no position on the issue.

Members to the AIA are split, and the association has not yet determined their position.

The following day, October 8, the Committee met again. At this meeting they decided to look into four major areas. These were: (1) establishment of a state fund, (2) requiring that investment income be included in the ratemaking formula, (3) opening the system up to competitive pricing, and (4) examining the feasibility of health insurers writing worker's compensation. Other issues the Committee examined were group insurance and self-insurance.

On October 16, 1980, the full Commission met and heard testimony from the National Council, as requested by Mr. O'Keefe in Fairbanks. Their prepared presentation outlined the basics of insurance ratemaking. The talk was technical and at times confusing. However, one point was brought out: Small employers, those who do not generate a large premium, are discriminately placed in the assigned risk pool, and are automatically charged an 8% penalty.

That afternoon the Commission heard from Oregon's Insurance Commissioner, W. W. Fritz. Commissioner Fritz's testimony centered on a piece of legislation he had requested Governor Victor Atiyeh's Task Force on Worker's Compensation to introduce. That bill, entitled "A Bill For An Act Relating to File and Use Insurance Rates, IC 786-H, 09/08/80", opened Worker's compensation to competitive pricing forces. It prohibited any rating organization from filing, on the behalf of

its members, a rate that included the company's overhead costs or profit allowance. Under the bill, Bureau filings could cover only the "pure premium" or the amounts the company needs to pay claim losses. This means that companies would have to add on their own expense allowance, or in other words, compete.

Commissioner Britz prefaced his remarks before the Commission by stating that the insurance industry operated as a "cartel". He concluded by stating that competition, as allowed in his proposal, would have a "salutory" effect on insurance rates.

It was at the next meeting, October 27, 1980, that the Sub-Committee made a motion to draft the four pieces of legislation. The Sub-Committee also discussed the insolvency of the Second Injury Fund. The Second Injury Fund reimburses employers for disability payments beyond 104 weeks if an employee has a pre-existing impairment.

The fund also provides money for vocational rehabilitation. However, no motion was made on the Second Injury Fund. The position of the Sub-Committee was that the Second Injury Fund be discussed as part of the whole question on vocational rehabilitation.

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National
Council
on Compensation
Insurance

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Denver, Colorado 80231
Tel. (303) 695-8888

H.W. Edmiston
Vice President

November 10, 1980

Hon. Kenneth C. Moore, Director of Insurance
State of Alaska
Department of Commerce and Economic Development
Division of Insurance
State Office Building - 9th Floor
Pouch "D"
Juneau, Alaska 99811

RECEIVED
DIV. OF INSURANCE
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Dear Sir:

Re: Revised Workers' Compensation Rates - Alaska

In accordance with the applicable statutes and regulations of your state and at the direction of the Alaska Classification and Rating Committee, I am filing for your consideration and approval revised workers' compensation rates and rating values.

In preparing this filing, full consideration has been given to President Carter's anti-inflation program. In the application of trending, due consideration has been given to the actual and anticipated effects of the President's program and likely impact of the filing on the compliance of our members and subscribers with the Council on Wage and Price Stability (COWPS) standards as revised December 13, 1978. Furthermore, upon approval of this filing, we will inform our members and subscribers that in using these rates they must consider them in determining their individual company compliance with COWPS standards.

This proposal represents an average increase of 9.8% in the overall rate level presently in force. It is based upon the following considerations:

- A. Review of Experience: The latest available workers' compensation experience indicates an overall premium level increase of 10.0%.
- B. Completion of Payroll Transition Program: An offsetting decrease of 0.8% in rate level is applied to reflect completion of the payroll transition program.
- C. Effect of Legislation: Also included in the proposal are the effects of two increases in the maximum and minimum weekly benefits. The first, which is due to an increase in the state average weekly wage, became effective on January 1, 1980 and is estimated to increase benefit costs by 0.5%. The second, becoming effective January 1, 1981, is due to a further adjustment in the state average weekly wage in conjunction with increasing the maximum percentage for weekly compensation from 166 2/3% to 200% of this wage. This is estimated to increase benefit costs by 0.1%. The combined effect of benefit changes is a 0.6% increase ($1.006 = 1.005 \times 1.001$).

November 10, 1980

- 2 -

Combined, these considerations produce the proposed 9.8% increase in rate level ($1.098=1.100 \times .992 \times 1.006$). It should be pointed out that the premium level change envisioned by this proposal as a result of the experience review and benefit changes is a 10.7% increase ($1.107=1.100 \times 1.006$).

It is proposed to apply the revised rates and rating values effective January 1, 1981, to new and renewal policies. No adjustment to outstanding policies is proposed.

Included among the supporting exhibits of this filing is a trend exhibit which indicates the need for an additional 25% increase for trend. This need is recognized to be in line with observed increases in medical and indemnity per case cost figures in Alaska which, over the most recent available five year period, have displayed average annual increases in excess of 20%. In recognition of the severe impact which large rate increases have upon insureds and the residual economic impact thereof, the Alaska Classification and Rating Committee determined not to file for an increase for trend at this juncture. Therefore, this proposal reflects the maintenance of a unity trend factor. The trend program will, of course, continue to be monitored as newer data becomes available.

In addition to trend indications and skyrocketing cost per case figures, a further consideration substantiating the need for the proposed rate increase is the overall operating results of the compensation funding system. During calendar years 1977-1979, benefit costs incurred to Alaska carriers have exceeded the premium allocated to finance these benefits by an amount in excess of \$38 million. Of course, by the nature of the compensation funding system, any attempt to recoup such losses is expressly forbidden and certainly the present proposal makes no such attempt.

Please find attached an exhibit which displays the determination of the overall rate level change proposed. A complete filing including revised rate pages and pure premium exhibits will be forwarded to you when this material becomes available.

A rate filing is unavoidably a formidable technical document. It is our intention to make our written presentation as self-contained as possible, however, we realize that there will be occasions when further explanation is needed. Should you desire additional information, we will be pleased to furnish it to you and, should you find that a more personal contact is required, we will arrange for a representative of the National Council to meet with you.

This filing is made on behalf of the members and subscribers of the National Council on Compensation Insurance who are now writing, or may hereafter write, worker's compensation insurance in Alaska.

Respectfully submitted,

NATIONAL COUNCIL ON COMPENSATION INSURANCE

H. W. Edmiston

H. W. Edmiston,
Vice President

Attachments

NATIONAL COUNCIL ON COMPENSATION INSURANCE

REVISED

WORKERS' COMPENSATION RATES

STATE OF ALASKA

EFFECTIVE JANUARY 1, 1981

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EXHIBIT I

Determination of Change in Manual Premium Level

A. Policy Year Experience

There is shown below two years of policy year data which was obtained from the "Supplementary Call for Policy Year Experience Valued at Calendar Year End" issued to all carriers writing workers' compensation insurance in your state. This call issued annually requests policy year data by state including standard earned premium, net earned premium, and total incurred losses. The individual carrier reports were combined as described herein to produce the data displayed below.

The policy year data have been valued as of the year end indicated in Table 1 below. All data have been placed on a current basis; i.e., premiums are on present premium level excluding the trend factor in the present rates and losses are adjusted to the current benefit level. The premium generated by the trend indications in the present rates has been excluded so as to obtain a true policy year loss and loss adjustment ratio based solely on past experience. The trend factor is analyzed later in the filing. The calculation of the factors to reflect these adjustments to premiums and losses are found in Appendix A-I. Development of both the standard earned premiums and incurred losses beyond the indicated valuation date to their estimated ultimate values is included through factors determined in Appendix A-II.

Table 1

POLICY YEAR DATA

	(1) Valued as of 12-31-79	(2) TO (4) FACTORS			(5) Composite (2)x((3)x(4))	(6) Modified Data (1)x(5)
		(2) To Current Level	(3) Develop- ment	(4) Loss Ad- justment Expense		
<u>Premium and Losses of Policies which became effective 1/1/77 thru 12/31/77</u>						
Std. Earned Premium	71,610,022	1.157	1.013	xxx	1.172	83,926,946
Incurred Losses	49,521,706	.998	.878	1.115	.977	48,382,707
Loss and Loss Adjustment Ratio						.576
<u>Premium and Losses of Policies which became effective 1/1/78 thru 12/31/78</u>						
Std. Earned Premium	69,896,720	1.052	1.053	xxx	1.108	77,445,566
Incurred Losses	59,878,397	1.022	.842	1.115	.960	57,483,261
Loss and Loss Adjustment Ratio						.742
<u>Total For Policies which became effective 1/1/77 thru 12/31/78</u>						
Std. Earned Premium	xxx	xxx	xxx	xxx	xxx	161,372,512
Incurred Losses	xxx	xxx	xxx	xxx	xxx	105,865,968
Loss and Loss Adjustment Ratio						.656

B. Calendar Year Experience

The ratemaking procedure provides for the use of the latest available 12 months of calendar year experience. This data is collected semiannually by a call issued to all carriers writing workers' compensation insurance in your state. This experience includes all premiums

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earned and losses incurred during this period regardless of the effective date of the policies producing the data. It should be noted these data reflect all factors which affect compensation underwriting results. These include not only recent changes in wages but also the latest estimates of changes in cost of indemnity cases, changes in costs of medical cases, changes in accident frequency and other such factors.

The premiums and losses are adjusted to the present rate level (exclusive of trend) and to current benefit level. Therefore the resulting calendar year loss and loss adjustment ratio will be comparable with the policy year loss and loss adjustment ratio. The losses have been modified to include loss adjustment expenses. The calendar year loss ratio includes transactions which arise from a number of different policy years. This loss ratio has been adjusted for these time differences to make possible a comparison of these transactions to the exposure base from which they were incurred. Derivation of the calculation making these adjustments can be found in Appendix A-III.

Table 2 below gives the adjusted loss ratio.

Table 2

Calendar Year Experience for 12 Months Ending 6-30-80

	(1)	(2)	(3)
	Actual Basis	Factors to Adj. to Current Levels*	Adjusted Basis (1)x(2)
Std. Earned Premium	76,294,380	.931	71,030,068
Incurred Losses & Loss Adj. Exp.	63,051,836	1.072	67,591,568
Loss & Loss Adj. Ratio			.952

*See Appendix A-III for derivation of these factors.

C. Indicated Change in Premium Level

Our current ratemaking techniques used for determining the indicated change in premium level call for giving equal weight to both the policy year loss and loss adjustment and the calendar year loss and loss adjustment ratios. The average of these two ratios is compared with the permissible loss and loss adjustment ratio to determine the overall indicated change in premium level.

The permissible loss and loss adjustment ratio is that portion of the premium available (prior to application of the mandatory premium discount plan) to pay benefits and claim adjustment expenses. It is determined by removing that portion of the premium dollar required to pay expenses. Exhibit III shows the derivation of the permissible loss and loss adjustment ratio for your state.

When the permissible loss and loss adjustment ratio is below the average loss and loss adjustment ratio an increase in the present premium level is indicated; when the permissible is above the average a decrease is indicated. The amount of such change is determined by dividing this average loss and loss adjustment ratio by the permissible loss and loss adjustment ratio. Table 3 below details the calculations.

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Table 3

Indicated Change in Rate Level - Overall Basis

1. Policy Year Loss and Loss Adjustment Ratio (Table 1)	.656
2. Calendar Year Loss and Loss Adjustment Ratio (Table 2)	.952
3. Average of (1) and (2)	.804
4. Permissible Loss and Loss Adjustment Ratio (Exhibit III)	.727
5. Indicated Change in Premium Level (3):(4)	1.106
6. Factor to reflect completion of Transition Program	.992
7. Indicated Change in Rate Level	1.097

This means that an average increase of 9.7% in rate level is indicated.

D. Distribution of Overall Indicated Change in Rate Level by Industry Group

Since policy year aggregate data and calendar year data are not available by industry group, i.e. Manufacturing, Contracting, and All Other, the Unit Statistical Plan data for your state are summarized and used to obtain a distribution by industry group of the overall indicated change in premium level. Differential factors which accomplish this distribution are derived in Appendix A-V and are displayed in Table 4 below.

Table 4

<u>Industry Group</u>	<u>Differentials</u>
Manufacturing	.888
Contracting	.942
All Other	1.080
Overall	1.000

E. Indicated Change in Rate Level by Industry Group

Applying the industry group differentials from Table 4 above produces the changes in rate level by industry group illustrated in Table 5.

Table 5

<u>Industry Group</u>	(1) <u>Indicated Change in Rate Level</u>	(2) <u>Differentials</u>	(3) <u>Indicated Change in Rate Level By Industry Group (1)x(2)</u>
Manufacturing	1.097	.888	.974
Contracting	1.097	.942	1.033
All Other	1.097	1.080	1.185
Overall	1.097	1.000	1.097

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F. Effect of January 1, 1981 Benefit Change

The calculations up to this point have been carried through on the basis of the January 1, 1980 benefit level. The change in rate level by industry group must be further modified to recognize the effect of the January 1, 1981 benefit change. Table 6 displays this application.

Table 6

<u>Industry Group</u>	(1) <u>Indicated Change in Rate Level (Table 6)</u>	(2) <u>Effect of January 1, 1981 Benefit Change</u>	(3) <u>Modified Change in Rate Level (1)x(2)</u>
Manufacturing	.974	1.001	.975
Contracting	1.033	1.001	1.034
All Other	1.185	1.001	1.186
Overall	1.097	1.001	1.098

This produces an average final overall increase of 9.8% in rate level. By industry group the changes are:

Manufacturing	2.5% decrease
Contracting	3.4% increase
All Other	18.6% increase

The effect of the January 1, 1981 benefit change will be introduced in Appendix B-III as a step in calculating final manual rates.

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EXHIBIT II-A

Summary of the Principal Benefit Changes due to Increasing the
Maximum Weekly Benefit, Effective 1-1-81

<u>Fatal</u>	<u>1-1-80</u>	<u>1-1-81</u>
% Rate of Compensation	Varies	No Change
Initial Min./Max. Weekly Compensation†	Varies/166.6% SAWW*	Varies/200% 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
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 with 1 Child: Widow	\$45/33 1/3%**	No Change
Child	\$15/33 1/3%	No Change
Widow with 2 Children: Widow	\$45/20%**	No Change
Children	\$30/46 2/3%	No Change
Widow with 3 or more Children: Widow	\$45/20%**	No Change
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*	\$65/200% SAWW*†
Future Maximum Weekly Compensation	Based on provisions in effect at date of injury	No Change
Social Security Offset	W.C. benefit are reduced by 50% of S.S. Survivorship or retirement benefits	No Change

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<u>Permanent Total</u>	<u>1-1-80</u>	<u>1-1-81</u>
% Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW*†
Future Maximum Weekly Benefit	Based on Provisions in effect at date of injury	
Duration	Duration of Disability	No Change
Social Security Offset	1. Disability Benefits: the sum of Social Security 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. retirement Benefit	
		No Change
<u>Permanent Partial - Schedule</u>		
Duration	As per Schedule	No Change
Statutory Max. Amounts Payable	As per Schedule	No Change
Nominal % Rate of Compensation	66 2/3%	No Change
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% SAWW*†
Future Maximum Weekly Benefit	Based on Provisions in effect at date of injury	
Social Security Offset	W.C. benefit is reduced by 50% of S.S. survivorship or retirement benefit	
		No Change
<u>Permanent Partial - Non-Schedule</u>		
Maximum Amount Payable	\$60,000	No Change
% of Wage Loss	66 2/3%††	No Change
Initial Maximum Weekly Benefit	133.3% SAWW*	200% SAWW*†
Future Maximum Weekly Benefit	Based on provisions in effect at date of injury	
Social Security Offset	W.C. benefit is reduced by 50% of S.S. survivorship or retirement bene.	
	8% Perm. Part. award	No Change
<u>Second Injury Fund Assessment</u>		
<u>Healing Period</u>		
Nominal % Rate of compensation	66 2/3%	No Change
Duration	Duration of Disability	No Change

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<u>Healing Period (Contd.)</u>	<u>1-1-80</u>	<u>1-1-81</u>
Initial Min./Max. Weekly Benefit	\$65/166.6% SAWW*	\$65/200% 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"

- * State Average Weekly Wage = \$404.91 for 1-1-80 (estimate)
166.6% SAWW = \$674.85
- *† State Average Weekly Wage = \$395.00 for 1-1-81 (estimate)
200% SAWW = \$790.00
- † 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 insures 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.

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EXHIBIT II-B

Overall Effect of Increasing the Maximum Weekly Benefit, Effective 1-1-81

<u>Type of Injury</u>	<u>Percentage of Losses†</u>	<u>Effect(%)</u>
Death	8.8%	+0.3
Permanent Total	3.8%	+0.02
Major Permanent Partial	32.6%	+0.05
(Serious)	(45.2%)	(+0.1)†
Minor Permanent Partial	12.7%	+0.05
Temporary Total	10.6%	+0.2
(Non-Serious)	(23.3%)	(+0.1)†
Medical	31.5%	0.0
Total	100.0%	+0.1†

* Losses for policies becoming effective during the 24 month period ending 3-31-78 on the 1-1-80 law level and developed to an ultimate basis by serious, non-serious, and medical categories.

† Weighted Average

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EXHIBIT - III

Allowances for Expenses, Taxes, Profit and Contingencies

Underlying the proposed rates allowances of 21.2% of standard premium for company expenses, 2.5% of standard premium for profit and contingencies, 3.6% of standard premium for taxes, coupled with 11.5% of expected losses for loss adjustment expenses, plus an expense constant on premium of \$35.

The expense provisions are listed below by expense category. It should be noted that the expense provisions in the manual rate are established for the majority of insureds who are not eligible for the premium discount program and perhaps are not even eligible for experience rating.

The premium discount program is a mandatory set of discounts which are based upon the fact that some expenses as a percentage of premium decrease as the premium increases. The expenses affected are the general expense and acquisition expense categories.

The result is that the provisions in the premiums after discounts, namely the net premium, are less than that in the manual premium. It is the net premium which the insured will pay. The provisions in the net premium based upon a distribution of insureds by size of premium in your state may be found on page 2 of this exhibit.

The items comprising the expense allowance in manual rates are as follows:

<u>Item</u>		
(1)	Acquisition and Field Supervision	15.0%
(2)	General Expenses	6.2
(3)	Total for Company Expenses (1)+(2)	21.2%
(4)	Taxes, Licenses and Fees other than Federal Income Tax	
(a)	Premium Tax	3.0
(b)	Miscellaneous Tax	.6
(5)	Profit and Contingencies	2.5
(6)	Total for Company Expenses, Taxes and Profit and Contingencies (3)+(4)+(5)	27.3%
(7)	Permissible Loss and Loss Adjustment Ratio	72.7
<u>Loss Adjustment Expense:</u>		
(8)	Related to Premium	7.5
(9)	Related to Losses	11.5
(10)	Total Expense Allowance Related to Premium (6)+(8)	34.8%
(11)	Expense Constant	\$35.00

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EXHIBIT III - (CONTD.)

Allowances for Expenses, Taxes, Profit and Contingencies

It should be borne in mind that the allowances shown above apply only to the first \$5,000 of premium. For risks with premium over \$5,000 which in this state represents about 24% of the total number of risks and about 90% of the total premium, manual rules provide for a reduction of rates through application of discounts (or their equivalents included in the Retrospective Rating Plan Values). Premium discounts result from the reduction of expense requirements for Acquisition and General Administration with increasing premium size. The premium discounts are as follows:

<u>Division of Standard Premium</u>		<u>Discount</u>	<u>Non-Stock Co. Discount</u>	<u>Assigned Risks*</u>
First	\$ 5,000	-	-	-
Next	95,000	9.5%	2.0%	9.5%
Next	400,000	11.9%	4.0%	11.9%
Over	500,000	12.4%	6.0%	12.4%

* To be used by all carriers for policies issued under an assigned risk plan.

A tabulation of the state experience by risk size for the latest available policy period shows that for stock carriers the discount would have produced a net discount of 8.1%. This figure undoubtedly is on the conservative side because in actual practice the discounts, which increase by risk size, are based on the total risk premium, including premium developed by operations in all states.

The tables below indicate for the stock carriers, the expense, taxes and profit and contingencies allowances on two bases. Column (1) lists the net allowance after reduction for the premium discounts, such allowances being expressed as a percentage of standard premium. Column (2) expresses these allowances as a percentage of the net premium resulting from premium discounts.

<u>Item</u>	(1) <u>Net Allowance</u> <u>(% of Standard)</u> <u>Premium</u>	(2) <u>Net Allowance</u> <u>(% of Net Prem.)</u> <u>(Col. (1) + .919)</u>
Acquisition and Field Supervision	8.7%	9.5%
General Expenses	4.9	5.3
Total for Company Expenses	13.6%	14.8%
Taxes, Licenses and Fees other than Federal Income Taxes	3.3	3.6
Profit and Contingencies	2.3	2.5
Loss Adjustment Expense-Related to Premium Losses	7.5	8.2
Total	65.2	70.9
Premium Discounts	91.9%	100.0%
Total	8.1	xxx
	100.0%	100.0%

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Exhibit III - (Contd.)

Allowance for Expenses, Taxes Profit and Contingencies

The proposed allowances for expenses referred to above are reviewed each year by the appropriate committees of the National Council. This annual review relies importantly on what has been the actual experience in recent years. State insurance laws and regulations require that each company file annually with each state insurance department a report on the expenses incurred, by type of expense, by line of insurance. This data is supplied via the Insurance Expense Exhibit, an official supplement to each company's Annual Statement. The National Council obtains copies of this document from each company, and at the request of the National Association of Insurance Commissioners compiles the expense data of all carriers in a series of exhibits which are distributed to all state regulatory officials and the carriers.

For your ready reference, reproduced below is the latest Three Year actual expense experience from the Insurance Expense Exhibit compilations of those expense items which are most immediately based on recent actual expense experience. These figures are related to net earned premiums. For General Expense, thus, the actual incurred expenses as a percentage of net earned premium can best be compared with the allowance expense as a percentage of net earned premium as shown in Col. (2) on the previous page.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
1. General Expense (a)	350,066	417,640	548,601
2. Net Earned Premium (a)	6,322,192	7,346,313	8,926,651
3. Percentage (1)+(2)x100	5.5.	5.7	6.1
4. Loss Adjustment Expense (b)	769,942	896,347	1,115,563
5. Losses Incurred (b)	6,696,601	7,530,579	8,511,783
6. Percentage (4)+(5) x 100	11.5	11.9	13.1

Data Source: Compilation of Insurance Expense Exhibits, all amounts in thousands
(last 000 omitted).

Notes: (a) - Data is for all stock carriers.

(b) - Data is for all stock and mutual carriers.

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ALASKA - EXHIBIT IV

PROPOSED MISCELLANEOUS CHANGES

The following additional changes are also proposed to become effective January 1, 1981:

1. Excess Loss Premium Factors

The Excess Loss Premium Factors applicable to new and renewal policies have been updated to reflect the latest available experience and law level. In particular historic claim costs have been projected to the cost level which can reasonably be expected to prevail at the time that these factors will be in effect. The revised factors are shown in the Miscellaneous Values section of Exhibit V of the filing. Excess Loss Premium Factors, of course, will only concern those insureds who have elected retrospective rating and then only where they have additionally elected to limit the amount of loss entering the rating as the result of any one accident.

2. Retrospective Rating Development Factors

In addition, Retrospective Rating Development Factors, shown in the Miscellaneous Values section of Exhibit V have been updated to reflect the latest available experience in Alaska and are proposed to become effective January 1, 1981 on new and renewal business.

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CONTRACTING

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CLASS 601b EARTH OR PLACING IN CONNECTION WITH DAMS OR LOCKS

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	5028294	2	105600			35208	144808	20	14	17	51	
76-77	576242			1	6437	3852	10289	40	43	41	124	
77-78	102517										00	
TOTAL	5707053	2	105600	1	6437	39060	155097	1920	113	684	2722	
								PP PRESENT ON RATE LEVEL	2595	276	956	443
								PP UNDERLYING PRESENT RATE	2717	617	1004	464
								PP INDICATED BY NATIONAL RELATIVITY	2100	516	1072	409
								PP DERIVED BY FORMULA	2262	786	959	401

CLASS 6045 LEVEE CONSTRUCTION

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76								26	21	26	73	
76-77								37	39	37	113	
77-78	5866079	1	201285	3	27411	32933	261629				446	
TOTAL	5866079	1	201285	3	27411	32933	261629	3431	467	561	446	
								PP PRESENT ON RATE LEVEL	3824	1536	1665	703
								PP UNDERLYING PRESENT RATE	4004	1608	1743	736
								PP INDICATED BY NATIONAL RELATIVITY	3372	1100	2095	657
								PP DERIVED BY FORMULA	3555	1141	1537	623

CLASS 620a DRILLING NOC

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	6103756	2	63365	23	78089	55543	197001	42	40	49	131	
76-77	1658445	1	40043	10	19677	36126	95846	29	30	25	84	
77-78	2688156	1	49830	15	79995	82408	212233				790	
TOTAL	10450357	4	153242	52	177761	174077	505080	1466	1701	1666	4833	
								PP PRESENT ON RATE LEVEL	4285	2258	2453	900
								PP UNDERLYING PRESENT RATE	4487	2364	2569	947
								PP INDICATED BY NATIONAL RELATIVITY	5186	2810	3200	1120
								PP DERIVED BY FORMULA	3362	2201	2254	782

CLASS 620c OIL OR GAS WELLS CEMENTING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	2257728			5	26526	7847	34373	21	20	24	65	
76-77	2007871			4	10743	12308	23051	39	40	38	117	
77-78	2224096			1	2064	2633	4697				121	
TOTAL	6489695			10	39333	22788	62121	600	606	621	1827	
								PP PRESENT ON RATE LEVEL	2433	1282	1331	505
								PP UNDERLYING PRESENT RATE	2548	1342	1394	528
								PP INDICATED BY NATIONAL RELATIVITY	3015	1300	1853	617
								PP DERIVED BY FORMULA	2149	1154	1294	460

CLASS 620b OIL RIG OR DERRICK ERECTING OR DISMANTLING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY PERIOD	PAYROLL	NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	212497	2	45155	4	30430	20742	96327	7	10	8	25	
76-77	190916			4	11093	2273	13366	46	45	46	137	
77-78	60657					323	323				53	
TOTAL	464070	2	45155	8	41523	23338	110016	53	55	54	163	
								PP PRESENT ON RATE LEVEL	6275	6692	3681	1665
								PP UNDERLYING PRESENT RATE	6571	7007	3854	1743
								PP INDICATED BY NATIONAL RELATIVITY	6521	3117	3901	1354
								PP DERIVED BY FORMULA	6630	5309	3890	1583

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CLASS 6213 OIL OR GAS WELLS SPECIALTY TOOL OPERATION NOC

WEEKLY PERIOD	PAYROLL	LOSSES AND LOSS ADJUSTMENT EXPENSE				FIRE PREMIUM PER \$100 OF PAYROLL						
		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	1424397			2	350	1604	1954	16	17	22	00	
76-77	1132346			4	8575	3698	12274	42	41	34	108	
77-78	1303206			1	373	3973	4346				37	
TOTAL	3859949			7	4799	9274	14074	000	254	240	49	
								PP PRESENT ON RATE LEVEL	2674	1785	2068	653
								PP UNDERLYING PRESENT RATE	2800	1869	2165	683
								PP INDICATED BY NATIONAL RELATIVITY	3702	1376	2321	740
								PP DERIVED BY FORMULA	2678	1357	1765	580

CLASS 6214 OIL OR GAS WELLS PERFORATING OF CASING

WEEKLY PERIOD	PAYROLL	LOSSES AND LOSS ADJUSTMENT EXPENSE				FIRE PREMIUM PER \$100 OF PAYROLL						
		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	456549					319	319	07	8	10	00	
76-77	369828			4	2201	5216	7417	46	45	45	201	
77-78	353812			4	16906	8673	25779				729	
TOTAL	1180189			8	19107	14408	33515	000	1619	1221	284	
								PP PRESENT ON RATE LEVEL	2674	1785	2068	653
								PP UNDERLYING PRESENT RATE	2800	1869	2165	683
								PP INDICATED BY NATIONAL RELATIVITY	4302	2383	2944	963
								PP DERIVED BY FORMULA	3236	2041	2378	766

CLASS 6216 OIL OR GAS LEASE WORK NOC CONTRACTORS

WEEKLY PERIOD	PAYROLL	LOSSES AND LOSS ADJUSTMENT EXPENSE				FIRE PREMIUM PER \$100 OF PAYROLL						
		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	40715538	28	1012226	190	783020	766964	2562210	100	100	100	00	
76-77	43284328	14	637781	116	559011	683085	1920077	0	0	0	444	
77-78	60813870	47	4877692	250	1693543	1426925	7991160				1315	
TOTAL	144813736	89	6527899	556	3075574	2376974	12480447	4508	2124	1987	862	
								PP PRESENT ON RATE LEVEL	2930	2234	1979	714
								PP UNDERLYING PRESENT RATE	3068	2339	2072	748
								PP INDICATED BY NATIONAL RELATIVITY	5658	2674	3333	1167
								PP DERIVED BY FORMULA	4508	2124	1987	862

CLASS 6217 EXCAVATION NOC

WEEKLY PERIOD	PAYROLL	LOSSES AND LOSS ADJUSTMENT EXPENSE				FIRE PREMIUM PER \$100 OF PAYROLL						
		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	8964288	2	105216	32	112133	118660	226009	42	48	54	00	
76-77	7694735	1	21737	17	44731	46766	113254	29	26	23	147	
77-78	7263328	4	423283	26	98596	139240	661119				910	
TOTAL	23922351	7	550236	75	255460	304686	1110382	2300	1068	1274	464	
								PP PRESENT ON RATE LEVEL	1634	1312	1242	439
								PP UNDERLYING PRESENT RATE	1920	1374	1301	460
								PP INDICATED BY NATIONAL RELATIVITY	2952	1226	1556	573
								PP DERIVED BY FORMULA	2354	1173	1332	486

CLASS 6225 IRRIGATION OR DRAINAGE SYSTEM CONSTRUCTION

WEEKLY PERIOD	PAYROLL	LOSSES AND LOSS ADJUSTMENT EXPENSE				FIRE PREMIUM PER \$100 OF PAYROLL						
		NO. OF CASES	SERIOUS - AMOUNT	NO. OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	28345							1	1	2	00	
76-77	85656							49	49	49	00	
77-78	24006										00	
TOTAL	138007							000	000	000	00	
								PP PRESENT ON RATE LEVEL	2490	1847	1669	601
								PP UNDERLYING PRESENT RATE	2607	1534	1748	629
								PP INDICATED BY NATIONAL RELATIVITY	2341	1455	1757	556
								PP DERIVED BY FORMULA	2392	1638	1679	571

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CLASS 6231 OIL OR GAS PIPE LINE CONSTRUCTION

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY RANGE	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	18396282	10	251770	28	34302	136045	422167	72	59	70	80	
76-77	11396055	5	441410	23	142973	215913	800296	14	20	15	702	
77-78	5367809			16	99768	26231	125999				235	
TOTAL	35160146	15	693180	67	277043	378239	1348462	1971	788	1076	384	
								PP PRESENT ON RATE LEVEL	2857	1200	1240	530
								PP UNDERLYING PRESENT RATE	2942	1257	1298	555
								PP INDICATED BY NATIONAL RELATIVITY	3544	1538	1741	692
								PP DERIVED BY FORMULA	2315	1025	1200	454

CLASS 6232 OIL OR GAS WELLS DRILLING OR REDRILLING

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY RANGE	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	20144521	7	131272	125	550264	364733	1046269	100	100	100	80	
76-77	30482203	14	531722	138	686587	453457	1671760	0	0	0	519	
77-78	34848519	9	1083072	93	393680	517447	1994199				548	
TOTAL	85475243	30	1746066	356	1630531	1335637	4712234	2043	1408	1563	551	
								PP PRESENT ON RATE LEVEL	2295	2833	2136	726
								PP UNDERLYING PRESENT RATE	2403	2567	2237	761
								PP INDICATED BY NATIONAL RELATIVITY	5579	3124	3432	1214
								PP DERIVED BY FORMULA	2043	1408	1563	551

CLASS 6233 OIL OR GAS WELLS CASING INSTALLATION OR RECOVERY

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY RANGE	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	263963			2	4364	1191	5555	17	20	20	80	
76-77	538559			5	20941	7527	28468	41	40	40	210	
77-78	536292	1	68847	2	14598	45050	128495				529	
TOTAL	1338814	1	68847	9	39903	57768	162518	5142	2580	4016	1214	
								PP PRESENT ON RATE LEVEL	8632	6254	4990	1988
								PP UNDERLYING PRESENT RATE	4039	6549	5225	2081
								PP INDICATED BY NATIONAL RELATIVITY	12586	5569	7037	2519
								PP DERIVED BY FORMULA	9660	5325	5614	2060

CLASS 6237 OIL OR GAS WELLS INSTRUMENT LOGGING OR SURVEY WORK

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY RANGE	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	1194850			1	189	4476	4665	15	13	17	80	
76-77	1537081	1	92374	3	1141	16276	109791	42	43	41	139	
77-78	2590014	2	543124	6	3616	23622	570362				714	
TOTAL	5330945	3	635498	10	4946	44374	684818	11921	893	832	1285	
								PP PRESENT ON RATE LEVEL	1828	877	1032	374
								PP UNDERLYING PRESENT RATE	1914	918	1081	391
								PP INDICATED BY NATIONAL RELATIVITY	2305	857	1391	455
								PP DERIVED BY FORMULA	3542	1766	1145	545

CLASS 6251 TUNNELING NCT PREPARED

LOSSES AND LOSS ADJUSTMENT EXPENSE								PURE PREMIUM PER \$100 OF PAYROLL				
POLICY RANGE	PAYROLL	NO OF CASES	SERIOUS - AMOUNT	NO OF CASES	NON-SERIOUS - AMOUNT	MEDICAL AMOUNT	TOTAL AMOUNT	SERIOUS	NON-SERIOUS	MEDICAL	TOTAL	
75-76	400							1	1	1	80	
76-77								49	49	49	80	
77-78	38824										80	
TOTAL	39224							000	000	000	80	
								PP PRESENT ON RATE LEVEL	4287	2528	2406	922
								PP UNDERLYING PRESENT RATE	4489	2647	2519	966
								PP INDICATED BY NATIONAL RELATIVITY	5805	3121	3738	1266
								PP DERIVED BY FORMULA	4988	2793	3034	1082

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APPENDIX B-III

CALCULATION OF FINAL MANUAL RATE

A. Reviewed Classifications

The following items are combined with the derived by formula pure premium to obtain the final manual rate for a reviewed classification:

(1) Policy and Calendar Year Adjustment Factor

The derived by formula pure premiums do not recognize the effect of calendar year experience for 12 months ending 6-30-80 and have been calculated prior to the availability of revised experience for policy years 1977 and 1978 valued as of 12-31-79.

(a) Unweighted Average of Calendar Year and Policy Year Loss and Loss Adjustment Ratios (See Exh. I, Table 3, Line 3)	.804
(b) Overall effect of Serious Loss Contingency Factor	1.012
(c) Policy Year and Calendar Year Loss and Loss Adjustment Ratio used in pure premium exhibits	.737
(d) Policy and Calendar Year Adjustment Factor ((a)×(b)) + (c)	1.077

(2) Factor to Reflect Completion of Transition Program

A factor of .992 is applied to the Indicated Change in Premium Level in order to reflect the completion of the Transition Program (See Exhibit I - Table 3).

(3) Effect of January 1, 1981 Benefit Change and Serious Loss Contingency Factor

The partial pure premiums are multiplied by the three part effect of the January 1, 1981 Benefit Change (See Exhibit II-B) and the Serious Loss Contingency Factor as follows:

Table 9

	(1) Effect of 1-1-81 Benefit Change	(2) ✓ Effect of Ser. Loss Contingency Factor	(3) Product (1) x (2)
Serious	1.001	1.025	1.026
Non-Serious	1.001	1.000	1.001
Medical	1.000	1.000	1.000

(4) Ratio of Manual Premiums to Earned Premiums

The ratio of manual premiums to earned premiums by industry group have also been excluded from the classification experience, and it is necessary to apply these factors to the derived by formula pure premiums. This is done in Table 10.

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Table 10

<u>Industry Group</u>	<u>Ratio Of Man.Prem.To Earned Prem.</u>
Manufacturing	1.116
Contracting	1.115
All Other	1.083

(5) Rates - Test Correction Factor

The payrolls are now extended by the rates presently in effect and by the indicated proposed rates to determine if the required change in manual premium level as calculated in Exhibit I has been achieved. Since at first this calculation may not yield the required results, an iterative process is initiated which continuously test the proposed rates including tentative Test Correction Factors until the required change in manual premium level is obtained. The test correction factors are applied to the derived by formula pure premiums.

The factors referred to in (1), (2) and (5) are set out in Table 11.

Table 11

<u>Industry Group</u>	(1) <u>Pol. & Cal. Yr. Adj. Factor</u>	(2) <u>Factor to Reflect Completion of Transition Program</u>	(3) <u>Test Correction Factor</u>	(4) <u>Composite Factor ((1)x(2))x(3)</u>
Manufacturing	1.077	.992	1.009	1.078
Contracting	1.077	.992	1.054	1.126
All Other	1.077	.992	1.060	1.132

(6) Expense Allowance

The expense allowance is introduced into the rate by dividing the product of the proposed pure premium and the appropriate factors above by the proposed permissible loss and loss adjustment ratio of .727 (See Exhibit III for derivation of this factor.) This operation produces the proposed rate prior to the addition of a disease element, if any.

(7) Disease Loadings

The proposed manual rates shown in Exhibit V include specific disease loadings for those classifications where they apply. The proposed specific disease loadings are shown in the table of Specific Disease Loadings at the end of Exhibit V.

(8) Swing Limits

As a further step a test is made to make certain that the proposed rates fall within the following departures from the present rates:

Manufacturing	from 23% above to 27% below
Contracting	from 28% above to 22% below
All Other	from 44% above to 6% below

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These limits have been calculated in accordance with the following formula:

$$\text{Max. Deviation} = \text{Effect of the Final Rate Level Change by industry group plus or minus 25\% rounded to the nearest 1\%}.$$

The classification which have been so limited are listed in Table 12.

An illustrative example showing the calculation of the proposed manual rate for Code 2003 is attached as Appendix B-IV. This example demonstrates the manner in which the partial pure premiums are combined to produce a total pure premium, and shows the steps in the calculation at which rounding takes place. Revised rates for other reviewed classifications are calculated in the same manner.

B. Non-Reviewed Classifications

The proposed rates for the non-reviewed classifications are obtained as follows:

- (a) The present Alaska rates are modified by the industry group change in rate level excluding the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor, but including the factor to reflect completion of the Transition Program. This adjusted rate is then multiplied by the permissible loss and loss adjustment ratio of .727 and divided by the ratio of manual to earned premium in order to produce an adjusted total pure premium. This adjusted total pure premium is divided by the total pure premium underlying the present rate. This factor is applied to the partial pure premiums underlying the present rate to produce adjusted partial pure premiums excluding the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor.
- (b) These partial pure premiums resulting from (a) above are increased by applying the three part effect of the January 1, 1981 Benefit Change and the Serious Loss Contingency Factor (Serious 1.026, Non-Serious 1.001, Medical 1.000). The partial pure premiums are added together resulting in a three decimal number. The serious pure premium is then adjusted in order that the three decimal place partial pure premiums add to an even two decimal place rounded total pure premium. This total pure premium is multiplied by the ratio of manual to earned and then divided by the permissible loss and loss adjustment ratio of .727.
- (c) The resulting rate is calculated to two decimal places to produce a final manual rate.

Table 12

List of Limited Classifications

0909	2070	2286	2670	3724	4113	4805	5184	7405	8607	9063
0912	2101	2302	3017	4036	4282	4808	5348	7431	8742	9154
0913	2105	2380	3270	4061	4301	4812	5462	7610	8803	9545
1430	2172	2501	3336	4062	4360	4825	6017	8033	8820	
1852	2174	2534	3372	4101	4432	5022	6216	8058	8831	
1953	2177	2560	3516	4111	4711	5040	6237	8107	9033	

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APPENDIX B-IV

CALCULATION OF PROPOSED RATE - CODE 2003 - MANUFACTURING

A. REVIEWED CLASSIFICATIONS

	<u>Serious</u>	<u>Non-Serious</u>	<u>Medical</u>	<u>Total</u>
1. Derived by formula pure premiums (Appendix B-II)	1.136	.929	.940	3.01
2. Composite factor*	1.078	1.078	1.078	xx
3. Adjusted pure premiums, unrounded (1)x(2)	1.224608	1.001462	1.013320	xx
4. Effect of the 1-1-81 Benefit Change and Serious Loss Contingency Factor, in parts	1.026	1.001	1.000	xx
5. Proposed pure premiums (3)x(4)	1.256	1.002	1.013	3.271
6. Adjusted pure premiums to rounded total	1.255	1.002	1.013	3.27
7. Ratio of manual to earned premium				1.116
8. Permissible loss and loss adjustment ratio				.727
9. Final manual rate ((6)x(7)+(8))				5.02

* See Appendix B-III

MEMORANDUM

State of Alaska

TO: Kenneth C. Moore
Director
Division of Insurance

DATE: November 21, 1980

FILE NO:

TELEPHONE NO:

FROM: Donald P. Koch
Chief Market Surveillance
Division of Insurance

DPK

SUBJECT: Report on Testimony Given
to Workers Compensation
Study Commission

On Saturday, November 15, 1980, I attended a meeting of the Workers Compensation Study Commission via teleconference. Staff for the commission presented a progress report for the insurance subcommittee and a review of draft legislation. Copies of the draft legislation were available and a discussion of each proposal was presented by staff. I added comment on each proposal, outlining the division's position or attitude to the proposals. In addition to the draft legislation, the subcommittee is considering the feasibility of having Blue Cross write Workers Compensation Insurance.

Taking the Blue Cross proposal first, I indicated that we were not in favor of the concept. While Blue Cross has substantial expertise in the handling of medical claims and in the area of medical cost containment, it is not reasonable to assume that expertise would extend to the wage loss, pension or indemnity aspects of compensation coverage. While medical loss constitutes some 28 to 30% of the compensation loss dollar, the remaining 70% would be beyond the experience of Blue Cross to handle. Further, Blue Cross is not structured to respond to long-term liabilities found in Workers Compensation Insurance. AS 21.87 would have to be substantially restructured. We did not suggest that, with some statute modification, it would be appropriate and even desirable for a self-insurer of even a state fund, if one were formed, to contract with Blue Cross to handle the medical loss only.

The legislative draft labeled Amendment #1, transfers the review and approval of self-insurers from the Workers Compensation Board to the Division of Insurance. The logic argued for such a transfer is that the Division of Workers Compensation and the Workers Compensation Board does not have the financial and insurance expertise available to properly perform the function and the Division of Insurance does. I testified that the Division of Insurance was not in favor of the transfer but was willing to work toward the desired end, namely a realistic review of the propriety of issuing a self-insurance certificate to a particular applicant. I noted that the division, in its review of the solvency of an insurer, was assisted by the financial examiners of other states in the zone examination process. I also noted that our review of an insurer for admission to this state, or for continuation of its Certificate of Authority, is guided by a substantial statutory structure in AS 21. The capital, surplus, treatment of investments, treatment of assets, holding

company actions, corporate actions, solvency issues are all subject to this statutory regulatory structure, and this structure would not be applicable to a self-insurer. I suggested that since the self-insurer was taking on long-term liabilities that some of the provisions of AS 21 ought to be specifically made applicable to self-insurers, such as reserve treatment and examination. I asked that if such a transfer of role is seriously considered, and I sense that it will be, that more specific guidelines be considered for inclusion in the Insurance Code. I did not mention specific locations in the code, but at the very least a reference should be made in AS 21.06.080 listing the self-insurer review function as a duty of the director which has the effect of clearly activating the director's rulemaking authority in AS 21.06.090. There was a negative reaction to our suggestion that we should be able to examine, but I still feel that this ability is needed. It need not be structured the same as insurer financial exams but there has to be some ability to test data submitted to us which does not rely totally on figures and materials supplied by the party wishing to influence the decision alone. Specific language in AS 21 should be included to enable revocation of a self-insurer certification similar to that noted in AS 21.09.140. I suggested that one possible alternative to the present role would be to provide a review body comprised of the Division of Workers Compensation and the Division of Insurance to jointly consider approval or disapproval of self-insurer certificates.

Included in Amendment #1 is a proposal to permit group self-insurance to which we objected. The section does not address or deal with any guidelines for such groups and does not include a cross indemnity requirement. I feel that cross indemnity must be specifically addressed to avoid any argument that the division is being capricious or arbitrary in either its adoption of a rule requiring cross indemnity agreements or in its disapproval of a group self-insurer failing to provide cross indemnity.

The definition of "self-insurer" should be further modified to reflect to include a requirement that it must have a certificate of self-insurance. I would suggest that the following language be considered and also cross referenced in AS 21.06.080:

AS 23.30.265(19) is amended to read:

(19) "self-insurer" means an employer who, instead of insuring his liability under this chapter as it provides, elects to pay directly the compensation provided for, and who [HAS FURNISHED] , after furnishing to the insurance commissioner [BOARD] satisfactory proof of his financial ability to make the direct payments , has been issued a self-insurer certificate;

The self-insurer is not really a self-insurer until the certificate has been issued. The proof of financial ability to make direct payments may be satisfactory but should be meaningless until the certificate is issued.

I think that the provisions of AS 23.30.090 should be transferred to AS 21 if the transfer of role takes place.

The legislative draft labeled Amendment #2 modifies the fictitious group statute which currently allows association groups for workers compensation removing several of the limiting criteria listed. It would permit a group of employers in the same rating classification to form a group for insurance purposes with the filing of a rating program which is approved by the director. I indicated that the division has no objection as long as the proper data still goes into our statistical agency.

Interestingly enough, something said during the discussion of Amendment #2 provoked a lengthy discussion of the assigned risk pool. I indicated that in our view the rating bureau would, when making a rate filing for the pool, have to include an expense provision. I indicated that all states that I was aware of had an administered rate system for their pools even where open rating prevailed for voluntary business. This area will apparently receive further attention from staff.

The legislative draft labeled Amendment #3 is intended to allow the use of deductibles in Workers Compensation Insurance. I indicated that the Division of Insurance is very much in favor of the concept but that the Compensation Act should not be touched. I feel that, as far as the Workers Compensation Act is concerned, the law should continue to look to the insurer for payments due to a claimant. This would tend to simplify board and Division of Workers Compensation actions regarding claims. I pointed out that we currently have a deductible filing before us where the insurer is responsible for full payment of any valid claim but has, if you will, a "side agreement" with the insured employer for reimbursement of losses paid by the insurer up to an agreed limit. The only conflict at this time is whether such an agreement and its resulting reduction in rate is a deviation under AS 21.39.070. I indicated that we would argue that it is not, as long as the standard rate amounts are reported for statistical purposes and all other rating organization rule are utilized and are not impacted. I would argue that it is an independent filing. I suggested that it would be appropriate to add a modification to AS 21.39.070 by adding a new subsection (c) which would state:

(c) Notwithstanding (a) of this section, a filing by an insurer of an independent deductible or loss reimbursement plan shall not be considered a deviation under this section.

The legislative draft labeled Amendment #4 provides an exception to prior approval for workers compensation rate filings that are not below the pure premium rate filed by the rating organization. Such rates would become effective immediately upon filing. Rates below the pure premium level remain subject to prior approval. The rating organization is barred from filing rates that include allowances for expenses, taxes and profit. This is similar to an approach developed in Oregon which is now under consideration. I indicated that we were in favor of the concept. The approach appears to be workable. I believe that some modification will be necessary to deal with the assigned risk pool which I noted earlier in this memo. Incidentally, Oregon intends to allow full rate filings by the rating organization for pool business. They expect to do it administratively. I did indicate that the proposal might not be going far enough and described what is now occurring in the NAIC with the development of an open competition rating model law expected for action at the December meeting. I indicated that upon receipt of that proposal, I would forward it to the commission for its review. It was noted that no mechanism had been provided whereby the director could reinstitute prior approval if competition was not found to exist. I concur that such a mechanism would be desirable.

The legislative draft labeled Amendment #5 would revise the investment section of the code to require the reporting of investment income on Alaska Workers Compensation Reserves. There are several problems with this section. The draft refers to annual reports required under AS 10.05.699, but AS 21.03.010(b) exempts insurers from AS 10.05. AS 21.21. is an improper location for such a requirement. The requirement, if adopted, should be placed in AS 21.09.200 which is the section requiring annual reports. If we adopt competitive rating, the requirement may be moot. The results would be suspect at any rate since such funds are not separable from the general funds of the company, which means that assumptions and allocations will have to be carefully considered and reviewed for propriety and acceptability.

The legislative draft labeled Amendment #6 would exempt guaranty fund payments for those policies where the rate used is below the pure premium filed by the rating organization. I indicated that the Division of Insurance would be opposed to this modification of law. It has the effect of creating a class of claimants (employees) not entitled to the protection and recoveries otherwise provided by the Alaska Insurance Guaranty Association Act (AS 21.80) based upon an assumption that may or may not be true but which in any case is beyond the ability of the employee to control since he does not purchase or contribute to Workers Compensation Insurance and is beyond the ability of the employer to foresee since he is not likely to have ready access to data to impact his purchase decision. Those rates used which fall below pure premium

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rates are not necessarily representative of the entire Workers Compensation Insurance portfolio of a particular insurer. It will likely occur in only a few classifications. Further it is not likely that the Workers Compensation Insurance rates for some classifications in one state will be sufficient to cause an insurer insolvency in and of itself. Insolvency could occur for totally unrelated reasons which would burden certain claimants unfairly. These very rates would be the only rates in Workers Compensation Insurance subject to close scrutiny thus making insolvencies by workers compensation insurers using rates subject to filing, review and approval less likely to be hazardous to the financial health of the company than those used under file and use.

The philosophical and policy argument that the State should bear this entire burden was one that was considered by the Legislature when adopting the Alaska Insurance Guaranty Association Act. That Act places the financial burden of insolvency on other carriers writing the same kind of business in this state, rather than on the state itself. Since that policy exists, I objected to a fragmentation of the policy and offered no comment on the propriety of a change in that policy. By its nature, it has to be an all or nothing situation as to those kinds of insurance covered by the Act or inequities will result.

DPK/cw#25B1

11/21/80 I concur with the basic concept of this report. This review should be supplied to the Study Comm.

*Kenneth C. Moore
Director of Ins.*