

NCCI Loss-Cost Filing Effective 7/1/2010

Executive Summary:

The NCCI submitted a loss-cost filing with the MT Insurance Department on February 25, 2010 reflecting an average 6.4% decrease over current filed loss-costs. The filing is applicable to all new and renewal policies effective July 1, 2010 unless disapproved by the MT Insurance Department. We understand that the NCCI filing has been approved by the Insurance Commissioner.

Administrative rules governing the MSF class rating process require the board to approve the use of the NCCI loss-cost filing for purposes of the MSF class rating process. The board may approve either the prior year filing or the latest filing. Unless the NCCI filing for the prospective rate year is unavailable or is known to be defective in some manner, MSF management will recommend use of the latest filing. Use of the latest filed NCCI loss-costs as the basis for MSF rates is currently under standing approval and is therefore deemed to be approved unless a board member requests that this item be placed on the agenda for board action.

◦ **Loss-Costs versus Manual Rates**

The NCCI "loss-costs" represent the cost of benefits paid to injured employees, to vendors which provide medical and related services to injured employees, and the cost of administering claims which are incurred during the policy period. The NCCI loss-costs are expressed as a rate per \$100 payroll by class code. The loss-costs represent the ultimate cost of claims and claims administration which, for the most severe claims, can take decades before being closed.

Loss-costs do not include other components which must be considered before arriving at the actual manual rates to be charged to policyholders. These additional components are captured in a multiplier which is filed by each carrier doing business in the state. The multiplier is applied to loss-costs, resulting in a carrier's manual rates. The components considered in a carrier's multiplier include: different expectations regarding losses given the carrier's book of business; production and acquisition expenses; taxes and assessments; offsets for other underwriting programs; offsets for the investment income which is earned on premium dollars while claims are being paid; and profit and contingencies.

MSF class rates are based on the NCCI filed loss-costs adjusted by a loss-cost multiplier which results in the MSF FY 2011 manual rates. MSF derives comparable loss-costs for its special classifications for which the NCCI does not file a loss-cost. In addition, MSF management evaluates the appropriateness of the NCCI loss-costs in light of the MSF book of business and proposes deviations from NCCI loss-costs in selected instances, if applicable.

- o NCCI's 7/1/2010 filing reflects 6.4% statewide decrease in loss-costs

The NCCI loss cost filing effective 7/1/2010 reflects an overall decrease of 6.4% from loss-cost rates currently in force. The change by component is a 6.3% decrease in indications for benefit costs plus an additional 0.1% decrease in loss adjustment expense. Generally, unless disapproved by the MT Insurance Department within 30 days, the NCCI filing is effective for use by private carriers in Montana on July 1st of each year. The MT Insurance Department has indicated that the NCCI filing is approved. As always, it is unclear whether and by how much private carriers' manual premium rates will change as a result of the NCCI filing. Whether private carrier rates change and by how much is determined by their choice of a loss-cost multiplier which is filed with the Insurance Commissioner's Office.

- o Change in NCCI loss-costs varies by industry group

The change in NCCI loss-costs varies by industry group. The change in rates varies even more on individual class codes. The following table shows the average loss-cost rate change for each industry and the respective maximum and minimum changes within each industry group.

Loss Cost Change by Industry Group			
NCCI Filing for new and renewal policies effective 7/1/2010			
<u>Industry</u>	<u>Maximum Decrease</u>	<u>Industry Average</u>	<u>Maximum Increase</u>
Manufacturing	-31%	-6.2%	19%
Contracting	-34%	-8.7%	16%
Office & Clerical	-36%	-10.6%	14%
Goods & Services	-30%	-5.3%	20%
Miscellaneous	-27%	<u>-2.2%</u>	23%
Total		-6.4%	

- o Standing Approval

Insofar as the circumstances in which MSF management would not recommend that the board approve the latest NCCI loss cost filing are very rare, this decision item is currently on "standing approval". Should the NCCI loss-cost filing ever be disapproved, we presume that NCCI would resubmit another filing. If so, the board's standing approval of the latest loss-cost filing (at that time) as the basis for MSF rates would still apply and would be appropriate.