



Todd Johnson
Regulatory Division
(P) 503-892-8919
Email: Todd_Johnson@ncci.com

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Pat Murdo

Montana Legislative Services
PO Box 201706
Helena, MT 59620-1706

Re: Montana Interim Sub-Committee Hearing, SJR 27 Workers Compensation Hearing

Dear Ms. Murdo,

Following are NCCI's answers to the loss cost questions that we received from the MT Legislative Services Office:

1. Provide an overview of NCCI loss costs and impact on workers compensation premium rates.

Workers compensation prospective loss costs and insurer rate filings are governed by Montana Code Annotated (MCA) Title 33, Chapter 16, Part 10. In general, a loss cost represents a provision for losses and loss adjustment expenses per \$100 of payroll for each job classification. Loss costs are not final rates. Loss costs are building blocks in the determination of insurer's manual rates. Loss costs only cover benefit costs and loss adjustment expenses.

Loss costs filed by NCCI are developed through analysis of aggregated data collected from workers compensation insurers in Montana for the previous 3 policy years. As an advisory organization, NCCI files loss costs with the Montana Commissioner of Securities & Insurance at the Office of the Montana State Auditor (Commissioner). NCCI generally makes an annual loss cost filing to the Commissioner to propose an overall statewide loss cost change and a loss cost for each job classification. Insurers may adopt by reference, with or without deviation, the prospective loss costs filed by the advisory organization. MCA §33-16-1026.

In calculating the rates insurers file with the Commissioner, insurers may add expenses (sometimes known as Loss Cost Multipliers) such as general expenses, premium taxes, production expenses, and profit and contingencies, to the loss costs approved by the Commissioner (MCA §33-16-1008). Premiums are then calculated by multiplying the rate per \$100 of payroll.

$Loss\ Cost \times Loss\ Cost\ Multiplier = Rate/per\ \$100\ Payroll$

The final rate for a classification is multiplied by the payroll per hundred dollars.

$Rate/per\ \$100\ Payroll \times Payroll = Manual\ Premium.$

Please see the graphic below for an illustration of the general difference between loss cost and rate:

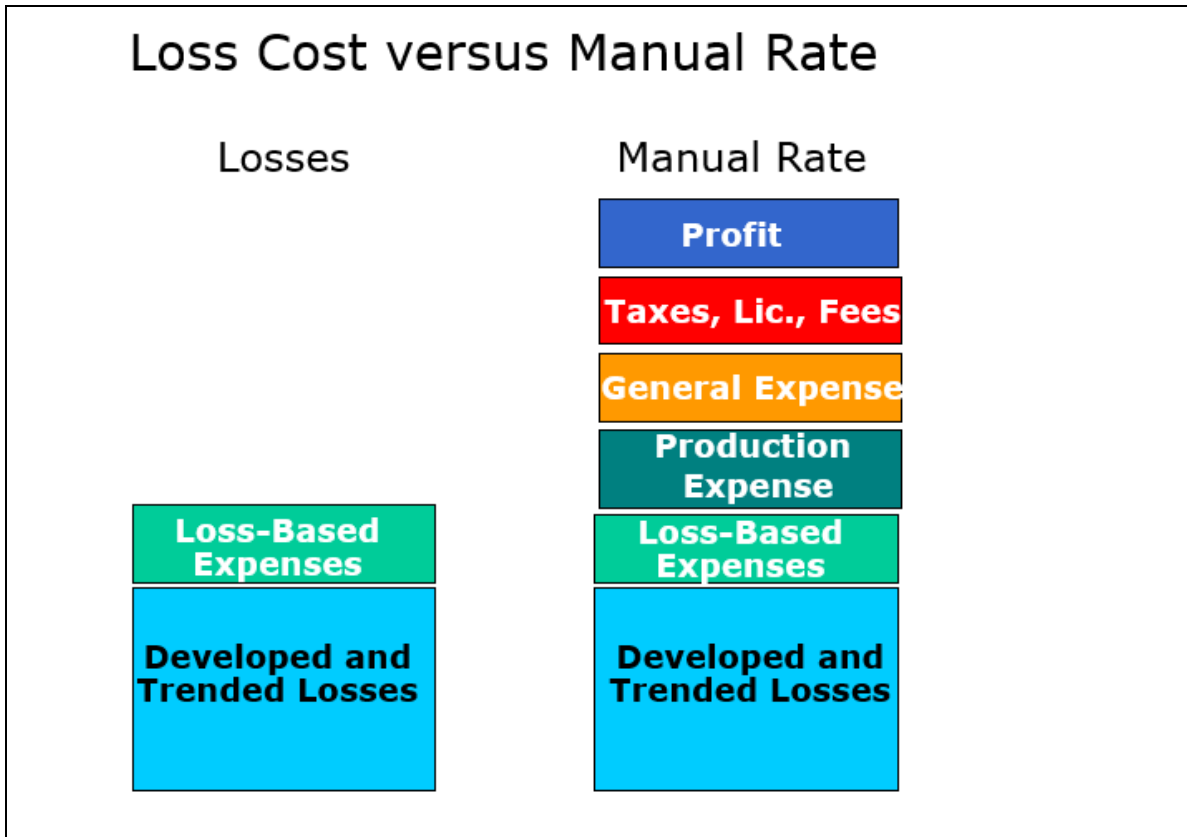


Exhibit 1 is the Executive Summary of NCCI's Montana loss cost filing for 2018. This summary provides the key observations that impacted the recommended overall statewide loss cost level decrease (and displays the average changes by industry group).

2. Who determines and approves the workers compensation rates?

Rates are filed by each insurer with the Commissioner. The Commissioner reviews and approves or disapproves all rate filings made by insurers and all loss cost filings made by the advisory organization MCA §33-16-1026 and MCA §33-16-1027.

3. Why is there a difference between NCCI loss cost reduction and a carrier rate reduction?

A filed and approved loss cost reduction may be different from an insurers rate reduction depending on insurer expenses or profit provisions, as explained above, and corresponding regulatory approval of the insurer's filed rates. Each insurer files its own rates with the Commissioner for approval.

In Montana, NCCI does not make recommendations or filings regarding insurer expenses or profit provisions, other than loss adjustment expenses. See MCA § 33-16-1034.

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