



Overview of the Proposed Florida Workers Compensation Rate Filing Effective January 1, 2022

I. Summary of Filing

The purpose of this overview is to provide context and an explanation for the accompanying proposed workers compensation insurance rate filing that was filed under separate cover by the National Council on Compensation Insurance (NCCI) on August 26, 2021 with the Florida Office of Insurance Regulation (OIR) for its review and approval. NCCI is a licensed rating organization authorized to make recommended rate filings on behalf of workers compensation insurance companies in Florida. NCCI's filing is objectively prepared, in compliance with actuarial standards.

NCCI's filing proposes an overall average -4.9% rate level decrease for the voluntary market, effective January 1, 2022. In addition, as more fully explained below, NCCI's separate item filing proposes to implement a new catastrophe provision in Florida.

The current filing is based on experience data as of year-end 2020 from Policy Years 2018 and 2019. Favorable experience has been observed in each of these years. Florida's lost-time claim frequency continues its decline while the state's average indemnity and medical costs per lost-time claim have exhibited relatively more year-to-year volatility. The final proposed rate level change results after incorporating changes to several expense components.

II. Overview of Ratemaking Methodology

NCCI's approach to determining the proposed overall average rate level change in the filing utilizes widely accepted actuarial ratemaking methodologies. The approach employed includes the following steps:

- Premium and losses are adjusted to the currently approved rate and benefit levels (both medical and indemnity)
- These adjusted losses and premium are projected to their ultimate value and are used to calculate a loss ratio (loss ratio = losses/premium) for each year included in the experience period, which ranges from a two to a five-year period, depending on the state
- Loss ratios, along with other information, are analyzed to produce trend factors to project future results
- The trend factors are applied to the known loss ratios in the experience period to forecast future increases or decreases and the degree of those projected future changes
- As a final step, any proposed benefit and/or expense changes are applied
- This results in the final projected loss ratio

If the final projected loss ratio is greater than 1.000, then an increase in the average rate level is indicated; a projected loss ratio of less than 1.000 indicates a decrease.

Once the proposed overall average rate level change is determined, NCCI separately determines and updates rates for each workers compensation classification code (class code); the rates and year-over-year changes vary by class code and are based on data collected for each class code.

III. COVID-19

NCCI's last annual rate filing did not include COVID-19 claim data; nor did it include explicit adjustments for the potential impact of a pandemic. The current filing also does not include an explicit adjustment. After extensive analysis of how to best reflect pandemics in future rate filings, NCCI determined that a catastrophe provision is the most appropriate way to reflect exposure to future pandemics. Consequently, a separate NCCI item filing was made that proposes a Catastrophe (other than Certified Acts of Terrorism) provision, for any single event or peril resulting in workers compensation losses in excess of \$50 million nationwide (which may include pandemics). This separate filing is currently pending with the OIR.

IV. Conclusion

The workers compensation system continues to experience unprecedented results. The 2020 private carrier countrywide combined ratio marks the fourth consecutive year of underwriting results under 90% (below 100% is indicative of an underwriting profit). These results are due to a combination of underwriting discipline, declining frequency, moderating severity, and adequate reserves. With few annual exceptions, frequency has continued a decades-long downward course driven by technology, safer workplaces, improved risk management, and a long-term shift from manufacturing to service sectors. 2020 data and preliminary 2021 data show frequency also dropped because of indirect pandemic-related effects. NCCI has no expectation that the long-term downward trend in frequency will change. For the last several years, severity trends have remained fairly moderate, tracking very closely with wage inflation. For these reasons, NCCI's analysis has continued to indicate loss cost/rate level decreases across many of its jurisdictions in recent years. NCCI will continue to monitor and analyze the impact of the COVID-19 pandemic on the workers compensation system and publish our research and findings in the *Insights* portal on ncci.com as it becomes available.