

Summary of the Proposed Alaska Workers Compensation Loss Cost and Assigned Risk Rate Filing Effective January 1, 2025

The National Council on Compensation Insurance (NCCI)¹ is pleased to provide this summary of the accompanying proposed workers compensation insurance loss cost² and assigned risk rate³ filing that were filed under separate cover on August 15, 2024, with the Alaska Division of Insurance for its review and approval.

The filing recommends a –5.5% loss cost decrease in the voluntary market and a provisional –17.9% decrease in the assigned risk market, effective January 1, 2025. The current assigned risk servicing carrier contracts expire December 31, 2024. The assigned risk servicing carrier allowance (SCA) expense component applicable to this filing is finalized in September 2024. Since the SCA is not known at the time of this filing (August 15, 2024), a provisional SCA is used until the SCA is finalized and the updated assigned risk rates are filed with the Division of Insurance.

Alaska Overview

The proposed loss cost change in this filing is based on premium and loss experience for policy years 2018 through 2022 evaluated as of December 2023. The observed loss experience is improved for each individual year, except 2020 relative to the current loss costs. The long-term pattern of improving loss ratios have been observed over the most recent 15 years. However, we do note some flattening of claim frequency beginning since 2019. Additionally, high wage-inflation observed through 2022 is expected to put some downward pressure on recent loss ratios.

The proposed provisional assigned risk rate change in this filing reflects the discontinuation of an excess loss reinsurance contract for the state Residual Market pool as recommended by the Alaska Workers Compensation Review and Advisory Committee and is subject to approval by the Division of Insurance. This results in a significant decrease in related assigned risk expenses and is the primary driver of the proposed provisional assigned risk rate change.


Countrywide Overview

The workers compensation (WC) system remains healthy. The Calendar Year 2023 combined ratio for workers compensation was 86%, a sign of underwriting profitability, where the net written premium increased by 1%.

¹ NCCI is a licensed rating organization authorized to make recommended loss cost and assigned risk rate filings on behalf of workers compensation insurance companies in Alaska. NCCI's filings are objectively prepared, utilizing widely accepted actuarial ratemaking methodologies.

² "Loss cost" refers to the portion of workers compensation rates that are filed by the rating organization and are allocated to pay losses but not carrier expenses. Some states include certain carrier expenses and assessments in the definition of "advisory loss costs." Carriers can use the approved loss costs as the basis for their rates, typically adjusting them for expenses with a loss cost multiplier.

³ The assigned risk rate is filed for use on policies written through the Assigned Risk Plan, a program established by state insurance regulatory authorities that sets the rules and procedures for providing insurance coverage to parties that are unable to obtain coverage in the voluntary market. For the assigned risk market, NCCI files a full rate that includes the Servicing Carriers' expenses.



Frequency has continued its long-term decline and on a countrywide basis, while claim severity changes were considered moderate for 2023. The continued focus on worker safety and technological advancements are regarded as contributing to fewer workplace injuries over time. The latest medical severity change aligns with projected medical inflation, while indemnity severity tracked with changes in average weekly wages.

Payroll increased by 6% between 2022 and 2023, driven by increases in both employment and wages. Conversely, WC system costs have increased at a slower pace than wages during the same period. The great reshuffle of jobs has also slowed significantly as employee turnover settles near pre-pandemic levels and we see signs of the labor market normalizing rather than deteriorating.

Economic inflation as measured with the Consumer Price Index has been elevated over the past few years. However, this economic inflation has not generally translated to higher WC medical and indemnity benefit costs:

- Medical inflation has been more stable in the aggregate with the WC Weighted Medical Price Index showing an average increase of 2.6% for the past 3 years. Medical fee schedules have helped moderate price increases in workers compensation in states that have adopted them.
- Indemnity severity has largely been tracking wage inflation in recent years—a pattern which is not unusual considering indemnity costs are essentially wage replacement benefits for injured workers.

Conclusion

The workers compensation system continues to be healthy. While consumer inflation has been elevated, the inflation for workers compensation medical costs remained stable. The increases observed in indemnity severity are largely driven by increased wages, which have risen significantly in recent years. Workers Compensation premiums are based on payroll, which is an inflation-sensitive exposure base. The combination of continued frequency declines and moderate benefit costs at or below the level of wage growth, have continued to put downward pressure on overall WC system costs relative to collected premiums.