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

The National Council on Compensation Insurance (NCCI)[1] is pleased to provide this summary of the accompanying proposed workers compensation insurance loss cost[2] and assigned risk rate[3] filing that was filed under separate cover on October 8, 2024, with the Alabama Department of Insurance for its review and approval.

The filing recommends a –6.1% loss cost decrease in the voluntary market and a –8.8% decrease in the assigned risk market, effective March 1, 2025.

Alabama Overview

The proposed filing is based on experience data as of year-end 2023 from Policy Years 2019 through 2022. The proposed loss cost decrease is driven by a continued long-term decline in lost-time claims relative to premium.

The proposed assigned risk rates reflect updated assigned risk expenses and a decrease in the profit and contingency provision.

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%.

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

[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 Alabama. 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.

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 popular 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 medical fee schedules.

- 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.