



## Summary of the Proposed Arizona Workers Compensation Rate and Assigned Risk Rate Filing Effective January 1, 2024

The National Council on Compensation Insurance (NCCI)<sup>1</sup> is pleased to provide this summary of the accompanying proposed workers compensation insurance rate<sup>2</sup> and assigned risk rate<sup>3</sup> filings that were filed under separate cover on July 26, 2023, with the Arizona Department of Insurance and Financial Institutions for its review and approval.

The filing recommends a –10.3% rate decrease in the voluntary market and a –10.3% decrease in the assigned risk market, effective January 1, 2024. Due to the catastrophic nature of the COVID-19 pandemic, all reported COVID-19 claims were excluded from ratemaking in this filing.

### Arizona Overview

The current filing is based on experience data from policy years 2019, 2020, and 2021 as of year-end 2022. Less weight was given to policy year 2020 in the January 1, 2023, filing due to uncertainty surrounding the pandemic. However, this year the experience in policy year 2021 is comparable to 2020, so all three years have been weighted equally. Additionally, all three years show improved experience relative to the data underlying the January 1, 2023, rate filing.

Both Arizona's lost-time claims relative to premium and medical average cost per lost-time claim declined in the latest year while the indemnity average cost per lost-time claim increased slightly. The proposed rate decrease includes a very small increase in claims handling expenses of insurance carriers as well as a decrease to the profit and contingency provision.

### Countrywide Overview

The performance of the workers compensation system remains healthy. Lost-time claims relative to premium have returned to their 20-year trend trajectory, declining 4% in the past year. Employment and wage growth marked a return to pre-pandemic levels. Recent wage increases are outpacing average claim costs along with continued nationwide declines in total claims. Payroll, as the exposure base, is inflation-sensitive, so as wages rise, premiums automatically increase along with the cost of associated workers compensation benefits. Consequently, wages, premiums, and indemnity benefits typically stay in balance.


On a nationwide basis, there was a notable rise in claim costs for 2022, with medical claim costs increasing about 5% and indemnity claim costs rising about 6% year over year. Over the pandemic

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

<sup>2</sup> The rate covers the indemnity and medical benefits, the expenses associated with providing those benefits (loss adjustment expenses), and any other costs associated with providing workers compensation insurance (such as commissions, taxes, etc.).

<sup>3</sup> 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 reflects the Servicing Carriers' expenses.



period of 2019–2022, the average medical lost-time claim cost increased by about 3% and the average indemnity for lost-time claim costs increased by about 8%, reflecting average annual increases of 1% and just over 2%, respectively.

Medical inflation is predicted to increase at a rate of about 3% per year compared with the long-term average of around 1.5%. Medical inflation continues to remain below the inflation rate of the Consumer Price Index.

### **COVID-19**

Earlier this year, NCCI filed Item E-1410, which proposed changes to the treatment of COVID-19 claims in experience rating. This filing was approved in Arizona. NCCI will be treating the pandemic and its resulting data, between accident dates of December 1, 2019, and June 30, 2023, as a catastrophic event. The claims that occurred during this period are not expected to be a reliable predictor of future years; therefore, all reported COVID-19 claims were excluded from ratemaking in this filing. Beginning July 1, 2023, new COVID-19 claims with accident dates after July 1 will be included in experience rating and will be reflected in ratemaking in subsequent years; however, COVID-19 claims before that date will continue to be excluded from experience rating and ratemaking.

### **Conclusion**

The workers compensation system continues to be healthy. Countrywide lost-time claims, relative to premium, declined 4% in the past year. Private carrier plus state fund net written premium increased about 10% to \$47.5 billion in 2022, just above the 2019 level. Private carriers posted a calendar year combined ratio of 84% (below 100% indicates underwriting profitability). This was the sixth consecutive year that the private workers compensation insurance market posted a combined ratio below 90% and the ninth consecutive year of underwriting profitability. Industry reserves are robust.