Summary of the Proposed Arizona Workers Compensation Rate 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 rate[2] and assigned risk rate[3] filings that were filed under separate cover on July 26, 2024, with the Arizona Department of Insurance and Financial Institutions for its review and approval.

The filing recommends a -9.1% rate decrease in the voluntary market and a -9.1% decrease in the assigned risk market, effective January 1, 2025.

Arizona Overview

The current filing is based on experience data from policy years 2021 and 2022 as of year-end 2023. Both years show significant improvement in experience relative to the data underlying the January 1, 2024, rate filing. Arizona's lost-time claims relative to premium declined in the latest year as did both medical average cost per lost-time claim and indemnity average cost per lost-time claim. The drop in medical average cost per lost-time claim was more pronounced than for indemnity. The proposed rate decrease includes an increase in claims handling expense of insurance carriers and a decrease to 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 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.

---

[1] 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.

[2] 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.)

[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 reflects the Servicing Carriers' expenses.

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.