

## Summary of the Proposed Colorado Workers Compensation Loss Cost 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 loss cost<sup>2</sup> filing that was filed under separate cover on July 28, 2023, with the Colorado Division of Insurance for its review and approval.

The filing recommends a –3.4% loss cost decrease in the voluntary 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.

### Colorado Overview

The current filing is based on premium and loss experience as of year-end 2022 from Policy Years 2019, 2020, and 2021 and shows improved experience relative to the data underlying the January 1, 2023, filing. Experience observed in Policy Year 2020 is considerably more favorable than that observed in Policy Years 2019 and 2021. Due to uncertainty surrounding possible pandemic-related effects, the experience period was increased from two to three years in order to place less reliance on Policy Year 2020. Colorado's lost-time claims relative to premium has generally declined over the long-term, although it increased in the most recent two policy years. The state's average cost per lost-time claim for both indemnity and medical continue to exhibit a long-term downward trend. The final proposed loss cost level change includes the estimated impact of changes to the medical fee schedule, effective January 1, 2023, as well as an update to the loss adjustment expense component.

### 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 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.

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

<sup>2</sup> "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.



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 closed as filed for use in Colorado. 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.