Summary of the Proposed District of Columbia Workers Compensation Loss Cost and Assigned Risk Rate Filing Effective 11/1/2023

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 were filed under separate cover on August 10, 2023, with the District of Columbia's Department of Insurance, Securities and Banking for its review and approval.

The filing recommends a -4.1% loss cost decrease in the voluntary market and a -1.0% decrease in the assigned risk market, effective November 1, 2023. Due to the catastrophic nature of the COVID-19 pandemic, all reported COVID-19 claims were excluded from ratemaking in this filing.

District of Columbia Overview

The current filing is based on experience data as of year-end 2022 from Policy Years 2017, 2018, 2019, 2020 and 2021. Policy Year 2020 continues to show favorable loss experience and appears to be impacted by COVID-19 pandemic-related effects. As a result, like last year's filing, less weight was given to Policy Year 2020 than to the other policy years. The proposed loss cost decrease is primarily driven by a continued decline in lost-time claims relative to premium and overall improving loss experience.

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 countrywide 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 countrywide 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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[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 the District of Columbia. 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.

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 the District of Columbia. 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.