Summary of the Proposed Illinois Workers Compensation Advisory Rate, Loss Cost, and Assigned Risk Rate Filing Effective January 1, 2024

The National Council on Compensation Insurance (NCCI)[1] is pleased to provide this summary of the accompanying proposed workers compensation insurance advisory rate, loss cost[2], and assigned risk rate[3] filing that was filed under separate cover on July 27, 2023, with the Illinois Department of Insurance for its review and approval.

The filing recommends a -7.2% loss cost level decrease and a -9.6% rate level decrease in both the voluntary and assigned risk markets, effective January 1, 2024. Due to the catastrophic nature of the COVID-19 pandemic, all reported COVID-19 claims have been excluded from ratemaking.

Illinois Overview

The current filing is based on premium and loss experience as of year-end 2022 from Policy Years 2020 and 2021 and shows improvement relative to the data underlying the January 1, 2023, filing. The experience observed in Policy Year 2021 is similar to that of Policy Year 2020, which is materially better than prior policy years and is anticipated to continue. NCCI's selection of trend factors in this filing largely reflects trends that were observed prior to and emerging out of the pandemic. These are similar to the approved trends from the January 1, 2021, filing and significantly lower (i.e., more negative) than the current approved trend factors.

This filing also incorporates changes to the Illinois medical fee schedule effective January 1, 2023[4]. The impact from this benefit level change was estimated to be an increase of +4.6% on medical costs as the update is based on the year-over-year change in the Consumer Price Index for All Urban Consumers (CPI-U) from the prior August, which was +8.3%. A reduction in the Profit and Contingency provision—stemming from the recent shift in interest rates—makes up nearly the entire difference between the proposed loss cost level change (-7.2%) and the advisory rate level change (-9.6%). There are no recommended changes to the assigned risk programs currently in effect and therefore the proposed change in rates for the assigned risk market is the same as that for the voluntary market (-9.6%).

---

[1] NCCI is a licensed rating organization authorized to make recommended advisory rate, loss cost, and assigned risk rate filings on behalf of workers compensation insurance companies in Illinois. NCCI's filings are objectively prepared, utilizing widely accepted actuarial ratemaking methodologies.

[2] "Loss cost" refers to the portion of workers compensation rates filed that 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 to provide insurance coverage to parties unable to obtain coverage in the voluntary market. For the assigned risk market, NCCI files a full rate that reflects the servicing carriers' expenses.

[4] The filing also includes the impact of changes to maximum reimbursement levels for certain Evaluation and Management codes, effective September 1, 2022.

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.

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. Specifically, claims attributable to COVID-19 will no longer be reported as a catastrophic event after June 30, 2023. This filing was approved in Illinois.

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 reflected in the determination of subsequent rates and loss costs. Note though that, in Illinois, claims attributable to COVID-19 will continue to be excluded from experience rating after June 30, 2023, pursuant to state statute 820 ILCS 310/1(g)(5).

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.