



Summary of the Proposed Maryland Workers Compensation Advisory Loss Cost 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 loss cost² filing that was filed under separate cover on August 16, 2023, with the Maryland Insurance Administration for its review and approval.

The filing recommends a –10.6% loss cost level decrease 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.

Maryland Overview

As had been done for the January 1, 2023 loss cost filing, the experience of Chesapeake Employers' Insurance Company (Chesapeake), is included in this year's loss cost filing, and will be going forward, for Maryland³. As such, adjustments were made in certain areas of the analysis to account for Chesapeake's inclusion in a portion of the historical experience (i.e., policy years 2017-2021). In this filing, NCCI proposes to utilize swing limits of +/-15% around the industry group change. The use of lower swing limits is expected to mitigate the impact of Chesapeake's experience on loss cost changes by classification.


The proposed filing is based on premium and loss experience as of year-end 2022 from Policy Years 2020 and 2021 and shows improved experience relative to the data underlying the filing effective January 1, 2023. The loss cost decrease is primarily driven by changes to lost-time claims relative to premium and improved loss development, along with a proposed decrease to the medical loss ratio trend projection.

Maryland's lost-time claims relative to premium experienced a modest decrease in the latest year, after a small increase the previous year – the combination of which results in almost no change in lost-time total claims for private-carriers for the two years underlying this year's experience period. This was accompanied by a decrease to the average cost per lost-time claims relative to frequency for both indemnity and medical. The long-term pattern of decline in both indemnity and medical loss ratios is

¹ NCCI is a licensed rating organization authorized to make recommended loss cost filings on behalf of workers compensation insurance companies in Maryland. 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 advisory 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 On April 14, 2015, the Maryland Legislature enacted Senate Bill 465 which facilitated the full affiliation of Chesapeake Employers' Insurance Company with NCCI, with full affiliation to be attained no later than January 1, 2023.



expected to continue. While limited data was available for Chesapeake with which to include in the analysis of loss ratio trends, some consideration was given to its data when selecting loss ratio trends that would be applicable to the statewide market.

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 in experience rating. This filing was approved in Maryland. 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.