Summary of the Proposed Maryland Workers Compensation Advisory Loss Cost 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 loss cost[2] filing that was filed under separate cover on August 15, 2024, with the Maryland Insurance Administration for its review and approval.

The filing recommends a –13.2% loss cost decrease for the voluntary market, effective January 1, 2025.

Maryland Overview

The proposed filing is based on premium and loss experience as of year-end 2023 from Policy Years 2021 and 2022 and shows improved experience relative to the data underlying the filing effective January 1, 2024. Maryland's lost-time claims relative to premium experienced a moderate decrease in the latest year, continuing the long-term decline in lost-time claim frequency. This was accompanied by a moderate increase to the average cost per lost-time claims relative to frequency for indemnity and a modest decrease for medical. The combined impact of the changes in frequency and severity resulted in decreases to both the indemnity and medical loss ratios in the latest year. The long-term pattern of decline in both indemnity and medical loss ratios is expected to continue in the filing year.

Consistent with the January 1, 2023, and January 1, 2024, loss cost filings, the experience of the state fund, Chesapeake Employers' Insurance Company (Chesapeake), is included in this year's proposed loss cost filing for Maryland[3].

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

[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.

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.

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.