



## Summary of the Proposed Montana Workers Compensation Loss Cost Filing Effective July 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 January 31, 2024, with the Montana Commissioner of Securities & Insurance, Office of the Montana State Auditor for its review and approval.

The filing recommends a –3.0% loss cost decrease in the voluntary market effective July 1, 2024. Due to the catastrophic nature of the COVID-19 pandemic, all reported COVID-19 claims were excluded from ratemaking in this filing. This treatment is consistent with the prior year’s loss cost filing.

### Montana Overview

The proposed loss cost change in this filing is based on premium and loss experience for Policy Years 2019, 2020, and 2021, with data valued as of December 2022. Loss experience and the medical loss ratio trend factor have decreased; however, the loss development patterns and the indemnity loss ratio trend factor have increased. These components offset somewhat, resulting in a proposed overall moderate loss cost level decrease.

The Montana economy and unemployment rate have recovered since 2020. NCCI observes significant average wage inflation in Montana for the past few years, which exerts an overall downward impact on loss ratios. Other pandemic-related impacts, such as delays in medical treatment due to healthcare worker shortages and potentially longer claim durations may exert upward pressure on Montana workers compensation system costs for the prospective filing effective period.


### 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.

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<sup>1</sup> NCCI is a licensed rating/advisory organization authorized to make recommended loss cost filings on behalf of workers compensation insurance companies in Montana. 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 advisory/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.



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**

In early 2023, NCCI filed Item E-1410, which proposed changes to the treatment of COVID-19 claims in experience rating. This filing was approved in Montana. 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.