



## Summary of the Proposed New Mexico Workers Compensation Loss Cost Filing Effective January 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 September 7, 2023, with the Office of Superintendent of Insurance for its review and approval.

The filing recommends a –12.5% loss cost decrease in the voluntary market, 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.

### New Mexico Overview

The primary driver of the proposed loss cost level change is attributable to improved experience. This filing is based on premium and loss experience for Policy Years 2019 through 2021 evaluated as of December 31, 2022. The experience period evaluated as of December 31, 2022 shows continued improvement when compared to the data evaluated as of December 31, 2021. The experience in the most recent policy year, Policy Year 2021, is generally in line with that of Policy Year 2019. Policy Year 2021 is also similar to Calendar-Accident Years 2021 and 2022 which suggests favorable experience based on the most recent information. While all three years were relied upon, the Policy Year 2020 experience appears to be impacted by some pandemic-related factors that are not likely to prevail during the loss cost effective period. As a result, the experience in Policy Year 2020 was given less weight than the other experience period years. A combination of both paid and paid plus case data was selected to best reflect the conditions likely to prevail in the proposed effective period. NCCI's selection of trend in the proposed filing is based on observed longer-term patterns which exhibit more of a decreasing pattern than the prior filing.

### 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

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



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 New Mexico. 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.