



Summary of the Proposed Texas Workers Compensation Loss Cost Filing Effective July 1, 2024

The National Council on Compensation Insurance (NCCI)¹ is pleased to provide this summary of the accompanying proposed workers compensation insurance loss cost² filing that was filed under separate cover on November 14, 2023, with the Texas Department of Insurance for its review and approval.

The filing recommends a –11.0% 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.

Texas Overview

The primary driver of the proposed change is attributable to improved experience. The filing is based on financial data of premium and loss experience for Policy Years 2020 and 2021 evaluated as of December 31, 2022. This data shows continued improvement when compared to the data evaluated as of December 31, 2021, with both of the most recent policy years demonstrating favorable experience. The experience observed in Policy Year 2021 shows further improvement from prior policy years. The use of the two most recently available full policy years was selected to balance stability and responsiveness. While this is a change from last year's selected three-year experience period, it is consistent with the experience period chosen in previous filings. This change recognizes the continued favorable patterns observed in the most current data.


Trend factors bridge the gap between the Policy Year 2020 and 2021 experience years and the time period in which the loss costs will be in effect, July 1, 2024, and subsequent. In this filing, both the annual indemnity and medical loss ratio trends were lowered by a half-point. These selections are based on the observed trends which exhibit more of a decreasing pattern in this year's filing compared to prior filings.

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.

¹ NCCI is a licensed advisory organization authorized to make recommended loss cost filings on behalf of workers compensation insurance companies in Texas. 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.



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 Texas. 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.