

RHODE ISLAND



EXECUTIVE SUMMARY

PROPOSED EFFECTIVE JUNE 1, 2008



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RHODE ISLAND

WORKERS COMPENSATION FILING – June 1, 2008

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BACKGROUND AND FILING PROCEDURE

The workers compensation benefit system in Rhode Island is designed to cover medical costs associated with workplace injuries, as well as provide wage replacement (indemnity) benefits to injured workers for lost work time.

In establishing loss costs for workers compensation, the ratemaker must address the question of whether or not the current premium level provides sufficient funds for future benefits. Since the workers compensation benefit system is pre-funded, one must project in advance the cost of meeting all future payments made under the policies written during a given year.

To begin the ratemaking process, data from the recent past is collected. The National Council on Compensation Insurance, Inc. (NCCI), the licensed rate service organization for workers compensation insurance in Rhode Island and most states, collects data from its member insurance companies. Data quality is a top priority, and the checks involved in validation are completed before conclusions are drawn from the data.

Pursuant to Rhode Island General Laws 27-7.1-1, NCCI is filing loss costs including loss adjustment expense.

These advisory prospective loss costs are intended to cover the indemnity and medical benefits provided under the system as well as the loss adjustment expenses associated with providing these benefits. They do not, however, contemplate any other additional costs associated with providing workers compensation insurance (such as commissions, taxes, etc.).

Insurance companies offering workers compensation insurance in Rhode Island file loss cost multipliers that are applied to the approved advisory prospective loss costs in order to compute the final workers compensation rates that they intend to charge. These multipliers are intended to cover the other costs associated with providing workers compensation insurance that are not already part of the advisory prospective loss costs and reflect the companies' own experience and expense levels. As a result, carriers adopting these loss costs will need to review the appropriateness of their loss cost multipliers. As an alternative, insurance companies may opt to not adopt these loss costs and make independent filings instead.

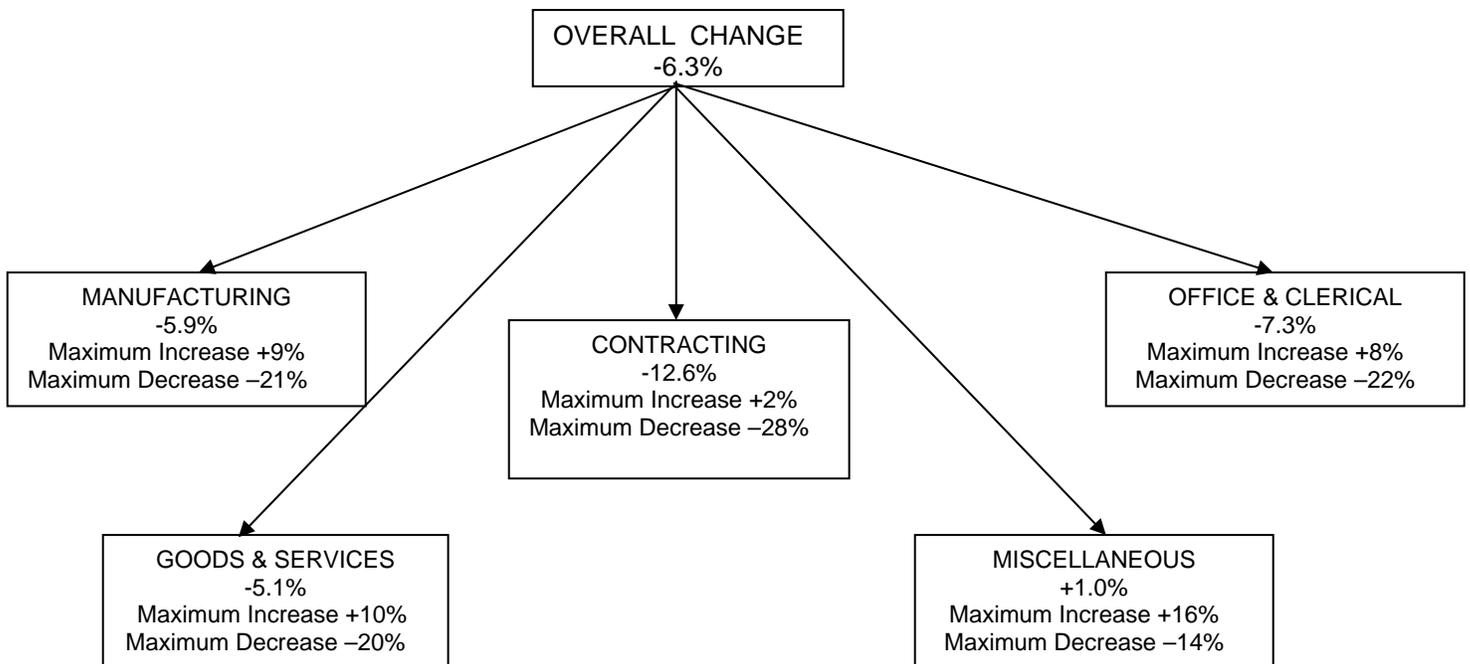
In this filing, NCCI is proposing that the Director approve a 6.3% decrease in the current loss cost and LAE levels, and that the new loss costs take effect on June 1, 2008. This document will explain why this decrease is indicated.

SUMMARY OF PROPOSED CHANGES

<i>Key Components</i>	<i>Voluntary Loss Costs</i>
Experience and Trend	-7.3%
Benefit Change	+0.2%
Loss Adjustment Expense	+0.9%
Overall Change Requested	-6.3%

A brief discussion of each of these key components follows this page.

The change in rates varies depending on the classification. Each classification belongs to one of five industry groups. The average loss cost change proposed for each of these five groups is displayed below, as well as the largest loss cost increase and largest loss cost decrease possible for a classification in each of those groups.



KEY COMPONENT - EXPERIENCE, TREND, AND BENEFITS

EXPERIENCE

NCCI analyzed the emerging experience of the Rhode Island workers compensation policies in recent years. The primary focus of our analysis was on premiums and losses from Policy Years 2003, 2004 and 2005, evaluated as of December 31, 2006. (A policy year captures the premiums and losses from the block of policies that had effective dates during a given year). The most recently available policy year is 2005, since the last policy had an effective date of December 31, 2005 and did not expire until December 31, 2006. This filing utilizes the three most recent policy years of experience. This is consistent with the approach used by NCCI in other jurisdictions of similar volume and consistent with recent Rhode Island filings.

As noted above, the experience for each of the three policy years reflected in this filing is evaluated as of December 31, 2006. In addition, NCCI also reviewed the experience for Calendar/Accident Year 2006 (that is, premiums from Calendar Year 2006, and losses from accidents that occurred during 2006). Although the Calendar/Accident Year 2006 experience is less mature than the latest policy year experience, the results are included in the graphs below.

It should be noted that NCCI adjusts the historical policy year and calendar/accident year experience to reflect rate changes approved and statutory benefit changes implemented since that time period.

We also adjust historical experience through the use of loss development factors for medical and indemnity losses. These factors are needed since paid losses (benefit amounts already paid by insurers) and case reserve estimates (the amounts set aside to cover future payments on known claims) are known to change over time until the claims are finally closed. The loss development factors are based on how the historical reported losses changed over time for claims from older years. In this filing, for indemnity losses, NCCI is relying on a three-year average of paid development to a 19th report; these factors have been adjusted to reflect the impact of the 1992 reform. For medical losses, NCCI is relying on the five-year average, excluding high and low values, of the paid development to a 19th report. A five-year average of incurred development factors (paid losses, case reserves, and IBNR) was used to estimate 19th report to ultimate.

This filing also utilizes a procedure that limits the impact individual large claims may have on aggregate loss cost level indications. The treatment is intended to stabilize loss cost level indications and to help achieve overall long-term loss cost adequacy. This aggregate large loss ratemaking procedure involves replacing the amount of actual reported individual claim losses in excess of a state-specific dollar threshold (\$4,478,273 in this filing—see Technical Supplement, Appendix A-II, Section G) with an

excess loss provision, which represents the expected volume of losses in excess of the threshold. The threshold is selected to limit the impact of any one large loss on the indication to one percent. This is consistent with the methodology used in previous Rhode Island loss cost filings.

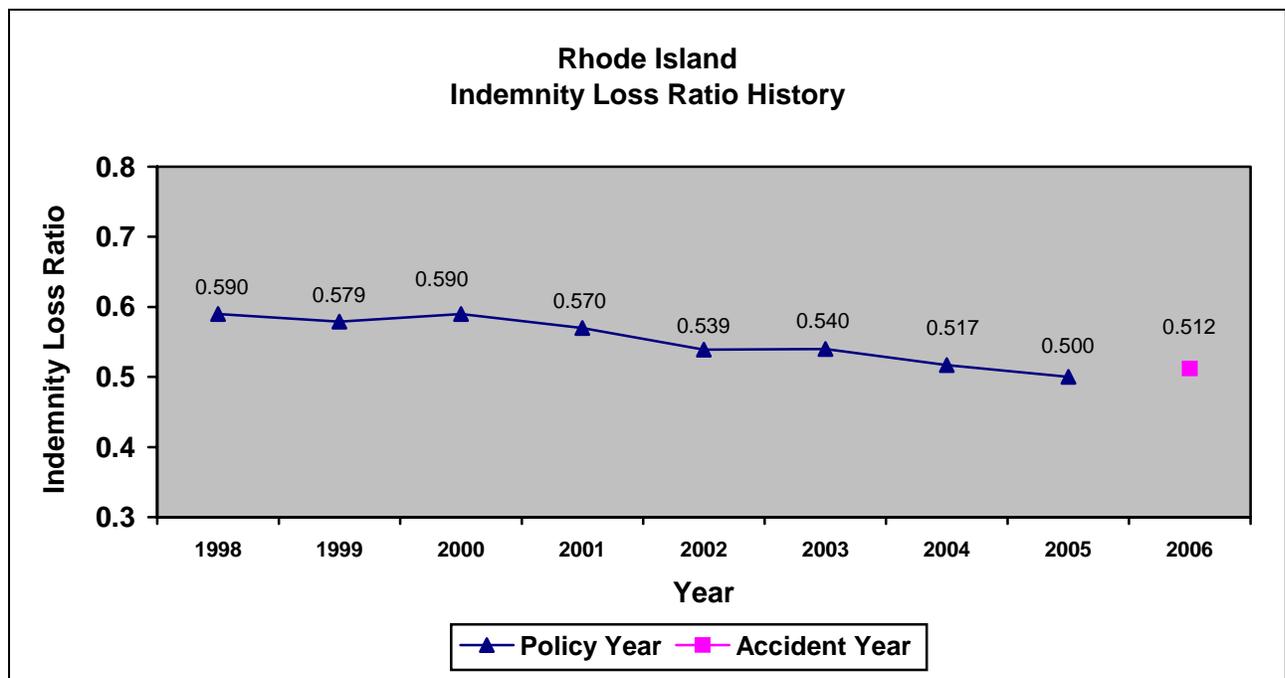
TREND

As noted above, the filing relies primarily on the experience from Policy Years 2003, 2004 and 2005. However, the proposed loss costs are intended to be used for policies with effective dates starting on June 1, 2008. Therefore, it is necessary to use trend factors that forecast how much future Rhode Island workers compensation experience will differ from the past. These trend factors measure anticipated changes in the amount of indemnity and medical benefits as compared to anticipated changes in the amount of workers' wages. The trend factors bridge the gap between the historical experience period and the proposed June 1, 2008 filing effective period.

For example, if benefit costs are expected to grow faster than wages, then a trend factor greater than zero should be applied. Conversely, if wages are expected to grow faster than benefit costs, then a trend factor less than zero is indicated. A 0% trend assumes that benefit growth and wage growth will offset each other during the trend period.

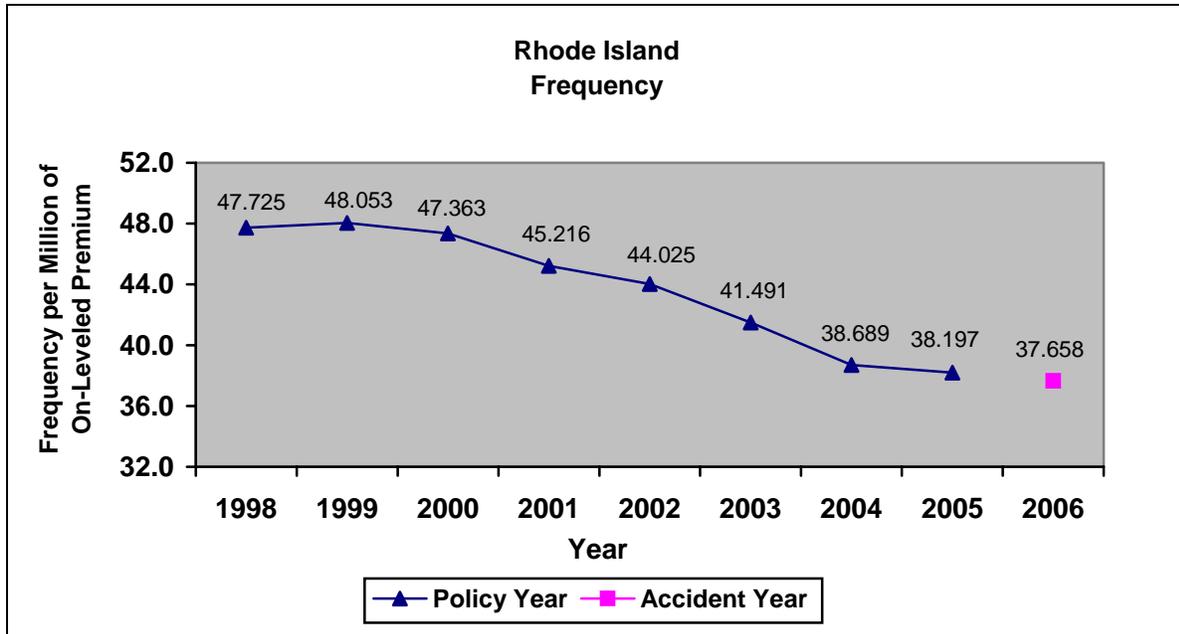
Indemnity Loss Ratios

Trend is analyzed separately for indemnity and medical benefits. Let us first look at the indemnity benefits. The chart below shows the history of indemnity loss ratios. An indemnity loss ratio represents the proportion of premium dollars that are necessary to cover indemnity benefits. (The figures in the charts reflect premiums at today's loss costs and losses at today's statutory benefit levels).



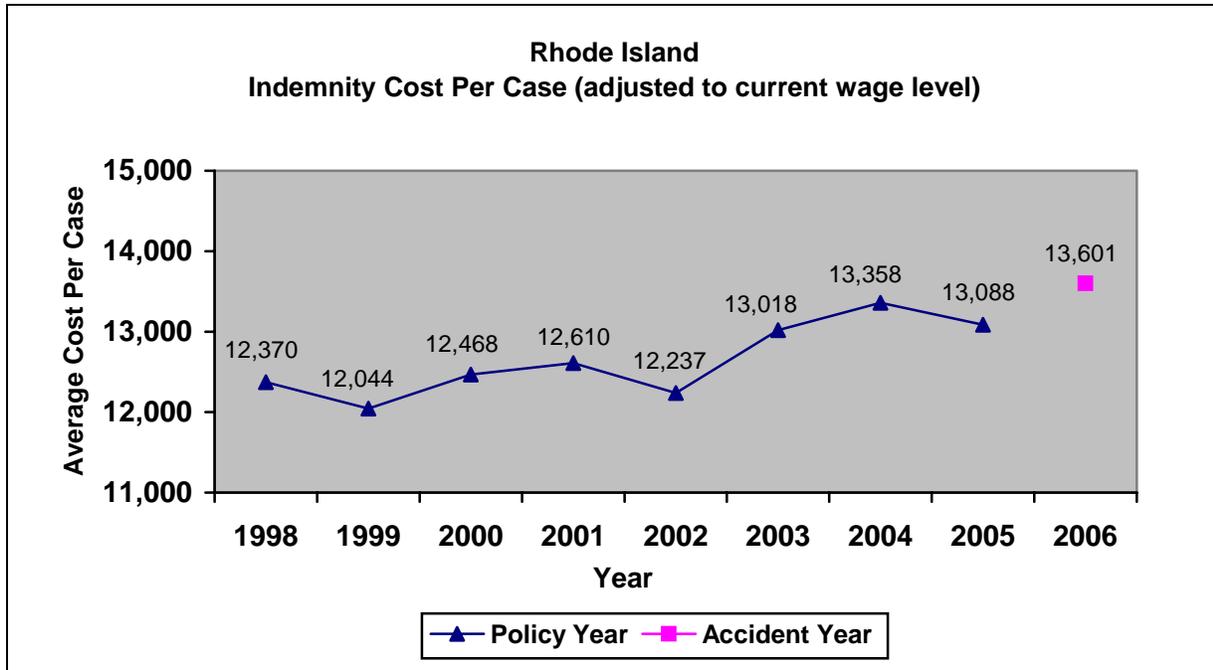
Frequency

Impacting these loss ratios are the number of workplace injuries (claim frequency) and the average cost of each of these injuries. The following chart summarizes the recent history of lost-time claims (i.e., those claims where a worker missed work time due to a workplace injury) in Rhode Island. We expect the trend of declining claim frequency to continue. Early indications, reflecting Accident Year 2006 experience, suggest that the rate of decline in frequency may slow down for Policy Year 2006.



Indemnity Severity

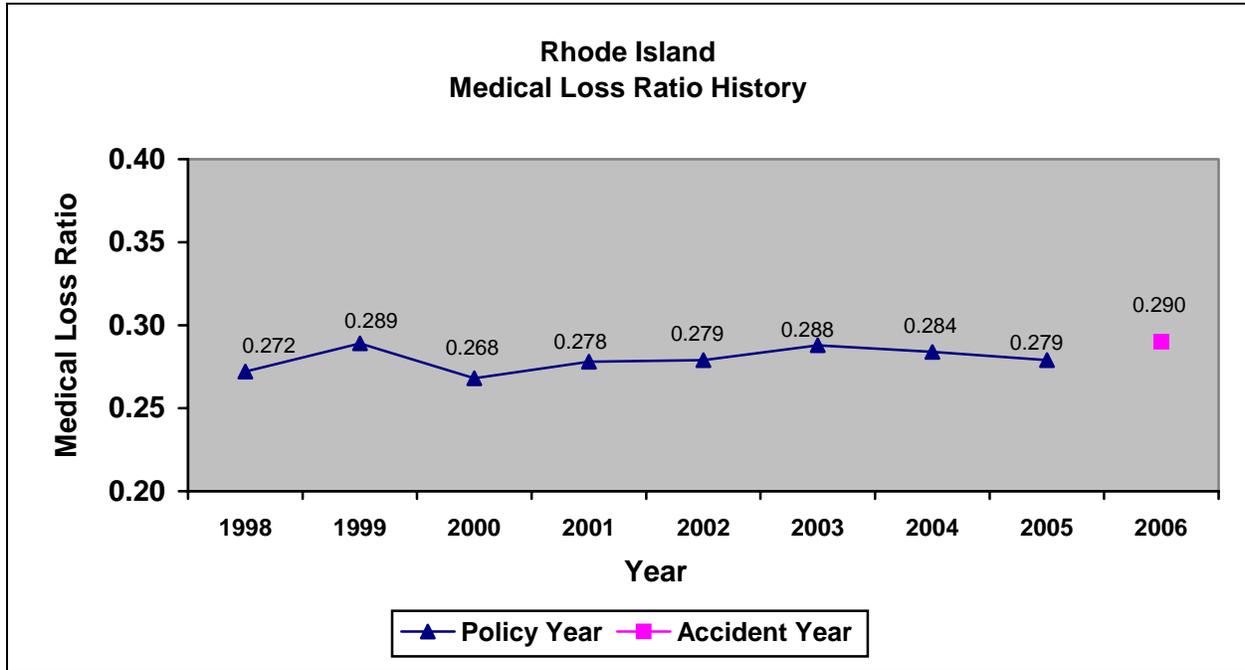
For these “lost time” claims, the average indemnity cost over time is displayed in the following chart. Because Rhode Island’s data volume is relatively low, there can be considerable variation in these values from year to year. Early indications from Accident Year 2006 data suggest that the average indemnity cost per case may increase noticeably when compared to the relatively flat experience between policy years 2003 and 2005.



The combined impact of declining frequency trends and the current severity trends results in a selected indemnity trend of -2.0% per year. This represents a reduction from the current approved indemnity trend of -1.25%.

Medical Loss Ratios

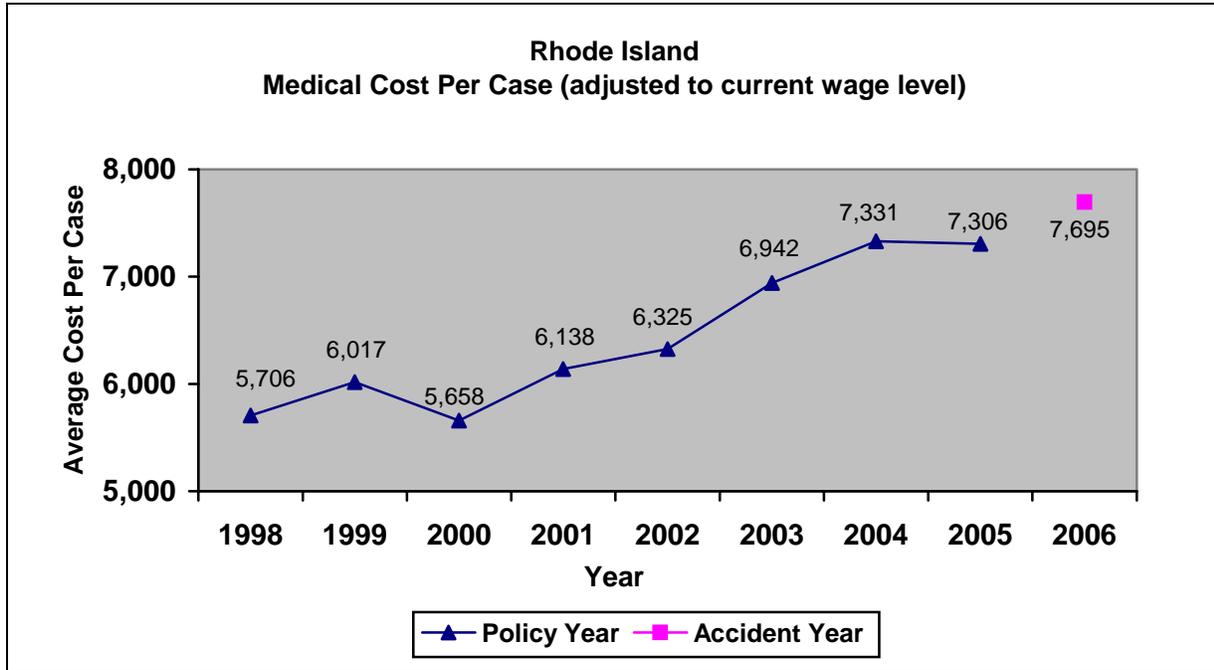
We now turn our attention to the medical benefits. The chart below shows the history of medical loss ratios for the past several years.



As with indemnity, underlying these loss ratios is the number of workplace injuries (claim frequency) and the average cost of each of these injuries. The frequency chart discussed earlier is also a primary driver of medical costs.

Medical Severity

For these workplace injuries, the average medical cost over time is tracked in the following chart.



NCCI expects workers compensation medical costs to continue to increase in the future; this is consistent with the expected increase in medical costs in general. Combined with the decrease of claim frequency discussed earlier, this results in a selected medical trend of +1.5% per year. This represents a reduction from the current approved medical trend of +2.0%.

BENEFITS

Each September 1st, the minimum and maximum weekly benefits are updated based on the most recent average weekly wage in Rhode Island (SAWW). The current voluntary loss costs reflect the minimum and maximum benefits in effect as of January 1, 2007.

Since the last Rhode Island filing, weekly benefits have been updated for the most recent average weekly wage. Because losses from Policy Years 2003, 2004 and 2005 reflect the indemnity benefits being paid at the time, it is necessary for NCCI to reflect the level these benefits will be paid at starting June 1, 2008.

The proposed voluntary loss cost level change reflects the impact of the increase in the maximum benefit effective September 1, 2007. This results in an increase of 0.2% for indemnity losses. Since indemnity claims comprise approximately 63% of all losses, the overall impact of this change is +0.1%.

In addition, House Bill 7042, effective September 1, 2007, increased the maximum weekly compensation rate from 110% of the state weekly wage to 115% of the state weekly wage. The impact of this increase is estimated to be +0.2% on indemnity costs and +0.1% on the overall system costs.

KEY COMPONENT – LOSS ADJUSTMENT EXPENSE

The proposed loss costs include a provision for loss adjustment expenses (LAE). These expenses are directly associated with the handling of workers compensation claims. LAE is included in the loss costs by using a ratio of loss adjustment expense dollars to loss dollars (called the LAE provision).

The current approved rates include an LAE provision of 16.8%. In this filing, NCCI is proposing to increase the LAE provision from 16.8% to 17.9%, an increase of 0.9%.

CONCLUSION

This filing document provides a high-level perspective on why Rhode Island's voluntary loss costs need to decrease by 6.3%.

This filing contains loss costs including LAE. As a result, carriers adopting those loss costs will need to review the appropriateness of their loss cost multipliers.

To encourage a competitive market, it is important for companies to have confidence that they have good information about the cost of providing workers compensation coverage and that the advisory loss costs available to them are neither inadequate nor excessive. A healthy and competitive market will benefit Rhode Island employers.

Following are various exhibits containing additional Rhode Island workers compensation information that may be of interest, as well as the proposed voluntary loss costs and rating values by classification.

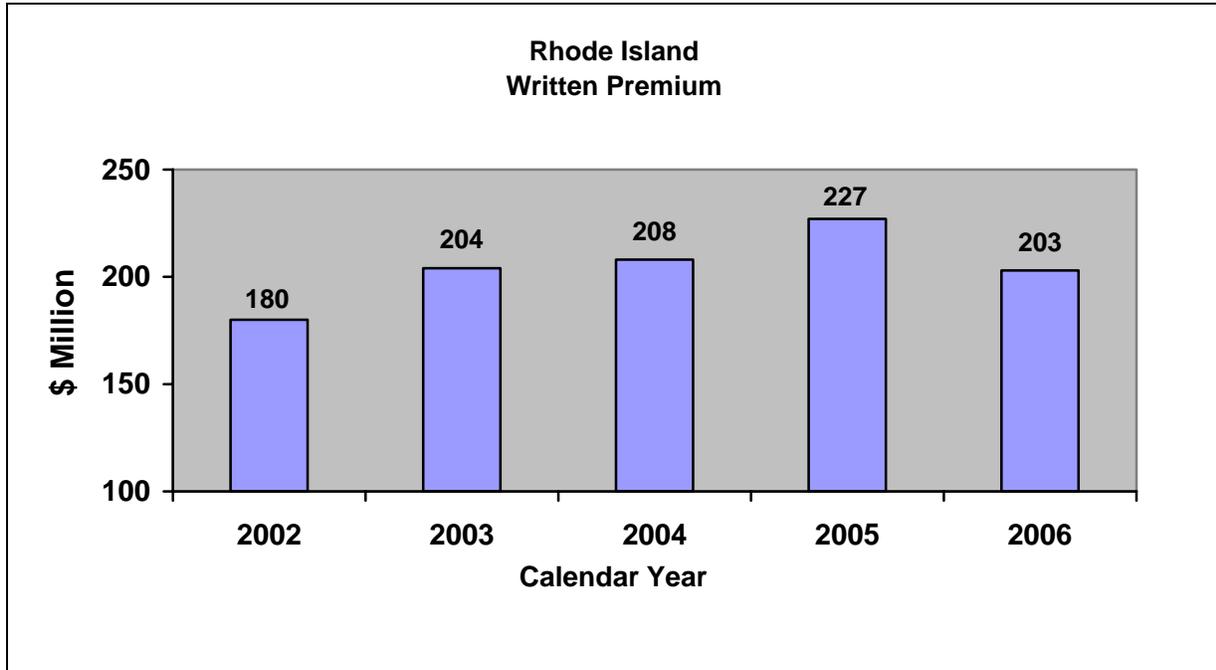
EXHIBIT I

Rhode Island Historical Voluntary Loss Cost Changes

Effective Date	Voluntary Rate Change for under 1% Market Share	Voluntary Loss Cost Change for over 1% Market Share
11/08/96	-14.4%	-34.6%
11/01/98	-8.8%	-9.4%

Effective Date	Voluntary Loss Cost & LAE Change
01/01/05	-20.2%
01/01/06	-4.2%
02/01/07	-7.3%

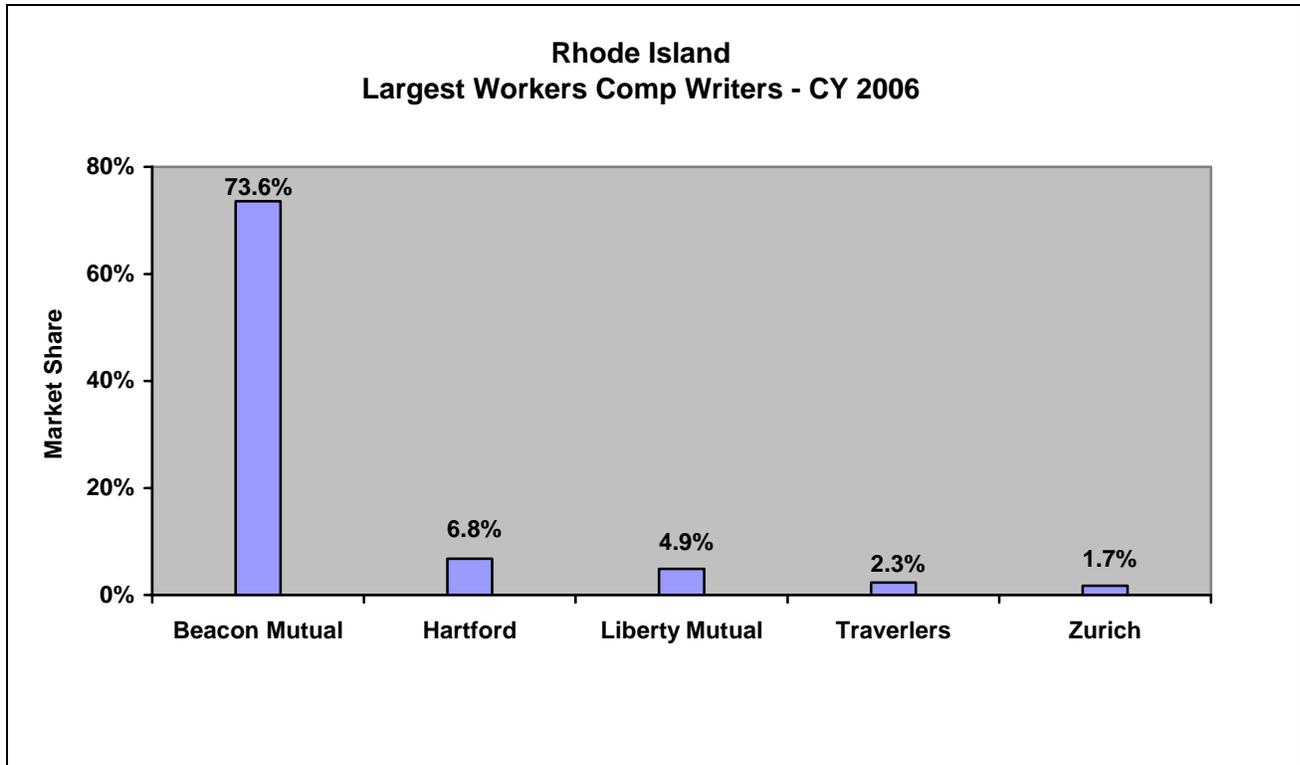
EXHIBIT II



Source: AM Best

EXHIBIT III

The five largest insurance companies providing workers compensation insurance in 2006 are shown in this chart.



Source: AM Best



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