

RHODE ISLAND



LOSS COST LEVEL CHANGE

PROPOSED EFFECTIVE JANUARY 1, 2007



September 5, 2006

Honorable A. Michael Marques
Director
State of Rhode Island and Providence Plantations
Department of Business Regulation
Insurance Division
233 Richmond Street
Providence, RI 02903-4233

**Re: Rhode Island Workers Compensation Loss Cost Level Change including
Loss Adjustment Expense (LAE)
Effective January 1, 2007**

Dear Commissioner Marques:

In accordance with the applicable statutes and regulations of your jurisdiction, I am filing for your consideration and approval revised workers compensation loss cost level including LAE (Loss Adjustment Expense) to become effective January 1, 2007. In order not to delay the delivery of this filing and its review, NCCI will be providing a supplementary component containing the loss costs and rating values at a later date (currently projected for delivery by the end of September).

This submission proposes an overall decrease of 3.7% in loss costs including LAE from the current level approved effective January 1, 2006. The components of the proposed loss cost level change are described in the attached document. The data used accurately projects the trends and premium level that would provide sufficient funds for future benefits.

While the new loss costs including LAE are summarized in terms of the magnitude of their departure from the previously approved loss costs plus LAE, the enclosed filing is a new, stand-alone document based on new information and a fresh look at all ratemaking methods. It represents NCCI's original work product based on updated data, its selection of various actuarial techniques, and a useful arrangement of the material presented. In authoring this document, NCCI has conducted a comprehensive and complete review of the required data, has applied its judgment to develop the loss costs for the proposed new effective period, and has presented its conclusions in a helpful format. In addition to the material in this filing, we are providing under separate



cover, confidential and commercial data that includes proprietary and confidential information.

This filing is made exclusively on behalf of the companies which have given valid consideration for the express purpose of fulfilling regulatory rate or pure premium filing requirements and other private use of this information. This filing is submitted for the examination of and approval by the Department of Business Regulation in accordance with all applicable rules and regulations governing rate or pure premium filings.

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Thank you for your consideration of NCCI's filing.

Respectfully Submitted,

NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC.

A handwritten signature in black ink, appearing to read "Laura Backus Hall", is positioned below the typed name. The signature is fluid and cursive, with a prominent loop at the end.

Laura Backus Hall, CPCU
State Relations Executive
Regulatory Services Division



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Filing prepared by:



Carolyn Bergh, FCAS, MAAA
Director and Actuary

RHODE ISLAND

WORKERS COMPENSATION FILING – January 1, 2007

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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.

Starting with the filing effective January 1, 2005 NCCI is filing only loss costs including loss adjustment expense, pursuant to Rhode Island General Laws 27-7.1-1. Whenever the percent change is calculated for the proposed loss costs and LAE in this document, it is expressed as the change from the current approved loss cost including the LAE provision underlying the current rates.

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 3.7% decrease in the current loss cost and LAE levels, and that the new loss costs take effect on January 1, 2007. This document will explain why this decrease is indicated.



NCCI separately determines loss costs for each workers compensation classification. In this filing, the actual change from the current loss costs is different depending on the experience of each classification.

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.

SUMMARY OF PROPOSED CHANGES

<i>Key Components</i>	<i>Voluntary Loss Costs</i>
Experience and Trend	-3.9%
Benefit Change	+0.1%
Loss Adjustment Expense	+0.1%
Overall Change Requested	-3.7%

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

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 2002, 2003 and 2004, evaluated as of December 31, 2005. (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 2004, since the last policy had an effective date of December 31, 2004 and did not expire until December 31, 2005. 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. The use of three years places more emphasis on stability.

As noted above, the experience for each of the three policy years reflected in this filing is evaluated as of December 31, 2005; in other words, the data reflects actual loss payments and case reserve estimates through December 31, 2005. In addition, NCCI also reviewed the experience for Calendar/Accident Year 2005 (that is, premiums from Calendar Year 2005, and losses from accidents that occurred during 2005). Although the Calendar/Accident Year 2005 experience is less mature than the latest policy year experience, the results are included on 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), case reserve estimates (the amounts set aside to cover future payments on known claims), and IBNR (Incurred But Not Reported – amounts set aside to cover future payments for unknown claims) are known to change over time until the claim is finally closed. The loss development factors are based on how paid amounts, case reserve estimates, and IBNR changed over time for claims from older years. In this filing, NCCI is relying on a five-year average, excluding hi and low values, of the paid development to a 19th report. Consistent with the two most recent filings, there are three years in which a different average is taken in order to maximize the use of post-1992 reform data. 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 (\$4,536,019 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.

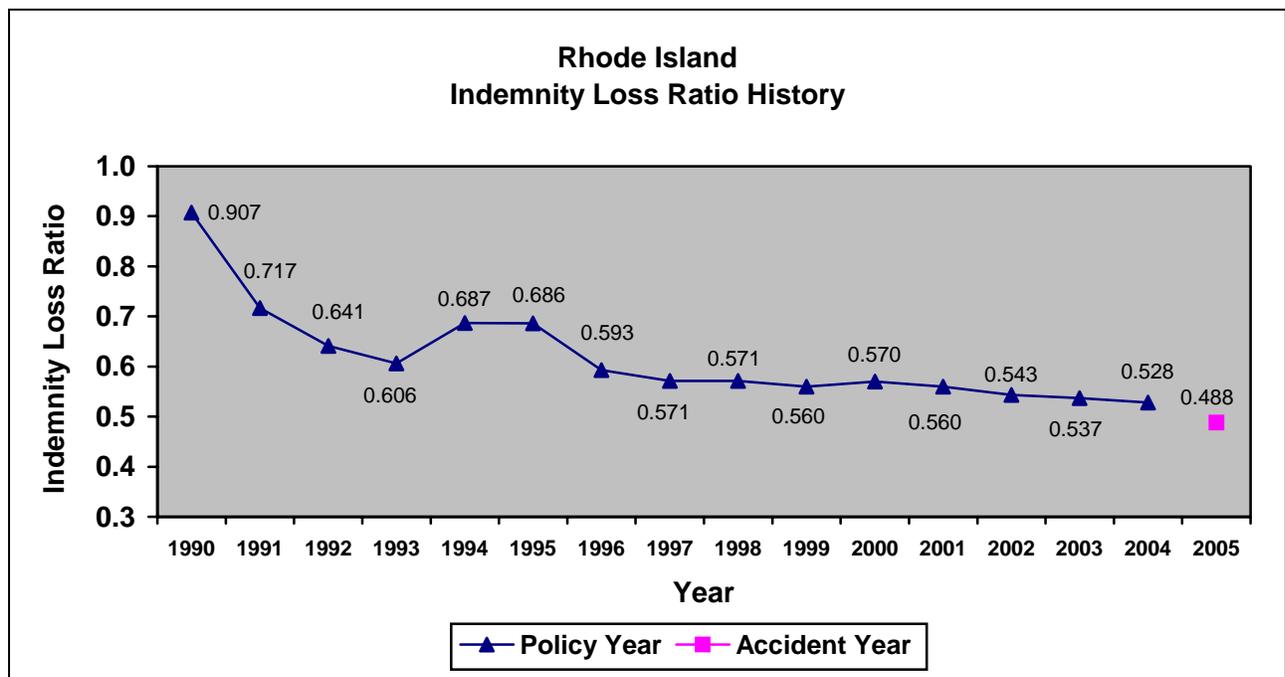
TREND

As noted above, the filing relies primarily on the experience from Policy Years 2002, 2003 and 2004. However, the proposed loss cost level change is intended to impact policies with effective dates starting on January 1, 2007. 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 January 1, 2007 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.

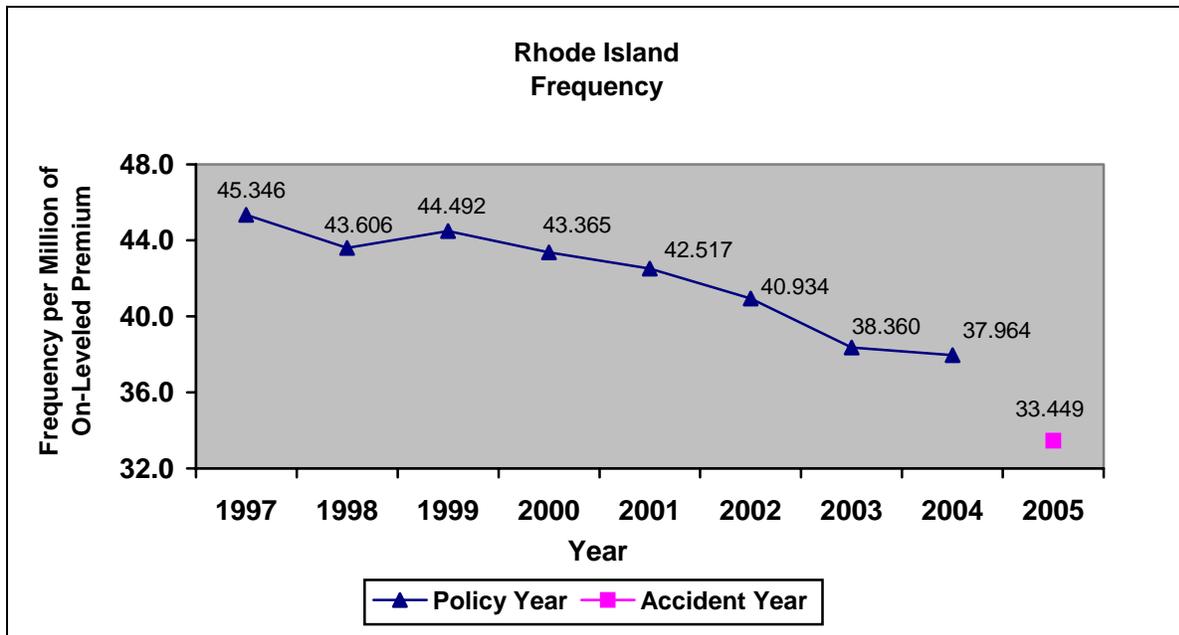
Indemnity Loss Ratios

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).



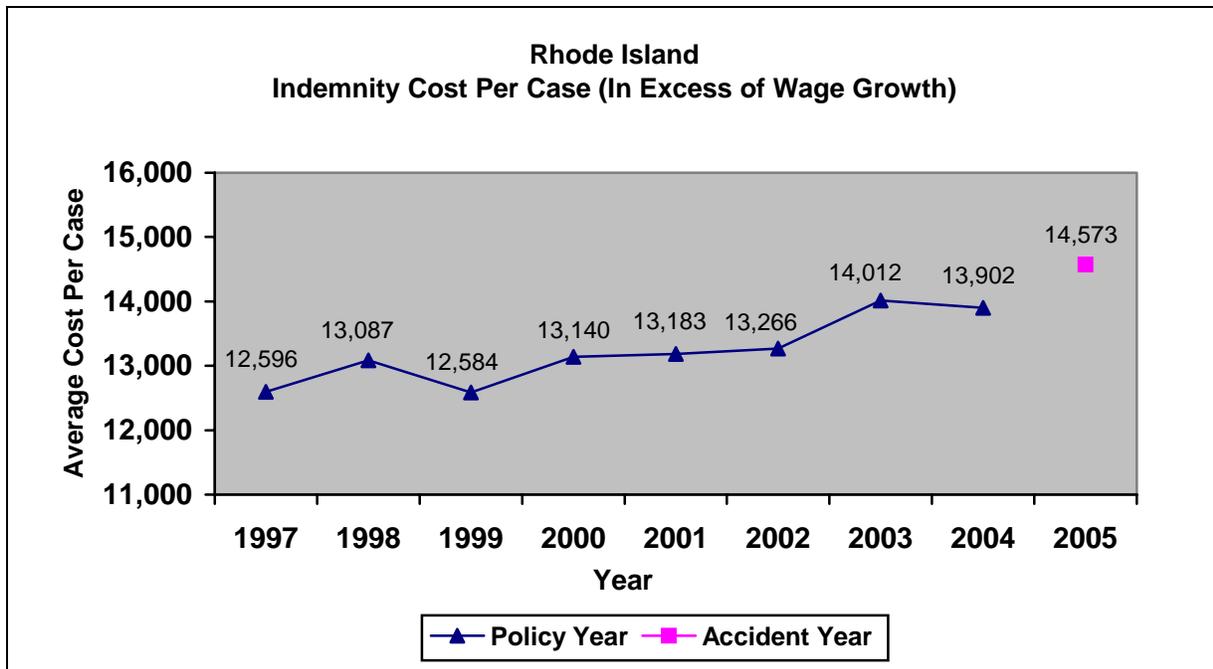
Frequency

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 indication, reflecting Accident Year 2005 experience, suggests that the rate of decline in frequency may accelerate for Policy Year 2005.



Indemnity Severity

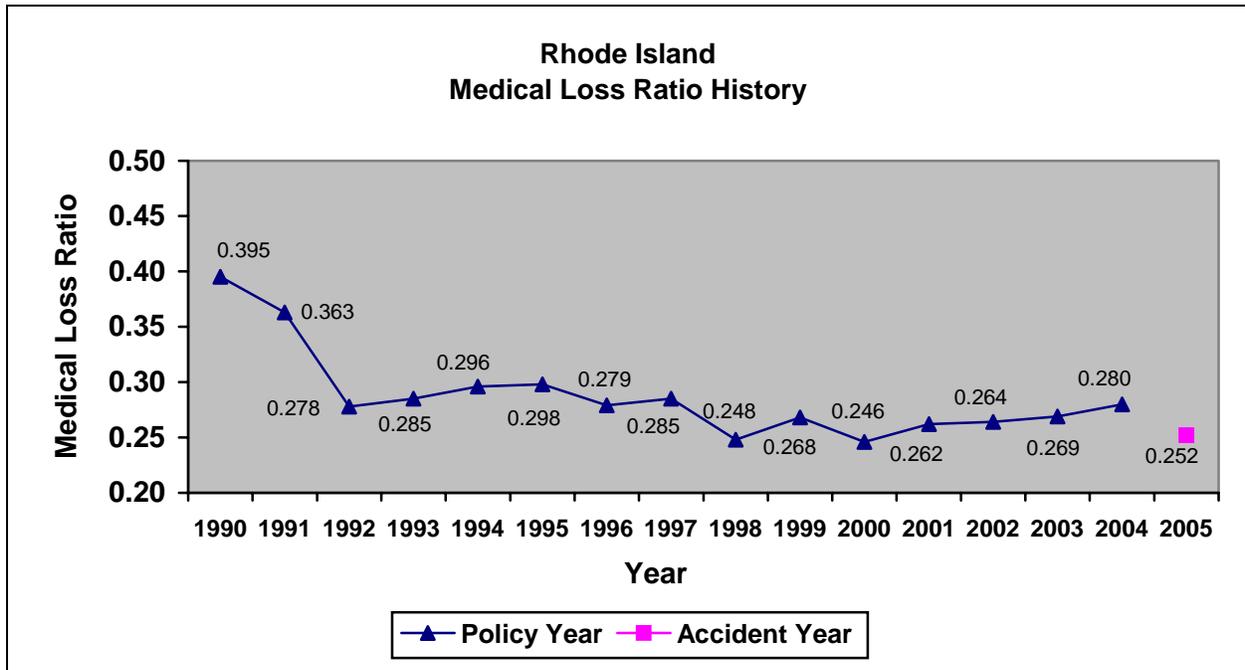
For these “lost time” claims, the average indemnity cost over time is displayed in the following chart. Because of Rhode Island’s small size, there can be considerable variation in this value from year to year. Early indication from Accident Year 2005 data indicates that the average indemnity cost per case may be increasing noticeably when compared to the relatively flat experience between policy years 2003 and 2004.



The combined impact of declining frequency trends and the current severity trends results in a selected indemnity trend of -1.0% per year.

Medical Loss Ratios

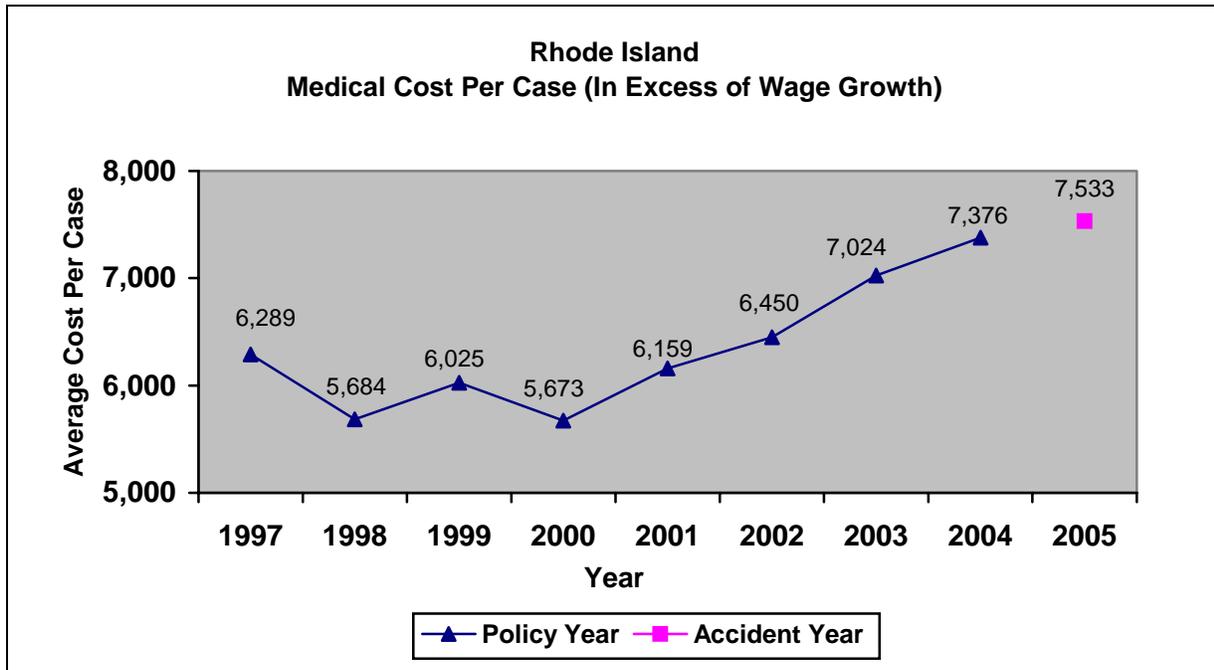
We now turn our attention to the medical benefits. The chart below shows the history of medical loss ratios for the past several years.



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 +2.0% per year. This means that medical benefits are expected to increase at 2.0% per year in excess of workers' wages.

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, 2006.

Since the last Rhode Island filing, weekly benefits have been updated for the most recent average weekly wage. Because losses from Policy Years 2002, 2003 and 2004 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 January 1, 2007.

The proposed voluntary loss cost level change reflects the impact of the increase in the maximum benefit effective September 1, 2006. This results in an increase of 0.1% for indemnity losses. Since indemnity claims comprise about 2/3 of all losses, the overall impact of this change is +0.1%.

KEY COMPONENT – LOSS ADJUSTMENT EXPENSE

The proposed loss costs will 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 16.7%. In this filing, NCCI is proposing to increase the LAE provision from 16.7% to 16.8%.

CONCLUSION

This filing document provides a high-level perspective on why Rhode Island's voluntary loss costs need to decrease by 3.7%.

The supplementary component which will be provided at a later date will contain 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%

EXHIBIT II

There has been a steady increase in Rhode Island's premiums since 2001.

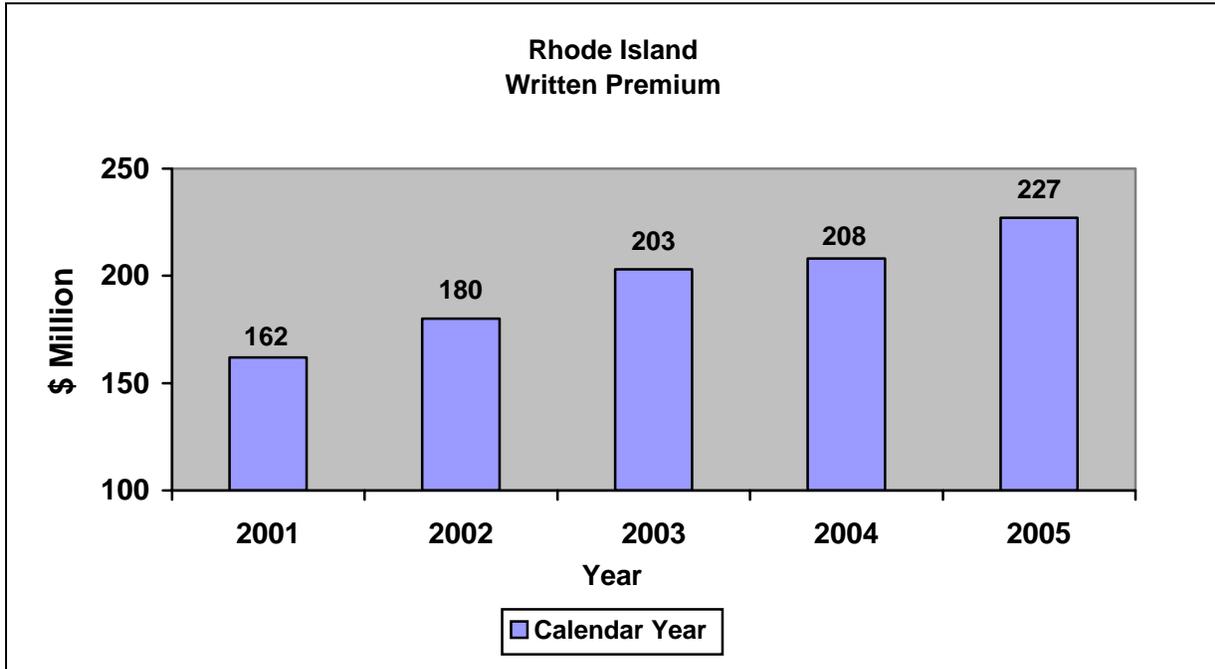
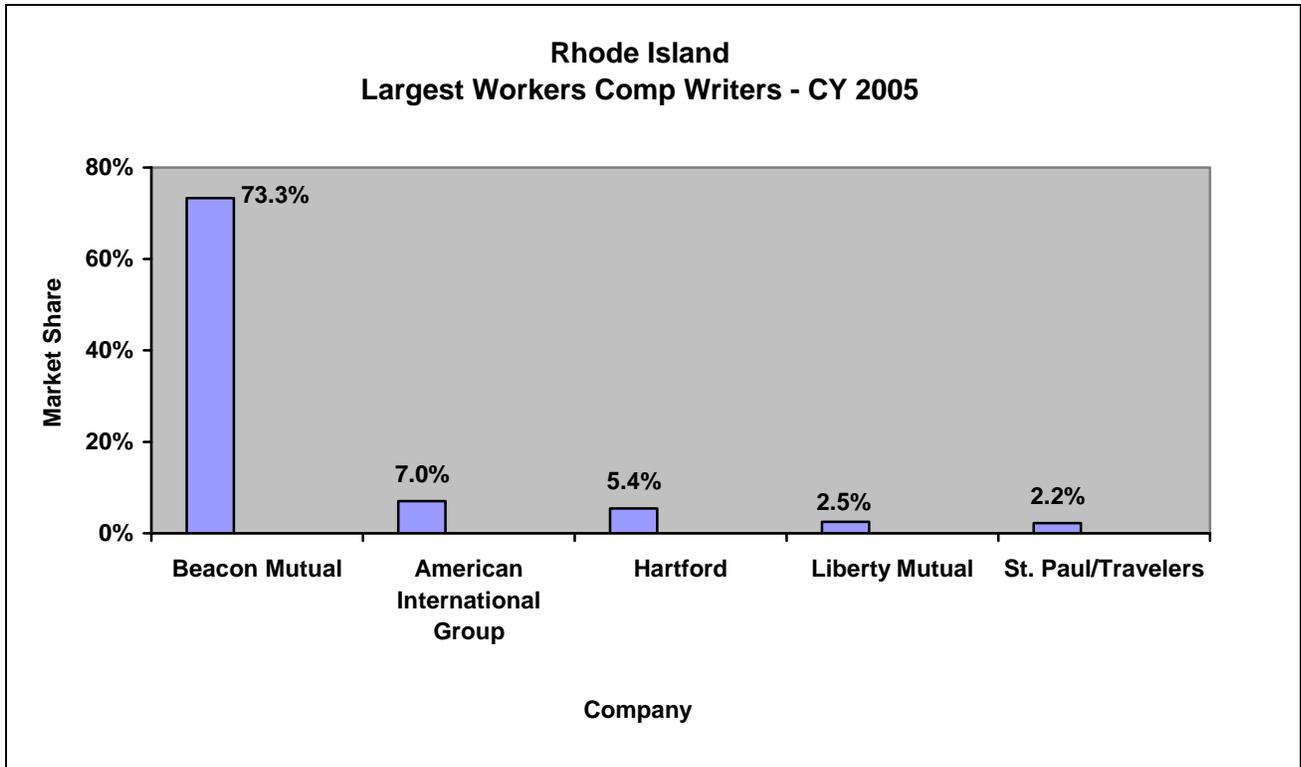


EXHIBIT III

The five largest insurance companies providing workers compensation insurance in 2005 are shown in this chart.



NCCI KEY CONTACTS

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APPENDIX: RHODE ISLAND AFFILIATES

ACADIA INSURANCE COMPANY
ACCIDENT FUND INS CO OF AMERICA
ACE AMERICAN INSURANCE COMPANY
ACE FIRE UNDERWRITERS INSURANCE COMPANY
ACE INDEMNITY INSURANCE COMPANY
ACE PROPERTY & CASUALTY INSURANCE COMPANY
ACIG INS CO
ADVANTAGE WC INSURANCE CO
AIU INS CO
ALLIANZ GLOBAL RISKS US INS CO
AMERICAN ALTERNATIVE INSURANCE CORPORATION
AMERICAN AUTOMOBILE INSURANCE CO
AMERICAN CASUALTY COMPANY OF READING P A
AMERICAN COMPENSATION INS CO
AMERICAN EMPLOYERS INSURANCE CO
AMERICAN FIRE AND CASUALTY CO
AMERICAN FUJI FIRE AND MARINE INS CO
AMERICAN GUARANTEE AND LIABILITY INS CO
AMERICAN HARDWARE MUTUAL INS CO
AMERICAN HOME ASSURANCE CO
AMERICAN INS CO
AMERICAN INTERNATIONAL PACIFIC INS CO
AMERICAN INTERNATIONAL SOUTH INS CO
AMERICAN INTERSTATE INS CO
AMERICAN SAFETY CASUALTY INS CO
AMERICAN ZURICH INS CO
AMERISURE INS CO
AMERISURE MUTUAL INS CO
AMGUARD INS CO
ARCH INSURANCE COMPANY
ARGONAUT GREAT CENTRAL INS CO
ARGONAUT INS CO
ARGONAUT MIDWEST INS CO
ASSOCIATED INDEMNITY CORP
ASSURANCE COMPANY OF AMERICA
ATHENA ASSURANCE CO
ATLANTIC SPECIALTY INS CO (ONEBEACON)
BANCINSURE INC
BANKERS STANDARD INS CO
BEACON MUTUAL INS CO
BIRMINGHAM FIRE INS CO OF PA
BITUMINOUS CASUALTY CORP
CAMDEN FIRE INS ASSN
CAROLINA CASUALTY INS CO
CASTLE HILL INSURANCE COMPANY
CENTRE INSURANCE COMPANY
CHARTER OAK FIRE INS CO



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CHUBB INDEMNITY INS CO
CHURCH MUTUAL INS CO
CINCINNATI INS CO
CLARENDON NATIONAL INS CO
COLOGNE REINSURANCE CO OF AMERICA
COMMERCE AND INDUSTRY INS CO
CONTINENTAL CASUALTY CO
CONTINENTAL INS CO
COREGIS INSURANCE COMPANY
CUMIS INSURANCE SOCIETY INC
DAIMLERCHRYSLER INS CO
DISCOVER PROPERTY & CASUALTY INS CO
EASTGUARD INS CO
ELECTRIC INS CO
EMCASCO INS CO
EMPLOYERS FIRE INSURANCE COMPANY
EMPLOYERS INS OF WAUSAU
EMPLOYERS MUTUAL CASUALTY CO
EMPLOYERS REINSURANCE CORP
EVEREST NATIONAL INS CO
EVEREST REINSURANCE CO (DIRECT)
EXCELSIOR INSURANCE COMPANY
FAIRFIELD INS CO
FAIRMONT INS CO
FARMINGTON CASUALTY COMPANY
FEDERAL INSURANCE COMPANY
FEDERATED MUTUAL INS CO
FIDELITY & DEPOSIT COMPANY OF MARYLAND
FIDELITY & GUARANTY INS UNDERWRITERS
FIDELITY & GUARANTY INSURANCE CO
FIREMANS FUND INSURANCE CO
FIREMENS INS CO OF WASHINGTON DC
FIRST LIBERTY INS CORP
FLORISTS MUTUAL INSURANCE CO
GE REINSURANCE CORPORATION
GENERAL CASUALTY COMPANY OF WISCONSIN
GENERAL INS CO OF AMERICA
GENERAL REINSURANCE CORP
GRANITE STATE INSURANCE COMPANY
GRAPHIC ARTS MUTUAL INS CO
GREAT AMERICAN ALLIANCE INS CO
GREAT AMERICAN ASSURANCE COMPANY
GREAT AMERICAN INS CO OF NY
GREAT AMERICAN INSURANCE COMPANY
GREAT DIVIDE INSURANCE COMPANY
GREAT NORTHERN INS CO
GREAT WEST CASUALTY COMPANY



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GREATER NY MUTUAL INS CO
GREENWICH INS CO
GUIDEONE MUTUAL INS CO
GULF INS CO
HANOVER INS CO
HARLEYSVILLE MUTUAL INS CO
HARLEYSVILLE WORCESTER INSURANCE CO
HARTFORD ACCIDENT AND INDEMNITY CO
HARTFORD CASUALTY INS CO
HARTFORD FIRE INSURANCE CO
HARTFORD INS CO OF IL
HARTFORD INS CO OF MIDWEST
HARTFORD INS CO OF THE SOUTHEAST
HARTFORD UNDERWRITERS INS CO
ILLINOIS NATIONAL INSURANCE COMPANY
INDEMNITY INS CO OF N AMERICA (CT GENERAL) (ACE)
INS CO OF NORTH AMERICA
INS CO OF THE STATE PA
INTL BUSINESS & MERCANTILE REASSURANCE
LIBERTY INS CORP
LIBERTY MUTUAL FIRE INS CO
LIBERTY MUTUAL INS CO
LM GENERAL INS CO
LM INS CORP
LM PERSONAL INS CO
LM PROPERTY AND CASUALTY INS CO
LUMBERMENS UNDERWRITING ALLIANCE
MA BAY INS CO
MAINE BONDING & CASUALTY COMPANY
MANUFACTURERS ALLIANCE INS CO
MARYLAND CASUALTY COMPANY
MEDICAL PROTECTIVE CO
MERCHANTS INSURANCE CO OF N H INC
MERCHANTS MUTUAL INS CO
MIDDLESEX INS CO
MIDWEST EMPLOYERS CASUALTY CO
MITSUI SUMITOMO INS CO OF AMERICA
MITSUI SUMITOMO INS USA INC
MOUNTAIN VALLEY INDEMNITY CO
NATIONAL AMERICAN INS CO
NATIONAL FIRE INS CO OF HARTFORD
NATIONAL INTERSTATE INS CO
NATIONAL REINSURANCE CORP
NATIONAL SURETY CORP
NATIONAL UNION FIRE INS CO OF PITTSBURG
NATIONWIDE MUTUAL INS CO
NETHERLANDS INSURANCE COMPANY



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NEW HAMPSHIRE INDEMNITY COMPANY
NEW HAMPSHIRE INSURANCE COMPANY
NGM INSURANCE COMPANY
NORFOLK AND DEDHAM MUTUAL FIRE INS CO
NORGUARD INS CO
NORTH AMERICAN ELITE INSURANCE CO
NORTH AMERICAN SPECIALTY INS CO
NORTH RIVER INS CO
NORTH STAR REINSURANCE CORP
NORTHERN ASSURANCE CO OF AMERICA
NORTHERN INSURANCE CO OF N Y
NOVA CASUALTY COMPANY
OH CASUALTY INS CO
OHIO SECURITY INS CO
OLD REPUBLIC INS CO
ONEBEACON AMERICA INS CO
ONEBEACON INSURANCE COMPANY
PA GENERAL INS CO
PA MANUFACTURERS ASSN INS CO
PA MANUFACTURERS INDEMNITY CO
PA NATIONAL MUTUAL CAS INS CO
PACIFIC EMPLOYERS INS CO
PACIFIC INDEMNITY CO
PEERLESS INSURANCE COMPANY
PENN MILLERS INS CO
PETROLEUM CASUALTY CO
PHARMACISTS MUTUAL INS CO
PHOENIX INS CO
PROTECTIVE INS CO
PUBLIC SERVICE MUTUAL INS
REGENT INSURANCE COMPANY
REINSURANCE CO OF AMERICA INC
REPUBLIC INDEMNITY CO OF CA
REPUBLIC INDEMNITY COMPANY OF AMERICA
SAFECO INS CO OF AMERICA
SAFETY NATIONAL CASUALTY CORP
SAVERS PROPERTY & CASUALTY INS CO
SEABRIGHT INSURANCE CO
SELECTIVE INS CO OF SC
SELECTIVE INS CO OF THE SOUTHEAST
SELECTIVE INSURANCE COMPANY OF AMERICA
SELECTIVE WAY INS CO
SENECA INSURANCE CO
SENTINEL INS CO
SENTRY CASUALTY CO
SENTRY INSURANCE A MUTUAL CO
SENTRY SELECT INSURANCE COMPANY



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SOMPO JAPAN INSURANCE CO OF AMERICA
ST PAUL FIRE AND MARINE INS CO
ST PAUL GUARDIAN INS CO
ST PAUL MERCURY INS CO
ST PAUL PROTECTIVE INS CO
STANDARD FIRE INSURANCE COMPANY
STAR INS CO
STARNET INSURANCE COMPANY
STATE NATIONAL INSURANCE COMPANY
T.H.E. INSURANCE COMPANY
TECHNOLOGY INSURANCE CO
TM CASUALTY INS CO
TNUS INSURANCE CO
TOKIO MARINE AND NICHIDO FIRE INS CO LTD US BRANCH
TRANSCONTINENTAL INS CO
TRANSGUARD INS CO OF AMERICA INC
TRANSPORTATION INS CO
TRAVELERS CASUALTY & SURETY CO
TRAVELERS CASUALTY INS CO OF AMERICA
TRAVELERS INDEMNITY CO
TRAVELERS INDEMNITY CO OF AMERICA
TRAVELERS INDEMNITY CO OF CT
TRAVELERS PROPERTY CASUALTY CO OF AMERICA
TRUCK INSURANCE EXCHANGE
TWIN CITY FIRE INS CO
ULICO CASUALTY CO
UNITED STATES FIDELITY & GUARANTY CO
UNIVERSAL UNDERWRITERS INS CO
US FIRE INS CO
UTICA MUTUAL INS CO
VALIANT INSURANCE COMPANY
VALLEY FORGE INS CO
VANLINER INS CO
VIGILANT INS CO
VIRGINIA SURETY COMPANY INC
WAUSAU BUSINESS INSURANCE COMPANY
WAUSAU UNDERWRITERS INSURANCE COMPANY
WEST AMERICAN INS CO
WESTPORT INSURANCE CORP
WORK FIRST CASUALTY CO
XL SPECIALTY INS CO
ZENITH INS CO
ZURICH AMERICAN INS CO
ZURICH AMERICAN INS CO OF IL