



**COLORADO**  
Department of  
Regulatory Agencies  
Division of Insurance

Michael Conway  
Commissioner of Insurance (Interim)

BEFORE THE DIVISION OF INSURANCE  
STATE OF COLORADO

Order O-19-011

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**ORDER OF APPROVAL OF THE NATIONAL COUNCIL ON COMPENSATION INSURANCE REQUEST FOR AN  
AVERAGE CHANGE IN WORKERS' COMPENSATION LOSS COSTS AND RATING VALUES.**

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On July 31, 2018 the National Council on Compensation Insurance (NCCI) submitted a workers' compensation loss costs and rating values filing to the Colorado Division of Insurance (Division). This filing was submitted pursuant to §10-4-405, C.R.S., and was placed before the Commissioner of Insurance for review.

This loss costs and rating values filing was placed on public review on September 21, 2018. A public hearing was scheduled for the purpose of gathering additional information and receiving public comments on the proposed loss costs and rating values.

In accordance with §10-4-406(3.5), C.R.S., the Commissioner of Insurance sought the advice of an independent actuary in making a determination. Merlinos & Associates, Inc. ("Merlinos"), an independent actuarial consulting firm, reviewed the filing to determine the reasonableness of the proposed loss costs and rating values.

The public hearing was held on October 10, 2018. Presentations were made by NCCI and Merlinos, and public testimony was received. The results of the presentations provided by Merlinos and NCCI, along with one oral comment at the hearing, have been considered by the Commissioner in this order. Comments from the public on the proposed loss costs and rating values were requested to be submitted via email to the Division by October 15, 2018.

The NCCI filing along with the results of the review of the NCCI filing by Merlinos and all public comments have been considered by the Commissioner in this Order.

**TESTIMONY**

**National Council on Compensation Insurance, Inc. (NCCI)**

The actuary for NCCI submitted NCCI's request for an average loss cost change of -16.7% in workers' compensation loss costs and rating values.



The average changes to the five industry groups are as follows:

Manufacturing:	-15.4%
Contracting:	-17.4%
Office and Clerical:	-17.8%
Goods and Services:	-16.1%
Miscellaneous:	-16.9%

The filing included the use of an indemnity loss trend of -5.5% per year, and a medical loss trend of -3.0% per year. These were changes from the prior year applied trends of -4.0% for indemnity loss, and -2.5% for medical loss.

NCCI targeted a statewide average experience rating modification factor of 0.970. This remained unchanged from the prior year factor.

The filing also establishes upper and lower bounds for the loss costs, resulting in a limit on the amount of increase or decrease for a given individual classification. This limit is the average pure premium level change for the industry group to which the classification is assigned, plus or minus 15% (+/-15%). These upper and lower bounds remained unchanged from the prior year.

The filing has a proposed effective date of January 1, 2019.

#### Merlinos & Associates, Inc. (Merlinos)

The actuary for Merlinos recommended approving the average decrease of -16.7% to the loss costs and rating values. Merlinos also agreed with NCCI on the changes by industry group, and supported NCCI's continued use of the currently approved swing limits of +/-15%. Merlinos reviewed the calculation of D-ratios and expected loss rates, and believes they were calculated in accordance with the applicable approved or filed methodologies.

Merlinos also included the following among their comments and recommendations:

- Recommended that the \$500,000 claim limit continue to be used for the large loss methodology
- Agreed with NCCI on increasing the split point from \$16,500 to \$17,000, which is used to allocate both actual and expected losses into primary and excess losses.
- Agreed with NCCI on increasing the Loss Adjustment Expense provision from 20.7% to 22.3%.
- Agreed with NCCI on the selected OD provisions for the two coal mining class codes (1005 and 1016) that were a result of the updated analysis of the OD component.
- Recommended directing NCCI to determine if an adjustment is needed for first responder class codes to reflect the recent law change and Zukowski court case.

#### Public Comments

During the hearing, a public comment was provided by Chad Mathis from WCC (Workers Compensation Coalition). Among several comments that he made, he indicated general support for this year's loss cost reductions. He also supported the split point being indexed to inflation, but questioned whether there would be a significant loss of responsiveness if the split point was to increase in increments of \$1,000 rather than the \$500 increment that is currently approved.

There were no other public comments submitted after the hearing. No changes to the proposed NCCI loss costs were made as a result of public comments.

#### FINDINGS, CONCLUSIONS AND ORDERS

##### Large Loss Methodology

The Commissioner ORDERS NCCI to review the \$500,000 large loss threshold at least once within the next five year period, to be filed no later than with the loss cost filing to be effective January 1, 2024.

##### F Classifications

The NCCI's filed loss costs for F classifications are APPROVED AS FILED.

##### Experience Rating Off-Balance Target

The Commissioner APPROVES maintaining the statewide average experience rating factor at 0.970. This was based on a review of Colorado's current statewide average experience modification factor, the average factor effective January 1, 2019 and the analyses from NCCI. Considerations were also given to the potential implications that a higher statewide average experience modification factor may have on Colorado employers who are experience rated.

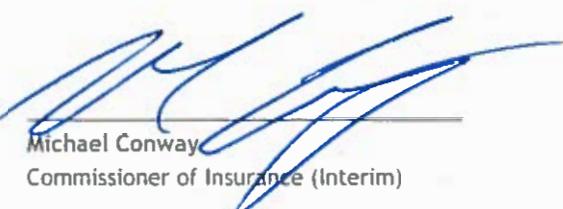
##### Swing Limits

The Commissioner APPROVES the upper and lower bounds for the loss cost change in any given classification to be plus or minus 15% of the average pure premium level change for the industry group to which the classification is assigned. The Commissioner ORDERS NCCI to review the swing limits prior to the loss cost filing to be effective January 1, 2020.

##### Loss Cost Change

Careful consideration was given to the testimonies and arguments presented at the October 10, 2018 public hearing, the loss costs and rating values filing submitted by NCCI, and the actuarial report submitted by Merlinos. In coming to this decision, the Commissioner APPROVES the NCCI's loss cost filing with no further revisions.

The filing is approved as filed, effective January 1, 2019. The final revised loss costs and rating values must be used by all insurers transacting workers' compensation business within the state of Colorado on the effective date of the filing (January 1, 2019).



Michael Conway  
Commissioner of Insurance (Interim)

10-29-18

Signed This Date