Davies

September 15, 2025

Mr. Mitchell Bronson
Ms. Sydney Sloan
Colorado Division of Insurance
1560 Broadway, Suite 850
Denver, Colorado 80202

Re: National Council on Compensation Insurance ("NCCI")
Colorado Workers Compensation Advisory Loss Costs and Rating Values Filing
Proposed Effective January 1, 2026

Dear Mr. Bronson and Ms. Sloan:

Davies Actuarial, Audit & Consulting, Inc. ("Davies") has completed our review of the above-referenced Workers Compensation Advisory Loss Costs and Rating Values filing. This letter documents our review.

BACKGROUND

The NCCI submitted an advisory loss cost and rating values filing with a proposed effected date of January 1, 2026. The current loss costs and rating values have been in effect since January 1, 2025. The overall proposed average change in advisory loss costs for the voluntary market is -6.9%.

Table 1 below shows historical changes to voluntary loss costs from 2022 to 2025 and the proposed change effected January 1, 2026.

Table 1

Effective Date	Change
1/1/2022	-8.3%
1/1/2023	-6.1%
1/1/2024	-3.4%
1/1/2025	-4.3%
1/1/2026	-6.9%

The annualized average change for the 5-year period, including the proposed change, is -5.8%.

The proposed change in average voluntary loss costs consists of a 6.8% decrease due to experience and development, a 1.0% decrease due to trend, a 0.7% increase due to benefits, and a 0.2% increase due to all other changes. Individual class changes are capped at ±15% and are applied by industry group to which the classification belongs. The primary driver of the indicated reduction to the advisory voluntary loss costs is the continued improvement in the loss experience reflected in the experience period.

The NCCI has chosen to exclude all COVID-19 related claims that occurred between December 1, 2019 and June 30, 2023 for the purposes of calculating prospective voluntary loss costs. Any COVID-related claims that occur on or after July 1, 2023 will no longer be considered catastrophic, and are included in the Loss Cost calculations in this year's and future filings.

Per the Actuarial Certification included in the filing, the filing was prepared under the direction of Ms. Kelly Briggs, FCAS, MAAA, Executive Director and Actuary. Ms. Briggs certifies that the filing was prepared in accordance with applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board.

RATE INDICATION: VOLUNTARY LOSS COST CHANGE

We have reviewed the methodology and assumptions used by the NCCI in calculating the proposed change in voluntary loss costs and have no actuarial objections to the proposed overall change. Below are our comments on the overall methodology, experience period used, premium adjustments, projected ultimate losses, loss-based expenses, trend, and filed indicated loss cost change.

Rating Methodology

NCCI's indications are calculated using a rating methodology similar to most states where the NCCI estimates loss costs. The overall proposed loss cost change is estimated using the state loss and payroll experience. Following that, the loss experience for each of the five industry groups is evaluated to adjust the overall statewide loss cost change to each industry group. Finally, the limited loss experience of each individual class code determines the proposed loss costs for each of the class codes, subject to swing limits around the overall industry group loss cost change. This overall methodology is consistent with the recent NCCI filings in Colorado. Additionally, NCCI's treatment of past COVID-19 claims through June 30, 2023 as catastrophic, and NCCI's adjustment to 2020 and 2021 wages when selecting trend factors, are consistent with NCCI's approaches in the past several years. These more recent adjustments, and the change in the treatment of future COVID claims, are discussed in more detail in the section titled "Loss Trend" below. This methodology is reasonable.

Ultimate Losses

Unlimited indemnity and medical losses are developed to ultimate values using the reported development method. The selected unlimited loss development factors are set equal to the simple average of the five most recent development factors for all statewide losses. Loss development is performed separately for indemnity and medical.

The reported loss development method assumes that future loss emergence (i.e., payment, reporting and reserving patterns) will follow historical patterns. To test this assumption, we reviewed the following items provided by the NCCI upon request:

- Average case per open claim triangles for medical and indemnity separately,
- Paid to paid plus case loss ratio triangles for medical and indemnity separately,

- Indemnity claim closure rate triangle, and
- Paid and case losses to standard earned premium triangles for medical and indemnity separately.

It is likely that the 2019 and 2020 policy year data contains distortions, relative to all other policy years, based on the impact of COVID-19 on the claims that occurred in 2020 and 2021. It is also possible that all policy years' calendar year 2020 and 2021 data could have been impacted for similar reasons. It appears as though there has not been a significant change in the paid loss to paid plus case ratios, for either indemnity and medical losses. The average case reserve diagnostics show generally flat average case reserves beginning in policy year 2015 (although with policy year 2020 indemnity noticeably lower than other recent years). Policy years 2021-2023 have increased slightly from the 2020 level but appear to show stabilizing results. Overall, there does not appear to be any significant changes in case reserve adequacy that would bias the indications. Additionally, our review of diagnostic triangles related to claim closure rates did not reveal any material changes that would distort estimated ultimate losses based on the reported loss development. Based on our review of the projections and the diagnostic data, we have concluded that the reported loss development method is a reasonable approach for estimating ultimate losses.

Experience Period

NCCI's indications are based on two policy years of statewide experience: policy years 2022-2023. Last year's analysis returned to two years of experience from the expanded experience period of three years in the 1/1/2024 filing. This was due to the impact of the pandemic on policy year 2020 in the experience period. Since policy years 2022 and 2023 are less impacted by the pandemic, and any residual changes are likely to persist in the future, it is reasonable to continue using two years of experience. Reported losses (paid losses plus case reserves) are used as the basis for the loss development projections. This is consistent with the recent NCCI filings in Colorado. Table 2 shows the statewide indications on a policy year basis for the current filing, including the impact of the change in the loss adjustment expense provision.

Table 2

Policy Year	Indicated Change (Reported)
2022	-3.5%
2023	-10.4%

While the two most recent policy years have considerable volume, they are still immature for a long-tailed line of insurance like workers compensation. At our request, NCCI provided three additional years of analysis, policy years 2019-2021. The average indicated change from the reported losses including these additional years is -9.0% compared to the -6.9% proposed change, based largely on the favorable experience in policy years 2019 and 2020. Because those lower losses were due to the pandemic, it is good that they are out of the primary experience period and represent older years in the review of the loss trend.

Table 3 below shows the indicated loss cost change by year for the most recent five policy years, including the indications using both reported and paid losses, provided as additional support (these indicated changes also include the impact of the change in the loss adjustment expense provision).

Table 3

Policy Year	Indicated Change (Reported)	Indicated Change (Paid)
2019	-8.9%	-6.3%
2020	-14.6%	-10.6%
2021	-7.3%	-3.2%
2022	**-3.5%**	-0.1%
2023	**-10.4%**	-2.9%

Policy year 2019 indicates a slightly larger loss cost decrease than policy year 2022 and a slightly smaller decrease than policy year 2023. This policy year includes all policies written during 2019, and as a result is the first policy year that includes loss experience during the COVID-19 pandemic, particularly for policies written later in 2019. Policy year 2020 is heavily impacted by the pandemic, and its inclusion in the experience period would likely unreasonably reduce the proposed loss costs. Overall, the paid loss indications would have indicated a slightly lower loss cost decrease than the reported (paid plus case) losses. The indications for these five policy years (2019-2023), along with the paid vs. reported indications, were considered in our review of the reasonability of the proposed changes. It appears as though the use of the two-year reported experience is reasonable, and reliance on the paid indications would have had a limited impact on the selections.

Unlimited vs. Limited Losses

The NCCI does not limit any claims in the preparation of the statewide loss cost indication. In a number of other states, the NCCI limits large claims based on the impact to the overall indication and replaces the actual excess portion of the losses with a provision for large losses. For small states, this limiting procedure would have the impact of reducing volatility in the statewide indications. However, given the size of Colorado's population and market, it is unlikely that large claims significantly distort the statewide indications. The use of unlimited losses in the overall state indication is reasonable and consistent with prior filings.

The NCCI does limit individual claims in the calculation of the individual class code loss costs. The current claim limit is $500,000, which is consistent with prior filings.

Analysis of Frequency and Severity

At our request, the NCCI has provided information showing the annual change in the lost-time claim frequency and severity. The following table shows this data, including both indemnity and medical severity changes.

Table 4

Policy Year	Frequency Change	Indemnity Severity Change*	Medical Severity Change*
2019	-3.3%	1.3%	-1.7%
2020	0.5%	-10.9%	-12.8%
2021	2.2%	4.2%	-3.1%
2022	-0.6%	0.7%	-2.6%
2023	-9.6%	-1.0%	-5.2%

*Adjusted to common wage level

The data in table 4 suggests positive frequency trends over 2020-2021, which is inconsistent with our initial expectations given that frequency is measured relative to payroll (i.e. with payroll generally increasing, no change in claim counts represents a decreasing frequency). It is likely that the increased frequency for policy year 2021 was caused by lower frequencies in policy years 2019-2020 caused by the pandemic, and that the long-term trends are still expected to be negative. We note that policy years 2022 and 2023 are more in line with that expectation at -0.6% and -9.6%, respectively. The implied policy year severity for indemnity has alternated between increases and decreases over the past five policy years, although the long-term trends are still negative, when measured on a common wage level basis. Policy year 2020 is likely a significant outlier, given the material impact of the pandemic on the claim severity for that year. The medical severity trend has been more consistently negative over the past five policy years. The diagnostics do indicate that the case reserves per open claim, for both indemnity and medical losses, had risen slightly during policy years 2021 and 2022. Policy year 2023 has seen a slight decrease in case per open claim for both indemnity and medical. This does provide support for the slightly lower severity in the most recent policy year for indemnity and medical.

Statewide vs. Pinnacol Data

The NCCI has estimated the proposed loss costs using all the statewide data, including Pinnacol Assurance ("Pinnacol"). For filings with effective dates between 1/1/2010 and 1/1/2017, loss development was analyzed and applied separately to private carrier and Pinnacol data. The reason for separate analysis related to a change in Pinnacol's reporting of structured settlements, which has now been reflected in the recent development history. Because Pinnacol's market share has not changed dramatically (although it has declined from 54.5% in calendar year 2020 to 48.8% in calendar year 2024 on a written premium basis), which could otherwise bias the loss development factors, we do not have any objection to the overall loss costs rate indication being estimated on a statewide basis.

We reviewed supplemental information to determine if there is a significant difference in loss experience between Pinnacol and the rest of the industry. The data provided suggests that Pinnacol has had on-level loss ratios approximately 14% higher than the private carriers for policy years 2014 through 2023, relative to statewide loss costs. (The actual historical loss ratios are not necessarily different between private carriers and Pinnacol, based on this information, since Pinnacol and other insurers do not use various rating tiers that are intended to account for higher risk insureds equally.) This experience indicates that the proposed loss costs are higher than if they were determined using only the non-Pinnacol experience and lower than if they were based on the Pinnacol's experience alone. However, because the current methodology is consistent with past years and represents the total statewide experience, the proposed loss cost change is reasonable. This issue is also discussed below in the "Residual Market" section of this review.

Loss Trend

The NCCI proposes no change to the indemnity loss trend factor and a -0.5% change to the medical loss trend factor. The proposed annual loss trends are shown in Table 5 below:

Table 5

	Current	Proposed
Indemnity	-4.5%	-4.5%
Medical	-6.0%	-6.5%

Given the impact that COVID-19 had on 2020 and 2021 wages and employment, the NCCI previously noted unusually large shifts in the average weekly wage ("AWW") in the state and countrywide. While some of the additional increase reflected changes in the mix of payroll within an industry, a portion of the change is attributed to changes in the mix across sectors. The primary cause identified by the NCCI in a previous filing was the significant decline in employment in the hospitality and leisure segment of the economy, which has average wages that are lower than average. Because loss costs and loss trends are relative to payroll, failure to adjust for this abrupt shift would bias the trend and loss cost indications. For the purposes of calculating the trend in Appendix A-III, the NCCI adjusted the 2020 and 2021 AWW to reflect the impact of COVID-19 on the payroll across sectors by removing the change in payroll that is attributed to the change in the mix across sectors. The loss trend indications relied upon in the selection of the trends used these adjusted 2020 and 2021 AWW amounts. No AWW adjustment was deemed necessary for 2022 and subsequent. The NCCI has stated the adjustment is expected to be immaterial due to the long period that the NCCI considers in their trend selections, and we have concluded this adjustment is reasonable.

As part of their selection process, the NCCI reviewed the exponential trend fits for periods ranging from 5 to 15 years for the loss ratio, along with the frequency and severity components. The NCCI proposed no change to the indemnity trend of -4.5%. Given the relatively small change in the indemnity severity in recent years, this appears reasonable. They have proposed a change of -0.5% to the last selected medical trend of -6.0%, which is consistent with the lower medical severity trends in recent years. The NCCI has selected both indemnity and medical trends that are consistent with the adjusted longer-term exponential fits and within the range of trend factors we have observed in other states. We have no objection to the selected annual trend rates.

Benefit Level Changes

The NCCI has included the impact of the latest medical fee schedule benefits in the proposed loss costs. The estimated 0.7% increase to the total loss costs, based on a 1.3% increase to medical costs and no change to indemnity costs, appears reasonable based on the analysis included in the filing.

Loss Adjustment Expenses

In Colorado, the NCCI loss costs include a provision for all loss adjustment expenses ("LAE"), including legal defense ("DCCE") and Adjusting and Other Expense ("AOE") costs. The DCCE provision is estimated by developing the ultimate ratio of paid DCCE to paid loss and appears reasonable.

Countrywide data is used for the private carrier AOE provision because the claims adjusting costs are often difficult to allocate out to individual states for national workers compensation insurers. The countrywide private carrier AOE provision is 9.8%. The NCCI then develops Pinnacol claims adjusting data separately to estimate an AOE provision for Pinnacol. Based on our request, the NCCI provided support for the Pinnacol AOE provision of 20.3%. Finally, the private carrier and Pinnacol AOE provisions are weighted together, using the 3-year experience period premium, to determine a statewide AOE provision. The NCCI previously noted that the relatively significant difference in the AOE provision for the private carriers compared to Pinnacol is largely due to the difference in claims handling and accounting practices, with Pinnacol having offsetting, lower DCCE costs than the industry. The NCCI believes the total needed AOE provision is similar for Pinnacol and private carriers. That statewide AOE provision is combined with the DCCE provision to estimate the LAE provision, which is then applied to the losses to calculate the filed loss and LAE costs.

The selected LAE provision of 24.0% is a small increase from the 23.7% provision underlying the loss costs effective 1/1/25. This selected LAE provision is consistent with the combined industry and Pinnacol data and appears reasonable. Because much of the LAE provision relates to salaries and overhead, the LAE provision, relative to losses, is likely to increase over time when loss costs decrease, as it did in recent filings. The increase in the LAE provision is included in the overall loss cost change.

Voluntary Loss Cost Change Summary

Based on the support provided, we have no objections to the proposed -6.9% voluntary loss cost change.

In our evaluation of the reasonability of the proposed changes in loss costs we have considered market conditions. Among other things, we monitor market conditions by reviewing the impact on premium of loss cost deviations, schedule rating, and dividends which, when combined, are referred to as "premium departures" in the table below. Upon request, the NCCI provided this information for Colorado through 2024.

Table 6

Year	Premium Departures
2018	-3.4%
2019	+5.6%
2020	+5.5%
2021	+5.1%
2022	+4.4%
2023	+8.8%
2024	+18.1%

The overall downward rate deviation in industry pricing for 2018 is consistent with the actual reductions in loss costs effective 1/1/18, 1/1/19, and 1/1/20 respectively. The industry's average positive premium departure for 2019 through 2024 may indicate that the industry feels the loss costs are relatively less redundant than in previous years. Since we do not know how much of this overall departure relates to Pinnacol and the rest of the market, it is also possible that the majority of the positive departure relates to poor risks written by Pinnacol. We note that 2024 represents a significant increase in the premium departure from the past five years. **If a premium departure of the magnitude continues, we would recommend that the NCCI investigate both the source of this deviation and the reasons for this gap between their estimated loss costs and the market's response to their loss costs**.

OTHER CONSIDERATIONS

Class Pure Premiums

After determining the -6.9% statewide loss cost indication, indicated changes by individual occupational class are determined. All class codes are assigned to one of five industry groups. The loss experience of each industry group determines the overall loss cost change for each industry group. The indicated class code loss cost, the current class code loss cost, and the countrywide loss cost (adjusted to state conditions) are credibility-weighted together to calculate the class code loss cost, prior to any limiting. Due to the lower credibility of each class code, individual losses are also limited for the sake of these calculations. The swings in the individual class code loss costs are capped at the industry group loss cost change ±15%, rounded to the nearest 1%, which is consistent with prior filings. We have no objections to these swing limits or methodology.

Experience Modification Factors and Off-Balance

The NCCI has provided subsequent information showing the average experience modification of the past five years. The following table shows this data.

Table 7

Rating Year	Average Experience Mod
2020	0.961
2021	0.962
2022	0.960
2023	0.957
2024	0.958

Because the overall premium collected is a function of both the manual proposed loss costs and the average experience modification factor, the NCCI adjusts the loss costs for the change in the experience modification factors. This procedure is consistent with previous filings and appears reasonable.

Experience Rating Parameters

In 2023, the NCCI submitted changes to the experience rating formula on a countrywide basis. We reviewed the statistical performance measures provided by the NCCI, which showed that the new parameters result in loss experience that is more consistent with the calculated experience modification factors. As a result, the new experience rating parameters represent an improvement from the prior factors, provide more predictive accuracy, and appear reasonable. There were no changes to the methodology in this year's filing.

One experience rating parameter is the split point, which is used to allocate both actual and expected losses into primary and excess losses. Because all primary losses factor into an insured's experience modification factor, this split point has an impact on the premium of all insureds. The NCCI has proposed no change to the split point of $14,500 for Colorado. Prior to 2023, the split point was a countrywide number, but with the changes to the experience rating formula, the split point will vary by state based on the average severity in each state. The state-specific split point is calculated such that all states will have a D-Ratio (the percentage of ratable losses in the primary layer) of approximately 40%. In a prior filing, the NCCI provided support for this new split point, which still appears reasonable based on the minimal changes in claim severities this year.

Retrospective Rating Plan Parameters

The NCCI updated the retrospective rating parameters as part of Item R-1424. We have reviewed this filing and the resulting parameters and compared them to the currently approved parameters. The excess loss pure premium factors experienced only small changes. The average costs per case increased slightly, on average, which we would expect over time since these costs are nominal amounts that are not put on an on-level cost level. Overall, the filed parameters appear reasonable.

Impact of House Bill 24-1220

Last year, Colorado House Bill 24-1220 ("HB 24-1220") increased the maximum aggregate limits of combined permanent partial disability ("PPD") and temporary disability ("TD"). For impairment of 19% or less, the maximum will increase from $75,000 to $185,000, while the maximum for impairment of over 19% will increase from $150,000 to $300,000. These limits were changed effective January 1, 2025 and will be adjusted each July 1 based on changes to the state AWW.

In the 1/1/25 filing, the NCCI estimated a +1.0% impact on the statewide loss costs as a result of HB 24-1220. There has been no update or change to the estimated impact of the bill on loss costs in this filing, and the estimated impact has been accounted for in the on-leveling of the policy year 2022 and 2023 indemnity losses. We note that the experience period of this filing does not extend past the law's effective date, so it is not yet possible to measure the impact of the law. To the degree that this estimate ends up being different from the eventual impact, future loss cost filings will incorporate the difference.

Residual Market

Unlike many states, Colorado does not have a separate residual market or assigned risk plan that covers insureds that are generally not able to secure insurance through the voluntary market. These insureds tend to have higher expected losses, and are often covered by either a residual market pool or by direct assignment of the risks to voluntary insurers. In many states, the NCCI estimates assigned risk rates that reflect both expenses and the higher loss experience of these insureds.

In Colorado, Pinnacol is required to insure all risks. However, because Pinnacol does not know or note which policyholders would otherwise be "residual market" insureds, it is difficult to estimate the possible impact of these insureds being included in the voluntary loss cost data. We also note that there are insureds who move into and out of the "residual market." However, based on our understanding of Pinnacol's structure and the current countrywide residual markets, it is possible that the proposed loss costs could be 3 to 4% lower if the "residual market" insureds could be excluded from the statewide analysis. This result would also appear to be consistent with the historical loss ratios discussed above, showing Pinnacol having noticeably higher loss ratios than the rest of the industry. We also understand that the current methodology has always been used, and do not have any current objections to it.

Additional Proposed Changes

This filing also proposes extending the decimal precision of both the Loss Costs and Expected Loss Rates to three decimal places, up from two. The purpose of the change is to mitigate the constraints of rounding on certain classes. Under the current level of precision, the smallest possible change was 0.01, which meant that a loss cost currently at 0.04 would require a minimum 25% change for any change in the values. By expanding the decimal places, the smallest change is now 0.001. This change will now allow a minimum 2.5% change on a current loss cost of 0.04.

We do not have any objections to this change and find it to be both reasonable and a positive change.

CONCLUSION AND RECOMMENDATIONS

Based on our review of this filing, we have no objections to the proposed voluntary loss cost changes. In our opinion, the proposed changes are reasonable.

Please let me know if you have any questions.

Sincerely,

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