Florida
January 1, 2020
Workers Compensation Rate Filing Actuarial Analysis

Jay Rosen, FCAS, MAAA
Practice Leader and Senior Actuary
### Florida January 1, 2020 Rate Filing

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<thead>
<tr>
<th>Component</th>
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<td>Change in Experience, Trend and Benefits</td>
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## Filing Methodology

<table>
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<tr>
<th>Calculation</th>
<th>Methodology Used</th>
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<tr>
<td>Experience Period</td>
<td>Most recent two full policy years</td>
</tr>
<tr>
<td>Loss Development</td>
<td>Average of the results produced by the paid and paid plus case loss aggregations</td>
</tr>
</tbody>
</table>
| Trend               | Indemnity: Selected –2.5% per year  
Medical: Selected –2.0% per year |

An assessment of the emerging impact of the Castellanos decision on Florida’s workers compensation marketplace was undertaken as part of this year’s filing review.

NCCI reviewed:

- Individual carrier feedback
- Claimant attorney fees
- Loss ratio patterns
Individual Carrier Feedback

- All carriers reported:
  - Increases in claimant attorney fees
  - Litigated claims take longer to close and are costlier

- Carriers said additional system cost increases are expected going forward
  - System participants continue to adapt to the post-Castellanos environment

Therefore, historical indemnity paid loss development factors may understate those expected in the future
Attorney Fees Relative to Benefit and Settlement Amounts Have Been Increasing

Based on Florida Division of Administrative Hearings (DOAH) data as of June 2019

<table>
<thead>
<tr>
<th>Year</th>
<th>Claimant Attorney Fees / Benefits &amp; Settlements</th>
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</thead>
<tbody>
<tr>
<td>2014</td>
<td>13%</td>
</tr>
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<td>13%</td>
</tr>
<tr>
<td>2016</td>
<td>15%</td>
</tr>
<tr>
<td>2017</td>
<td>19%</td>
</tr>
<tr>
<td>2018</td>
<td>22%</td>
</tr>
<tr>
<td>2019*</td>
<td>22%</td>
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This is consistent with the expectation that claimant attorney fees would represent a larger proportion of system costs in Florida’s post-\textit{Castellanos} environment

* Incomplete year
Indemnity Loss Development Has Notably Increased

Indemnity Loss Development Between 1st and 19th Report

- Paid
  - 21% increase since 2015

- Paid+Case
  - 10% increase since 2015

Year-End 2015
Year-End 2018
Medical Loss Development Has Been Less Impacted

Medical Loss Development Between 1st and 19th Report

- Paid: 3% increase since 2015
- Paid+Case: 1% decrease since 2015

Year-End 2015
Year-End 2018
Florida Indemnity Paid Loss Ratios

Policy Year

Year-end 2015  Year-end 2016  Year-end 2017  Year-end 2018

Developed to ultimate and on current premium and benefit level
Florida Indemnity Paid Loss Ratios

Policy Year

Year-end 2015
Year-end 2016
Year-end 2017
Year-end 2018

Developed to ultimate and on current premium and benefit level
Florida Indemnity Paid Loss Ratios

Policy Year

Developed to ultimate and on current premium and benefit level
Florida Indemnity Paid+Case Loss Ratios

Policy Year

- Year-end 2015
- Year-end 2016
- Year-end 2017
- Year-end 2018

Developed to ultimate and on current premium and benefit level
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<td>Reviewed historical changes in:</td>
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<td>- Claim frequency and severity</td>
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<td>- Loss ratios</td>
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Florida Loss Ratios
Policy Year

Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate
Florida Loss Ratios

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Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate
Florida Loss Ratios

Policy Year

Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate

Transition from pre- to post-Castellanos

Medical

0.84

0.66

Indemnity

0.44

0.33

Florida Loss Ratios

Policy Year

Medical

Indemnity


Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate
Florida Loss Ratios
Policy Year

Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate

Medical

Indemnity

2007 2008 2009 2010 2011 2012 2013 2014 2015 reduced by the 2016-17 change
Florida Loss Ratios
Policy Year

Based on an average of paid and paid plus case financial data at current benefit level and developed to ultimate.

Reduced by the 2016-17 change.
Florida Loss Ratios
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# Expense Provisions—Profit and Contingency

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<th>Provision</th>
<th>Methodology</th>
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<tr>
<td>Profit and Contingency (P&amp;C)</td>
<td>Based on the results of NCCI’s Internal Rate of Return (IRR) model:</td>
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<tr>
<td></td>
<td>“Static” estimate: –0.20%</td>
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<tr>
<td></td>
<td><strong>Selected provision:</strong> –0.8%</td>
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<td>“Dynamic” estimate: –0.95%</td>
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The proposed P&C provision was selected after reviewing the results of the two individual approaches and the currently-approved P&C provision.
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### Expense Provisions—Loss Adjustment Expense

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<tr>
<td>Loss Adjustment Expense (LAE)</td>
<td>21.0%</td>
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The loss adjustment expense provision reflects costs associated with the handling of workers compensation claims.
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