Overview of the Proposed South Carolina Workers Compensation Loss Cost Filing
Effective April 1, 2022

I. Summary of Filing

The purpose of this overview is to provide context and an explanation for the accompanying proposed workers compensation insurance loss cost filing that was filed under separate cover by the National Council on Compensation Insurance (NCCI) on October 14, 2021, with the South Carolina Department of Insurance for its review and approval. NCCI is a licensed rating organization authorized to make recommended loss cost[1] filings on behalf of workers compensation insurance companies in South Carolina. NCCI's filing is objectively prepared, in compliance with actuarial standards.

NCCI's filing proposes a -9.8% loss cost level decrease in the voluntary market effective April 1, 2022. In addition, as more fully explained below, NCCI's corresponding item filing includes recognition of future pandemics in the catastrophe provision.

The filing is based on premium and loss experience for Policy Years 2018 and 2019. Favorable experience has been observed in each of these years. South Carolina's lost time claim frequency has declined over the most recent eight years. The state's average indemnity cost per case figures have been relatively consistent over time, while those for medical have been slightly more volatile from year-to-year. The final proposed loss cost level change results after incorporating a change to the claim settlement expense component.

II. Overview of Ratemaking Methodology

NCCI's approach to determining the proposed overall average loss cost level change in the filing utilizes widely accepted actuarial ratemaking methodologies. The approach employed includes the following steps:

- Premium and losses are adjusted to the currently approved loss cost and benefit levels (both medical and indemnity)
- These adjusted losses and premium are projected to their ultimate value and are used to calculate a loss ratio (loss ratio = losses/premium) for each year included in the experience period, which ranges from a two- to a five-year period, depending on the state

[1] Loss cost refers to the portion of workers compensation rates filed by the rating organization that are allocated to pay losses and not for carrier expenses. Some states include certain carrier expenses and assessments in the definition of advisory loss costs. Carriers can use the approved loss costs as the basis for their rates, typically adjusting them for expenses with a loss cost multiplier.

- Loss ratios, along with other information, are analyzed to produce trend factors used to help project future results
- The trend factors are applied to the known loss ratios of past years in the experience period to forecast future increases or decreases and the degree of those projected future changes
- As a final step, any benefit and/or expense changes are applied to the loss ratios
- This results in the final projected loss ratio

If the final projected loss ratio is greater than 1.000, then an increase in the average loss cost level is indicated; a projected loss ratio of less than 1.000 indicates a decrease.

Once the proposed voluntary loss cost level change is determined, NCCI separately determines and updates loss costs for each workers compensation classification code (class code); the loss costs and year-over-year changes vary by class code and are based on data collected for each class code.

III. COVID-19

NCCI's last annual loss cost filing did not include COVID-19 claim data; nor did it include explicit adjustments for the potential impact of a pandemic. The current filing also does not include an explicit adjustment. After extensive analysis of how to best reflect pandemics in future loss cost filings, NCCI determined that a catastrophe provision is the most appropriate way to reflect exposure to future pandemics. Consequently, NCCI incorporated the consideration of pandemic exposures into the existing Catastrophe (other than Certified Acts of Terrorism) provisions in the filing. To accomplish this, NCCI filed a separate update to the Catastrophe Provision Endorsement to expand the definition of a catastrophe to include a single event or peril resulting in losses in excess of $50 million.

IV. Conclusion

The workers compensation system continues to experience unprecedented results. The 2020 private carrier combined ratio marks the fourth consecutive year of results under 90% (below 100% is indicative of an underwriting profit), seven consecutive years under 100%, thus, the seventh consecutive year of underwriting gains. These results are due to a combination of underwriting discipline, declining frequency, moderating severity, and adequate reserves. With few annual exceptions, frequency has continued a decades long downward course driven by technology, safer workplaces, improved risk management, and a long-term shift from manufacturing to service sectors. 2020 data and preliminary 2021 data show frequency also dropped because of indirect effects of the pandemic. NCCI has no expectation that the long-term downward trend in frequency will change. For the last several years, severity trends have remained fairly moderate, tracking very closely with wage inflation. For these reasons, NCCI's analysis has continued to indicate decreases across many of its jurisdictions in recent years. NCCI will continue to monitor and analyze the impact of COVID-19 on the workers compensation system and publish our research and findings in the ***Insights*** portal on ncci.com as it becomes available.

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