



## Summary of the Proposed Florida Workers Compensation Rate Filing Effective January 1, 2023

The National Council on Compensation Insurance (NCCI)<sup>1</sup> is pleased to provide this Summary of the accompanying proposed workers compensation insurance rate filing that was filed under separate cover on August 24, 2022, with the Florida Office of Insurance Regulation for its review and approval.

The filing recommends a –8.4% rate level decrease in the voluntary market effective January 1, 2023. Due to the catastrophic nature of the COVID-19 pandemic, all reported COVID-19 claims have been excluded from ratemaking. This treatment is consistent with last year's rate filing.

The current filing is based on experience data for Policy Years 2019 and 2020 as of year-end 2021. Favorable experience has been observed in each of these time periods. Florida's frequency of lost-time claims (i.e., claims where an injured employee received wage replacement benefits) has generally declined when viewed 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 uncertainty surrounding the pandemic was implicitly considered as part of this year's trend analysis. The final proposed rate level change results after incorporating small increases to the current production/general expense and claim settlement expense provisions.

### 1. COVID-19 Analysis

Although COVID-19 claims are excluded in this filing, this year's analysis included an assessment of possible pandemic related impacts. Based on that assessment, in some areas NCCI has made selections due to potential COVID-19 effects on the underlying data to better reflect conditions likely to prevail in the filing's effective period. While some pandemic-related trends could persist into the future, some factors may be temporary.

From a countrywide perspective, most COVID-19 claims continue to be small, with incurred losses of less than \$1,500, and are most often medical-only or indemnity-only. In fact, claims over \$100,000 account for fewer than 2% of all COVID-19 claims but represent more than 60% of total incurred COVID-19 losses. Nearly half of the most complex claims—those of more than \$500,000—involved workers who died. Like the overall COVID-19 claim distribution, most of those workers were employed in the healthcare industry. The average age of workers with large COVID-19 claims is 55, which is 8 to 10 years older than that of workers with non-COVID-19 claims. Like the overall long-term trend of declining frequency, COVID-19 claims decreased significantly in 2021.

### 2. Inflation Impacts on the Workers Compensation System—Countrywide

Certain factors selected in this filing recognize the impact that changes in inflation may have on the workers compensation system. As described below, wage and medical inflation have the potential to affect historical patterns and were considered.

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<sup>1</sup> NCCI is a licensed rating organization authorized to make recommended rate filings on behalf of workers compensation insurance companies in Florida. NCCI's filings are objectively prepared, utilizing widely accepted actuarial ratemaking methodologies.

### **Wage Inflation**

Low-wage workers were most affected by COVID-19-related job losses. As the economy recovered, labor supply issues fueled the Great Reshuffle, where workers shifted to higher-paying industries and low-wage workers received the largest pay increases to lure them back. The Leisure and Hospitality sector was the most affected with an average 15% wage increase. This wage inflation impacts the state's workers compensation system because payroll is used as the base to calculate premiums. Payroll is a well-known exposure base because it is inflation sensitive. So, as wages rise, premiums automatically rise along with workers compensation benefits. Consequently, wages, premiums, and indemnity benefits typically stay in balance.

### **Medical Inflation**

Changes in medical claim costs are driven by two factors: the price of medical services and utilization, which measures the mix and number of services provided to an injured worker. Medical inflation in workers compensation has been moderate for the past decade, with the Personal Health Care Index (PHC) averaging around 1.5% per year. According to the Centers for Medicare & Medicaid Services, the PHC is projected to increase in 2022 and then drop to anywhere between 2.5% and 3% for the near future. NCCI's most recent countrywide data shows that drug costs are declining, physician costs are up slightly, and facility costs are rising in the workers compensation system.

## **3. Conclusion**

COVID-19 claims continue, though they declined in 2021 and, despite the relatively large number of COVID-19 claims, the average cost per claim remains low. Wage inflation and strong employment recovery are expected to increase premium. Medical inflation's impact on workers compensation losses is expected to be markedly lower than inflation for other goods and services. The long-term trend of declining claim frequency is expected to continue.

Overall, the workers compensation system is faring well. Private carrier plus state fund net written premium increased about 1% to \$43 billion in 2021. Private carriers posted a combined ratio of 87% (below 100% indicates profitability) on \$38 billion in premium for the 2021 calendar year. This was the fifth consecutive year that the private workers compensation insurance market posted a profitable combined ratio below 90% and the eighth consecutive year of underwriting profitability. As Bill Donnell, NCCI's President and CEO, announced at NCCI's *Annual Insights Symposium* in May 2022, "COVID-19 has been a manageable event for the system" and "the strength and resilience of the workers compensation system is a point of pride for all stakeholders."