

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE & LABOR.

The meeting was called to order by Chairman Al Lane at 9:12 a.m. on February 22, 1995 in Room 526-S of the Capitol.

All members were present except: Rep. Jill Grant - excused
Rep. David Heinemann - excused
Rep. Sabrina Standifer - excused

Committee staff present: Jerry Donaldson, Legislative Research Department
Bob Nugent, Revisor of Statutes
Bev Adams, Committee Secretary

Conferees appearing before the committee:
Michael Taylor, National Council on Compensation Insurance (NCCI)
Regional Director of Government Affairs
Linda Sogge, NCCI

Others attending: See attached list

Rep. Packer moved that the minutes of January 27 and 31, and February 1, 2, and 3, be approved. Rep. Mason seconded the motion. The minutes were approved as written.

Chairman Lane introduced Michael Taylor, NCCI. The NCCI is a data collection and workers compensation statistical organization. They collect information to advise companies and insurance regulators on rate level needs within the states. Their number one objective is providing advisory information to the states, about 38 states, on what they feel rate levels in the state should be, both in the voluntary and the residual markets. They are here today to talk about the ratemaking process for Workers Comp. On February 21, they delivered to the Insurance Department two rate filings, one for the voluntary market and one for the assigned risk plan. The voluntary market filing rate change was a 5% decrease, and the residual market was an 8 1/2% decrease. These are average numbers, some rates will be higher, some lower.

Mr. Taylor turned the presentation over to Linda Sogge, Western Region Actuary, NCCI, to go through the handout with the committee (see Attachment 1). She walked the committee through the charts and graphs that represent all the data that has been collected from Kansas and are used to form the Kansas rate filing. Ms. Sogge and Mr. Taylor answered questions from the committee.

Bill Wempe, Kansas Insurance Commissioner' office, spoke from the audience about the rate filing. He said that the department would review the filing, by statute they must do this in thirty days (they would not approve or disapprove the rate at this time) but would have some comment back to NCCI about their original assessment filing. They also have an independent actuary look at the filing and a recommendation is then given to the Insurance Commissioner.

The meeting adjourned at 9:57 a.m.

The next meeting is scheduled for February 23, 1995.

HOUSE BUSINESS, COMMERCE & LABOR COMMITTEE GUEST LIST

DATE February 22, 1995

NAME	REPRESENTING
Ken King	KS. DHA / WC
Terry Featherman	KCCIT
Judi Summerson	Manpower
Kevin Anderson	Garrett & Associates
JANET STUBBS	KBIA WCF
Peggy Lane	visitor
KEVIN MCFARLAND	KS. Homes & Services for the Aging
Richard Wilson	Alliance / NS 165
BOB ANDERSON	CASEY'S GENERAL STORES
Quin Mahan	Mo. Insurance Dept.
Bill Wempe	" " "
Bill Curtis	Ks Assoc of School Bds
Brad Snow	AIA
Marcela Keim	Interview - ^{Rep's} Candy Ruff



NCCI Presentation to the Kansas House Business Commerce and Labor Committee

February 22, 1995

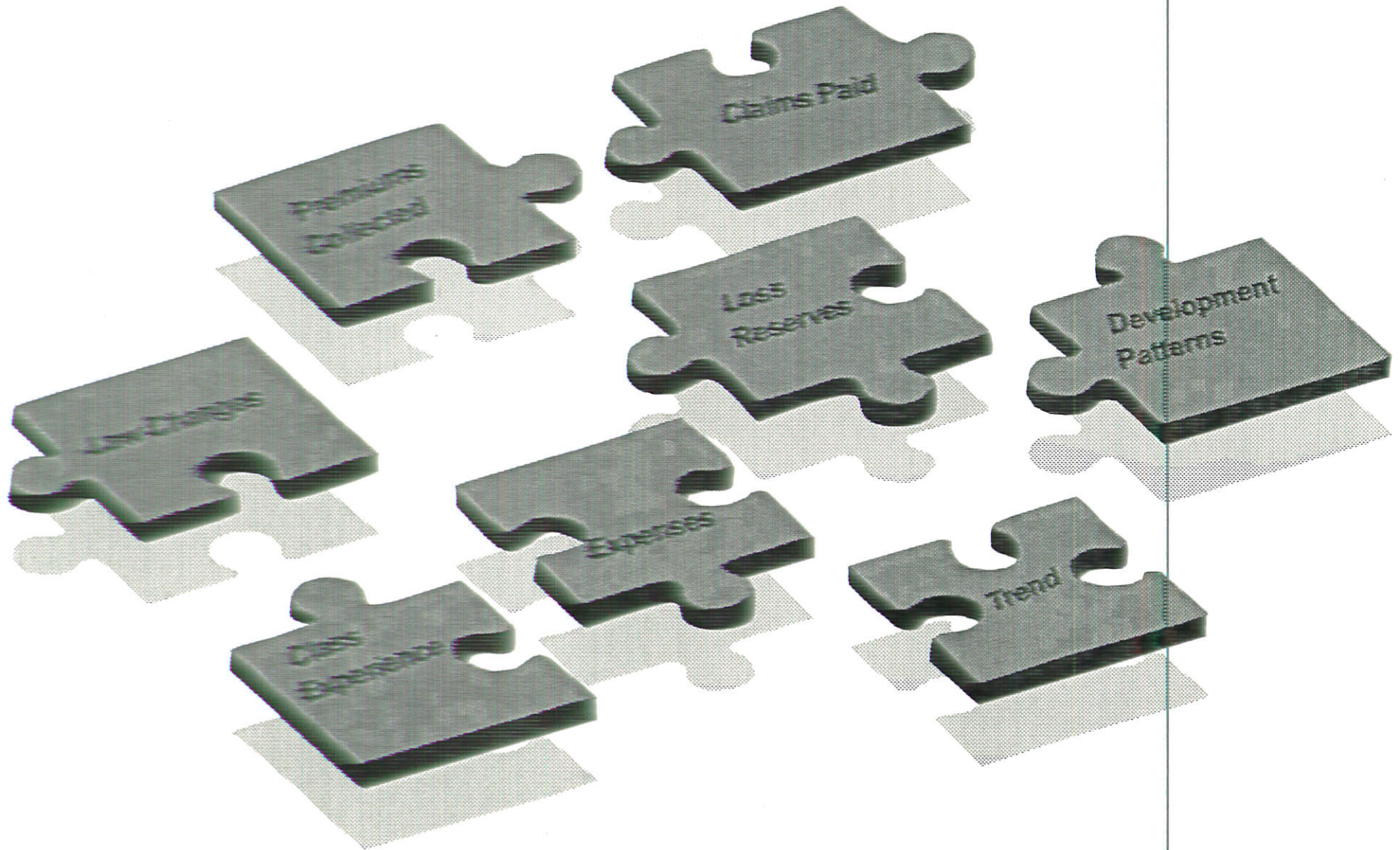
*Business, Commerce
& Labor*

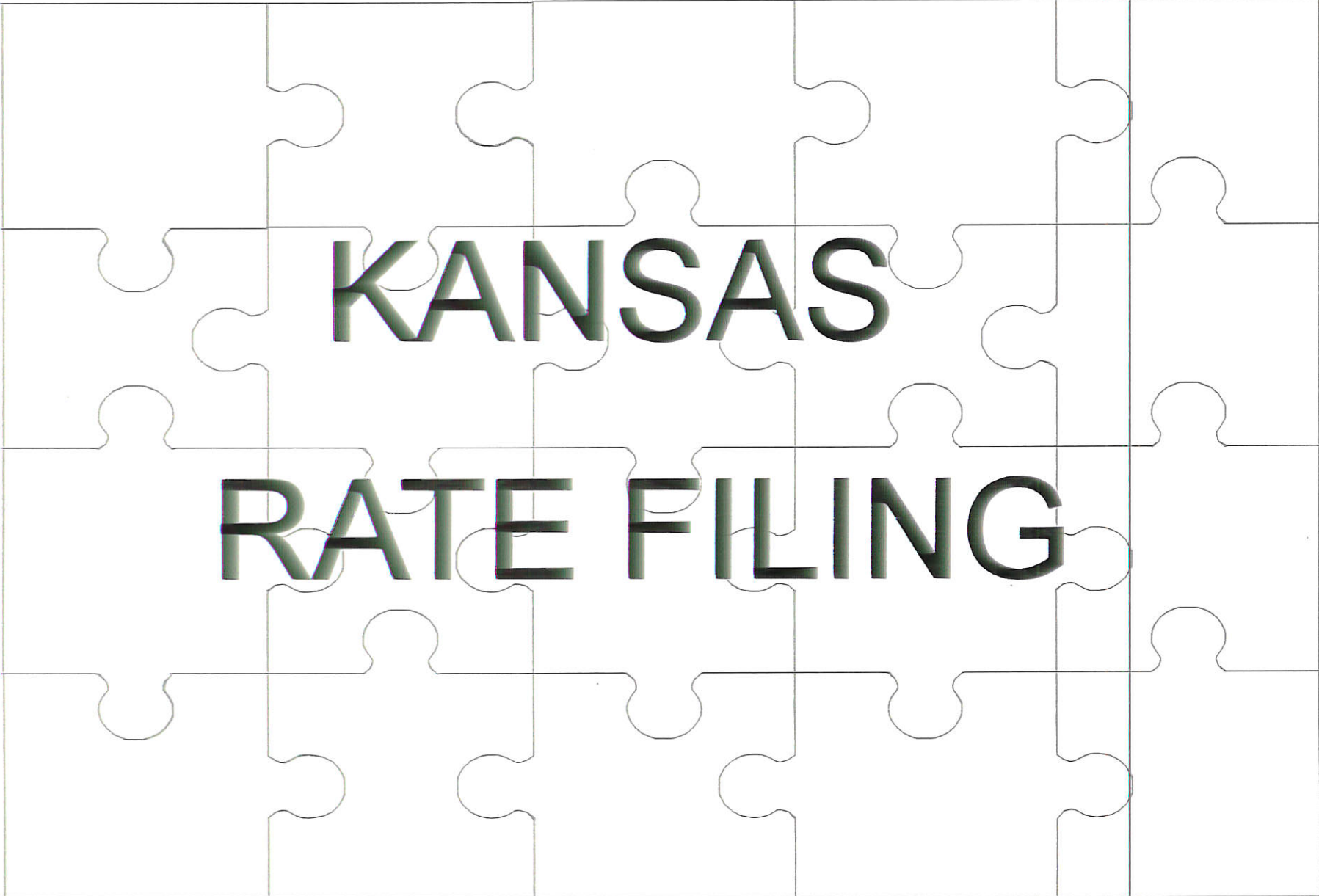
2/22/95

Attachment 1

THE RATEMAKING CHALLENGE

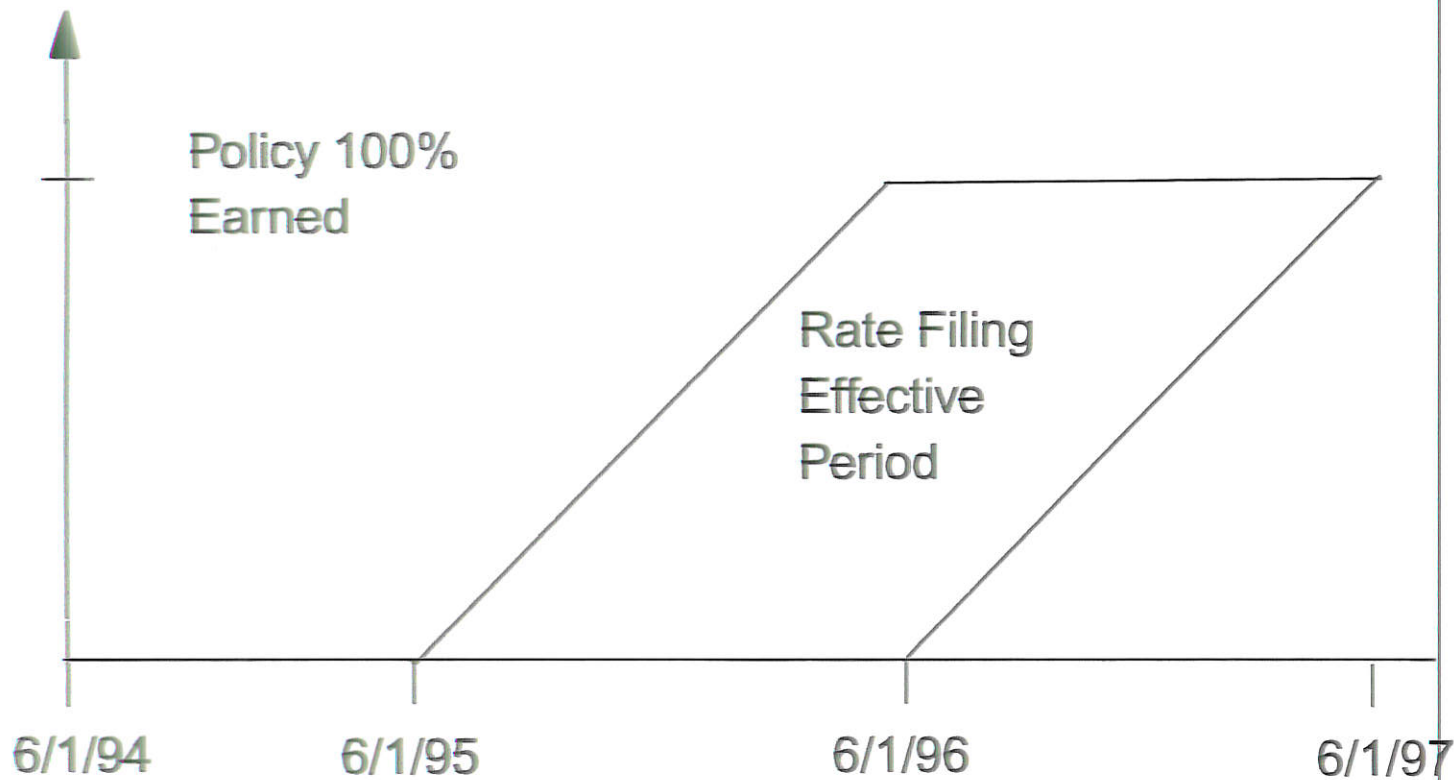
1-2



A graphic of a puzzle with the text "KANSAS RATE FILING" centered in the middle. The puzzle pieces are white with black outlines, and the text is in a bold, green, sans-serif font. The puzzle is set against a white background with a thin black border.

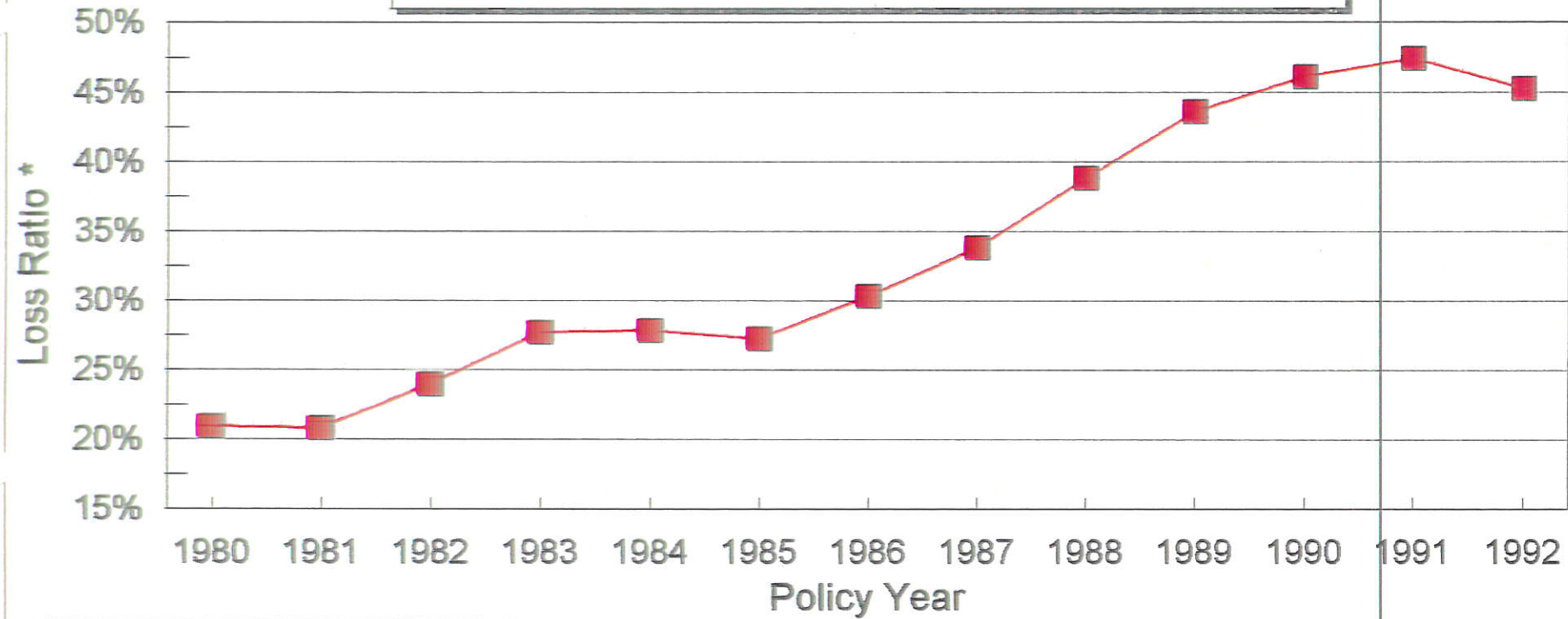
**KANSAS
RATE FILING**

Objective: To Establish Rates for the Effective Period June 1, 1995 to May 31, 1996



Kansas Historical Loss Ratios

Indemnity and Medical Combined



* Loss Ratios are Claim Amounts at Current Benefit Levels divided by Premiums at Current Rate Levels

Review of Information

1-6

Premium:

1. Current Rate Level
2. Premium Development, (estimated vs. actually earned)

Benefit Costs:

1. Current Statutory Benefit Levels, including Law Changes (SB 307)
2. Loss Development (total amount ultimately paid on all claims)

Trend (from Data Experience Period to Filing Effective Period):

Premium:

Changes in Payroll (wage inflation)

Benefit Costs:

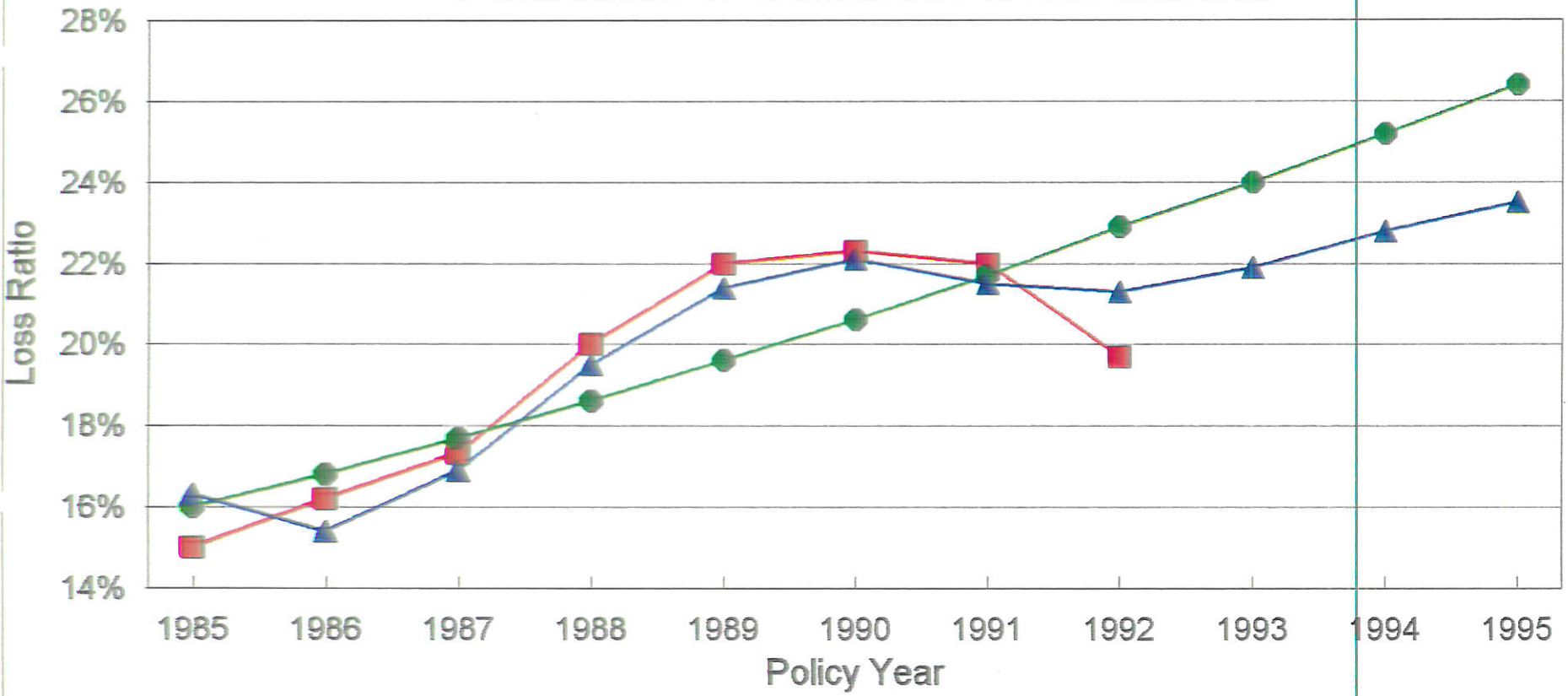
Changes in Duration of Claims (utilization patterns, return to work incentives
early reporting, etc.)

Changes in the Frequency of Claims (tendencies to file claims,
economic cycles, safety prevention)

Inflation Rates (wage inflation, Medical CPI inflation, Medical Fee Schedules)

Kansas Loss Ratio Trends

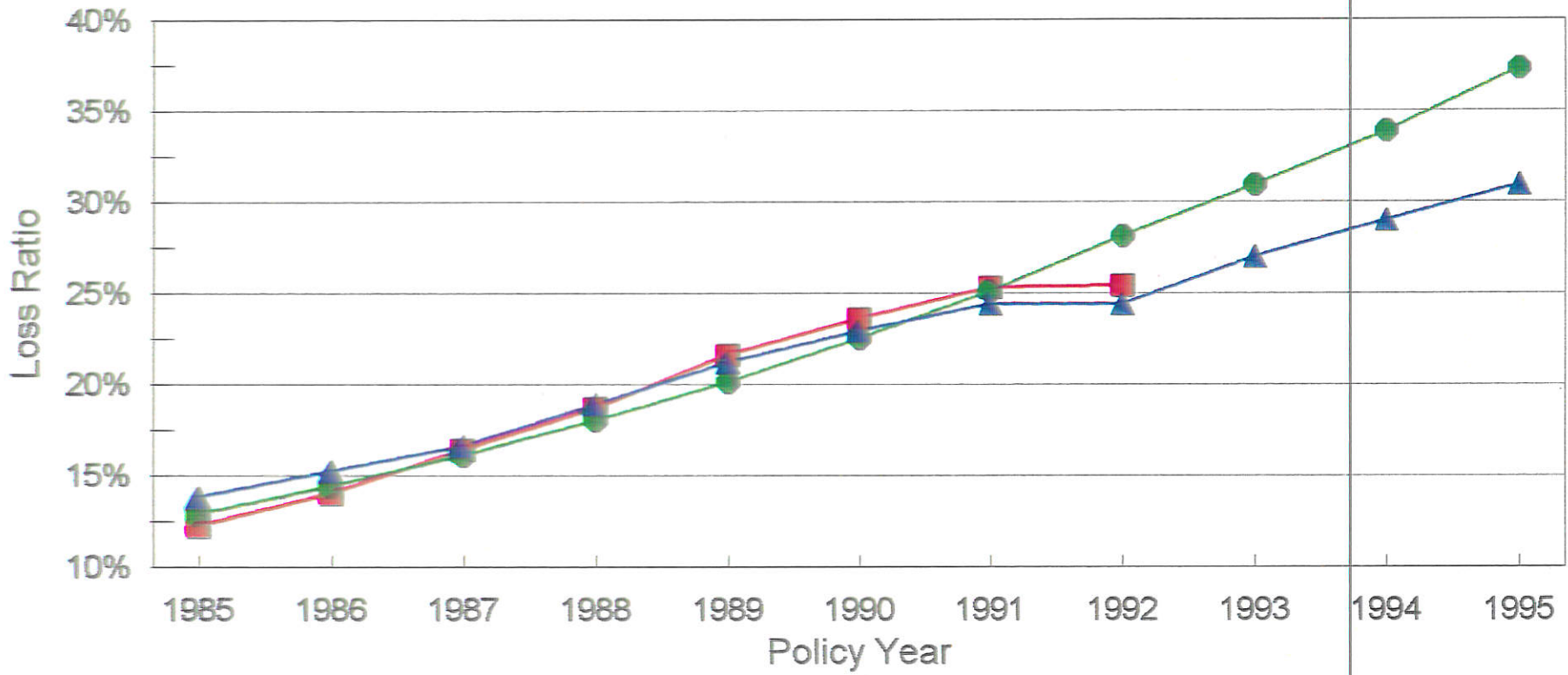
Indemnity



■ Historical Loss Ratios ● Traditional Trend Model ▲ Econometric Trend Model

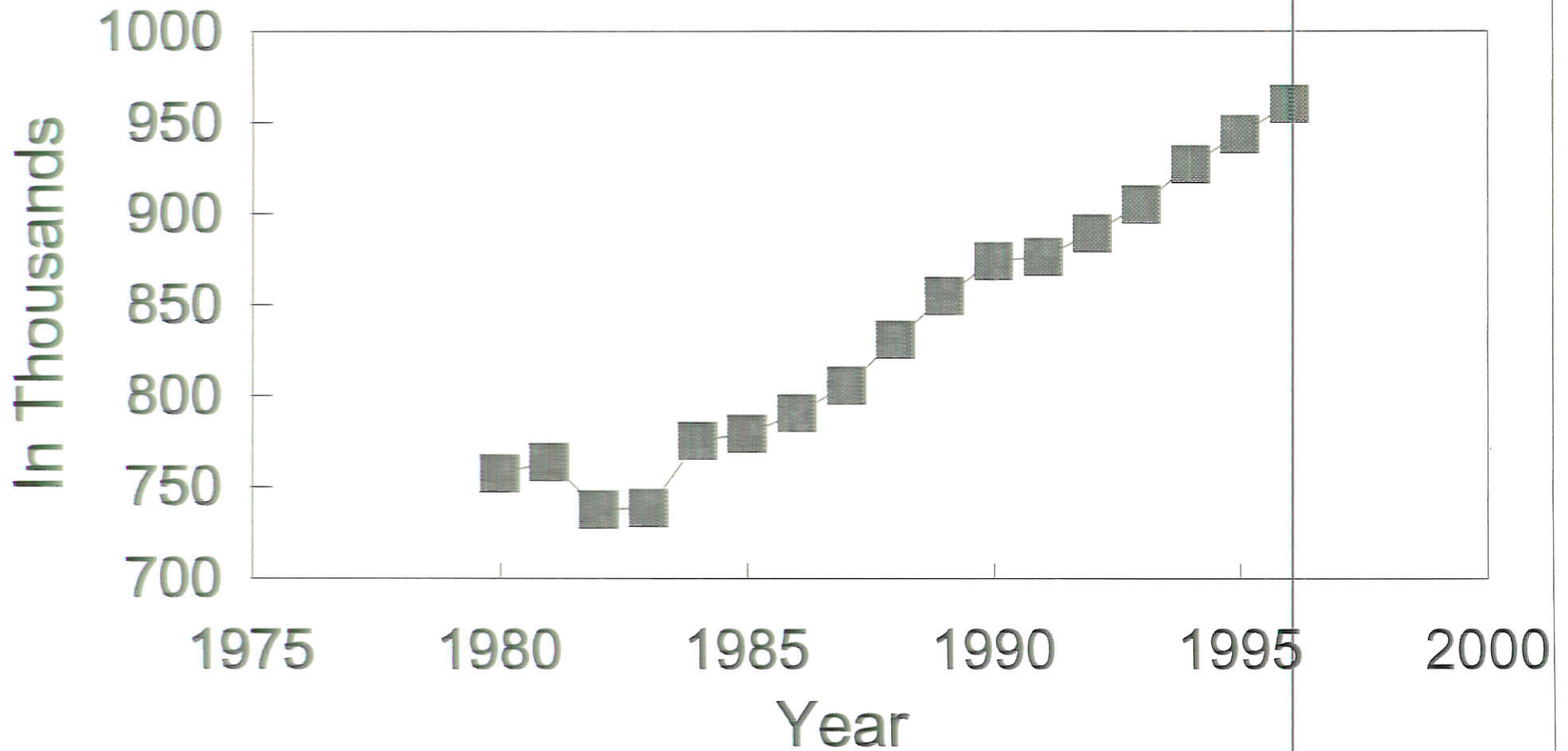
Kansas Loss Ratio Trends

Medical



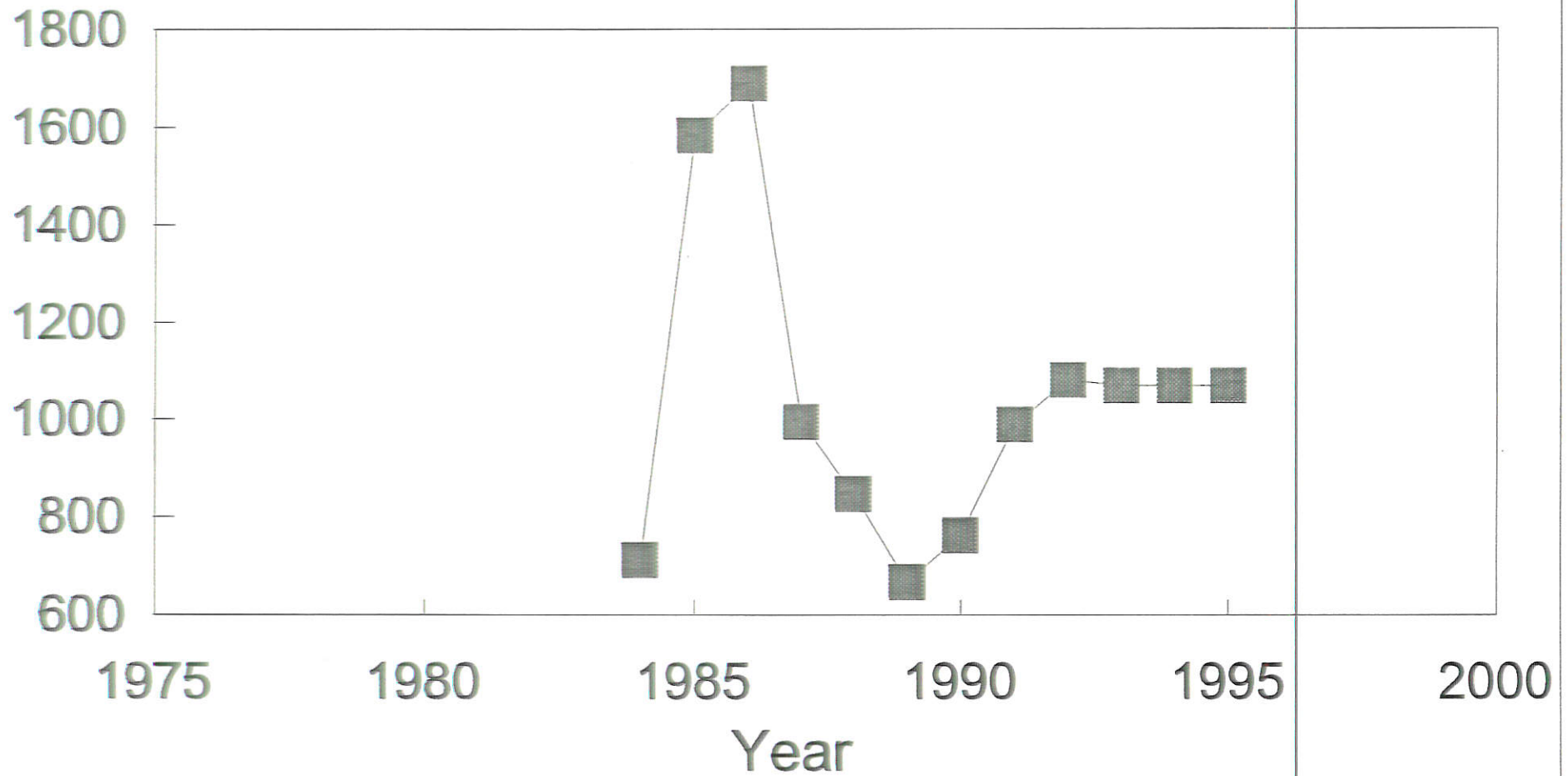
■ Historical Loss Ratios ● Traditional Trend Model ▲ Econometric Trend Model

Econometric Variable Values



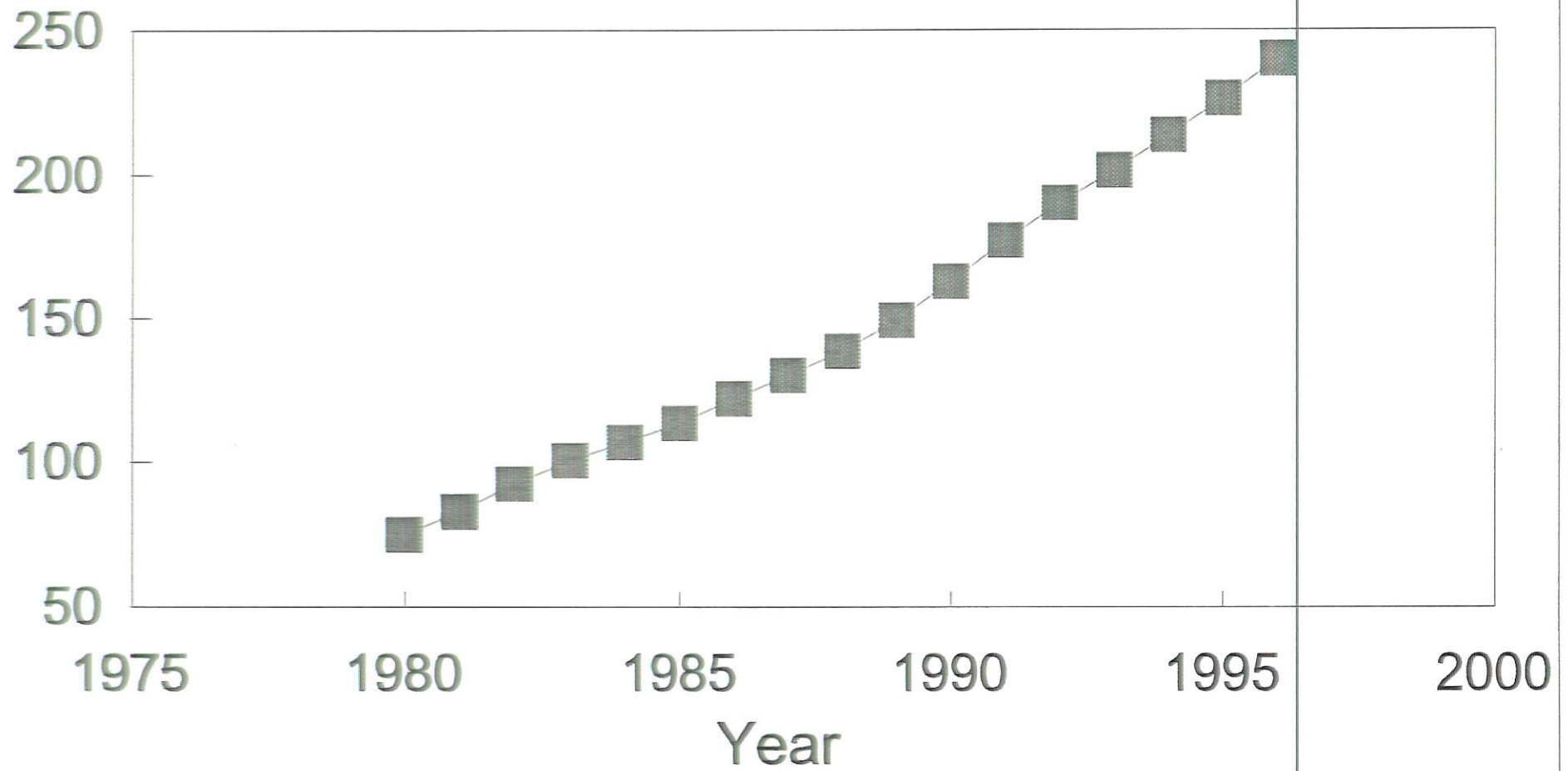
■ Kansas Private Non-Farm Employment

Econometric Variable Values

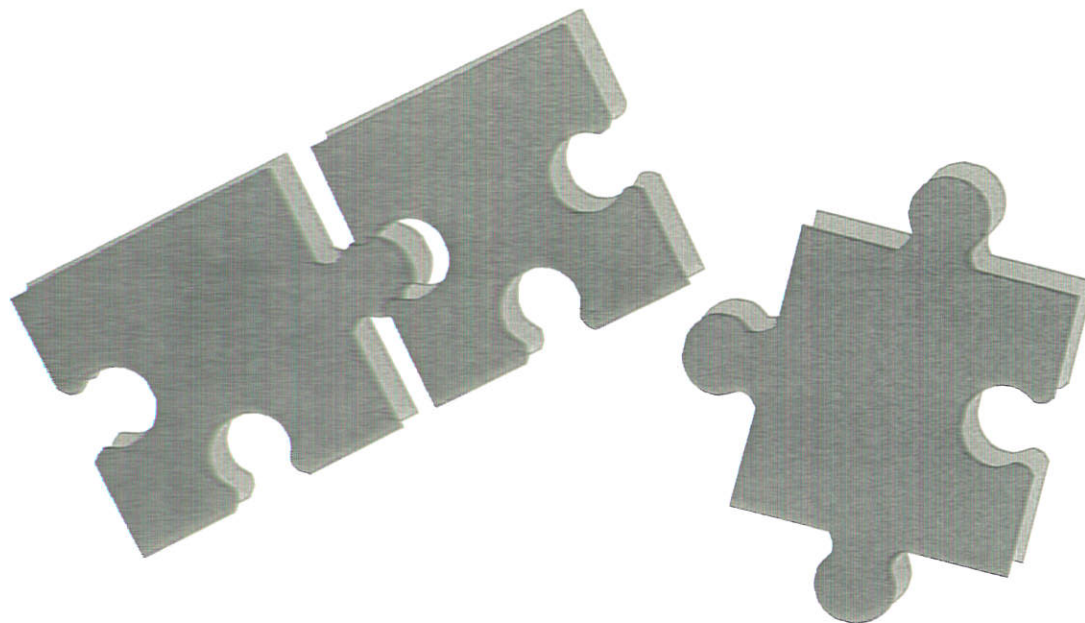


■ Kansas Business Failures

Econometric Variable Values

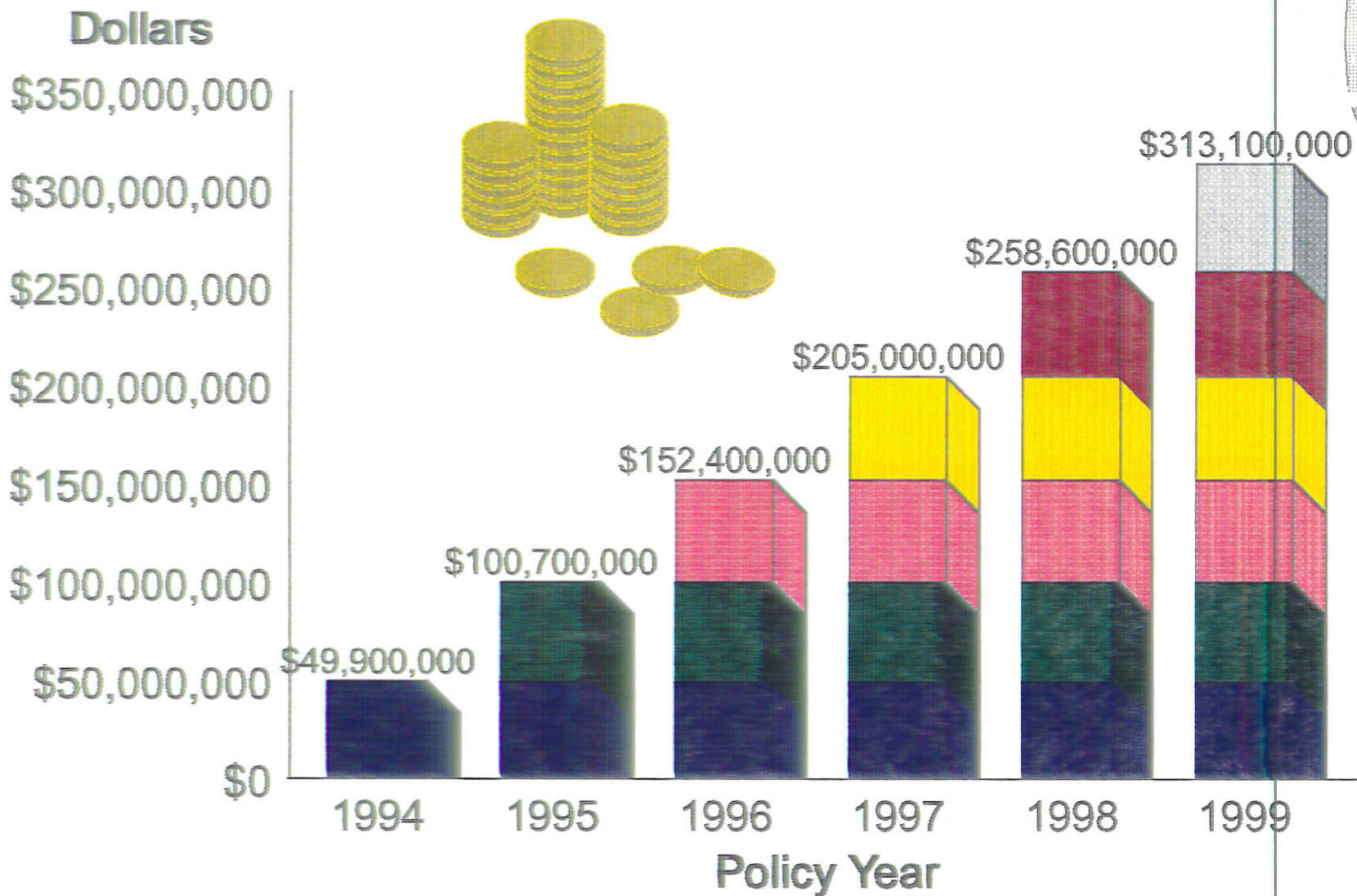
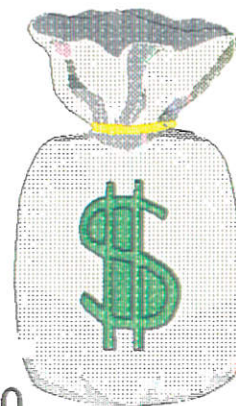


■ Medical Consumer Price Index

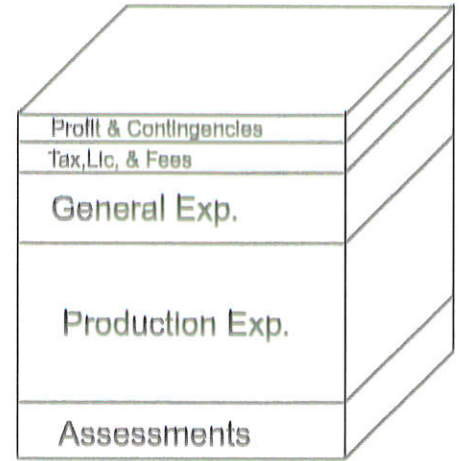
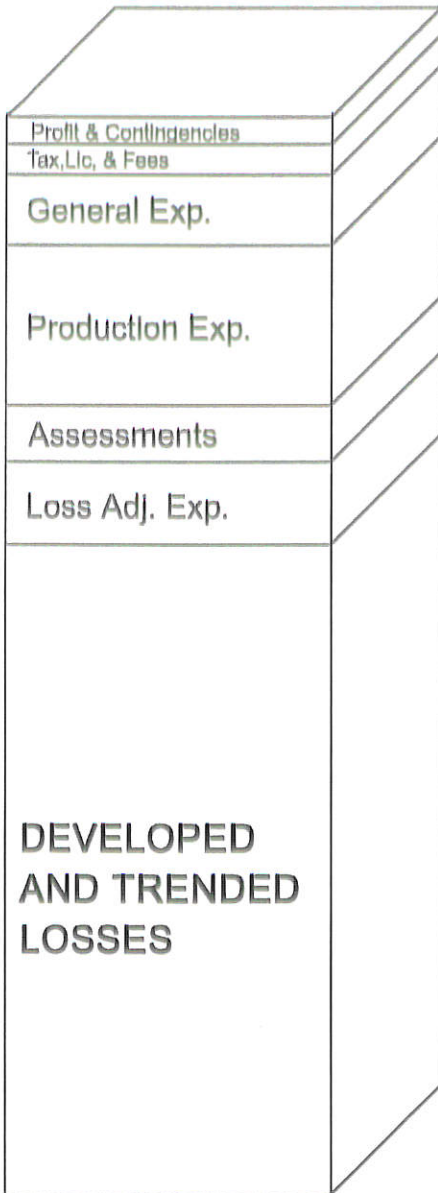


Voluntary Market	Market Share	61.7%
Statewide Loss Cost Level Change Based on Experience and Trend		- 6.9%
Voluntary Market Change in Loss Adjustment Expenses		2.0%
Voluntary Market Loss Cost Indication		- 5.0%

Cumulative Employer Savings due to Kansas Reform



LOSS COSTS VS. RATES



**Regulated
Rates**

**Regulated
Loss Costs**

**Individual
Carrier
Filings**

Kansas

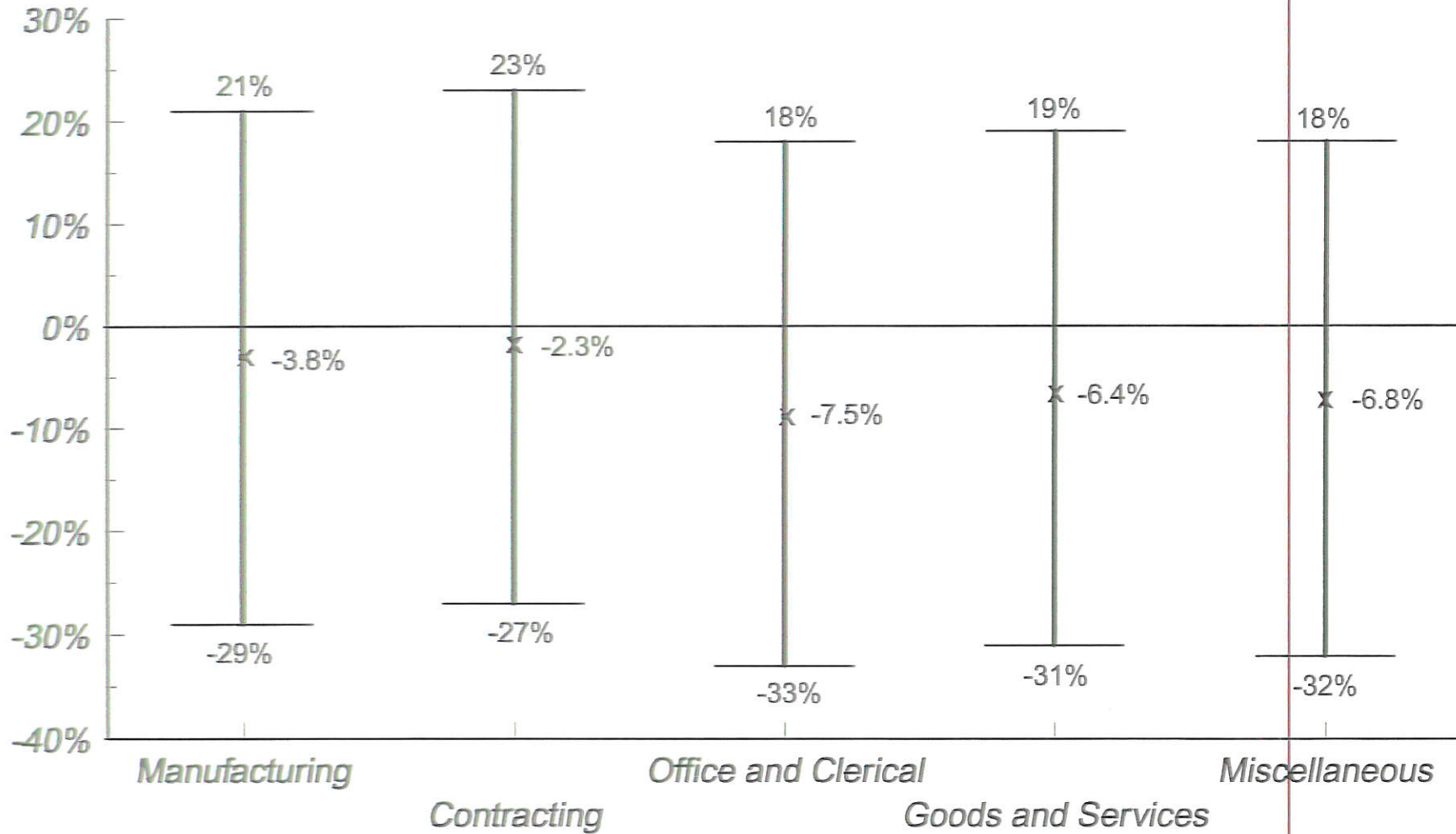
Industry Group Changes (Voluntary Market Loss Costs)

★ <i>Manufacturing</i>	-3.8%
★ <i>Contracting</i>	-2.3%
★ <i>Office and Clerical</i>	-7.5%
★ <i>Goods and Services</i>	-6.4%
★ <i>Miscellaneous</i>	-6.8%
★ <i>Overall</i>	-5.0%

KANSAS

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Industry Group Loss Cost Changes



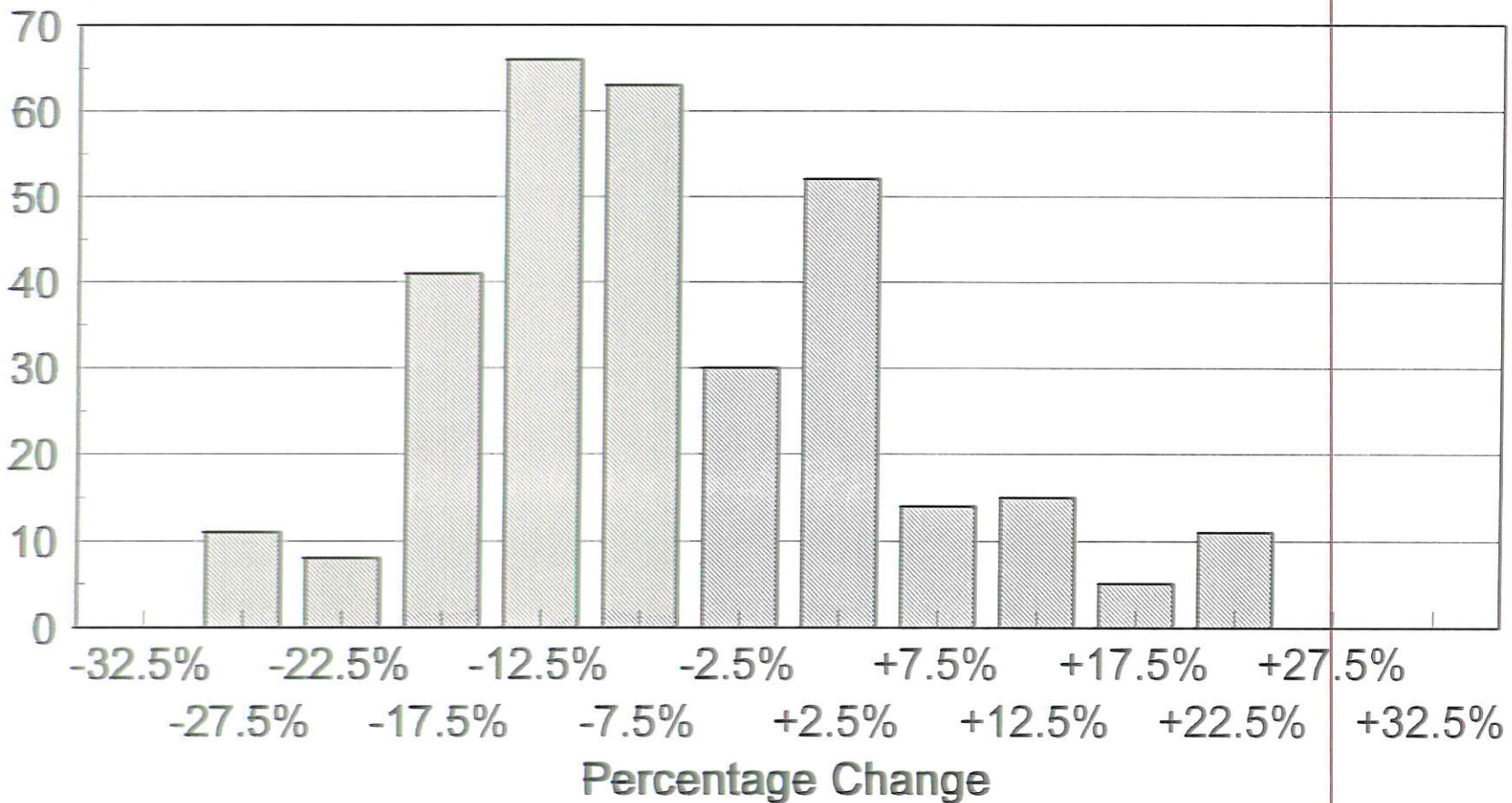
Kansas

Manufacturing

Number of Classes by Change

Average Change = -3.8%

Number of Classes



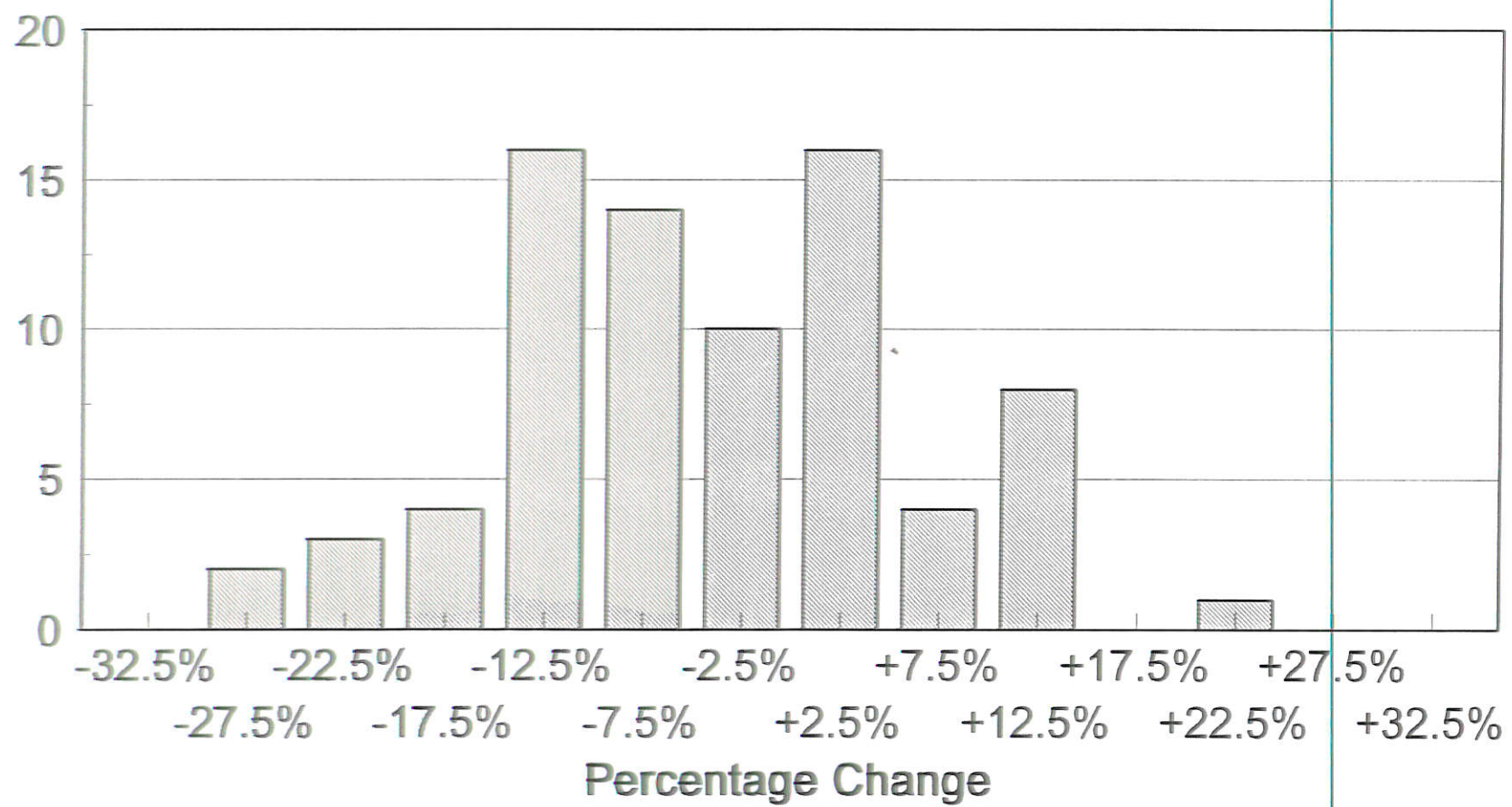
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Contracting

Number of Classes by Change

Average Change = -2.3%

Number of Classes



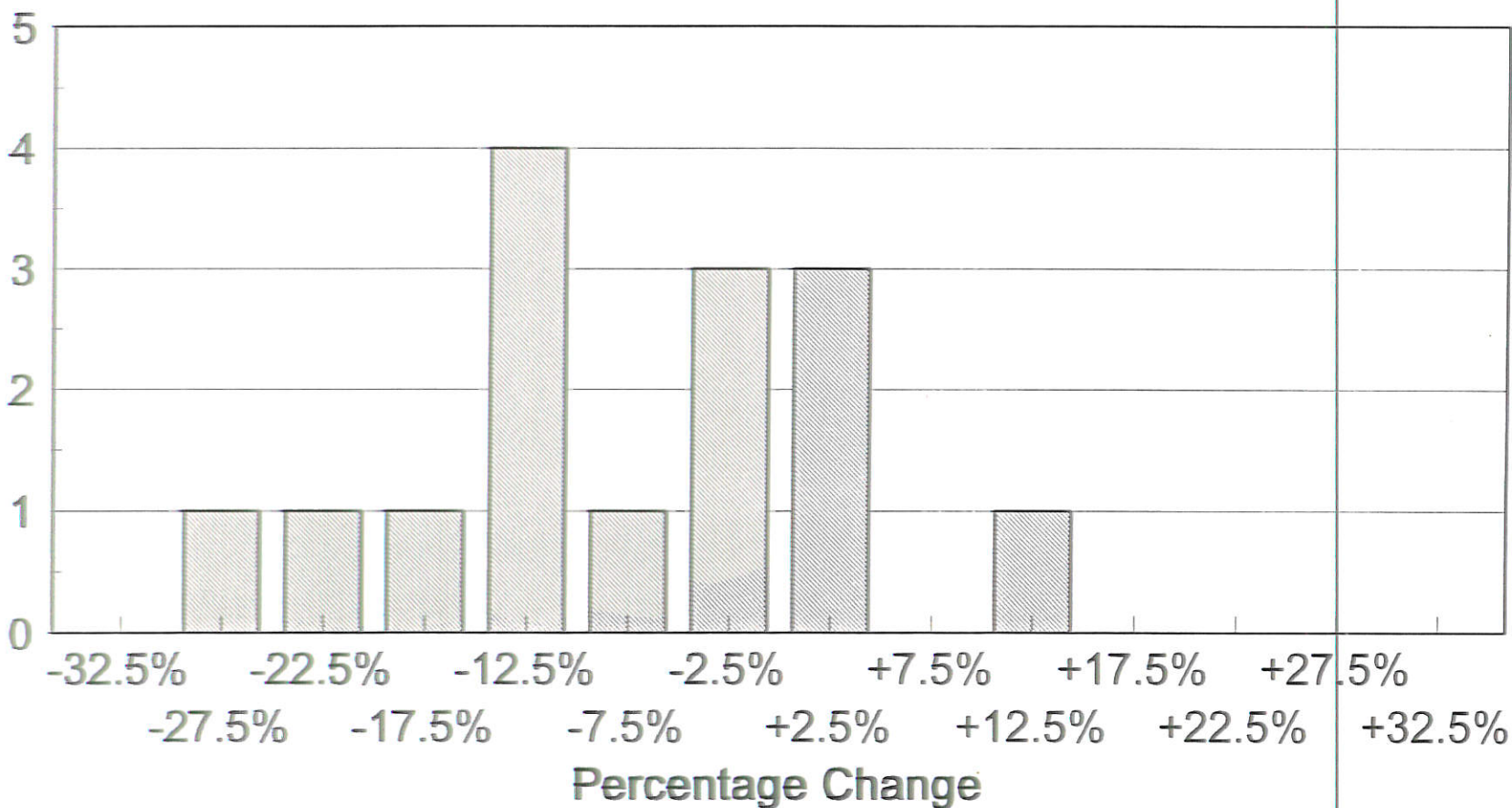
Kansas

Office & Clerical

Number of Classes by Change

Average Change = -7.5%

Number of Classes



1-20

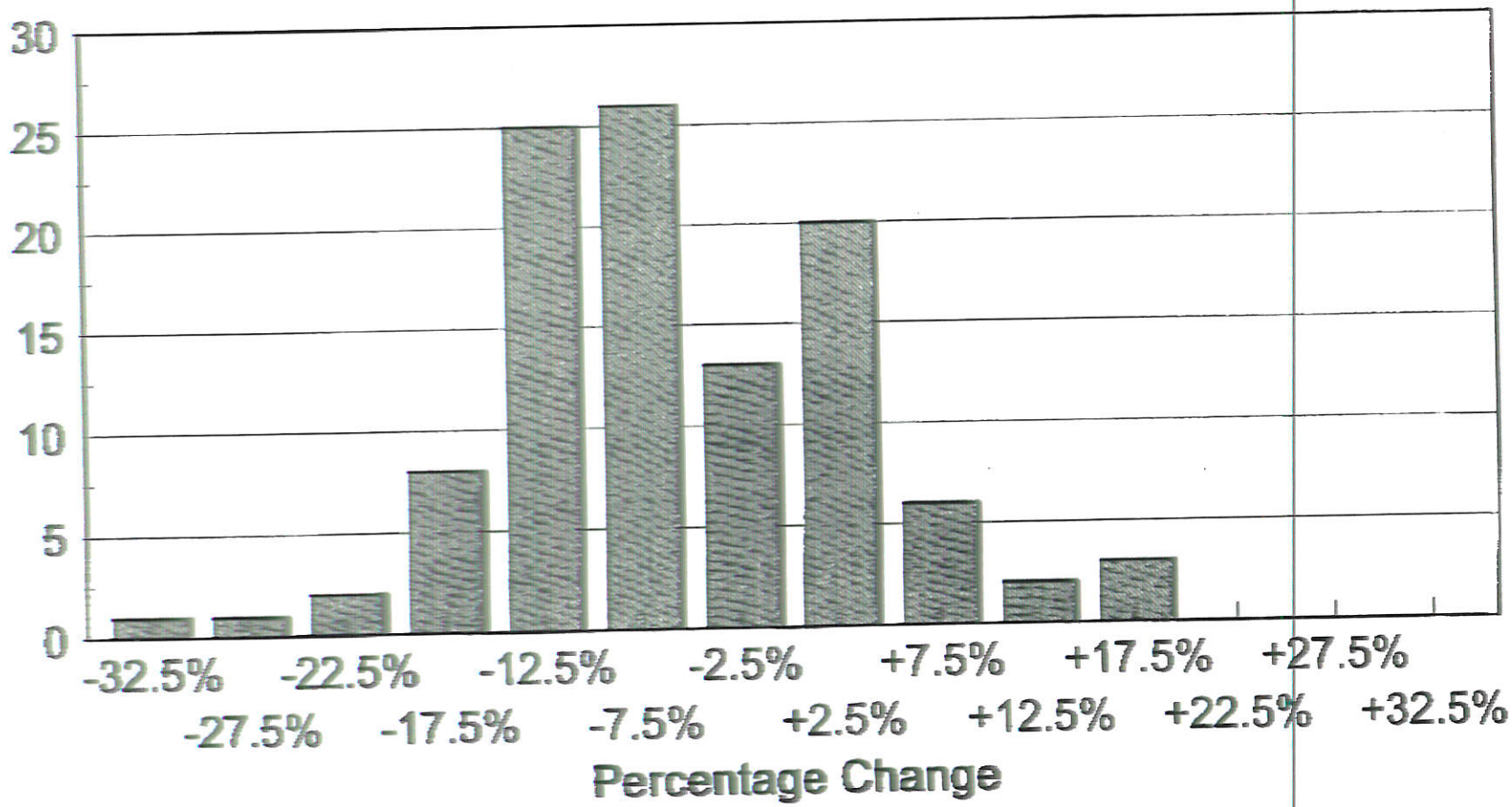
Kansas

Goods & Services

Number of Classes by Change

Average Change = -6.4%

Number of Classes



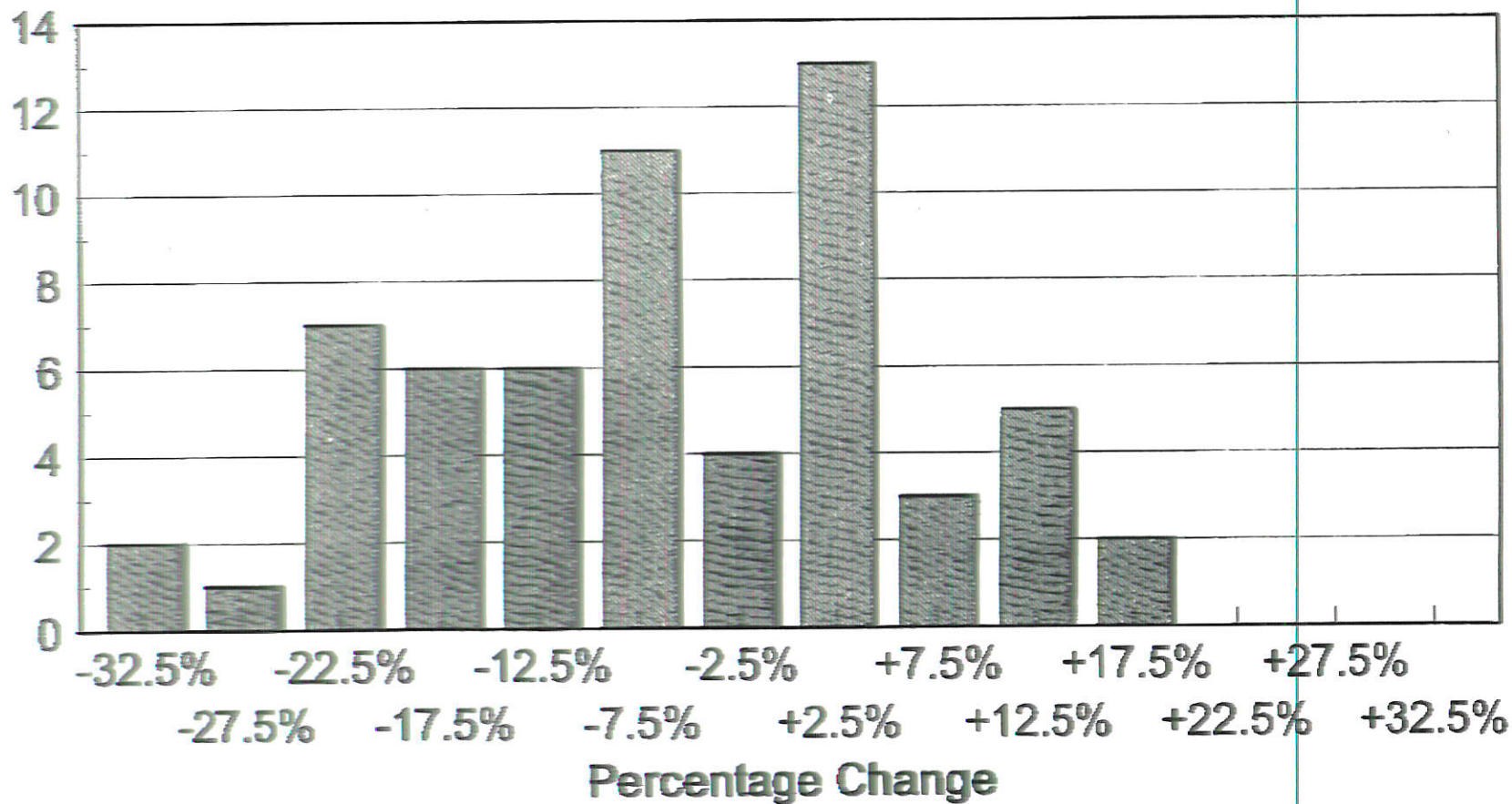
Kansas

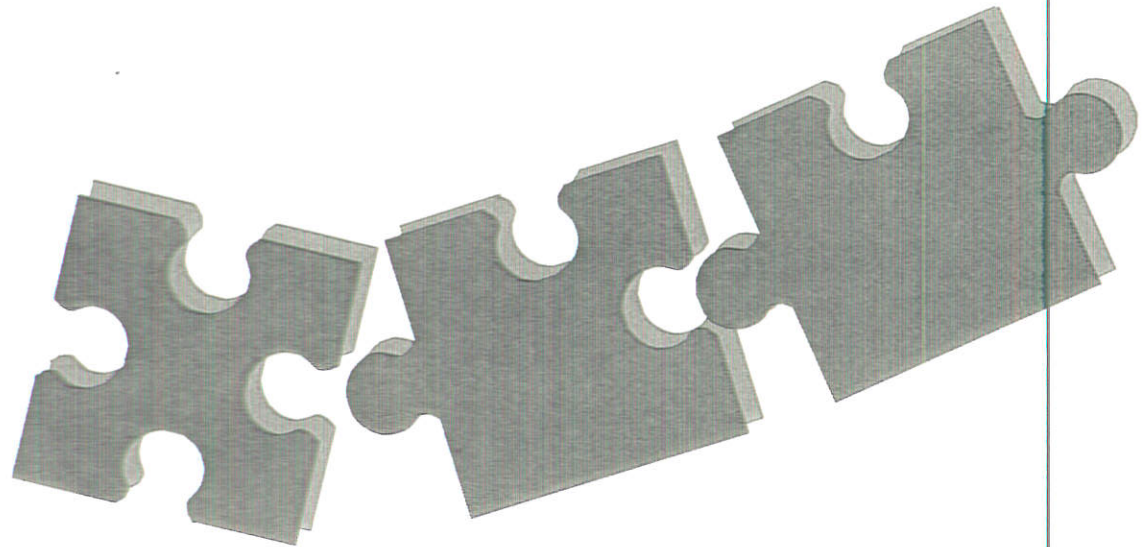
Miscellaneous

Number of Classes by Change

Average Change = -6.8%

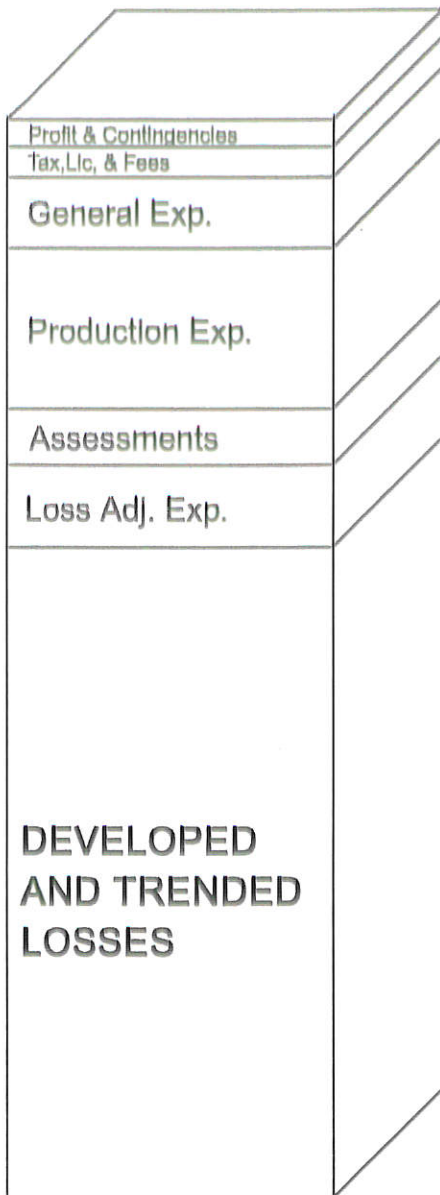
Number of Classes



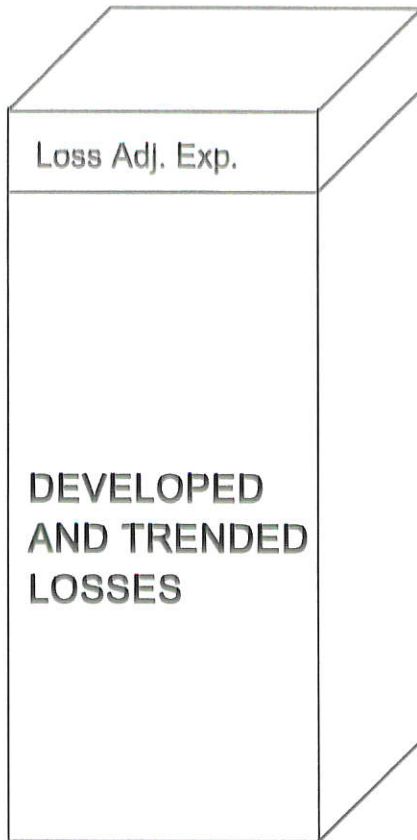


Residual Market	Market Share	38.3%
Statewide Loss Cost Level Change Based on Experience and Trend		- 6.9%
Residual Market Change in Expenses		-1.7%
Residual Market Rate Indication		- 8.5%

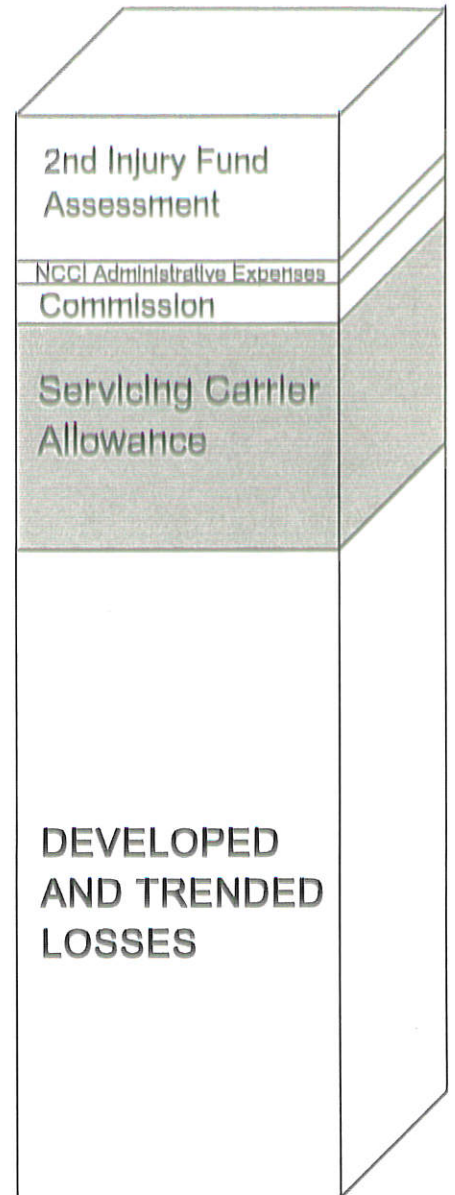
LOSS COSTS VS. RATES



Regulated Rates



Regulated Loss Costs



Regulated Assigned Risk Rates

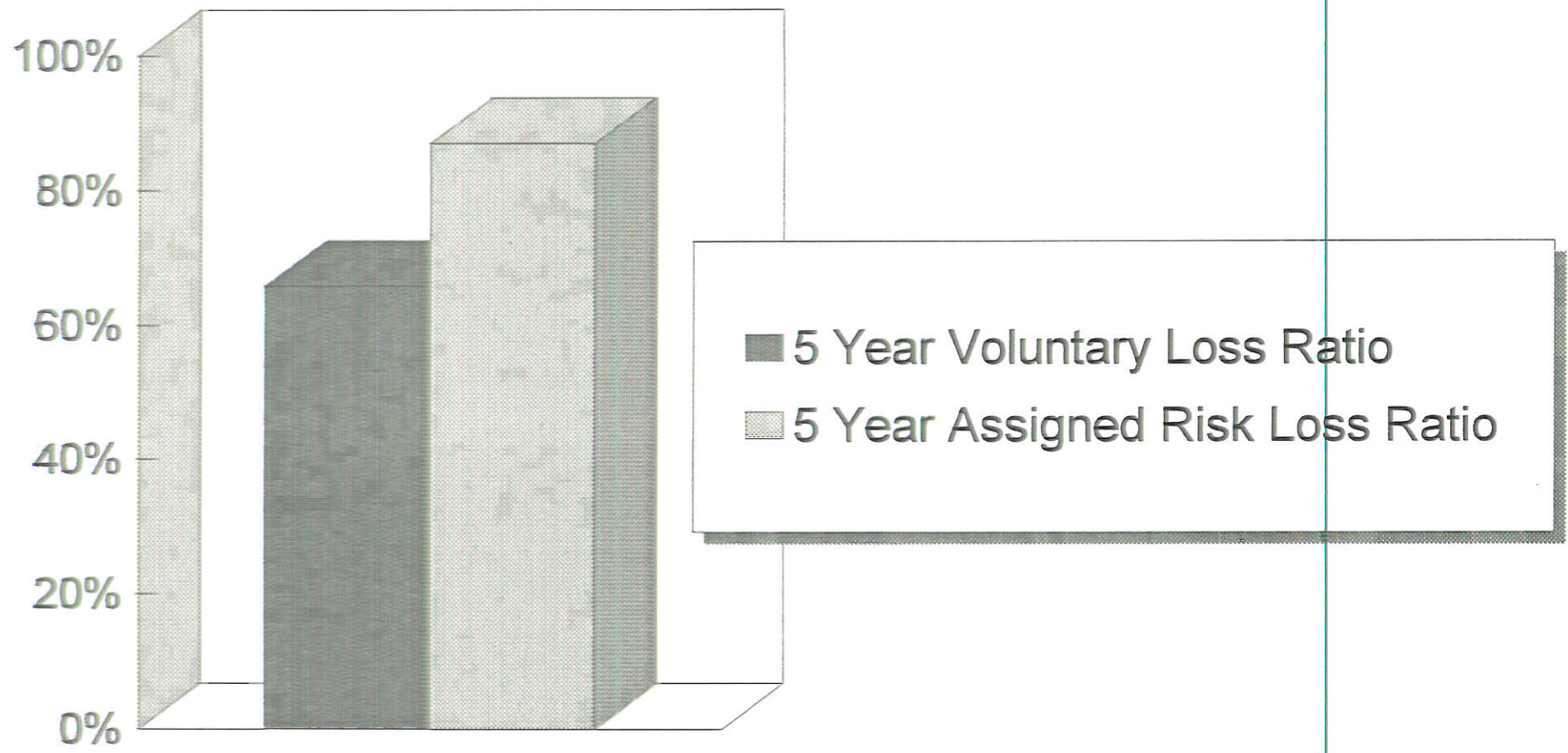
KANSAS ASSIGNED RISKS CURRENT PROGRAMS

1-24

<u>Assigned Risk Program</u>	<u>Effective Date</u>	<u>Average Relativity*</u>
Reduction of AR Premium Discounts (from Stock to Non-stock discounts, applies if standard premium greater than \$5000)	6-1-90	5.4%
ARAP (Experience based, maximum surcharge is 37%, eligible if standard premium greater than \$2250)	8-1-90	8.0%
Assigned Risk Surcharge Program (12.5% surcharge applied to entire standard premium if greater than \$2250)	9-1-93	11.6%
Merit Rating Surcharge Program (Applied to assigned risk accounts with standard premium less than \$2250)	9-1-93	0.0%
Combined Average Relativity *		27.0%

* The "relativities" are the average percentage increase of Assigned Risk Loss Costs over Voluntary Loss Costs.

Indicated Assigned Risk Relativity



Claim Amounts as of 12/31/93
Premiums reflect Current Voluntary Rates

Kansas

Indicated Relativity for Assigned Risk Programs

Indicated Loss Cost Relativity	31.8%
Current Average Relativity for Assigned Risk Programs	27.0%
Indicated Assigned Risk Program Change	3.8%