STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
233 RICHMOND STREET
PROVIDENCE, RHODE ISLAND 02903

IN THE MATTER OF:

NATIONAL COUNCIL ON COMPENSATION INSURANCE LOSS COSTS LEVEL CHANGE WORKERS' COMPENSATION

Filed September 5, 2006.

DBR No. 06-I-0168

DECISION

I. INTRODUCTION

The above-entitled matter came before the Department of Business Regulation ("Department") with the submission of Workers' Compensation Loss Costs Level Change by the National Council on Compensation Insurance ("NCCI") on September 5, 2006. The Filing requested approval of a reduction of the overall loss costs by three and seven tenths percent (-3.7%) for Industrial Classifications. The loss costs were proposed to be effective for policies renewing after January 1, 2007.[1] "Loss costs" as defined in this Filing include loss based expenses (also known as "loss adjustment expenses").

An order appointing Elizabeth Kelleher Dwyer and Paula M. Pallozzi as Co-Hearing Officers and Joel S. Chansky, FCAS, MAAA as the Department's consulting actuary was issued on September18, 2006.

[1] This is the average decrease. NCCI files advisory loss costs by "class codes" in which the values vary by the type of business in which the insured is engaged. For each class code within five major industry groups, NCCI has proposed specific advisory loss costs. The largest decrease in the proposal is -36% and the largest increase proposed is +27%.

A prehearing conference was held on September 25, 2006. The Co-Hearing Officers ordered that the class loss costs portion of the Filing be filed by NCCI no later than October 11, 2006, that Motions to Intervene be filed no later than November 10, 2006, that discovery be completed no later than November 17, 2006, that alternative rate calculations be filed no later than December 8, 2006 and that the public hearing be held on December 20, 2006. On October 10, 2006 NCCI filed the class loss costs portion of the Filing and amended their original requested effective date to February 1, 2007. The new information included F-Classification loss costs representing an overall change (decrease) for F-Classifications of -9.8%. A representative of Beacon Mutual Insurance Company attended the prehearing conference. Beacon later informed the Department that it did not intend to intervene in the proceeding.

On November 15, 2006 an advertisement appeared in the Providence Journal informing the public that the hearing on this matter would be held on December 20, 2006. This notice was also posted on the Department's website.

During discovery the parties determined that the pace of discovery was such that more time was needed to prepare for a substantive hearing. As such, a second prehearing order was issued on December 4, 2006 continuing the date upon which alternative calculations were required to be filed to December 19, 2006 and continuing the substantive hearing on this matter to January 4, 2007.

The Attorney General filed a statement of issues and alternative loss cost calculations on December 19, 2006. In that document the Attorney General raised five issues and advocated for an overall decrease in advisory loss costs of -12.7% for the

Industrial Classifications as well as additional changes that would impact the F-Classifications by an unknown level.[2]

A public hearing was held on December 20, 2006. No member of the public appeared to testify. The hearing was continued until January 4, 2007 and again no member of the public appeared to testify.

The parties filed a Joint Exhibit List designating certain documents as joint exhibits 1 through 24. All of those exhibits were admitted in full without objection. In addition NCCI filed two exhibits entered in full as NCCI Exhibits 1 and 2. The Attorney General filed one exhibit entered in full as AG Exhibit 1. During the course of the hearing an additional nine requests for information were made. Responses to these requests by NCCI were received and the Department has admitted those responses as full exhibits.

During the course of the hearing it was determined that a mistake had been made on one of the schedules provided by the Attorney General. That schedule was corrected and filed with the Department. The Attorney General also filed amended areas of disagreement and alternative loss cost calculations on January 12, 2007. The amended alternative loss cost calculations suggested an overall decrease in advisory loss costs of 12.0% for Industrial Classifications. The Attorney General also filed a Supplemental Statement of Areas of Disagreement and Alternative Calculations, Pursuant to Insurance Regulation 39, Section 10(b) on January 18, 2007.

[2] As indicated below the statement of issues was subsequently amended and the overall decrease was changed to 12.0% for Industrial Classifications.

II.
JURISDICTION

The Department has jurisdiction over this matter pursuant to R.I.G.L. § 27-7.1-5.1, 27-9-10, 42-14-1 *et seq.*, and 42-35-1 *et seq.*

III.
ISSUES

1) What level of advisory loss costs will produce Workers' Compensation loss costs, and hence, rates in Rhode Island which are not excessive, inadequate or unfairly discriminatory?

2) Should the proposed swing limit of +/- 25% filed by NCCI be changed to +/- 15%?

IV.
MATERIAL FACTS AND TESTIMONY

NCCI is a "rating organization" licensed by the Department pursuant to R.I.G.L. § 27-9-22. Carriers licensed to write Workers' Compensation insurance in Rhode Island have the option of "adopting" the advisory loss costs approved by the Department for NCCI, along with an approved loss costs multiplier, rather than making their own individual rate filings with the Department. In 2004 the Department approved an overall decrease of twenty and two tenths percent (-20.2%) in advisory loss costs effective January 1, 2005. In 2005 the Department approved a further overall decrease of four and two tenths percent (-4.2%) for Industrial Classifications and four and four tenths percent (-4.4%) for F-Classifications. This filing, therefore, represents the third consecutive year in which NCCI has filed for an overall decrease in loss costs.

NCCI indicated that the components of the proposed overall change (decrease) in advisory loss costs of -3.7% were: experience and trend -3.9%, benefit change +0.1% and loss adjustment expense +0.1%. NCCI offered the testimony of Carolyn J. Bergh, senior director and practice leader at NCCI, in support of the Filing. Ms. Bergh testified that she oversaw the production of the Filing. (Transcript of hearing of 1-4-07, page 11) Ms. Bergh responded to two issues raised by the hearing panel that had been brought to the attention of the Department during testimony at the State House in 2006. The first of these was expense constants. Ms. Bergh testified that NCCI only files expense constants in states with administered rates and, therefore, it was eliminated in Rhode Island in the advisory loss costs filing adopted January 1, 2005. (Transcript of hearing of 1-4-07, pages 22-23) However, if an insurer continued to use the 1998 rates after the January 1, 2005 approval, the employer would have been charged the expense constant until the insurer adopted the loss costs approved January 1, 2005. (Transcript of hearing of 1-4-07, page 95)

The second issue was experience rating and schedule rating eligibility. Ms. Bergh testified that the current threshold is $5,000 in one year or $10,000 in two years. Insureds below that threshold are not eligible for experience rating or schedule rating. Ms. Bergh testified that this threshold can vary and that other states have different thresholds. (Transcript of hearing of 1-4-07, page 23) NCCI has not, however, done an analysis of the effects of a change in the threshold in Rhode Island. (Transcript of hearing of 1-4-07, pages 94-95)

The Attorney General, through its expert, Mr. Anthony J. Grippa, raised four issues which, if accepted as proposed, would reduce overall loss costs to -12.0%, an 8.3

point differential from the -3.7% requested by NCCI. The Attorney General also raised an issue regarding the swing limits that would not affect overall loss costs for Industrial Classifications, but would affect the application of those loss costs to individual employers. Each of these issues is discussed below:

A.
Loss Development Factors

The Attorney General disagreed with NCCI's selection of indemnity paid loss development factors. In this Filing NCCI had used the 5-year ex hi/lo averaging process. In last year's proceeding the same issue was raised and the Department concluded that NCCI should use a 3-year average approach for indemnity. Decision, *In re NCCI Advisory Loss Costs* DBR No. 05-I-0175.

Ms. Bergh indicated that NCCI considered the Department's Decision on this issue in last year's filing but decided that the Decision was predicated on the fact that there was a downward trend that was eliminated with the use of additional data. Upon analyzing the data, they decided that the 5-year ex hi/lo approach removed some of the fluctuation and stabilized the indication over the long term. (Transcript of hearing of 1-4-07, page 30)

The Attorney General agreed with NCCI on medical but disagreed on indemnity – the Attorney General argued for the continuation of the 3-year average from first report to 12th report on the premise that the next to the last factor (from the 2004 evaluation) was nearly always the lowest factor, and excluding the hi/lo factors systematically excluded the 2004 evaluation. The Attorney General argued that while the ex hi/lo approach is often the preferred approach in that it promotes stability and smooths random fluctuations, the data was not random, and it was not appropriate to exclude the hi/lo factors for indemnity from 1st to 12th report. (Transcript of hearing of 1-4-07, page 137)

The Department has considered the positions of both NCCI and the Attorney General and concludes, as it did in the last filing, that a 3-year average approach for indemnity as used in the last filing continues to be appropriate. The Department agrees with the Attorney General that the exclusion of the hi/lo factors is still not eliminating random fluctuation. Further, the actual factors that emerged since the last filing were closer to the 3-year average factors for indemnity than the latest 5-year ex hi/lo factors from last year's filing. (NCCI response to the Department's second set of questions) While neither NCCI nor the Attorney General is advocating the use of a 3-year average beyond the 12th report for indemnity, the difference between this and the latest 5-year ex hi/low is small, and for consistency and simplicity, the Department has selected the 3-year average for indemnity paid loss development factors.

B.
Tail Factors

Ms. Bergh testified that NCCI's standard methodology is to employ a 5-year average in the tail. The reason for this is because the 5-year average insures long-term loss cost adequacy. (Transcript of hearing of 1-4-07, page 35) Ms. Bergh commented that there was one high factor of the five for medical. NCCI investigated this and she initially believed that it was due to a large medical case reserve. However, she then recalled that it was due to multiple claims. (Transcript of hearing of 1-4-07, page 72) However, no data was ever produced to prove or disprove this assertion. NCCI further testified that while the standard methodology was used, NCCI is not strictly bound to this approach and would consider alternatives if they deemed a particular factor to truly be an outlier. (Transcript of hearing of 1-4-07, pages 72-73)

The Attorney General raised this as an issue in this Filing due to the one high factor and recommended the use of a 5-year average excluding hi/lo factors. That high factor, however, has been present for years and has never previously been commented on. NCCI's testimony concerning this factor and the corresponding need for adequacy, together with a) the fact that this issue has not been raised in the past, and b) the medical tail factor is lower than that from the previous filing, persuaded the Department to choose NCCI's approach.

C.
Trend

Ms. Bergh testified that the loss costs were calculated using an indemnity loss ratio annual trend of -1.0% and a medical loss ratio annual trend of +2.0%. (Transcript of hearing of 1-4-07, page 38) They selected the values based on a) a five point policy year loss ratio trend calculation, which had high R-squared/goodness of fit values, and b) the values approved in the previous filing. (Transcript of hearing of 1-4-07, pages 38-39)

Mr. Grippa, the Attorney General's expert, testified that the three policy years used by NCCI (2002, 2003 and 2004) have remarkably close loss ratios. He suggested looking at accident year 2005 as an early indicator that loss ratios are decreasing. (Transcript of hearing of 1-4-07, page 120) While NCCI gave some unqualified consideration to accident year 2005 data in the filing, it did not utilize accident year 2005. This contrasts with the prior filing when accident year 2004 was showing increases when NCCI gave more consideration to it. (Transcript of hearing of 1-4-07, page 121)

The Attorney General's expert originally requested annual trend factors of -1.5% for indemnity and +1.5% for medical. In support of the selected values, the Attorney General testified that since accident year 2005 shows a significant downward trend in loss costs, it should be considered to select a trend lower than that being calculated solely by policy year data. (Transcript of hearing of 1-4-07, page 122) Mr. Grippa admits that the 2005 accident year information is immature, however, he still believes that it should be considered in the analysis. (Transcript of hearing of 1-4-07, pages 122 and 168) Ms. Bergh agreed that accident year 2005 data could be an early indication of what would be expected for policy year 2005 at a very immature stage. (Transcript of hearing of 1-4-07, page 61) Mr. Grippa did, however, agree that that the trend calculations presented by NCCI have R-squared values closer to 1.0 than do his calculations. (Transcript of hearing of 1-4-07, page 146)

In its original alternative calculation, the Attorney General advocated for an adjustment to both the medical and indemnity trends. However, during the hearing it was discovered that there was an error in one of the schedules presented in the Attorney General's position. (Transcript of hearing of 1-4-07, pages 147-148) With the correction to that schedule the Attorney General's medical trend of +2.0% was the same as filed by NCCI.

With regard to the indemnity trend, both the Attorney General and NCCI offered strong arguments in support of their selected trends. Upon consideration of both arguments, the Department selects an indemnity trend of -1.25%, which is halfway between NCCI's selected value and the Attorney General's selected value. The Department believes that this takes into account all of the relevant data and information, including the 2005 accident year.

The revised indemnity annual trend factor would apply to each of Industrial Classifications and F-Classifications.

D.
Paid vs. Paid + Case Loss Development Methodology

Mr. Grippa testified that while he accepted the paid methodology last year he is advocating a change to giving 50% weight to the paid + case results with this Filing. (Transcript of hearing of 1-4-07, pages 111-115) In the 2005 filing (effective January 1, 2006) NCCI presented diagnostics which indicated that the ratio of paid to paid + case was increasing. Mr. Grippa testified that there are three reasons why this could occur: (1) case reserves become less adequate; (2) loss payments are paid out faster and/or (3) long term disability claims are decreasing in number. (Transcript of hearing of 1-4-07, page 112) Only if the first reason is the cause would the paid method be clearly superior. If the cause is some combination of the second or third reasons, the paid loss method alone will produce excessive loss costs. (Transcript of hearing of 1-4-07, page 115) He did not suggest the change last year because he could not tell why it was occurring and he believed that the evidence provided by NCCI in the form of increasing paid to paid + case ratios was compelling. However, this year he believes that NCCI has not given any support as to why paid losses are a more accurate predictor of loss costs than paid + case. (Transcript of hearing of 1-4-07, page 112) He is also of the opinion that one of the successes of the 1992 reforms was to reduce the duration of payments to workers. If this were the case, use of paid only would not reflect those savings. But using paid + case data would incorporate "valuable information that the paid loss development method ignores". (Transcript of hearing of 1-4-07, page 117)

An alternative approach to quantifying the successes of the 1992 reforms would be to use the paid methodology only, with an adjustment factor to reflect the impact of the reform. In fact, NCCI has used this approach in prior filings. Ms. Bergh testified that she attempted to use as much post-reform data as possible in the loss development factors. (Transcript of hearing of 1-4-07, page 32) In order to address the Department's request that they research possible adjustments to the indemnity paid loss development factors to reflect potential adjustments for the 1992 reforms, they used the Bayesian State Space modeling technique that produced an indicated reduction of 2.0%. (Transcript of hearing of 1-4-07, pages 33-34) Application of this factor would move the results of the paid methodology closer to those of the paid + case methodology. However, due to uncertainties in this model as well as to a reporting dispute with Beacon Mutual, NCCI was unable to conclude anything definitive.[3] They also built a triangle of all of the data and link ratios from past filings. Neither of these methods, however, made her comfortable enough to apply a factor to reflect the 1992 reforms. (Transcript of hearing of 1-4-07, page 35)

Ms. Bergh testified that NCCI has consistently used the paid loss methodology in Rhode Island for the past four filings. As they developed the Filing they looked at both the paid and paid + case methodology and analyzed whether there was a reason to change the methodology utilized. In Rhode Island the difference in the indicated change in loss costs between paid and paid + case is significant and it is her opinion that the paid is much more stable. One reason for this offered by Ms. Bergh is that the state has a large dominant carrier created in 1992 with rapid increase in market share and the mix of

[3] This reporting dispute is currently being reviewed by the Department. Ms. Bergh testified as to NCCI's position with regard to the dispute but also stated that this issue did not have a material impact on this Filing. (Transcript of hearing of 1-4-07, page 17)

carriers is totally different over time. (Transcript of hearing of 1-4-07, pages 29-30) As a result the reserving practices from 12th to ultimate of the more mature claims are totally different than the 1st to 12th which are less mature claims mainly from Beacon Mutual. Further, Ms. Bergh testified that the paids were stable and, in her opinion, preferable. (Transcript of hearing of 1-4-07, page 30) Ms. Bergh also indicated that both paid and paid + case are standard actuarial methodologies and the merits of each should be weighed in each situation. However, in response to a question about the data that NCCI supplied in support of the use of the paid methodology, Ms. Bergh later testified as follows: "I'll start out saying that I was predisposed to the paid methodology because it's been filed for the past four years and due to the stability of the indication and the basis of my testimony for the past year and other people's testimony, I am biased in that direction." (Transcript of hearing of 1-4-07, page 55)

Ms. Bergh testified that paid + case has consistently been between 10% and 20% lower than the paid indication. (Transcript of hearing of 1-4-07, page 46) She does not have a definitive explanation as to why this is the case, however, it may have to do with the difference between pre-1992 claims and post 1992 claims. (Transcript of hearing of 1-4-07, page 83) She could not say definitively whether the paid + case is understated, the paid is overstated or some combination of the two but believes based on her judgment that paid is the appropriate methodology to use. (Transcript of hearing of 1-4-07, page 83) Of the states that NCCI serves, 14 use average of paid and paid + case, 12 use paid only and 9 use paid + case only.

Finally, NCCI responded to a number of data requests at the hearing and provided statistics including but not limited to claim counts and ratios of paid losses to paid + case losses. In the Attorney General's Supplemental Statement of Areas of Disagreement and Alternative Calculations, Pursuant to Insurance Regulation 39, Section 10(b), an analysis was performed on ratios of indemnity a) paid to paid + case losses, and b) case reserves to total reserves.

For the indemnity paid to paid + case ratios, the Attorney General asserts that because the ratios "are no longer increasing, concern about potential decrease in case reserve adequacy is diminished." The Department notes that there are still some instances of ratios increasing, such as at 1st, 3rd, and 5th reports as shown on RI PH6, Worksheet 2 in the Attorney General's Supplemental Statement. The Department also notes that there is a fairly consistent pattern of decreases from the top of the first few columns of figures for indemnity. While there is some evidence that the ratios are either no longer decreasing or that the rate of decrease is getting smaller, this doesn't mean that the paid + case methodology would, all else equal, produce loss costs that are not inadequate. Given the fairly substantial decreases over time, the paid + case methodology, without some sort of adjustment to account for these changes, would likely be more consistent if the ratios were level for a longer period of time.

Regarding the indemnity case reserves to total reserves ratios, the Attorney General notes that values have decreased, then increased, over time, and because the ratios are not decreasing, this supports their position to give weight to the paid + case methodology. The Attorney General did note that these ratios involve potential changes in insurers' incurred but not reported (IBNR) reserves, "which in turn may have a variety of underlying causes which may or may not relate to workers compensation and may or may not relate to Rhode Island." The Department is not ready to draw conclusions from this test, especially in light of the use of insurers' IBNR reserves as a tool. The Attorney General has correctly noted some of the issues involved.

In summary, while this is a complex issue, the Department was not provided with an appropriate explanation for the difference between the results of the paid and paid + case methodologies. NCCI did provide additional statistics at the request of the Hearing Panel but did not provide any interpretation of these statistics. The Department is not persuaded that the issue is strictly one of volatility since the results of the paid + case methodology are fairly consistent over time and among the 3 policy years in question for this Filing, just lower than the results of the paid methodology. The Department would like further information prior to moving to paid + case or a combination of paid and paid + case. For this Filing, therefore, it will accept the paid methodology as filed. However, NCCI is directed in its next filing to: (1) quantify the impact of reform on the paid method and (2) either incorporate paid + case or clearly explain why paid + case is producing a different result. The Department will work with both Beacon and NCCI to resolve any data problems to allow for such analysis.

E.
Swing Limits

Ms. Bergh testified that the currently approved swing limit of +/- 25% is the NCCI standard, however, other states do have lower swing limits. (Transcript of hearing of 1-4-07, page 25) She indicated that tightening the swing limits would result in some cross-subsidization within the industry group as the experience of the worst classes will be spread amongst the other classes. (Transcript of hearing of 1-4-07, page 26) She defined cross subsidization as "...everyone would bear either the detriment of that bad experience or the benefit of that good experience within that industry group." (Transcript of hearing of 1-4-07, page 43) On the other hand, Ms. Bergh indicated that a lower threshold would smooth the loss costs overall and promote increased stability and could be beneficial in a small state like Rhode Island. (Transcript of hearing of 1-4-07, page 91) NCCI provided an exhibit listing the swing limits in the states they service. That exhibit indicated that six states use +/- 15%, four use +/- 20% and the remainder use +/- 25%. Ms. Bergh believes that the states which utilize +/- 15% and +/- 20% do so as a result of regulatory directives. (Transcript of hearing of 1-4-07, page 97)

Mr. Grippa stated that there were four reasons why he believed that swing limits in Rhode Island should be moved from the traditional +/- 25% to +/- 15%. Those reason are: (1) NCCI starts with the midpoint of the industry group so, to the extent that the industry group differential is more volatile, the swing limits for individual classes within each industry group become more volatile; (2) the smaller the state the more rationale there is to have tighter swing limits because the law of large numbers works better with larger volume; (3) the NCCI class ratemaking program gives a portion of weight to national pure premium, so with a tighter swing limit the effect of national pure premiums on Rhode Island classification relativities is lessened and (4) a fair number of small states have tightened swing limits. (Transcript of hearing of 1-4-07, pages 110-111) Further, the Attorney General articulated why he has waited to bring this issue up, so as to allow the classification loss costs to catch up after the long lag between the filings in 1998 and 2005. (Transcript of hearing of 1-4-07, pages 170-171)

The Department finds the Attorney General's arguments on swing limits persuasive. The Department notes that the current swing limits have produced great variances between employers. For example, although the last three filings have all requested overall decreases in lost costs, the variance on a class code basis has been significant. The 2004 filing ranged from a -47.9% decrease to a 19.9% increase, the 2005 filing ranged from a -30.5% decrease to a 27.0% increase and this Filing ranges from a -36.0% decrease to a 27.0% increase. The Department believes that a move to a +/- 15% swing limit will promote stability and, therefore, orders NCCI to recalculate based upon a +/- 15% swing limit. This would apply to each of Industrial Classifications and F-Classifications.

V.
FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. The Department finds that a 3-year average of indemnity loss development factors is appropriate and orders NCCI to recalculate based upon use of this methodology.
2. The Department has evaluated the approaches advocated by both parties and finds that the approach to the calculation of the medical tail factor utilized by NCCI is appropriate.
3. The recalculation by the Attorney General places the parties in agreement with regard to the medical trend. With regard to the indemnity trend the Department has determined that use of a -1.25% annual indemnity trend is appropriate and orders NCCI to recalculate both Industrial Classification and F-Classification loss costs using this new trend factor.
4. With regard to this filing the Department accepts NCCI's use of paid data. However, the department directs that in its next filing NCCI (1) quantify the impact

of reform of the paid method and (2) either incorporate paid + case or clearly explain why paid + case is producing a different result.

5. The Department believes that adjustment of the current swing limit of +/- 25% to +/- 15% will promote stability in Rhode Island. NCCI is, therefore, ordered to recalculate loss costs based upon a +/- 15% swing limit for both Industrial Classifications and F-Classifications. Further, NCCI is ordered to recalculate the overall impact on loss costs for Industrial Classifications.

VI.
RECOMMENDATION

Based on the above analysis, the Hearing Officers recommend that:

1. Consistent with the directives listed above, an overall decrease in advisory loss costs of -7.3% for Industrial Classifications and approximately -14% (subject to final calculations to be performed by NCCI) for F-Classifications will produce loss costs that are not excessive, inadequate or unfairly discriminatory – see Attached Exhibit 1 for Industrial Classifications.

2. NCCI be directed to file a schedule consistent with this decision by class code and industry group.

3. The advisory loss costs addressed by this opinion be effective February 1, 2007.

4. NCCI shall be required to issue a Circular to all member insurers advising insurers to file with the Department no later than April 1, 2007 their intention to adopt NCCI advisory loss costs with proposed lost cost multipliers. For any insurer electing not to adopt the 2007 advisory loss costs and/or to maintain its current lost cost multiplier, the insurer shall provide the Department with statistical support that the

insurer's loss experience is lower/higher than industry. If there is any other reason why an insurer is not adopting the -7.3% change in loss costs or not amending its lost cost multiplier accordingly, the insurer must fully explain this to the Department.

5. NCCI is hereby directed to perform an analysis of triggers for experience rating and schedule rating eligibility to determine if the current Rhode Island thresholds of $5,000 in one year or $10,000 in two years are appropriate for Rhode Island employers. In addition, NCCI is required to analyze the effects of any proposed changes. This analysis should be included in the NCCI's next filing to the Department.

Dated: January 26, 2007

Elizabeth Kelleher Dwyer, Esq.
Hearing Officer

Dated: January 26, 2007

Paula M. Pallozzi
Hearing Officer

I have read the Hearing Officers' Decision and Recommendation in this matter, and I hereby

__✓__ ADOPT
_______ REJECT
_______ MODIFY

the Decision and Recommendation.

Dated: January 26, 2007

A. Michael Marques
Director

NOTICE OF APPELLATE RIGHTS

THIS DECISION CONSTITUTES A FINAL ORDER OF THE DEPARTMENT OF BUSINESS REGULATION PURSUANT TO R.I.G.L. § 42-35-12. PURSUANT TO R.I.G.L. § 42-35-15, THIS ORDER MAY BE APPEALED TO THE SUPERIOR COURT SITTING IN AND FOR THE COUNTY OF PROVIDENCE WITHIN THIRTY (30) DAYS OF THE MAILING DATE OF THIS DECISION. SUCH APPEAL, IF TAKEN, MUST BE COMPLETED BY FILING A PETITION FOR REVIEW IN SUPERIOR COURT. THE FILING OF THE COMPLAINT DOES NOT ITSELF STAY ENFORCEMENT OF THIS ORDER. THE AGENCY MAY GRANT, OR THE REVIEWING COURT MAY ORDER, A STAY UPON THE APPROPRIATE TERMS.

For Filing Effective 1/1/2007

EXHIBIT I - Limited Paid Losses

	Policy Year 2004	Policy Year 2003	Policy Year 2002
Premium:			
(1) Standard Earned Premium Developed to Ultimate (Appendix A-II)	$250,639,734	$249,617,427	$231,174,589
(2) Premium On-level Factor (Appendix A-I)	0 553	0 541	0 540
(3) Premium Available for Benefits Costs = (1)x(2)	$138,603,773	$135,043,028	$124,834,278
Indemnity Benefit Cost:			
(4) Limited Indemnity Paid Losses Developed to Ultimate (See Exhibit 1, Page 2)	$68,996,179	$68,537,806	$64,651,592
(5) Indemnity Loss On-level Factor (Appendix A-I)	1 002	1 004	1 006
(6) Factor to Include Loss-based Expenses (Exhibit II)	1 167	1 167	1 167
(7) Composite Adjustment Factor = (5)x(6)	1 169	1 172	1 174
(8) Adjusted Limited Indemnity Losses = (4)x(7)	$80,656,533	$80,326,309	$75,900,969
(9) Adjusted Limited Indemnity Cost Ratio excluding Trend and Benefits = (8)/(3)	0 582	0 595	0 608
(10) Factor to Reflect Indemnity Trend (Appendix A-III)	0 963	0 951	0 939
(11) Projected Limited Indemnity Cost Ratio = (9)x(10)	0 560	0 566	0 571
(12) Factor to Adjust Indemnity Cost Ratio to an Unlimited Basis (Appendix A-II)	1 019	1 019	1 019
(13) Projected Indemnity Cost Ratio = (11)x(12)	0 571	0 577	0 582
(14) Factor to Reflect Proposed Changes in Indemnity Benefits (Appendix C)	1 001	1 001	1 001
(15) Projected Indemnity Cost Ratio including Benefit Changes = (13)x(14)	0 572	0 578	0 583
Medical Benefit Cost:			
(16) Limited Medical Paid Losses Developed to Ultimate (Appendix A-II)	$38,814,996	$36,362,683	$32,931,912
(17) Medical Loss On-level Factor (Appendix A-I)	1 000	1 000	1 000
(18) Factor to Include Loss-based Expenses (Exhibit II)	1 167	1 167	1 167
(19) Composite Adjustment Factor = (17)x(18)	1 167	1 167	1 167
(20) Adjusted Limited Medical Losses = (16)x(19)	$45,297,100	$42,435,251	$38,431,541
(21) Adjusted Limited Medical Cost Ratio excluding Trend and Benefits = (20)/(3)	0 327	0 314	0 308
(22) Factor to Reflect Medical Trend (Appendix A-III)	1 061	1 082	1 104
(23) Projected Limited Medical Cost Ratio = (21)x(22)	0 347	0 340	0 340
(24) Factor to Adjust Medical Cost Ratio to an Unlimited Basis (Appendix A-II)	1 019	1 019	1 019
(25) Projected Medical Cost Ratio = (23)x(24)	0 354	0 346	0 346
(26) Factor to Reflect Proposed Changes in Medical Benefits (Appendix C)	1 000	1 000	1 000
(27) Projected Medical Cost Ratio including Benefit Changes = (25)x(26)	0 354	0 346	0 346
Total Benefit Cost:			
(28) Indicated Change Based on Experience, Trend and Benefits = (15)+(27)	0 926	0 924	0 929
(29) Selected Weights (un-rounded)	33 3%	33 3%	33 3%
(30) Indicated Change Based on Experience, Trend and Benefits = sum [(28)x(29)]	0 926		
(31) Effect of Change in Loss-based Expenses	1 001		
(32) Indicated Change Modified to Reflect the Change in Loss-based Expenses = (30)x(31)	0 927	(-7 3%)	

References to appendices and exhibits other than Exhibit 1 refer to the NCCI filing

For Filing Effective 1/1/2007

Determination of Premium and Losses Developed to an Ultimate Report

Premium and Loss Summary Valued as of 12/31/2005

	Policy Year 2004	Policy Year 2003	Policy Year 2002
(1) Standard Earned Premium	$246,935,699	$250.117.662	$230,943,645
(2) Factor to Develop Premium to Ultimate	1.015	0.998	1.001
(3) Standard Earned Premium Developed to Ultimate = (1)x(2)	$250.639.734	$249,617,427	$231,174.589
(4) Limited Indemnity Paid Losses	$24,466,730	$39.640.142	$45,690,171
(5) Limited Indemnity Paid Development Factor to Ultimate	2.820	1.729	1.415
(6) Limited Indemnity Paid Losses Developed to Ultimate = (4)x(5)	$68,996,179	$68,537,806	$64.651,592
(7) Limited Medical Paid Losses	$23.439.007	$27.864.125	$27,193,982
(8) Limited Medical Paid Development Factor to Ultimate	1.656	1.305	1.211
(9) Limited Medical Paid Losses Developed to Ultimate = (7)x(8)	$38,814,996	$36.362,683	$32.931.912

Determination of Policy Year Loss Development Factors

Summary of Paid Loss Development Factors

	(1) 1st/2nd	(2) 2nd/3rd	(3) 3rd/4th	(4) 4th/5th	(5) 5th/6th	(6) 6th/7th	(7) 7th/8th	(8) 8th/9th
Indemnity	1.631	1.222	1.114	1.052	1.028	1.021	1.007	1.009
Medical	1.269	1.078	1.034	1.021	1.012	1.010	1.004	1.005

	(9) 9th/10th	(10) 10th/11th	(11) 11th/12th	(12) 12th/13th	(13) 13th/14th	(14) 14th/15th	(15) 15th/16th	(16) 16th/17th
Indemnity	1.009	1.005	1.003	1.005	1.005	1.005	1.006	1.006
Medical	1.004	1.004	1.003	1.003	1.003	1.003	1.004	1.004

	(17) 17th/18th	(18) 18th/19th*	(19) Ltd P+C 19th/Ult Factor	(20) Ltd. Paid to P+C Factor	(21) Factor to Adjust for 1992 Reform	(22) 19th/Ult [(19)/(20)]x(21)	(23) 18th/Ult (22)x(18)	(24) 17th/Ult (23)x(17)
Indemnity	1.006	1.003	1.010	0.940	1.000	1.074	1.077	1.083
Medical	1.002	1.002	1.050	0.972	1.000	1.080	1.082	1.084

	(25) 16th/Ult (24)x(16)	(26) 15th/Ult (25)x(15)	(27) 14th/Ult (26)x(14)	(28) 13th/Ult (27)x(13)	(29) 12th/Ult (28)x(12)	(30) 11th/Ult (29)x(11)	(31) 10th/Ult (30)x(10)	(32) 9th/Ult (31)x(9)
Indemnity	1.089	1.096	1.101	1.107	1.113	1.116	1.122	1.132
Medical	1.088	1.092	1.095	1.098	1.101	1.104	1.108	1.112

	(33) 8th/Ult (32)x(8)	(34) 7th/Ult (33)x(7)	(35) 6th/Ult (34)x(6)	(36) 5th/Ult (35)x(5)	(37) 4th/Ult (36)x(4)	(38) 3rd/Ult (37)x(3)	(39) 2nd/Ult (38)x(2)	(40) 1st/Ult (39)x(1)
Indemnity	1.142	1.150	1.174	1.207	1.270	1.415	1.729	2.820
Medical	1.118	1.122	1.133	1.147	1.171	1.211	1.305	1.656

† The 18th/19th link ratio is raised to the two-thirds power to remove the overlap with the AY 19th/Ult development factor.

Rhode Island Interrogatories - For Filing Effective 1/1/2007

Determination of Policy Year Development Factors

Limited Paid Loss Development Factors

Policy Year	Limited Paid Indemnity Losses For Matching Companies		Development Factor
	1st Report	2nd Report	
1999	20.033.765	32.503,256	1 622
2000	22.555.416	37.230.071	1 651
2001	23.172.259	38.176.976	1 648
2002	23.346.789	37,461.605	1 605
2003	24.171.199	39.640.142	1 640
Average *			1 631
	2nd Report	3rd Report	
1998	24.571,835	30.817.881	1 254
1999	32.245.180	40.243.278	1 248
2000	38.123.141	47.340.279	1 242
2001	37.930.737	45.716,036	1 205
2002	37.461.605	45.690.171	1 220
Average *			1 222
	3rd Report	4th Report	
1997	27.892.191	32.134.919	1 152
1998	32.582.510	37.312.549	1 145
1999	42.448.110	47.125.588	1 110
2000	46.574.454	51.686,443	1 110
2001	45.716.036	51.291.505	1 122
Average *			1.114
	4th Report	5th Report	
1996	27.969.689	29.776,659	1.065
1997	32.669.035	34.871.269	1.067
1998	39.708,448	41.995.810	1.058
1999	46,702.303	48.892.634	1.047
2000	51.686.443	54.328.191	1.051
Average *			1.052
	5th Report	6th Report	
1995	30.360.212	32.045.474	1.056
1996	30.021.490	31.684.274	1.055
1997	35,357.549	36.472.258	1.032
1998	40,344.124	41.507.620	1.029
1999	48.892.634	50.066.828	1.024
Average *			1.028
	6th Report	7th Report	
1994	30.010.148	31.186.176	1.039
1995	32.010.217	33.305.265	1.040
1996	32.302.307	32.973.645	1.021
1997	34.805.970	35.395.946	1.017
1998	41.507.620	42.598.135	1.026
Average *			1.021
	7th Report	8th Report	
1993	29.916.069	30.248.807	1.011
1994	31.186.176	32.298.788	1.036
1995	33.741,563	33.967.206	1.007
1996	32.368.143	32.473,496	1.003
1997	35.395.946	35.821.795	1.012
Average *			1.007
	8th Report	9th Report	
1992	48.516.304	48.939.788	1.009
1993	30.240.088	30.376.173	1.005
1994	32.565.588	33.039,892	1.015
1995	33,954.705	34.102.374	1.004
1996	32.471.469	32.708.780	1.007
Average *			1.009
	9th Report	10th Report	
1991			
1992	49.003.721	49.330.676	1.007
1993	30.793.780	31.139.794	1.011
1994	33.035.239	33.178.169	1.004
1995	34.077.849	34.475.356	1.012
Average *			1.009

Policy Year	Limited Paid Medical Losses For Matching Companies		Development Factor
	1st Report	2nd Report	
1999	16.916.165	21.452.809	1 268
2000	18.209.704	23.144.784	1 271
2001	19.774.493	24.100.595	1 219
2002	19,596.605	25.281.667	1 290
2003	21.999.409	27.864.125	1 267
Average *			1 269
	2nd Report	3rd Report	
1998	16.096.097	17.407.072	1.081
1999	21.512.777	23.201.376	1.078
2000	23.600.562	25.033.727	1.061
2001	23.884.766	25.963.990	1.087
2002	25.281.667	27.193.982	1.076
Average *			1.078
	3rd Report	4th Report	
1997	17.422.427	17.954.957	1.031
1998	18.254.252	18.847.024	1.032
1999	24.282.563	25.293.605	1.042
2000	24.413.213	25.164.981	1.031
2001	25.963.990	27.014.650	1.040
Average *			1.034
	4th Report	5th Report	
1996	15.214,876	15.371.940	1 010
1997	19.516.974	19.986.331	1 024
1998	19.787.407	20.085.761	1 015
1999	25.089,362	25.716,609	1 025
2000	25.164.981	25.752.821	1 023
Average *			1 021
	5th Report	6th Report	
1995	15.296.112	15.546,499	1 016
1996	15.956.765	16.293,431	1 021
1997	20.173.193	20.185.366	1 001
1998	19.373,373	19.557.509	1 010
1999	25.716.609	25.986.170	1 010
Average *			1 012
	6th Report	7th Report	
1994	14,827.674	15.010,829	1 012
1995	15,537,561	15.792.844	1 016
1996	17.021.470	16.959.437	0.996
1997	19.058.244	19.181.519	1.006
1998	19,557,509	19.786.828	1.012
Average *			1.010
	7th Report	8th Report	
1993	15.306.922	15.370.997	1.004
1994	15.010.685	15.080.046	1.005
1995	15.939.937	16.013.816	1.005
1996	16.573.084	16,565.341	1.000
1997	19.181.519	19.232.891	1.003
Average *			1.004
	8th Report	9th Report	
1992	6.769.885	6.821.064	1.008
1993	15,359.004	15.421.888	1.004
1994	15.175.031	15.264.773	1.006
1995	15.991.315	16.070,041	1.005
1996	16,562.854	16.581.711	1.001
Average *			1.005
	9th Report	10th Report	
1991	31.651.010	31.850.403	1.006
1992	21.769.508	21.806.503	1.002
1993	15,508,543	15.659.295	1.010
1994	15.252.814	15.333.735	1.005
1995	16.051.055	16.089.334	1.002
Average *			1.004

* Average of Latest 3 Years for Indeminity and Average of Latest 5 Years Excl High/Low for Medical

RHODE ISLAND

Determination of Policy Year Development Factors

Limited Paid Loss Development Factors

Policy Year	Limited Paid Indemnity Losses For Matching Companies		Development Factor
	10th Report	11th Report	
1990			
1991			
1992	49,722,485	49,948,417	1.005
1993	31,139,039	31,248,463	1.004
1994	33,144,339	33,323,206	1.005
Average *			1.005
	11th Report	12th Report	
1989			
1990			
1991			
1992	49,739,802	49,928,038	1.004
1993	31,247,722	31,311,916	1.002
Average *			1.003
	12th Report	13th Report	
1988	142,140,172	143,126,576	1.007
1989	157,256,445	159,445,154	1.014
1990	112,580,273	113,022,313	1.004
1991	84,966,687	85,473,120	1.006
1992	49,862,197	50,054,354	1.004
Average *			1.005
	13th Report	14th Report	
1987	129,090,309	130,613,032	1.012
1988	142,424,134	143,458,873	1.007
1989	162,378,355	163,784,186	1.009
1990	111,922,071	112,320,117	1.004
1991	84,628,296	84,867,644	1.003
Average *			1.005
	14th Report	15th Report	
1986	120,574,739	121,575,758	1.008
1987	130,613,032	131,651,490	1.008
1988	147,685,286	148,332,400	1.004
1989	161,581,941	162,605,702	1.006
1990	111,977,063	112,369,065	1.004
Average *			1.005
	15th Report	16th Report	
1985	90,375,576	91,101,464	1.008
1986	121,575,758	122,774,371	1.010
1987	138,847,683	139,688,741	1.006
1988	146,004,371	146,694,576	1.005
1989	161,679,955	162,900,487	1.008
Average *			1.006
	16th Report	17th Report	
1984	76,423,885	76,791,366	1.005
1985	91,101,464	91,814,448	1.008
1986	126,981,144	127,730,679	1.006
1987	137,558,306	138,412,309	1.006
1988	146,226,995	146,965,675	1.005
Average *			1.006
	17th Report	18th Report	
1983	68,855,198	69,043,732	1.003
1984	76,677,361	77,143,098	1.006
1985	93,135,067	93,908,554	1.008
1986	125,730,384	126,330,166	1.005
1987	137,686,478	138,446,777	1.006
Average *			1.006
	18th Report	19th Report	
1982	58,104,531	58,329,967	1.004
1983	69,043,732	69,612,892	1.008
1984	79,822,404	80,113,318	1.004
1985	92,153,247	92,748,792	1.006
1986	126,066,987	126,639,361	1.005
Selected†			1.003

Policy Year	Limited Paid Medical Losses For Matching Companies		Development Factor
	10th Report	11th Report	
1990	33,935,712	33,953,588	1.001
1991	31,850,403	32,002,974	1.005
1992	21,847,935	21,878,006	1.001
1993	15,657,777	15,775,866	1.008
1994	15,311,469	15,389,374	1.005
Average *			1.004
	11th Report	12th Report	
1989	43,048,016	43,248,505	1.005
1990	33,952,561	33,999,309	1.001
1991	32,327,146	32,350,146	1.001
1992	21,730,073	21,809,301	1.004
1993	15,774,259	15,826,498	1.003
Average *			1.003
	12th Report	13th Report	
1988	36,391,954	36,542,350	1.004
1989	43,041,915	43,232,627	1.004
1990	34,937,457	34,978,737	1.001
1991	31,984,490	31,981,123	1.000
1992	21,765,170	21,858,867	1.004
Average *			1.003
	13th Report	14th Report	
1987	33,439,610	33,582,887	1.004
1988	36,386,395	36,532,981	1.004
1989	44,334,575	44,475,037	1.003
1990	34,524,877	34,586,548	1.002
1991	31,762,826	31,791,597	1.001
Average *			1.003
	14th Report	15th Report	
1986	30,283,111	30,345,330	1.002
1987	33,582,887	33,731,149	1.004
1988	37,985,875	38,148,972	1.004
1989	43,621,855	43,720,566	1.002
1990	34,478,407	34,619,956	1.004
Average *			1.003
	15th Report	16th Report	
1985	23,095,515	23,219,387	1.005
1986	30,345,330	30,436,798	1.003
1987	36,159,640	36,321,795	1.004
1988	37,441,153	37,585,523	1.004
1989	43,467,949	43,595,965	1.003
Average *			1.004
	16th Report	17th Report	
1984	19,106,986	19,143,652	1.002
1985	23,219,387	23,378,092	1.007
1986	31,654,459	31,706,867	1.002
1987	35,589,227	35,884,565	1.008
1988	37,451,148	37,570,253	1.003
Average *			1.004
	17th Report	18th Report	
1983	18,185,282	18,210,485	1.001
1984	19,133,412	19,167,328	1.002
1985	23,955,941	24,129,353	1.007
1986	31,035,935	31,102,505	1.002
1987	35,766,653	35,832,050	1.002
Average *			1.002
	18th Report	19th Report	
1982	15,765,391	15,967,516	1.013
1983	18,210,485	18,265,013	1.003
1984	19,708,244	19,731,222	1.001
1985	23,575,823	23,718,151	1.006
1986	31,051,196	31,095,589	1.001
Selected†			1.002

† The 18th/19th link ratio is raised to the two-thirds power to remove the overlap with the AY 19th/Ult development factor

* Average of Latest 3 Years for Indemnity and Average of Latest 5 Years Excl. High/Low for Medical