OFFICE OF LEGISLATIVE RESEARCH
Objective Research for Connecticut's Legislature

ResearchReport

# Workers' Compensation Rates

By: Lee Hansen, Principal Analyst
October 31, 2019 | 2019-R-0267

## Issue

This report describes how workers' compensation insurance premium rates are set in Connecticut and shows how the rates compare to those in other states (as determined by Oregon's Department of Consumer and Business Services). It also describes recent rate trends and various factors that may affect rates differences between states.

## Summary

In Connecticut, the workers' compensation insurance ratemaking process begins with the National Council on Compensation Insurance (NCCI), which collects annual state-specific data on how much insurance carriers have paid for the losses caused by workers' compensation claims (i.e., medical expenses and lost wage benefits). Once the state Insurance Department approves these "loss cost" figures for hundreds of different job classifications, each individual insurance carrier develops its own rates, which incorporate the approved loss cost rates plus a multiplier to account for the carrier's additional expenses and profit margins.

*The rates and process described in this report do not apply to employers that self-insure (e.g., the state government).*

An employer may generally choose from the range of approved rates and products available in the workers' compensation insurance market, and the premium it ultimately pays will depend on the carrier and coverage selected plus additional factors such as the employer's history of job-related injuries and deductible-related premium discounts.

Every two years, Oregon's Department of Consumer and Business Services prepares a 50-state workers' compensation premium rate ranking. According to the most recent 2018 ranking, Connecticut's premiums were the seventh most expensive in the nation. Rates in New York,

California, New Jersey, Alaska, Delaware, and Georgia were more expensive. However, the ranking also found that Connecticut's premiums had decreased by roughly 26% over the preceding five years, one of the largest decreases among the northeastern states.

Differences between the states' premium rates may stem from a wide range of factors, with some due to the statutorily defined parameters of a state's workers' compensation system (e.g., mandated benefit levels) and others related to the nature of the state's economy (e.g., wage levels and the cost of medical services).

## Workers' Compensation Rate Setting

The workers' compensation insurance rate setting process typically begins with loss cost figures developed by an insurance rating agency. Connecticut uses NCCI, which gathers and analyzes state-specific workers' compensation-related data to propose loss cost figures for each of the state's hundreds of job classifications insured through workers' compensation. The "loss cost" is the amount of workers' compensation premium paid to cover the actual medical expenses and wage replacement benefits paid to injured workers' compensation claimants, per $100 of payroll.

In Connecticut, NCCI submits proposed loss cost figures to the state Insurance Department to review and approve. Once the department approves the loss cost figures, individual insurance companies submit their own "manual rates" to the department for approval. The manual rate includes the approved loss cost rate and adds an expense load factor (typically expressed as a multiple of the lost cost figure) to account for additional amounts the insurance company hopes to recover through it premiums (e.g., to cover administrative costs and profit margins).

> *Most states, including Connecticut, are "competitive" states that allow each insurance carrier to determine its own loss cost multiplier. Other states, such as Massachusetts, set manual rates through a state agency.*

Because the Insurance Department individually approves rates for each insurance carrier, each carrier's rates may differ from its competitors and from one job classification to another. Some carriers may specialize in one area (e.g., construction) and not offer insurance for all job classifications. In addition, the premiums ultimately paid by each employer will depend on factors such as the employer's experience rating (i.e., history of job-related injuries), premium discounts, and deductible-related premium discounts, among other things.

> *In North Dakota, Ohio, Washington, and Wyoming, workers' compensation insurance is only available through a state-run fund and agency that sets its own rates.*

## Rate Comparison with Other States

The Oregon Department of Consumer and Business Services biennially prepares a 50-state workers' compensation premium rate ranking. Designed to compare premium rates for a comparable set of job classifications across the states, the ranking generally compares each state's average manual rates (i.e., loss cost rates plus expense load factors). It does so by developing an index rate based on the manual rates for 50 job classifications selected based on their relative importance in Oregon.

Since it does not include all premium classes, the index rate used to compare states is not necessarily each state's actual average manual rate. In addition, the index rate does not compare the premium rates ultimately paid by employers, which may vary due to factors such as premium discounts for quantity purchases, history of job-related injuries, premium reductions on policies carrying deductible features, and dividends.

According to the most recent ranking, issued in November 2018, Connecticut's rates were, on average, the seventh highest among the 50 states and District of Columbia, as shown in Table 1 below. According to the ranking, the national median index rate for the year was 1.70 (the lowest it has been since the rankings began in 1986).

**Table 1: 2018 Workers' Compensation Premium Rate Ranking**

| Rank | State | Index Rate | Rank | State | Index Rate |
|---|---|---|---|---|---|
| **1** | NY | 3.08 | **27** | MO | 1.68 |
| **2** | CA | 2.87 | **28** | MN | 1.67 |
| **3** | NJ | 2.84 | **29** | AL | 1.65 |
| **4** | AK | 2.51 | **30** | IA | 1.64 |
| **5** | DE | 2.50 | **31** | MS | 1.54 |
| **6** | GA | 2.27 | **32** | TN | 1.52 |
| **7** | CT | 2.20 | **33** | KY | 1.51 |
| **8** | RI | 2.19 | **34** | NM | 1.50 |
| **9** | VT | 2.09 | **35** | CO | 1.43 |
| **10** | LA | 2.05 | **36** | OH | 1.40 |
| **11** | WI | 2.02 | **37** | MI | 1.38 |
| **13** | HI | 2.01 | **38** | MA | 1.37 |
| **13** | MT | 2.01 | **39** | MD | 1.33 |
| **14** | SC | 1.95 | **40** | AZ | 1.30 |
| **16** | WA | 1.87 | **41** | VA | 1.28 |
| **16** | WY | 1.87 | **42** | DC | 1.25 |
| **17** | PA | 1.85 | **43** | TX | 1.21 |

**Table 1 (continued)**

| Rank | State | Index Rate | Rank | State | Index Rate |
|---|---|---|---|---|---|
| **19** | NC | 1.84 | **44** | NV | 1.18 |
| **19** | ME | 1.84 | **46** | KS | 1.15 |
| **21** | ID | 1.81 | **46** | OR | 1.15 |
| **21** | FL | 1.81 | **47** | UT | 1.06 |
| **22** | IL | 1.80 | **48** | WV | 1.01 |
| **23** | SD | 1.73 | **49** | AR | 0.90 |
| **24** | OK | 1.71 | **50** | IN | 0.87 |
| **26** | NH | 1.70 | **51** | ND | 0.82 |
| **26** | NE | 1.70 | | | |

According to the ranking, Connecticut's rates were third highest among the nine northeastern states, as shown in Table 2.

**Table 2: 2018 Workers' Compensation Premium Rate Ranking, Northeastern States**

| Regional Rank | State | Index Rate |
|---|---|---|
| **1** | New York | 3.08 |
| **2** | New Jersey | 2.84 |
| **3** | Connecticut | 2.20 |
| **4** | Rhode Island | 2.19 |
| **5** | Vermont | 2.09 |
| **6** | Pennsylvania | 1.85 |
| **7** | Maine | 1.84 |
| **8** | New Hampshire | 1.70 |
| **9** | Massachusetts | 1.37 |

## *Five-Year Trend, 2014-2018*

According to the ranking, premium rates in all but three states (Hawaii, South Carolina, and Virginia) decreased from 2014 through 2018. Table 3 shows the net five-year premium level decrease of the nine northeastern states over those years. Nationwide, Connecticut's five-year premium decrease (26.2%) was the 15th largest among the 50 states.

*According to the 2012 rankings, Connecticut had the second highest premium rates of all the states. For additional information on the 2012 rankings, see OLR Report 2013-R-0414.*

**Table 3: Net Five-Year Premium Level Decrease, 2014 – 2018, Northeastern States**

| Regional Rank | State | Premium Level Decrease |
|---|---|---|
| **1** | New Hampshire | 34.7% |
| **2** | Connecticut | 26.2% |
| **3** | Maine | 20.2% |
| **4** | Rhode Island | 14.3% |
| **5** | Vermont | 13.1% |
| **6** | Pennsylvania | 11.5% |
| **7** | Massachusetts | 11.1% |
| **8** | New York | 2.4% |
| **9** | New Jersey | 1.9% |

## *Factors in State Manual Premium Rate Differences*

Since there is no federal requirement for states to have workers' compensation systems and no minimum federal standards for them, a variety of factors may influence each state's average premium rates. Some of these are statutorily built into a state's system while others stem from the nature of a state's economy.

Statutory factors that could affect a state's average premium rate may include:

1. the range and types of employers and employees subject to the law;
2. mandated benefit levels (i.e., states that require more generous benefits for injured employees will generally see higher insurance premiums to cover the benefits);
3. statutes of limitations (i.e., shorter deadlines for employees to bring claims can reduce the number of claims and their subsequent expenses);
4. mandated waiting periods (i.e., can help limit certain expense claims for brief injuries); and
5. administration (e.g., the extent to which the state regulates and participates in the competitive insurance market).

Structural factors in the state's economy that could affect a state's rate may include:

1. wage levels (since policies must cover lost wages, states with more highly paid workforces may see higher premiums to cover potential losses);
2. labor force characteristics (states with a larger mix of workers in relatively dangerous occupations may pay higher premiums due to their increased risk of injury); and
3. cost of medical services (states with more expensive health care may see higher premiums to cover the costs).

LH:kl