STATE OF MISSOURI

# DEPARTMENT OF COMMERCE AND INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690

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| **In Re:** | ) | |
| | ) | **Case No. 2408300598H** |
| **Travelers Rate Filing for the** | ) | |
| **Workers' Compensation Alternative** | ) | |
| **Residual Market** | ) | |

## FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

This matter concerns the proposed rates and rating structure to be used in the Missouri Alternative Residual Market Plan ("ARM Plan" or "Plan") for the policy period beginning January 1, 2025. The ARM Plan was created under the authority of § 287.896, RSMo, and 20 CSR 500-6.960 as a mechanism to provide workers' compensation and employer's liability insurance to applicants who are in good faith entitled to such coverage but who are unable to purchase such coverage by ordinary methods through the voluntary market. The ARM Plan began operation on July 1, 1995, and is currently administered by Travelers Property Casualty Company of America ("Travelers"). Travelers has been the Contract Carrier for the ARM Plan since 1995 and was most recently selected by the Department of Commerce and Insurance (the "Department") as the Contract Carrier following an Invitation for Bid issued on July 3, 2019.

In accordance with the ARM Plan, Travelers filed a proposed rate plan ("Filing") on September 9, 2024, seeking rate changes for the policy period beginning January 1, 2025. (Exhibit 1).

As required under § 287.896, RSMo, a public hearing was held concerning the Travelers' Filing. The hearing was conducted at the Harry S Truman Building, Room 530, 301 West High Street, Jefferson City, Missouri on October 28, 2024. Travelers introduced its Filing into evidence as Exhibit 1 and explained it through the testimony of Brian P. Rucci, FCAS, MAAA, Assistant Vice President and Actuary, Residual Markets Division ("Rucci"), for Travelers. The Division of Market Regulation's ("Division") property and casualty actuary, Julie Lederer, FCAS, MAAA ("Lederer"), provided testimony regarding her review of the Filing. The Division introduced her written report into the record as Exhibit A.

## FINDINGS OF FACT

**1. Effective Date**: If approved, the premium rate changes proposed in Travelers' Filing will go into effect on January 1, 2025.

**2. Expert Witnesses**: Both Rucci and Lederer demonstrated that they are qualified to provide expert testimony regarding workers' compensation residual market rate matters.

**3. Indicated Premium Level Need:** At the 110% loss ratio retention level option authorized by 20 CSR 500-6.960, Travelers' Filing proposes changes to the existing ARM Plan rates and rating structure which would result in an overall premium level change of -3.3%. This proposed premium level change was determined by Travelers based on its analysis of the Plan's "premium level need" for the 2025 policy year. There are no significant changes in methods or assumptions in this Filing. The various expense items included in this premium need analysis were summarized in Travelers' Filing at pp. 1-2 of Section II. The chart below is based on Section II, p. 2 of the Filing:

| Cost Items | Estimated % of Premium |
|---|---|
| 1. Expected On-Level Loss & ALAE Ratio | 64.3% |
| 2. General Expenses (Excluding Commissions) | 11.5% |
| 3. Unallocated Loss Adjustment Expenses | 6.2% |
| 4. Loading for Taxes, Licenses, & Fees | 2.0% |
| 5. Agents' Commissions | 3.9% |
| 6. Loading for Uncollectible Premiums | 6.9% |
| 7. Catastrophic Provision | 0.4% |
| 8. Loading for Profit & Contingencies | 2.0% |

Using the item numbers from the Cost Items, above, and their corresponding premium percentages, the premium level need calculation is set forth below:

$$\left[\frac{(\text{Cost Item 1} + \text{Cost Item 2} + \text{Cost Item 3} + \text{Cost Item 7})}{(1 - \text{Cost Item 4} - \text{Cost Item 5} - \text{Cost Item 6} - \text{Cost Item 8})}\right] - 1.000 = \text{Indicated Premium Level Change}$$

$$\left[\frac{(0.643 + 0.115 + 0.062 + 0.004)}{(1 - 0.020 - 0.039 - 0.069 - 0.020)}\right] - 1.00 = -3.3\%$$

Proposed premium level change = -3.3%

(Exhibit 1, Section II, p. 2; Exhibit A, p. 3).

Findings of Fact 4 through 11, below, discuss in more detail Travelers' explanation for each of the eight (8) Cost Items listed above.

**4. Expected On-Level Loss & ALAE Ratio:** Travelers used the frequency/severity method in its rate request, developing separate projections of the estimated claim counts and the average loss and allocated loss adjustment expenses ("ALAE") (the severity) for the upcoming policy year. The bulk of the spreadsheets contained in the Filing represent the steps needed to arrive at this estimate of loss and ALAE. Travelers ties all of these steps together to produce the loss and ALAE ratio to premium of 64.3% for the upcoming year used in Travelers' premium level need calculation. (Exhibit 1, Sections III-VIII; Exhibit A, pp. 4-13).

**5. General Expenses (Excluding Commissions):** Many of the remaining elements of Travelers' premium level need calculation are related to the expenses associated with administering the Plan. Cost Item 2 of the calculation concerns General Expenses (Excluding Commissions). Travelers' Filing sets forth the various anticipated expense levels contemplated for General Expenses for the upcoming policy year:

| | | |
|---|---|---|
| Estimated Premium ($000's) (2025 Policy Year): | $20,527 | |
| Estimated No. of Insureds (2025 Policy Year): | 4,096 | |
| Category of General Expense | Est. Cost in Thousands | % of premium |
| Underwriting, Policy Issuance, & Rating/Billing | $575 | 2.80% |
| Missouri Injury Management Program | $82 | 0.40% |
| Data Processing | $719 | 3.50% |
| Premium Audit | $285 | 1.39% |
| Loss Control and Prevention | $114 | 0.56% |
| Actuarial Finance & Human Resources | $202 | 0.98% |
| Other Overhead | $381 | 1.86% |
| **Total** | $2,358 | 11.49% |

(Exhibit 1, Section IX, p. 2; Exhibit A, pp. 13-14).

**6. Unallocated Loss Adjustment Expense:** Travelers based the ARM Plan's Unallocated Loss Adjustment Expense ("ULAE") calculation on the Missouri Loss Cost Filing filed by the National Council on Compensation Insurance, Inc. ("NCCI") with a proposed effective date of January 1, 2025. Using the NCCI statistics, Travelers arrived at the ARM Plan's ULAE provision of 6.2% of premium for the upcoming policy year. (Exhibit 1, Section IX, p. 3; Exhibit A, pp. 14-15).

**7. Loading for Taxes, Licenses and Fees:** Travelers anticipated paying taxes, licenses, and fees at the equivalent of 2.0% of premium. The amount includes premium to pay the current Missouri Workers' Compensation Administrative Tax, the Missouri Property and Casualty Guaranty Fund assessment, and miscellaneous taxes such as personal property taxes, National Association of Insurance Commissioners ("NAIC") zone examinations, and agent license fees. (Exhibit 1, Section IX, p. 4; Exhibit A, p. 15).

**8. Agents' Commissions:** Travelers compared historical ARM premiums and agent commissions to estimate a commission rate of 3.9% for the upcoming policy year. (Exhibit 1, Section IX, p. 5; Exhibit A, p. 15).

**9. Loading for Uncollectible Premiums:** Travelers projects the loading needed to cover uncollectible premiums for the upcoming policy year by calculating averages based on ARM Plan history. Travelers selected 6.9% for the 2025 policy year. This selection uses the same methodology that Travelers used for this cost item in previous years and is not unreasonable. (Exhibit 1, Section IX, p. 6; Exhibit A, pp. 15-16).

**10. Catastrophic Provision:** Since 2003, Travelers has included a catastrophe provision. NCCI and Travelers (based on a 2021 NCCI change to its methodology) are now including a non-terrorism catastrophe estimate in addition to the terrorism estimate. The non-terrorism provision is designed to cover losses resulting from an event such as the COVID-19 pandemic. Travelers removed the eighteen lost time claims attributable to the pandemic from the ratemaking analysis, as is appropriate. Those estimates are now part of the catastrophic loss provision. The current Filing uses a load of $0.015 per $100 of payroll, which is consistent with the most recent NCCI loss cost filings effective January 1, 2025. Travelers translates the NCCI losses-to-exposure provision into an estimated losses-to-premium ratio. (Exhibit 1, Section X, pp. 1-2; Exhibit A, p. 16).

**11. Loading for Profit & Contingencies:** The Filing includes loading for profit and contingencies of 2.0% of premium. The 2.0% selection has been used in Missouri ARM rate filings since 2003 and is not unreasonable. (Exhibit 1, Section II, p. 2; Exhibit A, pp. 16).

**12. Proposed Allocation of a Rate Increase Among Class Codes:** Travelers' Filing includes a proposal for changes to manual rates at the detailed class code level. The initial proposed rate by class equals the product of: (1) the exposure-weighted average ratio over all classes of policy year 2024 ARM rates to the pure premium at 2025 NCCI loss costs; (2) the 3.5% average manual rate decrease expressed as a factor; and (3) the 2025 NCCI loss cost for the individual class. As a result, the initial rate by class may be expressed as the 2025 NCCI loss cost times a constant multiplier of 2.465. (Exhibit 1, Sections XI & XII; Exhibit A, pp. 2-3).

According to Travelers, the rates will align with NCCI loss costs except in instances where it has deemed the premium impact to be too severe to be taken at once. To avoid price volatilities, Travelers proposes that the rates be capped, and Travelers makes adjustments to make sure the capped rates still yield a 3.5% decrease in manual rates. (Exhibit 1, Section XII; Exhibit A, pp. 2-3).

**13. The Division's Actuarial Analysis of Premium Level Need:** Travelers' actuary, Rucci, testified that the proposed rates were neither excessive nor inadequate, nor were they unfairly discriminatory, and that they were actuarially sufficient to support the claims and losses with respect to the reasonable operating expenses of Travelers. (Transcript, pp. 13-14).

The Division's actuary, Lederer, also reviewed the Filing and testified that the rates were not inadequate, excessive, or unfairly discriminatory, and that the proposed rates were actuarially sufficient to cover claims, losses, and reasonable operating expenses of the insurer. (Transcript, pp. 20-21; Exhibit A, p. 1).

## CONCLUSIONS OF LAW

Based on the substantial and competent evidence provided by Travelers and the Division and presented at the October 28, 2024 hearing in the matter, and upon the record as a whole, the Director concludes as follows:

1. The subject matter of Travelers' Filing and the hearing held by the Department of Commerce and Insurance on October 28, 2024, are within the jurisdiction of the Director under § 287.896, RSMo.

2. January 1, 2025 is a reasonable date for new premium rates and rating structures authorized pursuant to this Order for new and renewal business in the Missouri residual market.

3. Travelers' proposed -3.3% average premium level change at the proposed 110% loss ratio retention level option, with the proposed methodology of calculating manual rates by class code, will produce a level of premium, investment income, and final premium rates which are not excessive, inadequate, or unfairly discriminatory and which will be actuarially sufficient to cover the claims, losses, and reasonable operating expenses of the Missouri residual market under the ARM Plan.

## ORDER

**IT IS THEREFORE ORDERED that the rates, as proposed by Travelers, for use in the ARM Plan effective January 1, 2025, as set forth above, are hereby approved.**

**SO ORDERED, SIGNED, AND OFFICIAL SEAL AFFIXED THIS** 21st **DAY OF NOVEMBER 2024.**

**Chlora Lindley-Myers, Director**
**Missouri Department of**
**Commerce and Insurance**

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing was served by electronic mail on November 22, 2024, to:

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and by hand-delivery and courtesy copy by electronic mail to:

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Kathryn Latimer

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