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Filing of the Workers' Compensation Rating and Inspection Bureau
For a General Revision of Workers' Compensation Rates
Docket No. R2015-02

Decision and Order

I. Introduction and Procedural History

On December 23, 2015, the Workers' Compensation Rating and Inspection Bureau of Massachusetts ("WCRIB"), on behalf of its members, submitted a filing for a worker's compensation general rate revision to be effective July 1, 2016 ("the WCRIB Filing"). The WCRIB Filing sought a 6.4 percent statewide average increase. The Commissioner of Insurance ("Commissioner") designated Jean F. Farrington, Esq. and Stephen M. Sumner, Esq. as presiding officers on this matter. A hearing notice, issued on January 6, 2016, scheduled a public comment hearing for January 29, 2016. On January 10, 2016, an order issued scheduling a prehearing conference for January 29, following the public comment hearing. On January 14, 2016, the Attorney General ("AG") filed a notice of intent to appear and participate.

Representatives of the WCRIB, the AG, the State Rating Bureau in the Division of Insurance ("SRB"), the Massachusetts Association of Insurance Agents, the Building Trades Employers Association and the Liberty Mutual Insurance Company spoke at the public comment hearing. A cross-examination schedule was established at the prehearing conference. The five WCRIB witnesses testified over three days between February 22 and March 7. On March 28, the parties agreed that the SRB and the AG would submit advisory filings on March 28; cross-examination of their witnesses was tentatively scheduled for April 13 through 15. On March 24, the parties asked to continue the date for submission of advisory filings to April 1; that date was subsequently extended to April 8.

On April 7, the parties advised the presiding officers that a stipulation would be submitted shortly, and, at the parties' request, the schedule for advisory filings and cross-examination was suspended indefinitely. On April 19, the parties submitted a Stipulation that, in brief, agrees to an overall average increase in the existing workers' compensation average rates of +1.5 percent, to be applied in accordance with other provisions of the Stipulation, and to be effective for policies written or renewed on or after July 1, 2016.

II. Statutory Framework

Massachusetts General Laws, Chapter 152, §53A ("§53A") sets out the statutory requirements for obtaining approval of rates for Massachusetts workers' compensation insurance. Subsection (1) requires any insurance company writing workers' compensation insurance in the Commonwealth to file its risk classifications and premiums with the Commissioner, either directly or through a rating organization authorized to act on its behalf. The Commissioner thereafter conducts a hearing to determine whether the classifications and rates are not excessive, inadequate or unfairly discriminatory for the risks to which they effectively apply, and fall within a range of reasonableness.

In addition to these general requirements, §53A (12) specifically states that the Commissioner shall not approve classifications or rates that provide for any of the following: 1) dividends, unabsorbed premium deposits, savings or other payments allowed or returned by the insurer to policyholders, members, subscribers or stockholders; 2) expenses that exceed the filing insurer's expense needs; and 3) commission allowances that are not demonstrated to be reasonable and to reflect the actual cost to the agent or broker of services they provide.

The Commissioner, pursuant to §53A (13), also must make a finding, on the basis of information in the rate filing, that insurers employ acceptable cost control programs and techniques. In light of the Stipulation, we do not reach that issue in this decision.

III. The Stipulation

The Stipulation states that no party will object to or appeal from an order approving the WCRIB's general rate filing dated December 23, 2015, subject to the conditions that: A) effective for policies written on and after July 1, 2016, the overall average increase in the current average workers' compensation rates shall be +1.5 percent; and B) the increases shall be computed according to the terms in paragraphs 3 and 4 of the Stipulation. Paragraph 3 states that an underwriting profits provision of zero percent shall be substituted for the underwriting profit provision proposed in Section VII-A, Exhibit 1 of the WCRIB Filing, and that the selected average

commission rate, excluding expense constants, as shown in Section VI-G, Exhibit 3, Line 7 of the WCRIB Filing shall be 6.27 percent rather than the 7.9 percent displayed in the WCRIB Filing. The factors used to convert average rates to manual rates shall be those set out in Exhibit I to the Stipulation.

Paragraph 4 provides that the classification pricing methodology proposed in Section IX of the WCRIB Filing shall be approved for setting the rates effective on and after July 1, 2016, with the proviso that the maximum and minimum changes in average rates for individual rating classifications shall be as shown in Exhibit II to the Stipulation. These stipulated "swing limits" are within a narrower range than those contemplated by the WCRIB Filing.

Exhibit III to the Stipulation consists of revised pages to the Massachusetts Workers' Compensation and Employer Liability Insurance Manual that display the revised rate for each classification, Miscellaneous Values utilized in calculating premiums, Tables of Expected Loss Rates and Discount Ratios, of Weighting Values and of Ballast Values, and Tables of Special Rating Values and Expense Ratios applicable to Retrospective Rating Plans.

We find that the Stipulation submitted by the Parties will provide for classifications or rates that are "not excessive, inadequate, or unfairly discriminatory for the risks to which they respectively apply, and fall within a range of reasonableness." Therefore, we approve the Stipulation, and herein ORDER that the classifications, rating methods and rates set out in the WCRIB's December 23, 2015 Filing, as revised according to the terms of the Stipulation, shall apply to new and renewal policies issued on and after July 1, 2016.

ENTERED this 20th day of April 2016.

Stephen M. Sumner
Presiding Officer

Jean F. Farrington
Presiding Officer

AFFIRMED this 20th day of April 2016:

Daniel R. Judson
Commissioner of Insurance