

INDUSTRIAL COMMISSION OF ARIZONA

MEMORANDUM:

TO: Commissioners
James Ashley, Director
Gaetano Testini, Chief Legal Counsel

DATE: November 16, 2022

From: Renee Pastor
Self-Insurance Administrator

Subject: Self-Insurer Rate Development Under A.A.C. R20-5-1534 (A) and R20-5-1535

Historical Overview

From 1925 to 1969, the workers' compensation system consisted of the State Compensation Fund, which was part of the Industrial Commission of Arizona ("ICA"). When the State Compensation Fund and the ICA were one organization, the self-insurer premium calculations were performed by the State Compensation Fund and were used as the basis to assess the annual workers' compensation taxes owed by the self-insured employer.

In 1969, the workers' compensation system was reorganized, and the State Compensation Fund separated from the ICA to become a separate agency responsible for providing workers' compensation insurance coverage to Arizona employers. The State Compensation Fund continued to perform the premium calculations for the self-insurer. In the years following the separation from the Industrial Commission, the State Compensation Fund became a quasi-state agency, and changed its name to SCF AZ.

In the mid-1990s, the ICA took over the process of calculating the self-insurer premiums to assess taxes owed by the self-insurers. The calculation was based on the premium that would have been paid by the self-insurer if the self-insured was fully insured by SCF AZ. This included premium plans, rates and deviations used by SCF AZ to calculate premiums.

In 2010, during the second regular session of the Forty-ninth Legislature, the Legislature passed SB 1045 which continued the SCF AZ, a quasi-state agency that provided workers' compensation insurance through December 31, 2012. On January 1, 2013, SCF AZ ceased to exist as a State agency and became CopperPoint Insurance Company, a mutual insurance corporation and named successor in interest to SCF AZ.

The 2013 privatization of SCF AZ impacted the ICA's self-insurance program because the calculation of premiums to assess taxes owed by a self-insurer were no longer based on SCF AZ premium plans, rates, and deviations. In response to the privatization, the ICA made conforming changes to A.R.S. § 23-961(J), which was amended in 2013 and renumbered as 23-961 (G). A.R.S. § 23-961(G) now requires the ICA to calculate a self-insurer's taxes based on a premium that would have been paid by the self-insurer to an insurance carrier authorized to transact workers' compensation insurance in Arizona.

Revised Rules

In 2022, the ICA developed and passed Article 15 of Title 20, Chapter 5 of the Arizona Administrative Code, which replaced Title 20, Chapter 5, Articles 2, 7 and 11. A.A.C. R20-5-1534 (A & B), established the ICA's ability to develop premium tax plans, and set premium rates including deviation rates, to calculate self-insurer premiums for the purpose of determining the self-insurer's annual tax assessment amount.

Rate Development

To develop the self-insurers' experience rates, the ICA retained AMI Risk Consultants, Inc. (AMI) to perform an actuarial study of the Arizona self-insurers' experience to develop rates which will be used by the ICA to calculate the self-insurer premium taxes beginning January 1, 2023. These rates include the following:

- Voluntary rates
- Residual market rates
- ELR's and D-ratios by class for experience rating
- Estimated impact of class rates and discount schedule on total premium
- Index amount for large losses
- Weighted value tables
- Ballast table
- Classifications by hazard group
- Expected loss ranges
- Average cost per case by hazard group
- Average cost per case including ALAE by hazard group
- Tax multipliers
- Excess loss factors by hazard group
- Table of expense ratios
- Table of insurance charges.
- Deviation Schedule

The payroll classifications include new payroll classification codes using the newly developed rate tables. The class code rates include new class codes as follows:

7228 - Local Haul Drivers (Trucking)

7229 - Long Distance Haul Drivers

7380 - Drivers – all other, non-scheduled

7705 - Ambulance services, EMTs, first responder rescue, i.e., lifesaving crews that do not fight fires

As part of this rate development effort, some new payroll classification codes were developed. This was necessary because the ICA has used the rates developed by the National Council on Compensation Insurance (NCCI), the State's approved rating organization, since the 1990's and many of these rates are no longer relevant or do not meet the needs of Arizona self-insurers. NCCI stopped using the experience (payroll and loss information) of the self-insurers when developing its rates and therefore a large population of Arizona self-insurers experience was not being captured. The new rates that were developed include the following:

7228 and 7229 - The NCCI combined local (7228) and long distance (7229) haul drivers into one code, 7219, due to the lack of experience in its data. Since the self-insurance program holds the largest inventory of driver information, short haul and long-distance haul drivers were separated into distinct class codes, as they each have separate risk categories.

7380 - This code and rate was developed to separate "delivery and distributing" company drivers from local haul drivers.

7705 - This code and rate was developed to separate "EMTs, ambulance, and rescue workers and drivers" from active firefighters.

8829 - This code was discontinued by NCCI. A new rate was developed for this code to cover "convalescent homes and hospitals, all employees."

Rates for Commission Consideration

Three options are presented for the Commission's consideration:

Scenario 1: Rate increases are capped at 25% for those payroll classification codes that were undervalued by NCCI. The excess is distributed to the remaining payroll classification codes. This option has an 8.9% average rate increase from the prior year.

Scenario 2: Rate increases are capped at 25% for those payroll classification codes that were undervalued by NCCI. The excess was not distributed to the remaining payroll classification codes. This option has a 2.9% average rate decrease from the prior year.

Scenario 3: Rate increases are capped at 25% for those payroll classification codes that were undervalued by NCCI. The full excess was not distributed to the remaining payroll classification codes. Five percent of the excess was distributed to the remaining payroll classification codes. This option has a 2.4% average rate decrease from the prior year.

Staff Recommendation

Staff recommends the adoption of Scenario 3, as it will achieve the initial increases in the payroll classifications and will distribute a limited amount of excess to the remaining payroll classifications codes. This will mitigate the first-year impact of the new rate tables, while increasing the rates to reflect a more accurate experience.