STATE OF NEBRASKA

DEPARTMENT OF INSURANCE
Bruce R. Ramge
Director

Dave Heineman
Governor

June 4, 2013
CB-121 (Amended)

BULLETIN

SUBJECT: NEBRASKA WORKERS' COMPENSATION ASSIGNED RISK PLAN AGREEMENT

The purpose of this bulletin is to inform Nebraska workers' compensation insurers that the Nebraska Workers' Compensation Assigned Risk Plan (NWCP) agreement includes a provision that requires insurers to share in excess losses incurred in the NWCP. The threshold at which this liability is triggered is very high, however.

Pursuant to §44-3,158, the Director of Insurance entered into an agreement with Travelers Indemnity Company (Travelers), under which Travelers will write workers' compensation insurance for eligible Nebraska employers that are otherwise unable to obtain workers' compensation insurance in the voluntary market. The current agreement is effective December 31, 2012 through December 31, 2014. Prior agreements with Travelers were effective July 1, 2000, January 1, 2005, and January 1, 2009.

Under these agreements, Travelers retains all premiums that it receives and is responsible for all losses incurred with the exception that catastrophic losses will be ceded back to the voluntary market. Such losses will be apportioned to insurers in proportion to each insurer's direct written premiums, very much like residual market reinsurance pool operating results in many other states. The definition of catastrophic losses under prior contracts was complex and related to high dollar single events; the definition of catastrophic loss in the current contract is tied to the program's annual policy year loss ratio. Losses and allocated loss adjustment expenses (ALAE) above a 115% loss and ALAE ratio in any single policy year are ceded to the voluntary market.

The rate level for the NWCP is based on National Council on Compensation Insurance (NCCI) loss costs and a 2.50 loss cost multiplier, which is roughly double the rate level seen in the voluntary market. Past loss experience appears to indicate this is a reasonable rate level for the assigned risk plan. Thus, we consider an annual aggregate loss & ALAE ratio of 115% or more for the assigned risk program to be very unlikely - perhaps a 1 in 50 year event. Given the relatively small size of the NWCP, a loss & ALAE ratio that cedes 10 or 20 loss ratio points to the

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voluntary market might still amount to less than a 1% residual market burden for that particular year. Thus, given a 1 in 50 chance of a residual market burden of a point or two equates to something that we believe is sufficiently small that it does not bear specific recognition in rate level calculations or in the establishment of incurred but not reported (IBNR) losses. Of course, individual insurers are free to substitute their own judgment in this regard.

At this time, the Department has not promulgated procedures for how these assessments would be administered. With our approval, Travelers is contracting with NCCI to handle this work in the unlikely event it would occur. Should a catastrophic year occur or appear likely to occur, the Department will take steps to institute sufficient oversight to assure that the amounts billed are accurate and that Travelers is handling claims in a responsible fashion. The Department is not establishing such oversight at this time.

Additional questions about this bulletin may be directed to the Department's Property and Casualty Division.

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