

Vermont WC high risk plan growth worries industry

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MONTPELIER —The Vermont Assigned Risk Market now handles 10 percent of the state's workers compensation market—a figure that is relatively large when compared countrywide.

The development has some industry officials worried.

“The 10 percent market share has doubled in premium because of the migration of mid-sized to large risks,” said Ken Christiansen, National Council on Compensation Insurance state relations executive.

“This is troubling because the subsidy for the voluntary risks could start to grow substantially.”

Christiansen participated in a recent presentation by NCCI on the state of the workers compensation market in Vermont.

The state's residual workers compensation market is absorbing more risks in part due to the tight market for reinsurance in the wake of the September 11th attacks, according to NCCI.

Also contributing to the increased share are the stricter underwriting standards that accompany any hard market.

In the market review, NCCI reported that Vermont's average loss costs are lower than most states in the region, partly due to the fact that many Vermont employers are small and although the state has high-end benefits, there is little attorney involvement in claims adjudication.

The Vermont system, while enjoying low attorney involvement, has a higher percentage of medical costs than the region average. It also has lower than average permanent partial disability costs, but higher than average frequency.

Declines in claim frequency have been steady in Vermont. However, Vermont's indemnity average claim severity continues to increase. The state's average medical severity has increased steadily since 1992 and medical benefits constitute the majority of the total benefit costs.

Christiansen encouraged agents assembled at the Capitol Inn in Montpelier to use electronic transmission of applications. The cost for processing a paper application is \$45 and will be looked at within a 17-day window, while electronic transmissions will see a binder within four hours. Roughly 40 percent of applications are submitted electronically. The assigned risk market premium levels increased each year between 1999 and 2001, according to Christiansen. The assigned risk premium grew from \$3.8 million at the conclusion of 1999 to \$8.1 million at year end 2001, mainly from the migration of mid-sized and large accounts. By the end of the second quarter 2002, there was a 101 percent surge in premium.

“One reason for the mid to large risks converting from the voluntary market to the residual market is because of the lack of reinsurance cover after 9/11,” Christiansen said.

Vermont's voluntary market was granted an average overall -2.3 percent loss cost in April. However there were substantial increases in the assigned risk market resulting largely from the removal of discounts.

The number of policies and the size of premium in the residual market increased significantly between 2000 and 2001. In the \$0-\$999 policy amount category there were

1,541 policies with a total premium of \$647,282 in 2000. That grew to 1,802 policies with a premium value of \$876,666 in 2001. In the \$5,000 -\$9,999 policy amount category there were 123 policies with a premium value of \$842,798 in 2000 that virtually doubled to 237 policies with a premium value of \$1,615,617 in 2001. Also doubling were the 14 policies in the \$50,000-\$99,999 policy amount category that had a premium value of \$968,964 in 2000 that increased to 28 policies with a total value of \$2 million in 2001. The total number of policies for 2000 was 2,505 with a premium value of \$7.3 million, which grew to 3,364 policies with a premium value of \$14.8 million in 2001. p