THE STATE of ALASKA
GOVERNOR MIKE DUNLEAVY

Department of Commerce, Community, and Economic Development

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REGULATORY ORDER R 25-03

APPROVAL OF THE 2026 WORKERS' COMPENSATION LOSS COST AND ASSIGNED RISK RATE FILING

BACKGROUND

On August 26, 2025, the Division of Insurance (Division) received the 2026[1] Alaska Workers' Compensation Filing for Voluntary Loss Costs and Assigned Risk Rates from the National Council on Compensation Insurance, Inc. (NCCI). This filing proposed an overall 3.7% decrease in voluntary loss costs and an overall 4.8% decrease in assigned risk rates from current approved levels.

On August 6, 2025, the Acting Director of Insurance issued Notice of Public Hearing H25-01 notifying interested parties that, in accordance with Alaska Statute (AS) 21.39.043, a hearing would be held on September 16, 2025. The purpose of the hearing was to allow interested parties to provide testimony or evidence as to whether the filing's prospective loss costs met the requirements of AS 21.39. Interested parties were also invited to include a recommendation for approval, disapproval, or modification of the filing.

No requests for information or interrogatories were submitted to NCCI by member or subscriber companies prior to the hearing. Written testimony from Alaska National Insurance Company was received by the Division prior to the hearing. At the hearing, Alaska National Insurance Company provided oral testimony and related supporting exhibits. The hearing record was held open for 10 days after the hearing; no written comments were received during that time.

The Division requested and received additional supporting material from NCCI as allowed under AS 21.39.043(e) as detailed below.

DISCUSSION OF FILING METHODOLOGY

1. Consistent with what was approved in the 2025 filing, NCCI:
    a. used five policy years for the experience period;
    b. used a three-year average for premium development;
    c. based the experience projection on an average of the indications from paid and paid plus case;
    d. used a three-year average for paid loss development factors (LDFs);

[1] Within this Order, the year used to identify filings refers to the year the filing is effective. For example, the "2026 filing" refers to the filing that will become effective January 1, 2026.

e. used a five-year average for paid plus case LDFs;
f. selected 1.040 for the Indemnity paid tail factor;
g. selected 1.100 for the Medical paid tail factor;
h. selected 1.015 for the Indemnity paid plus case tail factor;
i. selected 1.035 for the Medical paid plus case tail factor;
j. selected 0.940 for the Indemnity loss ratio trend factor;
k. selected 0.950 for the Medical loss ratio trend factor;
l. used a threshold of 2% of premium from the four policy years underlying the 2025 filing to limit losses, and applied an excess ratio of 2.1%;
m. reflected anticipated changes in benefit levels related to updates to medical reimbursement fees and changes to benefit levels that occur by statute; and
n. excluded COVID-19 losses from the analysis and instead treated COVID-19 as a catastrophic loss.

2. NCCI did not change its methodology in the 2026 filing, except for the use of paid data to select paid tail factors (paid tail factors were previously based on paid plus case development patterns and the application of a conversion factor). In addition, NCCI included a 2-stage trend analysis for medical loss ratios in a supplemental exhibit, though this was not used by NCCI to select the proposed medical loss ratio trend assumption for the 2026 filing.

3. The limited indication is based on NCCI's Large Loss Procedure (LLP)[2]. To accommodate the LLP, annual updates to the large loss limit threshold and excess ratio[3] were made, based on Alaska premium and loss data.

4. NCCI proposed a loss adjustment expense (LAE) provision of 22.5%, as a percent of losses. This is higher than the 21.5% provision used in the 2025 filing.

5. NCCI proposed annual trends of -6.0% and -5.0% to adjust historical indemnity and medical loss ratios, respectively. Consistent with the 2025 filing, the loss ratios used to determine trends are based on experience data limited by the LLP and consider paid and paid-plus-case indications over experience periods ranging from five to fifteen years. These trends are loss ratio trends and take into account changes due to wage inflation. These selections are unchanged from the loss ratio trends approved in the 2025 filing.

6. NCCI provided estimates of frequency and severity trends underlying the selected loss ratio trends as follows:
   a. Frequency trend: -3.0%
   b. Indemnity severity trend (adjusted for wage inflation): -3.0%
   c. Medical severity trend (adjusted for wage inflation): -2.0%

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[2] NCCI's LLP is described in detail in Ratemaking the NCCI paper "Catastrophes and Workers Compensation".
[3] Unless the context suggests otherwise, references to "excess ratio", "excess experience", or "excess losses" refers to losses in excess of the large loss limit threshold, $6,332,354 in this filing.

7. NCCI included adjustments to incorporate the expected impact of changes to the medical fee schedule. The expected impact of these changes on loss costs is +0.4%.

8. The assigned risk portion of the filing includes changes to the following items:
   a. The assigned risk administration expense increased from 4.1% to 4.3%.
   b. The uncollectible premium provision decreased from 1.5% to 1.0%.
   c. The voluntary LAE provision increased from 21.5% to 22.5%.

   The combined impact of these changes on assigned risk rates is -1.1%.

REQUESTED MODIFICATIONS, COMMENTS, AND INTERROGATORIES

At the hearing, NCCI provided a presentation summarizing the components and impacts proposed in the filing. Representatives from Alaska National Insurance Company (ANIC) then provided oral testimony and presented related supporting exhibits at the hearing. The testimony focused on the following key points:

- Short-term frequency trends are less negative and may turn positive; it is reasonable to react more quickly to short-term frequency trends (as compared to severity trends) and therefore there is justification for selecting 1 point higher for prospective loss trends given the increasing frequency trends.
- If large loss activity reverts to long-term averages, there will be upward pressure on the overall loss cost level.
- The Defense and Cost Containment Expense (DCCE) ratios in recent years are higher and therefore shorter-term averages would indicate a higher provision for DCCE; continued higher experience will result in higher NCCI provisions for DCCE in future filings and upward pressure on the overall loss cost level.

No other interested parties provided testimony or posed questions to NCCI during the hearing. The hearing record remained open for 10 days after the hearing date, in accordance with AS 21.39.043(d)(7). No additional written testimony or proposed modifications to the filing were received by the division within that timeframe.

Questions and concerns raised during the hearing were incorporated by the Division into an interrogatory letter sent to NCCI on September 5, 2025. The letter requested additional supporting information related to both the hearing testimony and other items identified by the Division, including:

- impacts of changes to Alaska’s minimum wage level;
- conclusions drawn from NCCI’s alternative 2-stage trend analysis for medical loss ratios;
- rationale for the selected DCCE provision;
- rationale for the selected Medical paid plus case tail factor;
- rationale for the selected excess loss ratio;
- information on the distribution of claims by size of loss;
- comparison of Alaska trends to other states;

- rationale for the assigned risk profit provision; and
- rationale for the catastrophe provision.

NCCI responded with the requested information and rebuttal, as required by AS 21.39.043(e) and (f) on October 23, 2025.

Additional questions were incorporated by the Division into an interrogatory letter sent to NCCI on November 4, 2025. The letter requested additional supporting information related to:

- historical Indemnity paid loss development;
- the adjustment of tail factors from an unlimited to a limited basis; and
- the assigned risk excess of loss reinsurance provision.

NCCI responded with the requested information on November 6, 2025.

FINDINGS

The Acting Director of the Division of Insurance finds:

1. NCCI's methodology is appropriate.

2. NCCI's proposed total catastrophe provision is lower than the indicated pandemic provision from the catastrophe model utilized by NCCI in this filing. In future filings, NCCI should either:
   a. include historical COVID-19 losses in the experience used to develop the loss costs, or
   b. include a provision for pandemic losses in the catastrophe load, or
   c. include sufficient support in the filing for both excluding historical COVID-19 losses from the experience and proposing a total catastrophe provision that is lower than the indicated pandemic provision from the catastrophe model.

3. NCCI should continue to include all supplemental information found in the "Supplemental Data" section of the 2026 filing.

The above findings do not represent a comprehensive list of the information reviewed and considered by the Acting Director, nor does the list imply relative importance or materiality. Also, these findings are specific to the subject filing and are not meant to apply generally to past or future filings or to provide guidance for future filings unless specifically noted.

The Director of the Division of Insurance Hereby Orders:

For the reasons set forth above and in accordance with AS 21.39.043, the Director orders:

1. All carriers issuing workers' compensation insurance in Alaska shall use and apply, in strict accord, the loss costs, rating plans, rules, and classifications approved for NCCI, except to the extent a carrier has a deviation approved.

This order is effective November 26, 2025.

Signed by:
Heather L Carpenter
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Heather Carpenter
Director