Statement of Ratepayer Advocate, Fred Townsend
February 21, 2014

Background:

- Fred A. Townsend III of the law firm of Schmittinger & Rodriguez.
- Formerly Deputy Insurance Commissioner from 1994 through 1999.
- Ratepayer Advocate position created by the General Assembly in 2013 (H.B. 175).
- Responsibility "to represent the interests of Delaware workers compensation rate payers during the [Insurance] Commissioner's consideration of the [rate filing] application."
- The difference between the DCRB's proposed increase in residual market rates of +38.52% and voluntary market loss costs of +41.75% compared to the settlement values of +11.4% for the residual market and 14.0% for the voluntary market represents a premium reduction of more than $45 million from the premium that would have resulted from DCRB's proposed increase.
- According to the National Association of Insurance Commissioners, for Delaware workers compensation during 2011 insurance companies had an underwriting loss[1] of -73.0% of premium and a loss from insurance transactions[2] of -28.2% of premium, both of which were the biggest losses among all fifty states.
- Results for Delaware workers compensation improved somewhat in 2012 compared to 2011, with an underwriting loss of -38.4% and a loss from insurance transactions of -7.5%. Both results again were the biggest losses throughout the country.
- According to the Workers Compensation Research Institute[3]:
    - Delaware fee schedule was unusually high
    - Prices paid in Delaware were 50-135% higher than the median state for surgery & specialties
    - Surgery WC prices paid in DE were probably much higher than what DE group health insurers pay providers

Statement:

"This rate filing has been thoroughly and independently analyzed by two actuarial firms each of which conclude that a rate increase is indicated. In the simplest of terms, the costs associated with insuring against workers compensation losses exceed the premium collected by insurance companies providing workers compensation coverage.

Adverse economic conditions and the continuation of a trend toward increasing workers compensation premiums combine to make this rate increase a cause for concern. I can assure ratepayers this result is favorable compared to the range of possible outcomes of a fully litigated hearing."

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[1] The underwriting profit/loss is calculated as premium less benefits less expenses, before federal income tax.

[2] The profit / loss on insurance transactions is calculated as the underwriting result plus the investment gain on reserves, after federal income tax.

[3] From January 24, 2014 presentation to Delaware Workers' Compensation Task Force