

FLORIDA

WORKERS COMPENSATION RATE FILING – JANUARY 1, 2026

Direct Testimony of Brett S. Foster

1 1. Q. Please state your name, title, employer, and position you hold.

2 A. My name is Brett Foster and I am an Executive Director and Actuary for the

3 National Council on Compensation Insurance, Inc. (NCCI) in Boca Raton, Florida.

4 My current responsibilities include oversight of the actuarial function, including

5 the preparation of rate filings and presentation of actuarial testimony, for two

6 jurisdictions (including Florida).

7

8 2. Q. Please outline your academic and professional training.

9 A. I have a Bachelor of Science degree with majors in mathematics and economics

10 from Missouri State University, in Springfield, Missouri. I am a Fellow of the

11 Casualty Actuarial Society and a Member of the American Academy of Actuaries

12 and am in good standing with both of those organizations.

13

14 3. Q. How long have you been employed by the National Council?

15 A. I have worked for NCCI since June of 2012, during which time I have contributed in

16 various areas of NCCI's Actuarial and Economic Services division, including class

17 ratemaking, individual risk rating research, legislative analysis, and aggregate

18 ratemaking. In addition to overseeing the actuarial function for two jurisdictions, I

19 am currently responsible for leading NCCI's actuarial communications area.

20

1 4. Q. Are you responsible for the production of the pending Florida filing?

2 A. Yes.

3

4 5. Q. What is the purpose and scope of your testimony?

10

15

19 A. No. The proposed rate level indication represents the overall average change for
20 the voluntary market. The actual percentage change may vary across individual
21 classification codes—both above and below this average.

1

2 8. Q. What is the proposed effective date of the revised voluntary market rates?

3 A. The revised rates would apply to new and renewal policies that are effective on or
4 after January 1, 2026.

5

6 9. Q. Please summarize the components of the proposed overall average rate level
7 change.

8 A. The components of the overall average voluntary market rate level change are as
9 follows:

10 Change in Experience, Development and Trend –6.9%

11 Change in Benefits –0.4%

12 Change in Production and General Expenses +0.3%

13 Change in the Profit and Contingency Provision 0.0%

14 Change in Loss-Based Expenses +0.1%

15 Overall Average Rate Level Change –6.9%

16 (Components are multiplicative)

17

18 10. Q. Please summarize the actuarial decisions affecting the change in the experience,
19 trend, and benefits component of the overall indication.

20 A. The experience, trend, and benefits component is affected by actuarial decisions
21 on the type of data to use, the number of years to include in the experience

1 period, the loss development methodology (i.e., whether to use paid losses or paid
2 losses plus case reserves), the link ratio averaging technique, and the tail factor
3 calculation. These decisions affect the loss ratios on which the experience
4 indication is based as well as the loss ratios reviewed to determine the projected
5 annual trend. The key selections that have been incorporated are as follows:

- 6 • The experience period is based on the two most recently available full policy
7 years (Policy Years 2022 and 2023 evaluated as of December 31, 2024)
- 8 • An average of the (i) paid and (ii) paid plus case loss development
9 methodologies
- 10 • Three-year average link ratios for premium development
- 11 • Three-year average paid and paid+case loss development to a nineteenth
12 report
- 13 • Selected nineteenth report-to-ultimate loss development tail factors after
14 reviewing the most recent ten years of available data
- 15 • Selected annual trend factors

16
17 11. Q. What data is used for the experience period in these applications?

18 A. The experience period is based on the two most recently available full policy years
19 (Policy Years 2022 and 2023 evaluated as of December 31, 2024) of Florida
20 financial data. This data consists of earned premiums and losses during these
21 periods reported to NCCI by those companies writing workers compensation

1 business in Florida. Consistent with last year's filing, the losses from reported
2 COVID-19-related claims have been excluded from the data underlying the
3 analysis.

4
5 12. Q. Was it necessary to include any adjustments to the experience period premiums?

6 A. Yes. Premium on-level factors were applied to reflect the impact of recent rate
7 level changes that are not fully reflected in the data. The premium was also
8 developed to an ultimate basis based on an average of the three most recent
9 historical factors at each age interval.

10
11 13. Q. What loss development methodologies were analyzed in connection with this
12 year's filing?

13 A. The loss development projection methodologies examined in this year's analysis
14 were based on (i) paid losses (benefit amounts already paid by insurers on
15 reported claims) and (ii) the sum of paid losses plus case reserves ("paid+case"),
16 which are paid losses and the amounts set aside to cover future payments on
17 those claims. For use in this filing, NCCI utilized loss development factors based on
18 each of these loss aggregations.

19
20 14. Q. After identifying the most appropriate loss development methodology, what is the
21 next step in the process to compute the actual loss development factors?

1 A. In calculating the loss development factors, actuaries examine how prior years'
2 losses evolve from the time they are first reported to the time they are finally
3 settled. For inclusion in this filing, final loss development factors through a
4 nineteenth report were derived based on an average of the three most recent
5 historical factors at each age interval for both paid losses and paid+case losses.

6

7 15. Q. Beyond a nineteenth report, what loss development factors were used?

8 A. Loss development tail factors from a nineteenth to an ultimate report were
9 selected based on a review of the ten most recently available factors. This
10 facilitates a relatively long-term view of loss development beyond a nineteenth
11 report—that, in general, may not be expected to vary significantly from year-to-
12 year.

13

14 16. Q. What is trend in the context of this filing?

15 A. Trend adjusts the historical data to account for anticipated changes in the amount
16 of indemnity and medical benefits between the experience period years and the
17 period when the rates will be in effect. If losses were changing at the same rate as
18 payrolls, trend would not be needed since the change in losses would be matched
19 by a corresponding change in payrolls and, therefore, premiums. In Florida, losses
20 have historically been changing at a different rate than payroll. This makes trend
21 necessary if historical data is to be used as a predictor of future losses.

1

2 17. Q. Please describe how the trend factors were selected for use in this filing.

3 A. In addition to historical changes in Florida indemnity and medical loss ratios,

4 changes in claim frequency and average cost per case over time were also

5 reviewed. Consideration of the trend component focused on a review of loss ratio

6 patterns observed over an extended period of time. This allows one to review

7 trends over an entire underwriting cycle and smooth out year-to-year fluctuations.

8 This year's trend analysis included consideration of historical wage growth and

9 medical inflation rates, including prospective expectations around these metrics.

10 Ultimately, the proposed annual loss ratio trend factors selected for use in this

11 filing were based on actuarial judgment. This year's trend analysis is fully

12 documented in Appendix A-III of the filing.

13

14 18. Q. What are the annual loss ratio trends proposed in this filing?

15 A. For this filing, the proposed indemnity loss ratio trend is -4.5% per year and the

16 proposed medical loss ratio trend is -4.5% per year.

17

18 19. Q. Once the loss experience has been developed, brought to the current benefit level,

19 and trended, what are the next steps in determining the overall average rate level

20 change?

1 A. After the above-mentioned adjustments have been made, total indemnity and
2 medical cost ratios are computed by comparing the total estimated indemnity and
3 medical costs to the total estimated premium that would be available to fund
4 these losses. After combining separate indications for Policy Years 2022 and 2023,
5 the resulting experience, trend, and benefit change indicates that current rate
6 levels should be decreased by 7.3% to be just adequate in providing for losses
7 which are expected to arise from policies becoming effective between January 1
8 and December 31, 2026.

9
10 20. Q. Please briefly describe the changes to the various expense-related provisions in
11 the filing.

12 A. The expense-related provisions are described in the filing section titled “Exhibit II –
13 Workers Compensation Expense Program” (page 53). A brief description of these
14 components is as follows:

- 15 • Production and general expenses: Production expenses include items such as
16 commissions and costs associated with processing policies. General expenses
17 primarily consist of salaries and overhead costs. This filing proposes a +0.2%
18 change to the currently approved combined production and general expense
19 provision, which has a +0.3% impact on the overall rate level change.
- 20 • Premium taxes and assessments: This provision reflects changes to the
21 Workers’ Compensation Administration Trust Fund assessment and the Special

Disability Trust Fund assessment. After rounding to the nearest tenth of a percent, this filing proposes no change to the currently approved provision for taxes and assessments.

- Profit and contingency (P&C) provision: Florida workers compensation rates must be determined so that insurers can be expected to earn a reasonable rate of return. This filing proposes no change to the currently approved P&C provision.
- Loss-based expenses: Loss adjustment expenses (LAE) are those associated with the handling of workers compensation claims. This filing proposes a +0.1% change to the currently approved LAE provision.

21. Q. After incorporating the proposed change in expenses, what is the final proposed overall average rate level change in this filing?

A. A final overall average rate level change of -6.9% is being proposed.

22. Q. Please describe how the proposed P&C provision was selected in this filing.

A. The P&C provision was selected based on the results of NCCI's Internal Rate of Return (IRR) model. The IRR model accounts for all cash flows related to the insurance transaction and the timing of these cash flows to determine expected returns for the insurance industry. More specifically, the P&C provision included in this filing was judgmentally selected after reviewing the resulting "static-spot",

1 “static-average” and “dynamic” P&C indications along with the provision currently
2 approved.

3

4 23. Q. Please provide a brief description of NCCI’s IRR Model and explain how it is used to
5 obtain an indicated profit and contingency factor.

6 A. NCCI’s IRR Model estimates the time series of expected future cash flows –
7 including premiums, losses, expense, investment income, and taxes – for a
8 representative insurer underwriting workers compensation (WC) coverage in
9 Florida during the current Policy Year. Expected future cash flows are influenced
10 by several key financial inputs – notably the cost of capital, return on invested
11 assets, and the reserve-to-surplus ratio – all of which are assumed to characterize
12 a representative insurer. In addition, expected future cash flows are affected by
13 the profit and contingency factor, a variable which scales up or down the insurer’s
14 profitability from any modeled time path of future cash flows. The profit and
15 contingency factor is not selected in advance but is an output of the IRR Model.
16 The indicated profit and contingency factor has the property that the present
17 value of the expected future cash flows incorporating this factor, discounted at the
18 representative insurer’s cost of capital, equals zero. The indicated profit and
19 contingency factor realizes an all-in rate of return from underwriting that is just
20 equal to the representative insurer’s cost of capital.

21

1 24. Q. Please describe the concept of a representative WC insurer.

2 A. NCCI's implementation of its IRR Model relies on the concept of a representative
3 WC insurer. To obtain an indicated profit and contingency factor, NCCI creates
4 inputs to the IRR Model for capital structure (mix of equity and debt in financing),
5 beta (the insurer's enterprise risk in relation to the publicly traded equity market),
6 investment portfolio, and cash surplus holdings (via the reserve-to-surplus ratio).
7 The representative insurer is a hypothetical entity possessing this collection of
8 financial attributes who is assumed to underwrite a comprehensive book of WC
9 coverage in Florida during the current Policy Year.

10
11 It is worth emphasizing that the representative WC insurer for whom the IRR
12 Model calculates future cash flows and an indicated profit and contingency factor
13 is fictional and not real. In fact, Florida's WC market contains a variety of insurers
14 with diverse capital structures, investment profiles, and mixes of business. The
15 representative insurer is not intended to be an accurate representation of any
16 existing WC insurer; rather, the representative insurer is a hypothetical entity
17 whose role is to produce profit and contingency indications in scenarios run under
18 the IRR Model that are guidelines for aggregate ratemaking by Policy Year.

19

25. Q. Please provide an overview of NCCI's current methodology for estimating the future cost of capital and returns to invested assets in the context of the Internal Rate of Return (IRR) Model for ratemaking.

- A. NCCI supports three forecasts (static-spot, static-average, and dynamic) of future rates of return to different asset classes. Since the cost of capital and the return on investments are built up from projected future rates of return to various asset classes, there are static-spot, static-average, and dynamic scenarios for both the cost of capital and the return on invested assets.

The static-spot and static-average forecast estimates hold interest rates fixed over time, while the dynamic estimate incorporates projections of future interest rate levels. In the static-spot scenario, the “risk-free” rate of return is set equal to the U.S. Treasury 5-year note yield during the first quarter of 2025 and is assumed not to vary in the future. In the static-average scenario, the “risk-free” rate of return is set equal to the rolling 5-year average of the U.S. Treasury 5-year note yield ending in the first quarter of 2025 and is also assumed not to vary in the future. In the dynamic scenario, the “risk-free” rate of return varies according to Moody’s forecasts as of May 2025 for yields to the US Treasury 5-year note beginning in the first quarter of 2026 and varying thereafter.

1 NCCI defines the cost of capital to be the weighted average cost of capital (WACC),
2 which is the share-weighted average of the cost of equity capital and debt capital
3 to a representative WC insurer, using share weights for equity and debt in the
4 representative insurer's estimated capital structure. The cost of equity capital is
5 derived from a standard application of the Capital Asset Pricing Model (CAPM).
6 The cost of debt capital is the forecast yield to a single debt instrument selected as
7 a proxy for debt in the representative WC insurer's capital structure.

8
9 The P&C beta is the simple average of company beta coefficients for a selection of
10 publicly traded insurance companies concentrating in property and casualty lines.
11 Company betas are obtained from Bloomberg: they are derived from weekly stock
12 returns over the ten-year period beginning in the second quarter of 2015 and
13 ending in the first quarter of 2025 and include a Blume-style adjustment.

14
15 The market equity risk premium (ERP) in each scenario is obtained as the
16 difference between the average annual return to a broad-based US stock index
17 and the risk-free rate.

18
19 26. Q. Are there additional changes in miscellaneous rating values contained in the filing?

1 A. Yes. Along with the proposed manual rate pages, Part 2 of the filing contains
2 additional changes, including proposed miscellaneous values, experience rating
3 values, and retrospective rating values.

4

5 27. Q. Please describe what is meant by the term “F-classifications.”

6 A. The “F” or “Federal” classifications are those operations conducted on or about
7 navigable waters for which benefit levels and related costs are determined by the
8 United States Longshore and Harbor Workers’ Compensation Act, rather than
9 individual state laws. Typical F-classifications include those covering ship builders
10 and stevedores.

11

12 28. Q. What rate change is being proposed for the Federal classifications?

13 A. The filing proposes an overall average rate level change of –14.3%.

14

15 29. Q. Is it your testimony that this filing results in rates that are not excessive,
16 inadequate, or unfairly discriminatory?

17 A. Yes.

18

19 30. Q. Does this conclude your testimony?

20 A. Yes, it does.