

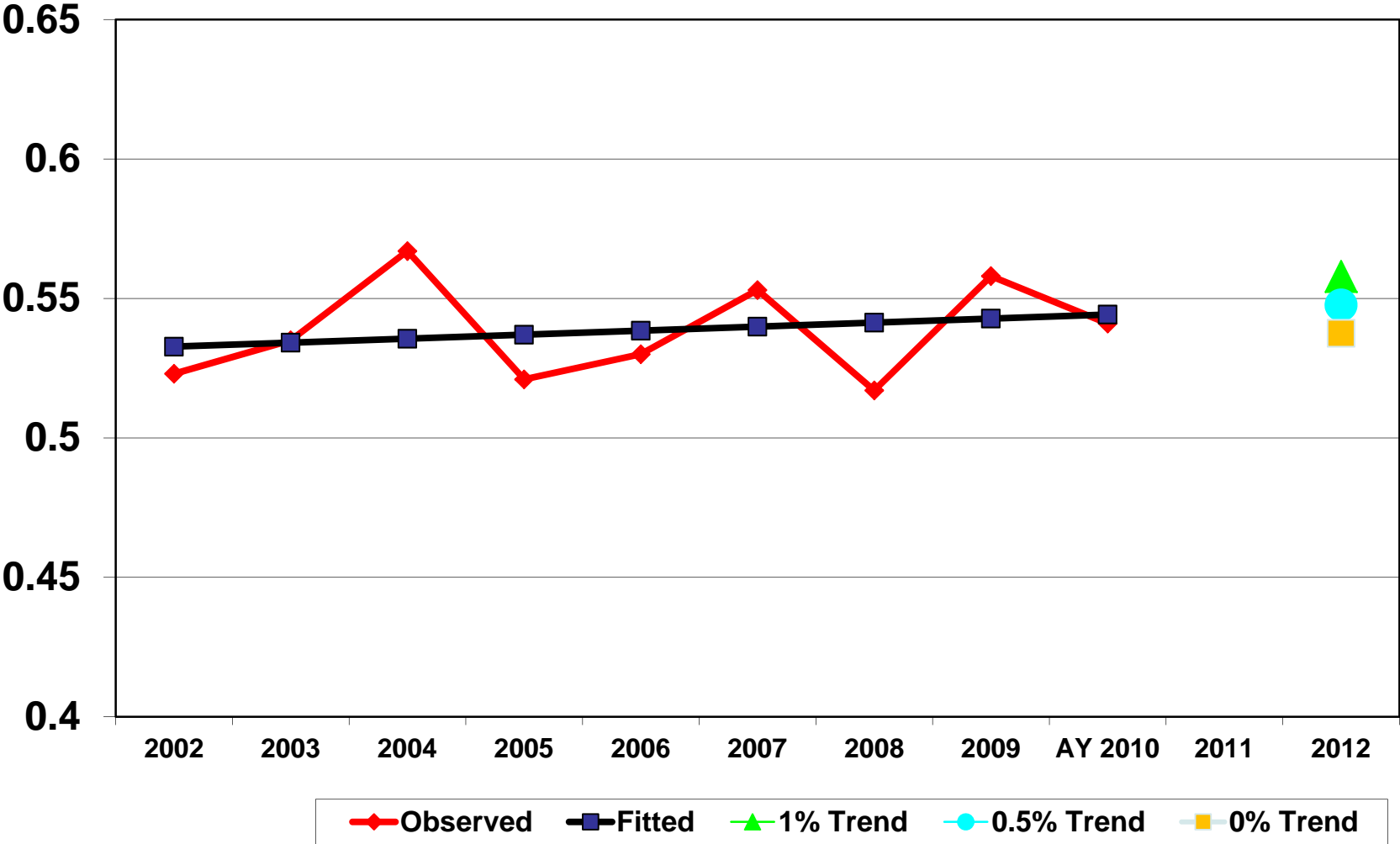
Introduction

- SAS reviewed NCCI filing on behalf of Dept. of Commerce and Insurance, and found the filing to be actuarially sound.
- Two areas where we might have selected differently:
 - Medical loss ratio trend
 - Provision for LAE
- One area we have commented on in the past:
 - Loss Development Factors
- Note law only and technical filings
- Range of Reasonable estimates is 0% to +1.6%
 - Filed change of +1.6% is at the upper end of this range.

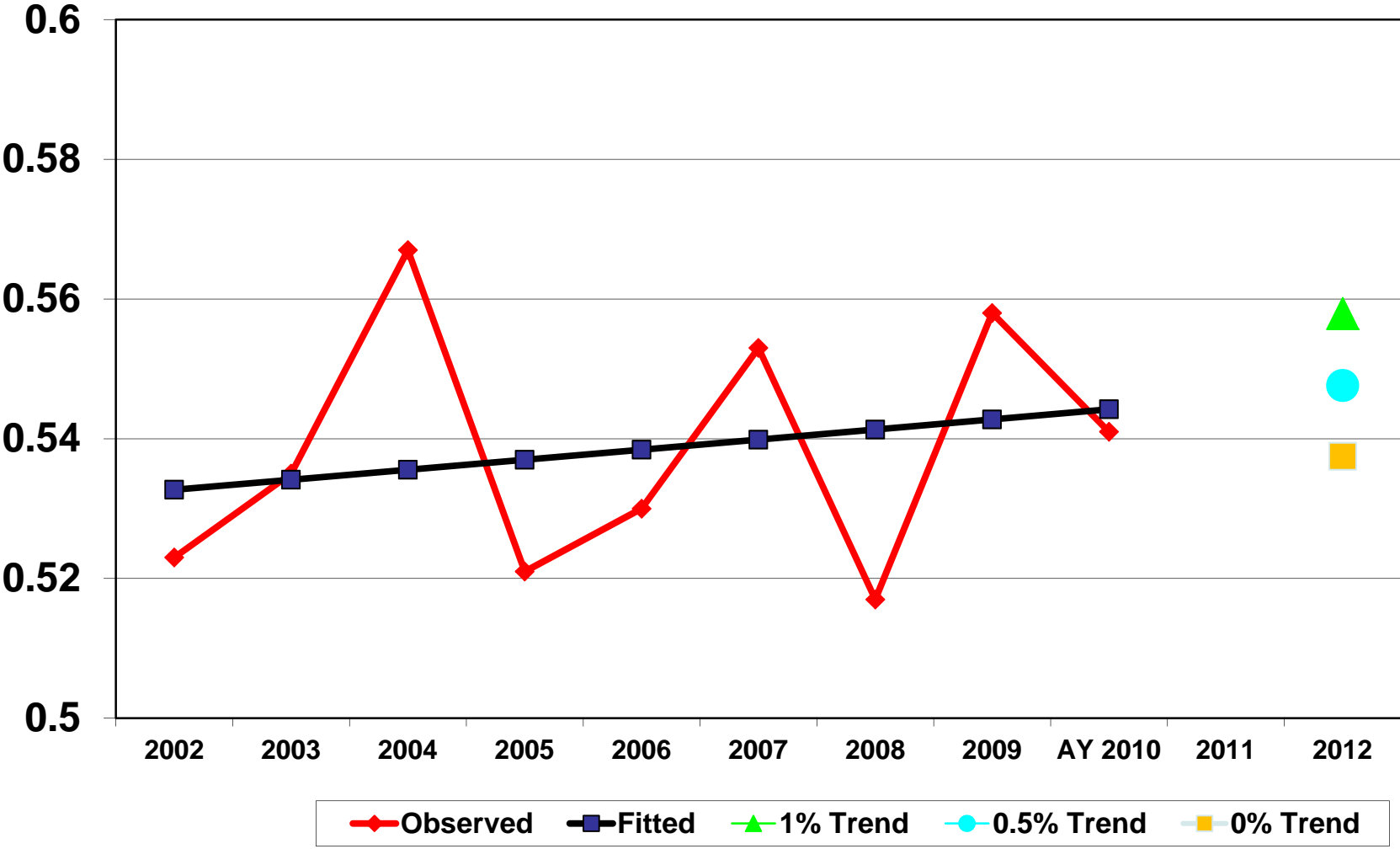
Loss Ratio Trends

- Frequency (claims per \$1 payroll) has been decreasing
 - But 2009 is up over 2008
- Indemnity claim sizes increase more slowly than wages while medical claims increase more quickly
 - Results in overall decreasing loss ratios for indemnity but increasing loss ratios for medical claims
 - Long term trend (8 years) is -3.3% for indemnity and +0.3% for medical
- We concur with NCCI selection for indemnity (3%) but believe that 1.0% medical selection may be high
 - Using 0.5% medical loss ratio trend results in an indicated change of +0.2% (rather than +1.6%).

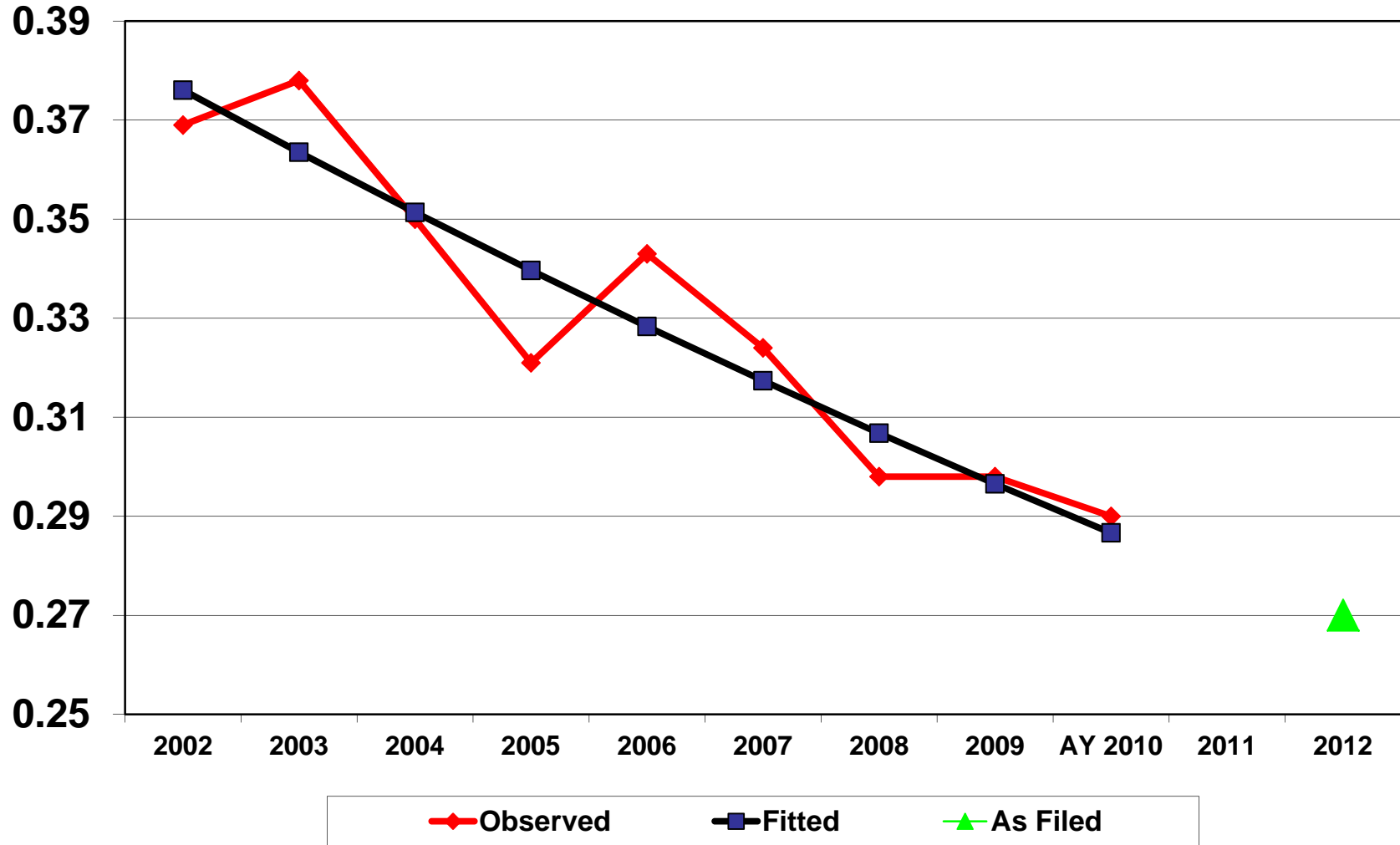
Medical Loss Ratio History



Medical Loss Ratio History: Larger Scale



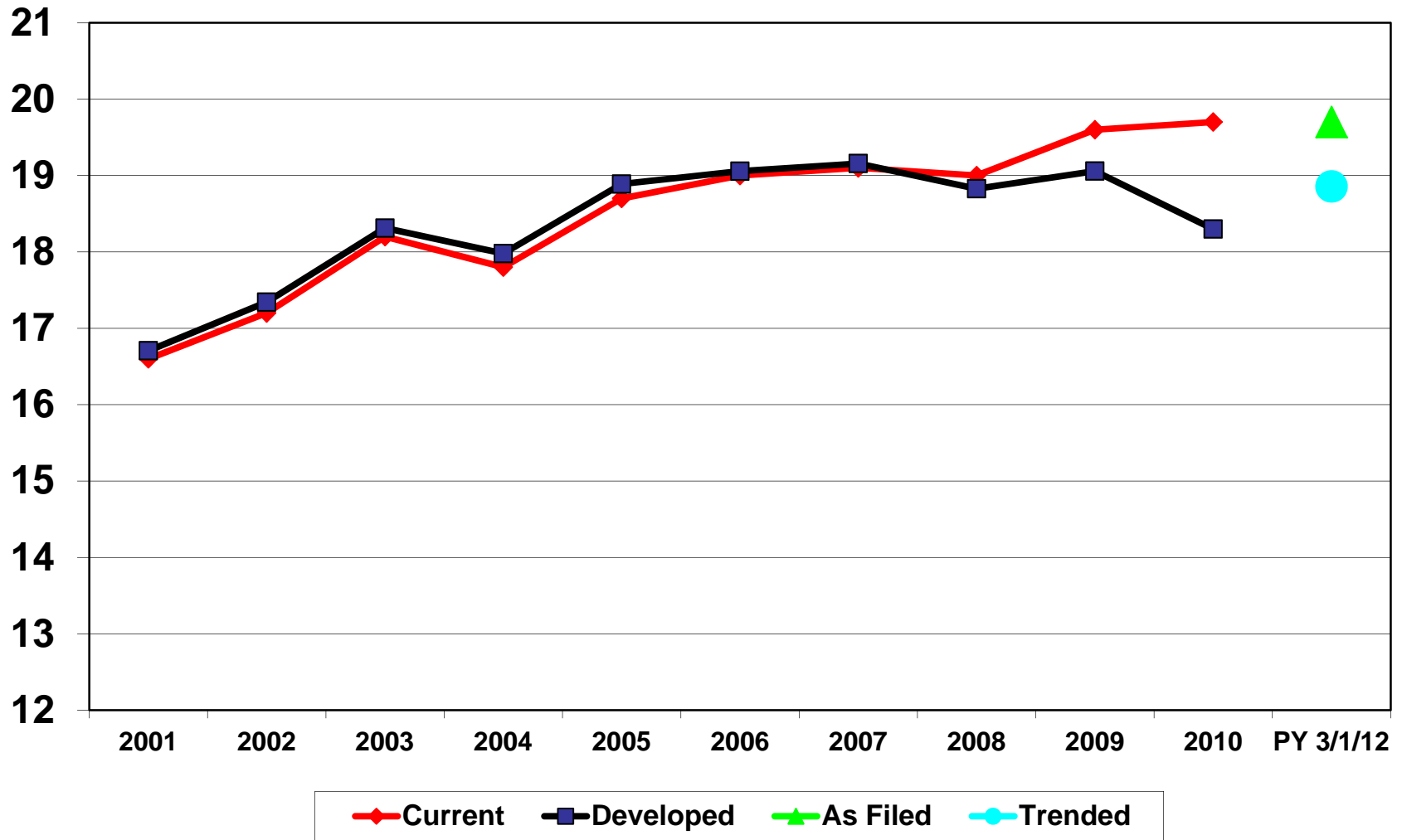
Indemnity Loss Ratio History



LAE to Loss Ratio

- NCCI estimates of the ultimate LAE to loss ratio develop downward over time
 - Well documented in our review of the 2011 filing
 - Development over the past year consistent with prior years
 - Conclusion: Ratios shown in the filing for the latest two or three years are overstated – materially for 2009 and 2010
- Last year's filing data showed evidence of an upward trend in the ratios even after correction for development
 - Current filing does not show trend in the latest five years
 - After correction for development, 2005-2009 very stable around 19%
 - We recommend consideration of 19% load rather than 19.7% load
 - Reduces indication to +0.9%

Accident Year LAE Ratios



Other Observations

- Changes in frequency trend and return to increasing medical costs cause for concern
 - Should not be overly responsive, but would argue against any selected decrease in the rates
- Loss Development Ratios
 - Latest year very close to the 5 year average at most maturities
 - Continued use of 5 year average is appropriate
- Law Only and Technical filings in 2011
 - Law Only filing effective 11/1/11 captures past changes in medical fee schedules going back to 2009 and is appropriate
 - NCCI has also changed experience mod and retro calculations that were long overdue for updates

Conclusion

- The selected Medical Trend of 1.0% is not unreasonable, but is more likely to be on high side than not.

Changing Med Trend to 0.5% produces indication of +0.2%

Changing Med Trend to 0.0% produces indication of -1.0%

Changing LAE provision to 19% produces indication of +0.9%

- NCCI should adjust its calculation of LAE ratio to reflect downward development and adjust for trend if applicable
- Range of reasonable estimates of indication is from 0% to +1.6%