

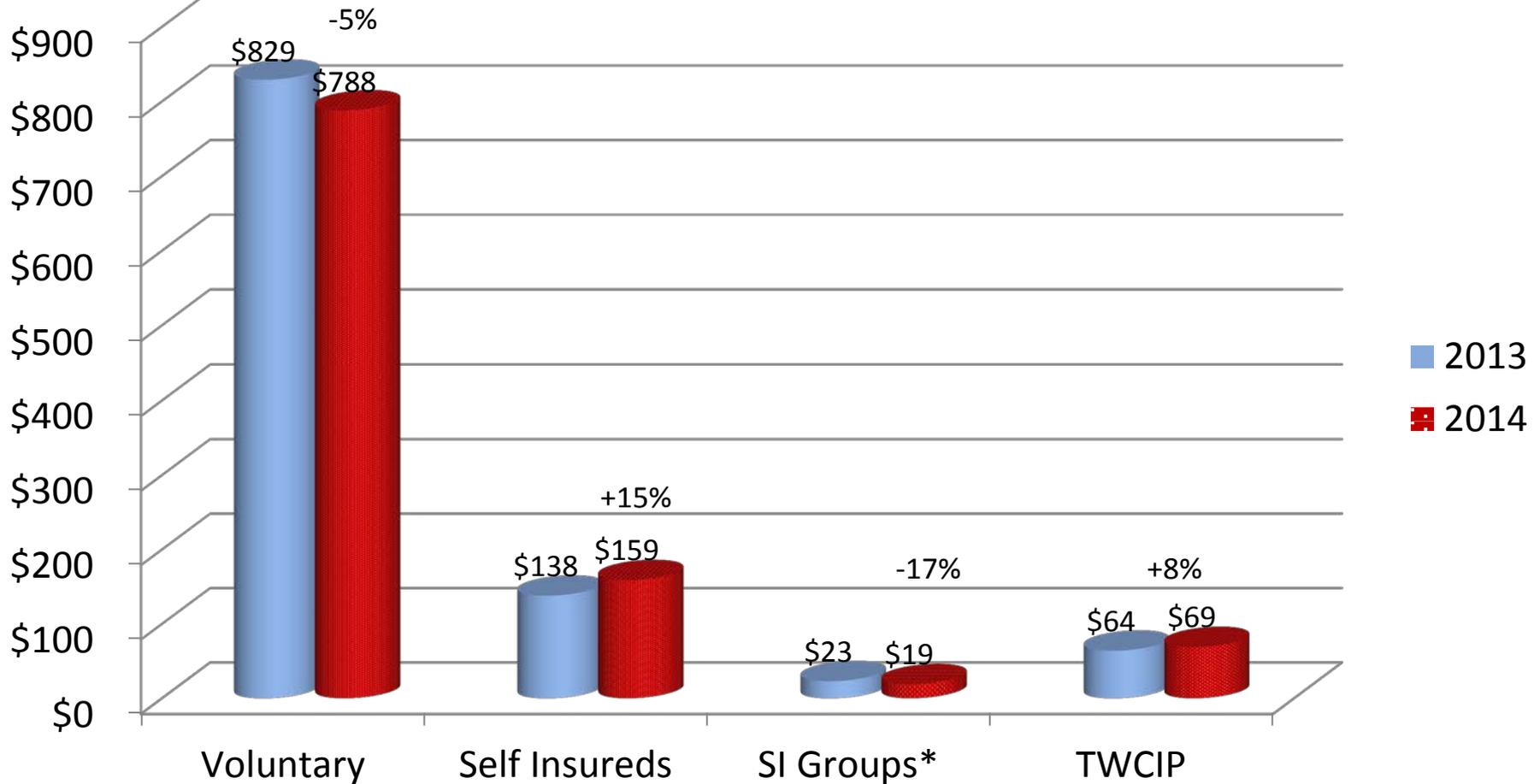


Overview of Tennessee's Workers' Compensation Market Conditions and Environment

Advisory Council on Workers' Compensation

2014 Market Segments

Millions in Premiums



- * Excluding government sponsored groups; Individual Self Insureds are on an equivalent premium basis, Group premiums are estimated. TN Healthcare Association discontinued writing coverage in 2014.

National Picture



Property & Casualty Underwriting Results

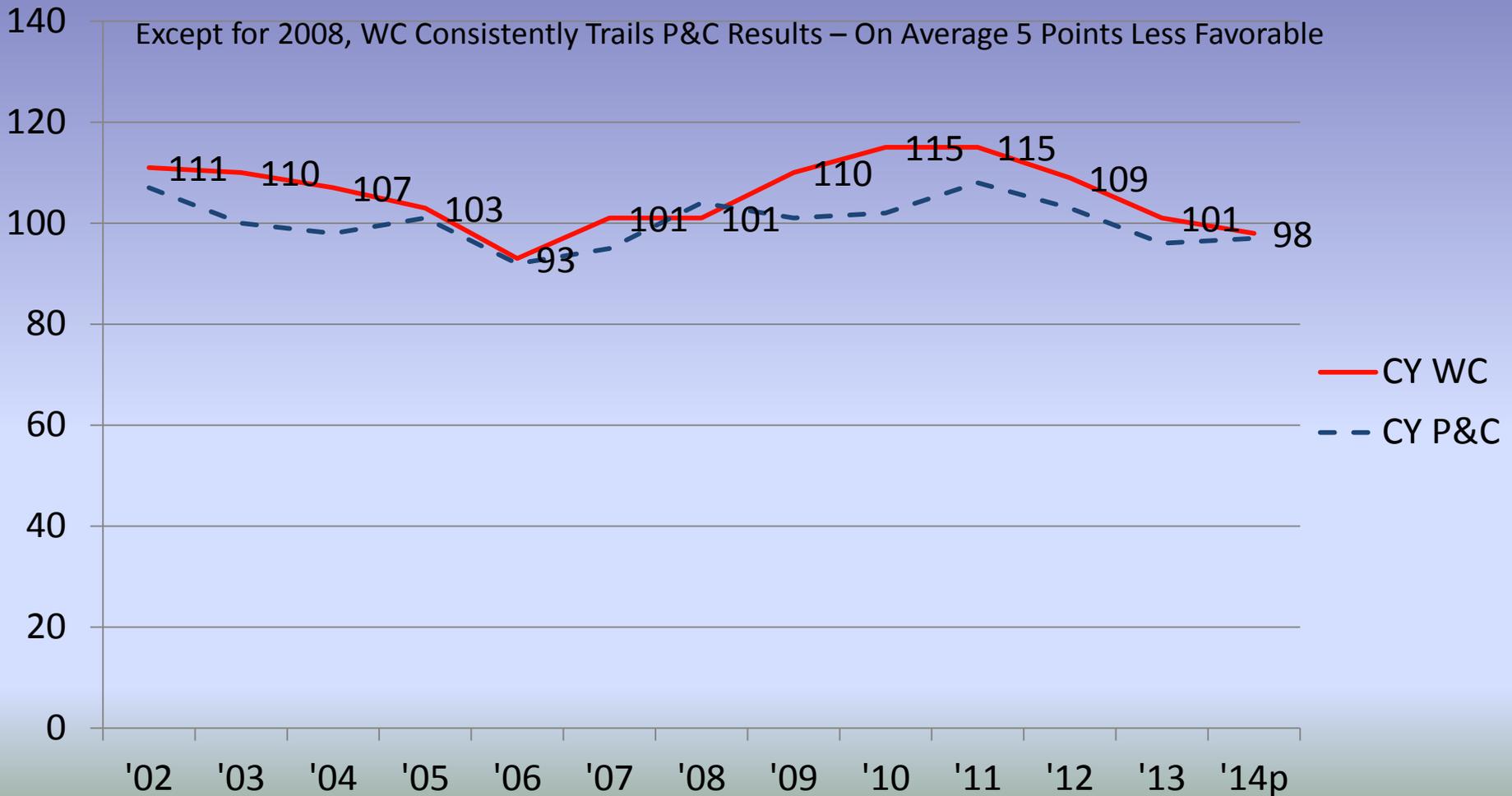
- **Combined Ratio = Expense Ratio + Loss & LAE Ratio; results <100 equates to an underwriting profit**

Net Calendar Year Combined Ratio – Private Carriers

Line of Business	2012	2013	2014 preliminary
Personal Auto	102%	102%	102%
Homeowners	104%	90%	92%
Com. Multi Peril	107%	98%	99%
Com. Auto	107%	107%	103%
Workers' Comp	109%	102%	98%
Total P&C Industry	103%	96%	97%

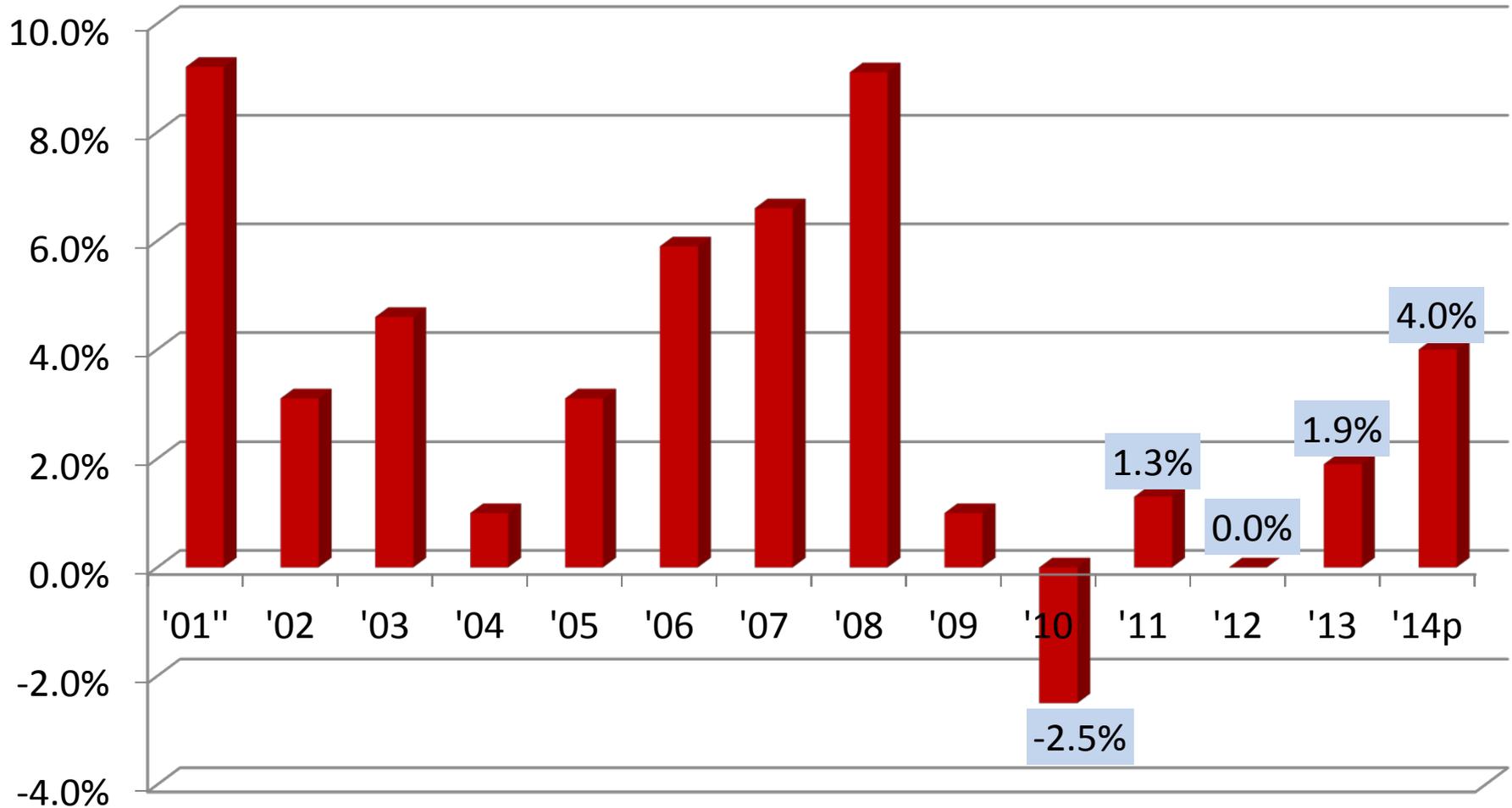
Sources: NCCI for Workers Comp; Total P/C Industry: ISO

Calendar Year Combined Ratios



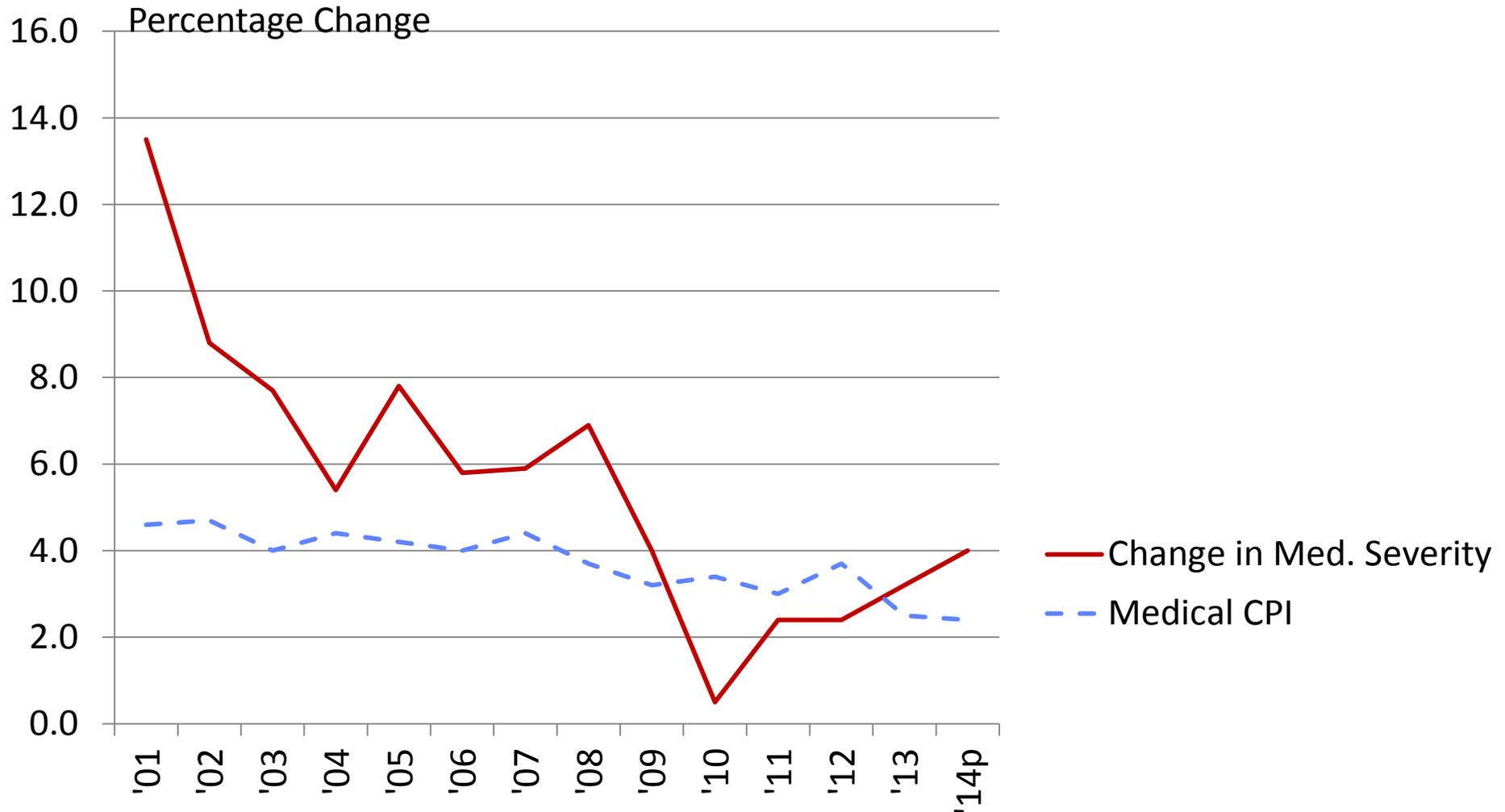
Source: NCCI; Annual Statement Date; ISO; 2014 preliminary data

Workers' Compensation Indemnity Claims Cost - Another Modest Increase in 2014

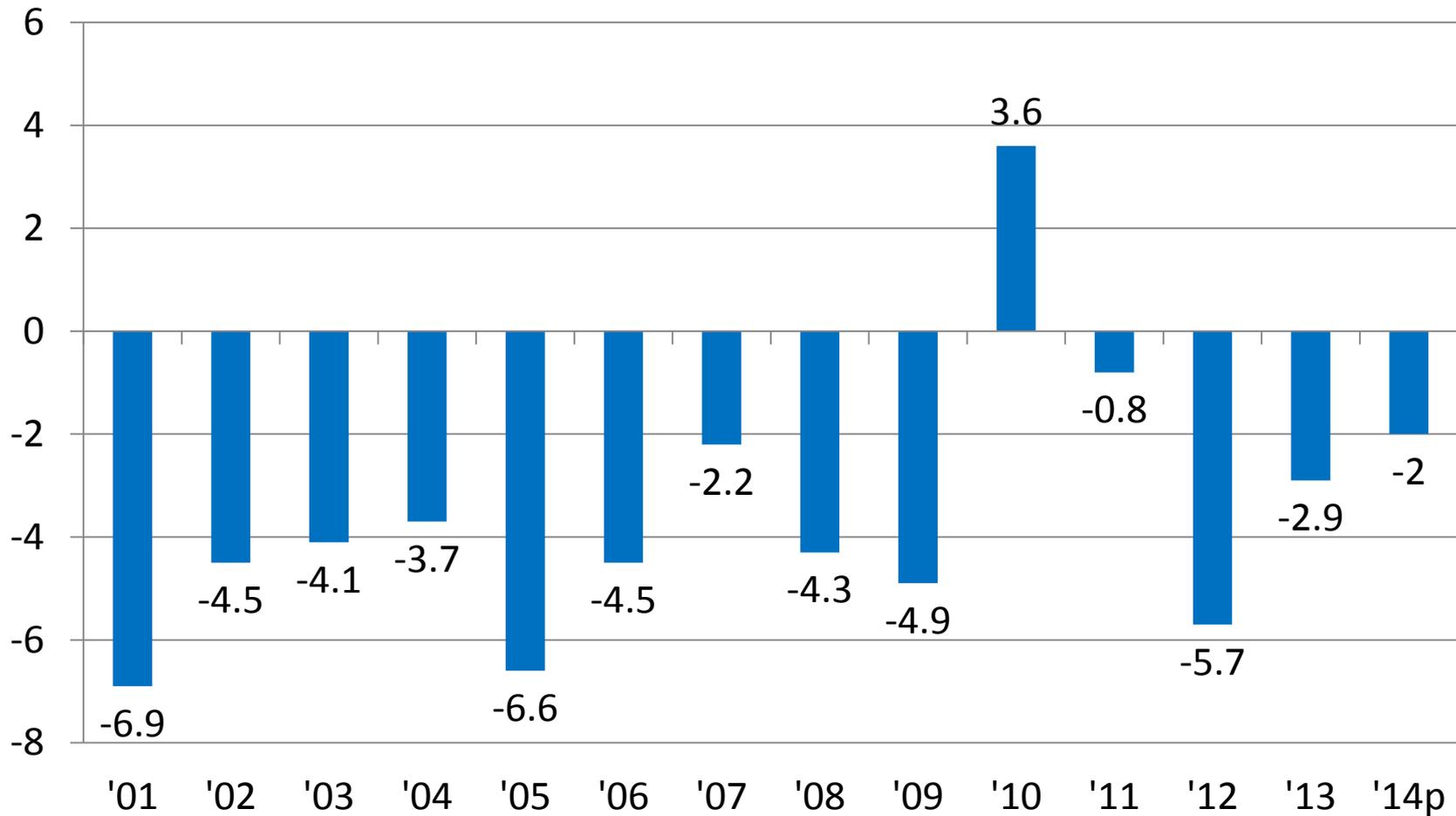


Source: NCCI (2014 is preliminary)

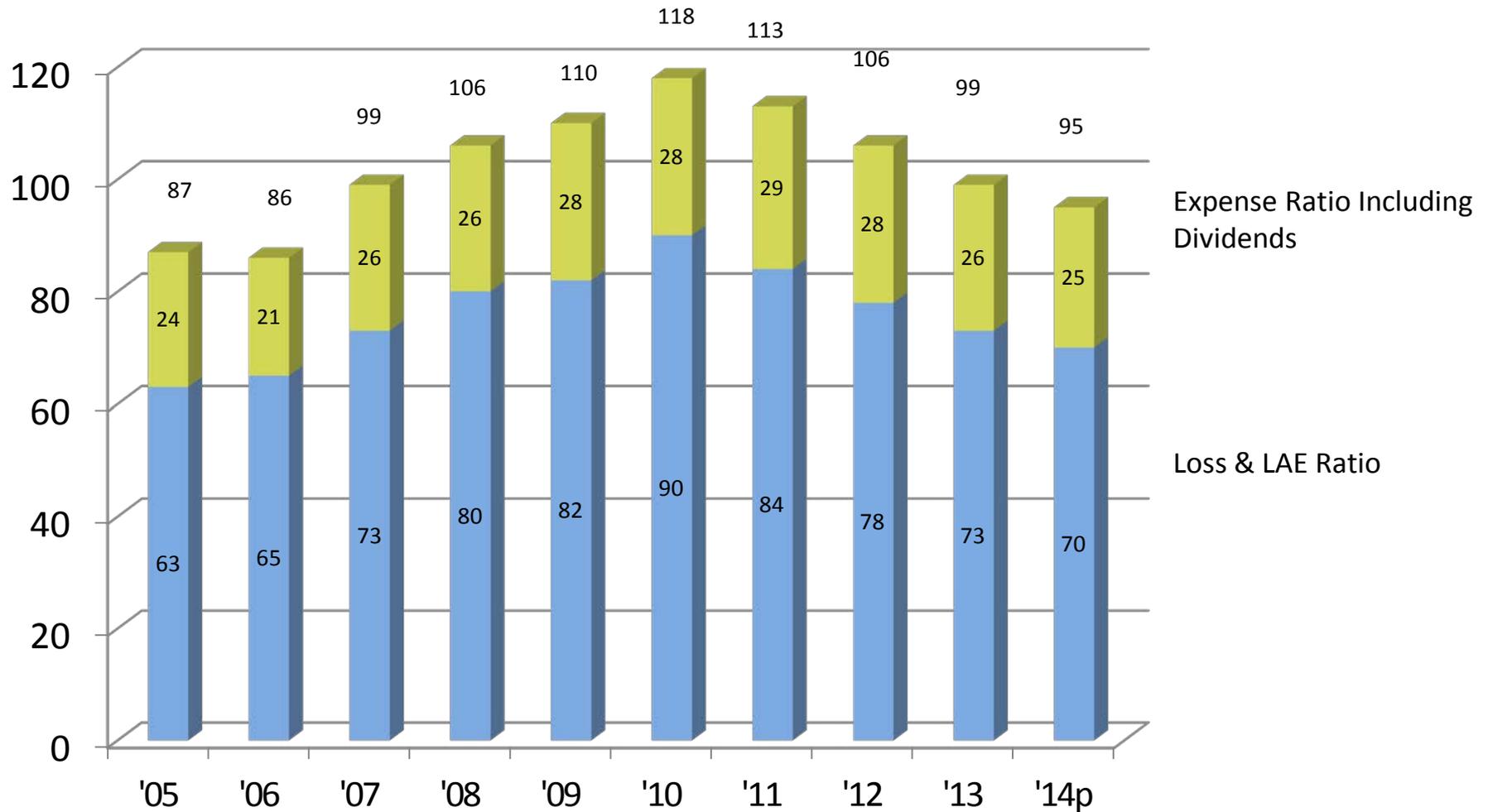
Medical Severity Increases vs. Medical CPI



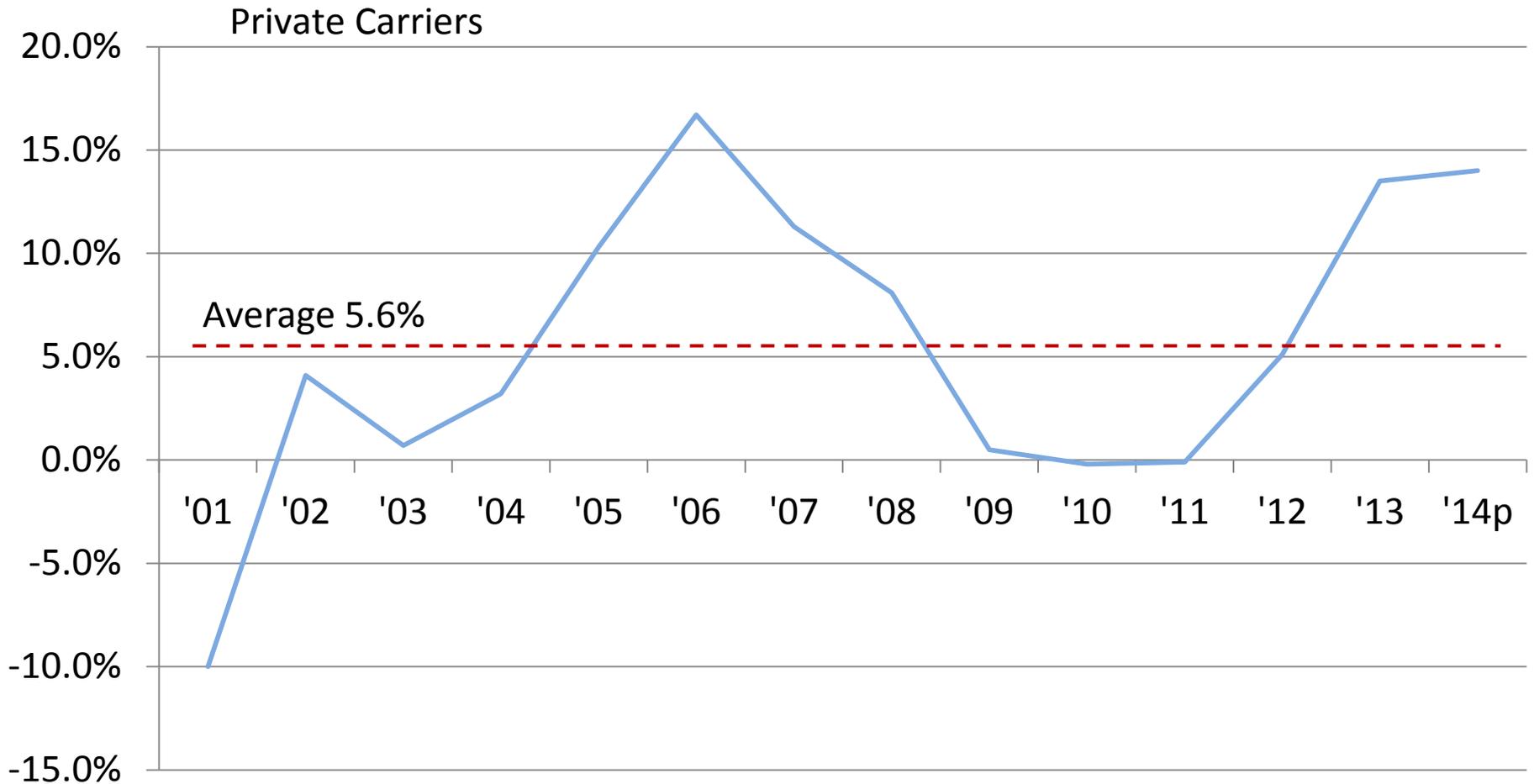
WC Lost-Time Claim Frequency Continued to Decline in 2014



Countrywide Accident Year Combined Ratios

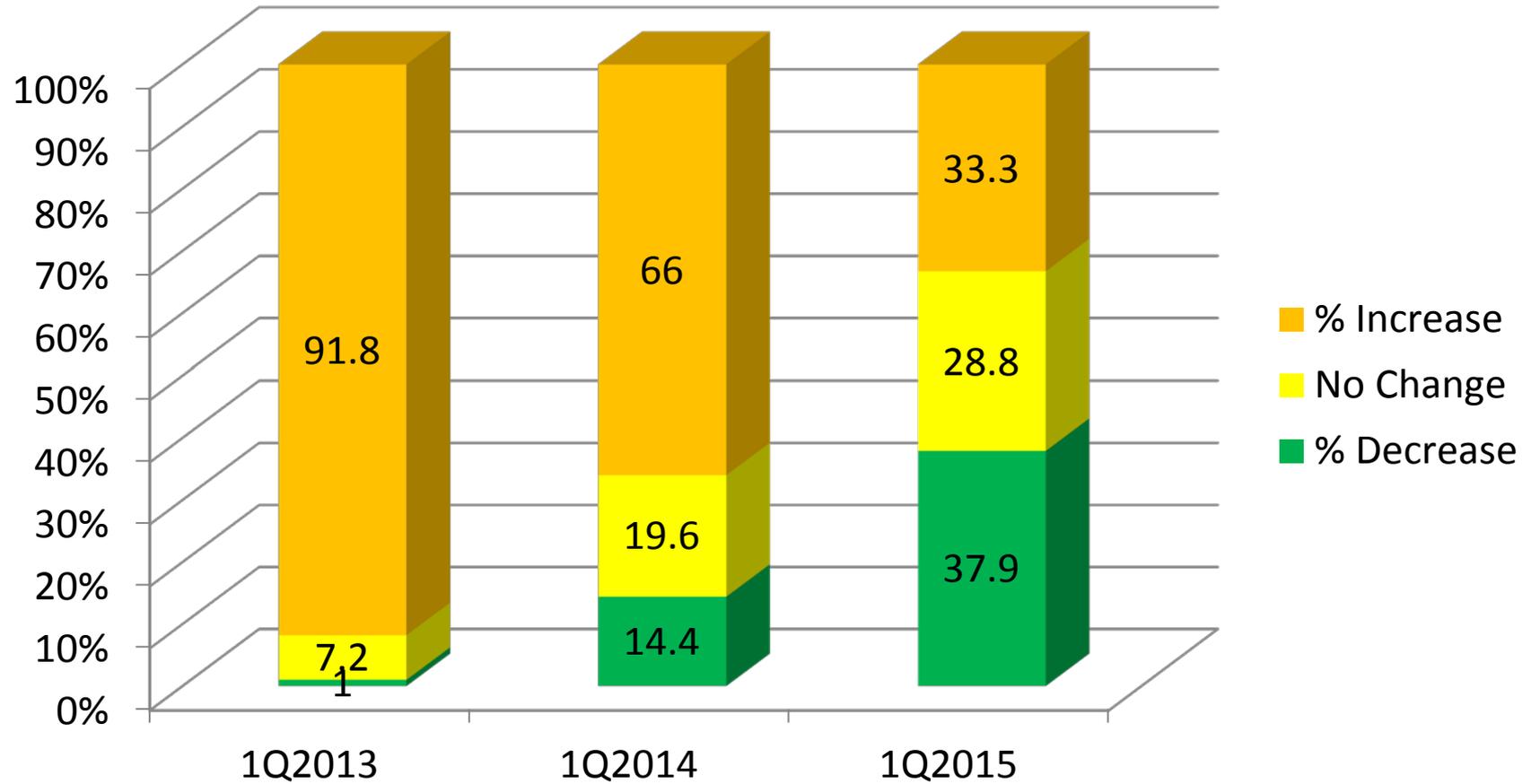


Pretax Operating Gain



Source: 2000-2013, Annual Statement Data; 2014 NCCI - preliminary

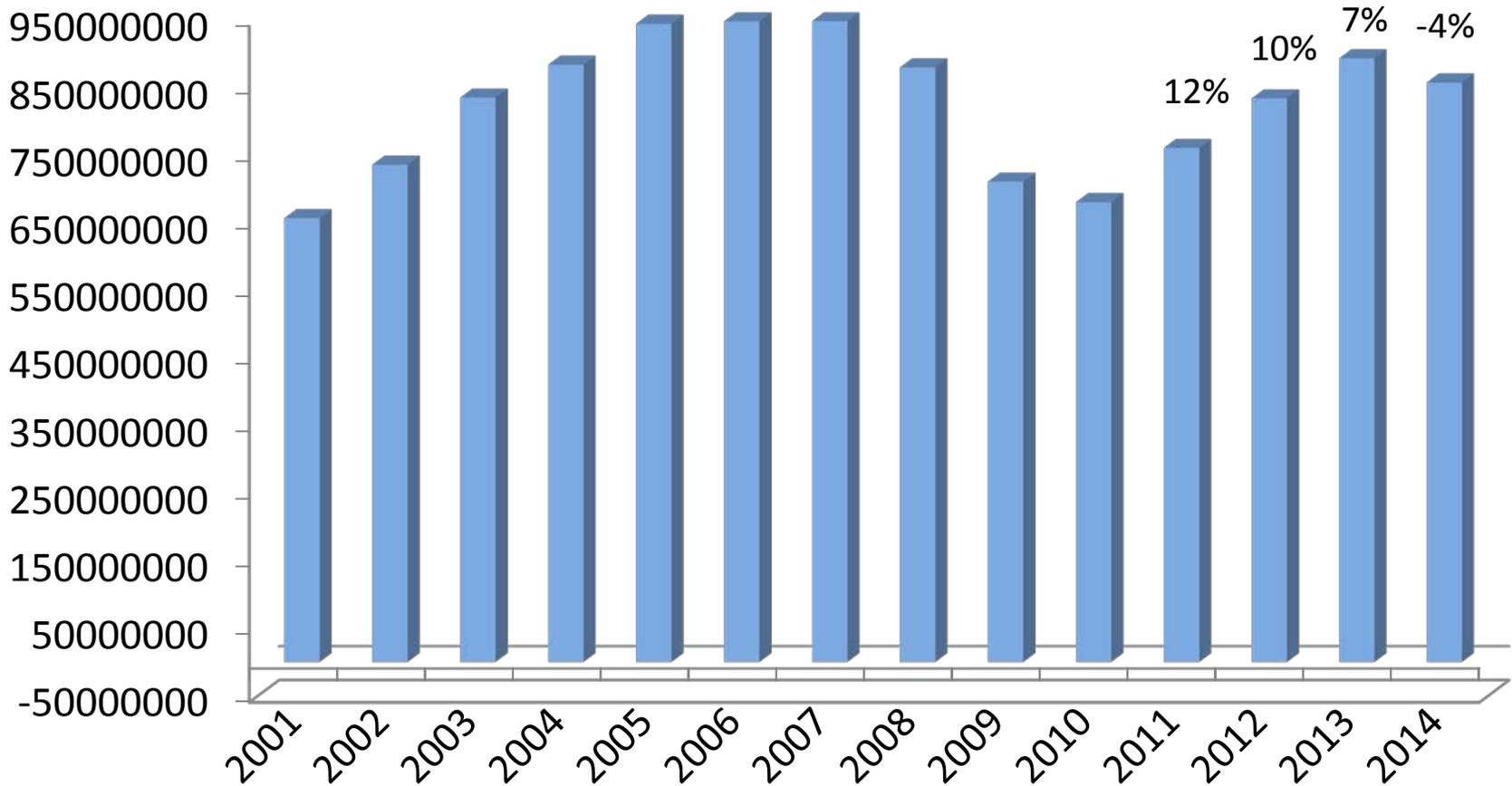
WC Price Increases Continue to Ease



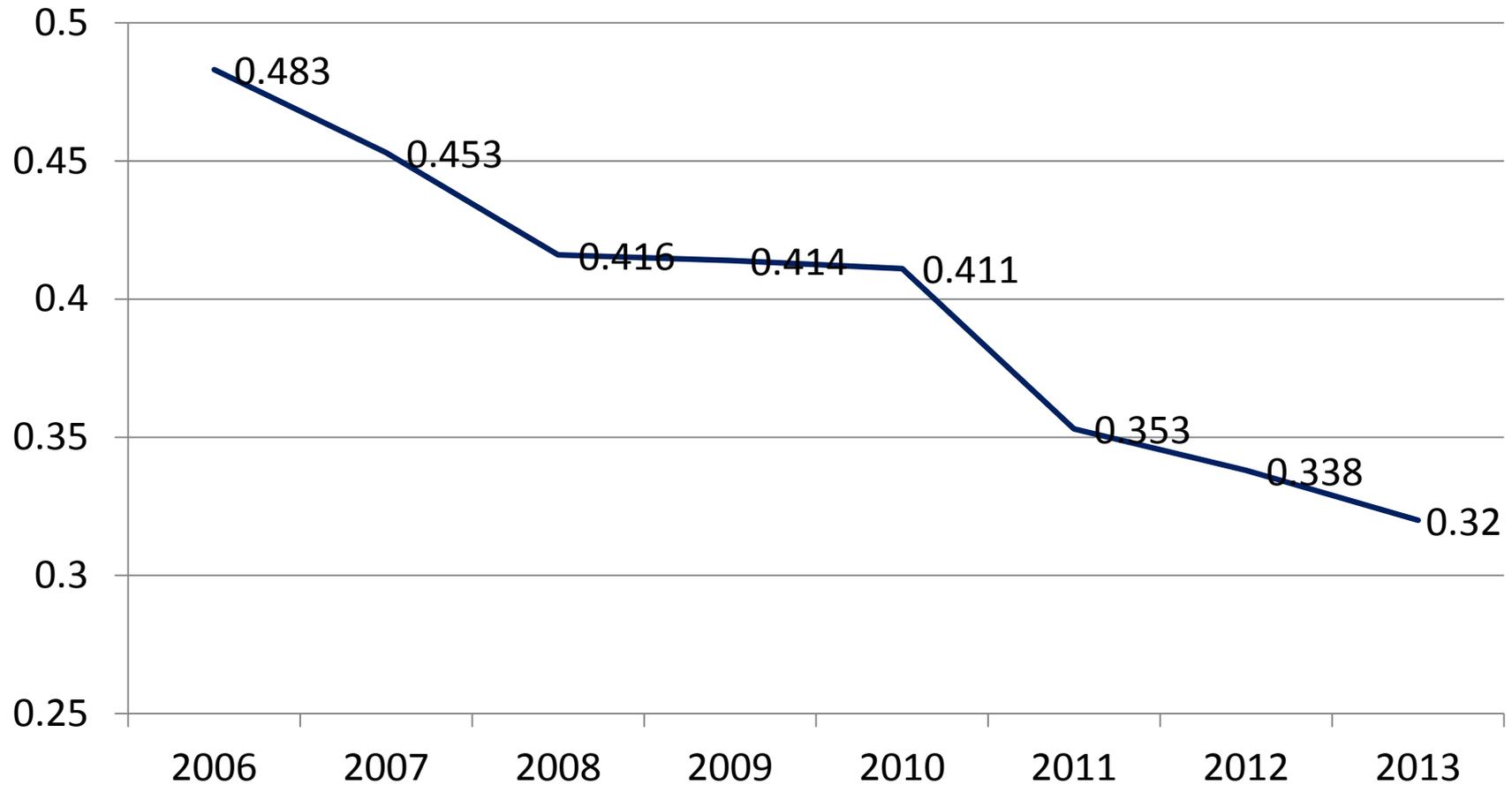
Tennessee Specific



TN Direct Premium Written Premium (DPW) History

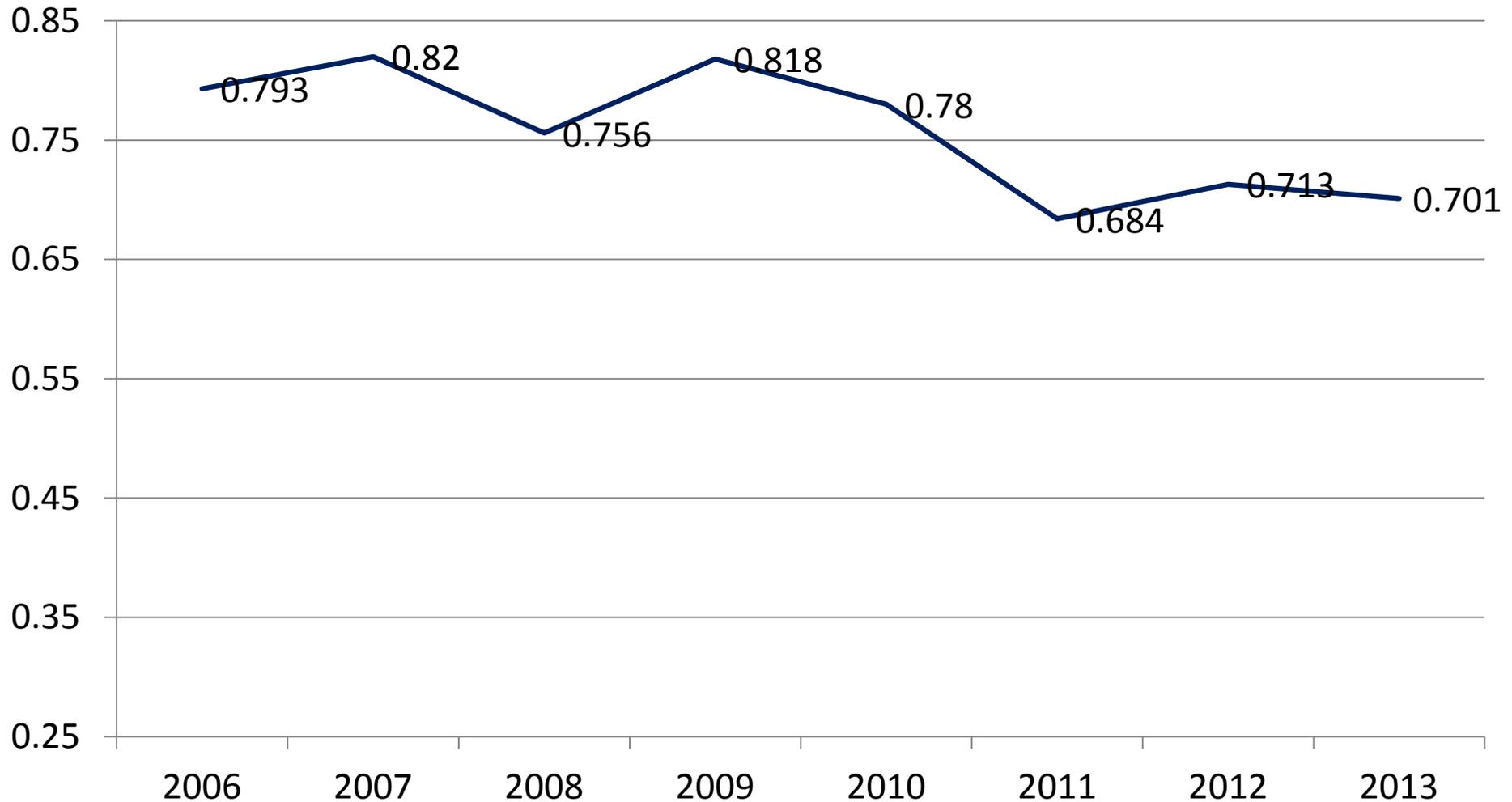


Tennessee Indemnity Loss Ratio History

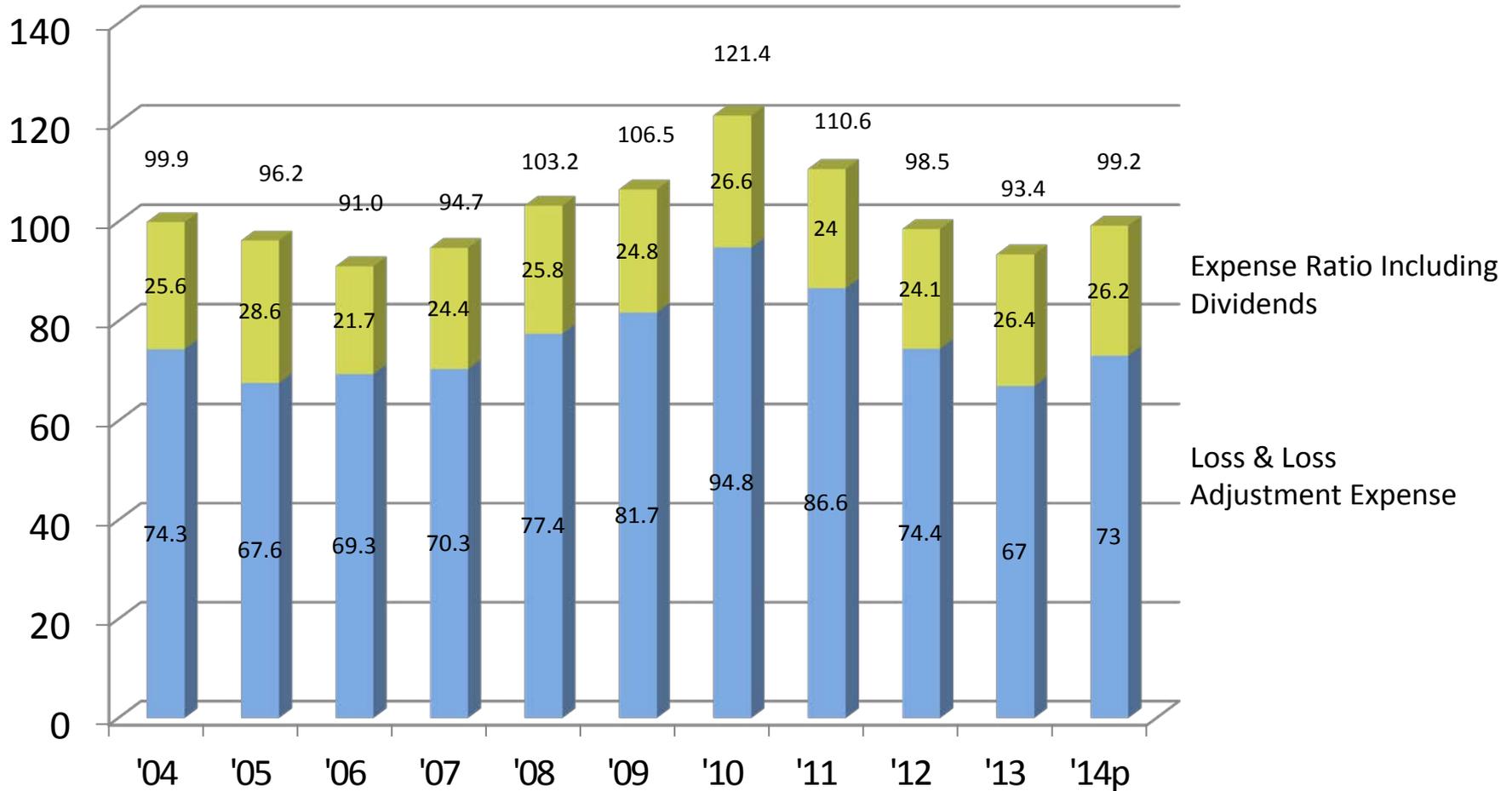


Source: NCCI - Based on NCCI's financial data valued at 12/31/2014, brought to current benefit level and developed to ultimate

Tennessee Medical Loss Ratio History



Tennessee Accident Year Combined Ratios

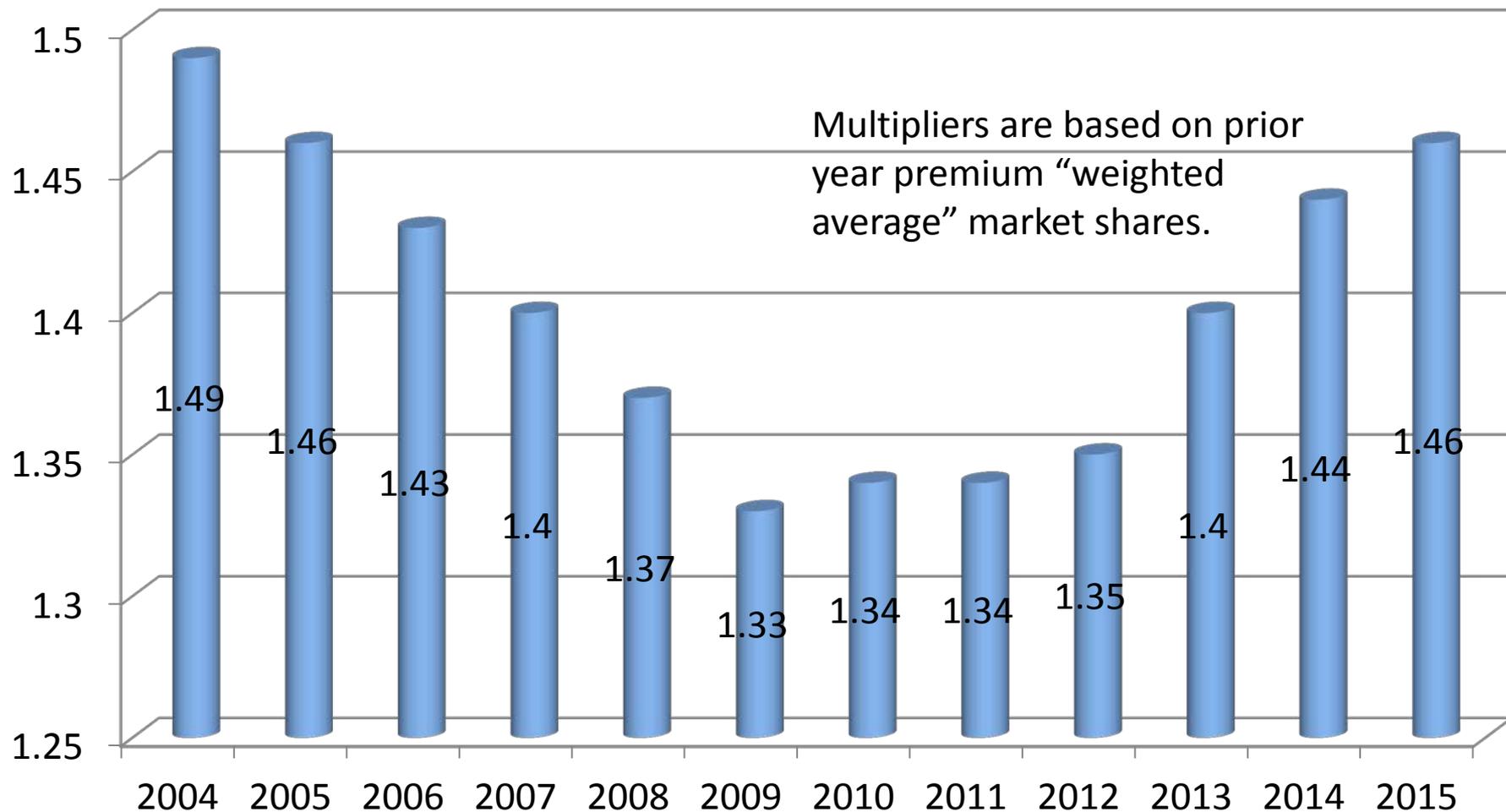


Source: NCCI - For Calendar-Accident Years 2004 – 2005, LAE Ratio is estimated using the direct Incurred DCCE and AOE ratios from the Insurance Expense Exhibit, adjusted for differences in TN ratios. Other Expense ratio is estimated by the difference of Expense ratio and LAE Ratio.

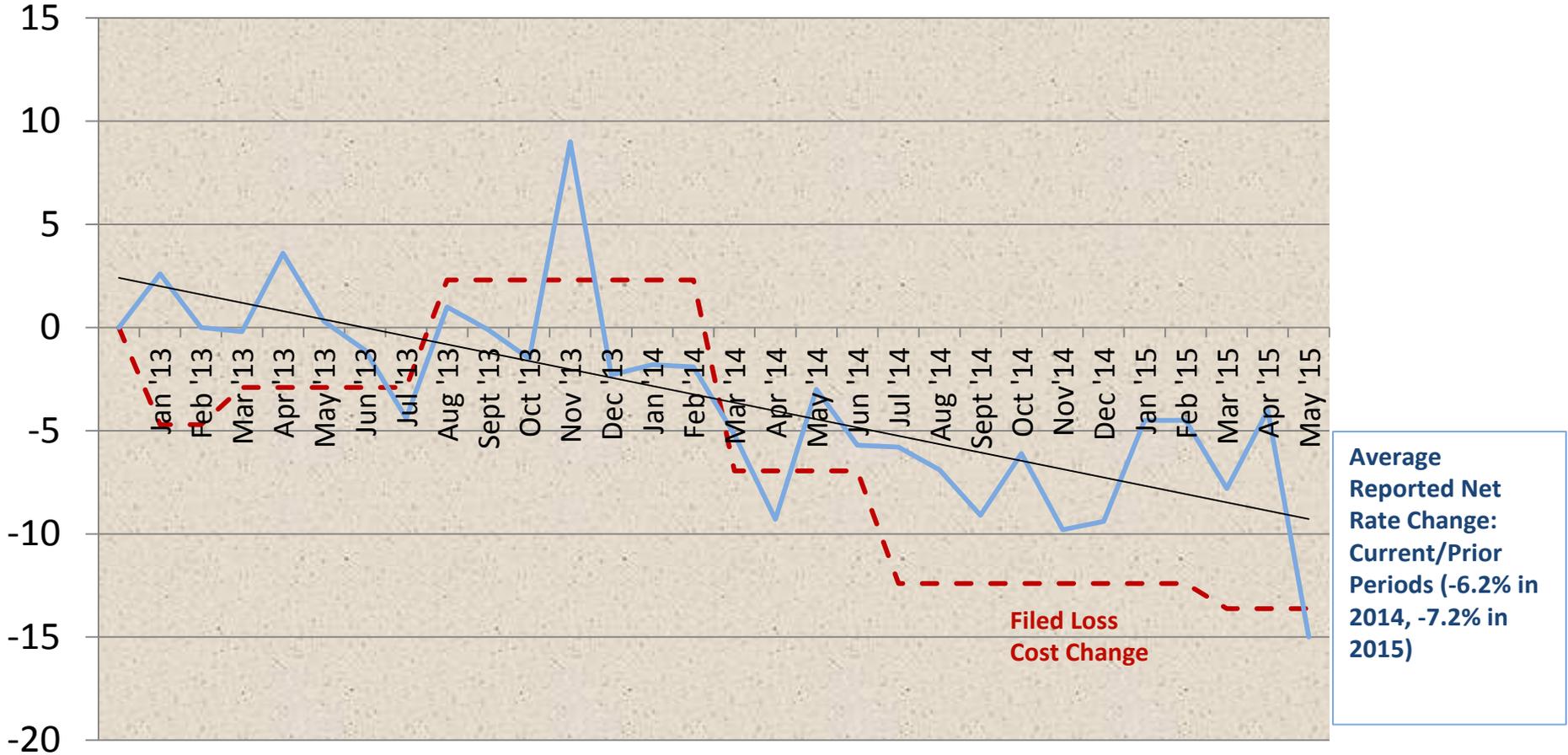
Loss Cost Filing & Final Approvals Since 2004 Reforms Implemented

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	C&I Approved Rate	Effective Date
2006	1.6%	1.6%	1.6%	3/1/2006
2007	1.4%	0%	1.4%	3/1/2007
2007	2.4%	2.4%	2.4%	7/1/2007
2007	-7.2%	-8.6%	-7.2%	3/1/2008
2008	-3.1%	-3.1%	-3.1%	7/1/2008
2008	-3.1%	-3.4%	-3.1%	3/1/2009
2009	-.1%	-.1%	-.1%	3/1/2010
2010	-5.1%	-5.3%	-5.1%	3/1/2011
2011	6.3%	6.3%	6.3%	11/1/11
2011	1.6%	-.3%	.4%	3/1/12
2012	-5.1%	-5.1%	-5.1%	8/9/12
2012	2.3%	1.6%	2.3%	3/1/13
2013	-8.4%	-6.95%	-6.95%	3/1/14
2013	-5.9%	-5.9%	-5.9%	7/1/14
2014	-9.6%	-6.5%	-8.2%	3/1/15
2015	-0.9	TBD	TBD	3/1/16

Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History



TN Price Change Analysis



2015 LCM Distribution (by Direct Premium Written)

Median 1.45



- 80% are above 1.10 and below 1.78
- 20% above 1.66 Assigned Risk LCM

A complete listing of LCMs is posted on the Department's website

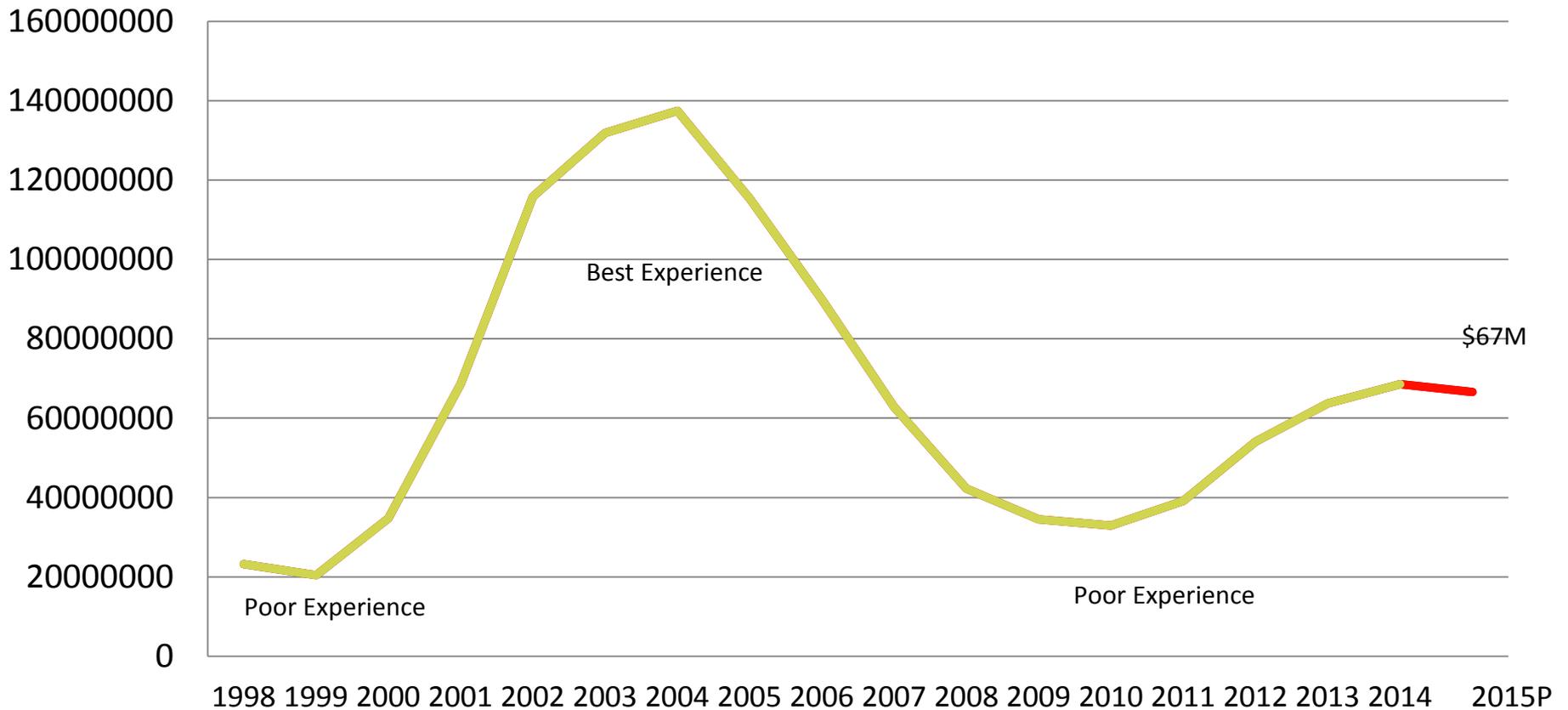
TN WC Premium Tax Revenues

	YE 8/31/11	YE 8/31/12	YE 8/31/13	YE 8/31/14
Self Insurance	\$7.5M	\$6.4M	\$5.8M	\$7.7M
Insurance	\$26.6M	\$31.7M	\$34.4M	\$35.7M
Total Premium Tax*	\$34.1M	\$38.1M	\$40.2M	\$43.4M

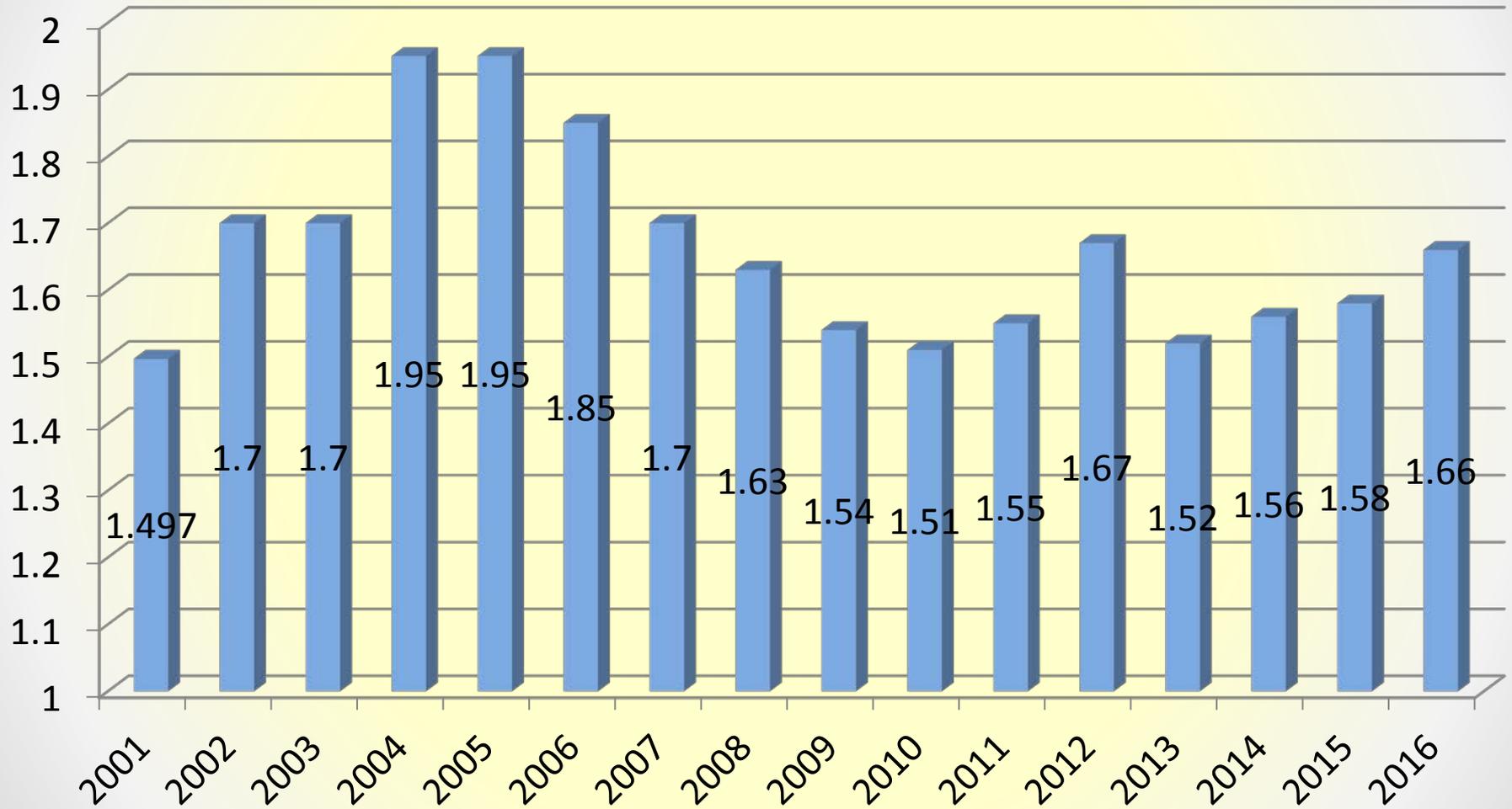
Tennessee Workers Compensation Insurance Plan (TWCIIP)



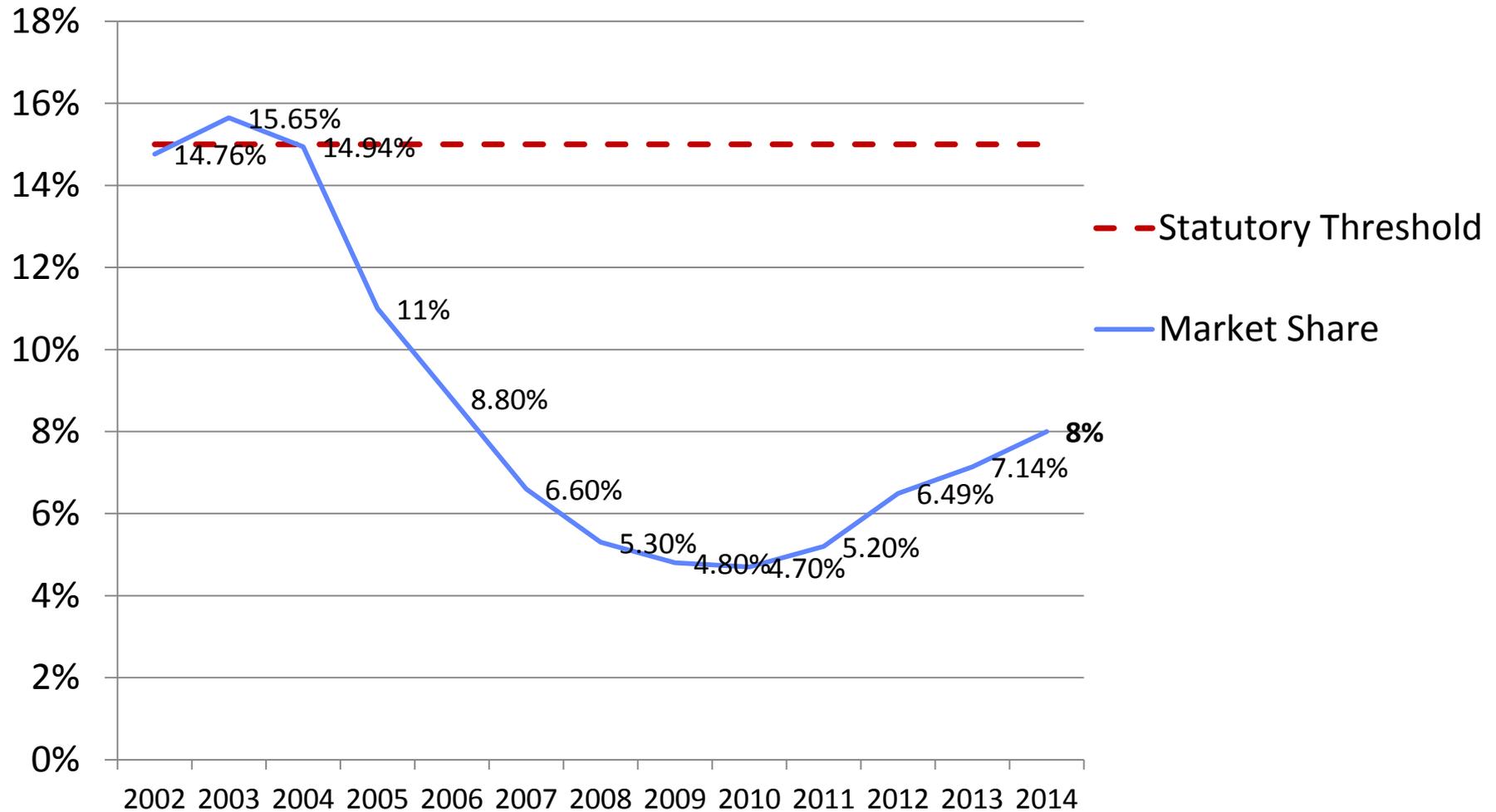
TWCIP Premium History



TN WC Assigned Risk LCM History

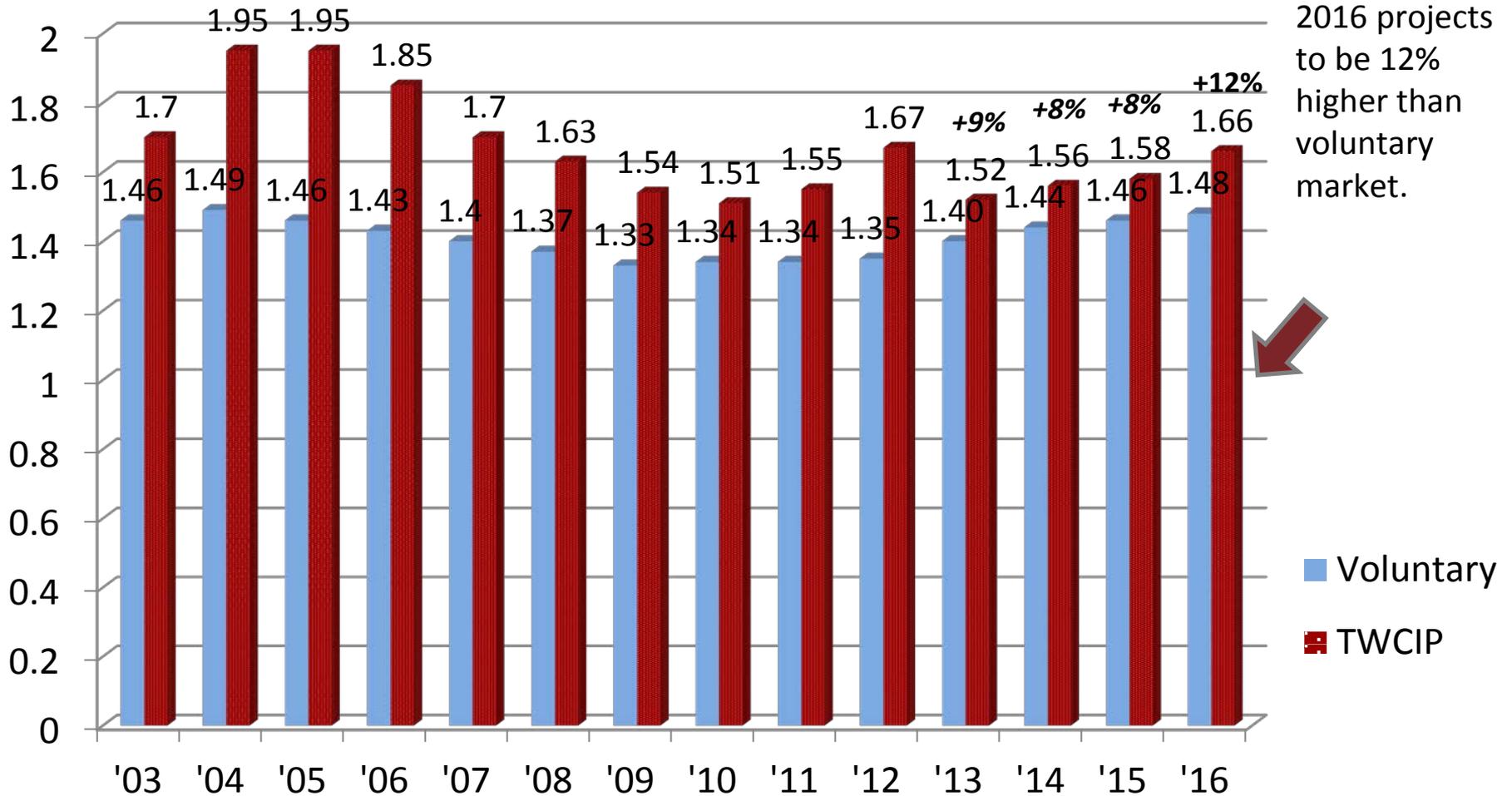


TN Assigned Risk Market Share - NAIC Direct Premium Written

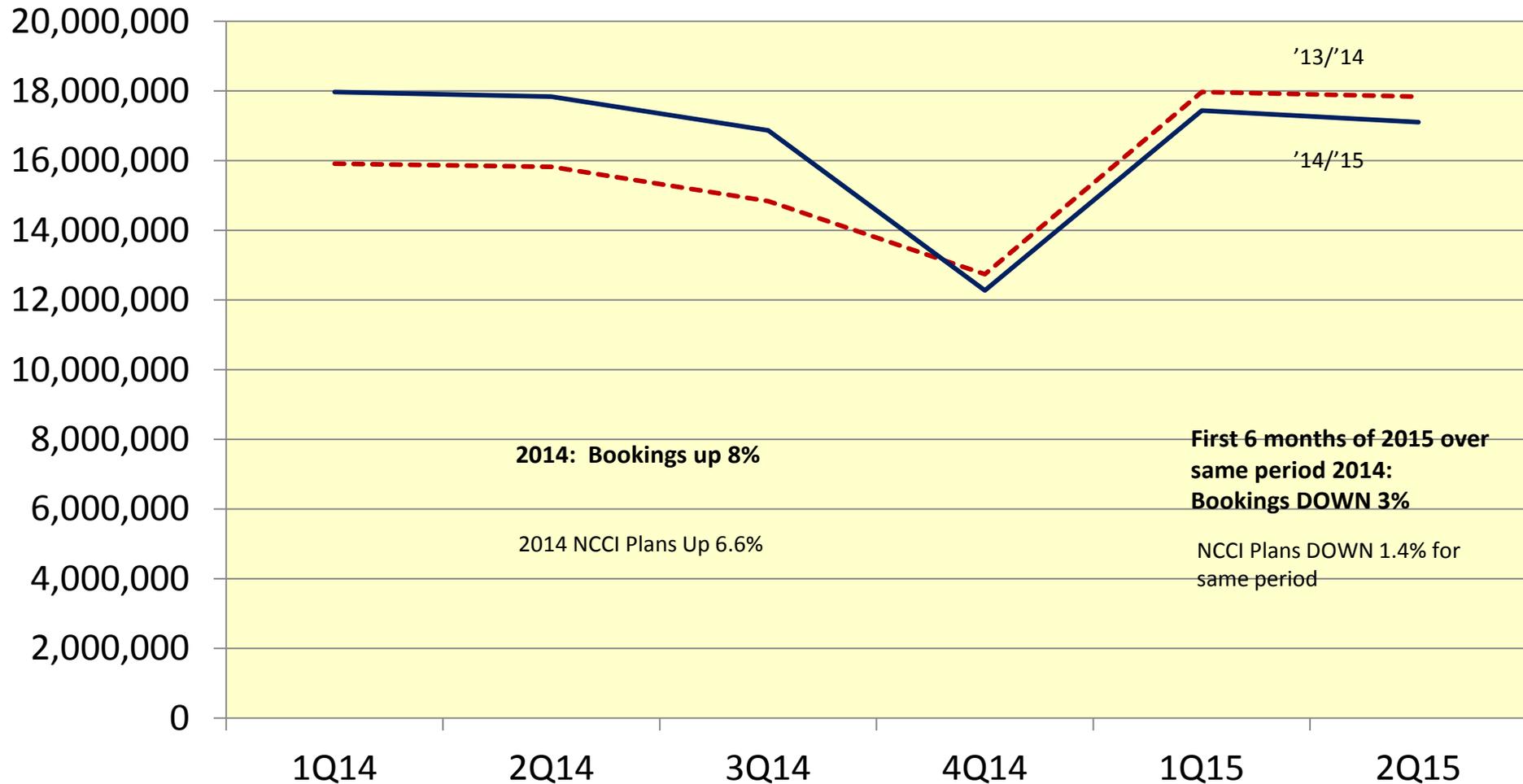


LCM History: Voluntary vs. TWCIP/WCIP

Assigned Risk Plan LCM On Average 18% Higher



TN Assigned Risk Bookings



WCIP NCCI 3/1/16 Rate Filing

- Overall LCM increase of 5%
- Underlying LCM: 1.66
- Commissioner must consider TCA § 56-5-314 (c)(6)(B): “...The commissioner shall annually establish the multiplier to be applied to the advisory prospective loss cost for the assigned risk plan. In establishing such multiplier, the commissioner shall consider the **estimated cost of providing required services** pursuant to this subsection *and* the **level of the multipliers in the voluntary market.**” (emphasis added)

Change in Policy Count: 7/1/14 to 6/30/15 Shown Below Compared to Prior Period

Low Premium	High Premium	Policy Count	% of Total Policies	Change From Prior Period
\$0	\$2,499	8079	64.23%	6%
\$2,500	\$4,999	1962	15.60%	12%
\$5,000	\$9,999	1290	10.26%	15%
\$10,000	\$24,999	817	6.49%	-----
\$25,000	\$49,999	249	1.98%	4%
\$50,000	\$99,999	119	.95%	-10%
\$100,000	\$249,999	59	.47%	-8%
\$250,000	\$499,999	3	.02%	-40%
\$500,000		1	.01%	-----
Grand Total				7%

Change in Est. Annual Premium: 7/1/14 to 6/30/15 Shown Below Compared to Prior Period

Low Premium	High Premium	Est. Annual Premium	% of Total Premium	Average Premium	Change From Prior Period
\$0	\$2,499	\$8,831,086	13.86%	\$1,093	9%
\$2,500	\$4,999	\$7,039,924	11.05%	\$3,588	13%
\$5,000	\$9,999	\$8,990,753	14.11%	\$6,970	16%
\$10,000	\$24,999	\$12,224,210	19.19%	\$14,962	-----
\$25,000	\$49,999	\$8,506,012	13.35%	\$34,161	4%
\$50,000	\$99,999	\$8,123,915	12.75%	\$68,268	-9%
\$100,000	\$249,999	\$8,502,193	13.35%	\$144,105	-12%
\$250,000	\$499,999	\$983,883	1.54%	\$327,961	-46%
\$500,000		\$503,019	.79%	\$503,019	-12%
Grand Total		\$63,704,995			-.5%

Currently Three Active Self-Insured Groups

Self Insured Groups

Associated Builders & Contractors of Tennessee (ceased writing 4/1/15)

Comptrust AGC of Tennessee

Tennessee Automotive Association

Tennessee Forestry Association

Insolvencies

- Individual carrier data included in this section includes insolvencies over \$1million in total losses.

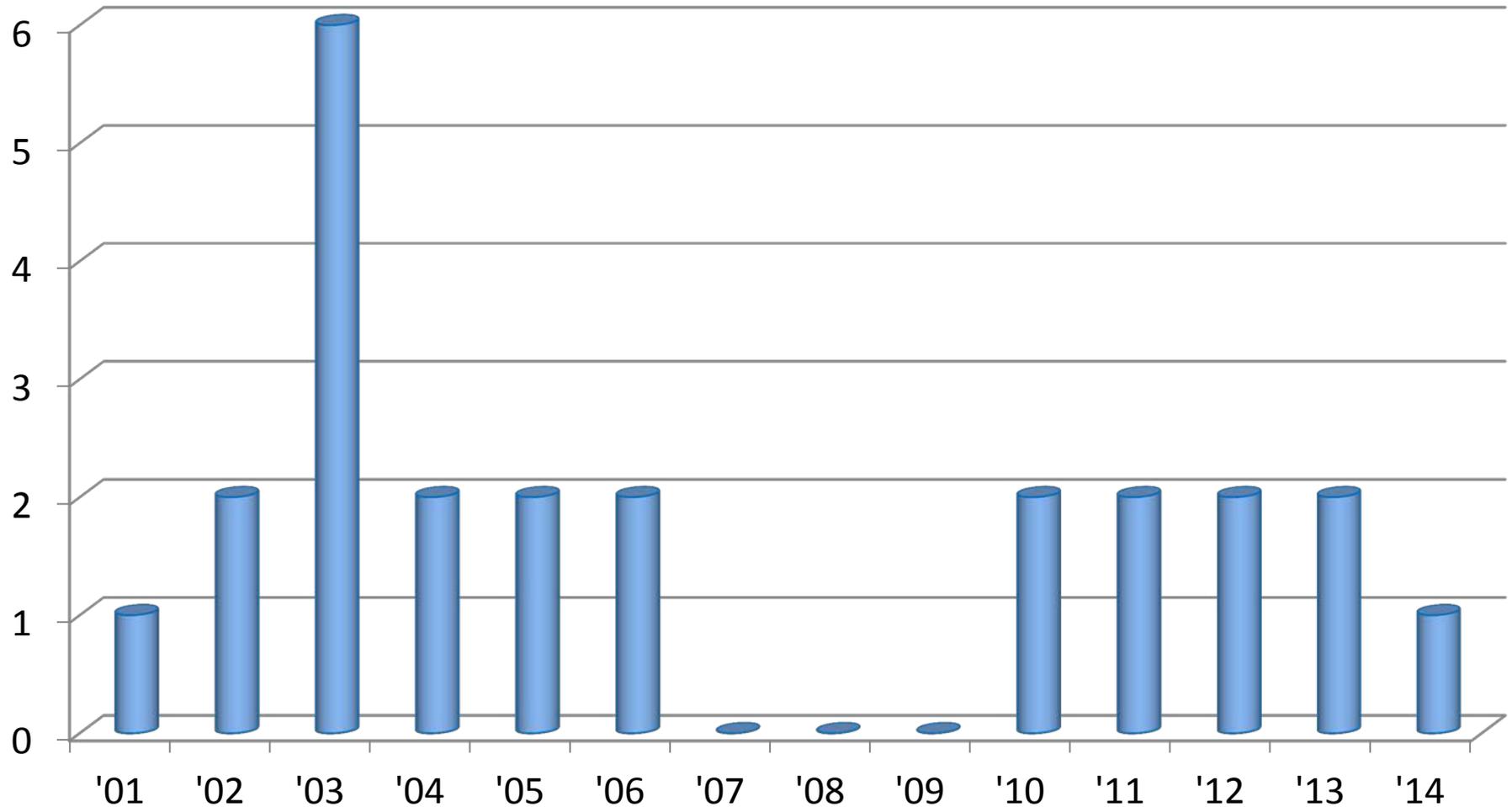


WC Insolvency Data - Valued 6/30/14

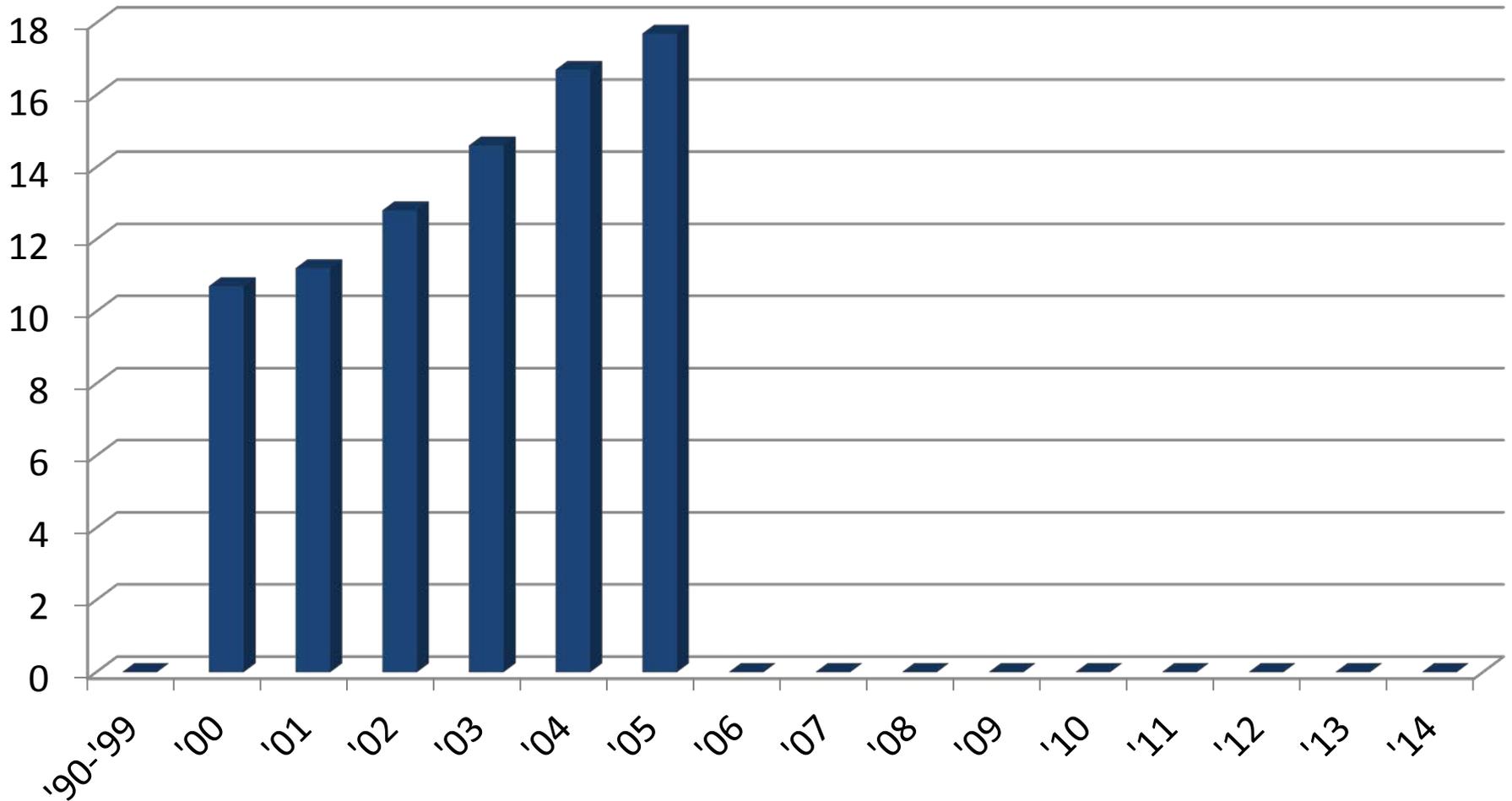
(Listing Only Carriers Having Over \$1M Total Unpaid Losses)

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,760	40,825,670	19,963,215
Home Ins. Co. (6/03)	126	2,873,744	4,707,883
Reciprocal of America (6/03)	313	1,910,347	901,915
Legion & Villanova (7/03)	1,879	42,916,800	18,965,191
Western Indemnity (8/03)	3	347,873	4,216,245
Casualty Reciprocal (8/04)	52	1,938,275	3,020,585
South Carolina	3	798,978	1,128,508
Realm National (6/05)	53	3,398,709	3,367,690
Imperial Casualty (5/10)	127	1,638,620	1,349,225
Pegasus (8/10)	6	61,545	1,332,946
Lumbermens Mutual (5/13)	137	1,044,129	8,848,031
Ullico (5/13) -	44	1,175,035	2,880,618
Freestone (8/14)	60	324,428	1,894,074
Totals (all since 10/3/01)	4,647	100,304,751	73,790,992

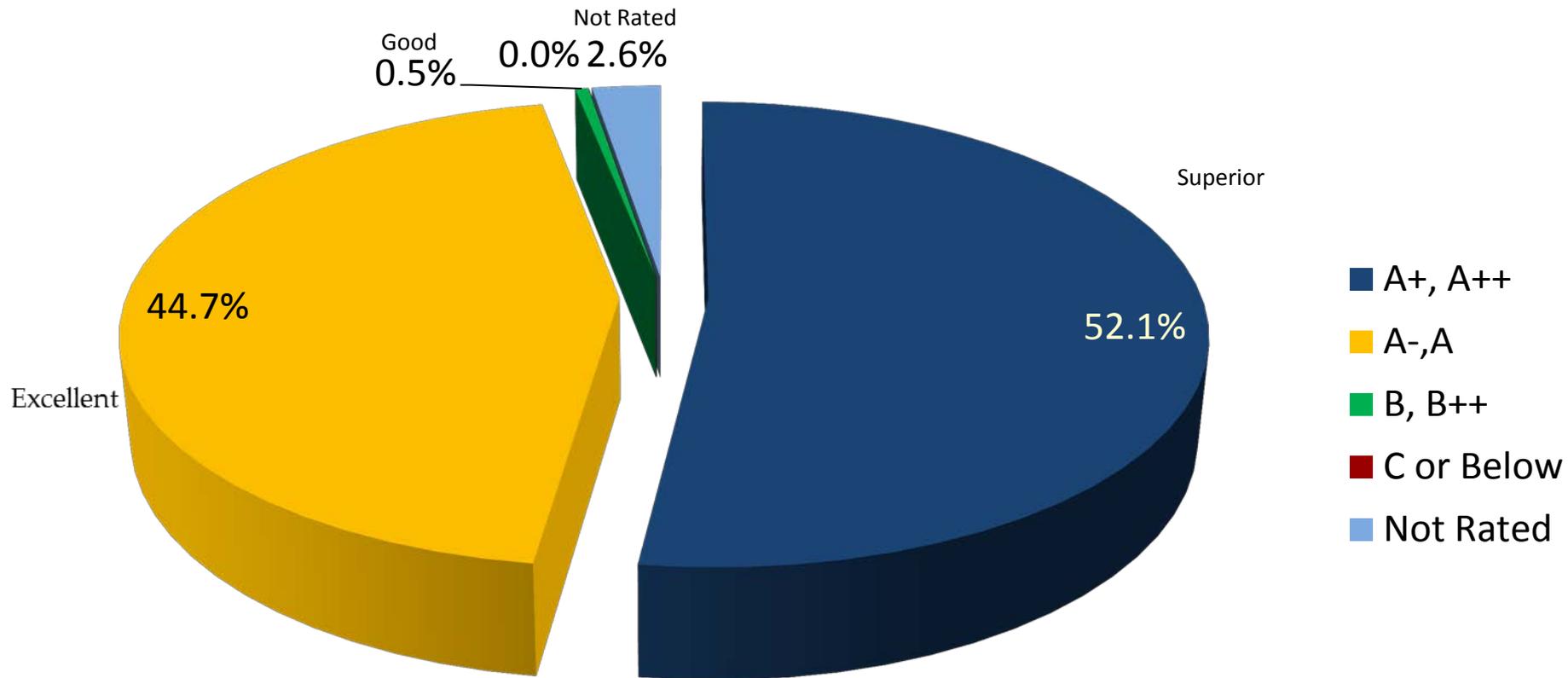
Number of WC Carrier Insolvencies Per Year Impacting TN



TN Guaranty Fund Assessment History (Millions)



A.M. Best Ratings for Companies with >\$1M Premium - Premium Shares



Source: A.M. Best; As of July 2015

Wrap Up: Defining the Market Condition

- **Top Line Numbers Look Solid**
- **Economic Recovery Continuing (Albeit Slowly)**
- **Workplaces are Changing Rapidly**
- **Benefit Challenges on the Rise**

“Calm”... Good Industry Results But Turbulence Ahead

- *National commission to review benefits?*
- *Potential for benefit increases without corresponding rate increases*
- *Rapidly evolving workforce/workplace (apps)*
- *Continually challenges to exclusively remedy*

