

Overview of the Tennessee Workers' Compensation Market Conditions and Environment

Tennessee Workers' Compensation Advisory Council

August 17, 2010

Mike Shinnick, Workers' Compensation Manager
Tennessee Department of Commerce & Insurance

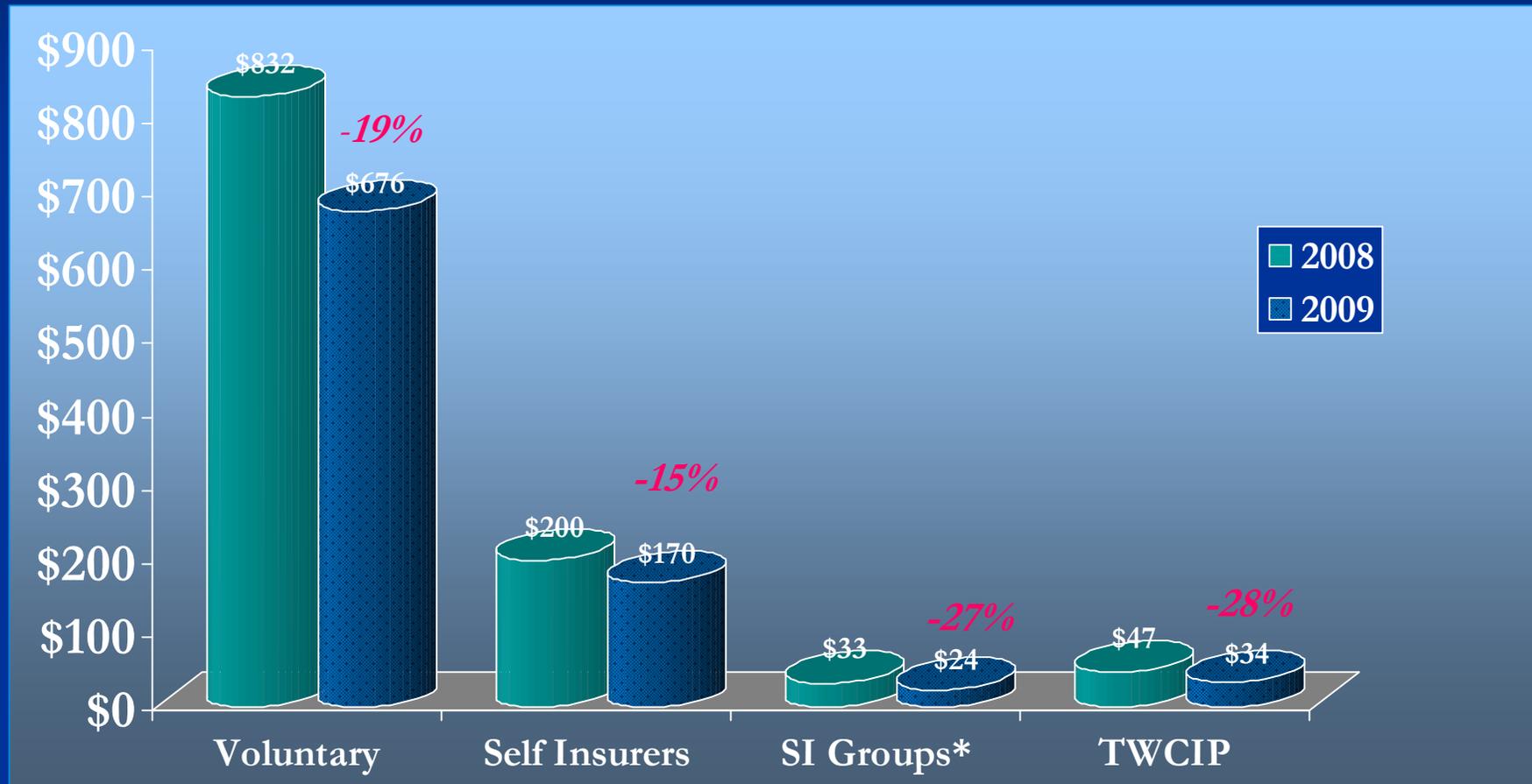
Market Segmentation



2009 Market Segments

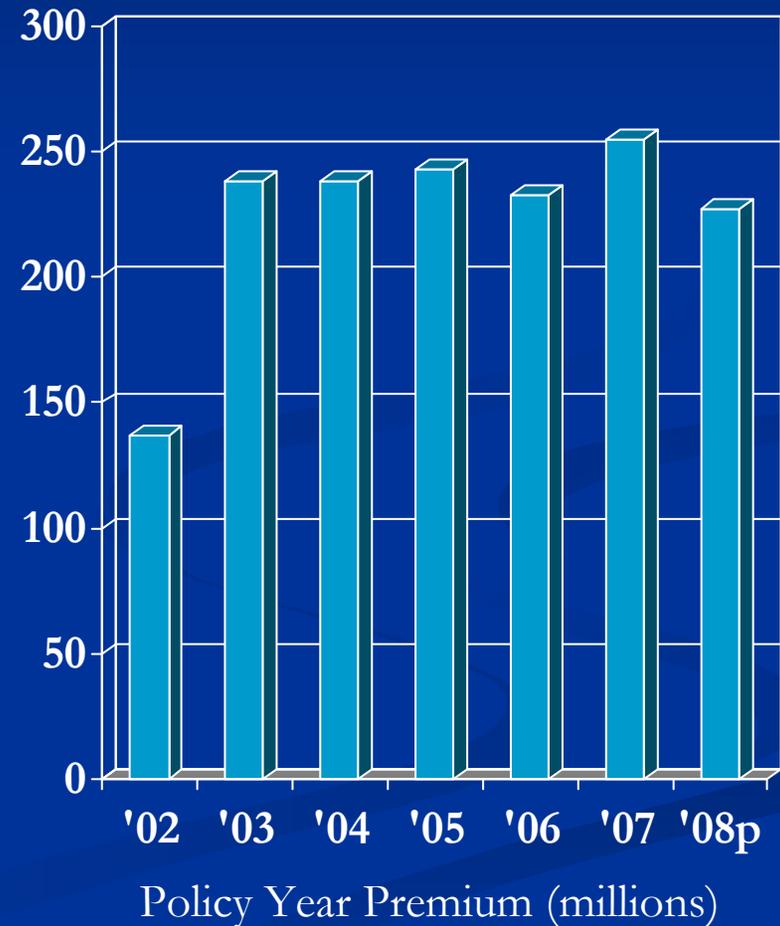
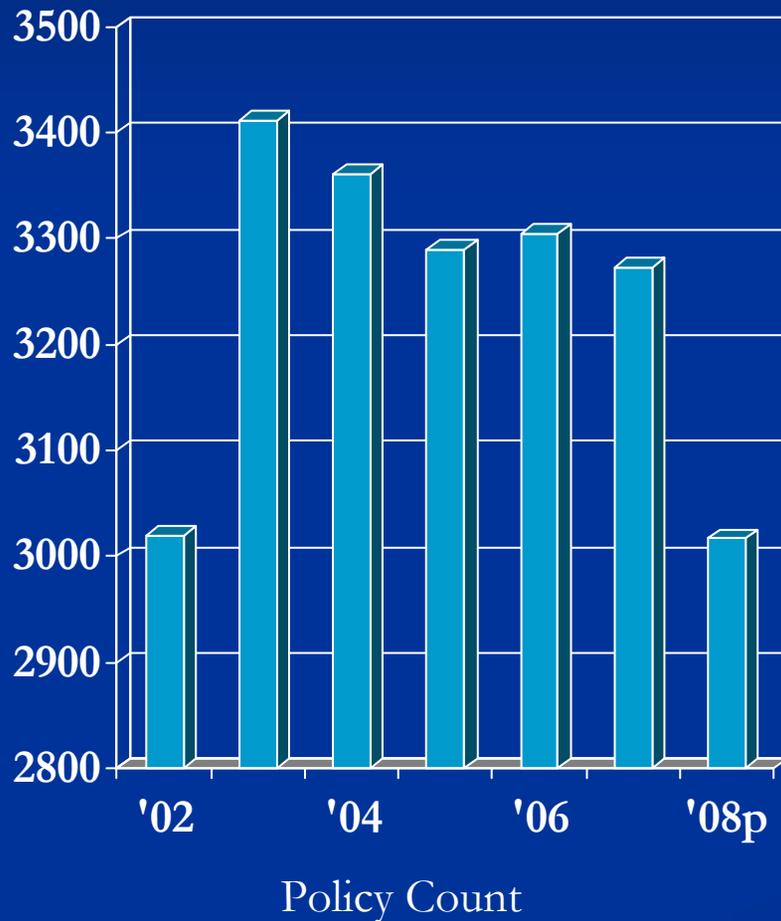
Individual Self Insureds are on an equivalent basis

Million in Premiums



* Excluding government sponsored groups

TN Large Deductibles History



Source: NCCI

National Picture



Workers' Comp Out Performs Overall P&C

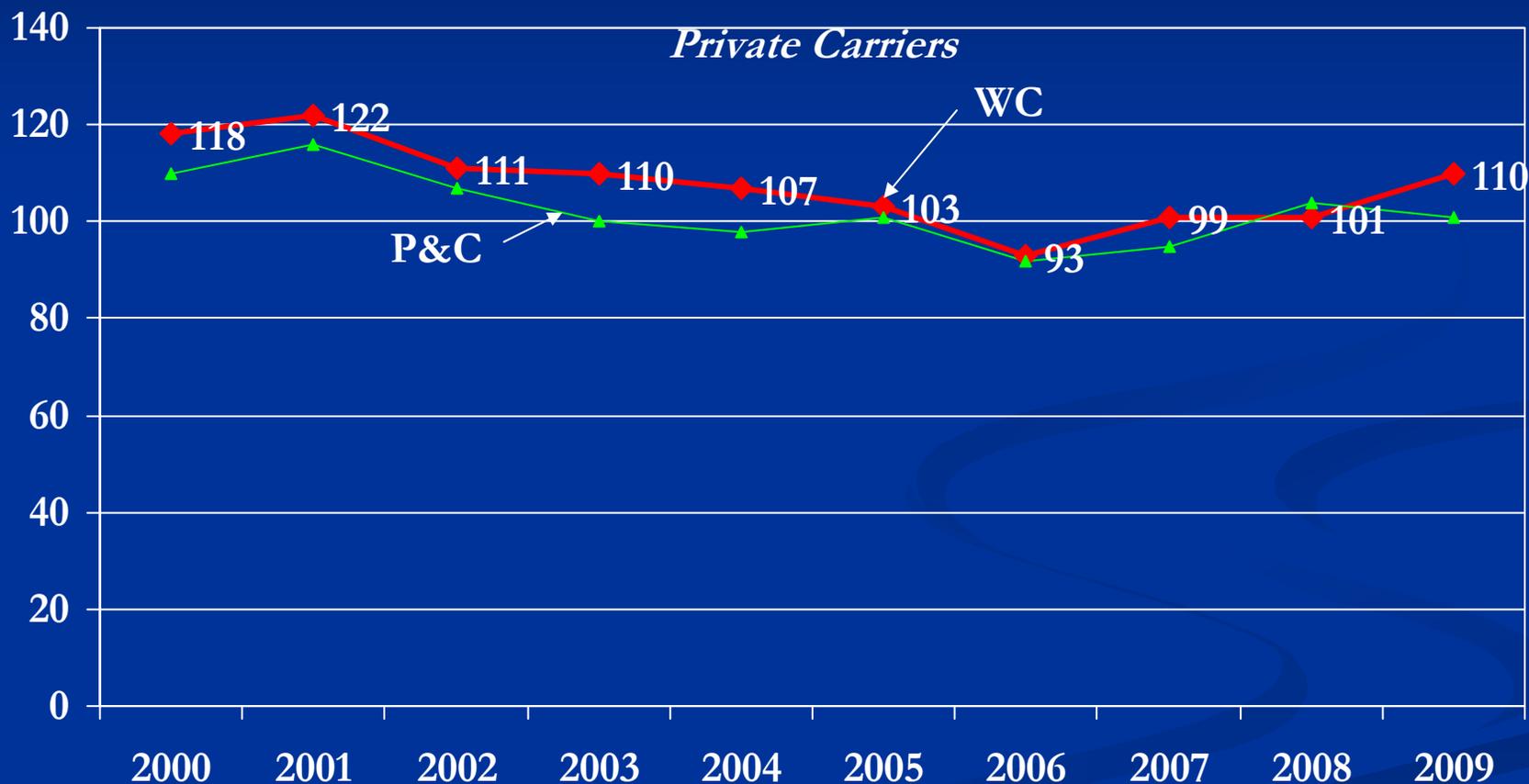
Net Calendar Year Combined Ratio – Private Carriers

Line of Business	2007	2008	2009 preliminary
Personal Auto	98%	100%	99%
Homeowners	96%	117%	106%
Com. Multi Peril	92%	104%	97%
Com. Auto	94%	97%	97%
Workers' Comp	101%	101%	110%
Total P&C Industry	95%	104%	101%

Sources: NCCI for Workers' Compensation; Best Preview & ISO for all other lines

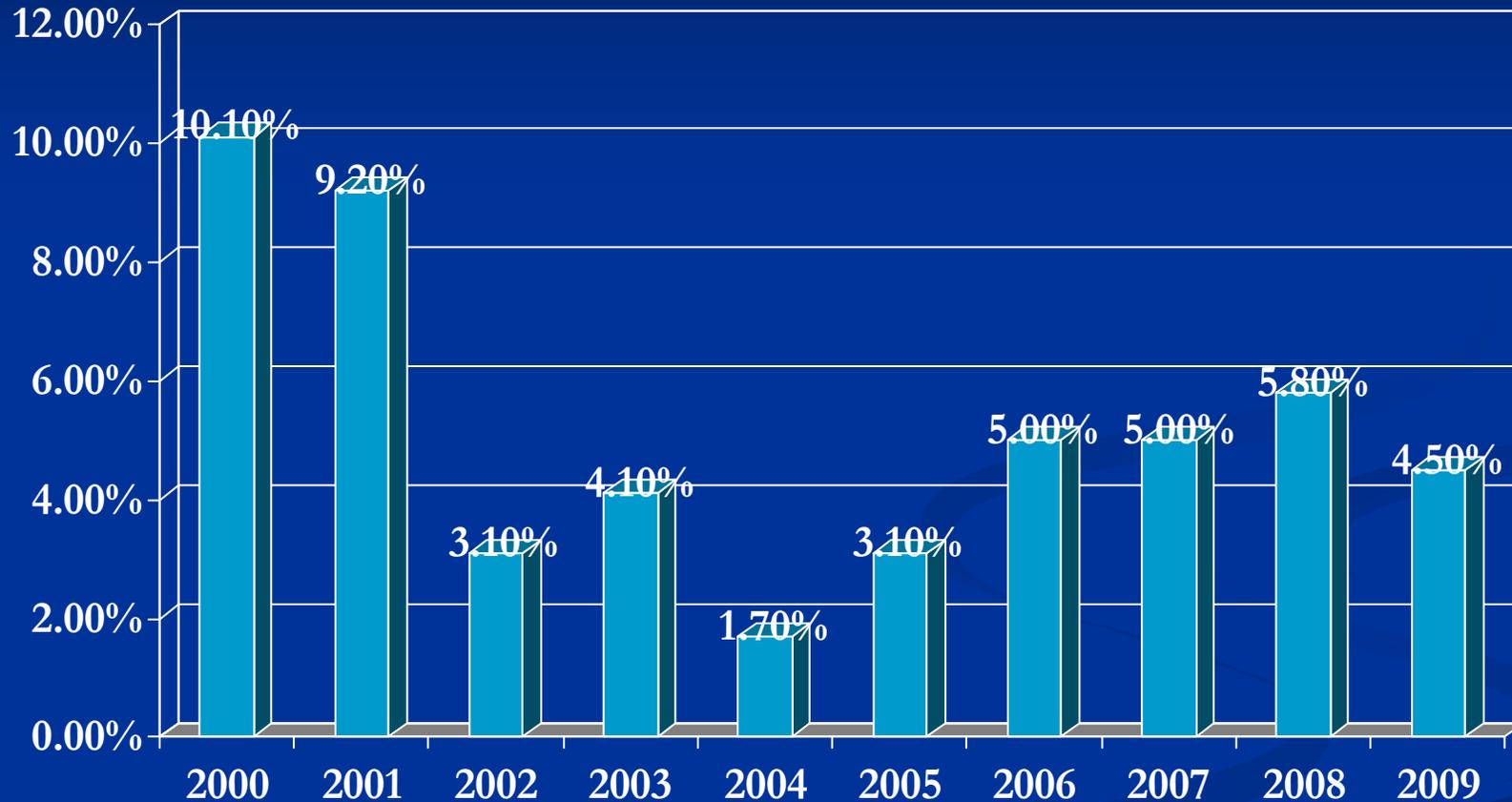
WC and P&C Calendar Year Combined Ratios

Except for 2008, WC Consistently Trails Overall P&C Results



Source: NCCI (2009 is preliminary)

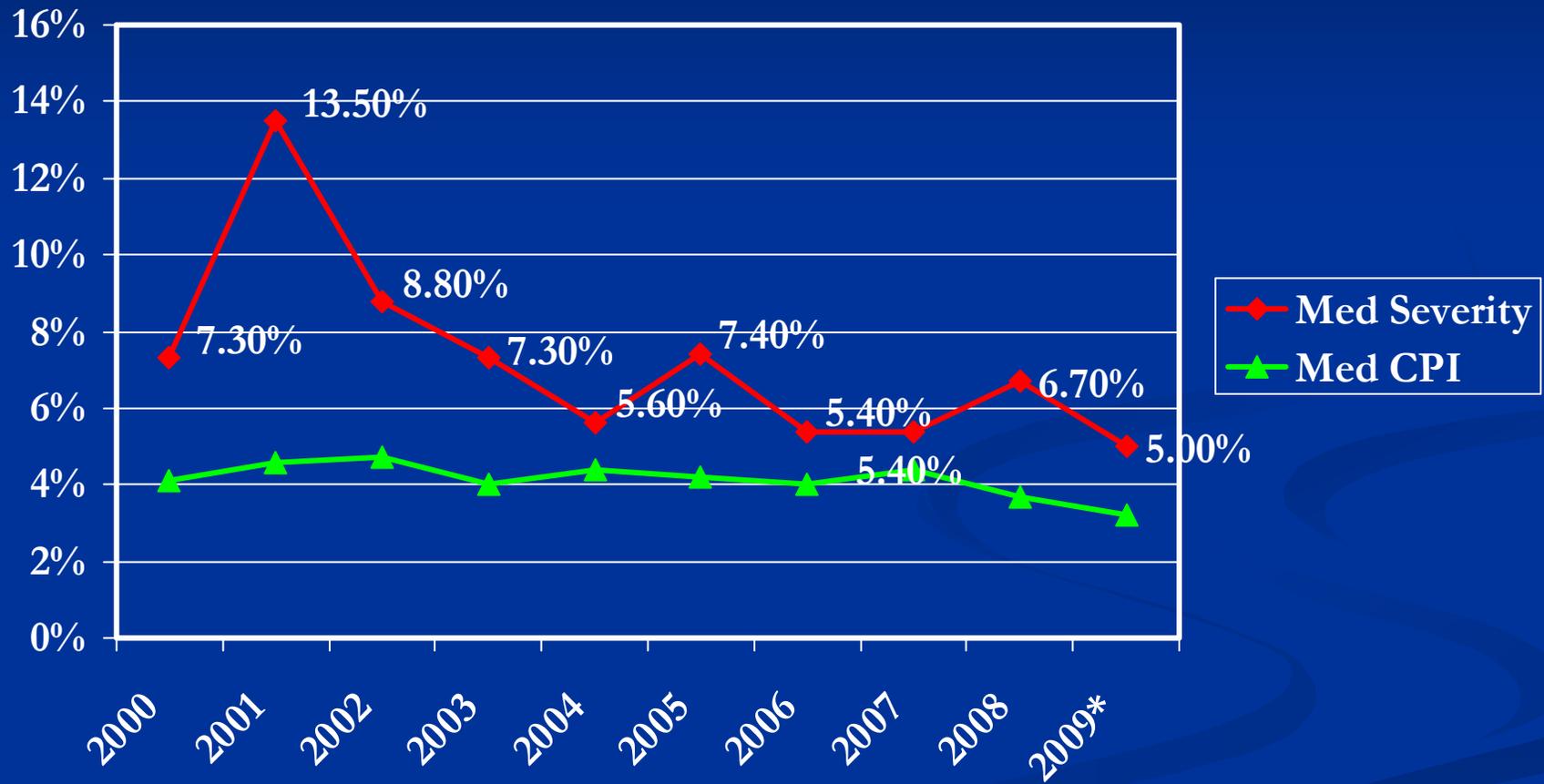
Workers' Compensation Indemnity Claims Cost Increases



Source: NCCI (2009 is preliminary)

WC Medical Claim Cost Trends

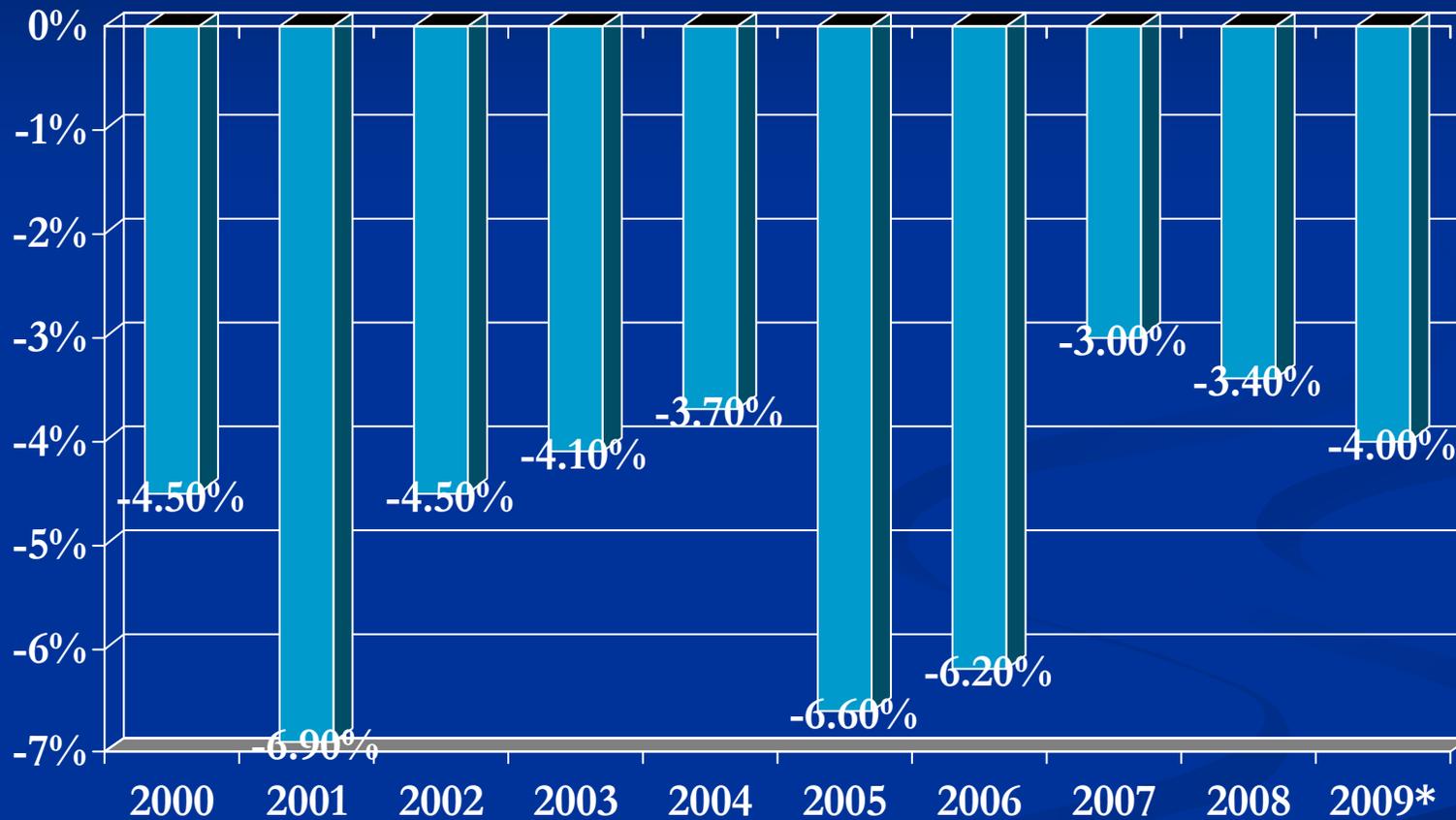
(Lost Time Cases)



Sources: NCCI - Med Severity; Economy.com – Medical CPI

* preliminary

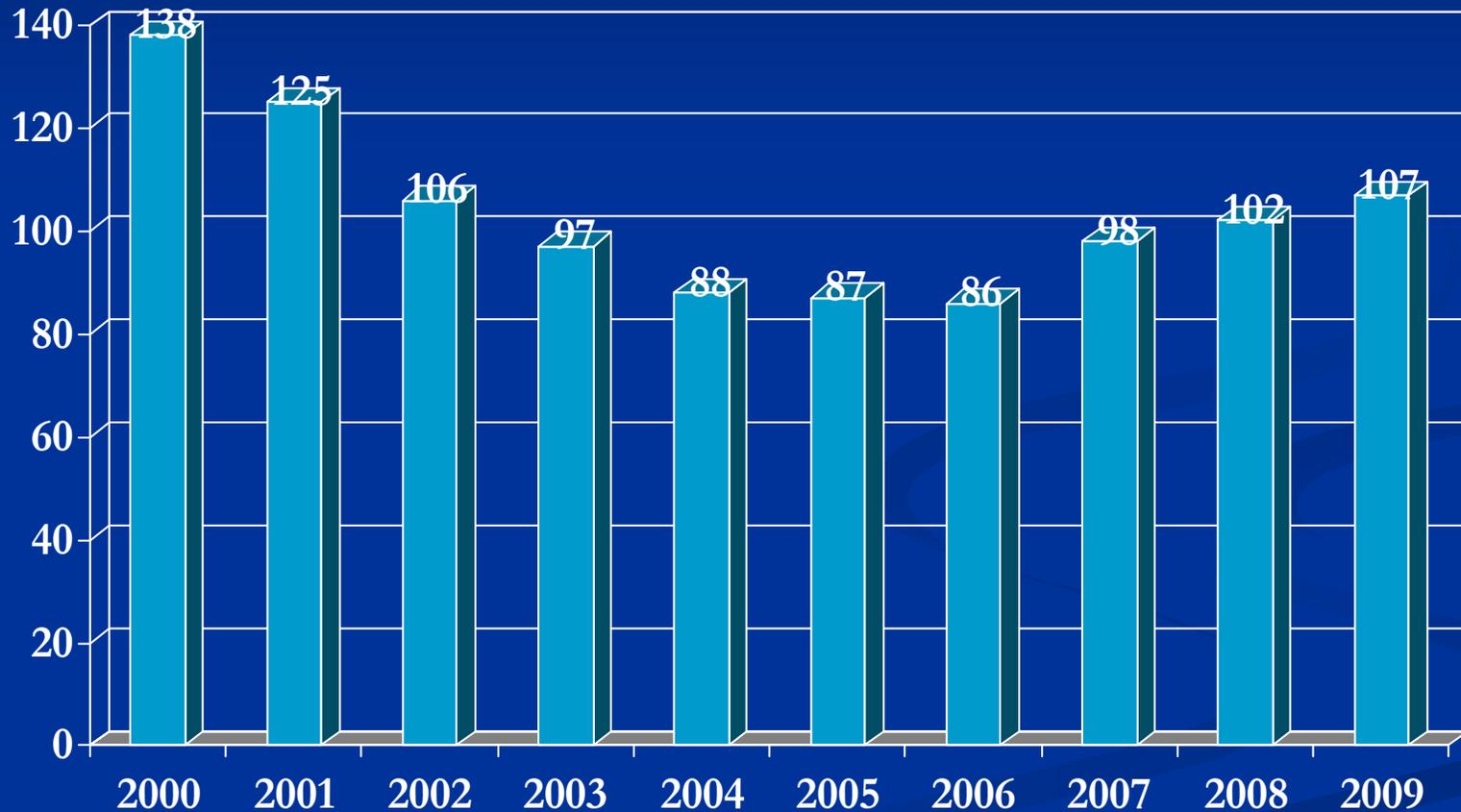
Lost Time Frequency Continues to Decline



Source: NCCI

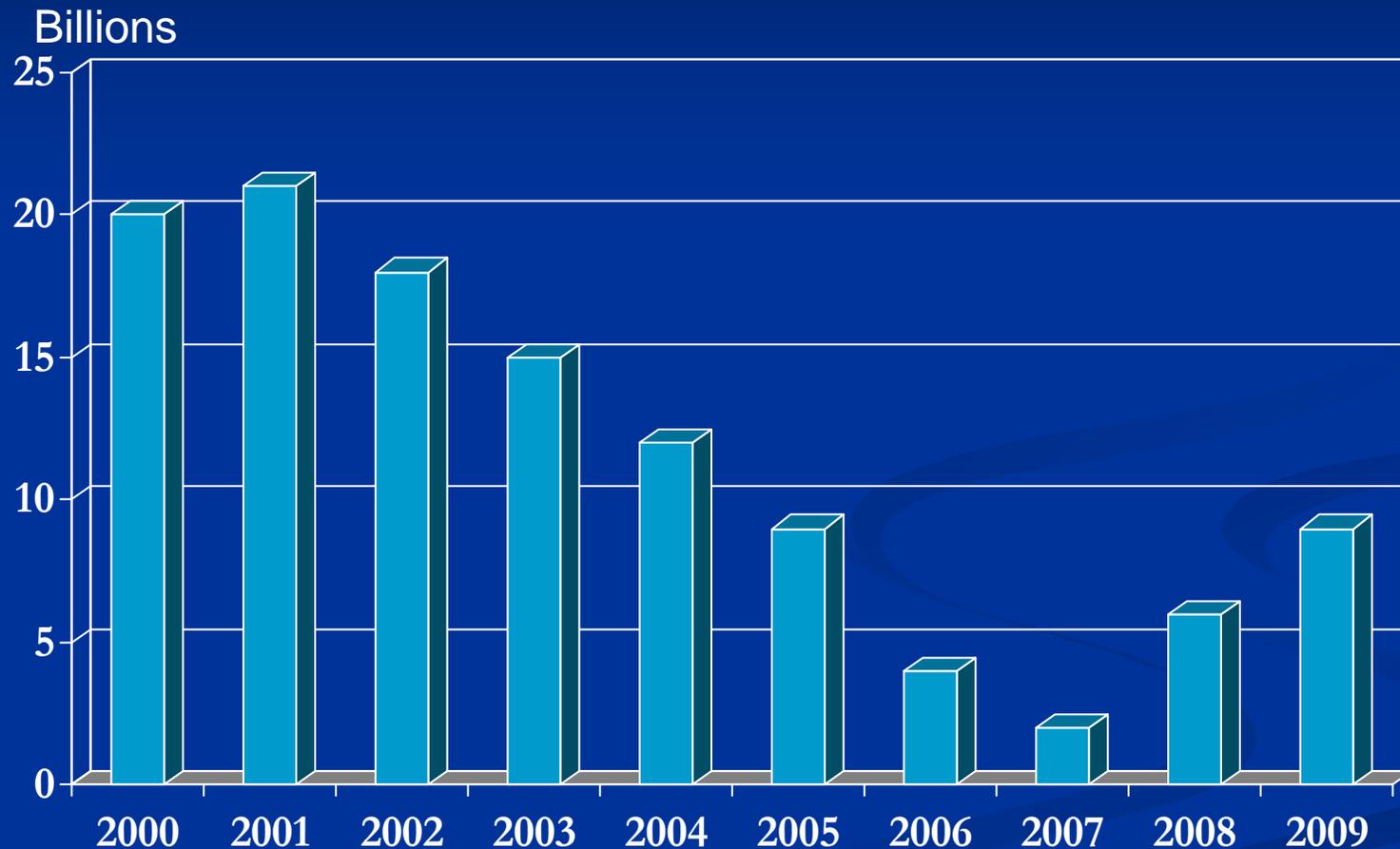
* Preliminary

Accident Year Combined Ratio Workers' Compensation Private Carriers



Source: NCCI; 2009 is preliminary

Calendar Year WC Reserve Deficiencies Remain Moderate

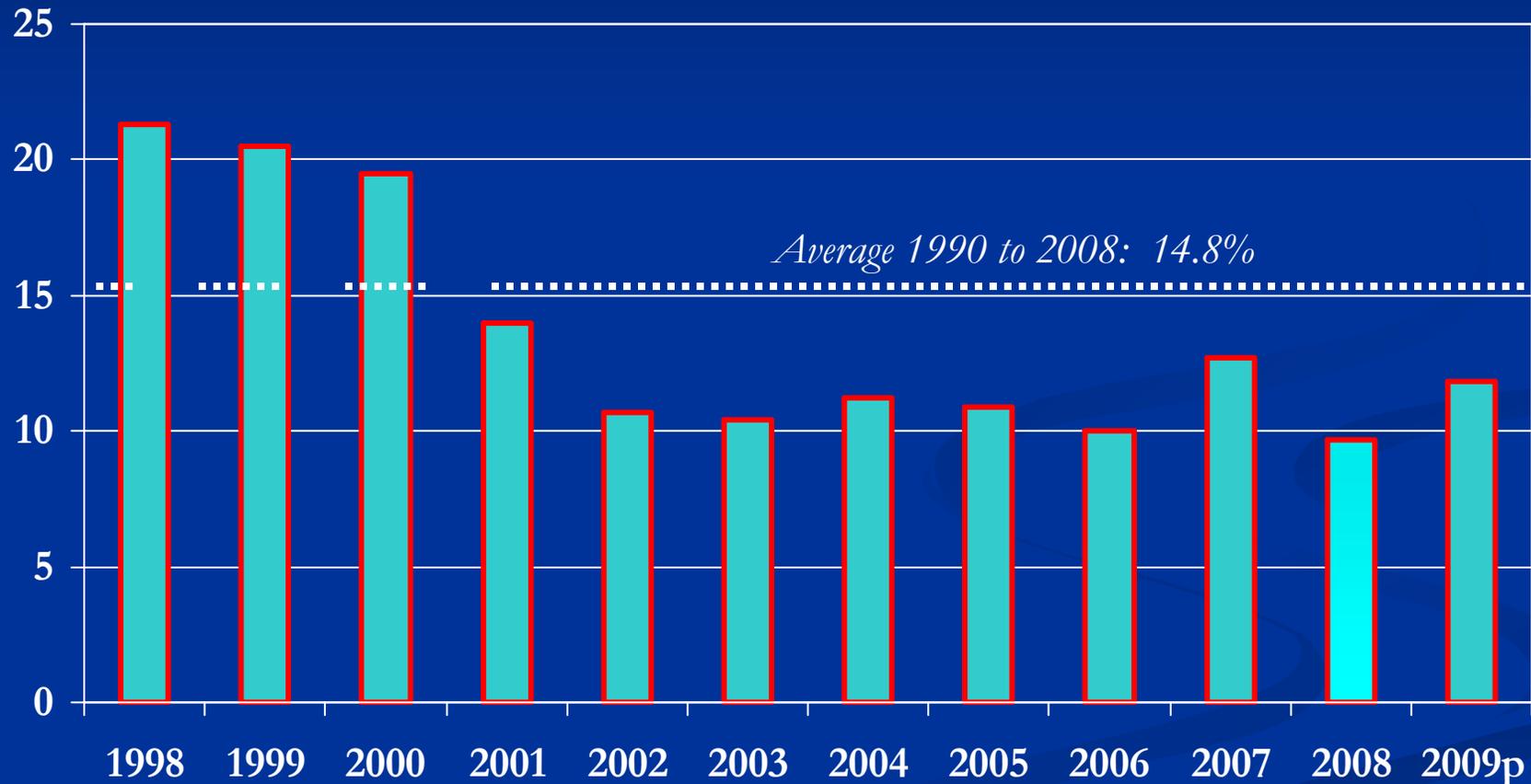


Source: NCCI

WC Low Investment Returns Persist

Private Carriers

Percent Investment Gain on Insurance Transaction to Premium Ratio



Sources: A.M. Best/NCCI (2009 is preliminary)

WC Results – Barely an Operating Gain

Pre-Tax Operating Gain Ratio – Private Carriers

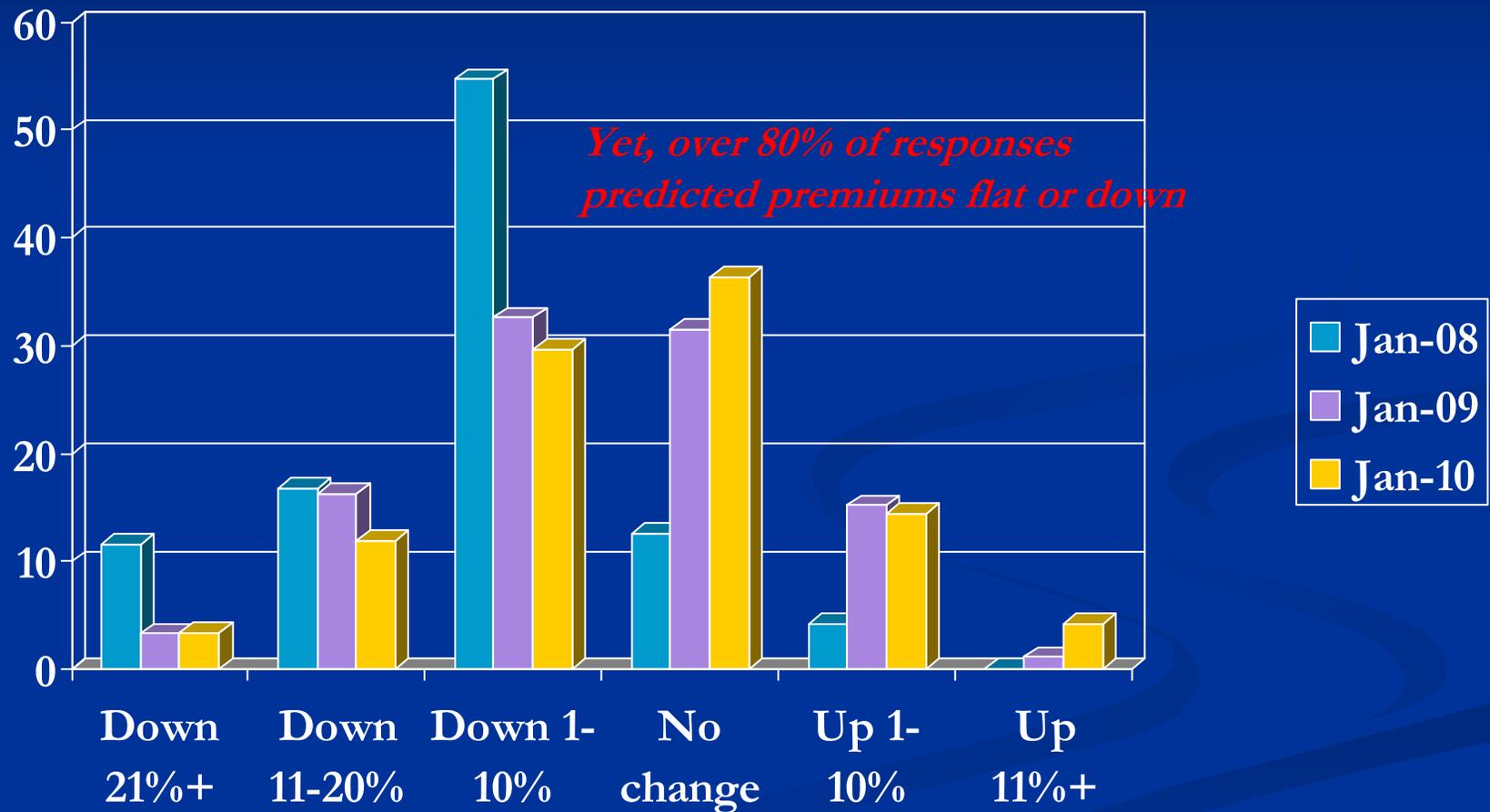


Source: 1990-2008, Best's Aggregates & Averages; 2009 NCCI. Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

* 2009 is preliminary

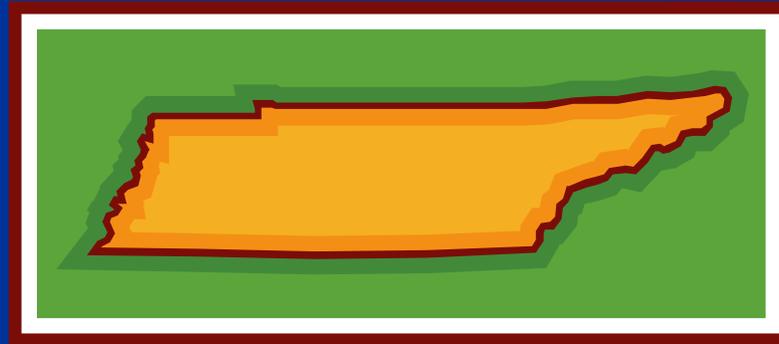
According to Goldman Sachs, Pricing Declines Continue to Moderate

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior

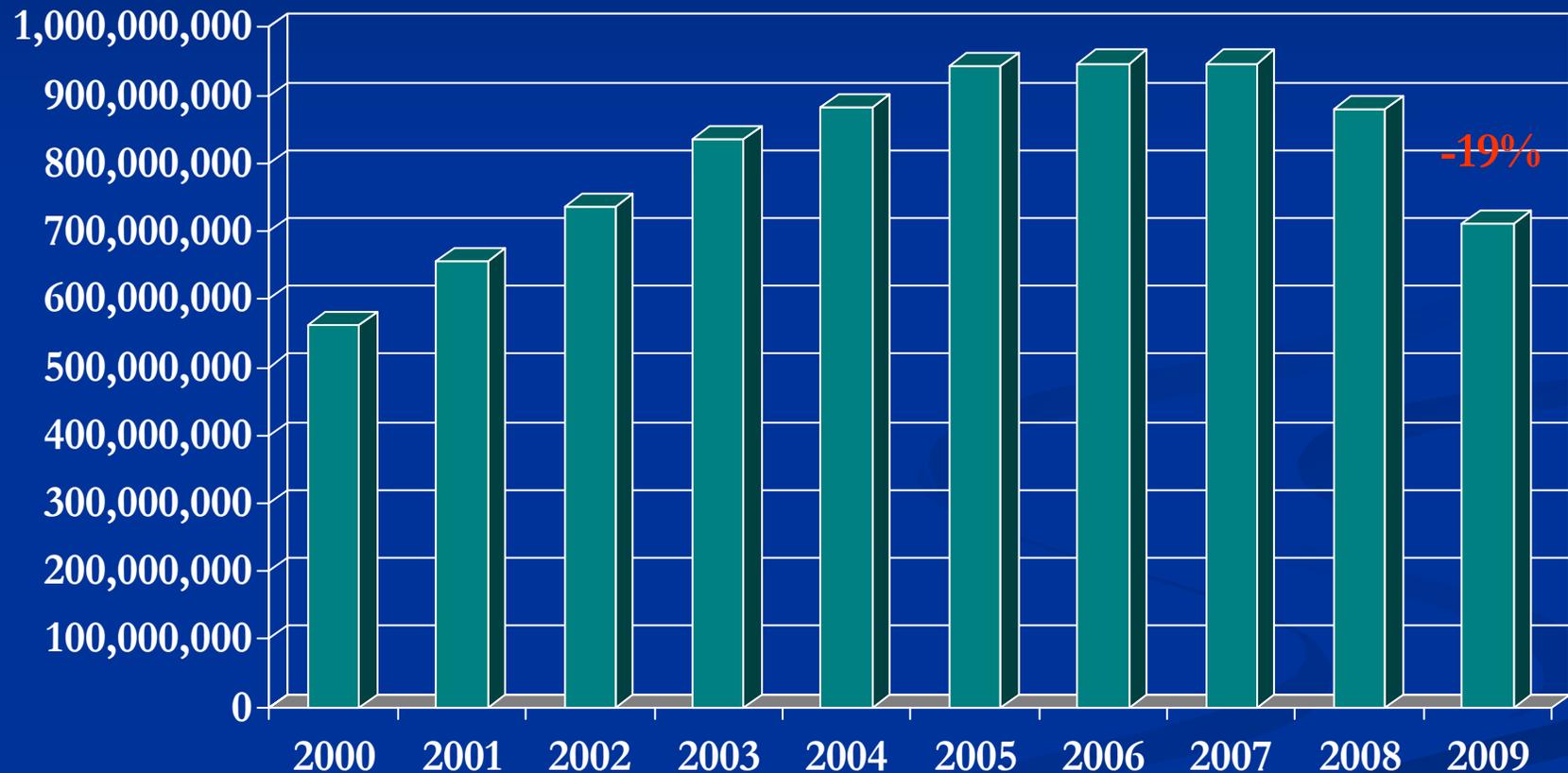


Source: Goldman Sachs Research, Proprietary Survey, "January 2010 Pricing Survey, Insurance: Property & Casualty" (Exhibit 8 Workers' Compensation, Percentage of Respondents)

Tennessee Specific



Tennessee Direct Premium Written History



Source: NAIC (Annual Statements)

Contributions to WC Direct Premium Written Premium Decline

Calendar Years 2007-2009

2-Year Change in TN Direct Written Premium 25%

Known Pricing Impacts

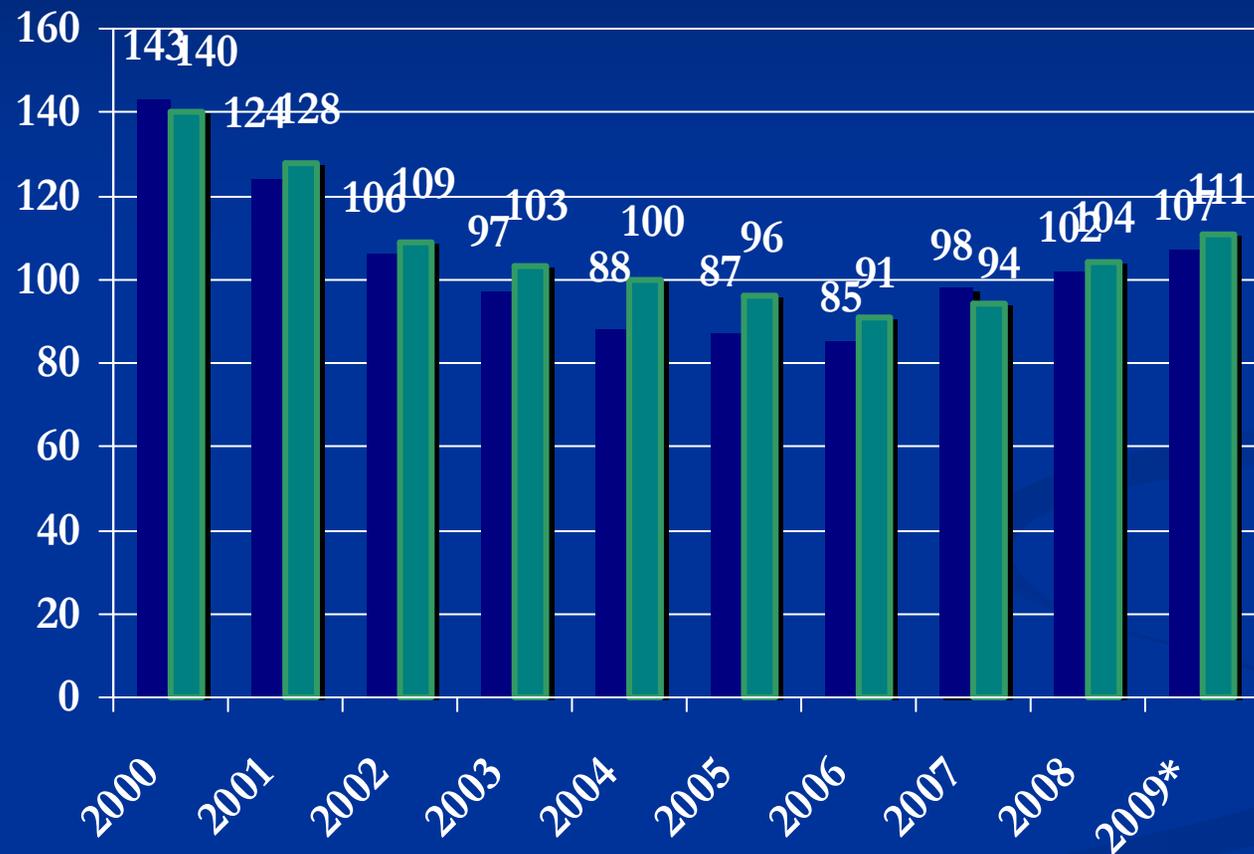
- Change in TN Loss Costs -13%
- Change in Carrier Pricing - 2%

Economic Impact (US)

- Change in Total Payroll -5%
- Other Impacts -5%

Source: NCCI

Accident Year Combined Ratios



Combined Ratio =
Expenses + Losses
& LAE; results <1
equate to an
underwriting profit.

■ Countrywide
■ Tennessee

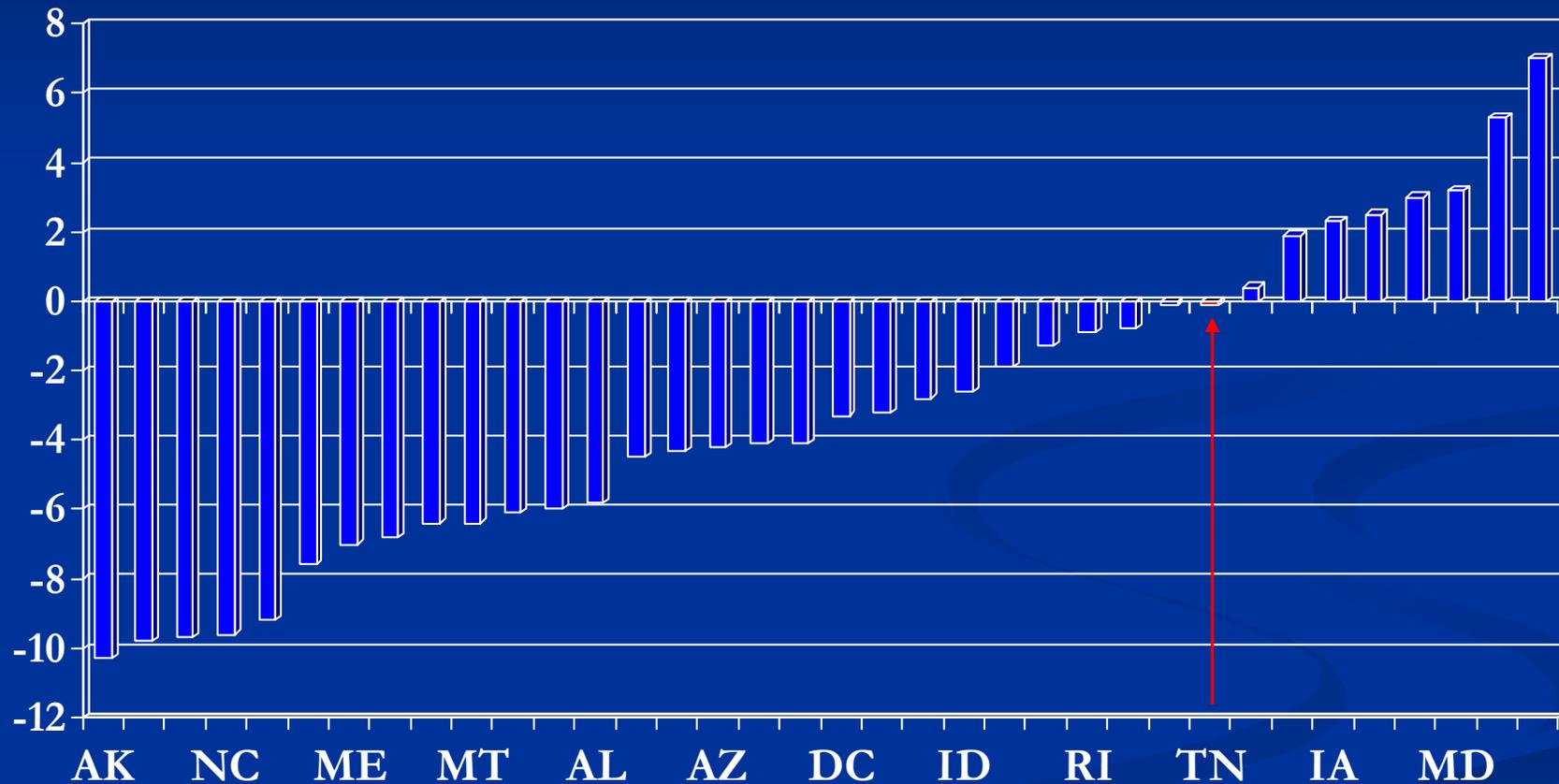
Source: NCCI; 2009 is preliminary; 8 out of last 10 years, TN combined ratio has exceeded countrywide

Loss Cost Filing & Final Approvals since March 1, 2003

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	Commerce & Insurance Approved Rate	Effective Date
2003	+7.9%	+7.9%	+7.9%	3/1/2004
2004	-6.3%	-6.3%	-6.3%	9/1/2004
2005	+3.9%	+3.9%	+3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9% (net -3.3%)	7/1/2005
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

-16.8% approved since 9/1/04

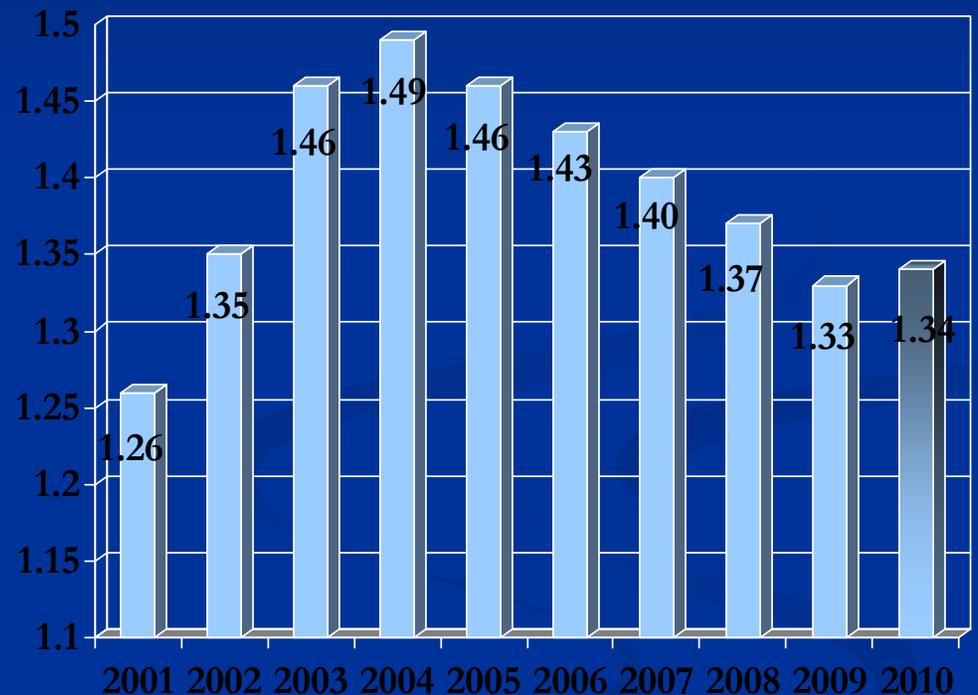
Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



Source: NCCI; states filed through 4/23/2010

Tennessee Voluntary Market Loss Cost Multipliers (LCMs)

Market appears at this stage to have bottomed out. Multipliers are based on prior year premium “weighted average” market shares.



2010 LCM Distribution

by Direct Premium Written

Median 1.40



✓ 90% above 1.05

✓ 90% below 1.55

✓ 13% above 1.51 Assigned Risk LCM

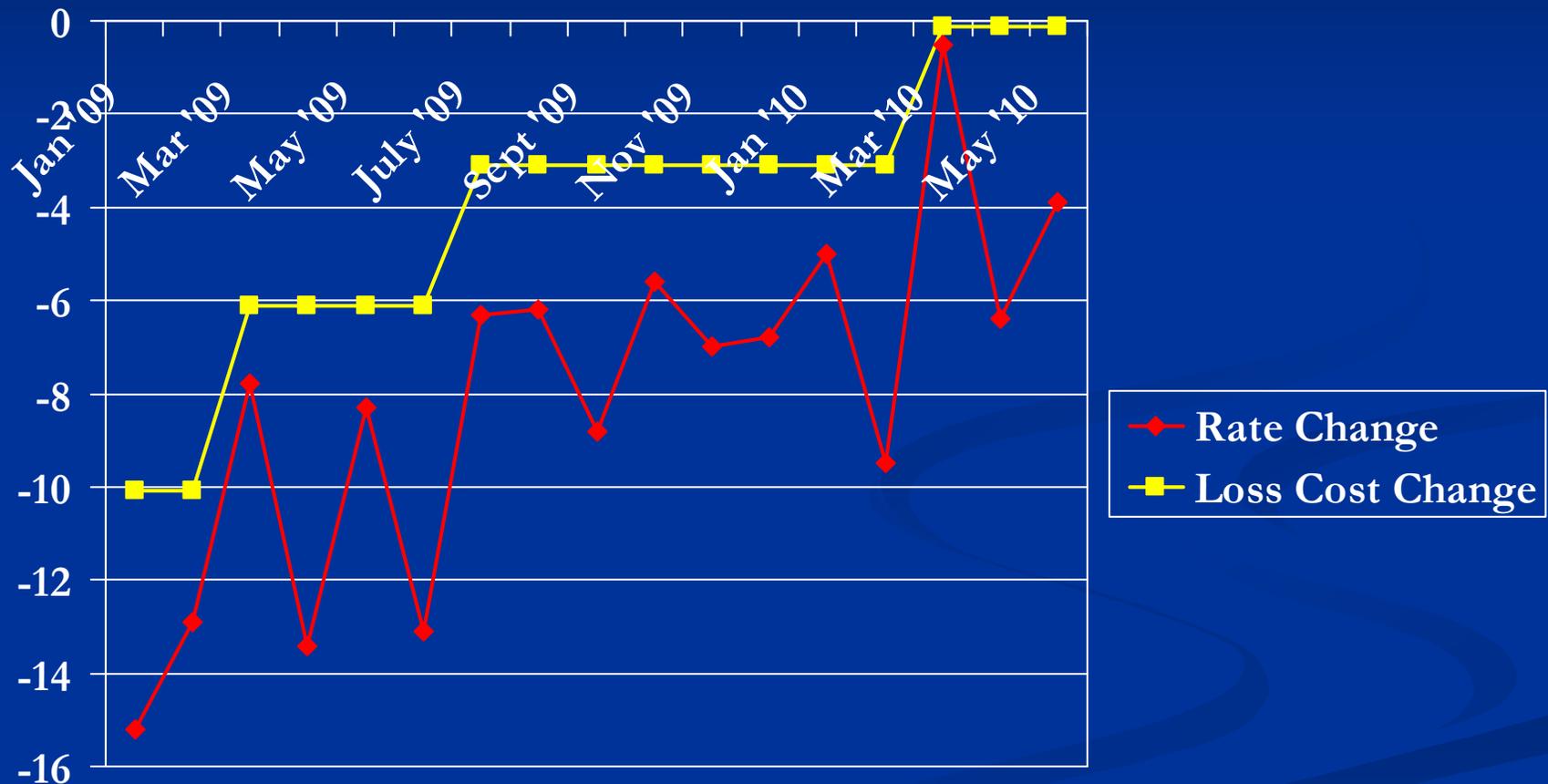
A complete listing is found on Department's website

NCCI TN Price Change Analysis



Loss cost change since one year prior

NCCI TN Price Change Analysis



Source: NCCI

Average reported net rate change between current & prior policy periods; loss cost change since one year prior

Impact of 2004 Reforms on WC Premiums:

Estimated \$562M Savings Since 2004 (50-6-134)

Calendar Yr	Direct Premium Written	Net Estimated Savings*	Annual % Savings
2004	\$883M	\$20M	2.2%
2005	\$943M	\$98M	9.4%
2006	\$947M	\$139M	12.8%
2007	\$947M	\$114M	10.8%
2008	\$879M	\$105M	10.7%
2009	\$710M	\$85M	10.7%

* These preliminary estimates are based on the impact of loss costs and the most recent NCCI study of the estimated decreases in system costs seen in data periods impacting 2007 through 2009 premiums.

Impact of 2004 Reforms on Premium: Other Measures

- 25% drop in loss costs and filed loss cost multipliers (weighted average) since 9/1/04
- 41% drop in average premium per policy of top 10 Tennessee workers' compensation insurers comparing 2004 to 2009 data*

* Source: NCCI

WC Premium Tax Revenues

	YE 8/31/06	YE 8/31/07	YE 8/31/08	YE 8/31/09
Self Insurance	\$11,780,936	\$10,164,858	\$9,662,965	\$8,013,028
Insurance	\$31,458,936	\$32,789,581	\$35,317,758	\$31,791,246
Total Premium Tax*	\$43,239,872	\$42,954,439	\$44,980,723	\$39,804,274

Data excludes .4% TOSHA Surcharge

Overview of Voluntary Market Conditions

- Continued profitability decline (cyclical)
- Prices continue to soften into second quarter '10
- Investment climate continues to be very weak
- 18 new companies filed LCM's since 7/1/09
- Reinsurance market remains soft, especially for the catastrophe layers.

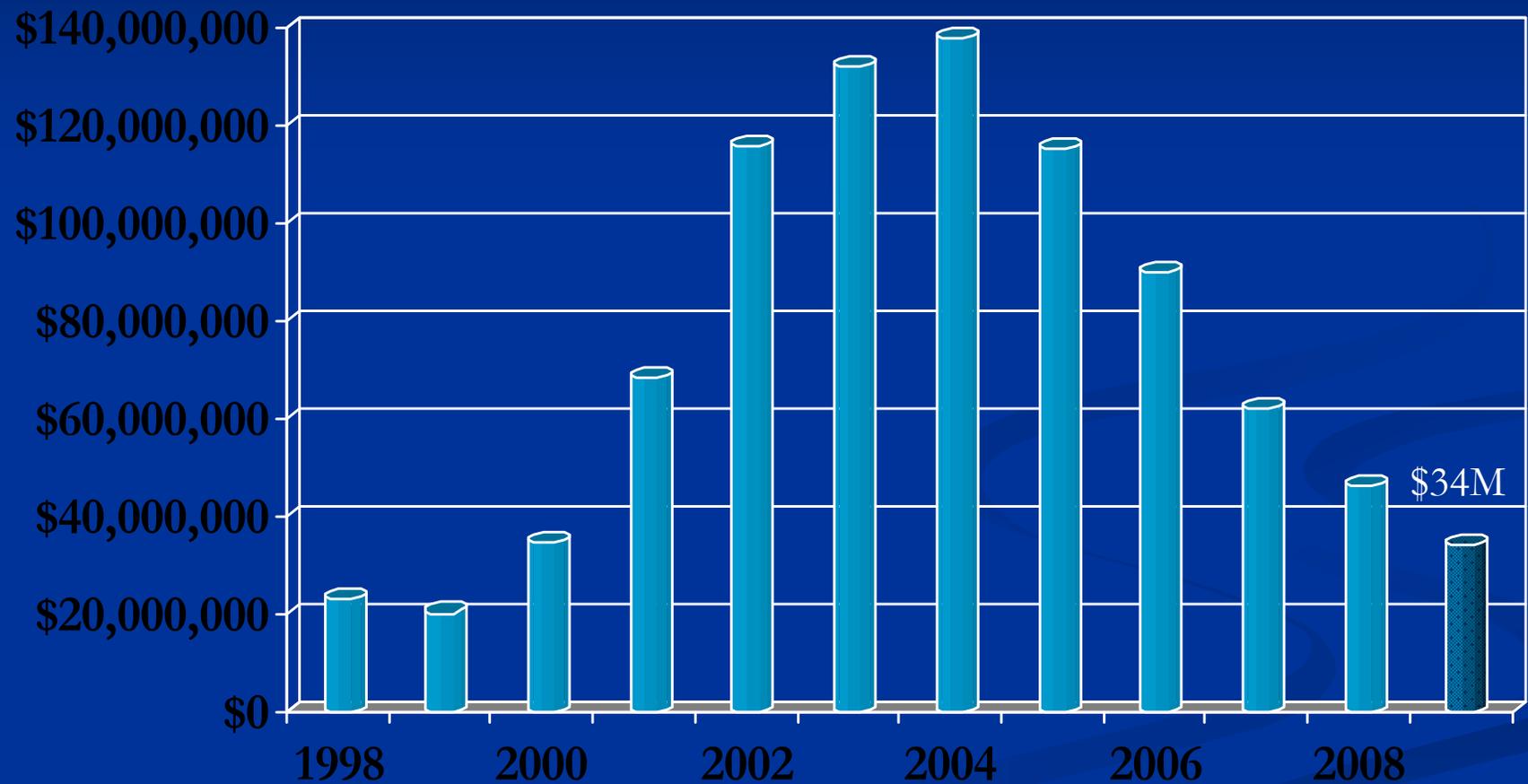
Source of Reinsurance market information: AonBenfield.

TWCIP

“The Assigned Risk Plan”

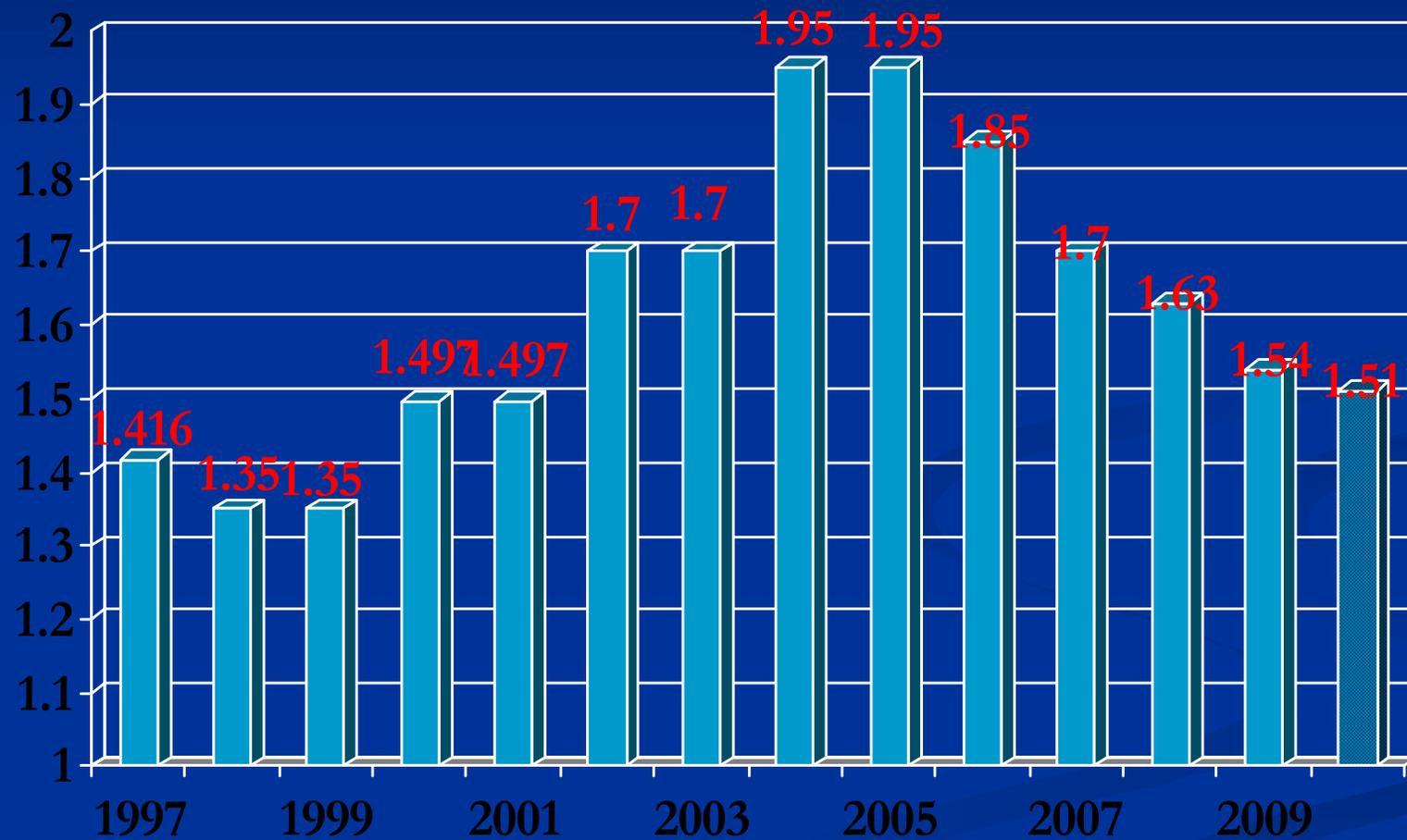


TN Assigned Risk Premium History



Source: Aon

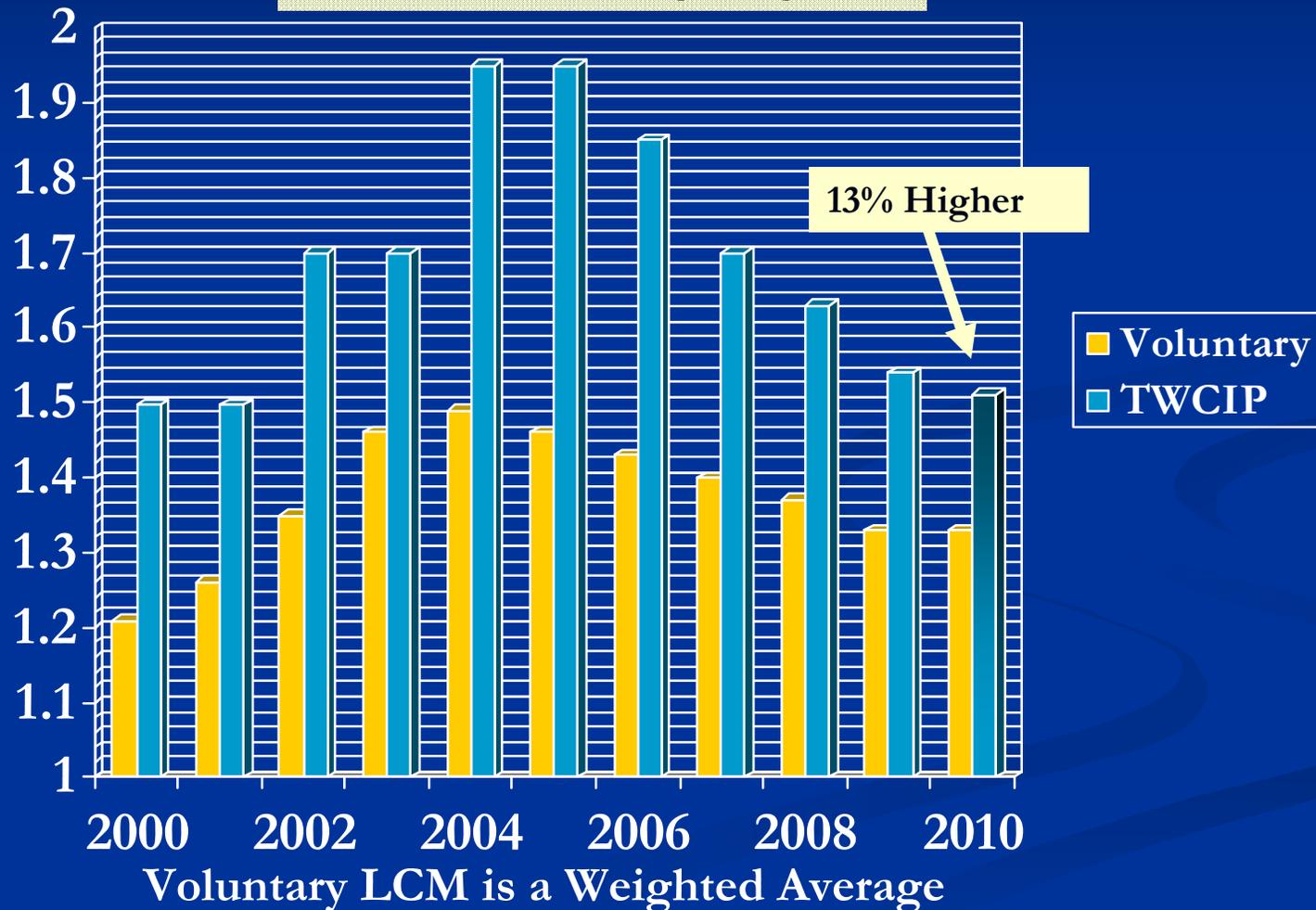
TN Assigned Risk Loss Cost Multiplier History



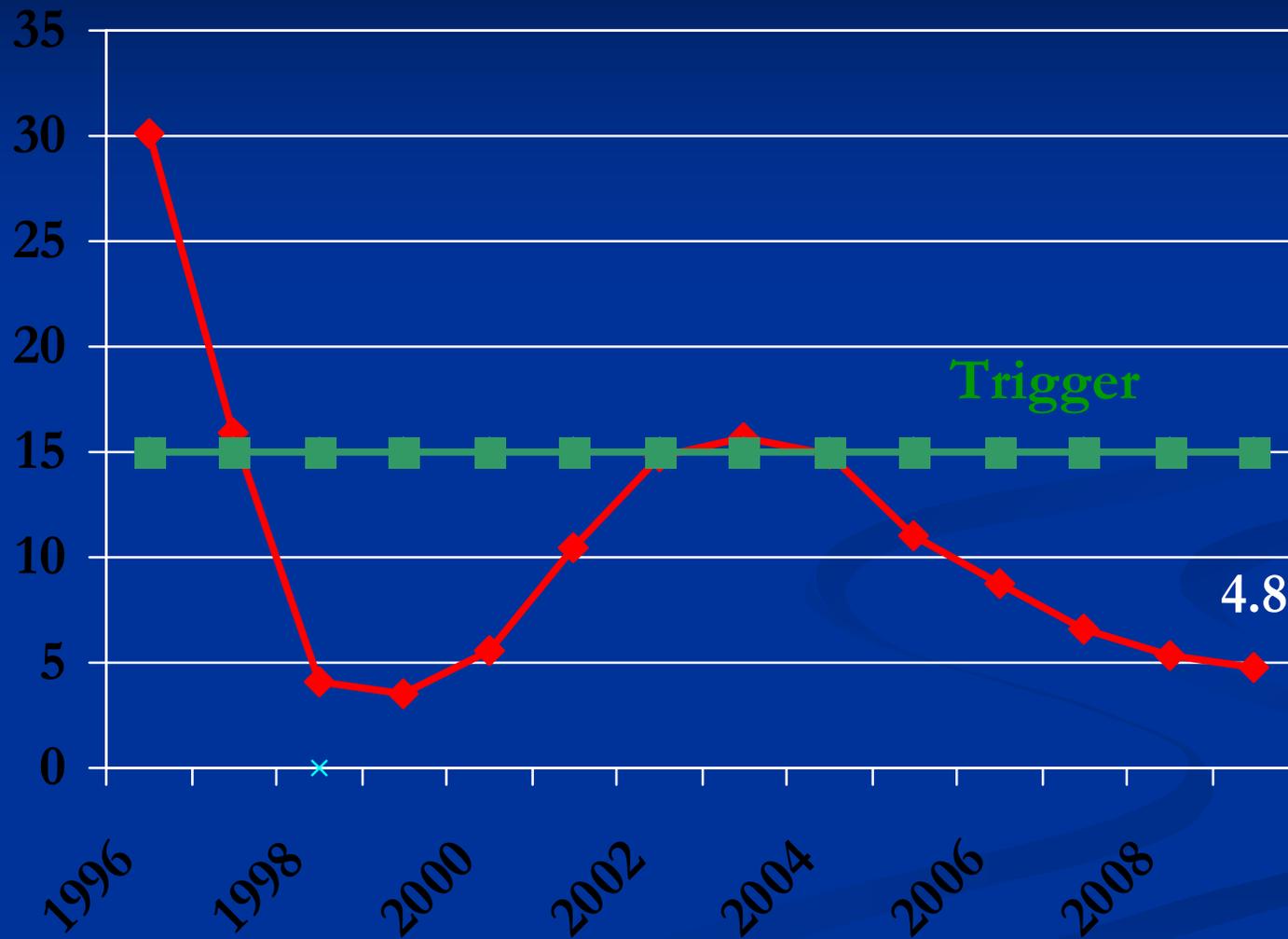
LCM History: Voluntary vs. TWCIP

2010 Is Lowest Differential in 11 Years

TWCIP 23% On Average, Higher

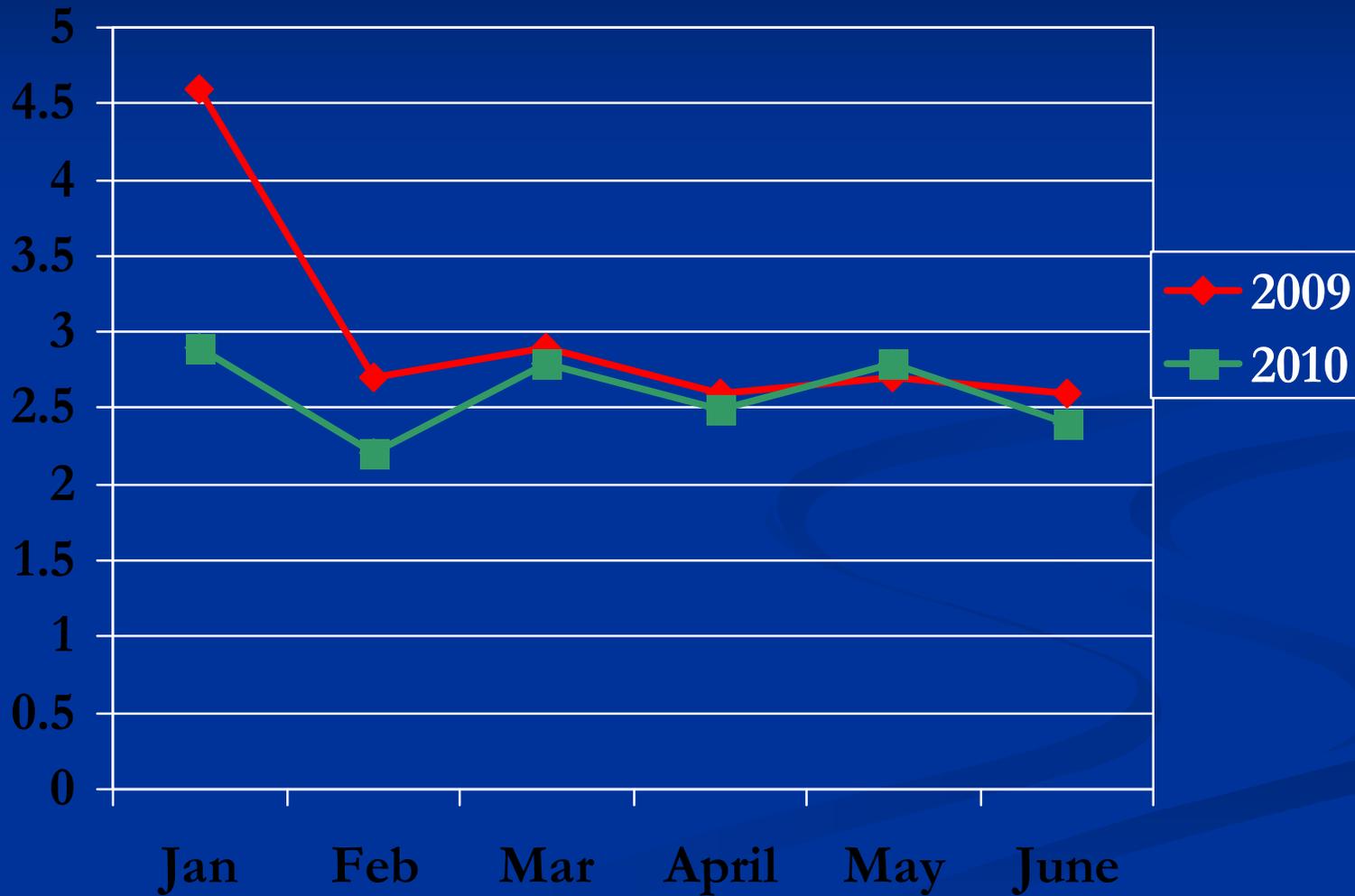


TN Assigned Risk Market Share - NAIC Direct Premium Written

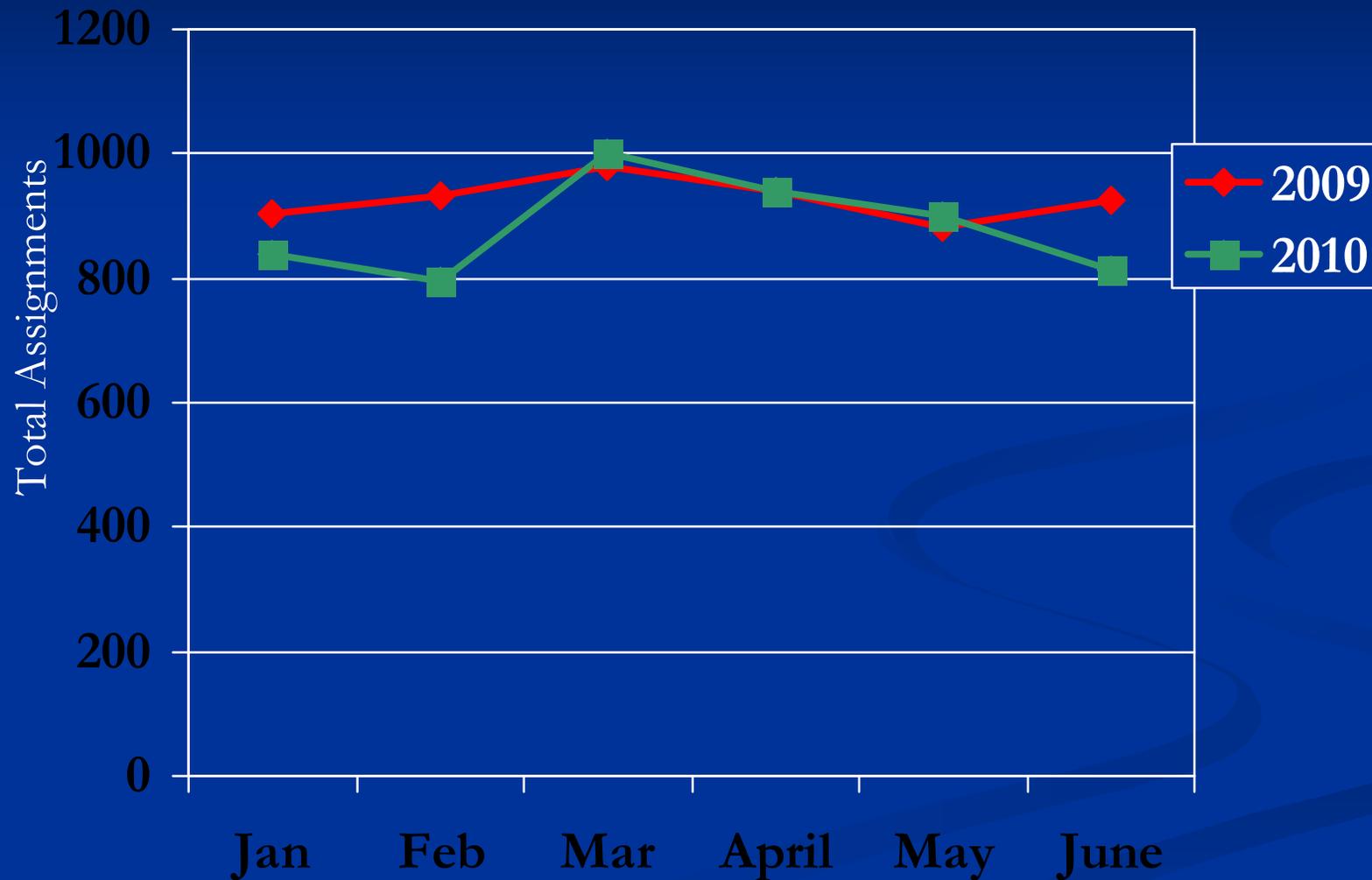


TN Assigned Risk Premium Bookings Down 15% in 2010

Millions



TN Assigned Risk Policy Count Down 5% in 2010



Aon's Actuarial Estimate of Break Even LCM for 3/1/2011

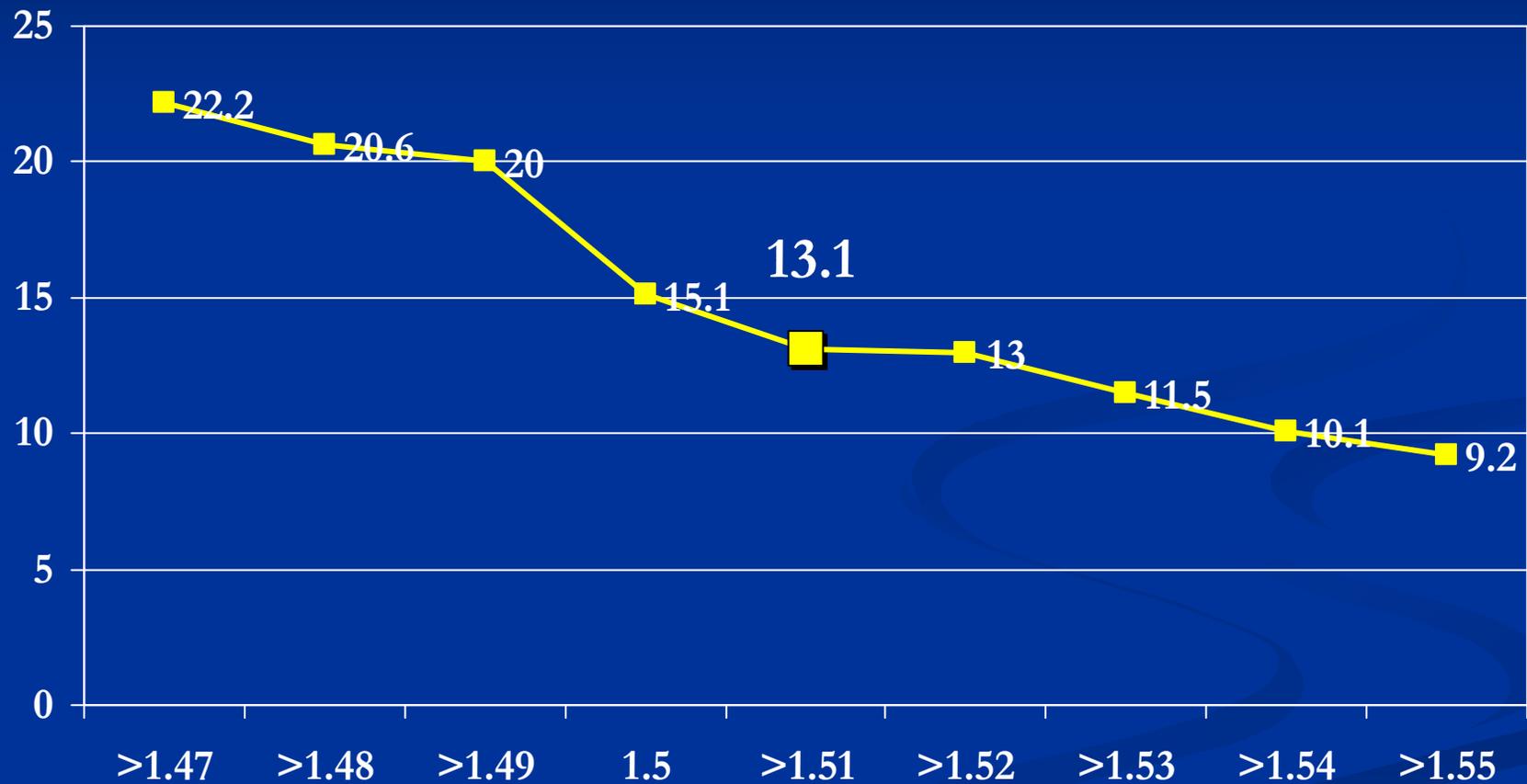
August 12, 2010 - Report Highlights

(Includes both Servicing Carrier & Direct Assignment Carriers loss data)



- Impact of adverse development reduced to 4.3 points
- Leveling out earned premium to a 1.50 LCM - loss ratio **increased** 17.5 points from 2005 to 2008, showing further indications of adverse development.
- Provision for uncollected premium, federal income taxes, and other expenses have stabilized at 28.7 points.

Percentage Premium Written In Close Proximity to Current LCM



2009

Self Insurance



List of Self-Insured Groups

Self-Insured Groups	Status
Associated Builders & Contractors of TN	Active
Comptrust AGC of Tennessee	Active
Home Builders Association of TN	Active
TN Automotive Association	Active
TN Forestry Association	Active
TN Health Care Association	Active
TN Road Builders Association	Not Active – Run Off
TN Association of Business Company Owners’ Managed Program	Not Active – Run Off
TN Restaurant Association	Not Active
TN Trucking Association Self-Insured Group Trust	Not Active

Overview of Self-Insurance Market (2009)

- **Self-Insured Employers** – 101
- Number of employees – 244,673
- Total “Premium Equivalent” – \$170 million

- **Self-Insured Groups** – 6
- Number of employees – 34,144
- Total Premium – \$24 million

Insolvencies

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



WC Insolvency Data - Valued 6/29/10

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

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,751	33,342,547	27,655,429
Home Ins. Co. (6/03)	123	2,228,146	4,043,997
Reciprocal of America (6/03)	313	1,302,808	3,292,915
Legion & Villanova (7/03)	1,874	35,449,139	27,152,254
Casualty Reciprocal (8/04)	52	1,267,323	2,144,384
Realm National (6/05)	52	1,900,911	2,564,102
Totals (all since 10/3/01)	4,165	75,490,874	66,853,081

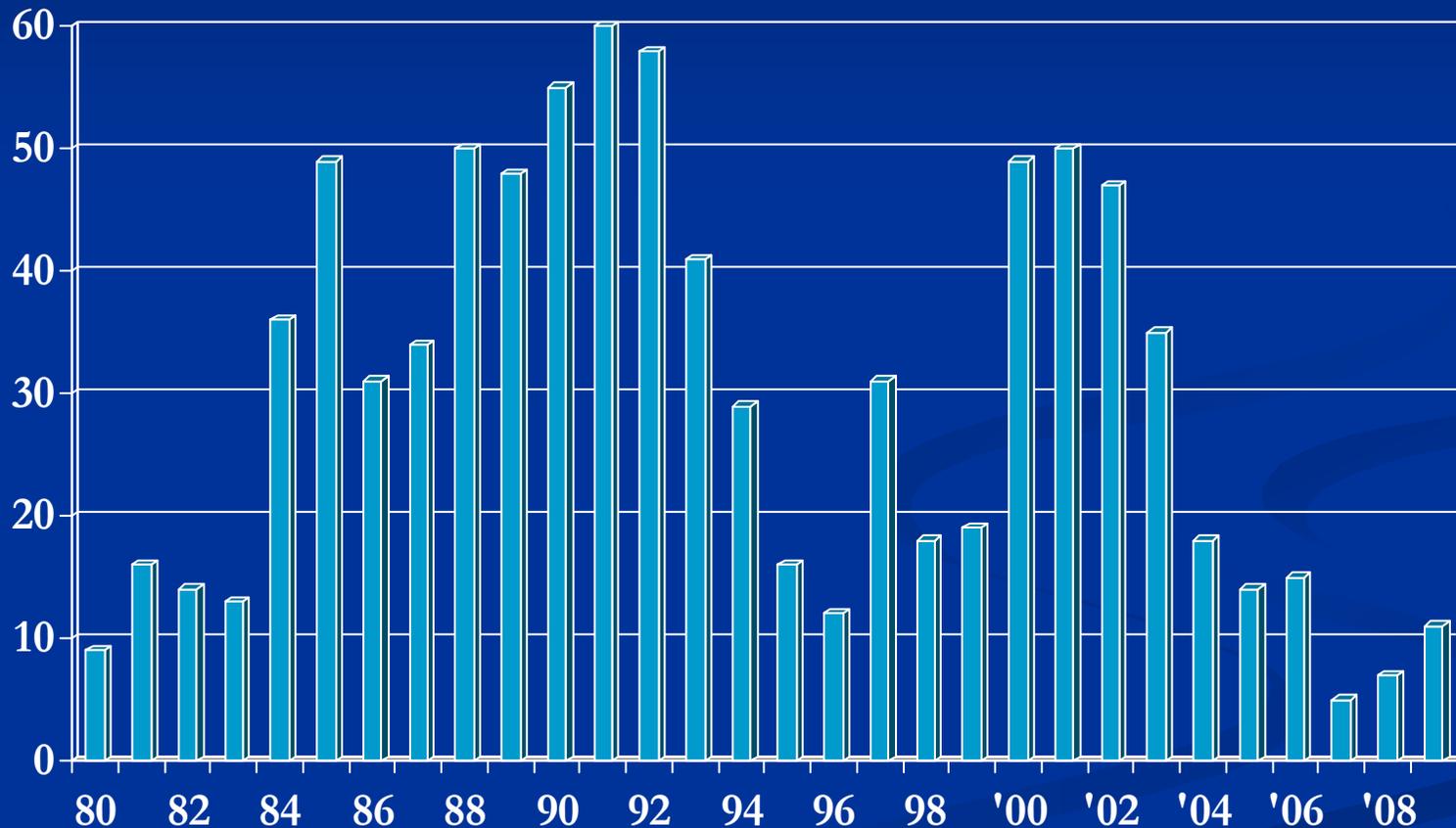
WC Insolvency Data

On the radar screen:

- **Kemper Group (IL Domestic)**
 - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in TN.
 - Premium as of December 31, 2009: \$84,673
 - \$12.8 million in unpaid losses

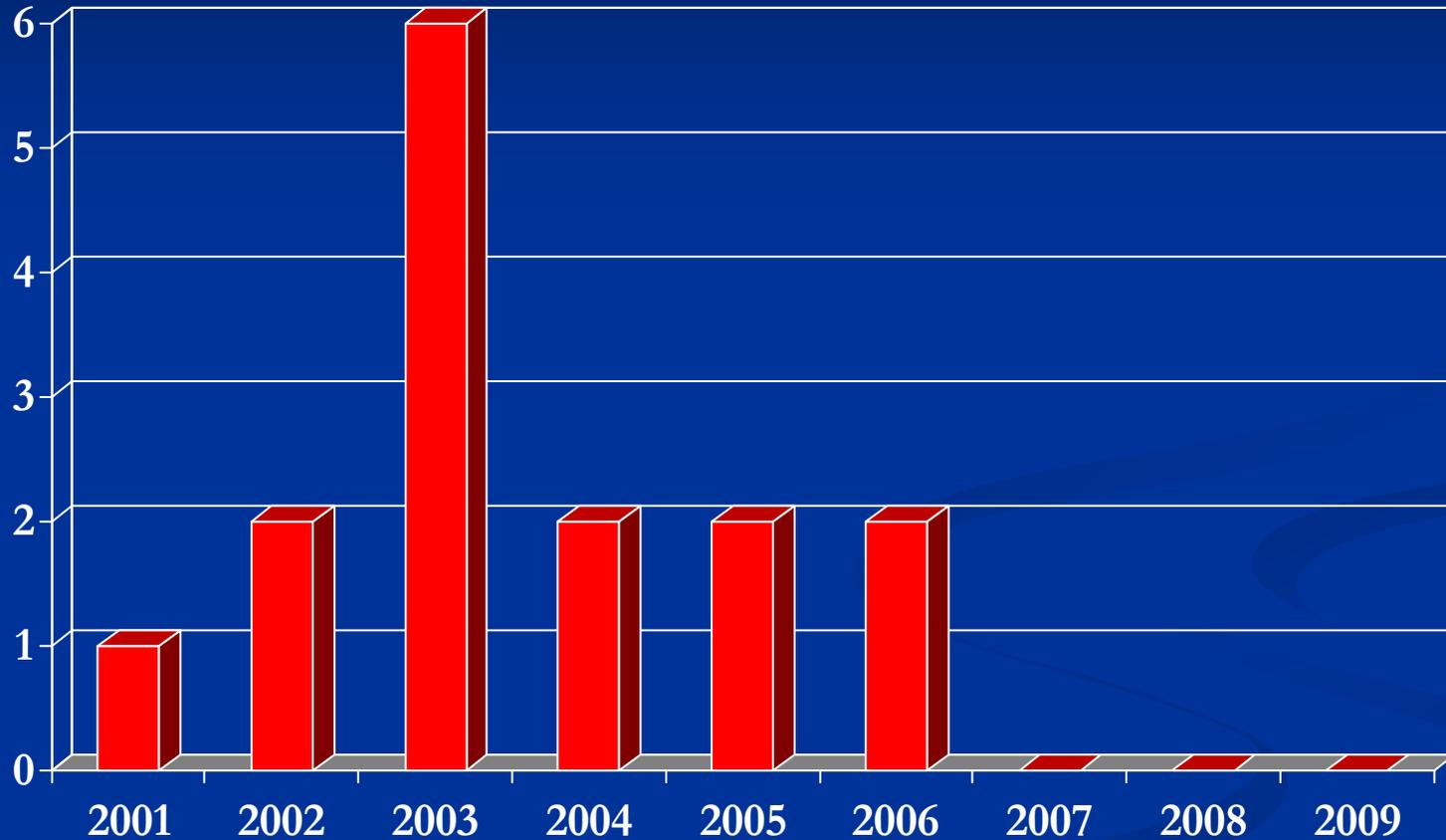
P&C Insurer Impairments: 1980-2009

The number of impairments varies significantly over the P&C insurance cycle, with peaks occurring well into hard markets



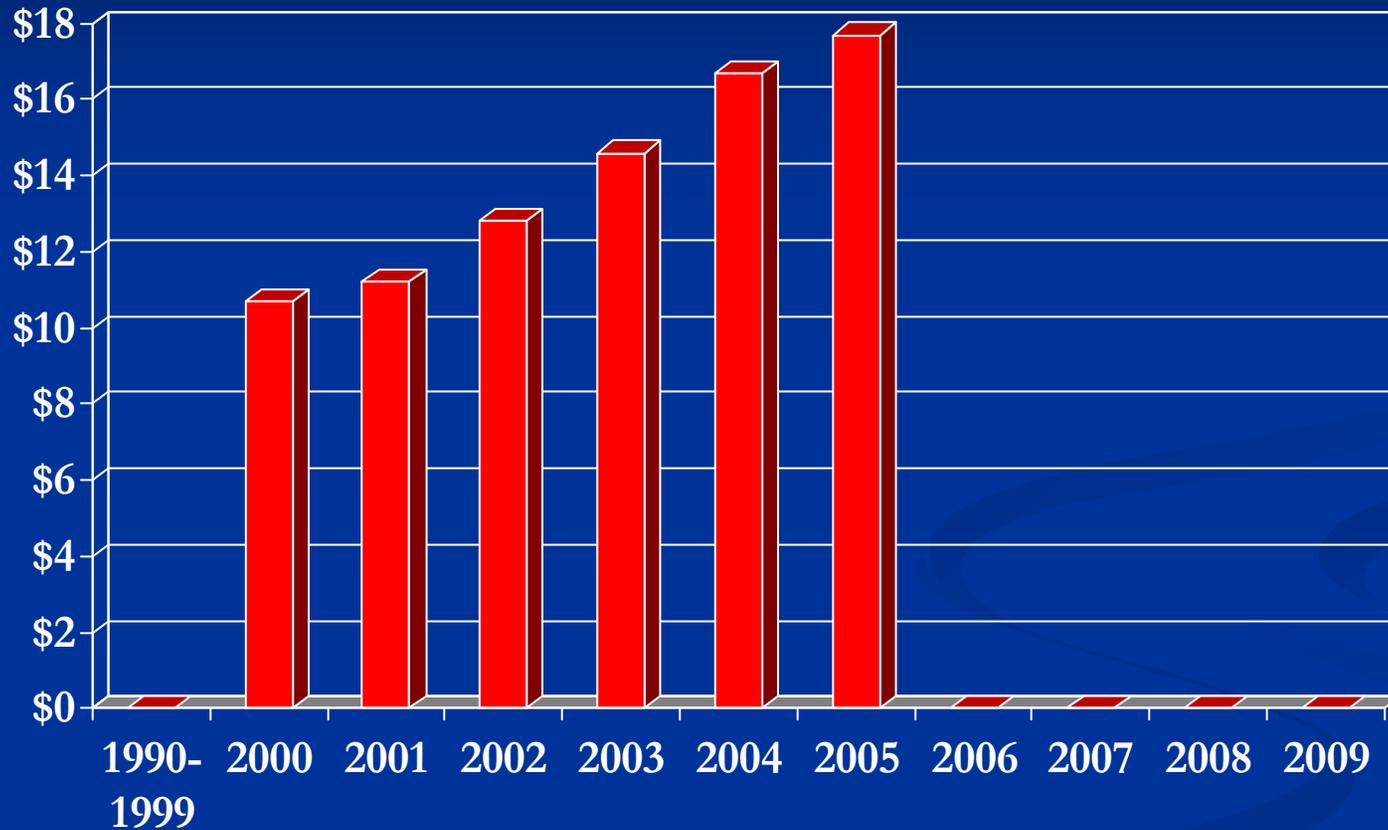
Source: A.M. Best and Insurance Information Institute; 2009 preliminary estimate

Number of WC Carrier Insolvencies Per Year Impacting TN



Source: TN Guaranty Association; 2003 Legion and Villanova are combined & shown as one

TN Guaranty Fund Assessment History (Millions)



Source: TN Guaranty Association; \$73M assessed since 2001, representing 51% of total losses (see slide 42)

TN Trucking Association Self-Insurance Group Trust

- Primarily Operated: 2002 - 2003
- 53 Members
- Petition for liquidation: February 6, 2004
- \$7.8M deficiency – two assessments totaling \$7.8M – ALL CLAIMS CLOSED
- Final tax return for liquidation pending - *should close liquidation out by year end*

TN Trucking Association Self-Insurance Group Trust

- The Commissioner (Liquidator) filed a 3rd party complaint against:
 - the Trust's former Board of Trustees,
 - the TN Trucking Association,
 - the Trust's former Administrator,
 - its president and executive vice president
 - and the Trust's former TPA.
- *The Commissioner reached comprehensive settlements with the all parties.*

TN Restaurant Association Self-Insurance Group Trust

- Primarily Operated: 1994 through 2005 with over 600 Members
- Petition for liquidation: December 9, 2005
- Claims liability of trust (current and future) assumed by BNIC in March 2009 at a cost of \$1.8M to the liquidation estate; **subsequently assumed by Safety National Casualty Corp.**
- Liquidation estate continues third party action against former accountant for the trust
- Liquidation estate continues third party action against former TPA for the trust
- ***Anticipate liquidation closure by year of 2010.***

Overall Market Summary

POSITIVES

- Frequency continues to decline nationally
- Industry reserve deficiencies are moderate per NCCI
- Low company failure rate
- Smallest TN residual market in 10 years
- Market remains very competitive

NEGATIVES

- 11 point TN pure underwriting loss - worst “combined ratio” in 8 years
- Further deterioration in the underwriting cycle is possible
- Low investment returns continue to pressure underwriting results

Summary: Significant NCCI Filings Reported Quarterly

<p>Classifications:</p> <ol style="list-style-type: none"> 1. B-1419 2. 1-TN-2010 3. B-1421 4. 02-TN-2010 	<p>Banking and check cashing stores Insurance operations Oil & gas well drilling Property and building management Country clubs Roller skating rinks (also RM-01-2010) Stagehands – metal/wood/theater (also RM-04-TN-2010) Truckers, separated local and long haul (also RM-02-TN-2010)</p>
<p>Basic Manual – B-1414</p>	<p>Clarified and enhanced 15 Basic Manual rules</p>
<p>TWCIP – RM-03-TN-2010</p>	<p>TWCIP Rehabilitation and Tabular Surcharge Reduction Incentive Program – Depopulation initiative to improve policyholder’s loss control activities</p>
<p>Forms:</p> <ol style="list-style-type: none"> 1. P-1408 	<ul style="list-style-type: none"> * Updated the format to be more consistent with other NCCI manuals. * Removed references to “Advisory Forms” because endorsements filed by NCCI no longer bear such designation. * Expanded the numbering for carrier specific endorsements. * Revised several national/state specific endorsements.

Overview of the Tennessee Workers' Compensation Market Conditions and Environment

Copies of Presentation:
tn.gov/commerce/insurance