

TENNESSEE  
ADVISORY COUNCIL ON  
WORKERS' COMPENSATION

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Review of NCCI Loss  
Cost Filing  
Effective 3/1/15

# Findings

- The proposed change of -9.6% effective 3/1/15 has been reasonably calculated in accordance with actuarial standards of practice.
- Use of a longer experience period may be warranted. The use of a three year average of the policy year experience and BYNAC's selected development factors would result in an experience indication of -5.7%.
- The 11/13/13 order of Commissioner Julie Mix McPeak recommended that "NCCI increase the experience period for future filings from two years to three or more years when there is a high degree of variation in the experience data."
- NCCI selected trend factors 0.965 for indemnity and 1.000 for medical are reasonable.
- BYNAC believes an LAE allowance of 19.8% is more appropriate than the 20.1% allowance proposed by NCCI.
- **BYNAC's Indication is -5.7% compared to NCCI's Selection of -9.6%**

# Statewide Indication Analysis Summary of NCCI's Analysis

Indicated Change Based on Experience, Trend, and Benefits:

<u>Policy Year</u>	<u>Projected Cost Ratio</u>		
	<u>Indemnity</u>	<u>Medical</u>	<u>Combined</u>
2011	0.281	0.601	0.882
2012	0.271	0.649	0.920
Selected			0.901

Change in Loss Based Expenses:

	<u>DCCE Ratio</u>	<u>AOE Ratio</u>	<u>LAE Ratio</u>
Current			19.8%
Proposed	12.8%	7.3%	20.1%
Change			1.003
Overall Change			-9.6%

# Comparison of Adjustment Factors in Current and Prior Filings

	<u>Most Recent Policy Year Effective</u>		
	<u>3/1/2015</u>	<u>3/1/2014</u>	<u>3/1/2013</u>
Premium Development Factor	1.006	0.997	0.994
Indemnity Paid+Case Development Factor	1.298	1.293	1.277
Medical Paid+Case Development Factor	1.464	1.471	1.470
Indemnity Trend (Annual)	0.965	0.970	0.970
Medical Trend (Annual)	1.000	1.000	1.005
Loss Adjustment Expense	1.201	1.198	1.198
Excess Loss Loading Factor	1.008	1.029	1.028

	<u>Older Policy Year Effective</u>		
	<u>3/1/2015</u>	<u>3/1/2014</u>	<u>3/1/2013</u>
Premium Development Factor	0.998	0.998	0.998
Indemnity Paid+Case Development Factor	1.115	1.105	1.096
Medical Paid+Case Development Factor	1.386	1.396	1.403

# Projected Cost Ratios



## A. INDEMNITY

Policy Period	Estimated Ultimate Limited Losses	Factor to Adjust Losses to Unlimited	Estimated Ultimate Losses	On Level Factor*	Trend Factor~	Projected Ultimate Losses ^
1/1-12/31/08	\$169,095,452	1.008	\$ 170,448,216	0.865	0.773	\$113,969,347
1/1-12/31/09	161,166,797	1.008	162,456,131	0.860	0.801	111,909,530
1/1-12/31/10	167,345,188	1.008	168,683,950	0.857	0.831	120,131,143
1/1-12/31/11	156,056,187	1.008	157,304,636	0.850	0.861	115,123,398
1/1-12/31/12	150,009,650	1.008	151,209,727	0.846	0.892	114,107,699
<b>Total</b>	<b>\$803,673,274</b>		<b>\$810,102,660</b>			<b>\$575,241,117</b>

## B. MEDICAL

Policy Period	Estimated Ultimate Limited Losses	Factor to Adjust Losses to Unlimited	Estimated Ultimate Losses	On Level Factor*	Trend Factor~	Projected Ultimate Losses^
1/1-12/31/08	\$ 257,584,779	1.008	\$ 259,645,457	1.019	1.000	\$ 264,578,721
1/1-12/31/09	280,907,992	1.008	283,155,256	0.982	1.000	278,058,461
1/1-12/31/10	292,166,807	1.008	294,504,141	0.945	1.000	278,306,413
1/1-12/31/11	261,016,008	1.008	263,104,136	0.934	1.000	245,739,263
1/1-12/31/12	274,076,424	1.008	276,269,035	0.985	1.000	272,124,999
<b>Total</b>	<b>\$1,365,752,010</b>		<b>\$1,376,678,025</b>			<b>\$1,338,807,857</b>

## C. EARNED PREMIUM AND COST RATIO

Policy Period	Estimated Ultimate Standard Earned Prem	On Level Factor^	Estimated On Level Standard Earned Prem	Projected Cost Ratio
1/1-12/31/08	\$ 615,577,997	0.639	\$ 393,354,340	0.962
1/1-12/31/09	552,218,160	0.679	374,956,131	1.040
1/1-12/31/10	579,019,528	0.676	391,417,201	1.018
1/1-12/31/11	589,909,532	0.692	408,217,396	0.884
1/1-12/31/12	614,682,703	0.678	416,754,873	0.927
<b>Total</b>	<b>\$2,951,407,920</b>		<b>\$1,984,699,941</b>	
			Weighted 5 Year Average	0.964
			Weighted 2 Year Average	0.906
			NCCI Selected	0.901
			BYNAC Selected#	0.943

\* Weights for policy years 2008 - 2010 based on prior filings includes factor to reflect proposed changes in benefits.

~ Using selected trend of 0.965 for indemnity and 1.000 for medical.

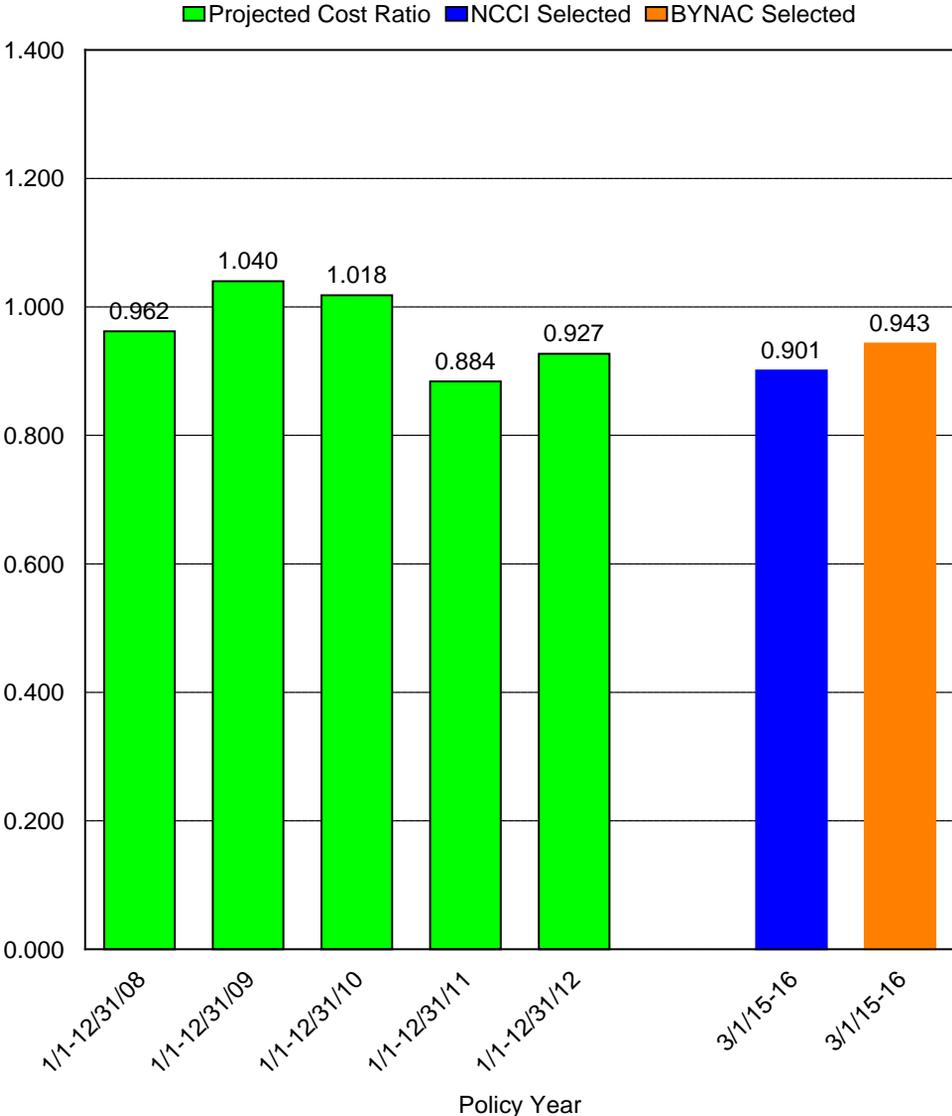
^ Premium On Level Factor includes an adjustment to remove LAE allowance.

# Average of policy years 2010 - 2012.

# Projected Cost Ratios

Figure 3

**STATE OF TENNESSEE WORKERS COMPENSATION**  
**PROJECTED COST RATIO INCLUDING BENEFIT CHANGES**



# LAE Allowance

<u>Accident Year</u>	<u>NCCI Accident Year Developed LAE Ratio</u>
2003	17.5%
2004	17.0%
2005	17.8%
2006	18.5%
2007	18.6%
2009	19.0%
2010	19.0%
2011	19.2%
2012	20.2%
2013	20.9%
5 Year Average	19.7%
3 Year Average	20.1%
NCCI Selected	20.1%
BYNAC Selected	19.8%
 BYNAC Proposed Change in LAE Allowance	
Current Tennessee LAE Allowance	19.8%
BYNAC Proposed LAE Allowance	19.8%
Proposed Change in LAE	0.0%

# Indicated Change Using BYNAC Selections

## Indicated Change Based on Experience, Trend, and Benefits:

	Policy Year			
	2012	2011		
Projected Indemnity Cost Ratio including Benefit Changes	0.271	0.281		
Projected Medical Cost Ratio including Benefit Changes	0.649	0.601		
Total Benefit Cost	0.920	0.882		
			<u>NCCI</u>	<u>BYNAC</u>
Selected			0.901	0.943
<b>Change in Loss Based Expenses:</b>				
Current Tennessee LAE Allowance			19.8%	19.8%
Proposed Tennessee LAE Allowance			20.1%	19.8%
Selected			1.003	1.000
<b>Overall</b>			-9.6%	-5.7%