

STATE OF TENNESSEE



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Advisory Council on Workers' Compensation

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October 22, 2015

The Honorable Julie McPeak, Commissioner
Department of Commerce & Insurance
State of Tennessee
500 Davy Crocket Tower
500 James Robertson Parkway
Nashville, TN 37243

Re: NCCI – Workers' Compensation Voluntary Loss Cost Filing Proposed Effective March 1, 2016

Dear Commissioner McPeak:

On August 26, 2015, the National Council on Compensation Insurance (NCCI) submitted to you its annual Voluntary Loss Cost Filing with a proposed effective date of March 1, 2016. This written comment and recommendation fulfills the statutory responsibility of the Advisory Council on Workers' Compensation concerning the NCCI Voluntary Loss Cost filing.

In its filing, the NCCI proposed an overall decrease of 0.9%. The average change in the five industry groups is: Manufacturing -3.6%; Contracting -1.1%; Office & Clerical -1.8%; Goods & Services -1.0%; and Miscellaneous +2.5%. The loss adjustment expense ("LAE") was 19.8%.

The Advisory Council met on Wednesday, October 14, 2015 to consider the filing as required by *Tennessee Code Annotated* §50-6-402(b). After the initial presentation of the filing by NCCI's actuary, Ms. Ann Marie Smith, the Advisory Council members received comments from its consulting actuary, Ms. Mary Jean King of By the Numbers Actuarial Consulting, Inc. ("BYNAC") and Mr. Christopher Burkhalter of Bickerstaff, Whatley, Ryan & Burkhalter ("BWRB"), the consulting actuary to the Department of Commerce and Insurance.

Ms. Smith noted that the proposed overall aggregate decrease of 0.9% was comprised of: a -1.2% change in Experience; a +2.0% change in Development; a -1.9% change in Trend; a -0.2% change in LAE; and a -0.4% change in benefits. Ms. Smith described to the Advisory Council the methodology that was utilized by NCCI.

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Ms. King stated that the proposed -0.9% for the Tennessee voluntary workers' compensation market had been reasonably calculated in accordance with actuarial standards of practice, although BYNAC's preferred indication using a 19.0% LAE and the one recommended as more appropriate according to their analysis was -1.1%.

Mr. Burkhalter explained that BWRB agreed the -0.9% was actuarially sound, although their preferred indication using an 18.5% LAE and the one recommended by them as more appropriate according to their analysis was -0.5%.

After consideration of the presentations by the three actuaries, as well as the comments and a lengthy discussion surrounding the LAE figure among the members, the voting members of the Advisory Council on Workers' Compensation unanimously recommended adopting a 19.5% LAE figure, resulting in the need for a recalculation of the indication by NCCI, the result of which is a -1.2% indication, which is the final recommendation of the Advisory Council. For your information, the recalculation of the BYNAC and BWRB indications using that same recommended 19.5% LAE result in -0.6% and +0.5% respectively.

If you have any questions concerning this recommendation or if you require any additional information, please do not hesitate to contact me.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "David H. Lillard, Jr.", is positioned above the typed name.

David H. Lillard, Jr.
State Treasurer
Chair, Advisory Council on Workers' Compensation