



Summary of Tennessee Voluntary Loss Cost Filing Proposed Effective March 1, 2015

NCCI Presentation to Advisory Council on Workers' Compensation
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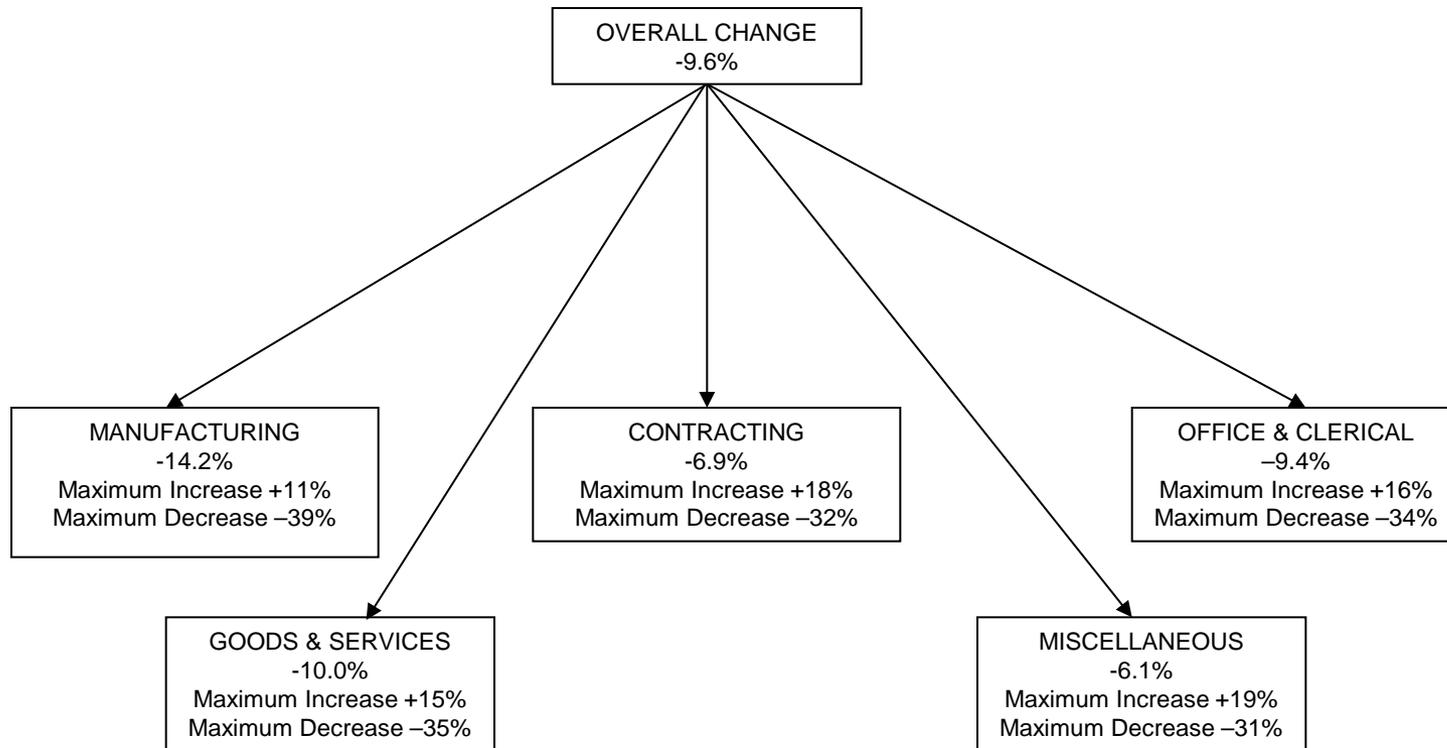
Summary by Component

Proposed Effective March 1, 2015

Component	Percent Impact
Experience	-9.2%
Development	-0.2%
Trend	-0.6%
Benefits	+0.1%
Loss Adjustment Expense (LAE)	+0.3%
Overall Indication	-9.6%



Tennessee March 1, 2015 Filing Average Changes by Industry Group



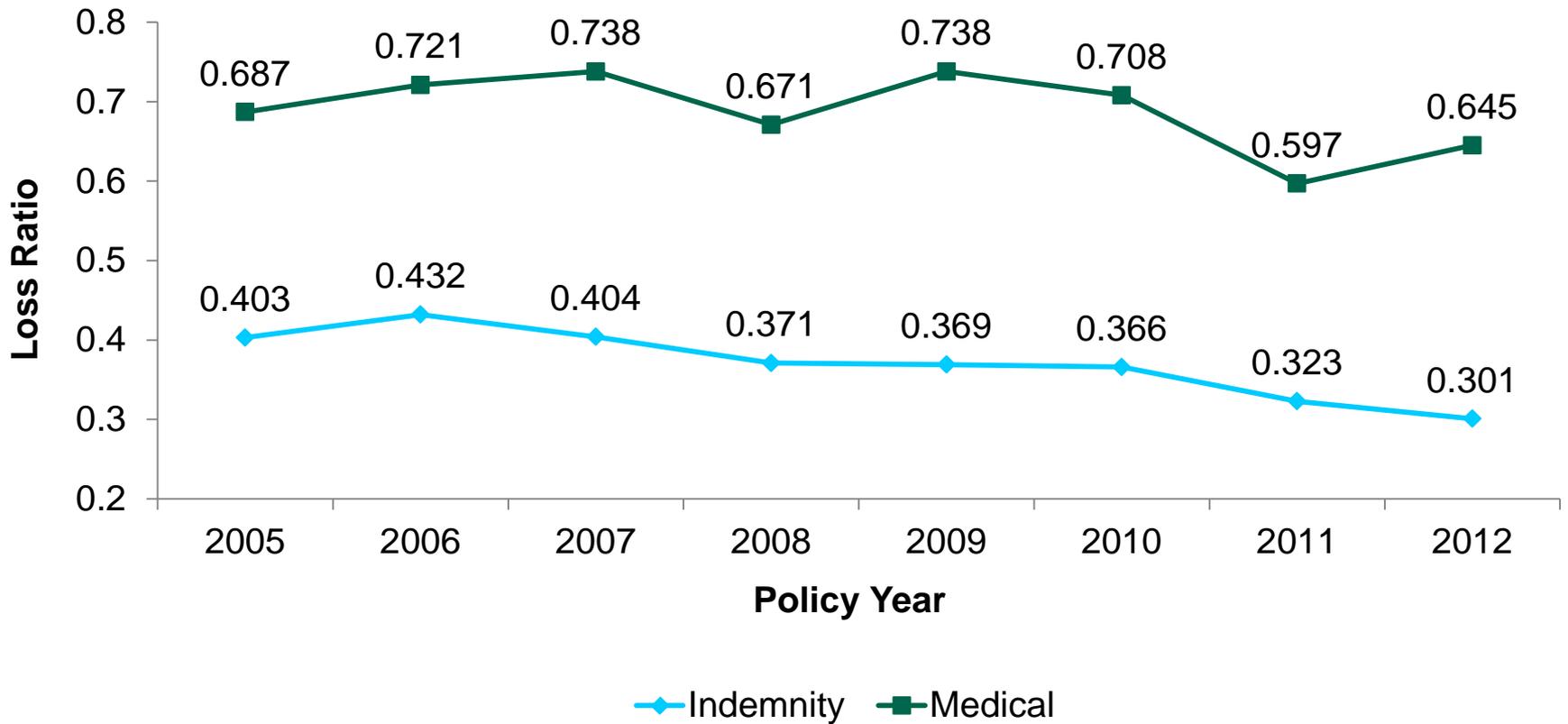
Source: Tennessee Loss Cost Filing, Proposed Effective 3/1/2015

March 1, 2015 Loss Cost Filing Methodology for Indication

- Experience Period: Latest 2 Policy Years
- Loss Methodology: Paid + Case
- Loss Development: 5 Year Average



Tennessee Indemnity and Medical Loss Ratios



Based on NCCI's financial data at current benefit level and developed to ultimate



Experience Period

NCCI's filed indications reflect the latest two policy years of experience.

- Policy year data consists of the premium and losses derived from all policies written in a given year.
- Use of the latest two years reflects consideration of premium volume in the state and is responsive to recent trends.

The indicated loss cost decrease is being driven by a number of factors.

- The loss ratio for Policy Year 2012 (the most current year used in this filing) is more favorable than Policy Year 2010 (the year that has dropped out of the proposed experience period)
- Claim frequency and indemnity claim severity continue to decline, resulting in improved loss experience and a proposed reduction in indemnity trend
- NCCI has implemented a new methodology for determining the excess loss factors; this has resulted in lower excess ratios

Experience Period

In consideration of the Commissioner's decision regarding the 3/1/2014 loss cost filing, NCCI considered the following factors:

- The projected loss ratios for each of the latest two policy years indicated decreases of a similar magnitude
- Tennessee has significant volume on which to base loss cost indications
- Use of the latest two years is responsive to recent experience
- Maintaining a consistent methodology from year to year avoids introducing bias into the ratemaking process

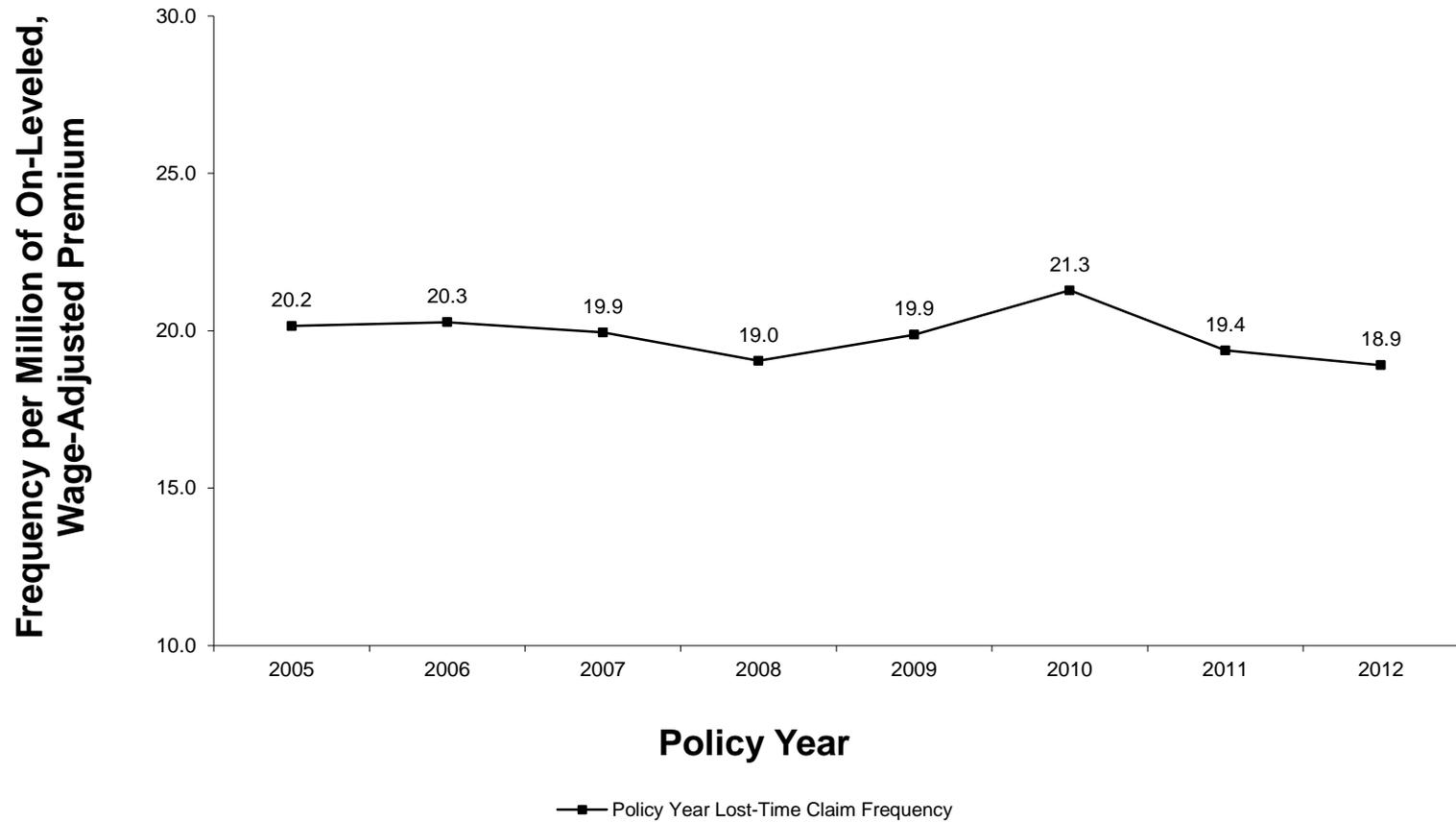
Trend

NCCI's trend analysis includes a review of the observed patterns in the aggregate loss ratios, as well as an analysis of the frequency and severity components of the loss ratio

$$\text{Loss Ratio} = \text{Claim Frequency} \times \text{Claim Severity}$$

$$\frac{\text{Losses}}{\text{Premium}} = \left[\frac{\text{Number of Claims}}{\text{Premium}} \right] \times \left[\frac{\text{Losses}}{\text{Number of Claims}} \right]$$

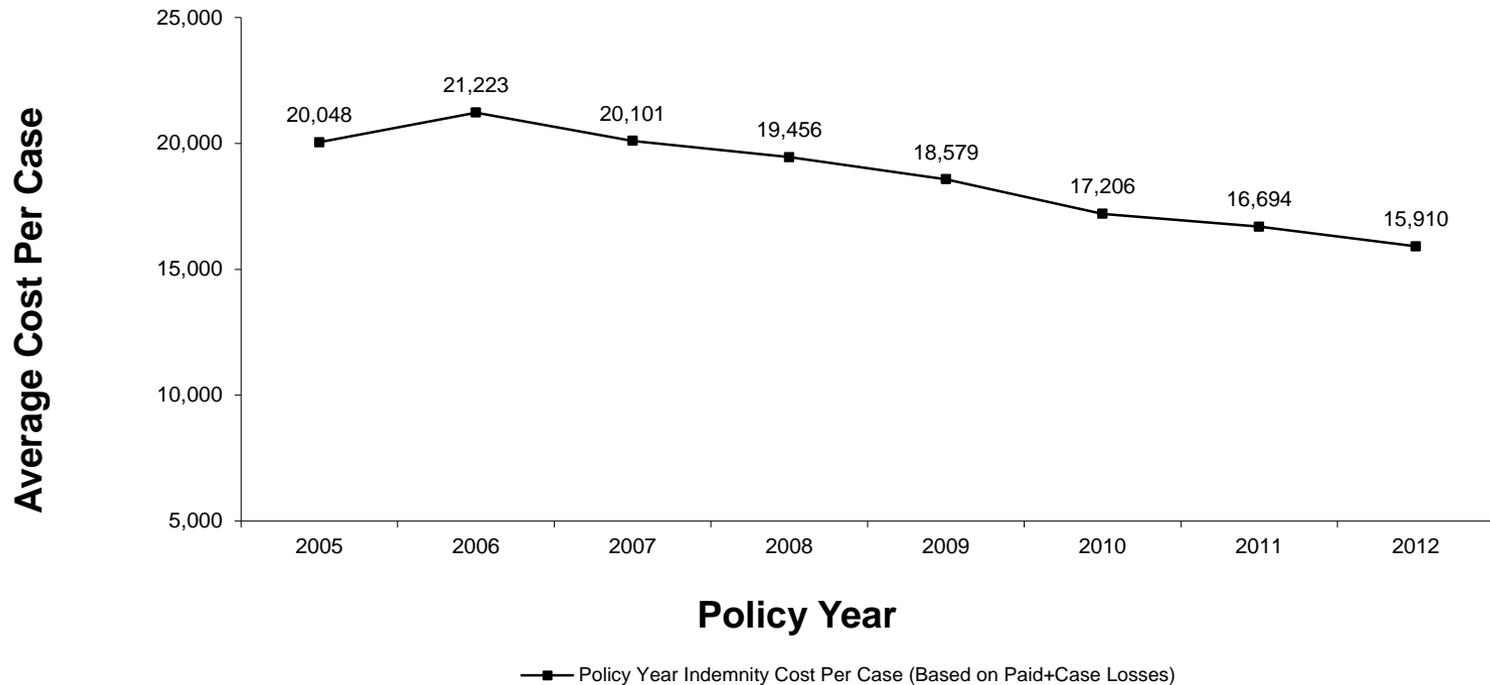
Tennessee Claim Frequency



Based on NCCI's financial data.
Frequency of lost-time claims.

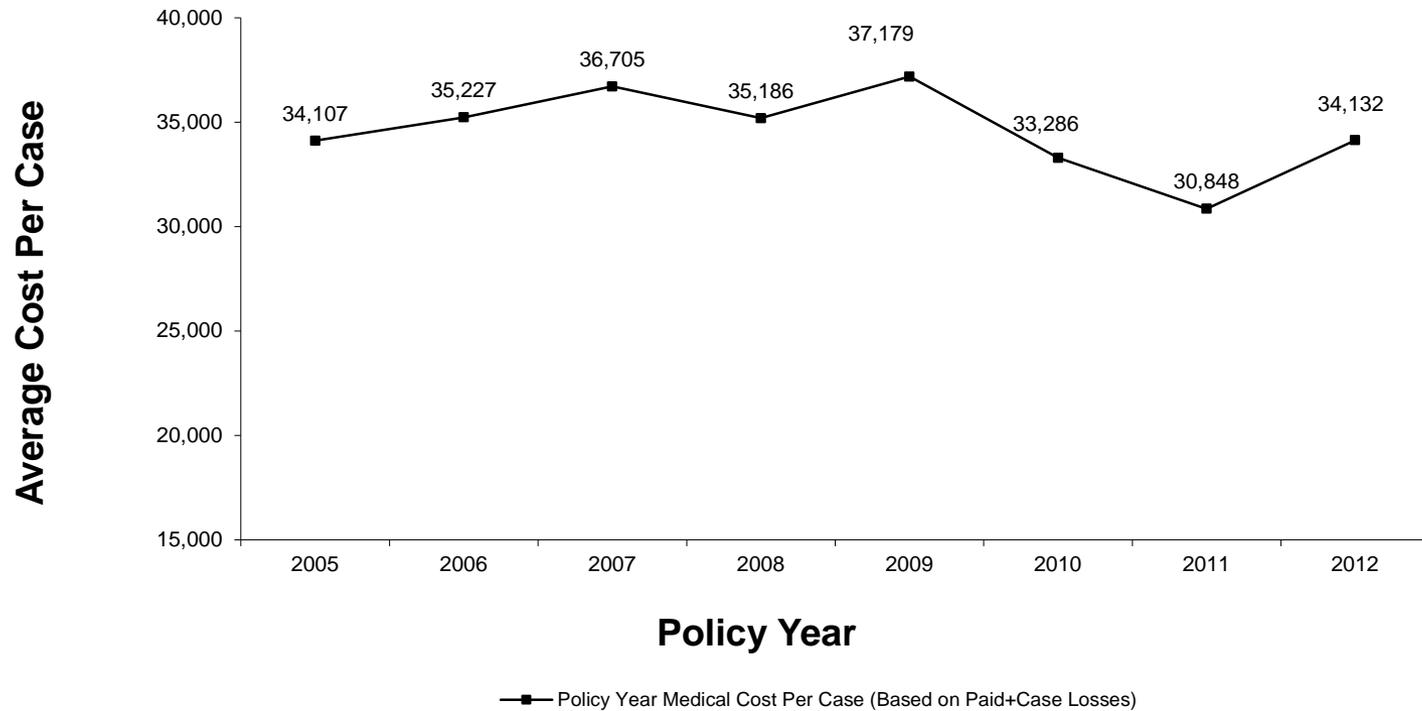


Tennessee Average Indemnity Severity in Excess of Wage Growth



The severity figures shown are in excess of wage trend.
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Tennessee Average Medical Severity in Excess of Wage Growth



The severity figures shown are in excess of wage trend.
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

Tennessee March 1, 2015 Loss Cost Filing Selected Trends

	Current	Proposed
Indemnity Loss Ratio	-3.0%	-3.5%
Medical Loss Ratio	0.0%	0.0%



NCCI's Annual LAE Review

- Countrywide data from NCCI financial data call
- Results projected separately for Defense and Cost Containment Expense (DCCE) and Adjusting and Other Expense (AOE)
 - DCCE provision reflects countrywide result adjusted by state relativity of paid DCCE/paid loss
 - AOE provision reflects countrywide result
- Because accident year data is used, estimates may change from year to year.
 - Estimates of DCCE historically showed some downward development
 - Estimates of AOE have not historically shown such a pattern
- DCCE ratios show an upward trend, with higher ratios in the most recent accident years.

Tennessee LAE Provision

Provision Stated as a Percent of Losses

	Current	Proposed
DCCE	12.5%	12.8%
AOE	7.3%	7.3%
LAE	19.8%	20.1%

NCCI's annual review indicates:

- A provision of 12.8% for DCCE for Tennessee
- A countrywide provision of 7.3% for AOE

NCCI's Proposed LAE Provision

The LAE provision has been an item of discussion in the last several loss cost filings, particularly with regard to DCCE. NCCI has taken steps to address these concerns:

- In conjunction with the 2012 LAE review, NCCI modified loss development selections underlying the DCCE analysis in order to be more responsive to observed trends
- Last year, NCCI evaluated an alternative methodology for estimating DCCE; result was consistent with standard methodology
- NCCI has continued to investigate patterns in the underlying data in order to understand observed trends
- In conjunction with this filing, NCCI has modified the selected countrywide DCCE provision to reflect the average of the latest three accident years
- NCCI has analyzed alternative methods using Tennessee specific DCCE and loss data; the results of these analyses support the filed 12.8% provision



Thank You!

