Areas Reviewed

- Overall Methodology
- Experience period and reasonableness of overall result
- Loss ratio trends
- Provision for loss adjustment expenses
- Allocation to classes
- Law Only Filing effective 7/1/2014

Overall Methodology

- Unchanged from prior filings
- Appropriately reflects estimated effects of benefit changes
- NCCI applies judgment
  - Selection of trend factors: discussed further
  - Selection of loss development factors (meta-judgment): 5 year average continues to balance recent experience with credibility
  - Selection of number of years of experience (meta-judgment): discussed further

Experience Period and Reasonableness of Overall Result

- NCCI standard procedure averages latest two policy years
  - Captures recent, relevant experience
  - *Assumes* that much experience is sufficiently credible
- 2005 to 2012 filing differences ranged from 0.2% to 6.2% and averaged 4.75%
- In last year's filing, NCCI averaged indications of +7.0% (PY 2009) and -2.3% (PY 2010) - a difference of 9.3% - to get +2.3%
  - 2009 looked like an outlier last year, and it still does
- This year, NCCI averages indications of -12.3% (PY 2011) and -4.5% (PY 2010) – a difference of 7.8% - to get -8.4%
  - This time, it is 2011 that appears to be an outlier: it is dramatically lower than any of the preceding 7 years

Experience Period and Reasonableness of Overall Result

- This year, NCCI averages indications of -12.3% (PY 2011) and -4.5% (PY 2010) – a difference of 7.8% - to get -8.4%
  - This time, it is 2011 that appears to be an outlier: it is dramatically lower than any of the preceding 7 years
  - These huge gaps should be a red flag to the NCCI to dig deeper
  - Projected indemnity loss ratios are 32.1% and 33.8% - very close
    - As were last year's indemnity loss ratios
  - Projected medical loss ratios are 55.6% and 61.7%
    - Not quite as far apart as last year's 63.3% and 71.7%
    - Still unacceptably far apart to base the entire indication on
    - Appears to be driven by large losses (or lack thereof)
- **I recommend using more years to project the medical loss ratio**
  - **Last year was too high, this year is probably too low**

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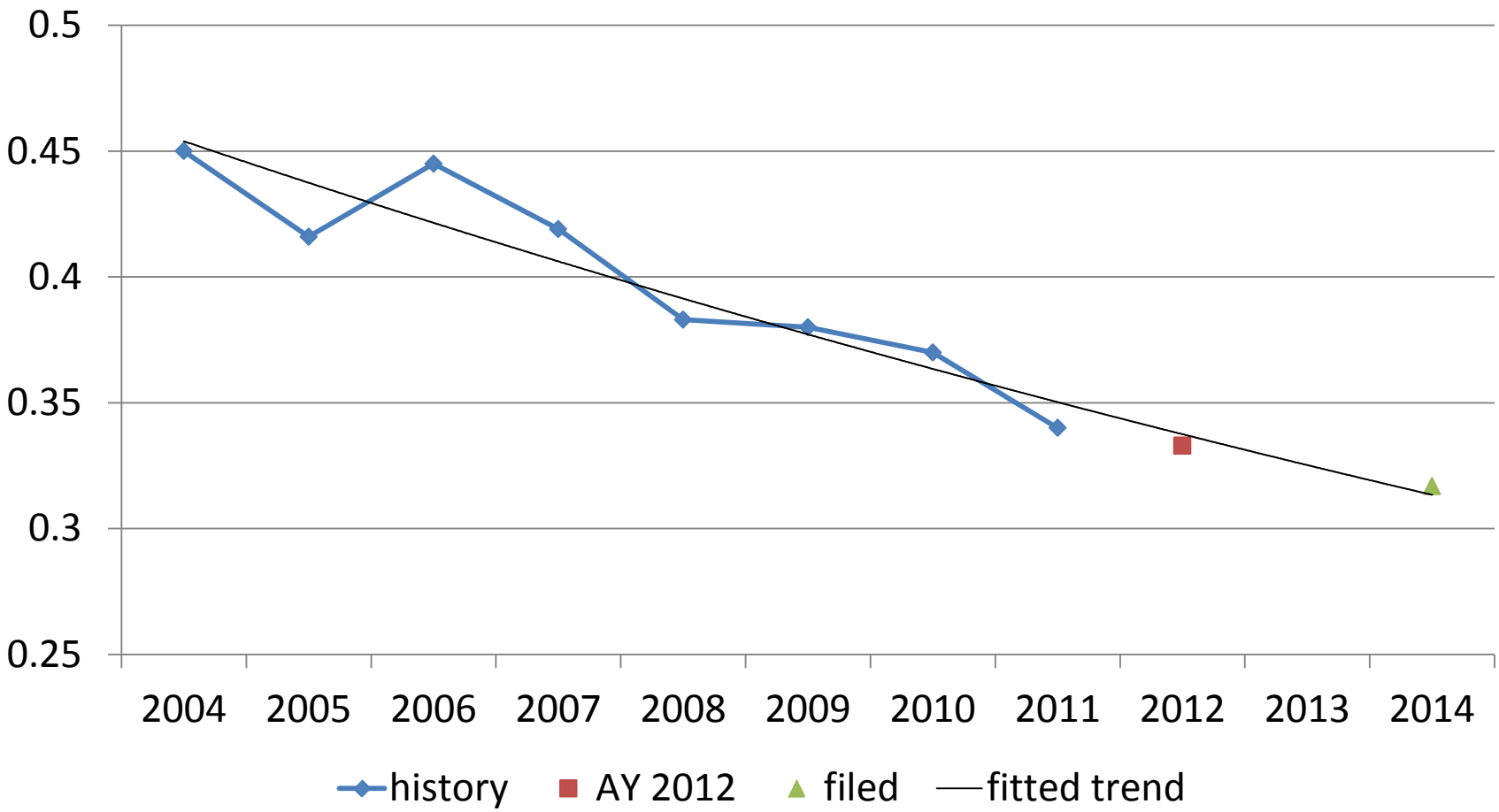
Loss Ratio Trends

- Indemnity on-level loss ratios show steady decline a little over 3.5%
  - Policy Year 2010 is a little above the trend line while Policy Year 2011 is just below, and Accident Year 2012 is right in line with the trend
  - Projected loss ratio for the 3/1/14 PY is right on the trend line
  - NCCI's selected projection at -3.0% is reasonable

Graph 1

Indemnity Loss Ratio Trend



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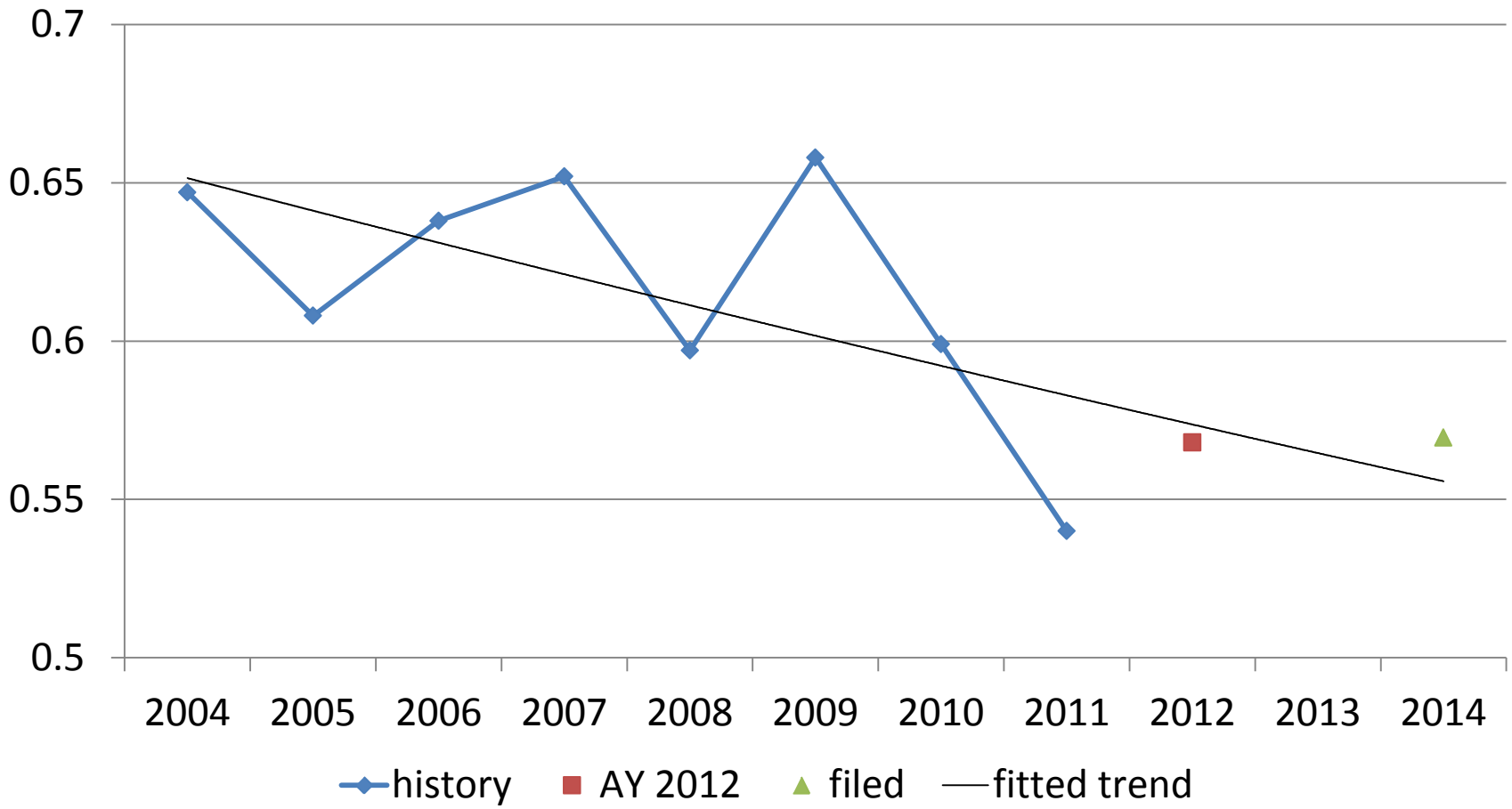
Loss Ratio Trends

- Medical on-level loss ratios show considerable volatility and *no* positive trend since the 2004 (and subsequent) reforms
  - Including 2011, the 8-year trend since 2004 is -1.6%
  - Excluding 2011, the 7-year annual trend since 2004 is -0.5%
  - Given the volatility of the experience, NCCI's selection of 0.0% trend is reasonable

Graph 2

Medical Loss Ratio Trend



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Loss Ratio Trends

- Medical on-level loss ratios show considerable volatility since the 2004 (and subsequent) reforms
- 2011 appears extraordinarily good
  - Does giving it 50% weight repeat last year's mistake of over-weighting 2009, only in the opposite direction?
- Is there any additional information that might inform our decision?

Large Loss Experience: Paid+Case on Claims >$500,000

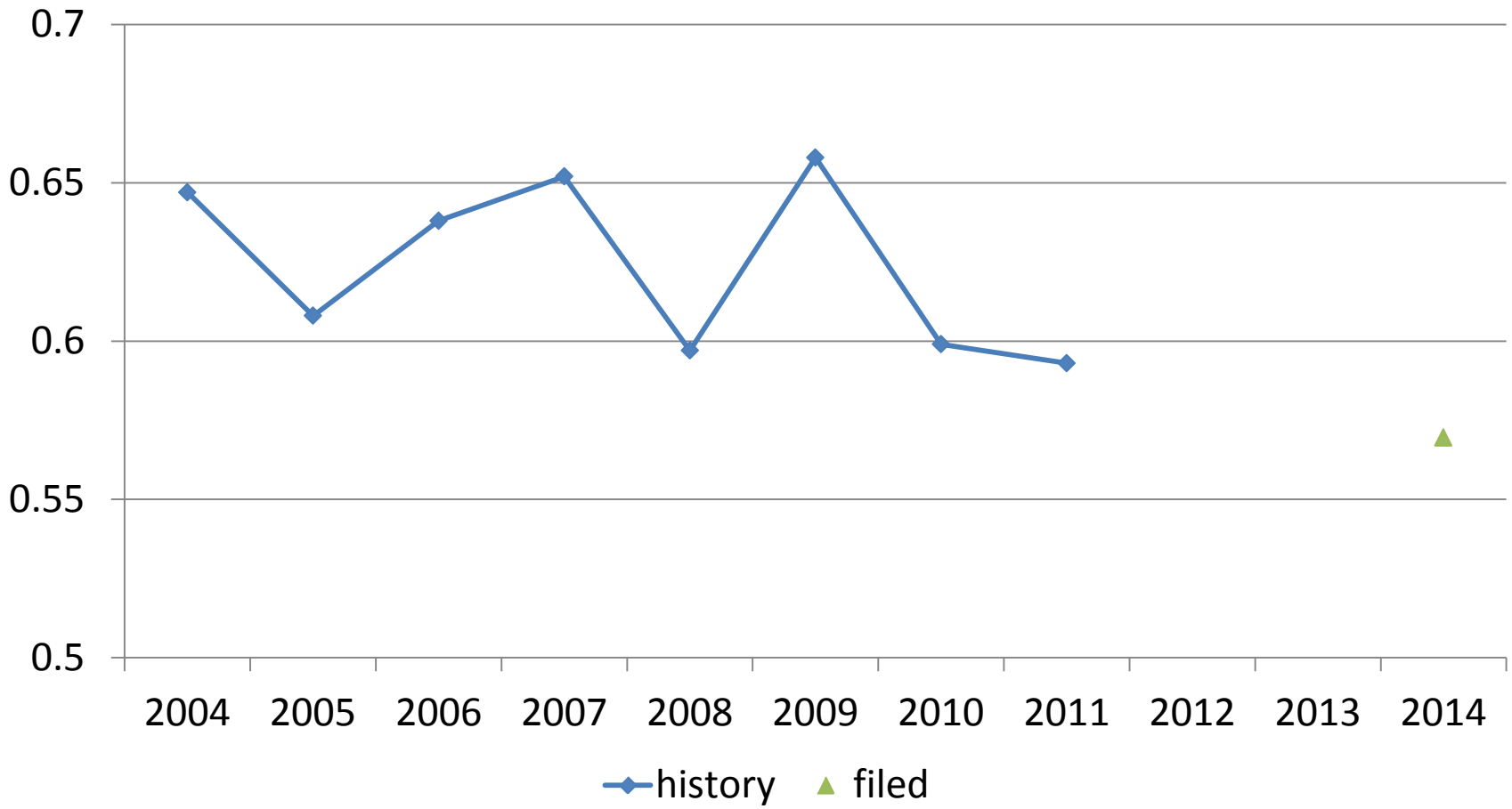
(indemnity+medical)

Policy Year	1st Report	2nd Report	3rd Report	4th Report
2008	30,331	37,514	37,196	39,708
2009	40,559	52,838	51,672	
2010	30,612	38,982		
2011	18,347			
Average	29,962		($thousands)	

- The difference in large losses between 2010 and 2011 at 1st report equates to between $17,000,000 and $18,000,000 in ultimate losses, or more than 5 loss ratio points
- I estimate that 2009 is high by about the same amount

Medical Loss Ratio Selection: 2011 adjusted for average large losses

Graph 3



NCCI 3/1/14 Filing

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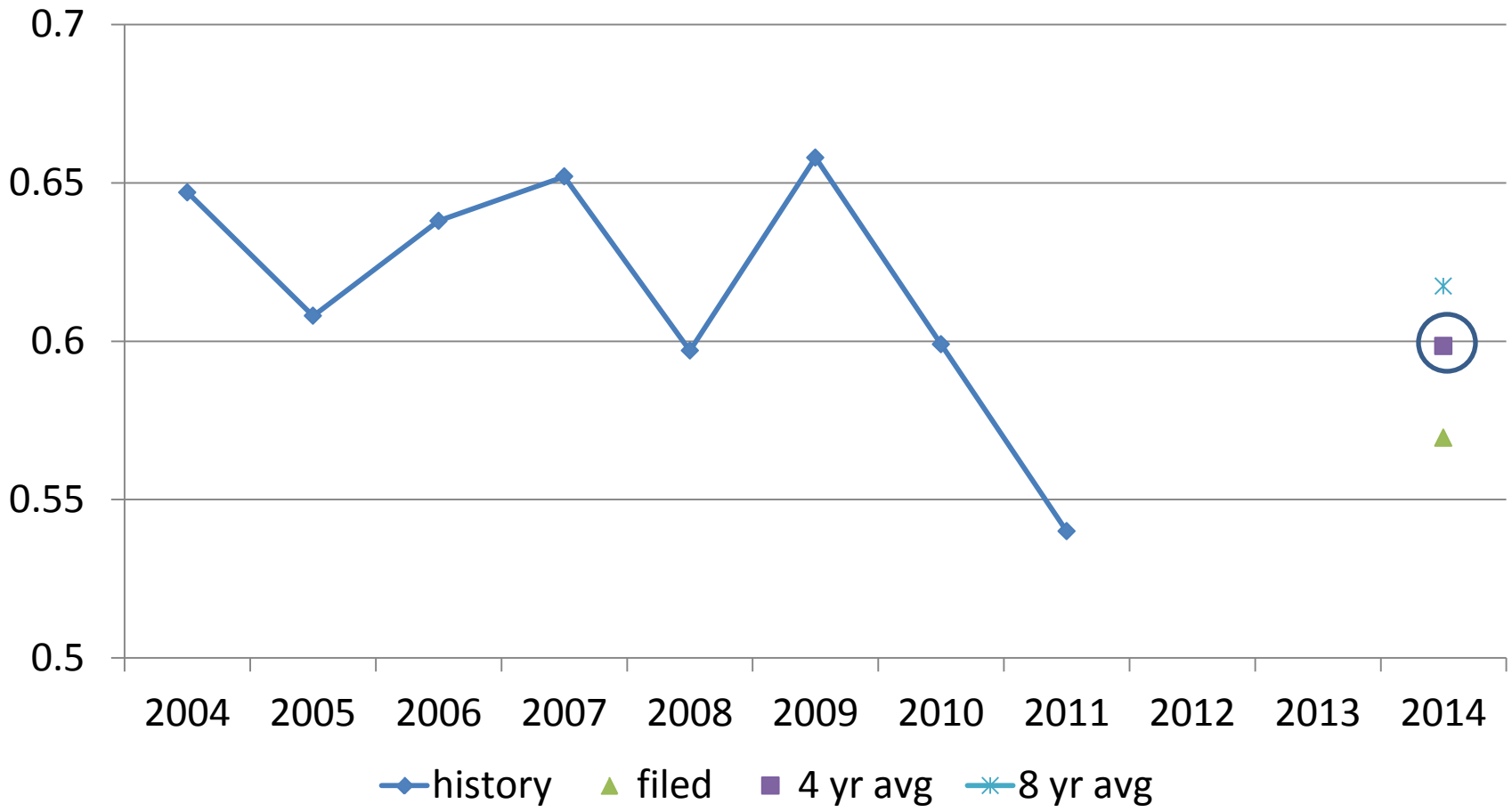
Medical Loss Ratio Projection

- **I recommend using the 4-year average rather than the 2-year average**
- Offsets 2011 (too low) with 2009 (too high)
- Projects 2014 medical loss ratio at 59.9% rather than the filed 57%.
- Revised indicated change = -5.4%
- Reasonable alternative: use 8 year average (61.7%) = -3.5%

Graph 4

Medical Loss Ratio Projection



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Provision for LAE

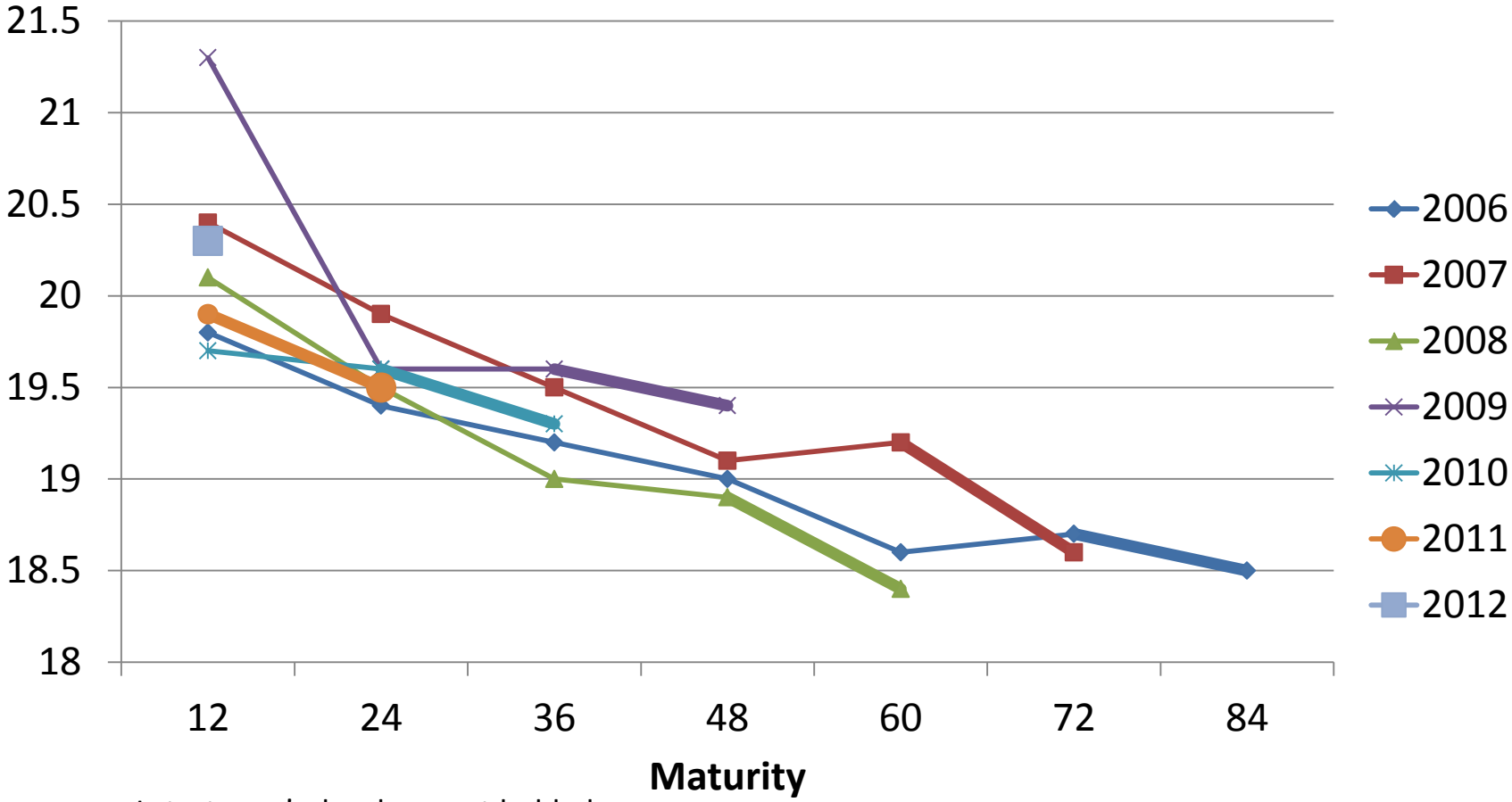
- NCCI's methodology averages the developed lae / developed loss ratios from the latest two years
- Fails to recognize that there is persistent downward development in these ratios
  - Results in a consistent overstatement of the needed LAE ratio
  - Both SAS and the Advisory Council actuaries have pointed this out on numerous occasions
  - Despite NCCI claim that methodology has changed, downward development persists

Provision for LAE

- **I recommend using a 4-year *developed* average (18.5%)**
  - Revised indicated change (revised LAE alone): -9.4%
  - Combined with higher medical loss ratio projections: -6.4% to -4.6%
- Alternative: average current Accident Year 2010 and 2011 ratios (19.4%)
  - Latest year (AY 2012) calculation is very highly leveraged (e.g. paid development factors of 4.99 for losses and 6.7 for DCCE)
  - Despite several 1st calculations over 20%, no year has remained that high after the 1st report
  - Gives some credence to NCCI claim that their calculation has changed
  - -8.7% with only the LAE adjustment; with higher medical loss ratio projections -5.7% to -3.8%

Graph 5

Accident Year "Developed" LAE Ratios Develop Downward over Time



Latest year's development bolded

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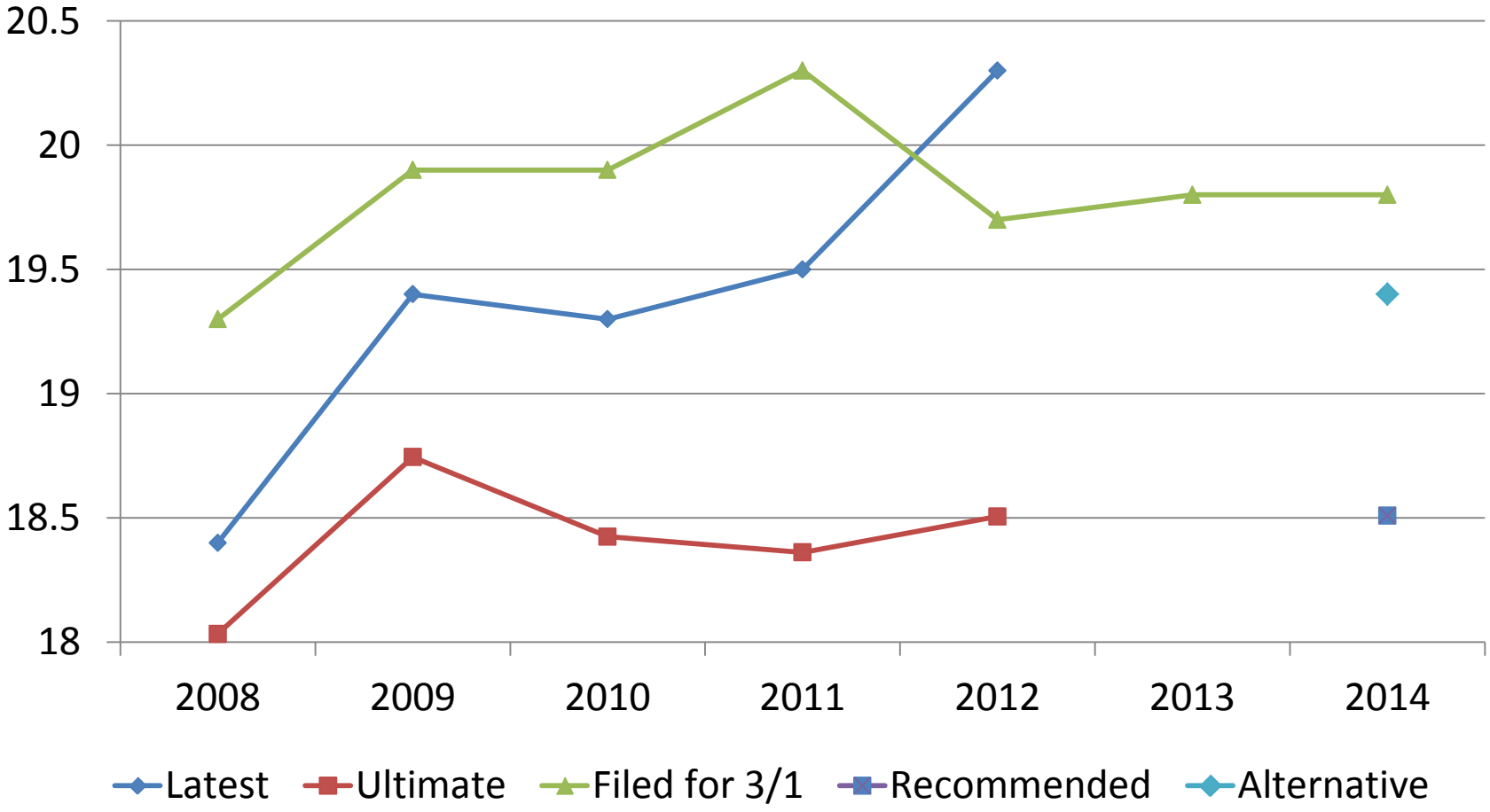
Graph 6

Provision for LAE



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Allocation to Classes

- Consistent with national methodology
- Continues to weight miscellaneous classes against statewide indication
  - As ordered by DC&I a few years ago
  - Miscellaneous is not a homogenous group
  - Driven by a few large self-rated classes

Summary

- In my opinion, a reasonable range of indications is from about -4% to -7%
  - Filed loss cost change (-8.6%) is outside a reasonable range of estimates
  - I would have selected something between -5% and -6%

Summary of Indications

	Years of Medical Experience		
	2 years	4 years	8 years
19.8% LAE Ratio	-8.4%	-5.4%	-3.5%
18.5% LAE Ratio	-9.4%	**-6.4%**	**-4.6%**
19.4% LAE Ratio	-8.7%	**-5.7%**	-3.8%

Law Only 7/1/14 Filing

- Reflects effect of SB 200
  - NCCI methodology is sound
- Overall -5.9% Based on estimates for
  - PPD award determination and multipliers
  - Fatal benefit maximum increase
- Other components not estimated, but anticipated effect is a decrease in costs
  - Important that NCCI not ignore trend changes (if any) as they emerge