



# Summary of Tennessee's Voluntary Market Loss Cost Filings

Law-Only Filing Proposed Effective November 1, 2011  
and  
Experience Filing Proposed Effective March 1, 2012

Worker's Compensation Advisory Council  
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# Law-Only Filing Proposed Effective November 1, 2011

- Proposed increase of **6.3%** to loss costs that became effective March 1, 2011
- Reflects the combined impact of changes and updates to the medical fee schedule since 2009
  - Aug 26, 2009 Changes to the Fee Schedule (+2.1%)
  - Jan 1, 2010 Update to the Fee Schedule (+1.3%)
  - Jan 1, 2011 Update to the Fee Schedule (+2.8%)

# Changes to the Medical Fee Schedule Effective August 26, 2009

<b>Component</b>	<b>Overall Impact</b>
Change in Conversion Factor (CF) for Professional Services	+2.2%
Implementation of Fee Schedule for Durable Medical Equipment (DME) and Supplies	-0.1%
<b>Total Impact</b>	<b>+2.1%</b>

# Fee Schedule for Professional Services

Maximum allowable reimbursement (MAR)

$$= \{ (\text{Work RVU} \times \text{Work GPCI}) \\ + (\text{PE Transitional RVU} \times \text{PE GPCI}) \\ + (\text{MP RVU} \times \text{MP GPCI}) \} \times \text{TN Conversion Factor}$$

- RVU = Relative Value Unit for Physicians
- GPCI = Geographic Practice Cost Index
- PE = Practice Expense
- MP = Medical Malpractice Insurance

# Change in Conversion Factor for Professional Services

Impact = +2.2%

- Medicare Unit Conversion Factor (CF)
  - 2008: \$38.0870
  - 2009: \$36.0666
- Tennessee Conversion Factor
  - Before 8/26/09, based on a percent of the Medicare Unit CF currently in effect
  - After 8/26/09, based on a percent of the Medicare Unit CF in effect in 2008

# Fee Schedule for DME and Supplies

Impact = -0.1%

- Durable Medical Equipment (DME) and Supplies
  - Before 8/26/09:
    - Reimbursed at the lower of \$1,000 and 115% of manufacturer's invoice
  - After 8/26/09:
    - 100% of Medicare Durable Medical Equipment Prosthetics/Orthotics & Supplies (DMEPOS) Fee Schedule

# 2010 and 2011 Annual Updates to Medical Fee Schedule

- Physician Fee Schedule
  - Medicare Resource-Based Relative Value Scale (RBRVS) update to RVUs
- Hospital Outpatient and Ambulatory Surgical Center (ASC)
  - Medicare Hospital Outpatient Prospective Payment System (OPPS) update to payment rates
- DMEPOS
  - Medicare DMEPOS update to payment rates

# 2010 and 2011 Annual Updates to Medical Fee Schedule

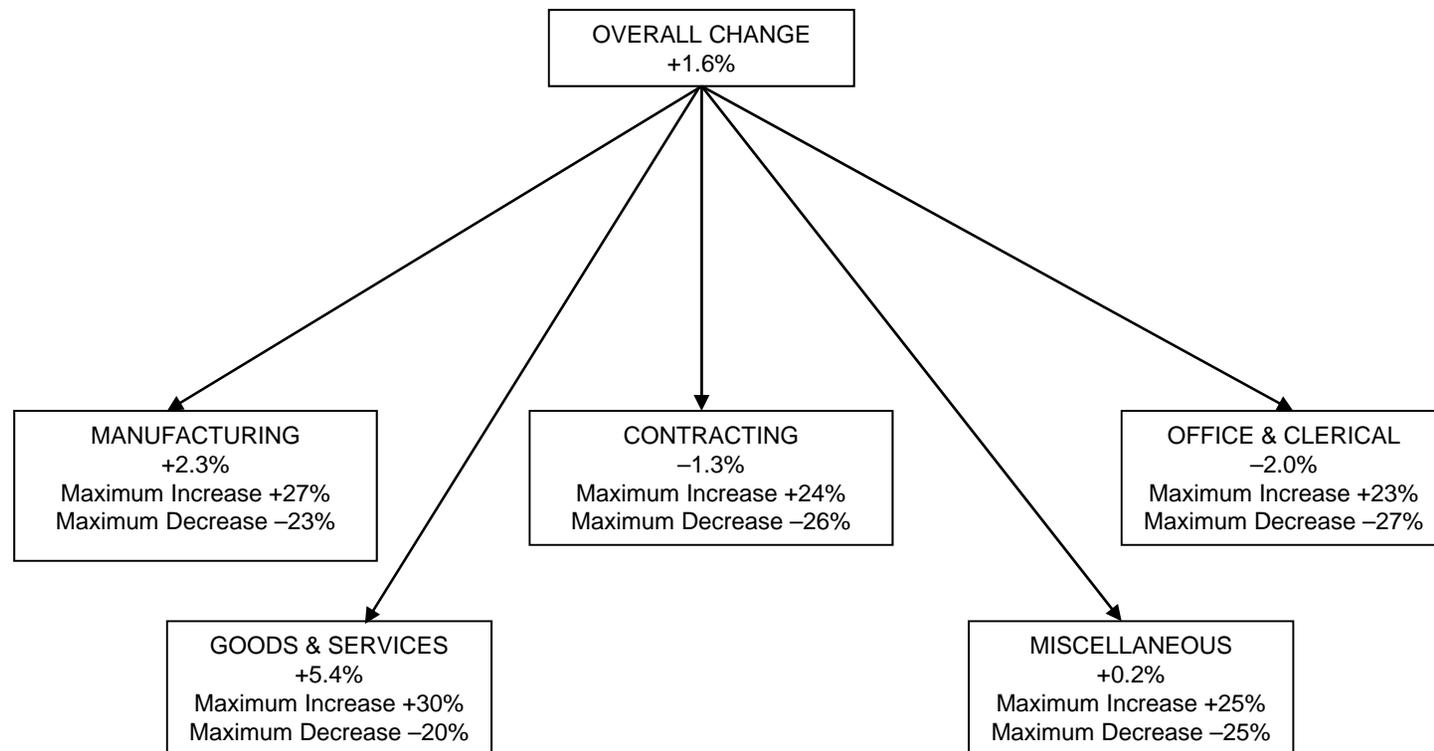
Component	2010 Overall Impact	2011 Overall Impact
Physician Fees	+1.0%	+2.5%
Hospital Outpatient & ASC	+0.3%	+0.3%
DMEPOS	0.0%*	0.0%*
<b>Total</b>	<b>+1.3%</b>	<b>+2.8%</b>

\*Impact on overall WC costs is less than 0.1%

# Summary by Component Effective March 1, 2012

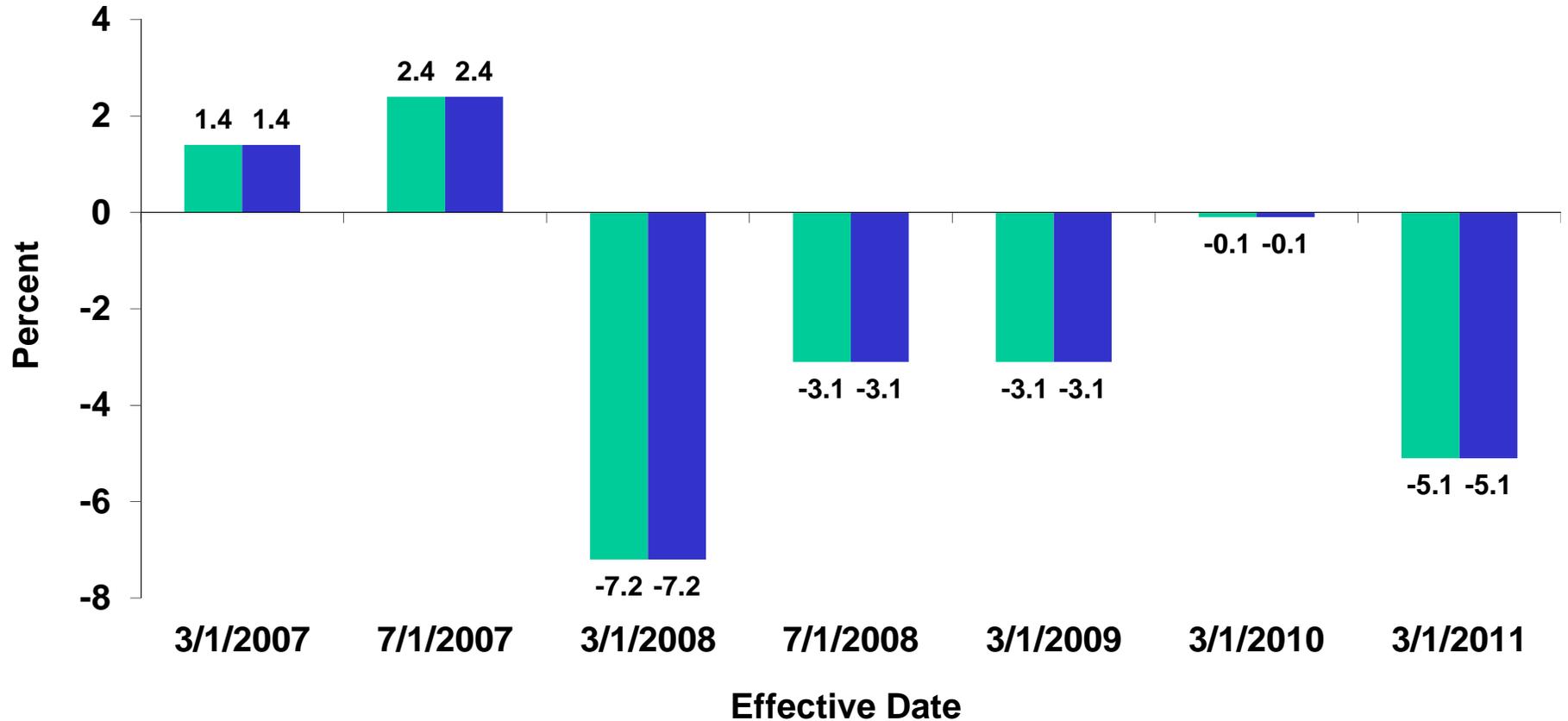
<b>Component</b>	<b>Percent Impact</b>
Experience	+1.1%
Development	-0.7%
Trend	+1.3%
Benefits	+0.4%
Loss Adj. Expense (LAE)	-0.5%
Overall Indication	+1.6%

# Tennessee March 1, 2012 Filing Average Changes by Industry Group



Source: Tennessee Loss Cost Filing, Proposed Effective 3/1/2012

# Tennessee's Filing Activity Voluntary Loss Cost Changes

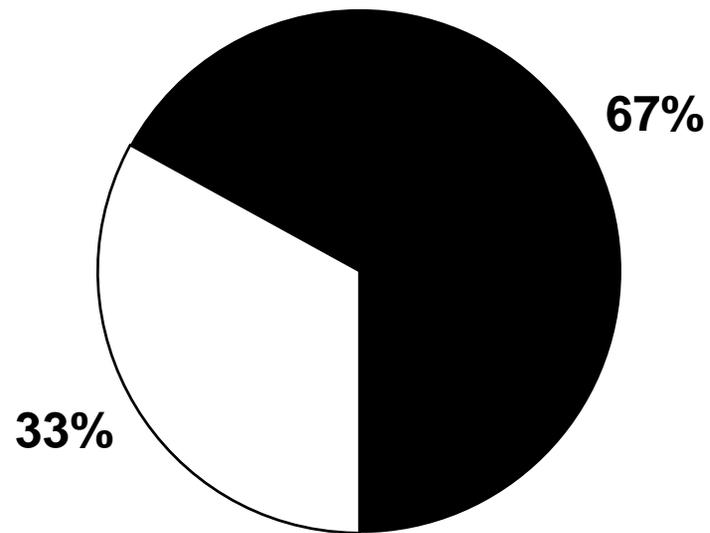


■ Filed ■ Approved

# Methodology for Indication

- Experience Period: Latest 2 Policy Years (No Change)
- Loss Methodology: Paid + Case (No Change)
- Loss Development: 5 Year Average (No Change)
- Tail Factor
  - Indemnity: 1.005 (1.007 Last Year)
  - Medical: 1.032 (1.042 Last Year)
- Trend
  - Indemnity: 0.970 (No Change)
  - Medical: 1.010 (1.005 Last Year)
- Loss Adjustment Expense: 19.7% (20.3 % Last Year)

# Tennessee's Distribution of Benefits



□ Indemnity   ■ Medical

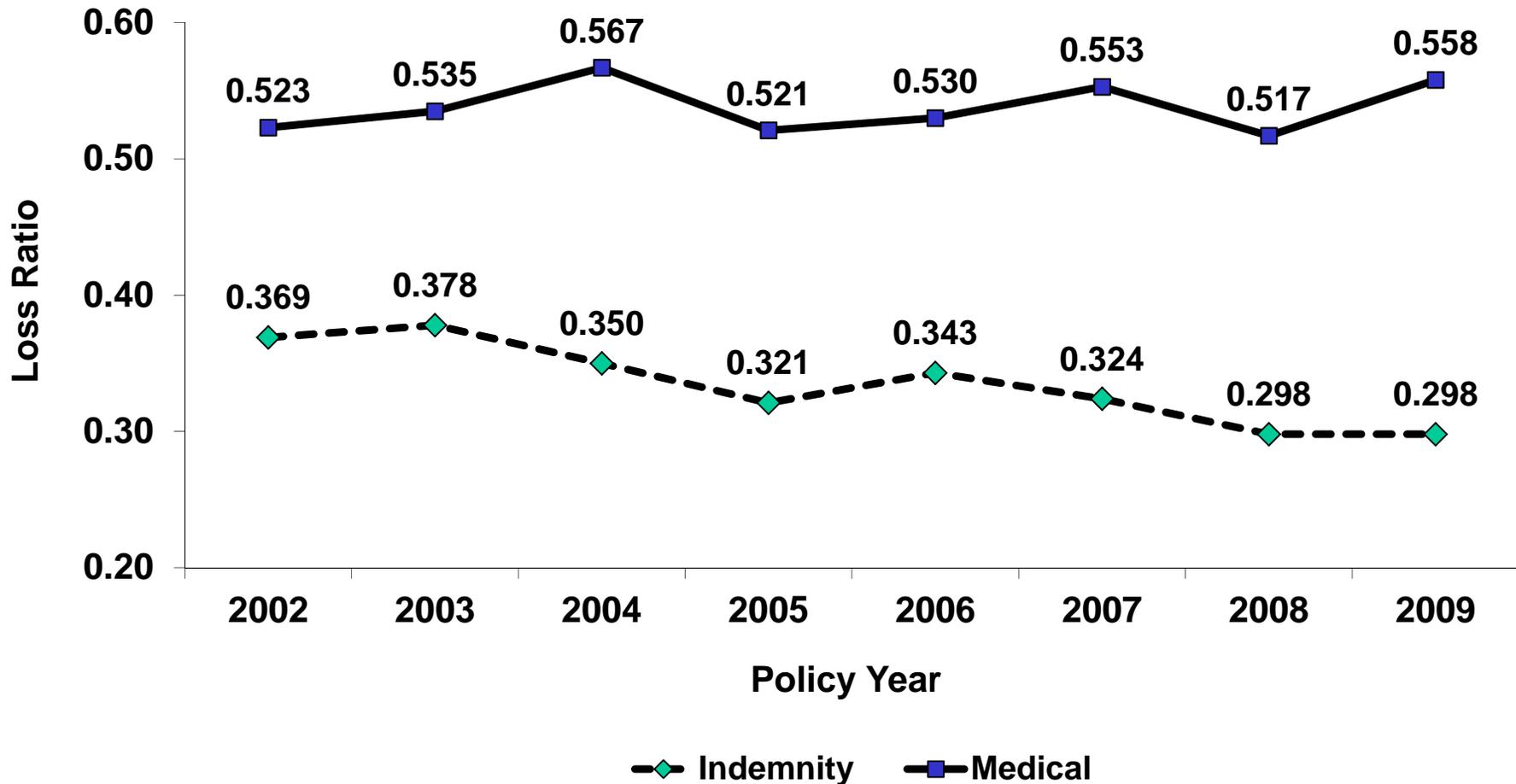
Based on NCCI Financial Call Data for Policy Years 2008 and 2009, projected to 7/1/2011.

# Tennessee's Tail Factor

	3/1/2012	3/1/2011	% Change
Indemnity	1.005	1.007	-0.2%
Medical	1.032	1.042	-1.0%

- Accounts for loss development after a 19<sup>th</sup> Report
- Calculated as the average of the latest 5 tail factors

# Tennessee Indemnity and Medical Loss Ratios



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

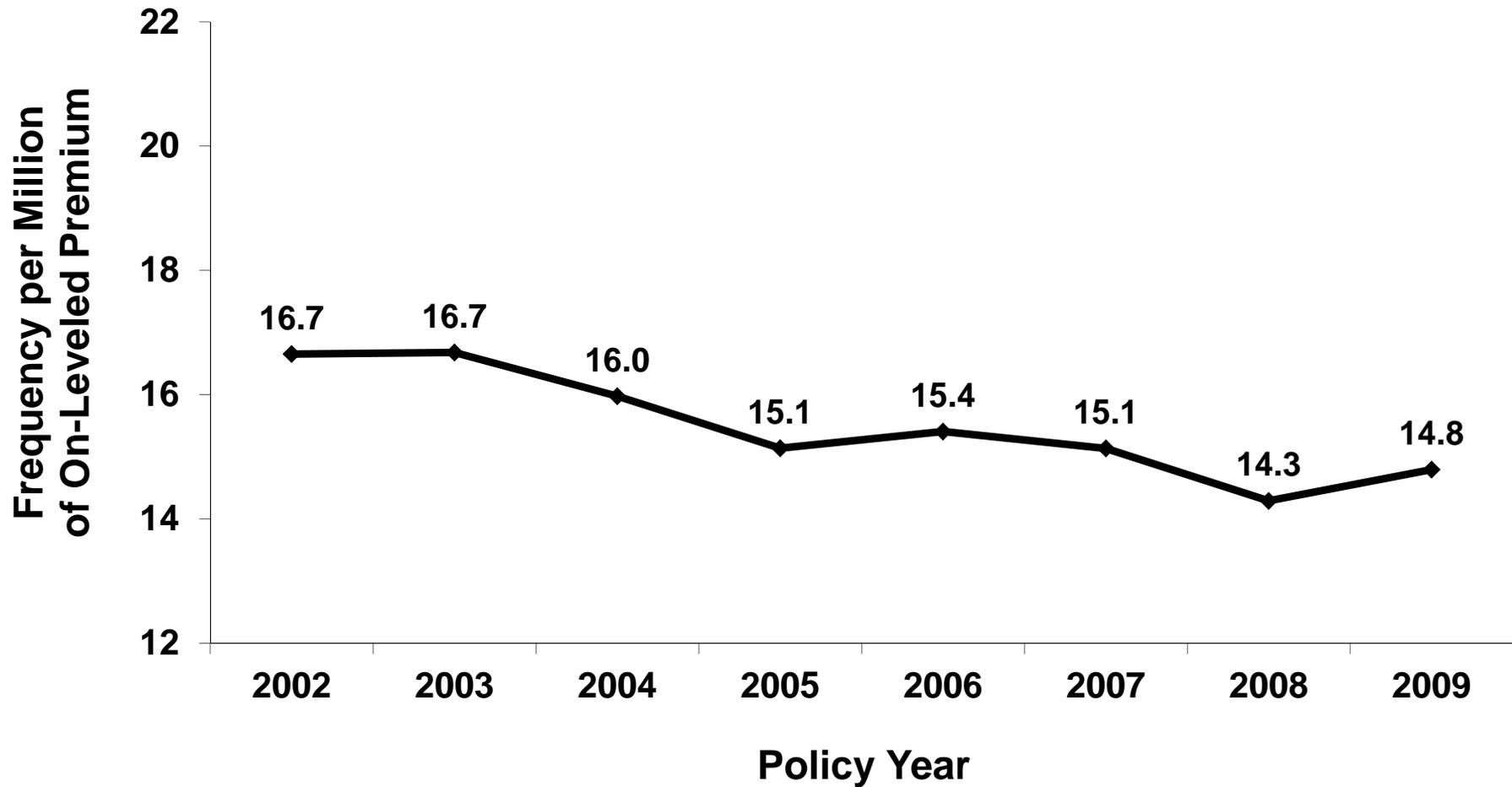
# Trend

In addition to reviewing the observed patterns in the aggregate loss ratios, an analysis of the frequency and severity components of the loss ratio provides a clearer picture of the underlying drivers

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

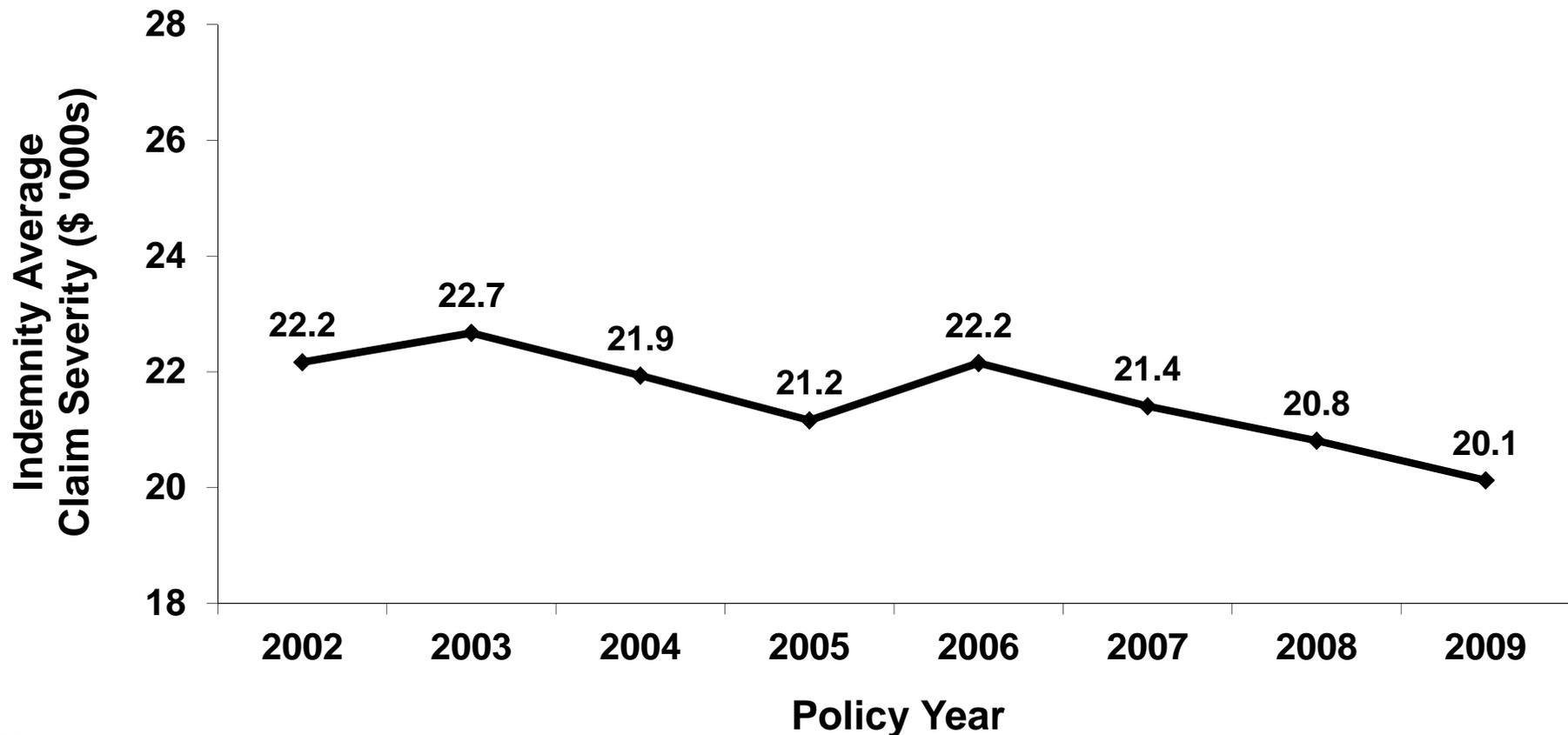
$$\frac{\text{Losses}}{\text{Premium}} = \left[ \frac{\text{Number of Claims}}{\text{Premium}} \right] \times \left[ \frac{\text{Losses}}{\text{Number of Claims}} \right]$$

# Tennessee's Claim Frequency



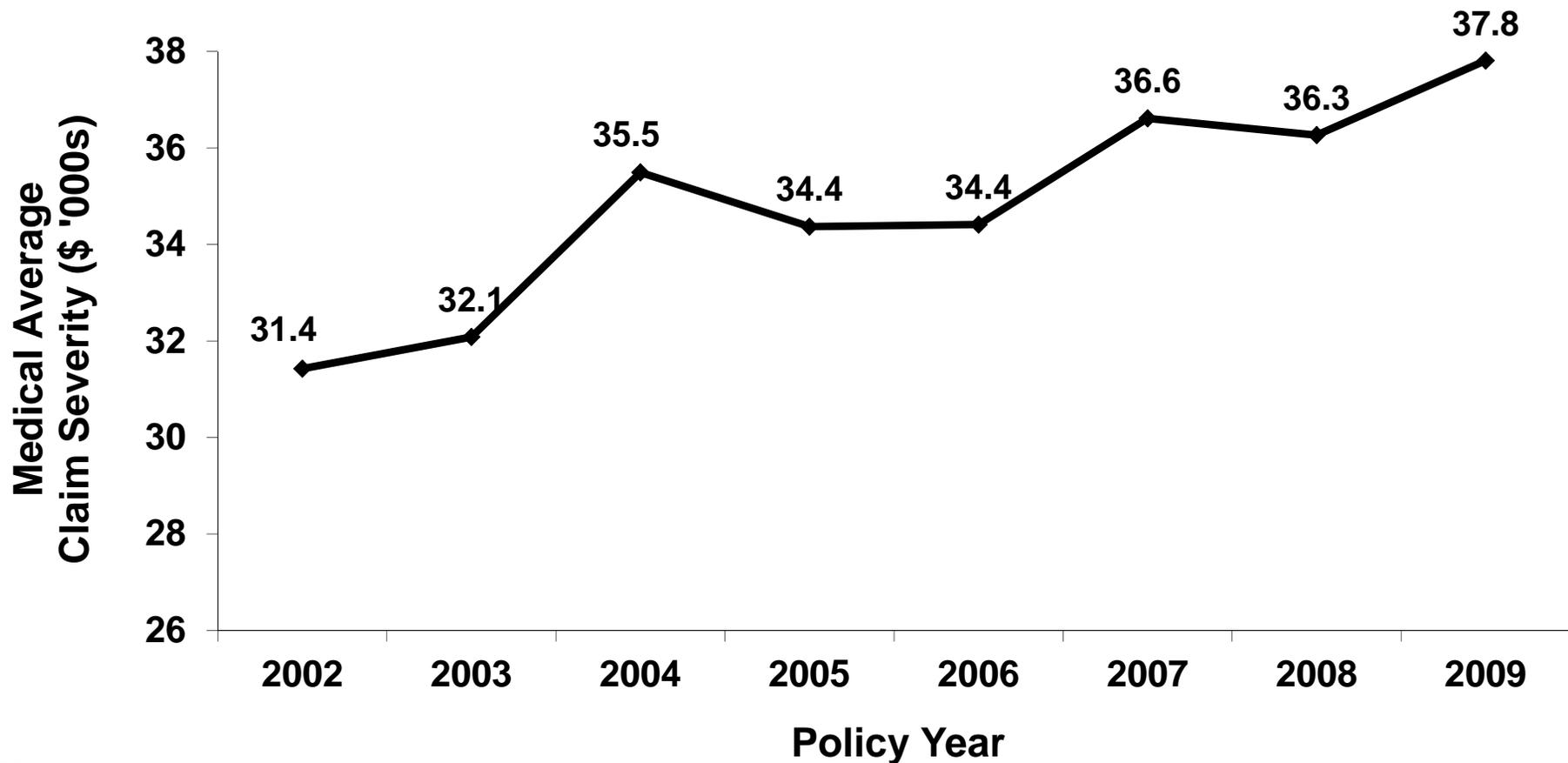
Based on NCCI's financial data.  
Frequency of lost-time claims.

# Tennessee's 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's 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's Selected Trends

	Current	Proposed
Indemnity Loss Ratio	-3.0%	-3.0%
Medical Loss Ratio	+0.5%	+1.0%

# Tennessee's LAE

## Measured as a Percent of Losses

	Current	<i>Indicated</i>	Proposed
DCCE	12.5%	<i>12.5%</i>	12.2%
AOE	7.8%	<i>7.5%</i>	7.5%
LAE	20.3%	<i>20.0%</i>	19.7%

- The indicated AOE provision using NCCI's standard methodology has decreased.
- NCCI's standard method indicates a DCCE provision of 12.5% in Tennessee
  - Proposed provision (12.2%) reflects the countrywide average

Thank You!