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October 9, 2012

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 – Voluntary Loss Costs and Rating Values Filing proposed to be effective March 1, 2013

Dear Commissioner McPeak:

On August 10, 2012, the National Council on Compensation Insurance (NCCI) submitted to you its annual Voluntary Loss Costs and Rating Values Filing, with a proposed effective date of March 1, 2013. The NCCI proposed an overall increase of 2.3%. While the change in loss costs varies depending on the employer's classification, the average change in the five industry groups is: Manufacturing +3.4%; Contracting +1.5%; Office & Clerical -0.5%; Goods & Services +2.2%; and Miscellaneous +3.4%. Following receipt of the filing from your office, copies of the filing were distributed to members of the Advisory Council for review.

The Advisory Council met on Monday, October 1, 2012 to consider the filing as required by *Tennessee Code Annotated* §50-6-402(b). After initial presentation of the filing by NCCI actuary Ms. Karen Ayres, the Advisory Council received comments from its consulting actuary, Ms. Mary Jean King of By the Numbers Actuarial Consultants, Inc. ("BYNAC") and from the consulting actuary to the Department of Commerce and Insurance, Ms. Mary Frances Miller of Select Actuarial Services ("SAS"),

Ms. Ayres noted that the proposed overall aggregate increase of 2.3% loss cost rate filing is comprised of an increase in four key components: Experience and Trend (+1.4%); Benefits (+0.1%); Offset for Change in EL Factors (+0.7%); and Loss-based Expenses (+0.1%). Ms. Ayres described to the Council the methodology that was utilized by NCCI.

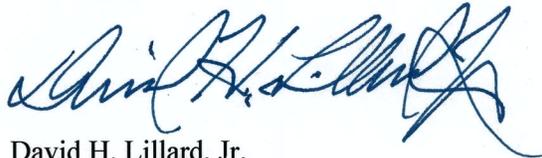
Ms. King of BYNAC stated the NCCI proposed increase of 2.3% for the Tennessee voluntary workers' compensation market was higher and outside of the range she had calculated. She suggested a 19.0% Loss Adjustment Expense ("LAE") figure was more appropriate than the 19.8% recommended by NCCI as LAE ratios have been decreasing over time. There is a 19.4% average if a five year period is evaluated, but if keeping consistent with the two years used by NCCI, a 19.0% LAE would be the appropriate figure. She recommended an overall evaluation of a 1.6% increase instead of the 2.3% increase recommended by NCCI. Additionally, she requested NCCI provide further and more detailed information in the future; although everything NCCI had used was provided, she suggested the need for more extensive documentation over a longer period of time.

Ms. Miller explained that she agreed the proposed increase of 2.3% was too high given the LAE as well as the fact that no trend had been established on the medical side since the reform of 2004. Her recommendation was initially for a negative to a 0% change, but she was comfortable with an overall indication of 1.7% using a 19.1% LAE. Additionally, she suggested that the use of a five years history would be a more accurate trend predictor than the two year history that NCCI has used for the past two years. She indicated that this seemed to be an unannounced change in the underlying methodology used for decades.

After consideration of the presentations by the three actuaries, as well as the comments and discussion among the members, the voting members of the Advisory Council on Workers' Compensation unanimously recommended adopting BYNAC's recommendation, thereby using the medical factor of 0.5% and the LAE of 19.0% resulting in a final recommendation from the Council of an increase of 1.6% instead of the 2.3% from the NCCI filing.

This written comment and recommendation fulfills the statutory responsibility of the Advisory Council on Workers' Compensation concerning the NCCI law only filing to be effective on March 1, 2013. If you have any questions concerning this recommendation or if you require any additional information, please do not hesitate to contact me.

Sincerely yours,



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