

STATE OF TENNESSEE



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Advisory Council on Workers' Compensation

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October 6, 2016

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

Re: NCCI – Law Only Workers' Compensation Voluntary Loss Cost Filing

Dear Commissioner McPeak:

On August 22, 2016, the National Council on Compensation Insurance (NCCI) submitted to you its Law Only Filing, with a proposed effective date of March 1, 2017. The NCCI proposed an overall decrease of 12.8%. While the change in loss costs varies depending on the employer's classification, the average change in the five industry groups is: Manufacturing, -11.7%; Contracting, -13.8%; Office and Clerical, -13.7%; Goods and Services, -12.5%; and Miscellaneous, -13.0%. 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 Tuesday, October 4, 2016, to consider the filing as required by Tennessee Code Annotated, § 50-6-402(b). The Advisory Council received comments from its consulting actuary, Ms. Mary Jean King of *By the Numbers Actuarial Consulting, Inc.* (BYNAC) and Mr. Chris Burkhalter of *Bickerstaff, Whatley, Ryan & Burkhalter, Inc.* (BWRB), the consulting actuary to the Department of Commerce & Insurance. They were followed by the response and comments by NCCI Director and Actuary, Ms. Ann Marie Smith. Previously, on August 23, 2016, Ms. Smith had presented a detailed overview of the filing at an informational meeting of the Advisory Council.

Ms. King of BYNAC stated the NCCI proposed decrease of 12.8% for the Tennessee voluntary workers' compensation market had been reasonably calculated in accordance with actuarial standards of practice considering the two year period relied upon NCCI in reaching its calculation of a -12.8% decrease. In contrast, Ms. King indicated BYNAC reviewed paid as well as paid + case development and experience for policy years 2010 through 2012 in addition to the policy years underlying the filing of 2013 and 2014 in order to test the assumptions made by NCCI in selecting the data and development methods for review. She noted NCCI's indication of a dramatic improvement in the 2013 year experience since the March 1, 2016 filing and stated that in her opinion the large swing supports the need for a longer experience

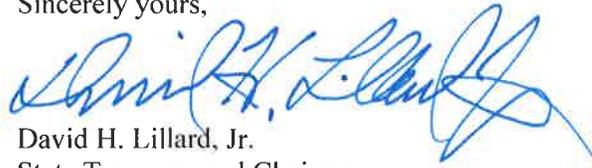
period for the filing indication. Ms. King said the BYNAC experience indication is -9.3% compared to the NCCI experience indication of -12.8%.

Mr. Burkhalter of BWRB also spoke to the Advisory Council concerning its review of the filing and stated that the proposed decrease of 12.8% was actuarially sound based on anticipated market conditions considering the two year period used by NCCI in its calculations. Mr. Burkhalter pointed out that BWRB had used a five year average in arriving at its own overall indication of -8.7%.

After consideration of the presentations by the three actuaries, the voting members of the Advisory Council unanimously recommended adopting NCCI's filing, which is to become effective for the voluntary market on March 1, 2017.

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 March 1, 2017. Please contact me if you have any questions or need more information.

Sincerely yours,

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

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