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DEPARTMENT OF COMMERCE AND INSURANCE
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BILL HASLAM
GOVERNOR

JULIE MIX McPEAK
COMMISSIONER

January 13, 2016

Honorable David Lillard, Jr., Chair
Tennessee Advisory Council on Workers' Compensation
Treasurer, State of Tennessee
State Capitol, First Floor
Nashville, TN 37243-0225

Dear Chairman Lillard:

Tenn. Code Ann. §50-6-402(d) requires that the Commissioner of Commerce and Insurance report to the Workers' Compensation Advisory Council regarding all workers' compensation filings made by the designated rate service organization and received by this Department.

Attached to this letter, please find a summary of all NCCI filings made in Tennessee for the period October 1, 2015 through December 31, 2015. This Department appreciates the role that the Workers' Compensation Advisory Council provides in the area of workers' compensation regulation.

Should you or any member have questions or comments concerning this report, please do not hesitate in contacting me or a member of my staff.

Sincerely,

Julie Mix McPeak

Julie Mix McPeak
Commissioner

JMM/ms

NCCI Filing Activity Report:

Summary as of December 31, 2015

(includes filings received October 1, 2015 and later)

1. B-1431 - Revisions to Basic Manual Classifications and Appendix E – Classifications by Hazard Group

Filed: October 28, 2015

Proposed Effective Date: March 1, 2017

Status: Approved November 19, 2015

Summary of Filing

This filing revises, establishes and eliminates specified:

- Classifications in NCCI's ***Basic Manual for Workers Compensation and Employers Liability Insurance*** (Basic Manual)
- Statistical codes in NCCI's ***Statistical Plan for Workers Compensation and Employers Liability*** (Statistical Plan)
- Information in NCCI's ***Assigned Carrier Performance Standards***

NCCI has identified both state special and national classifications that have low actuarial credibility due to no or limited payroll being reported through unit statistical reporting. In these situations, state special codes are being eliminated and replaced by national codes, or certain national codes are being eliminated and are being replaced by compatible national codes.

Background

"The workers compensation classification system groups employers with similar operations by classification so that loss costs and rates may be calculated to reflect overall employee exposure to injury. NCCI periodically reviews individual classifications, on a statewide and national basis, to determine which, if any, should be considered for elimination because of low credibility. Credibility is the degree of reliance assigned to a certain body of data, expressed as a weight ranging from 0 to 1. NCCI applies credibility in its classification ratemaking methodology. A classification with low credibility has limited premium volume; therefore, it is too small to develop meaningful data for ratemaking purposes even with the use of national experience in the ratemaking process. Because of the limited premium volume, a large loss in a classification with low credibility adversely affects the volatility of the loss cost or rate for the classification. Classifications with a high degree of credibility are more stable from a ratemaking perspective.

NCCI reviewed the credibility for all classifications based on the latest policy periods used for ratemaking in NCCI's 2014 loss cost and rate filings cycle. As a result of this review, NCCI identified a number of national and state special classifications that have national and state credibility of 25% or less. NCCI considers these classifications to have low credibility.

When determining whether a classification with low credibility should be eliminated and reassigned to another classification with similar operations, NCCI considered:

- The amount of payroll in the classifications
- The swing limits used for classification ratemaking within a particular state (The swing limit constrains the percentage change, up or down, that the loss cost or rate for a classification may vary from the existing loss cost or rate for that classification. The purpose of the swing limit is to avoid extreme fluctuations in loss costs or rates from year to year).

Low credibility classifications are recommended for elimination because there are very few employers, if any, assigned to the code. *In all cases*, alternate codes in the classification system contemplate the same or similar exposure as the classification being eliminated. (emphasis added)

Classifications that are proposed for elimination are not unique to a single industry group. These classifications represent varied groups including, but not limited to, construction, retail, farming, and manufacturing. The decline in payroll and credibility in these classifications may be due to a number of economic factors. For example, in the manufacturing industry, some products may have simply diminished in popularity, technology has changed over the years, or production has moved overseas, resulting in classifications that are unstable for ratemaking purposes.

Eliminated classifications may have a small amount of remaining exposure, or the possibility of generating exposure in the future. In anticipating these situations, NCCI has assigned alternate classifications to ensure the proper transition from the eliminated class code to an existing code. This is referred to as code mapping.

Below are guidelines used by NCCI when determining code mapping:

- The proposed classification to be eliminated has an identical match to an existing classification. The only difference is the code number under which the data will be reported.
- In cases where the proposed classification to be eliminated does not map directly to an existing classification, NCCI has identified an alternate classification that most closely describes the business.
- Some eliminated classifications will map to multiple classifications. In these instances, there is not a single classification that best describes the

business. Multiple classifications must be considered, depending on the operations of the employer.

Classifications to Be Reformatted
Certain national classifications that must be reformatted to simplify the display of the classifications in Part Two—Classifications of NCCI's ***Basic Manual*** for improved online search results. Some wording will be revised to maintain the proper context of the information when displayed on a separate web page. Reformatting will not result in the reclassification of any employers."[1]

National Classifications to Be Reformatted
6306 Sewer Construction – All Operations & Drivers
6319 Steam Mains or Connections Construction & Drivers
3365 Welding or Cutting NOC & Drivers
9156 Dinner Theater NOC – Players
9154 Dinner Theater NOC – All Other Employees
5215 Military Reservation – Construction – Concrete Construction – Not Monolithic Concrete Building Construction
5069 Military Reservation – Construction – Iron or Steel Erection – Not Over Two Stories in Height
5057 Oil Rig or Derrick Erecting or Dismantling – All Operations – Metal
5403 Oil Rig or Derrick Erecting or Dismantling – All Operations - Wood
7855 Railroad Construction – Laying or Relaying of Tracks or Maintenance of Way By Contractor – No Work on Elevated Railroads & Drivers
5057 Scaffolding – Concrete or Cement Distributing Towers – Installation, Repair or Removal
5057 Scaffolding – Scaffold Installation, Repair or Removal – Built Up From the Ground – Not Suspended or Swinging Type
5403 Scaffolding – Sidewalk Bridges Not Over One Story in Height
7228 Scaffolding – Delivery of Materials Only – Local Hauling Only – Not Installation, Repair or Removal – All Employees & Drivers
7229 Scaffolding – Delivery of Materials Only – Long Distance Hauling – No

Installation, Repair or Removal – All Employees & Drivers
9534 Scaffolding – Outrigger Scaffold Installation, Repair or Removal & Drivers
9534 Scaffolding – Suspended or Swinging Scaffold Installation, Repair or Removal & Drivers
7309F Stevedoring NOC
7317F Stevedoring – By Hand or Hand Trucks Exclusively
7327F Stevedoring – Containerized Freight & Drivers
8709F Stevedoring – Talliers and Checking Clerks Engaged in Connection with Stevedore Work – Coverage Under U.S. Act
8719 Stevedoring – Talliers and Checking Clerks Engaged in Connection with Stevedore Work – Coverage Under State Act Only
7350F Freight Handling – Packing, Handling, or Shipping Explosives or Ammunition – Under Contract – Coverage Under U.S. Act
7350F Freight Handling NOC – Coverage Under U.S. Act
7360 Freight Handling – Packing, Handling, or Shipping Explosives or Ammunition – Under Contract – Coverage Under State Act Only
7360 Freight Handling NOC – Coverage Under State Act Only

Classifications Being Eliminated	**National Replacement Codes**
1852 – Asbestos Goods Mfg. (National)	Multiple equivalent national classifications, depending on the method of manufacturing
2300 – Plush or Velvet Mfg. (National)	2501 – Cloth, Canvas, and Related Products Mfg. NOC
2386 – Lace Mfg. (National)	2501 – Cloth, Canvas, and Related Products Mfg. NOC
2942 – Crayon, Pencil, or Penholder Mfg. (National)	4432 – Crayon Mfg. or Pen Mfg. or Pencil Mfg. – Mechanical
4761 – Explosives or Ammunition Mfg. – Fireworks Mfg. & Drivers (State Special)	4771 – Explosives or Ammunition Mfg. – NOC

0761 – Non-Ratable Portion of Class Code Rate	0771 – Non-Ratable Portion of Class Code Rate
6260 – Tunneling –Pneumatic – All Operations (National)	6251 – Tunneling – All Operations
8105 – Store – Hide or Leather Dealer (National)	8018 – Store – Wholesale
8295 – Cotton Merchant or Cotton Storage	8103 – Cotton Merchant or Cotton Storage (Maintained as a State Special Classification)
0400 – Cotton Compressing & Drivers (National)	National Classification to be Maintained as a State Special Classification
2913 – Rattan, Willow, or Twisted Fiber Products Mfg. (National) 2913 - Willowware Mfg. (National)	National Classification to be Maintained as a State Special Classification

Impact

NCCI has acknowledged that some of these changes, such as moving specific operations from one classification to another, may have an impact on a particular employers' premium. Some of the changes may also have a loss cost impact.

2. RM -02-TN-2015 – Tennessee Reinsurance Mechanism, Quota Share

Filed: November 20, 2015

Proposed Effective Date: July 1, 2015

Status: Approved November 25, 2015

Summary of Filing

"In accordance with the Order issued September 29, 2015 by the Commissioner of the Tennessee Department of Commerce and Insurance (TDCI) and the contract for services related to the administration of the Tennessee Reinsurance Mechanism (TRM), NCCI [filed] the Tennessee Reinsurance Mechanism, Quota Share Reinsurance Agreement for the purpose of the prospective run-off of the insurance transactions and activities undertaken through the former Tennessee Aggregate Excess of Loss Reinsurance Mechanism (TAELRM) as part of the former Tennessee Workers Compensation Insurance Plan (TWCIP) that was in effect from January 1, 1998 through June 30, 2015.
This reinsurance agreement between the servicing carriers as ceding insurers, and former TWCIP/TAELRM participating companies as assuming reinsurers, is for the purpose of providing runoff reinsurance and related transactions for the TWCIP/TAELRM, which were

terminated and dissolved effective June 30, 2015. This Quota Share Reinsurance Agreement is between the servicing carrier and each of the reinsurers agreeing to be liable solely for its own pro rata share of the TRM losses and not for the pro rata shares of any other reinsurers, except as provided for in the reinsurance agreement.

Background

The Commissioner of the TDCI for the state of Tennessee terminated the TWCIP effective July 1, 2015. Reinsurance of TWCIP servicing carrier policies will be provided through the TRM, by the former TWCIP participating companies, in the form of quota share reinsurance. The reinsurance mechanism for the TWCIP, the TAELRM, has been converted to a quota share reinsurance mechanism similar to other NCCI-administered state assigned risk plans. Insurance companies participating in the TAELRM during the period from January 1, 1998 through June 30, 2015, are deemed participating companies in the quota share reinsurance mechanism, which is the TRM, effective July 1, 2015.

Proposal

These items [proposed] to establish the Tennessee Reinsurance Mechanism, Quota Share Reinsurance Agreement effective July 1, 2015 to equitably share the pro rata losses of the TRM as provided in the Quota Share Reinsurance Agreement.

Impact

No statewide premium impact is expected as a result of the changes proposed in this item."[2]

3. Item E-1404 – Establishment of a Methodology to Calculate Experience Rating Premium Eligibility Amounts

Filed: December 1, 2015

Proposed Effective Date: September 1, 2017

Status: Approved December 3, 2015

Purpose

"This item:

1. Establishes an indexing methodology for the calculation of experience rating state premium eligibility amounts and a process for continued annual updates.
2. Revises NCCI's ***Experience Rating Plan Manual for Workers Compensation and Employers Liability Insurance (Experience Rating Plan Manual)*** Rule 2-A-2—State Table of Subject Premium Eligibility Amounts, to reflect the current and up to three years of a state's premium eligibility amounts, as applicable.

Background

NCCI's Experience Rating Plan (Plan) is a component of the final cost of workers compensation. It provides a method for recognizing the differences among individual risks with respect to safety and loss prevention. It does this by comparing the experience of individual risks with the average risk in the same classification. The Plan uses a risk's past experience to project future losses and provides an incentive for loss reduction and workplace safety.

In accordance with NCCI's ***Experience Rating Plan Manual*** Rule 2-A-2, a risk qualifies for experience rating when its subject premium, developed in its experience period, meets or exceeds the minimum premium eligibility amount required by a state. These amounts are displayed in the State Table of Subject Premium Eligibility Amounts. Currently, a risk qualifies for experience rating if its subject premium within the most recent 24 months of its experience period equals or exceeds the amount shown in Column A. If a risk does not qualify according to the Column A amount and has more than 24 months of experience within its experience period, it must develop an average annual subject premium amount greater than or equal to the amount shown in Column B in order to qualify for experience rating.

NCCI research has shown that the current premium eligibility amounts are too low. In most states, the premium eligibility amounts have not increased for many years. As a result, the number of experience rated risks has steadily increased. Risks too small for credible experience rating have become eligible for the Plan simply as a result of payroll and premium growth due specifically to wage inflation over time.

To ensure that risks too small for credible experience rating are not eligible for the Plan, the experience rating premium eligibility amounts will be indexed to the change in a state's Average Weekly Wage (AWW). As payroll for the Plan is based on employee wages, the AWW is considered a reasonable benchmark to serve as an index for measuring changes in exposure and to account for wage inflation.

Proposed

This item establishes a methodology for NCCI to calculate and update the experience rating premium eligibility amounts. State-specific premium eligibility amounts will be calculated annually and indexed based on the year-to-year change in a state's AWW, as estimated by the US Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW). In the first calculation included in this item, the Column B amount currently in effect for a state is the starting point for the indexing calculation. The Column B amount is multiplied by the year-to-year change in AWW for a state. This intermediate value is then rounded to the nearest $250 and becomes the state's new proposed Column B premium eligibility amount. The Column A amount continues to be twice the Column B amount.

In subsequent annual calculations, the intermediate value from the prior calculation (before rounding) becomes the new base amount. This new base amount is then multiplied by the subsequent year-to-year change in a state's AWW. After this computation, the $250 rounding is then applied to determine the new premium eligibility amount for Column B. This process of indexing the prior year base amount will measure the annual change in a state's AWW in a consistent manner each year. Based on the result of the calculation, a state's premium eligibility amounts will either remain the same or increase in a given year. The amounts will not be allowed to decrease from one year to the next. NCCI's subsequent annual calculations of state premium eligibility amounts will be included in each state's loss cost/rate filing. An exhibit of the state's calculated amounts, as displayed in NCCI's ***Experience Rating Plan Manual*** Rule 2-A-2—State Table of Subject Premium Eligibility Amounts, will be included in the state's loss cost/rate filing, regardless of whether or not the amounts change from the prior year. In the event that no annual loss cost/rate filing is made in a state, NCCI will take into consideration the submission of a separate state filing in order to propose updated premium eligibility amounts that may result from the annual indexed calculation.

State premium eligibility amounts that are proposed to change in this item and/or in subsequent annual calculations will become effective six months after a state's loss cost/rate effective date. The purpose for this lead time is because NCCI produces experience rating modifications as early as six months before a risk's rating effective date (RED). The six month lead time between a state's loss cost/rate effective date and the effective date of a state's increased premium eligibility amounts will help to ensure that NCCI does not produce, and later have to withdraw, an experience rating modification for an employer who ultimately might not meet the increased premium eligibility amounts. The following example illustrates the timing of NCCI's subsequent annual calculation and update process for experience rating subject premium eligibility amounts in a state with a loss cost/rate effective date of January 1:

Year of Actual AWW per QCEW	Availability of Actual AWW Value	Approximate Date State Loss Cost/Rate Filing is Made by NCCI	Loss Cost Filing Effective Date	Effective Date of Updated Premium Eligibility Amounts (For RED's on and after)
2015	4Q2016	3Q2017	1/1/2018	7/1/2018
2016	4Q2017	3Q2018	1//12019	7/1/2019

The annual calculation of experience rating state premium eligibility amounts proposed in this item will result in the need for more frequent changes to the amounts currently displayed in NCCI's ***Experience Rating Plan Manual*** Rule 2-A-2—State Table of Subject Premium Eligibility Amounts. Therefore, this item proposes that the State Table of Subject Premium Eligibility Amounts be revised to allow for the display of up to three years of a state's historical premium eligibility amounts. This is in accordance with NCCI's ***Experience Rating Plan Manual*** Rule 1-D-3, which limits experience rating modification issuance and revision to the current and two preceding experience rating modifications.

Impact

Based on a 2014 rating year countrywide analysis, the annual number of experience rated risks increased by about 3%. The application of indexing methodology to this population would have resulted in a 2% reduction in rated risks. In summary, as a result of the changes proposed in this item, some risks will no longer qualify, but the total number of experience rated risks may continue to grow. In the future, these percentages will vary by state and vary over time based upon the economy and actual year-to-year state-specific wage changes. There will be no impact for states where the premium eligibility amounts did not change." [3]

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[1] B-1431 NCCI Filing Memorandum

[2] RM-02-TN-2015 NCCI Filing Memorandum

[3] E-1404 NCCI Filing Memorandum