



# NCCI Presentation to Advisory Council on Workers' Compensation

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Ann Marie Smith, FCAS, MAAA  
NCCI, Director and Actuary

# Overview

## Voluntary Loss Costs

- Experience in the two most recent policy years, 2014 and 2015, is favorable
- Average ultimate development factors show improvement
- Continued decreases in claim frequency result in lower indemnity and medical trend factor selections

## Assigned Risk Rates

- The factor to convert voluntary loss costs to assigned risk rates increased slightly from 1.700 to 1.709
- Increase in the Assigned Risk Differential is partially offset by the change in the expense provision

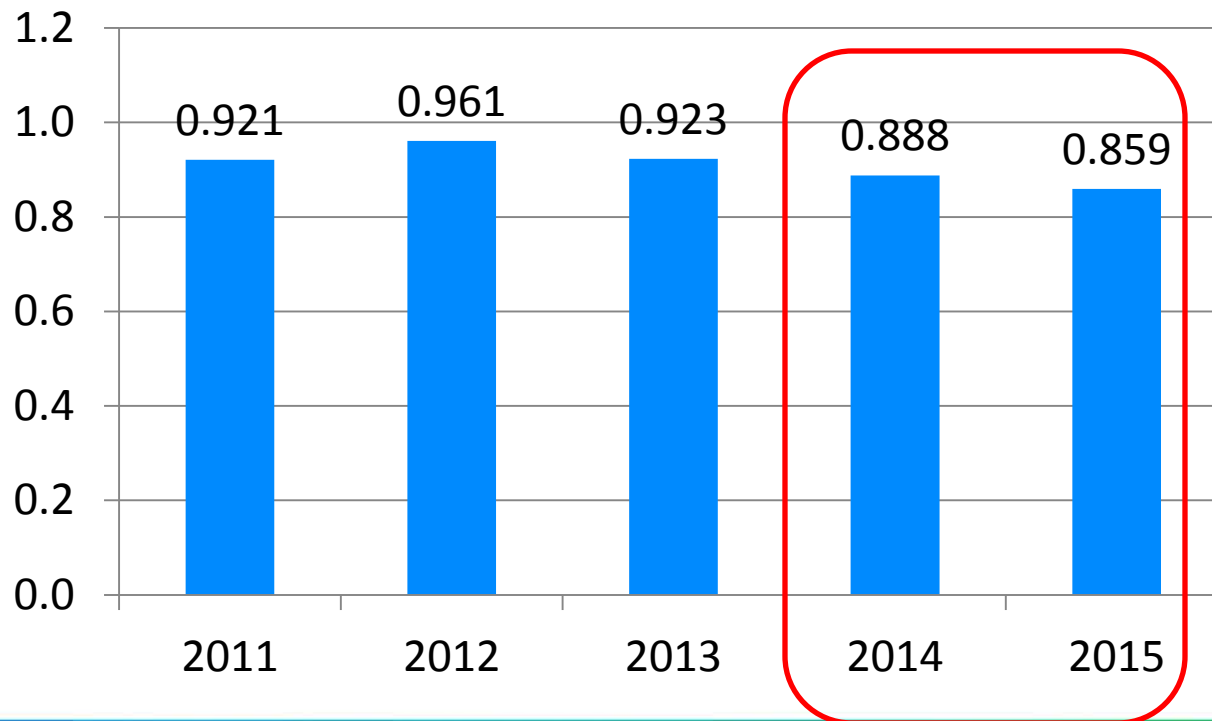
# Tennessee Voluntary Loss Cost Filing Proposed Effective March 1, 2018

Component	Impact
Change in Experience	-7.4%
Change in Development	-4.1%
Change in Trend	-1.9%
Change in Benefits	+0.5%
Change in Loss Adjustment Expense	-0.3%
<b>Overall Average Loss Cost Level Change</b>	<b>-12.6%</b>

# Experience

- The overall indication is based on an average of the latest two policy years, where the losses reflect an average of paid and paid + case

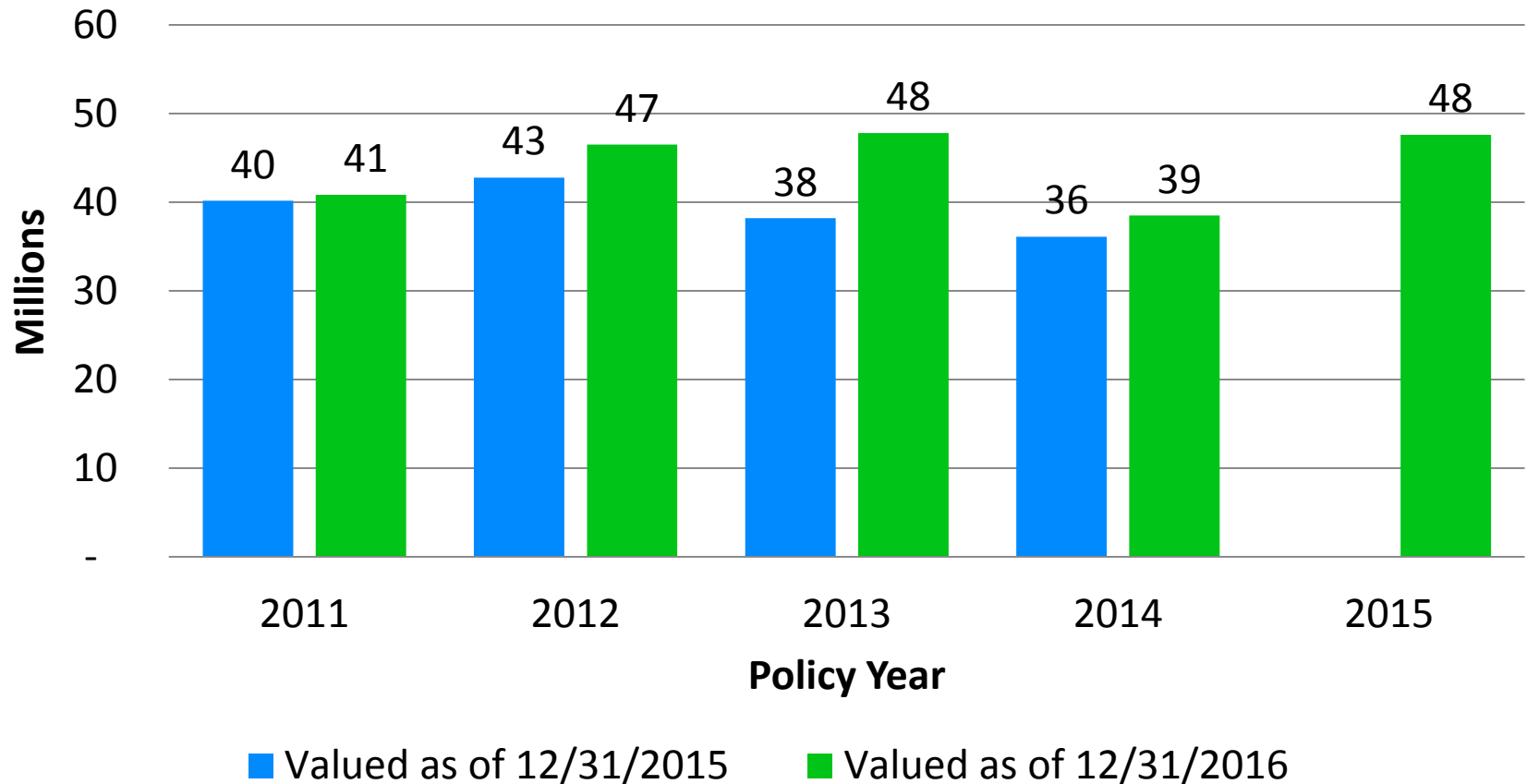
**Indications by Policy Year**



# Large Loss Activity

## Current Valuation and Prior Valuation

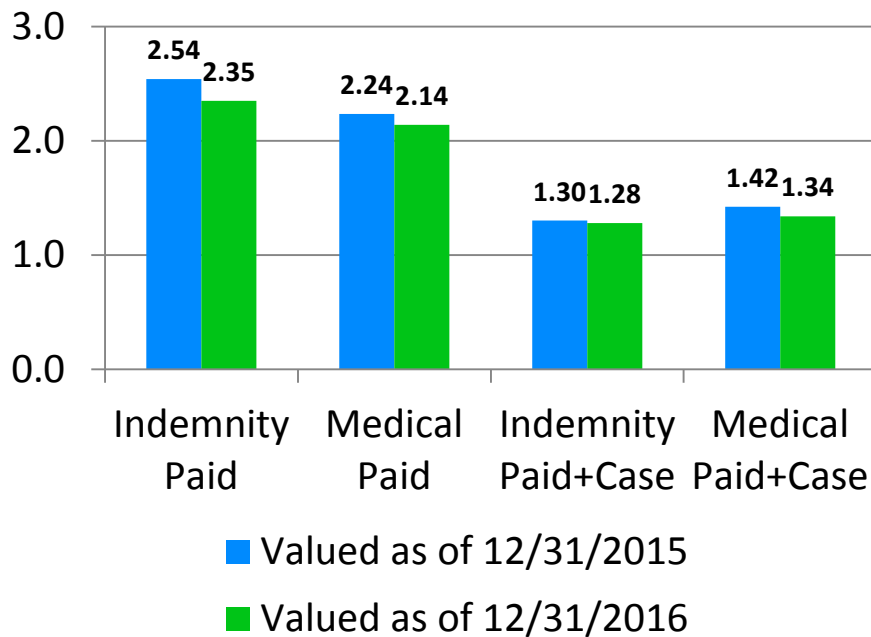
### Total Paid + Case Losses for Claims over \$500K



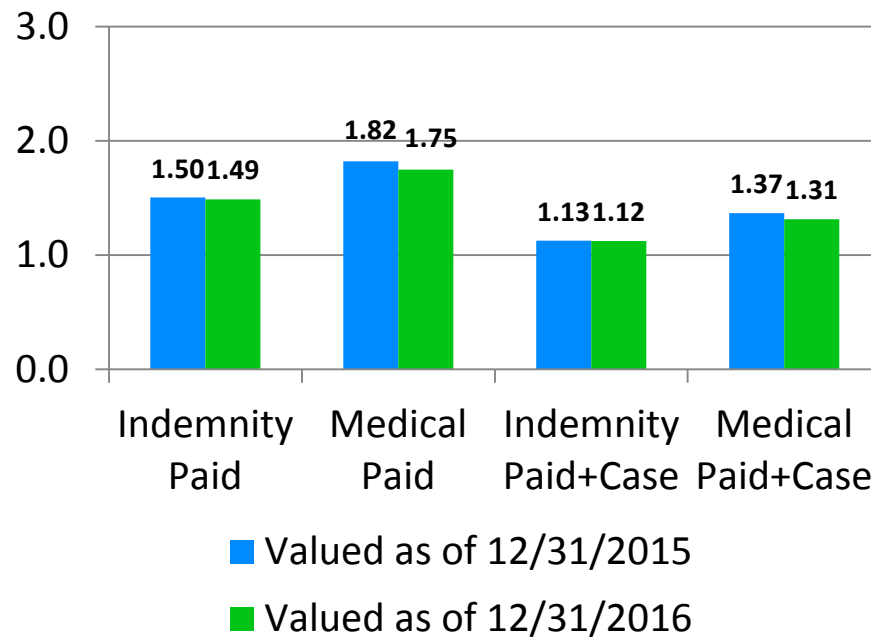
Based on NCCI's financial data

# Development

## Loss Development Factor 1<sup>st</sup> Report to Ultimate



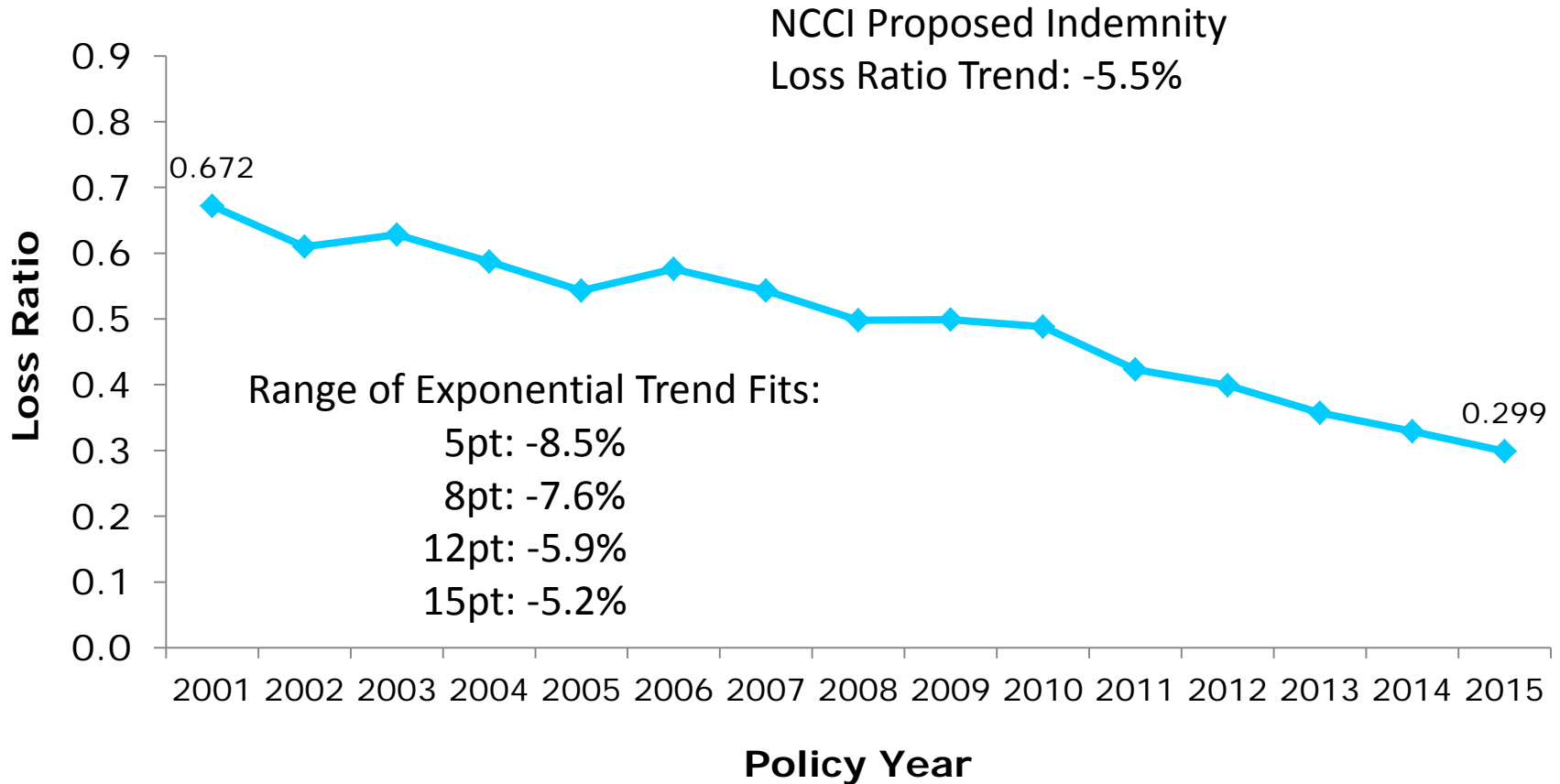
## Loss Development Factor 2<sup>nd</sup> Report to Ultimate



- Paid development reflects a two-year average
- Paid+case development reflects a five-year average
  - Exception: Medical 1<sup>st</sup> to 2<sup>nd</sup> link ratio averages exclude the highest and lowest values

# Tennessee's Indemnity Loss Ratios

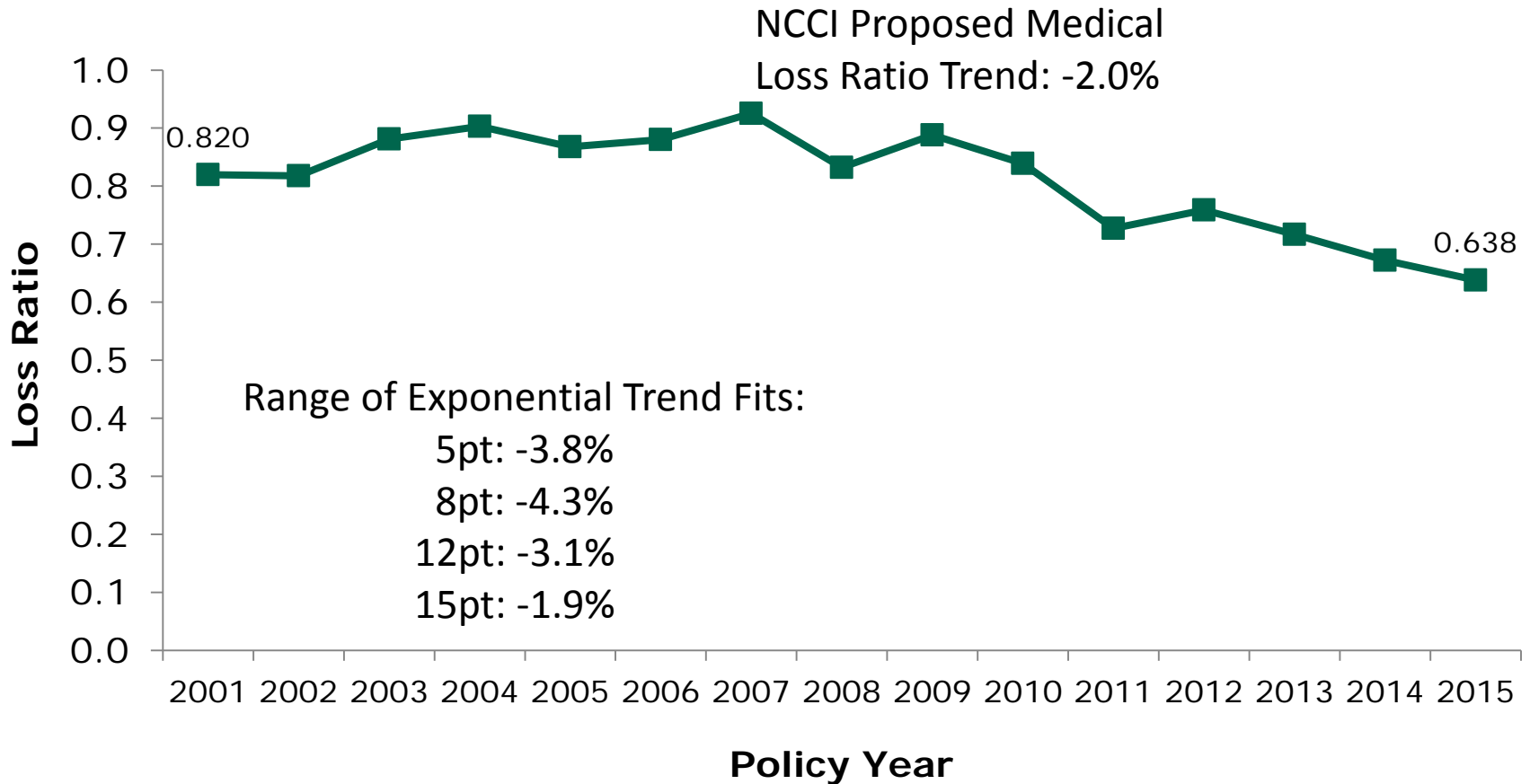
Based on Average of Paid and Paid + Case Losses



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

# Tennessee's Medical Loss Ratios

Based on Average of Paid and Paid + Case Losses



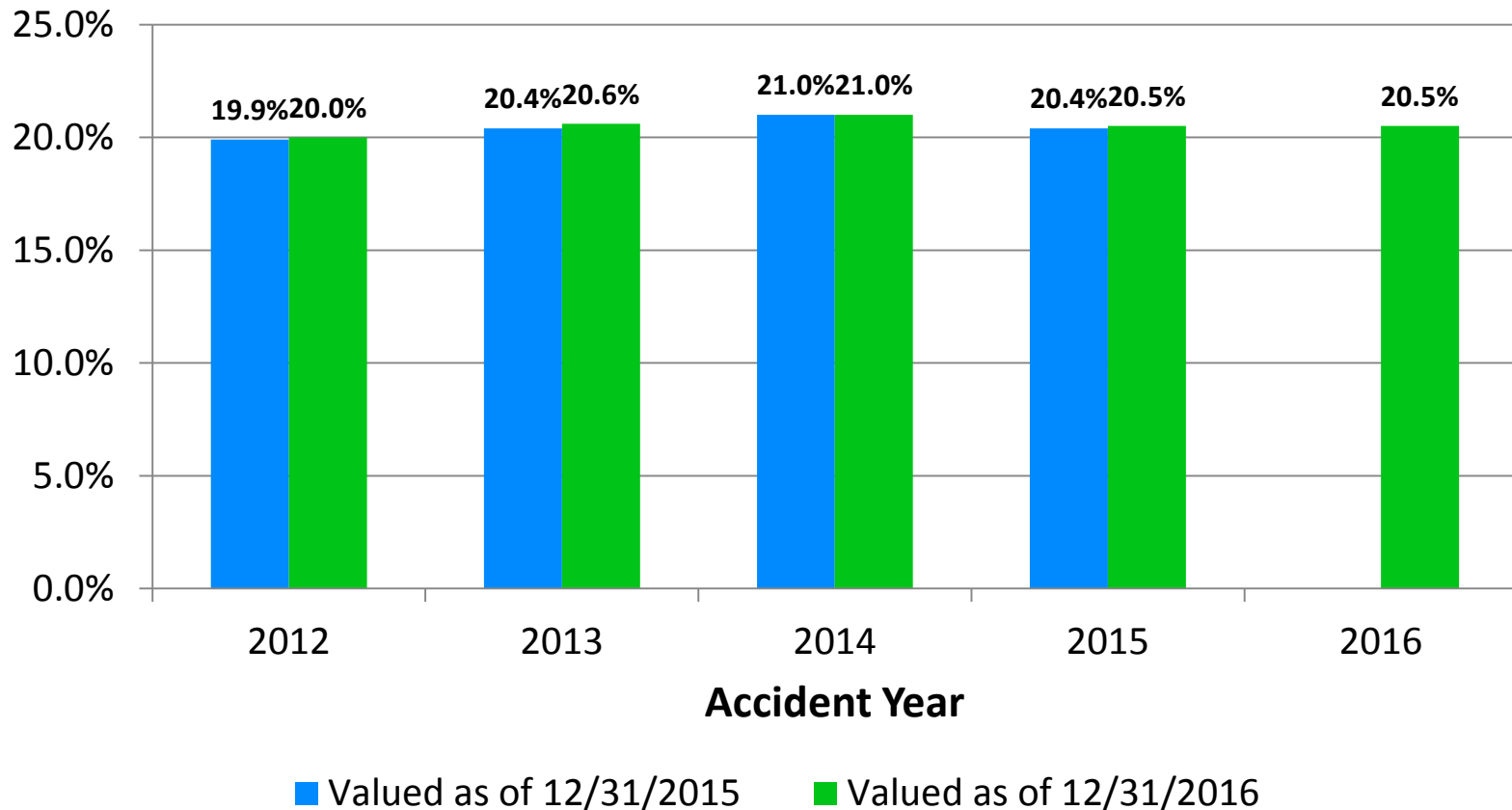
Based on NCCI's financial data at current benefit level and developed to ultimate



# Countrywide Loss Adjustment Expense (LAE)

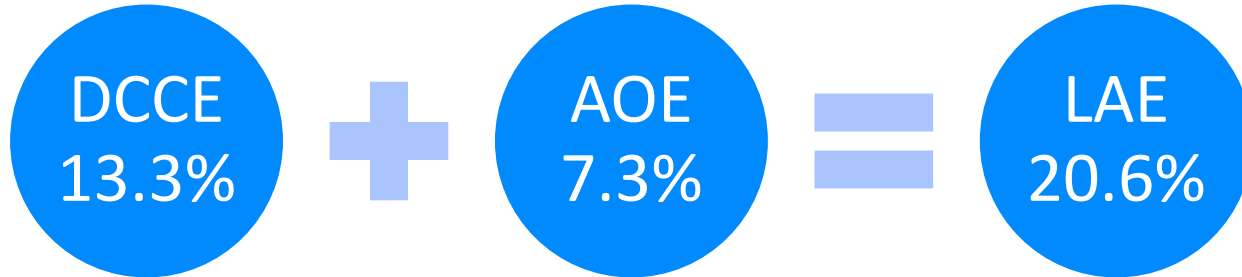
- Projected LAE provisions are stable compared to the prior valuation

## Countrywide LAE



# Derivation of the Tennessee LAE Provision

- Countrywide LAE based on the most recent three accident years:

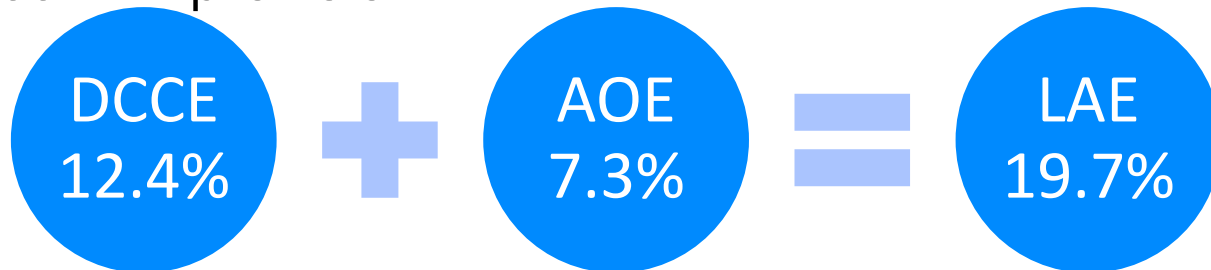


- Tennessee DCCE based on a relativity of Paid DCCE to Paid Loss ratios:

$$\text{Relativity} = \frac{\text{TN Paid DCCE to TN Paid Loss}}{\text{CW Paid DCCE to CW Paid Loss}} = \frac{11.8\%}{12.7\%} = 0.929$$

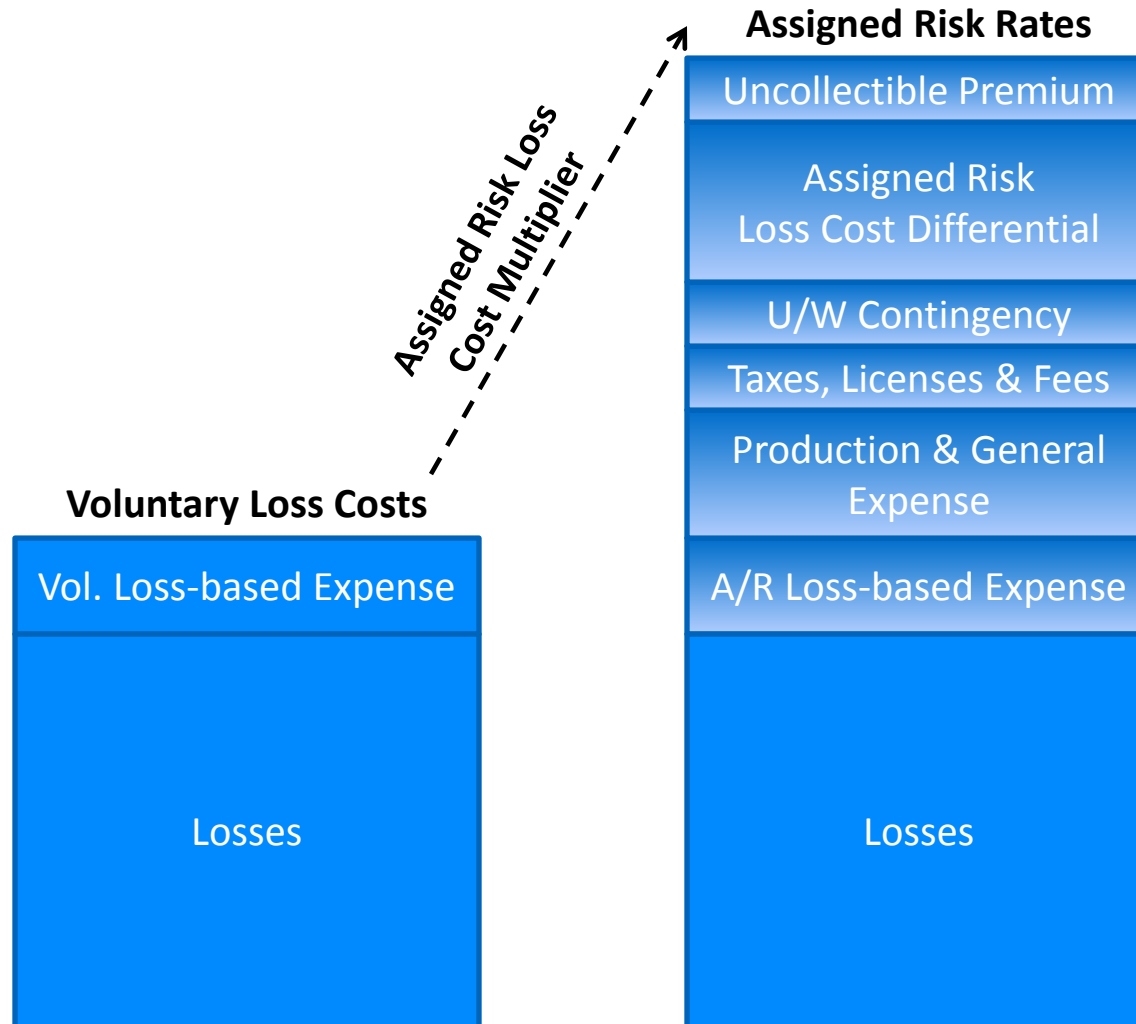
$$\text{TN DCCE} = 0.929 \times 13.3\% = 12.4\%$$

- Tennessee LAE provision:



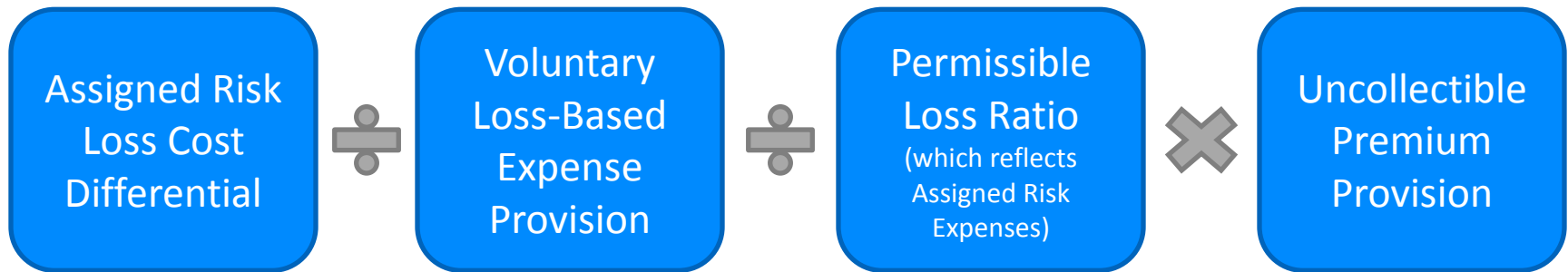
# Assigned Risk Rates

# General Relationship Between Voluntary Loss Costs and Assigned Risk Rates



# Components of the Assigned Risk Loss Cost Multiplier

The General Formula:



# Assigned Risk Loss Cost Differential

- The assigned risk loss cost differential reflects the fact that the collective experience for employers in the assigned risk market is typically worse than that of employers in the statewide market
- Loss ratios are calculated for both the (i) assigned risk market and (ii) statewide market by individual year as follows:

*(total on-leveled losses)*

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*(total on-leveled, developed standard premium at the voluntary level)*

- Loss ratio relativities are reviewed for ten individual years so that changes in the actual differentials can be observed over a long period of time
- Selection of the differential takes into account the impact of the Assigned Risk Adjustment Program (ARAP)

# Assigned Risk Loss Cost Differential by Policy Year

(1) Policy Year	(2) Assigned Risk Standard Pure Premium	(3) Assigned Risk Loss Ratio	(4) Statewide Loss Ratio	(5) Indicated Assigned Risk Pure Premium Differential on a Standard Basis (4)/(3)
2006	22,726,482	1.980	1.382	1.433
2007	16,917,290	2.274	1.393	1.632
2008	12,295,300	2.180	1.215	1.794
2009	11,338,280	2.105	1.237	1.702
2010	11,999,968	2.516	1.173	2.145
2011	14,889,329	1.541	0.965	1.597
2012	17,511,661	1.210	0.964	1.255
2013	22,125,090	1.121	0.872	1.286
2014	28,014,658	1.246	0.799	1.559
2015	30,461,925	1.080	0.716	1.508
<b>10Year Average</b>				<b>1.591</b>

# Selected Assigned Risk Loss Cost Differential

	Component	Value
(1)	Indicated Assigned Risk Differential on a Standard Premium Basis	1.591
(2)	Estimated Impact of ARAP	1.087
(3)	Indicated Assigned Risk Differential (1) / (2)	1.464
(4)	Current Assigned Risk Differential	1.250
<b>(5)</b>	<b>Selected Assigned Risk Differential</b>	<b>1.350</b>



# Components of the Permissible Loss Ratio

- Permissible Loss Ratio: 68.1%
  - Servicing Carrier Allowance: 20.2%
    - Paid to the servicing carriers as a percentage of final collected net premium
    - Reflects items such as general expense, other acquisition expense, loss adjustment expense
  - Premium Tax: 4.0%
  - Average Commission: 5.8%
  - Assigned Risk Administrative Expense: 4.0%
    - Selected based on a review of provisions in other states

# Uncollectible Premium Provision

- Since not all of the premium charged by carriers is ultimately able to be collected, NCCI considers the impact of uncollectible premium when determining assigned risk rates
- The Financial Call premium used for ratemaking and the premium used in the expense analysis are reported gross of uncollectible premium
- Therefore, NCCI must capture the cost of uncollectible premium through a separate provision, typically based on data reported to the pool
- For Tennessee, retained the current 3.2% provision

## Components of the Assigned Risk Loss Cost Multiplier

Component	Values Underlying 3/1/2017 Approved Assigned Risk Rates	Values Underlying 3/1/2018 Proposed Assigned Risk Rates
(1) Assigned Risk Differential	1.250	1.350
(2) Voluntary Loss Based Expense	1.201	1.197
(3) Permissible Loss Ratio	0.632	0.681
(4) Uncollectible Premium Provision	1.032	1.032
(5) <b>Assigned Risk LCM</b> [(1)/(2)]/(3)*(4)	<b>1.700</b>	<b>1.709</b>

# Tennessee March 1, 2018 Filing

## Proposed Change in Assigned Risk Rates

Filing Component	Impact
Overall Average Loss Cost Level Change	-12.6%
Change in Assigned Risk Loss Cost Multiplier	+0.5%
Overall Average Assigned Risk Rate Level Change	-12.2%

# Questions?