

# Overview of Tennessee's Workers' Compensation Market Conditions and Environment

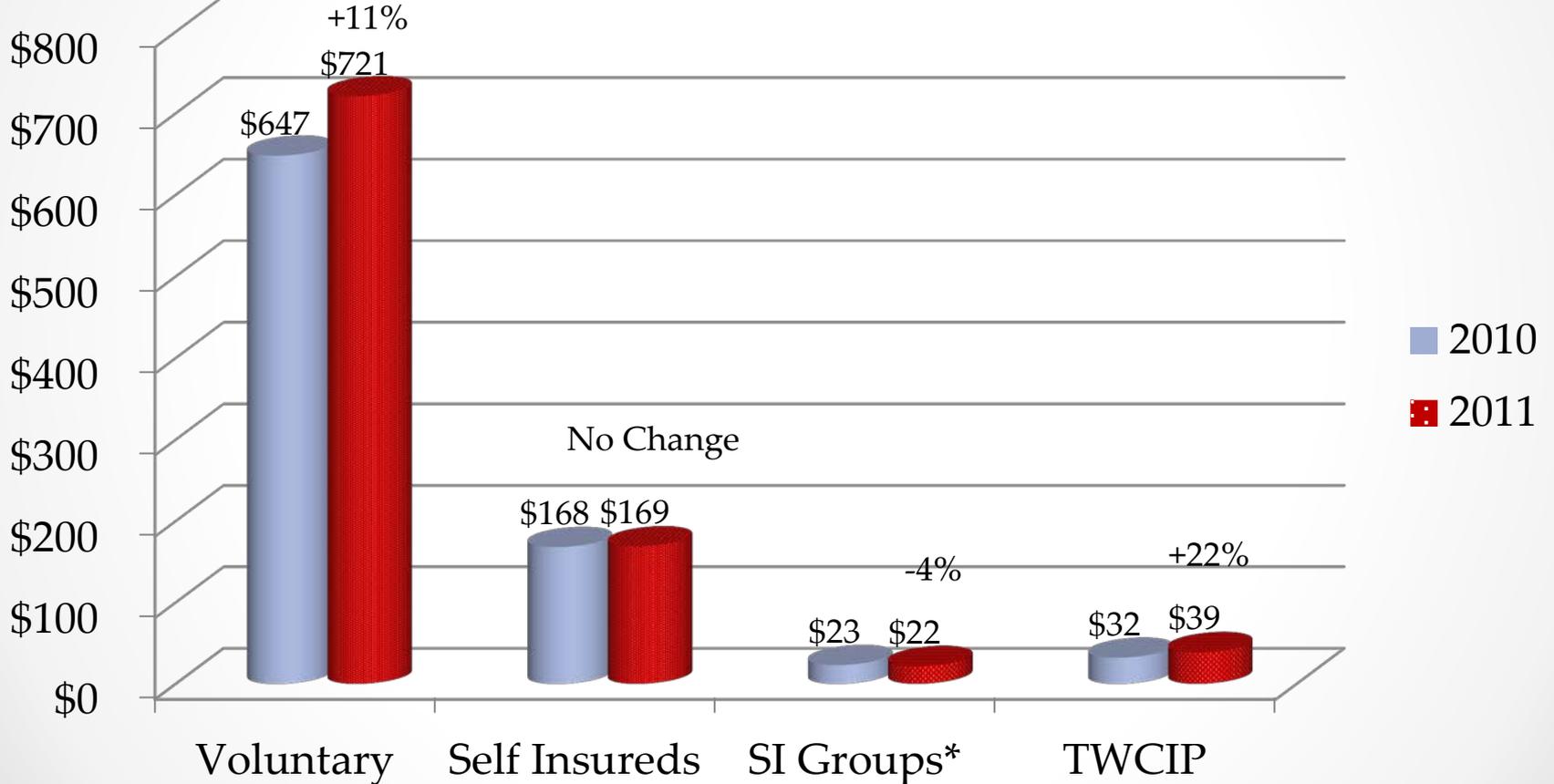
Advisory Council on Workers' Compensation

August 23, 2012

Presented by Mike Shinnick - TDCI

# 2011 Market Segments

Millions in Premiums



Excluding government sponsored groups; Individual Self Insureds are on an equivalent premium basis, Group premiums are estimated.

# National Picture



# Property & Casualty Underwriting Results

## Worse Due to Catastrophes

Net Calendar Year Combined Ratio – Private Carriers

Combined Ratio = Expense Ratio + Loss & LAE Ratio;  
results <100 equate to an underwriting profit

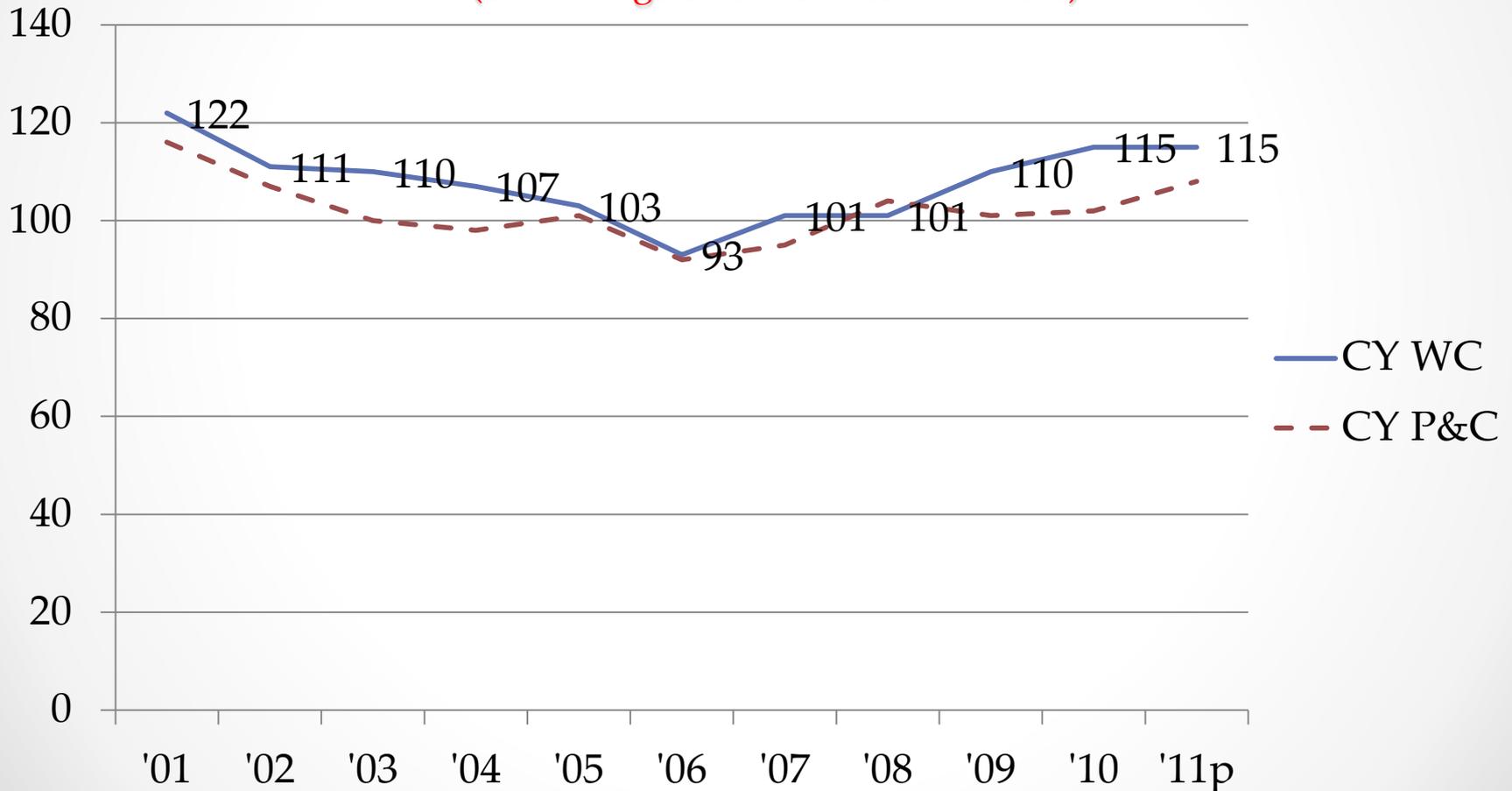
Line of Business	2009	2010	2011 preliminary
Personal Auto	101%	101%	102%
Homeowners	106%	107%	122%
Com. Multi Peril	97%	101%	113%
Com. Auto	98%	98%	103%
Workers' Comp	110%	115%	115%
Total P&C Industry	101%	102%	108%

Highest since 2001

Sources: NCCI for Workers Comp; Total P/C Industry: ISO

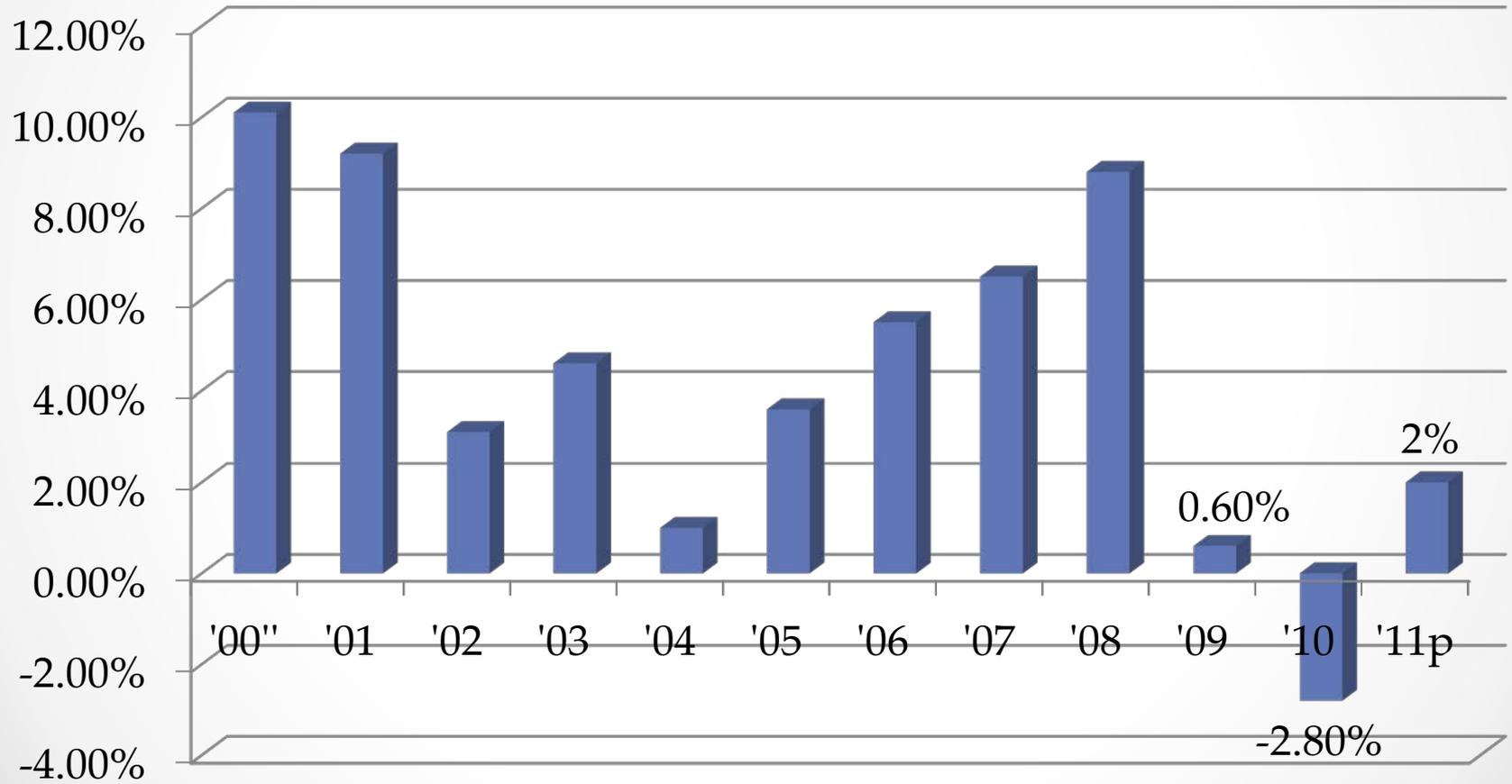
# Calendar Year Combined Ratios

Except for 2008, WC Consistently Trails Overall P&C Results  
(on Average 6 Points Less Favorable)



# Workers' Compensation Indemnity Claims

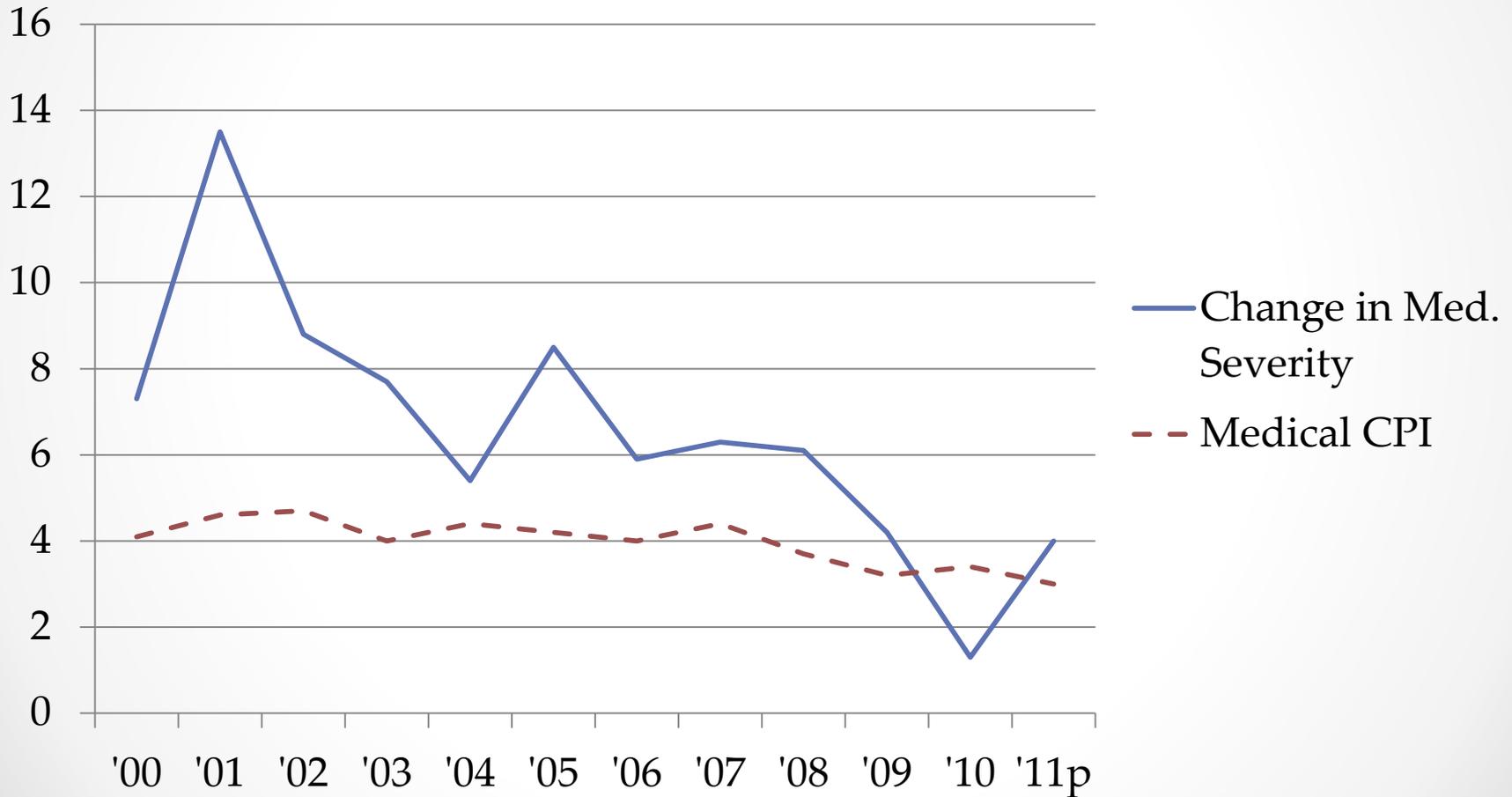
## Cost – Modest Increase in 2011



Source: NCCI (2011 is preliminary)

# WC Medical Claim Cost Trends

Percentage Change

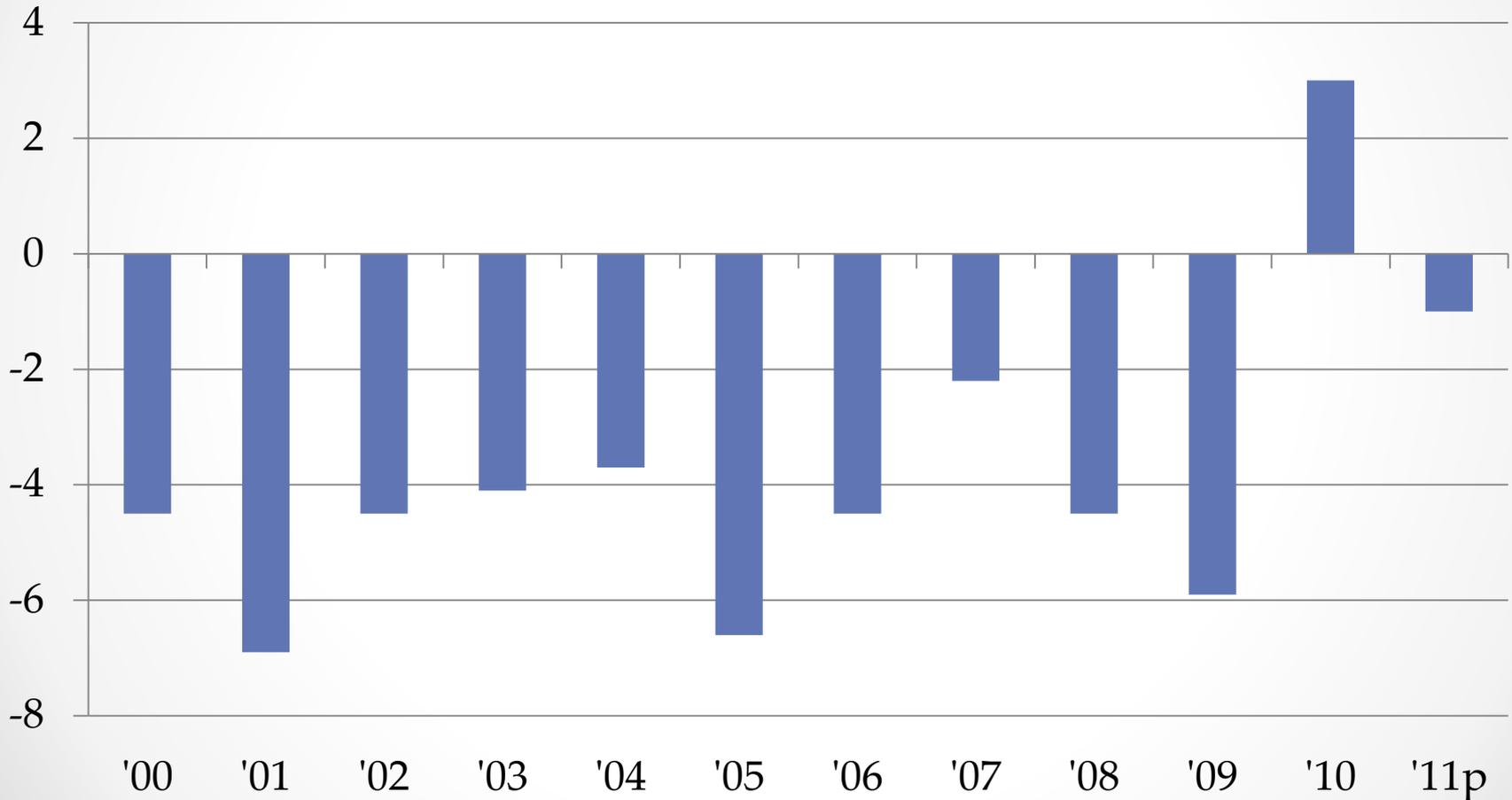


Sources: NCCI – Medical Severity; Economy.com – Medical CPI; 2011 is preliminary

# WC Lost-Time Claim Frequency

## Declined in 2011

Percentage

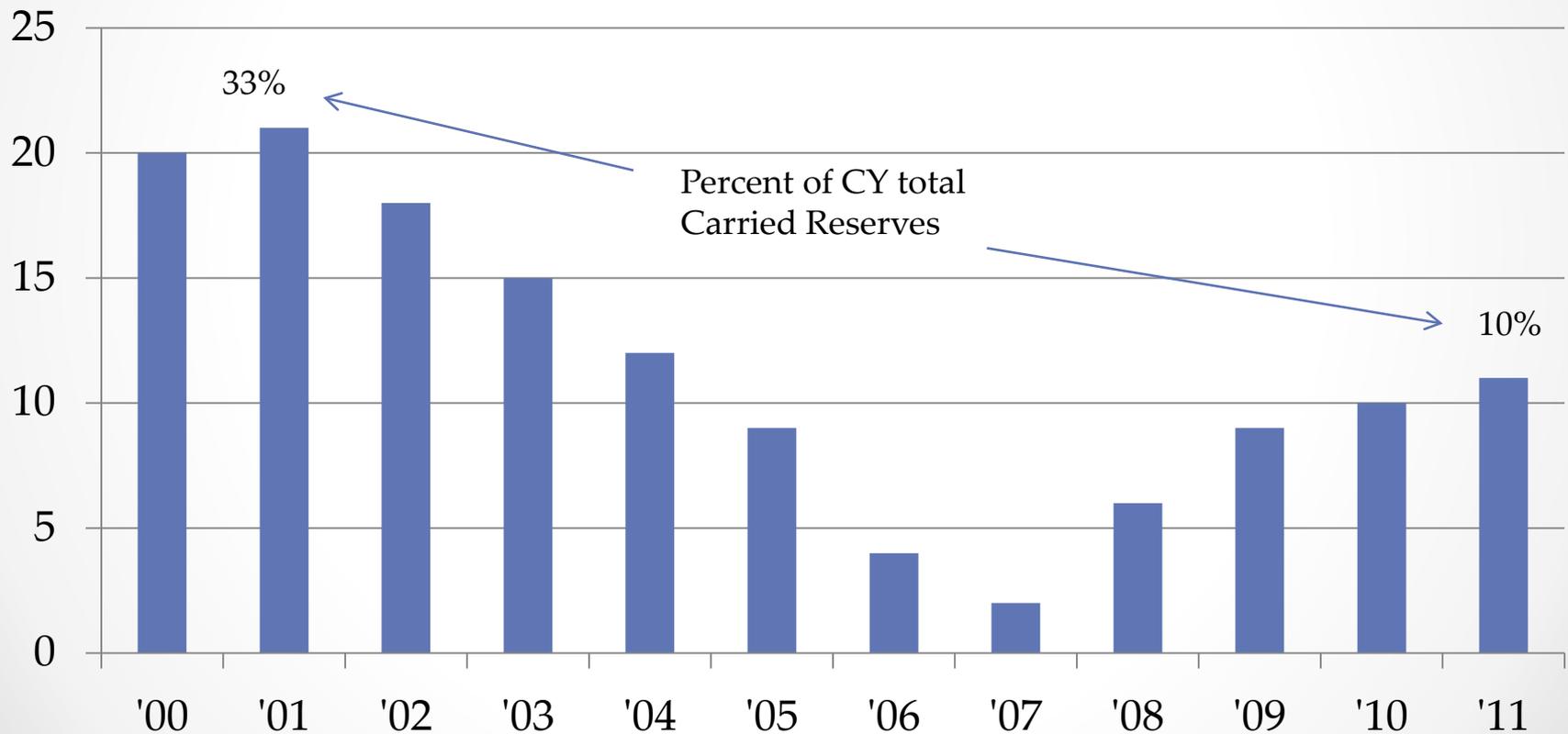


Source: NCCI; 2011 is Preliminary; 2010 & 2011 frequency is adjusted for recessionary factors

# WC Loss and LAE Reserve Deficiencies

## Private Carriers

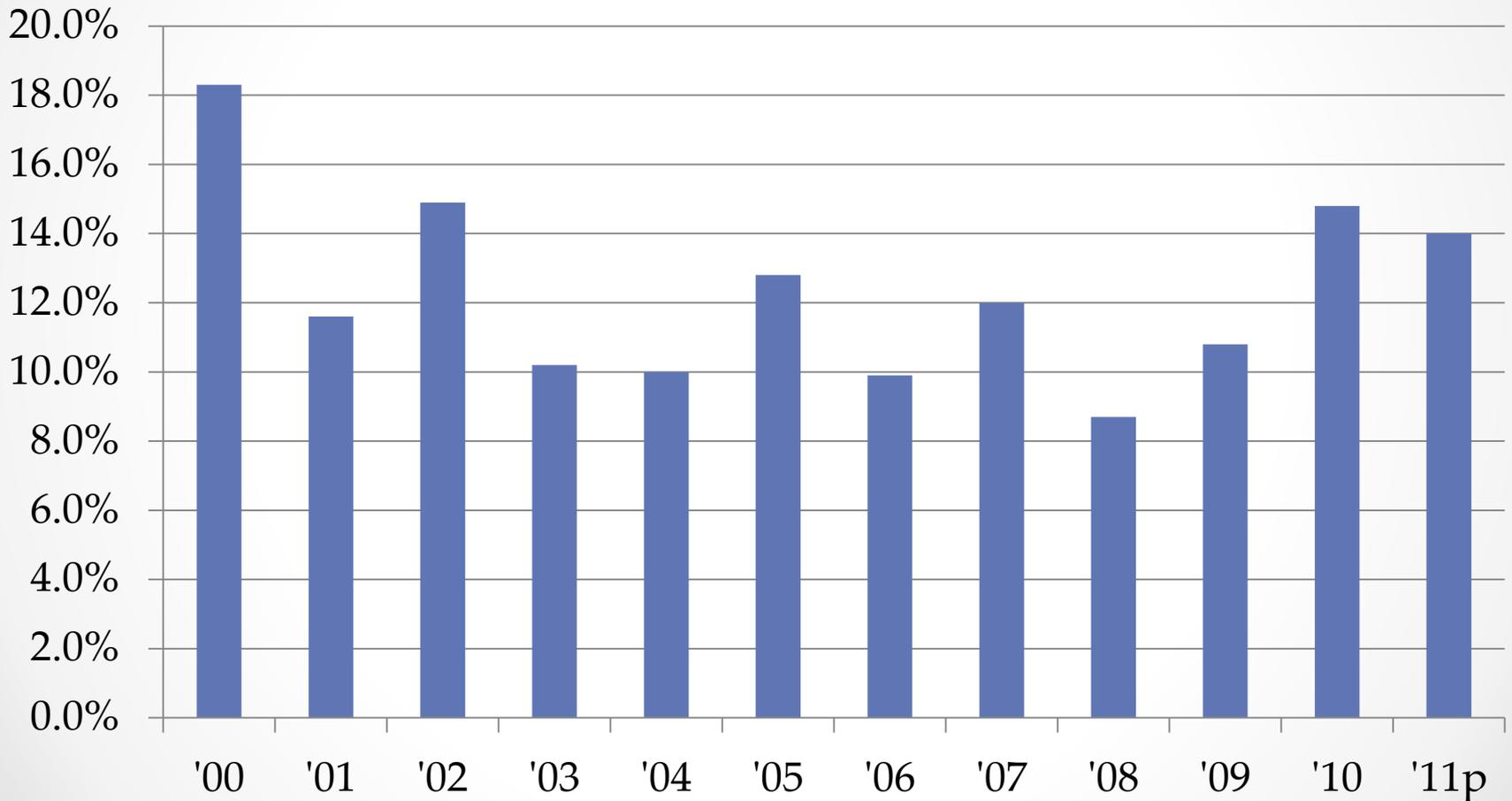
**\$ Billions**



Source: NCCI; Loss and LAE figures are based on NAIC Annual Statement Data for each valuation date and NCCI latest selections.

# WC Investment Returns

Investment Gain on Insurance Transactions-to Premium Ratio Private Carriers

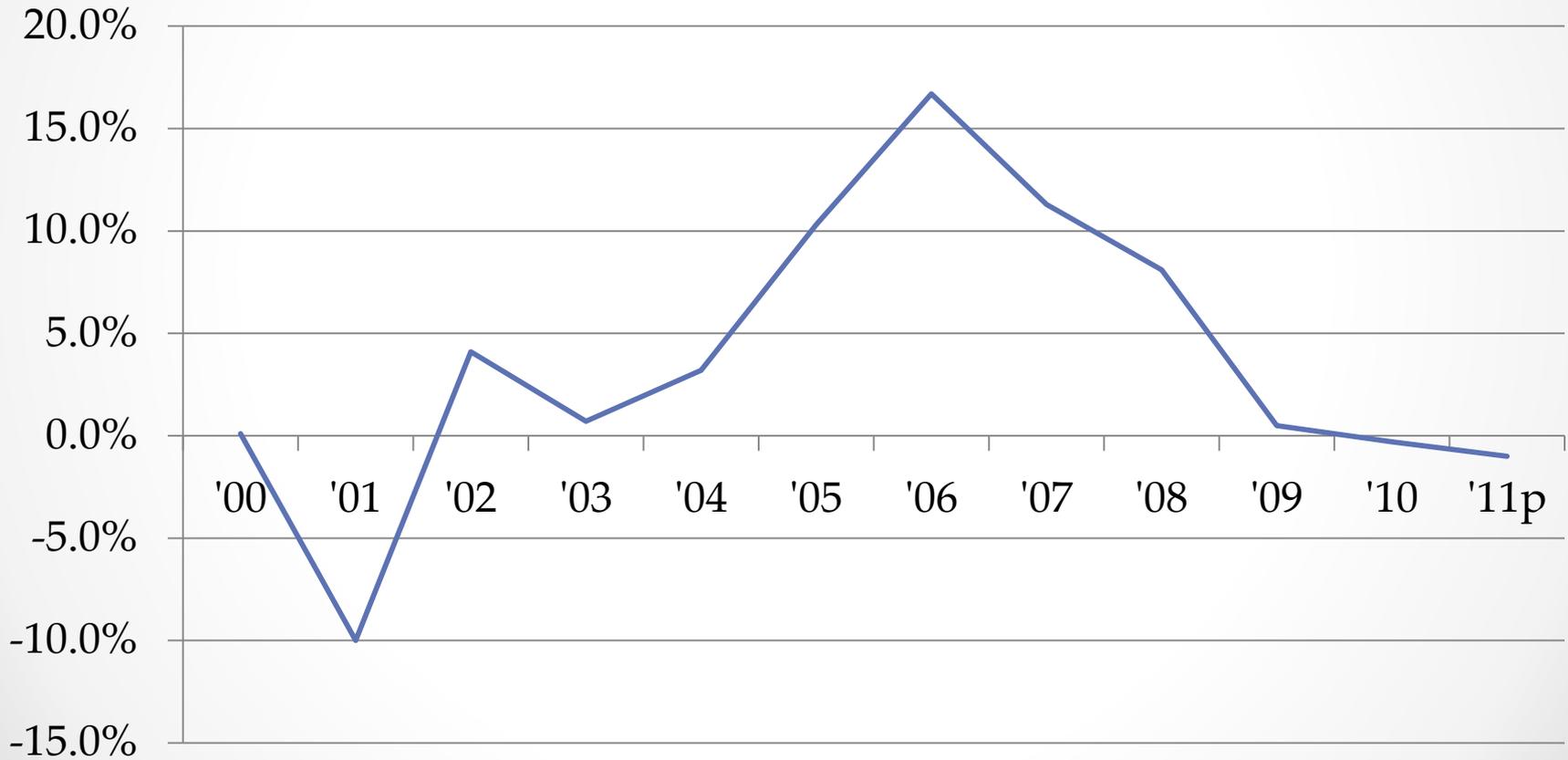


Source: 2000-2010, Annual Statement Data; 2011 preliminary NCCI

# WC Results

## Operating Loss Continues

Pre-Tax Operating Gain Ratio – Private Carriers

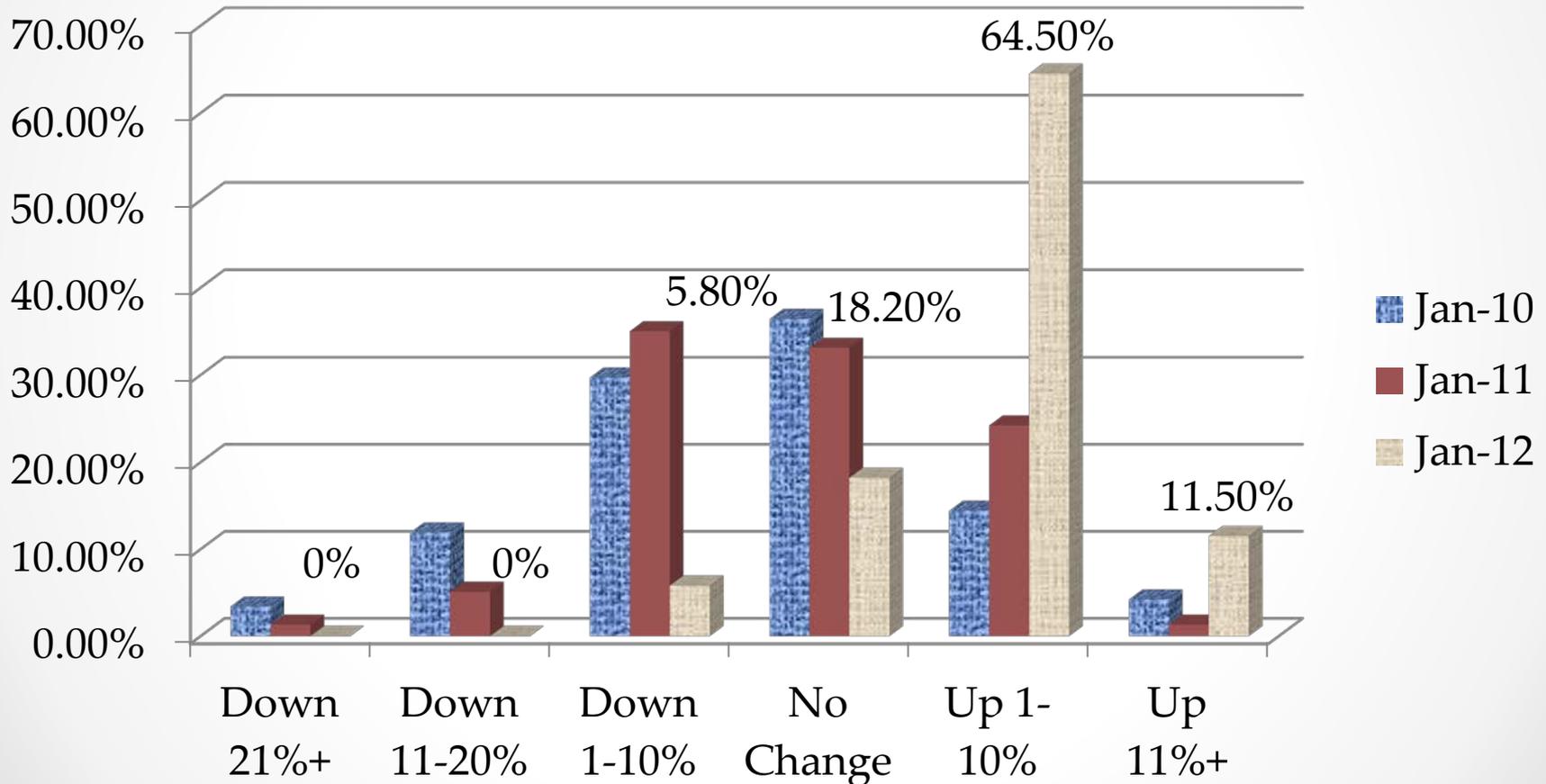


Source: 2000-2010, Annual Statement Data; 2011 NCCI - preliminary

# According to Goldman Sachs, Prices Appear to be Increasing

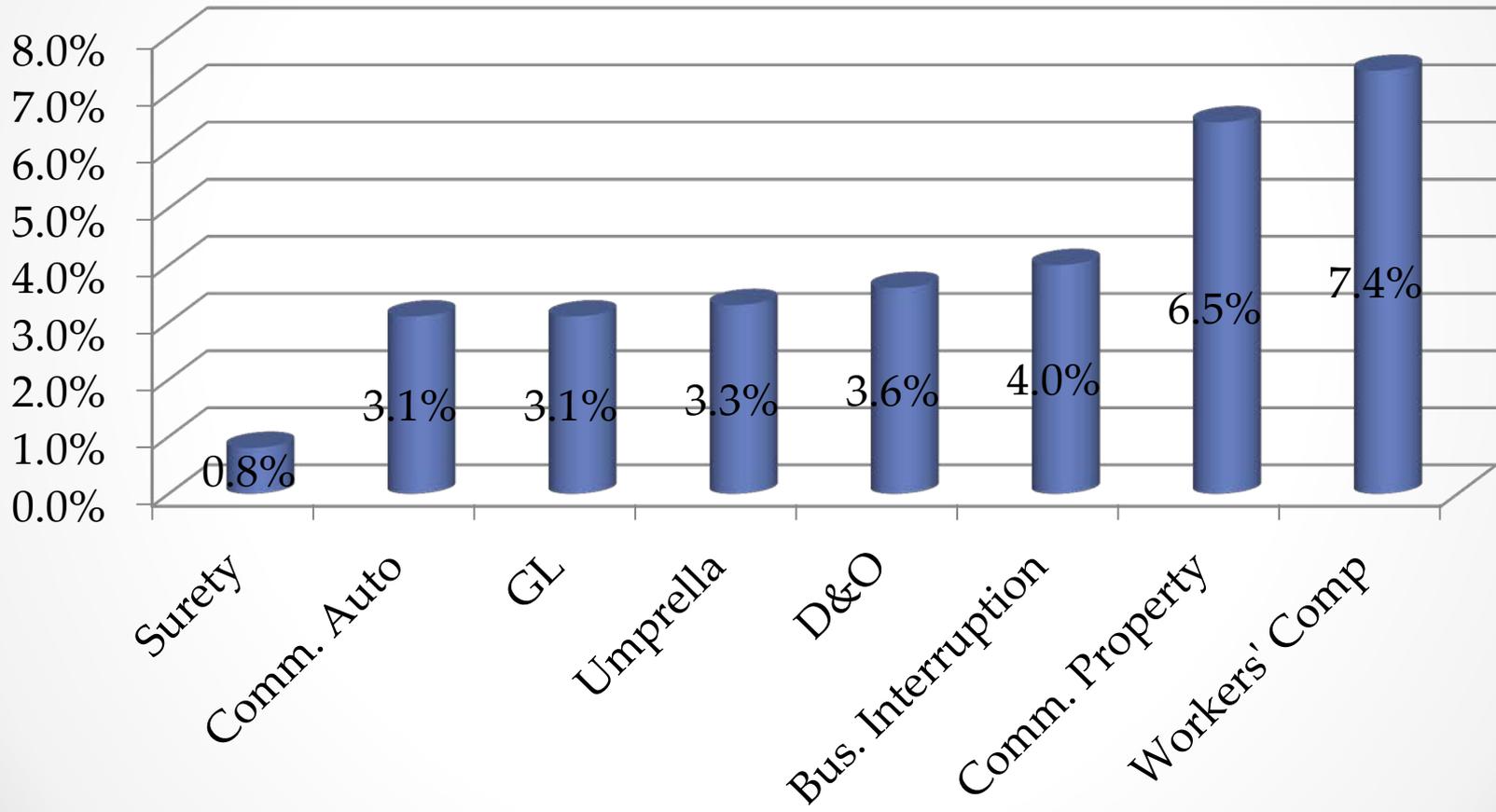
## Agent Responses on WC Rates on Renewals vs. 12 Months Prior

Percentage of Respondents



Source: Goldman Sachs Research, Proprietary Survey, January 2012 Pricing Survey, Insurance: Property & Casualty (Exhibit 4, WC)

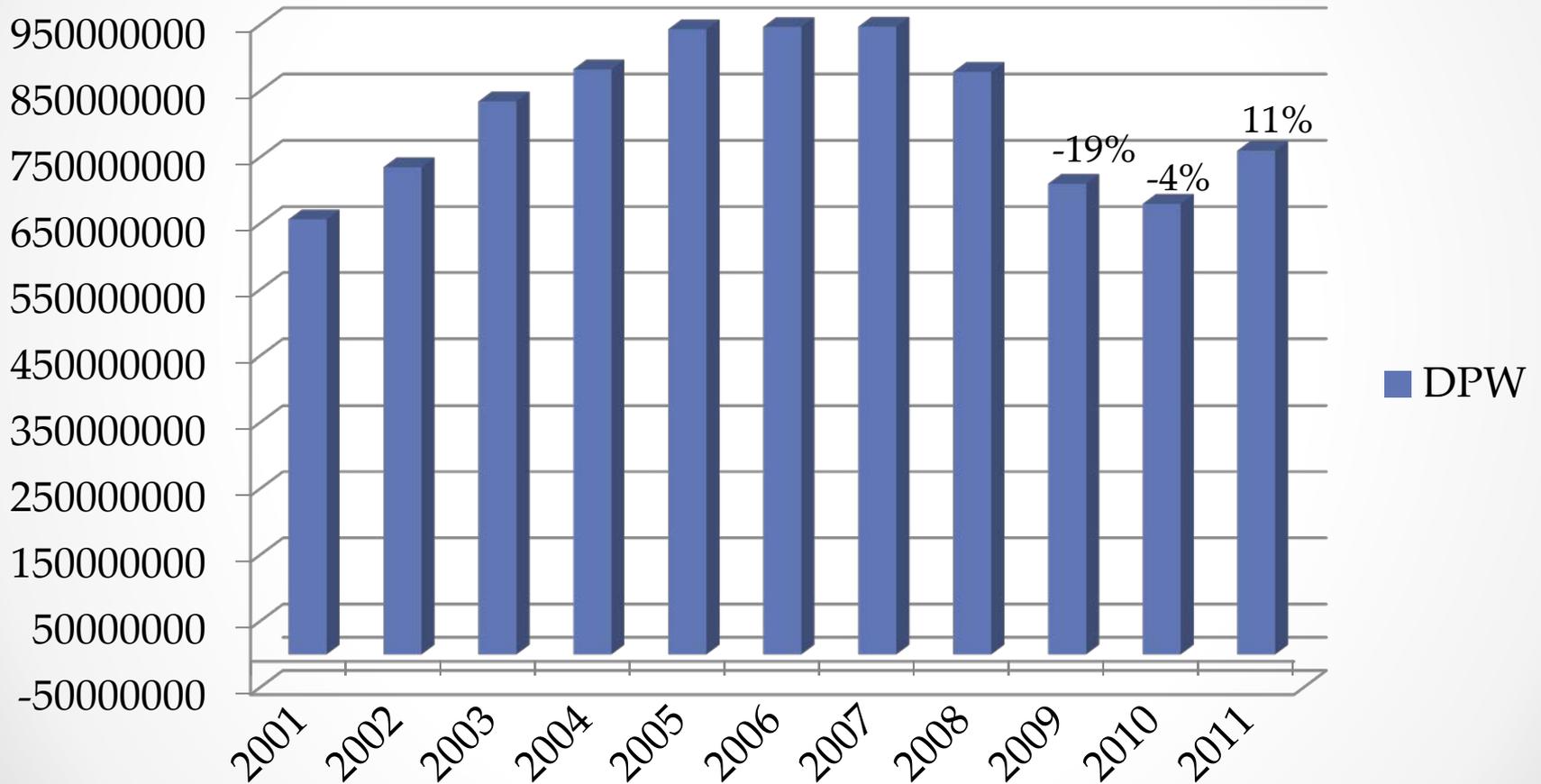
# Change in Commercial Rate Renewals, by Line: 1Q12



# Tennessee Specific



# TN Direct Premium Written Premium (DPW) History

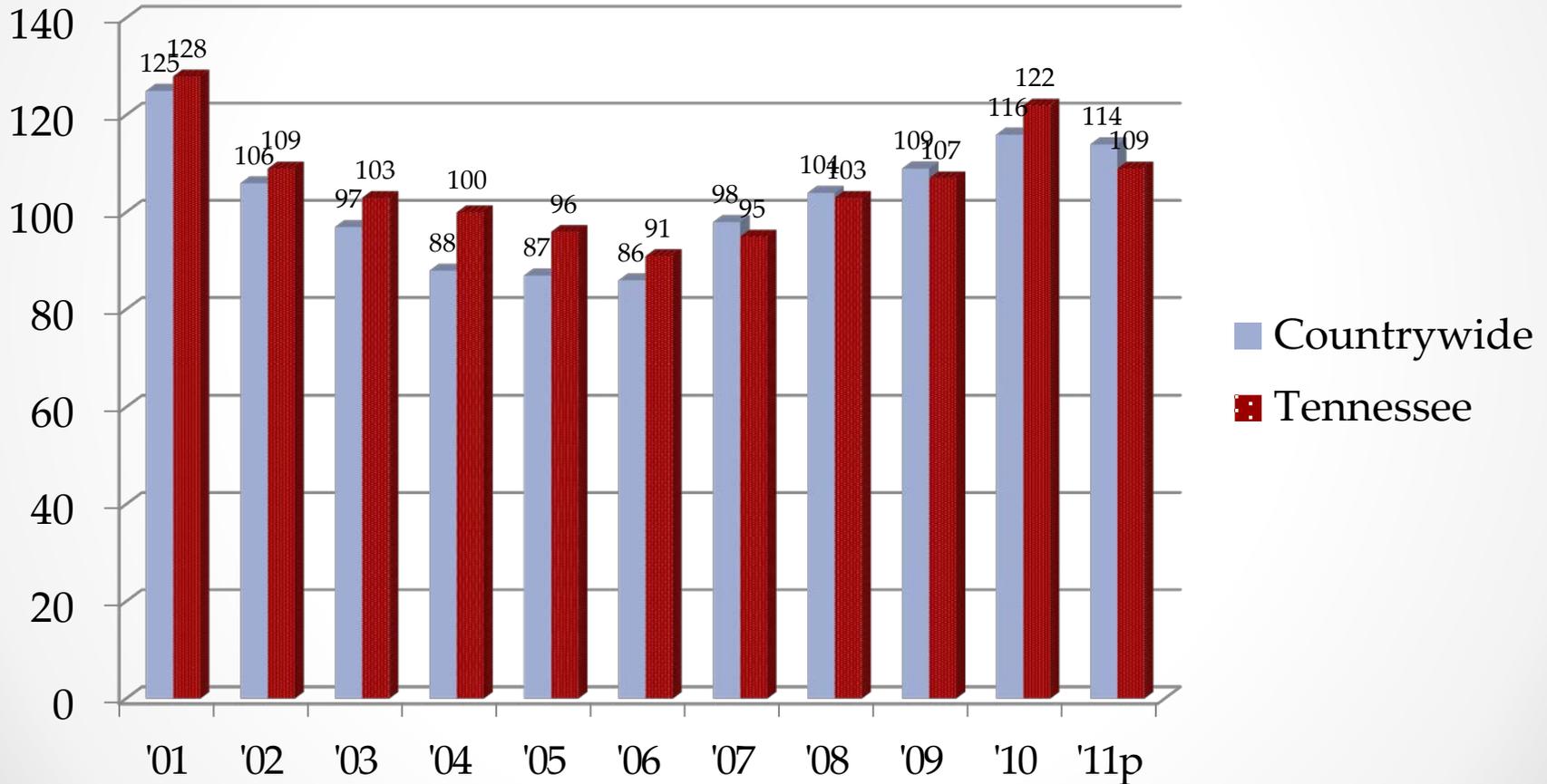


# Loss Cost Filing & Final Approvals Since 2004 Reforms Were Implemented

-20% since 2004 Reforms\*

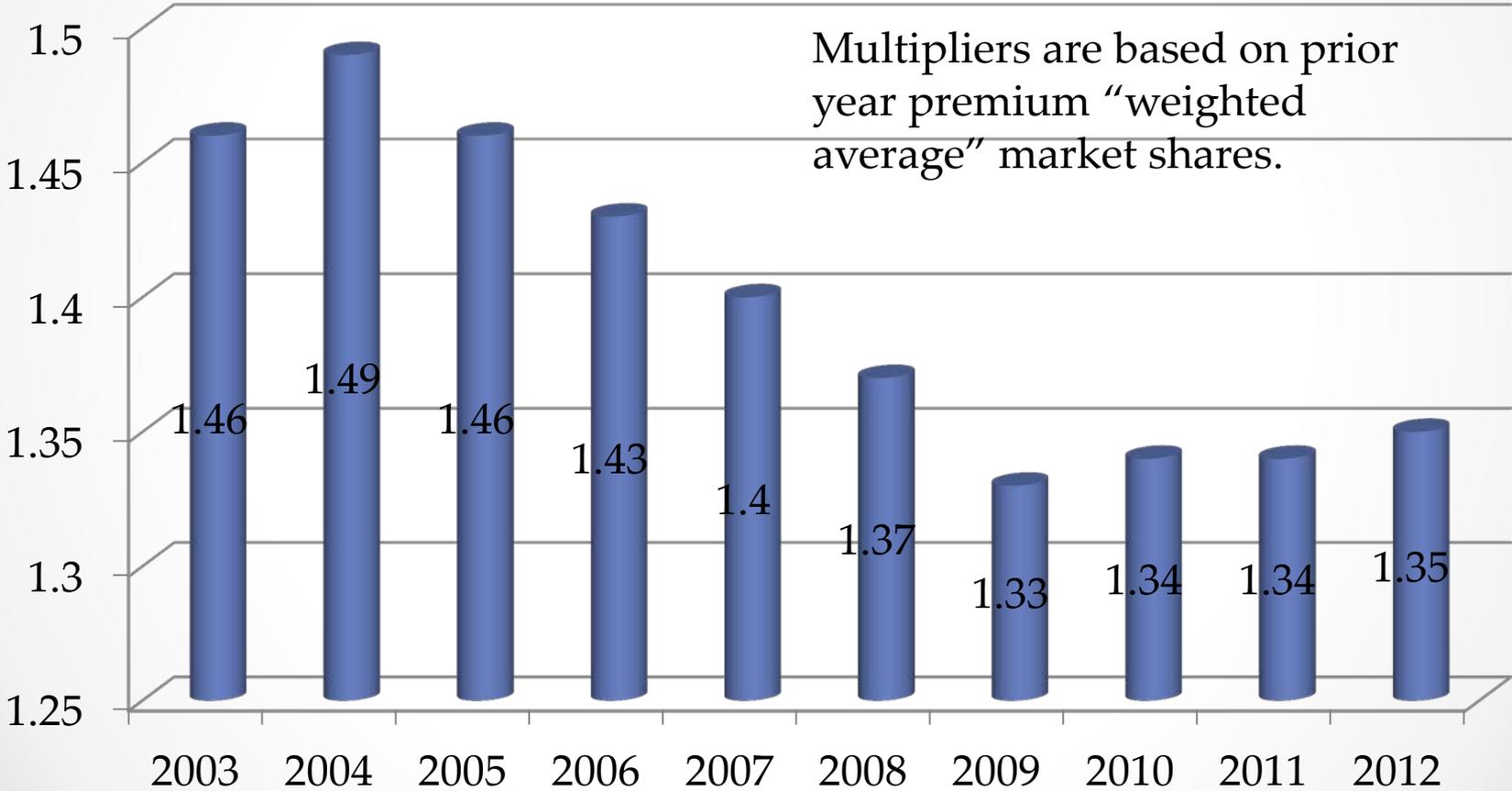
Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	C&I Approved Rate	Effective Date
2004	-6.3%	-6.3%	-6.3%	9/1/2004
2005	3.9%	3.9%	3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9%	7/1/2005
2006	1.6%	1.6%	1.6%	3/1/2006
2007	1.4%	0%	1.4%	3/1/2007
2007	2.4%	2.4%	2.4%	7/1/2007
2007	-7.2%	-8.6%	-7.2%	3/1/2008
2008	-3.1%	-3.1%	-3.1%	7/1/2008
2008	-3.1%	-3.4%	-3.1%	3/1/2009
2009	-.1%	-.1%	-.1%	3/1/2010
2010	-5.1%	-5.3%	-5.1%	3/1/2011
2011	6.3%	6.3%	6.3%	11/1/11
2011	1.6%	-.3%	.4%	3/1/12
*2012	-5.1%	-5.1%	-5.1%	8/9/12

# Accident Year Combined Ratios

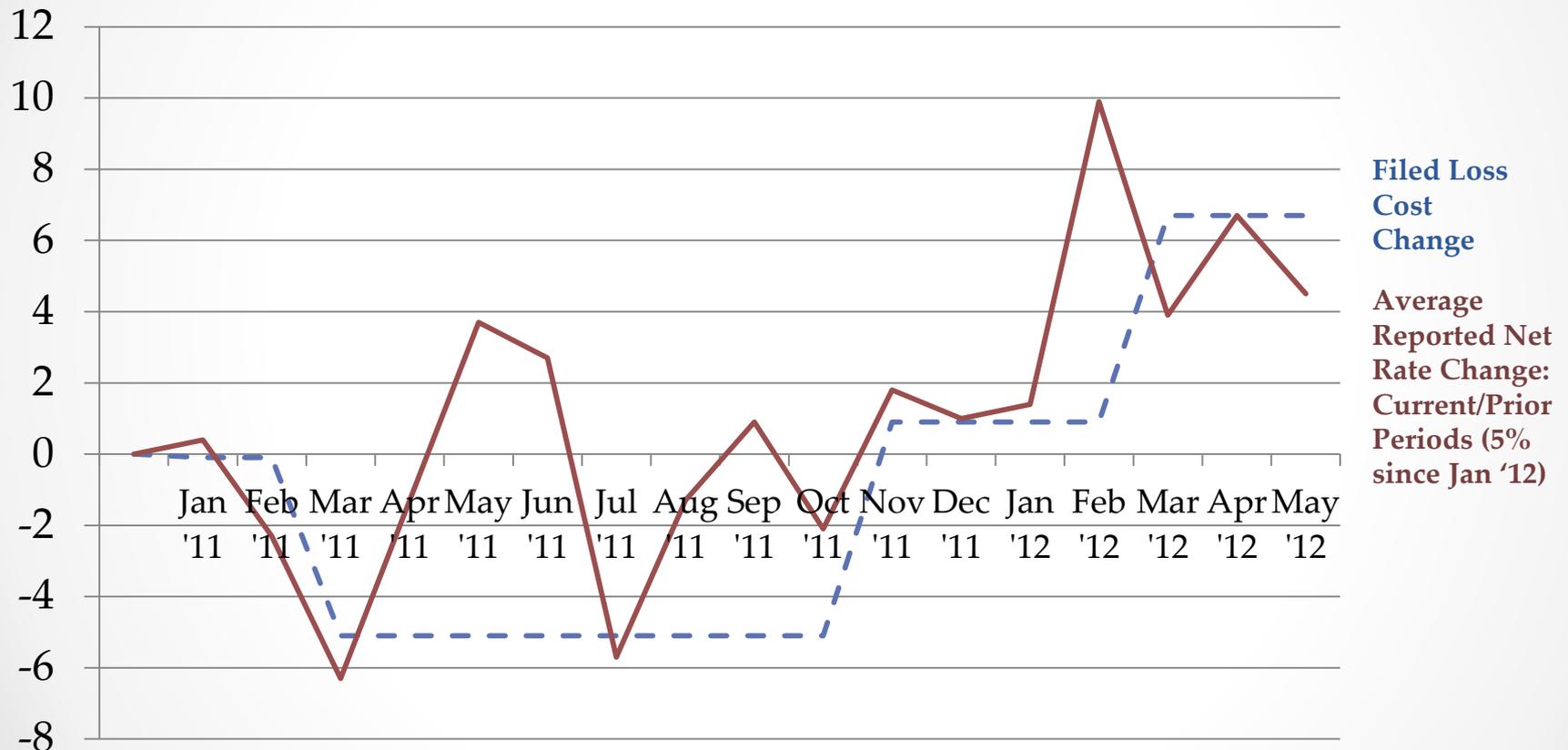


Source: NCCI; 2011 preliminary data

# Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History



# TN Price Change Analysis



Source: NCCI

# 2012 LCM Distribution

(by Direct Premium Written)

Median 1.36



- 80% are above 1.05 and below 1.60
- 7% above 1.67 Assigned Risk LCM

A complete listing of LCMs is posted on the Department's website

# TN WC Premium Tax Revenues

	YE 8/31/08	YE 8/31/09	YE 8/31/10	YE 8/31/11
Self Insurance	\$9.7M	\$8M	\$6.7M	\$7.5M
Insurance	\$35.3M	\$31.8M	\$25.9M	\$26.6M
Total Premium Tax*	\$45M	\$39.8M	\$32.6M	\$34.1M

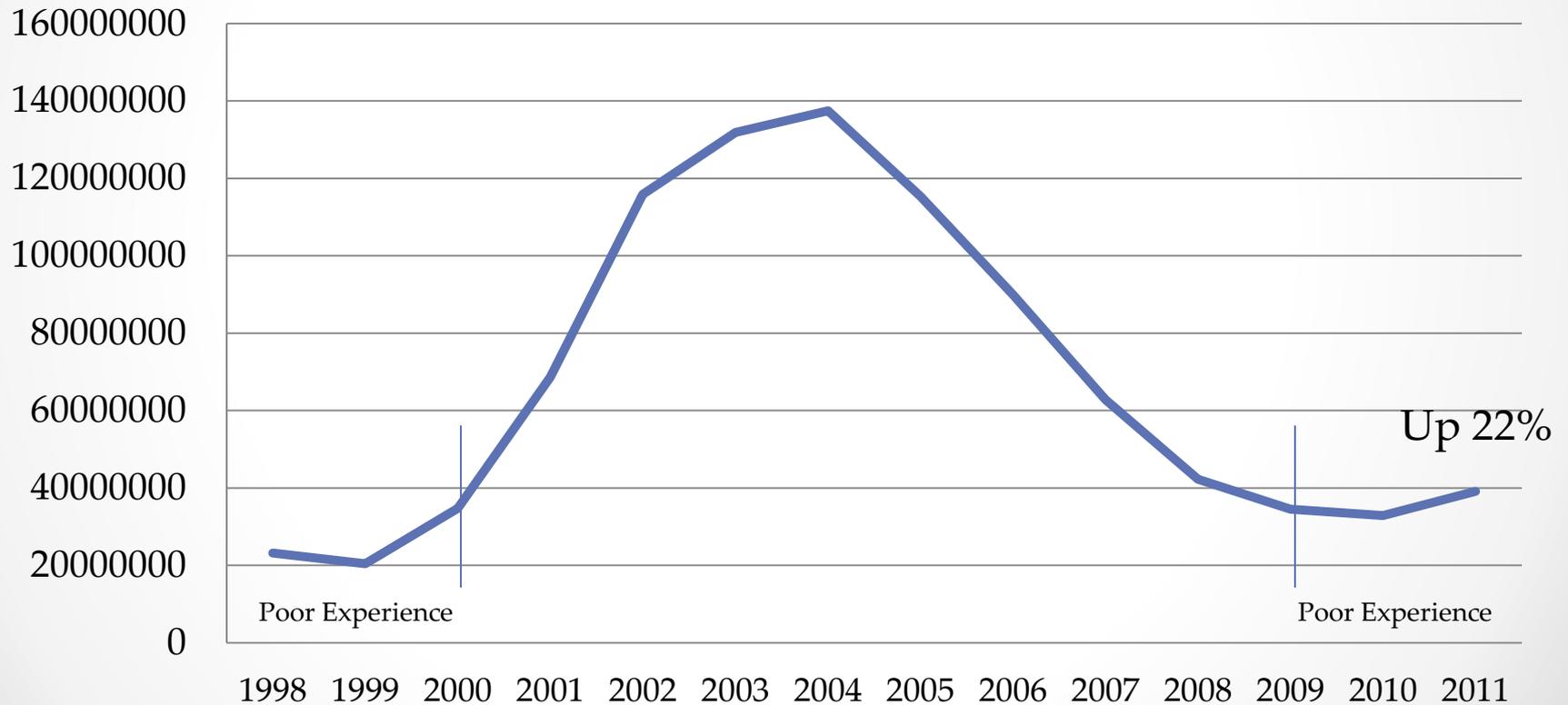
Data excludes .4% TOSHA Surcharge

# Tennessee Workers Compensation Insurance Plan (TWCIP)



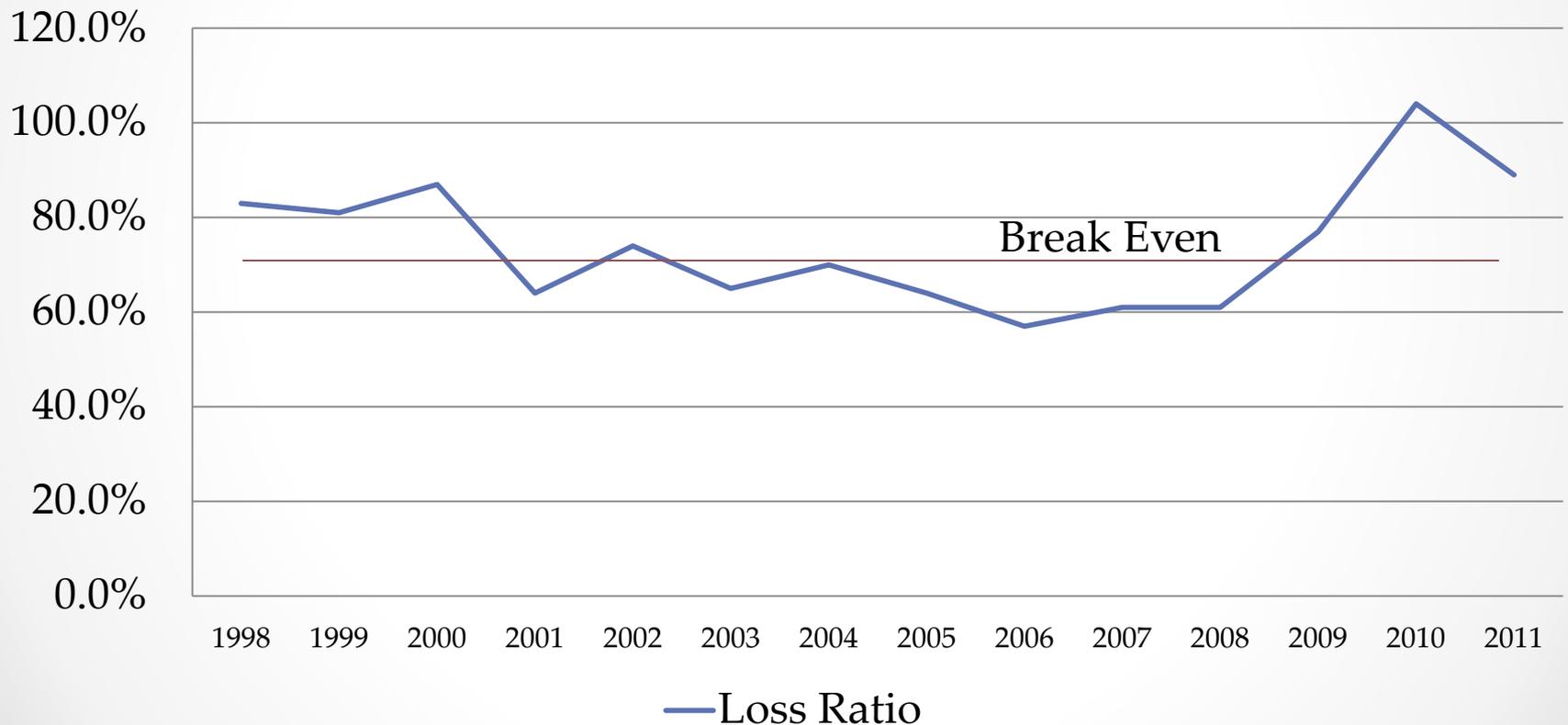
# TWCIP Premium History

## Premium

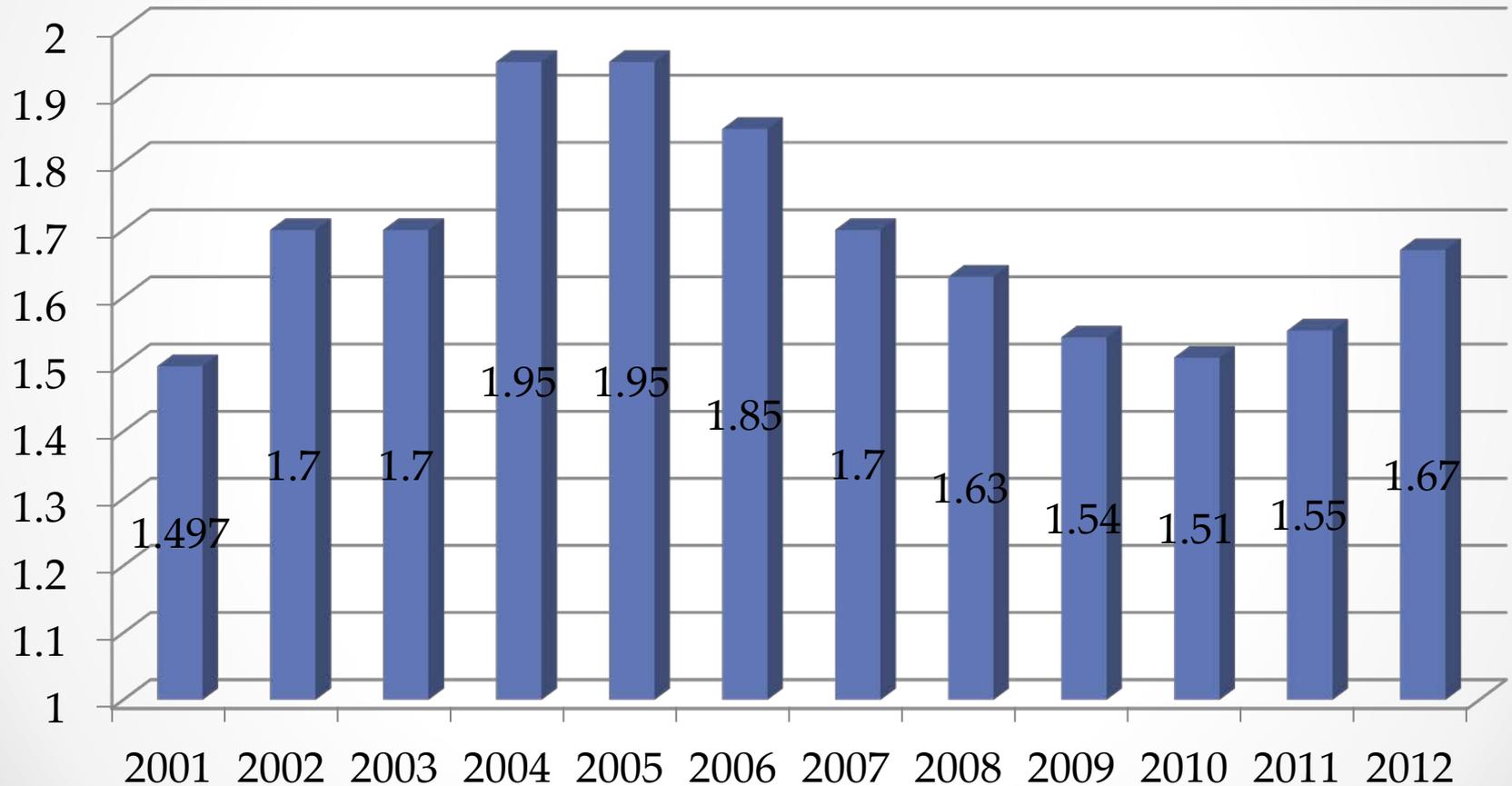


# Servicing Carrier Loss Ratio History

(1.52 LCM Levelled)

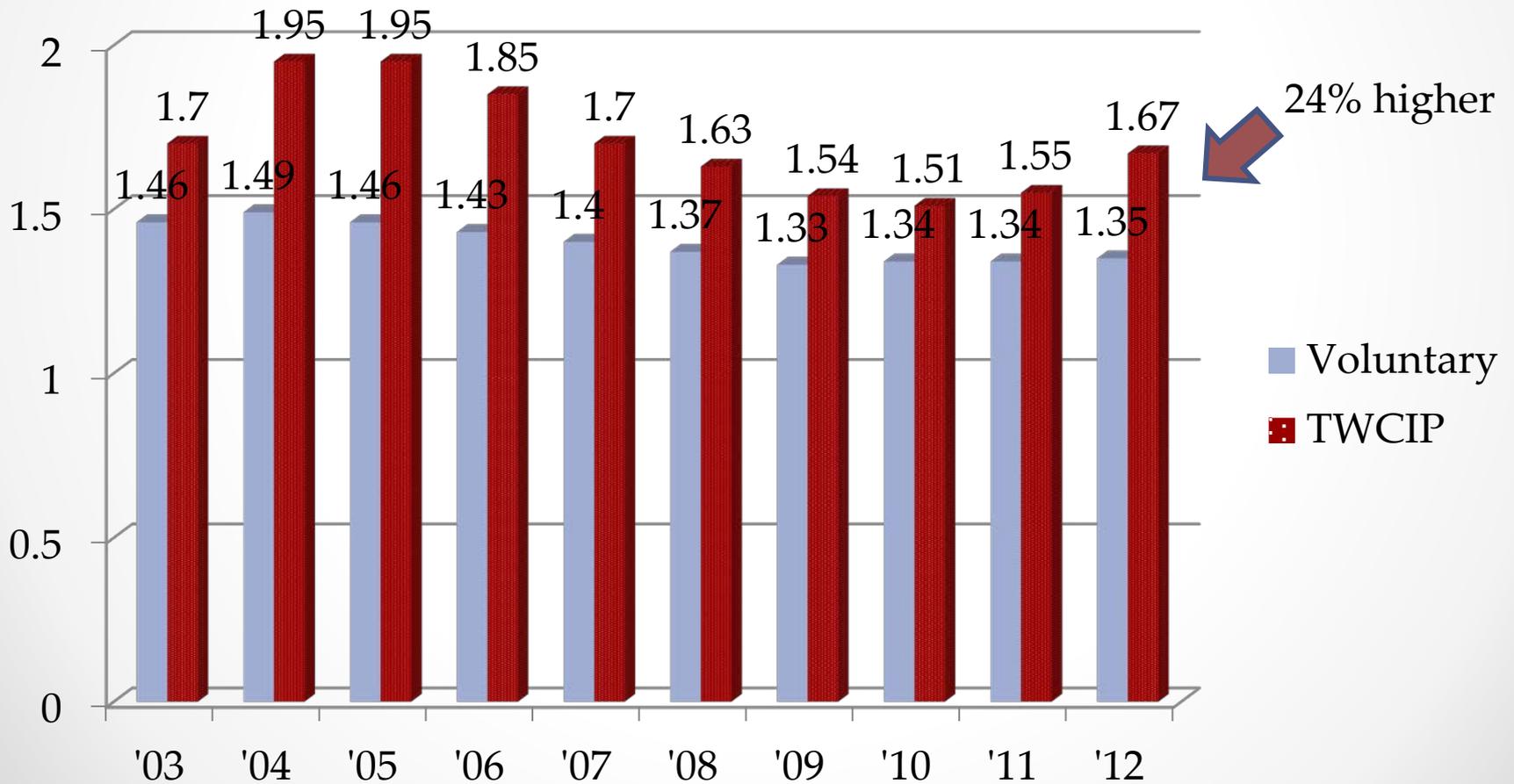


# TWCIP LCM History



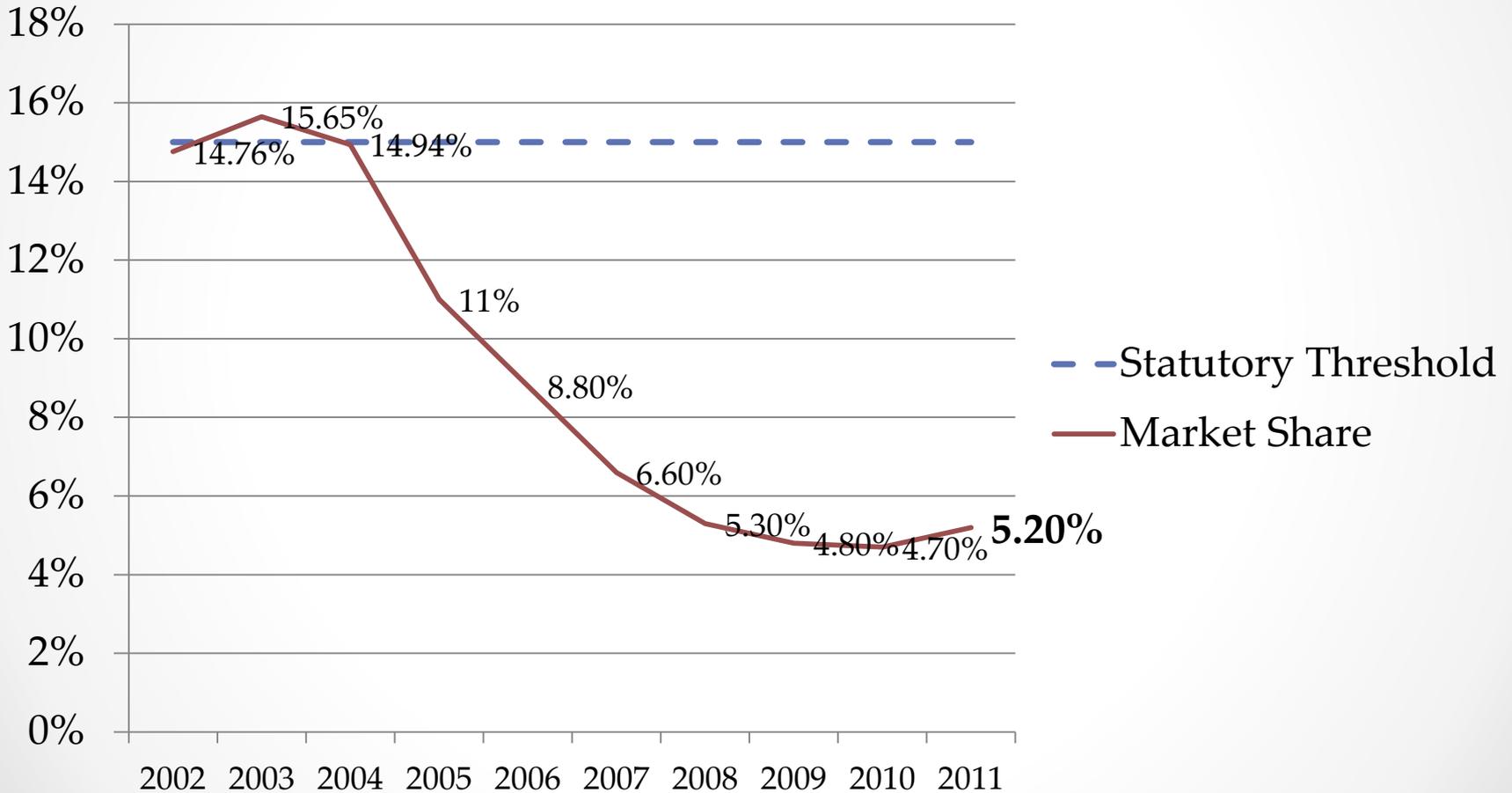
# LCM History: Voluntary vs. TWCIP

TWCIP 22% On Average Higher

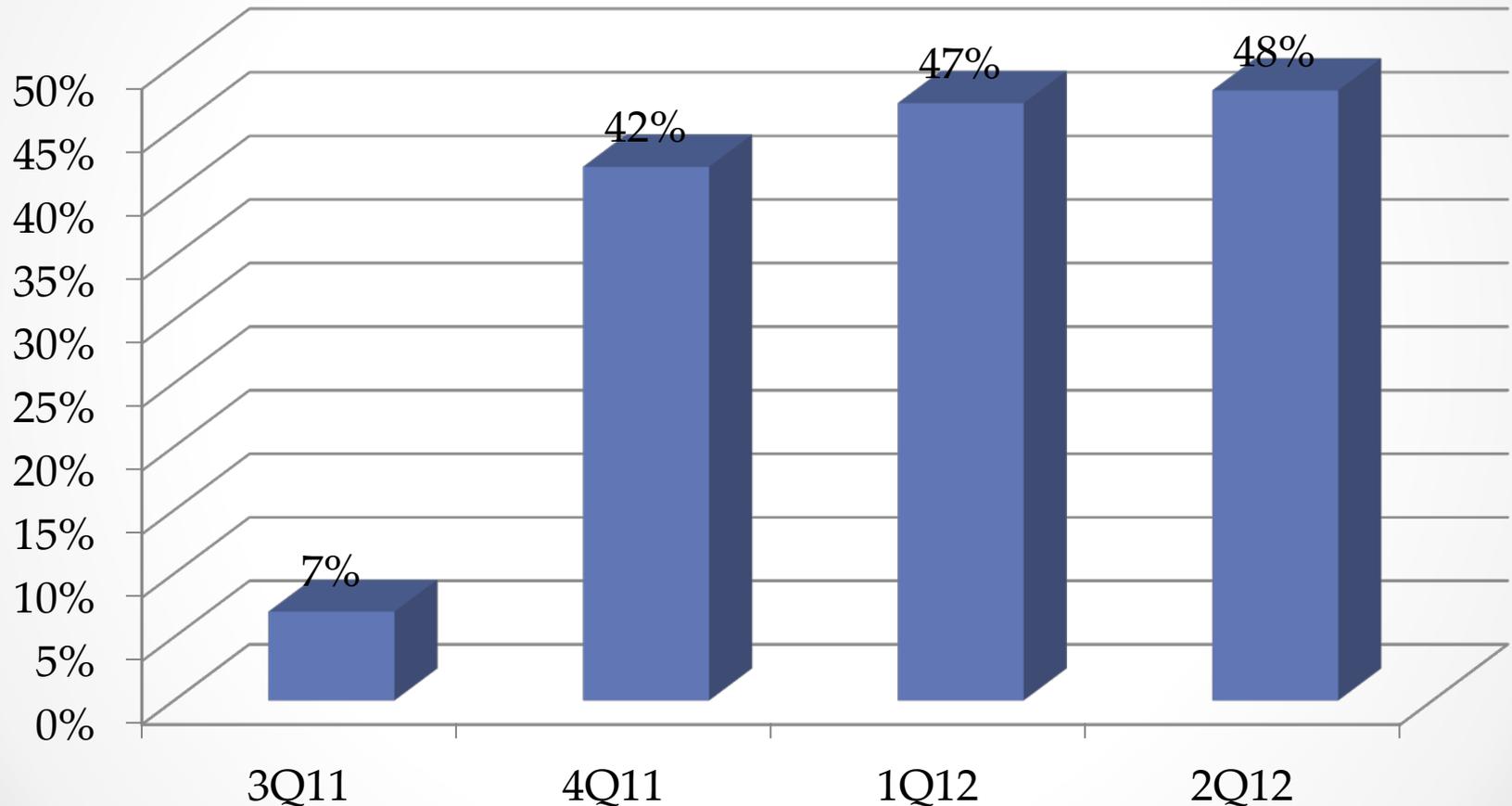


# TN Assigned Risk Market Share - NAIC

## Direct Premium Written



# TN Assigned Risk Bookings Up Dramatically Over Past Three Quarters



As compared to same quarter prior year

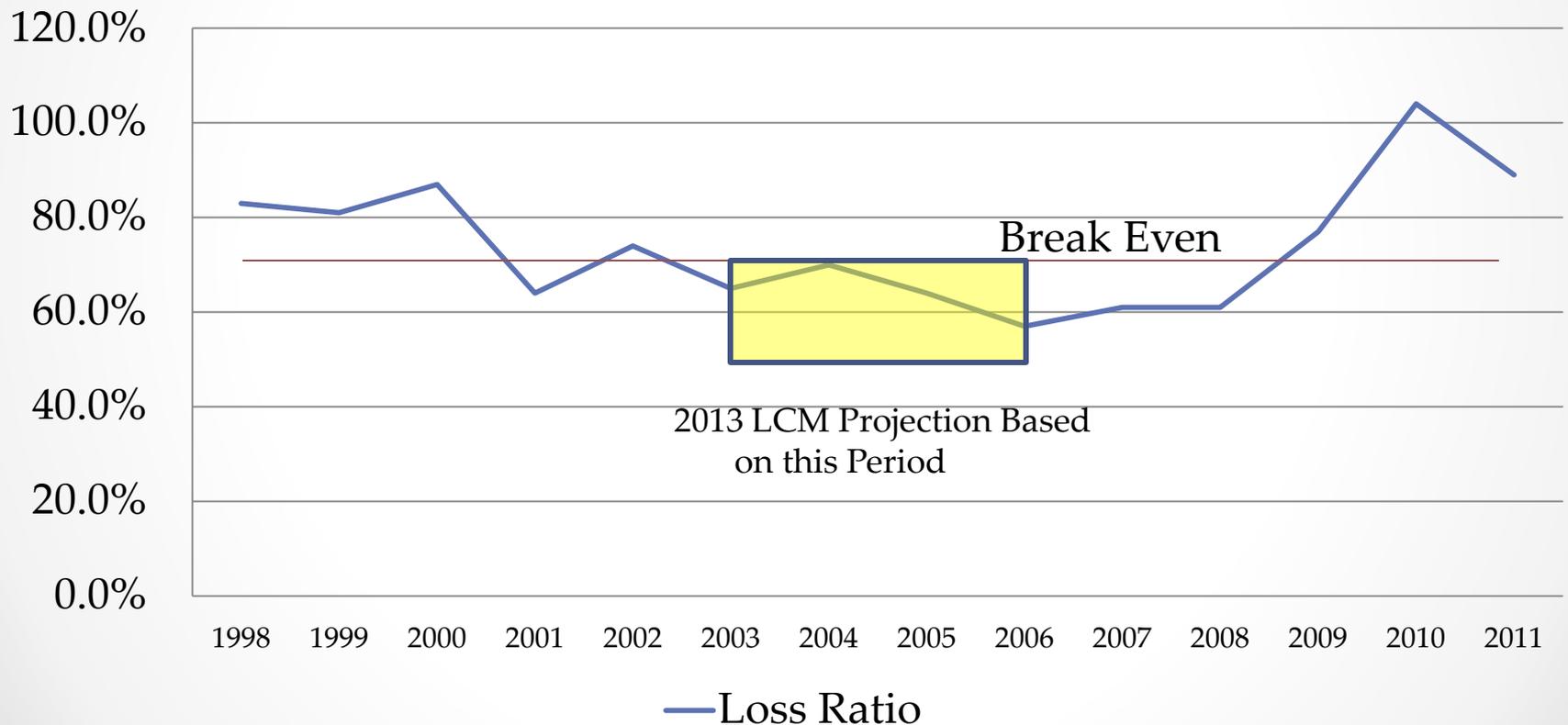
# TCA § 56-5-314 (c)(6)(B)

- “The commissioner shall annually establish the multiplier to be applied to the advisory prospective loss cost for the assigned risk plan. In establishing such multiplier, the commissioner shall consider the **estimated cost of providing required services** pursuant to this subsection and the **level of the multipliers in the voluntary market.**” (emphasis added)



# Servicing Carrier Loss Ratio History

(1.52 LCM Levelled)



# Six Active Self-Insured Groups

## Self Insured Groups

Associated Builders & Contractors of Tennessee

Comptrust AGC of Tennessee

Home Builders Association of Tennessee

Tennessee Automotive Association

Tennessee Forestry Association

Tennessee Health Care Association

# Insolvencies

- Individual carrier data included in this section includes insolvencies over \$1million in total losses.



# WC Insolvency Data – Valued 6/29/12

(Listing Only Carriers Having Over \$1M Total Unpaid Losses)

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,759	36,889,078	25,432,402
Home Ins. Co. (6/03)	125	2,587,943	5,199,666
Reciprocal of America (6/03)	313	1,597,269	3,055,181
Legion & Villanova (7/03)	1,878	38,905,293	23,566,456
Casualty Reciprocal (8/04)	52	1,558,510	2,755,635
Realm National (6/05)	52	2,822,798	3,599,322
Imperial Casualty (5/10)	127	1,452,043	1,700,356
Pegasus (8/10)	6	138,030	1,230,990
<b>Totals (all since 10/3/01)</b>	<b>4,312</b>	<b>85,950,964</b>	<b>66,540,008</b>

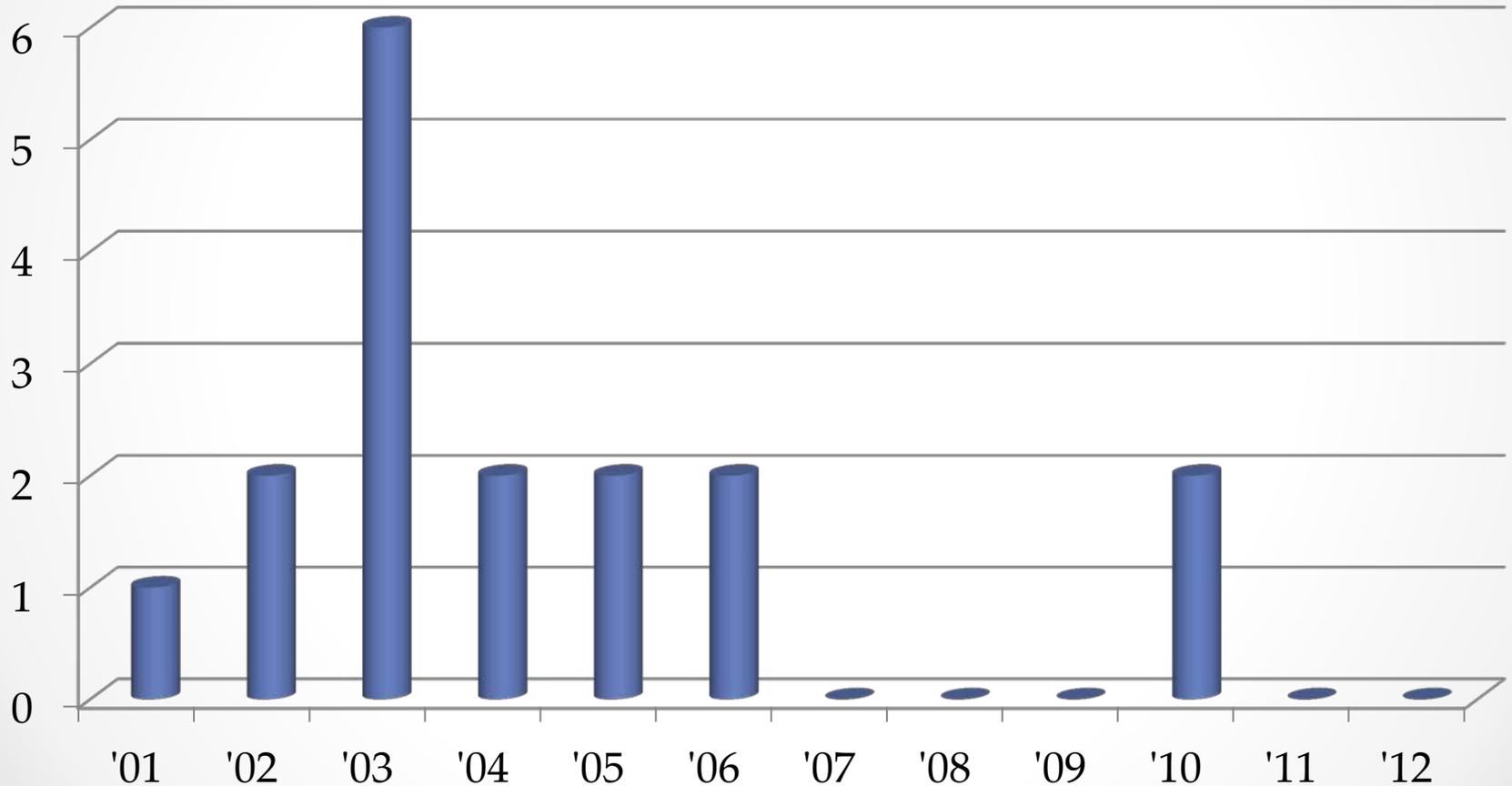
Source: TN Guarantee Association

# WC insolvency Data On the radar screen:

- ❑ Lumbermens Mutual Group (Previously the Kemper Group - IL Domestic)
  - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in Tennessee.
  - Premium as of December 31, 2011: \$43K
  - Was put into formal rehab on 6/26/12 terminating the runoff and foreshadowing liquidation at a point unknown.
  - Unpaid losses as of 12/31/11 – Annual Statement: \$7M
  - Experience has shown that unpaid claims reserves generally are larger than indicated.

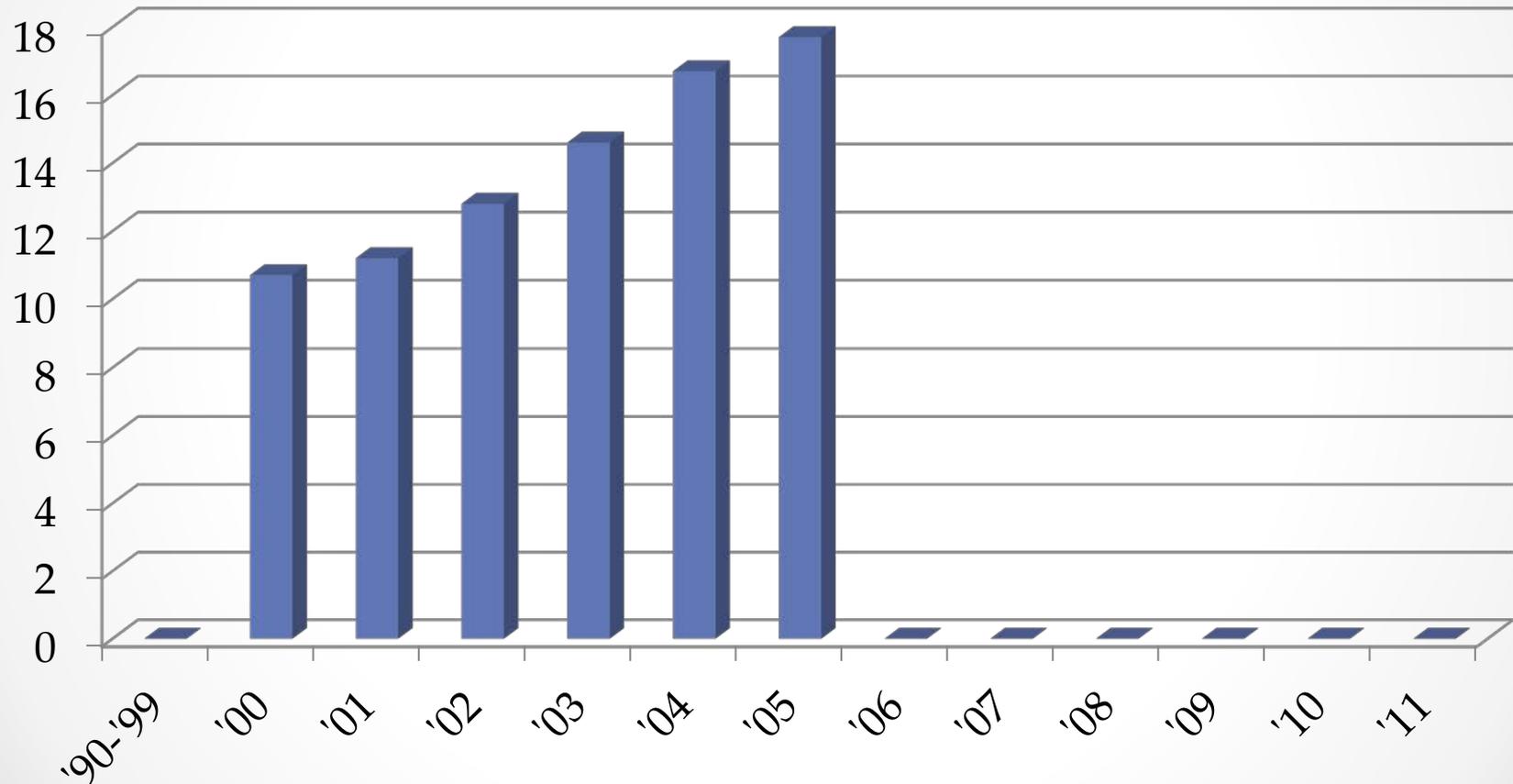


# Number of WC Carrier Insolvencies Per Year Impacting TN



Source: TN Guarantee Association; 2003 Legion & Villanova are combined & shown as one.

# TN Guaranty Fund Assessment History (Millions)



# TN Restaurant Association

- All claims have been paid.
- TDCI is working to conclude the receivership with a final report to the court accompanied by a plan for payment of a minimal amount of final expenses.

# In Summary

## Negatives

- Underwriting results
- Frequency essentially flat
- Interest rates at historic lows
- Uncertain impact from healthcare reform
- Pace of economic recovery

## Positives

- Premium increased
- Severity growth moderate
- Overall loss cost impact of frequency & severity minimal
- Improved TN AY Combined Ratio
- Market firming



# Summary: NCCI Filings Reported

## Quarterly



<p><b><u>Third Quarter 2011</u></b></p> <ul style="list-style-type: none"> <li>• Item R-1402</li> <li>• Item R-1403</li> <li>• Item B-1424</li> <li>• Item E-1402</li> <li>• Item 03-TN-2011 Item RM-03-TN-2011</li> <li>• Item B-1425</li> </ul>	<ul style="list-style-type: none"> <li>• 2011 Update to Retrospective Rating Plan Parameters – Excess Loss Factors and Update to Basic Manual Appendix E</li> <li>• 2011 Update to Retrospective Rating Plan Parameters – Expected Loss Ranges and State Hazard Group Differentials</li> <li>• Revisions to Basic Manual Classification Code 7711 – Firefighters &amp; Drivers - Volunteer</li> <li>✓ Revisions to the Experience Rating Plan Primary/Excess Split Value and Max. Debit Modification Formula</li> <li>• Revisions to the Basic Manual TN State Rule Exception for Rule 2-E-1-B and Rule 2-E-3 (Voluntary and Assigned Risk Filings)</li> <li>• Revisions to the Employers Liability and Admiralty or FELA Coverage Increased Limits Percentage and Factors</li> </ul>
<p><b><u>Fourth Quarter 2011</u></b></p> <ul style="list-style-type: none"> <li>• Item U-1398</li> <li>• Item 04-TN-2011 Item RM-04-TN-2011</li> </ul>	<ul style="list-style-type: none"> <li>• Revisions to Statistical Plan for Workers' Compensation and Employers Liability</li> <li>• Revisions to Basic Manual TN State Rule Exceptions for Rule 2-E-1-B and Rule 2-E-3 (Voluntary &amp; Assigned Risk Filings)</li> </ul>

# Summary: NCCI Filings Reported Quarterly (continued)

<p><u>First Quarter 2012</u></p> <ul style="list-style-type: none"><li>• 01-TN-2012 RM-01-TN-2012</li><li>• NCCI-128202476</li></ul>	<ul style="list-style-type: none"><li>• Revisions to <i>Basic Manual</i> Classifications for Tire Salespersons (Voluntary and Assigned Risk Filings)</li><li>✓ Large Account Incurred Loss Premium Adjustment Plan (TAIL Plan) &amp; Endorsements</li></ul>
<p><u>Second Quarter 2012</u></p> <ul style="list-style-type: none"><li>• <u>R-1404</u></li><li>• <u>R-1405</u></li></ul>	<ul style="list-style-type: none"><li>• Update to Retrospective Rating Plan Parameters – Excess Loss Factors</li><li>• Update to Retrospective Rating Plan Parameters – Expected Loss Ranges and State Hazard Group Differentials</li></ul>