

By The Numbers
Actuarial
Consulting, Inc.



March 9, 2016

Mr. David H. Lillard, Jr., Tennessee State Treasurer
Chairman, Advisory Council on Workers' Compensation
State Capitol, 1st Floor
600 Charlotte Avenue
Nashville, Tennessee 37243-0225

Dear Mr. Lillard:

By the Numbers Actuarial Consulting, Inc. (BYNAC) has been retained by the Tennessee Advisory Council on Workers' Compensation to present a professional analysis of the National Council on Compensation Insurance, Inc. (NCCI) Tennessee Voluntary Lost Cost and Assigned Risk Rate Law-Only Filing effective 8/28/16. The basis of the analysis is the NCCI filing memorandum dated 2/5/16 and answers to questions concerning the filings provided by NCCI. BYNAC did not audit the data underlying the NCCI filing, nor did we verify the accuracy of NCCI's detail calculations.

Based on BYNAC's review of the NCCI filing, the proposed change of -2.7% effective 8/28/16 has been reasonably calculated in accordance with actuarial standards of practice.

The 8/28/16 filing adjusts the loss costs for the impact of Tennessee Rule 0800-02-25, specifically the use of a closed drug formulary and medical treatment guidelines. NCCI has estimated that the adoption of a closed drug formulary will result in an impact of -2.7% on overall workers compensation costs in Tennessee. While NCCI believes the establishment of medical treatment guidelines has the potential to reduce costs, NCCI is unable to estimate the potential cost impact at this time.

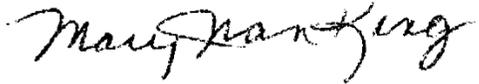
NCCI used two methods to estimate the impact of the drug change, one based on observed statistics from a state that implemented a closed formulary and one based on reasonable assumptions concerning the effect of the change. BYNAC believes the assumptions used were reasonable. The use of two methods reduces the possibility that the change is being overestimated due to unforeseen consequences of the change.

BYNAC is also in agreement with NCCI's conclusion that the effect of the medical treatment guidelines cannot be estimated at this time.

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If you have any questions, please call or write. It is a pleasure to be of service to the Advisory Council.

Sincerely,



Mary Jean King, FCAS, CERA, MAAA
Senior Vice President and Consulting Actuary



Lisa Dennison, FCAS, MAAA
President and Consulting Actuary

cc: Lynn Schroeder, Esq.
Administrator, Advisory Council on Workers' Compensation