



**Tennessee Workers Compensation
Voluntary Loss Cost and
Assigned Risk Rate Filing
Proposed to be Effective March 1, 2017**

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On Workers Compensation
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Overview of Filing Proposed to be Effective March 1, 2017

- Proposed changes voluntary loss costs and assigned risk rates
 - Voluntary loss cost change: -12.8%
 - Assigned risk rate change: -10.7%
- Proposed changes to expense constant and minimum premium parameters for assigned risk policies

Description	Current Value	Proposed Value
Expense Constant	\$215	\$160
Minimum Premium Multiplier	\$158	\$200
Maximum Minimum Premium	\$800	\$1,250

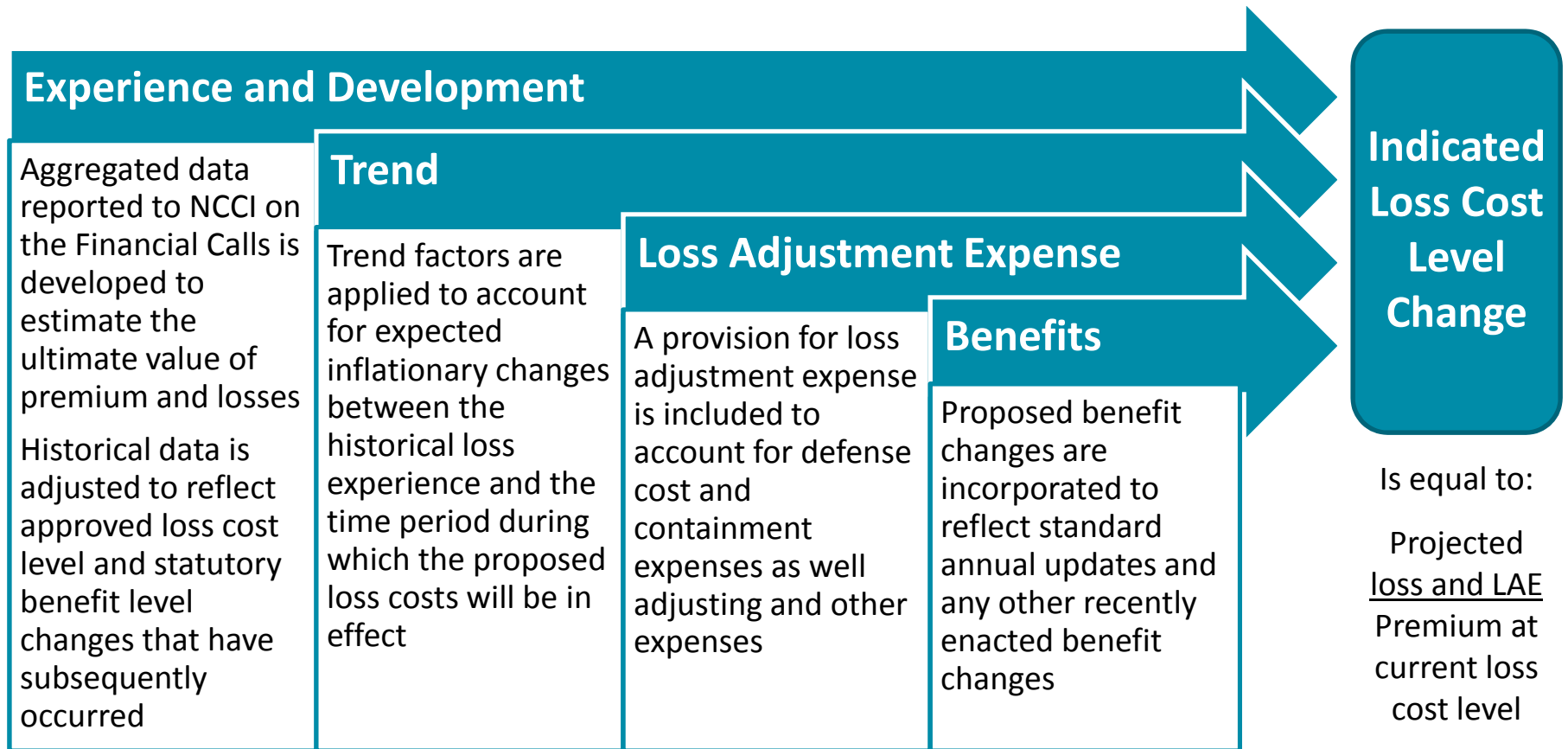


Voluntary Loss Costs



Tennessee

Determining the Voluntary Loss Cost Level Change



Tennessee Voluntary Loss Cost Filing Proposed Effective March 1, 2017

Proposed Change in Voluntary Loss Cost Level:

Component	Impact
Change in Experience & Development	-9.8%
Change in Trend	-3.8%
Change in Benefits	+0.4%
Change in Loss Adjustment Expense	+0.3%
Offset due to Change in Minimum Premium Parameters	-0.2%
Overall Average Loss Cost Level Change	-12.8%

Experience and Development

- The overall indication is based on an average of the latest two policy years
 - Policy year data consists of the premium and losses derived from all policies written in a given year
 - Use of the latest two years reflects premium volume in the state and is responsive to recent trends
- Loss base reflects an average of paid and paid+case limited losses
 - 2-year average for paid link ratios
 - 5-year average for paid+case ratios



Summary of Voluntary Loss Cost Indications

Basis of Development	Policy Year 2013	Policy Year 2014	Average of Policy Years 2013 and 2014
Paid 2-year average	-10.8%	-12.9%	-11.8%
Paid + Case 5-yr average	-14.5%	-13.0%	-13.7%
Average of Paid and Paid + Case Losses	-12.7%	-13.0%	-12.8%



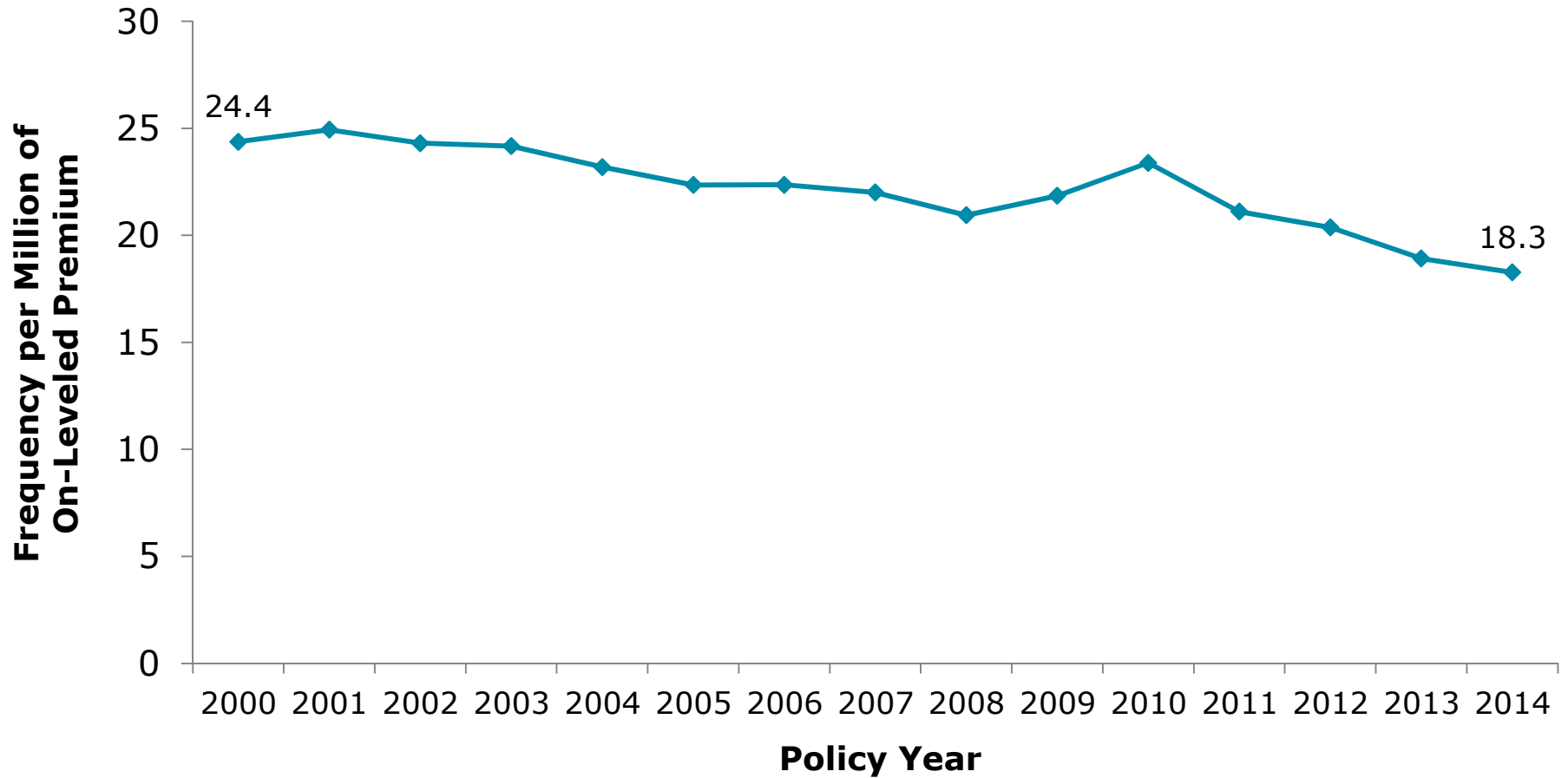
Trend Analysis

- NCCI's trend analysis includes a review of the patterns in the aggregate loss ratios, as well as an analysis of the frequency and severity components of the loss ratio:

$$\text{Loss Ratio} = \text{Claim Frequency} \times \text{Claim Severity}$$

- Lost-time claim frequency continues to decrease
- Indemnity severity has risen at the latest point, while medical severity has remained fairly flat
- The changes in frequency have generally outpaced the changes in severity, so overall the loss ratio trends are favorable

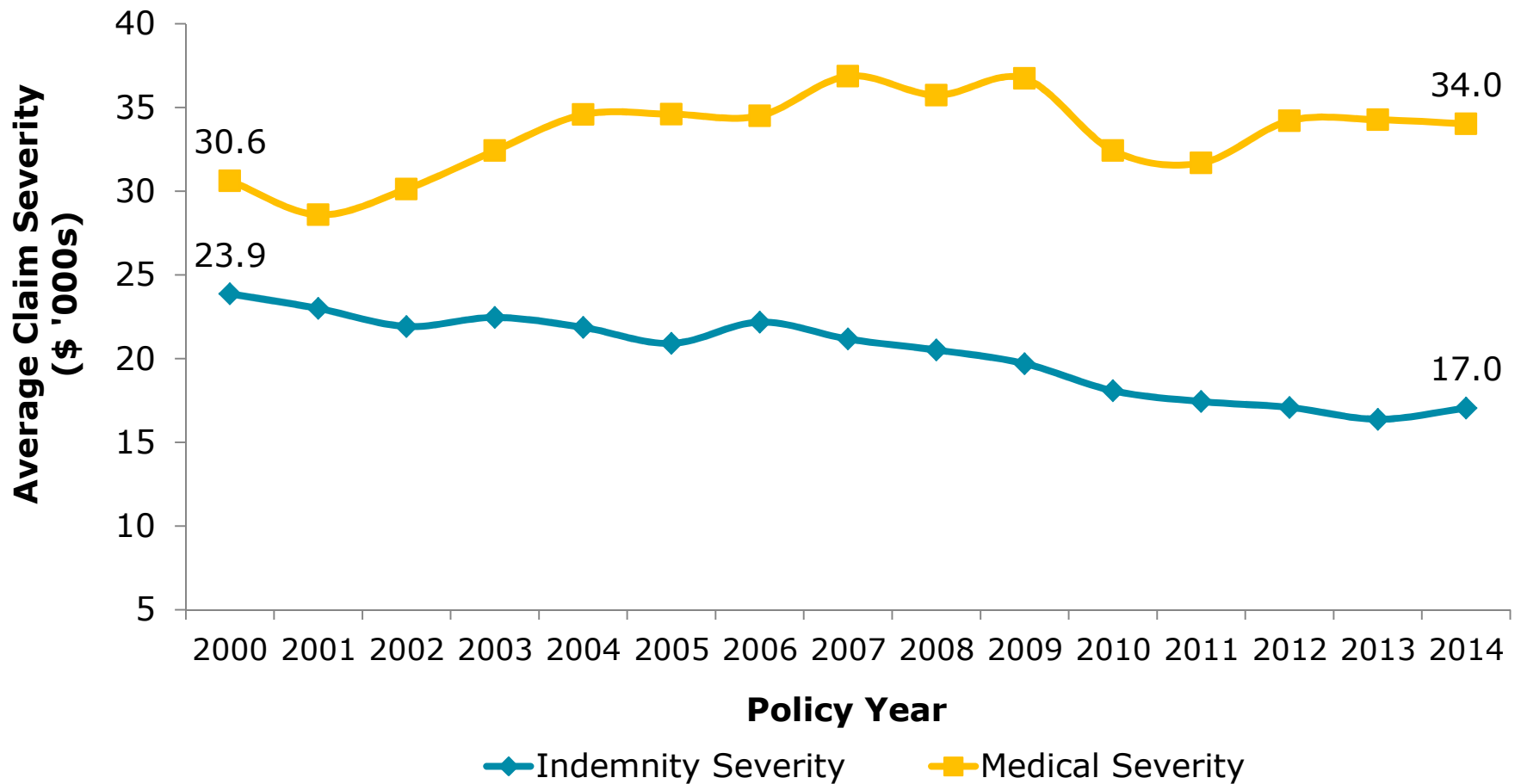
Tennessee Claim Frequency



Based on NCCI's financial data
Frequency of lost-time claims adjusted to a common wage level



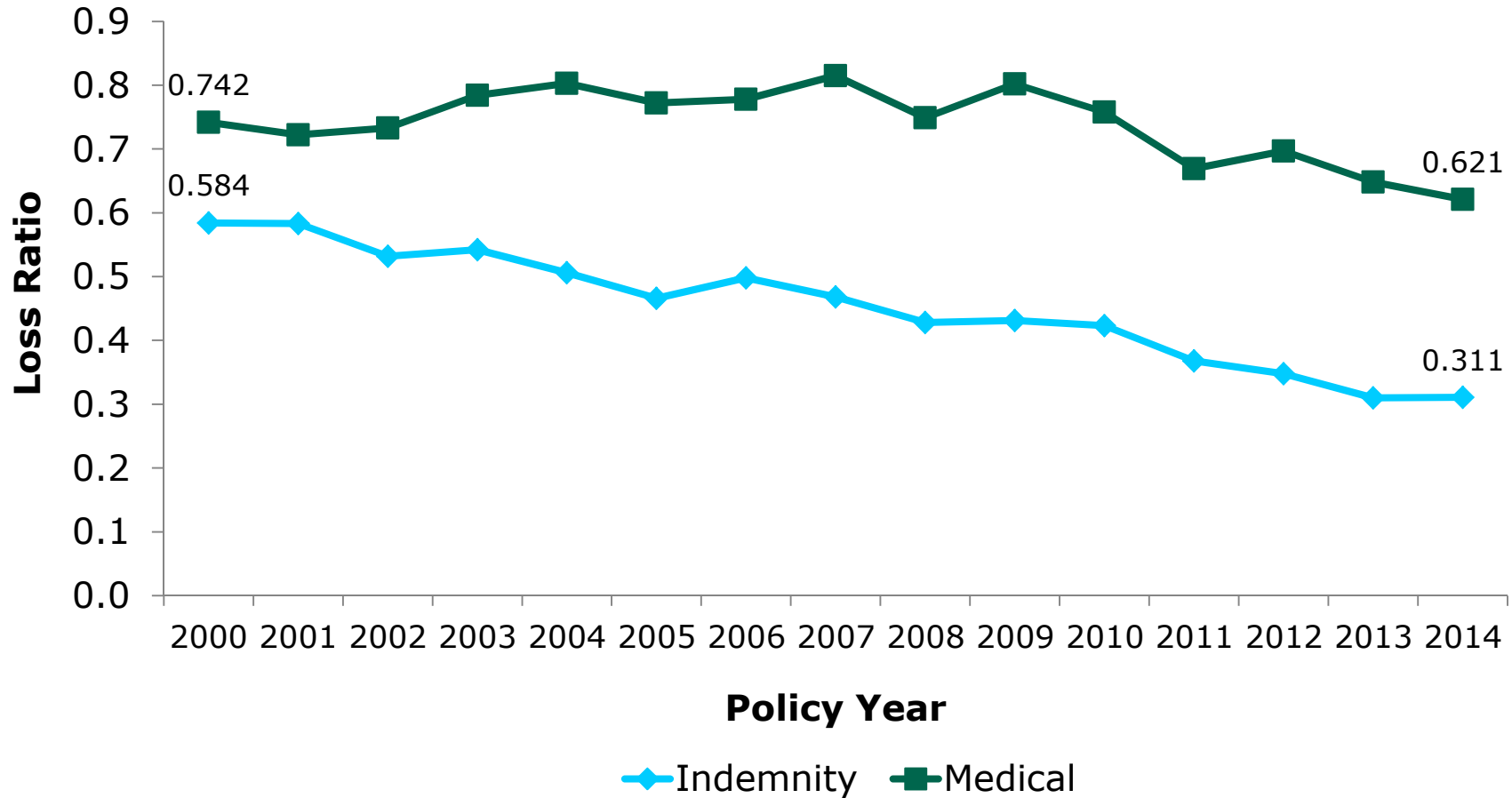
Tennessee Average Claim Severity



Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate



Tennessee's Indemnity and Medical Loss Ratios



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



Summary of Indicated Trends

	Frequency	Indemnity Severity	Medical Severity
Policy Year 5-Pt Exponential	-5.9%	-1.8%	+1.8%
Policy Year 8-Pt Exponential	-2.5%	-3.6%	-1.2%
Policy Year 15-Pt Exponential	-1.8%	-2.6%	+0.8%

	Indemnity Loss Ratio	Medical Loss Ratio
Policy Year 5-Pt Exponential	-7.6%	-4.2%
Policy Year 8-Pt Exponential	-6.1%	-3.7%
Policy Year 15-Pt Exponential	-4.4%	-1.0%
Selected Trends	-5.0%	-1.5%



Tennessee Loss Adjustment Expense (LAE)

- The 20.1% provision for LAE includes separate provisions of
 - 12.7% for Defense and Cost Containment Expense (DCCE), based on countrywide analysis adjusted by state relativity
 - 7.4% for Adjusting and Other Expense (AOE) based on the countrywide analysis
- Similar to last year, the LAE methodology incorporates the selection of tail factors which are used to develop the ratios of DCCE-to-loss and AOE-to-loss
- NCCI reviewed various LAE indications based on NCCI's current dollar development approach as well as alternate indications based on a ratio development approach

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:

$$\text{Relativity} = \frac{\text{TN Paid DCCE to TN Paid Loss}}{\text{CW Paid DCCE to CW Paid Loss}} = \frac{11.9\%}{12.4\%} = 0.960$$

$$\text{TN DCCE} = 0.960 \times 13.2\% = 12.7\%$$

- Tennessee LAE provision:



Benefits

■ Indemnity

- 7/1/2016 revision to the indemnity benefit levels reflecting the impact of a change in the state average weekly wage on the maximum weekly benefits
- Estimated to have an impact of +1.0% on indemnity costs; +0.3% on overall costs

■ Medical

- 1/1/2016 revision to the medical benefit levels reflecting the impact of the changes in the medical fee schedules
- Estimated to have an impact +0.1% on medical costs; +0.1% on overall costs

Summary of Loss Cost Filing Methodology

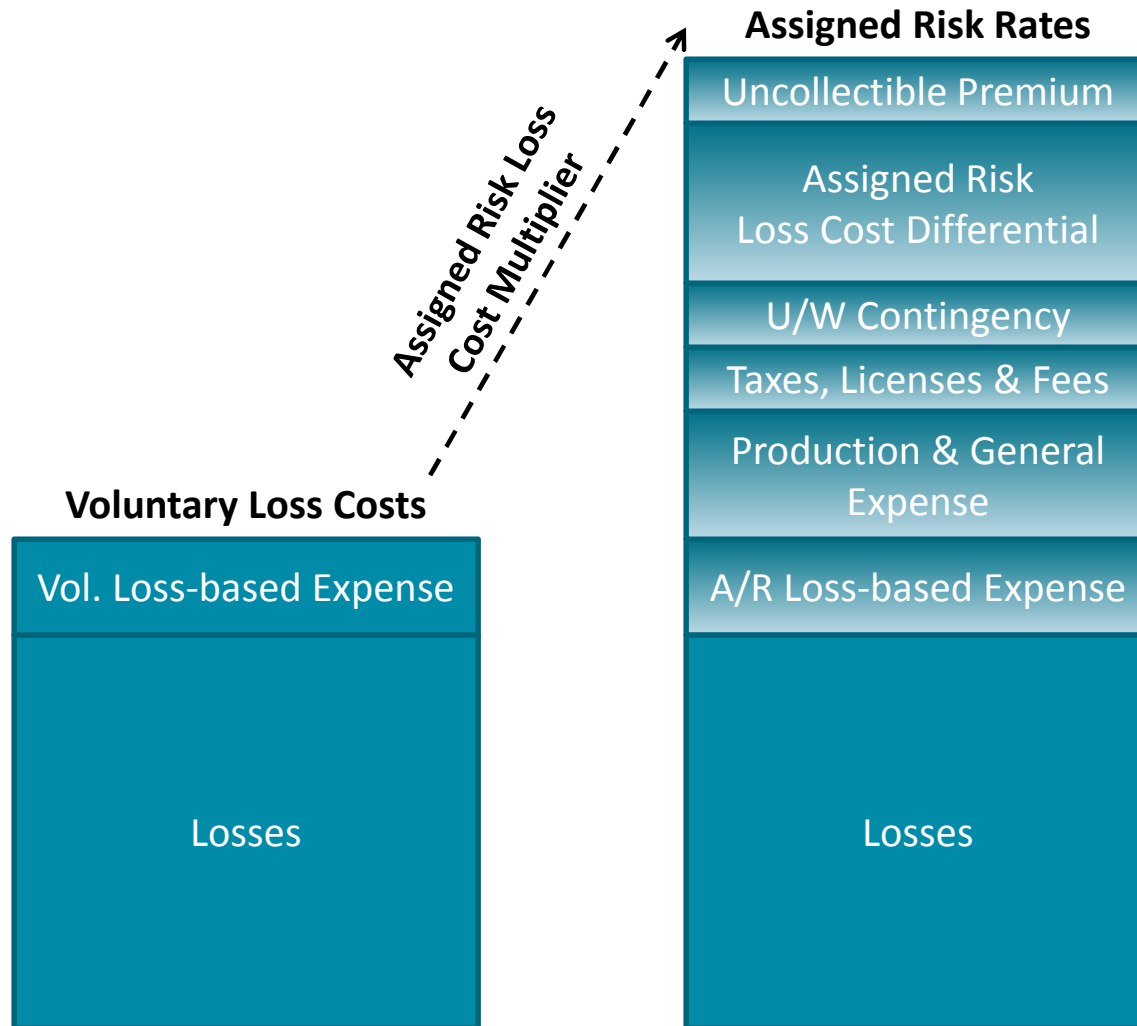
Component	Methodology Underlying 3/1/2016 Approved Loss Costs	Methodology Underlying 3/1/2017 Proposed Loss Costs
Experience Period	Most Recent 2 Policy Years 2012 & 2013	Most Recent 2 Policy Years 2013 & 2014
Loss Type	Average of Paid Losses and Paid + Case Losses	Average of Paid Losses and Paid + Case Losses
Loss Development	Paid: 2-year average Paid + Case: 5-year average	Paid: 2-year average Paid + Case: 5-year average
Annual Trend Factor	Indemnity: -4.0% Medical: -0.5%	Indemnity: -5.0% Medical: -1.5%
Loss Adjustment Expense Provision	19.8%	20.1%



Assigned Risk Rates

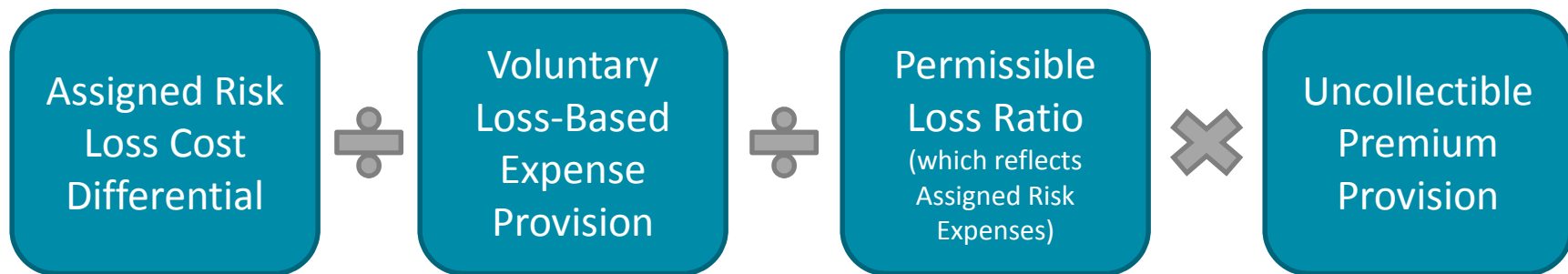


General Relationship Between Voluntary Loss Costs and Assigned Risk Rates



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)

(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 impacts of Removal of Premium Discount and the impact of Assigned Risk Adjustment Program (ARAP)

Assigned Risk Loss Cost Differential

(1) Policy Year	(2) Assigned Risk Loss Ratio	(3) Statewide Loss Ratio	(4) Indicated Assigned Risk Pure Premium Differential on a Standard Basis (2)/(3)
2005	1.660	1.162	1.429
2006	1.964	1.201	1.635
2007	2.178	1.205	1.807
2008	2.133	1.066	2.001
2009	2.081	1.067	1.950
2010	2.453	1.012	2.424
2011	1.641	0.843	1.947
2012	1.169	0.827	1.414
2013	1.050	0.733	1.432
2014	1.213	0.686	1.768
10-year Average			1.781



Selected Assigned Risk Loss Cost Differential

	Component	Value
(1)	Indicated Assigned Risk Differential on a Standard Premium Basis	1.781
(2)	Estimated Impact of Removal of Premium Discounts	1.069
(3)	Estimated Impact of ARAP	1.103
(4)	Indicated Assigned Risk Differential (1) / [(2)*(3)]	1.510
(5)	Current Assigned Risk Differential	1.200
(6)	Selected Assigned Risk Differential	1.250

Components of the Permissible Loss Ratio

- Permissible Loss Ratio: 63.2%
 - 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: 5.6%
 - 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

Summary of Components Underlying the Proposed Assigned Risk Loss Cost Multiplier

	Component	Selections Underlying 3/1/2016 Approved Assigned Risk Rates	Selections Underlying 3/1/2017 Proposed Assigned Risk Rates
(1)	Assigned Risk Differential	1.200	1.250
(2)	Voluntary Loss Based Expense	1.198	1.201
(3)	Permissible Loss Ratio	0.623	0.632
(4)	Uncollectible Premium Provision	1.032	1.032
(5)	Assigned Risk LCM [[1)/(2)]/(3)*(4)	1.660	1.700



Questions?

