



# Summary of Tennessee Voluntary Market Loss Cost Filing

## Experience Filing Proposed Effective March 1, 2013

NCCI Presentation to  
Advisory Council on Worker's Compensation  
October 1, 2012

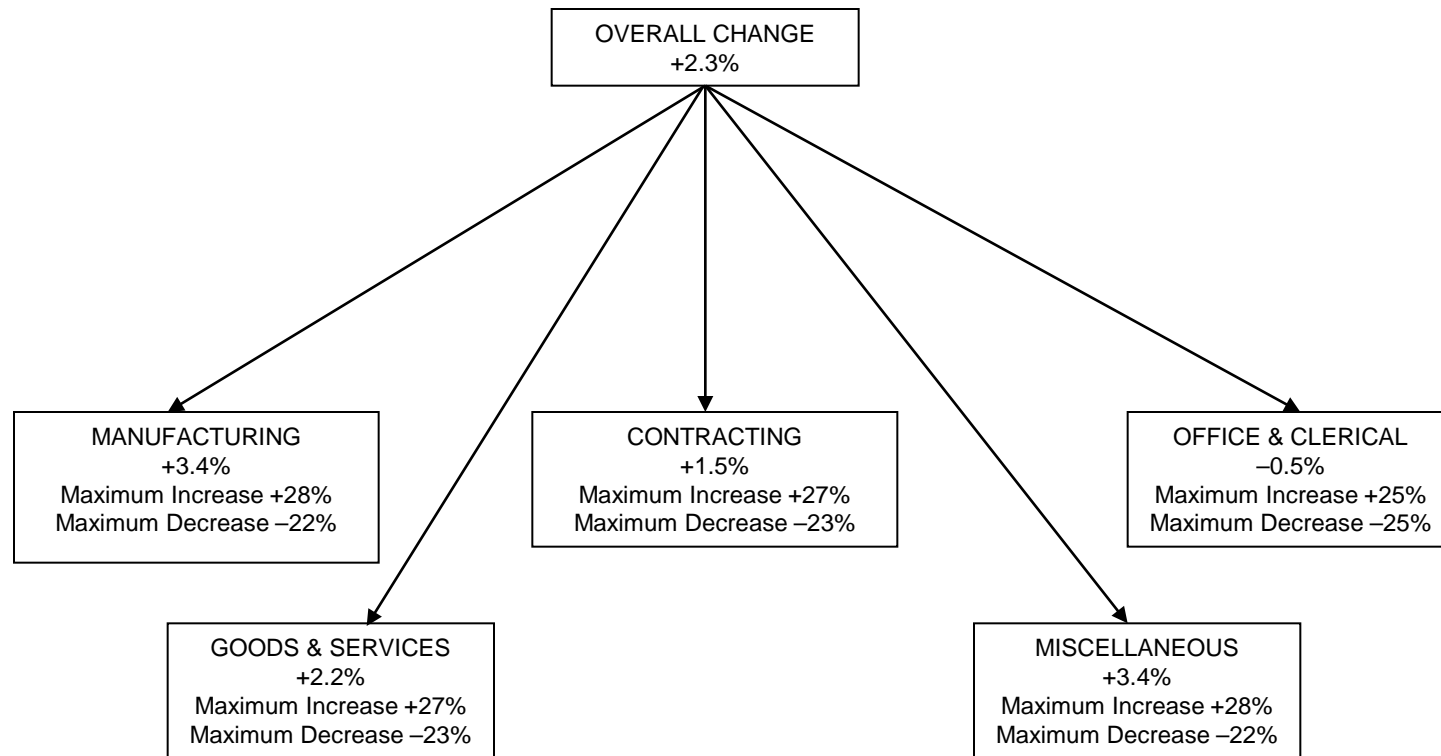
Presented by  
Karen Ayres, FCAS, MAAA  
Karen\_Ayres@NCCI.com  
(201) 386-2636

# Summary by Component

## Proposed Effective March 1, 2013

<b>Component</b>	<b>Percent Impact</b>
Experience	+0.5%
Development	+0.9%
Trend	0.0%
Benefits	+0.1%
Loss Adjustment Expense (LAE)	+0.1%
Employers Liability Offset	+0.7%
Overall Indication	+2.3%

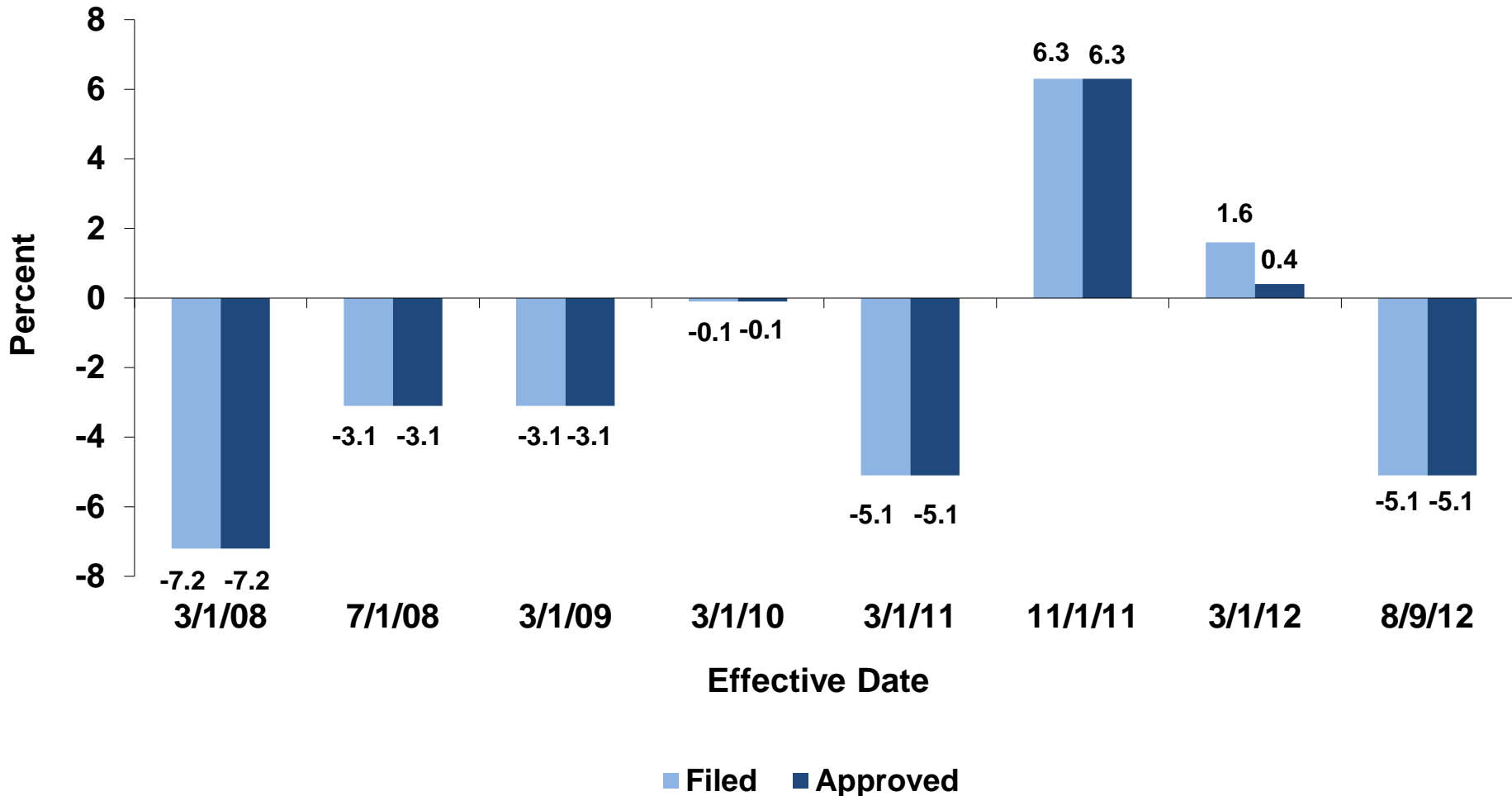
# Tennessee March 1, 2013 Filing Average Changes by Industry Group



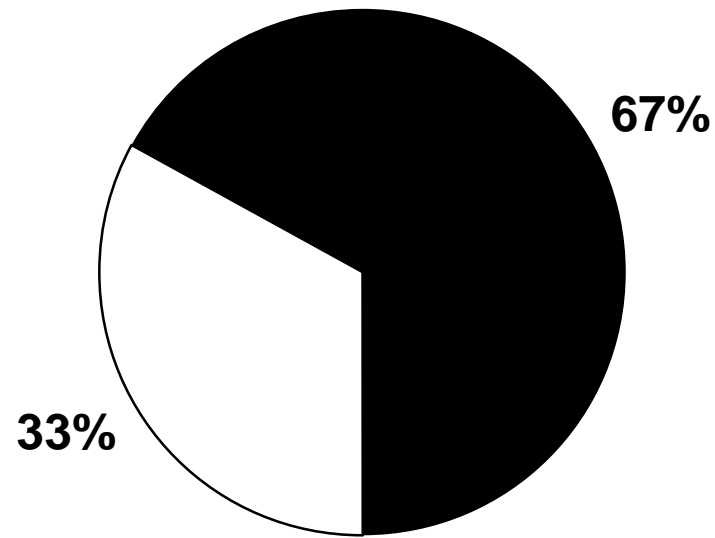
Source: Tennessee Loss Cost Filing, Proposed Effective 3/1/2013

# Tennessee Filing Activity

## Voluntary Loss Cost Changes



# Tennessee Distribution of Benefits



□ Indemnity    ■ Medical

Based on NCCI Financial Call Data for Policy Years 2009 and 2010, projected to 7/1/2012.

# Methodology for Indication

- Experience Period: Latest 2 Policy Years (No Change)
- Loss Methodology: Paid + Case (No Change)
- Loss Development: 5 Year Average (No Change)
- Tail Factor
  - Indemnity: 1.003 (1.005 Last Year)
  - Medical: 1.028 (1.032 Last Year)
- Trend
  - Indemnity: 0.970 (No Change)
  - Medical: 1.005 (No Change)
- Loss Adjustment Expense: 19.8% (19.7% Last Year)



# Tennessee Tail Factor

	3/1/2013	3/1/2012	% Change
Indemnity	1.003	1.005	-0.2%
Medical	1.028	1.032	-0.4%

- Accounts for loss development after a 19<sup>th</sup> Report
- Calculated as the average of the latest 5 tail factors
- Modification to methodology incorporated into this filing uses PY Paid + Case data

# Trend

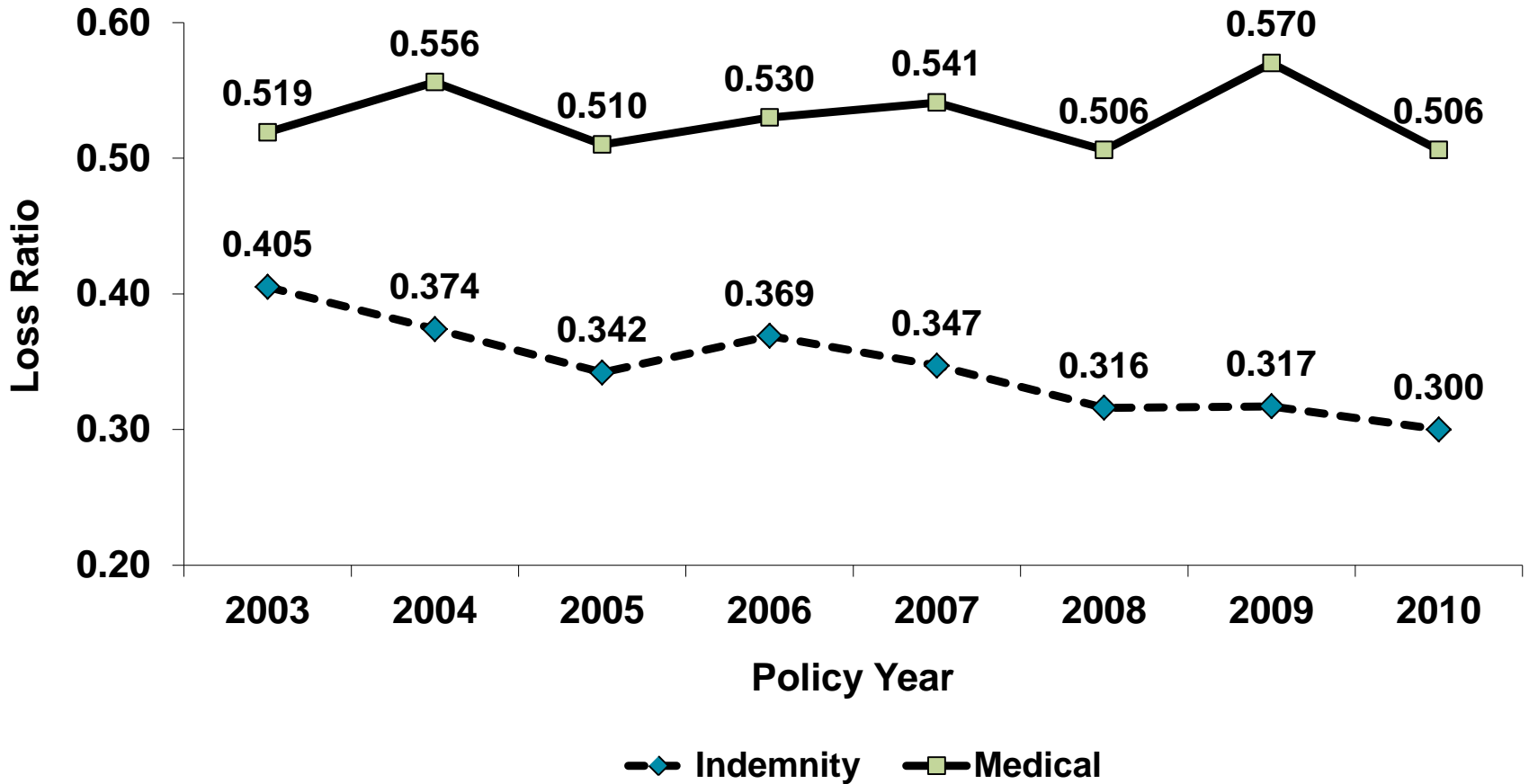
NCCI's trend analysis includes a review of the observed patterns in the aggregate loss ratios, as well as an analysis of the frequency and severity components of the loss ratio

Loss Ratio = Claim Frequency X Claim Severity

$$\frac{\text{Losses}}{\text{Premium}} = \left[ \frac{\text{Number of Claims}}{\text{Premium}} \right] \times \left[ \frac{\text{Losses}}{\text{Number of Claims}} \right]$$

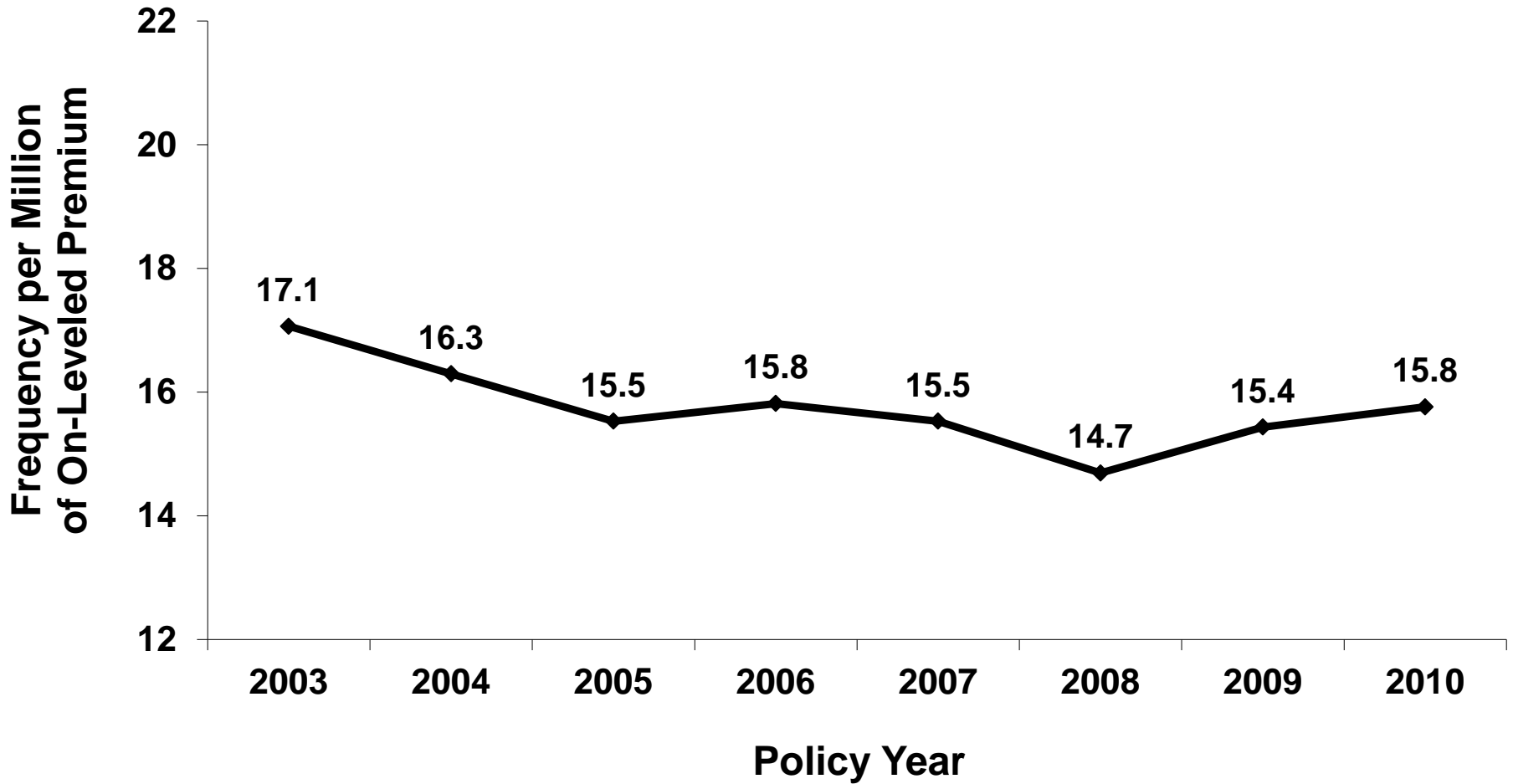


# Tennessee Indemnity and Medical Loss Ratios



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

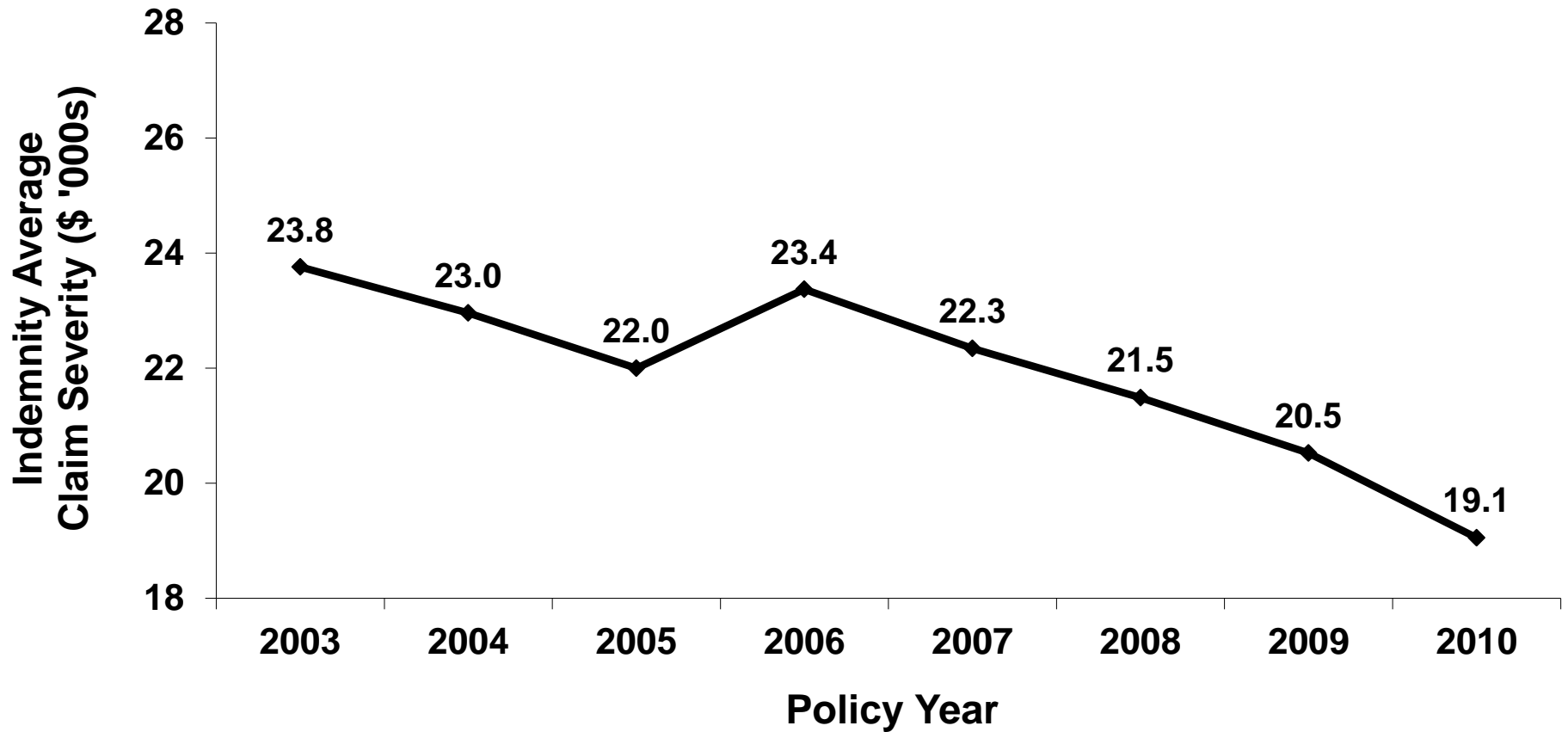
# Tennessee Claim Frequency



Based on NCCI's financial data.  
Frequency of lost-time claims.

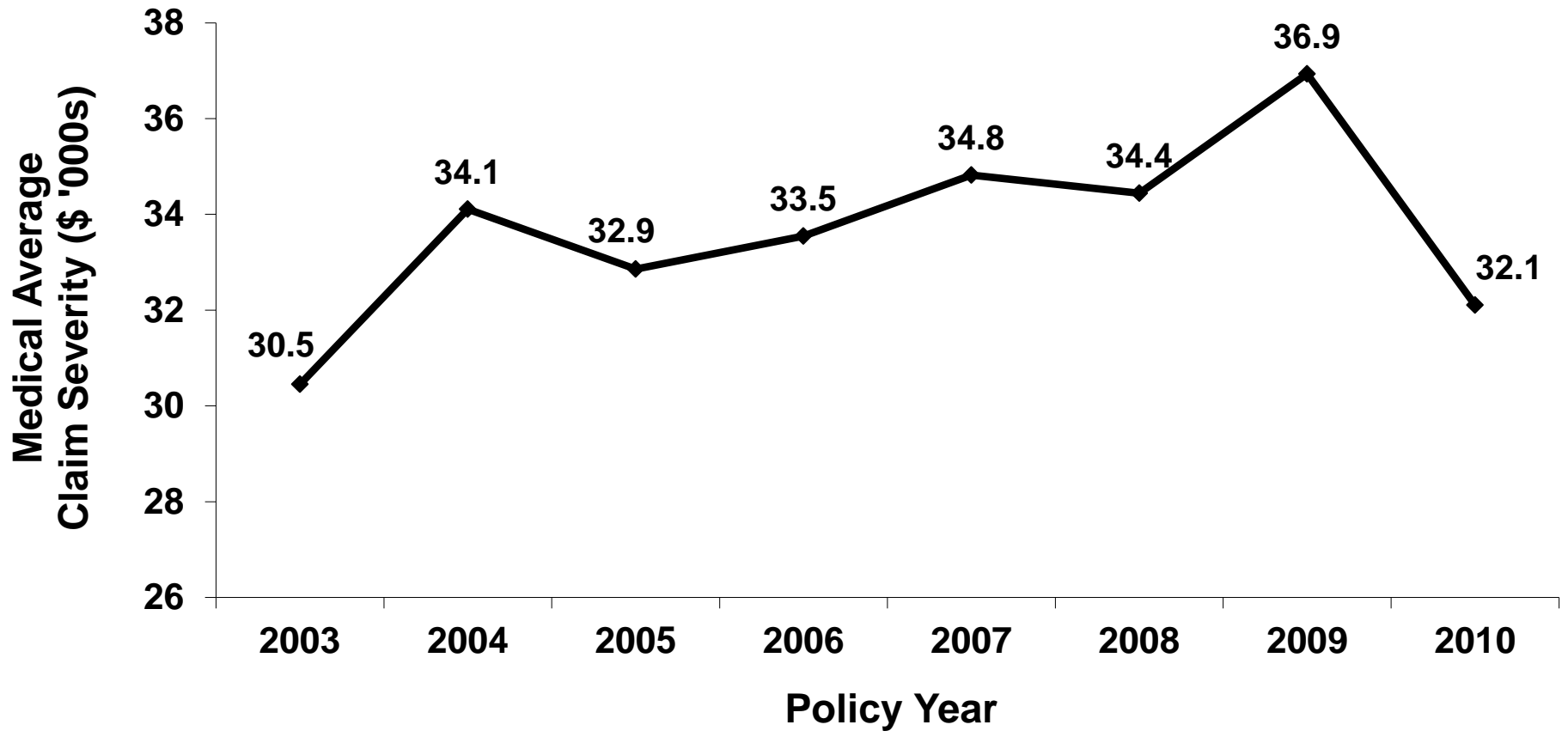


# Tennessee Average Indemnity Severity in Excess of Wage Growth



The severity figures shown are in excess of wage trend.  
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.

# Tennessee Average Medical Severity in Excess of Wage Growth



The severity figures shown are in excess of wage trend.  
Based on NCCI's financial data for lost-time claims at current benefit level and developed to ultimate.



# Tennessee Filing Selected Trends

	Current	Proposed
Indemnity Loss Ratio	-3.0%	-3.0%
Medical Loss Ratio	+0.5%	+0.5%



# Tennessee LAE

## Provision Stated as a Percent of Losses

	Current	<i>Indicated</i>	Proposed
DCCE	12.2%	12.7%	12.5%
AOE	7.5%	7.3%	7.3%
LAE	19.7%	20.0%	19.8%

- NCCI's standard method indicates a DCCE provision of 12.7% in Tennessee
  - Proposed provision (12.5%) reflects the countrywide average
- NCCI's indicated AOE provision has decreased

# NCCI's Annual LAE Review

- Countrywide data from NCCI financial data call
- Results projected separately for DCCE and AOE
  - In most states, DCCE provision reflects countrywide result adjusted by state relativity of paid DCCE/paid loss
  - Countrywide AOE provision is used
- Because accident year data is used, estimates may change from year to year.
  - Estimates of DCCE historically showed some downward development
  - Estimates of AOE change very little in subsequent evaluations

# NCCI's Annual LAE Review

- NCCI investigated downward development in DCCE ratios
  - Identified source of development
  - Modified loss and LAE development selections to be more responsive to observed changes
- Latest DCCE projections show that downward development has abated
- Filed provision reflects NCCI's best estimate of LAE; further downward development not expected



# Thank You!

