



Summary of Tennessee Voluntary Loss Cost Filings

**Experience Filing, Proposed
Effective March 1, 2014**

**Law-Only Filing, Proposed
Effective July 1, 2014**

NCCI Presentation to Advisory Council on Workers' Compensation
October 31, 2013

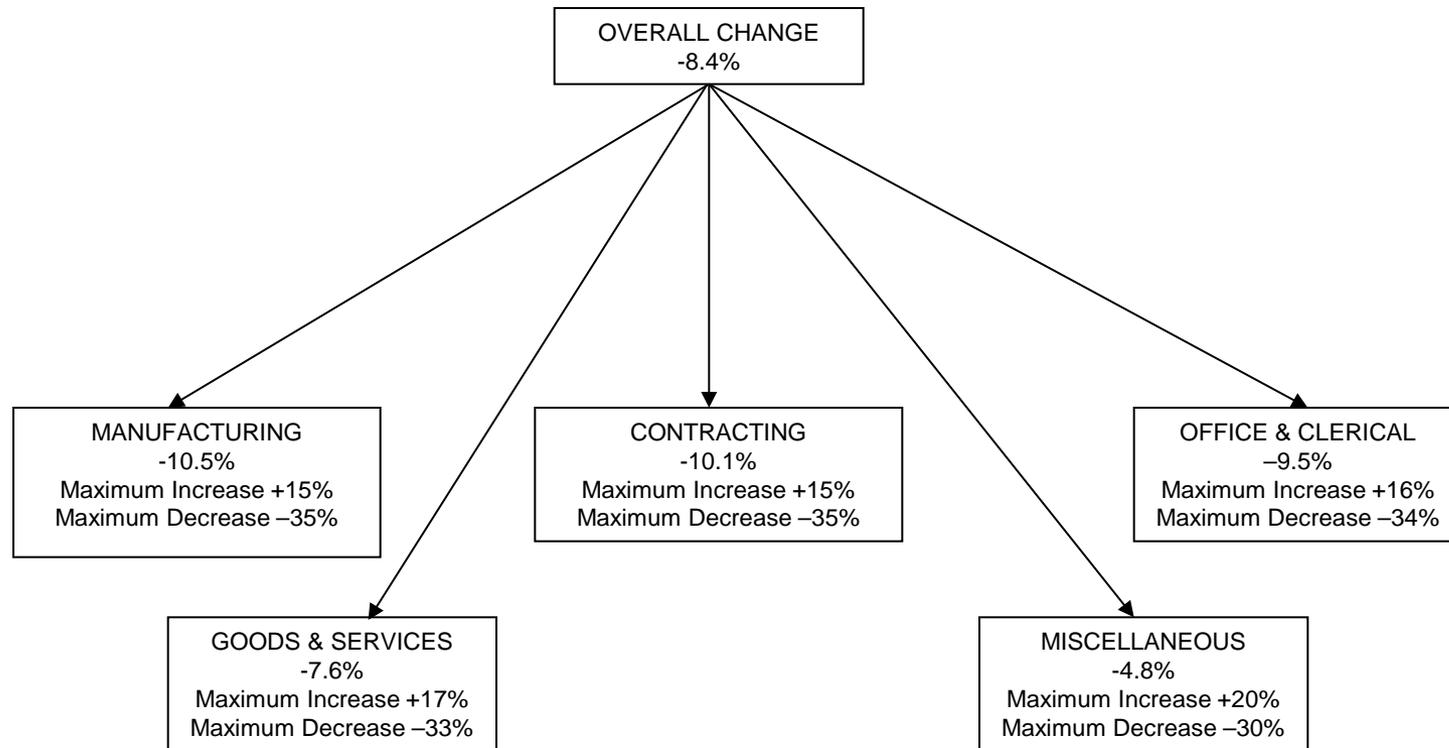
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Summary by Component

Proposed Effective March 1, 2014

Component	Percent Impact
Experience	-7.9%
Development	+0.2%
Trend	-1.2%
Benefits	+0.4%
Loss Adjustment Expense (LAE)	+0.0%
Overall Indication	-8.4%

Tennessee March 1, 2014 Filing Average Changes by Industry Group

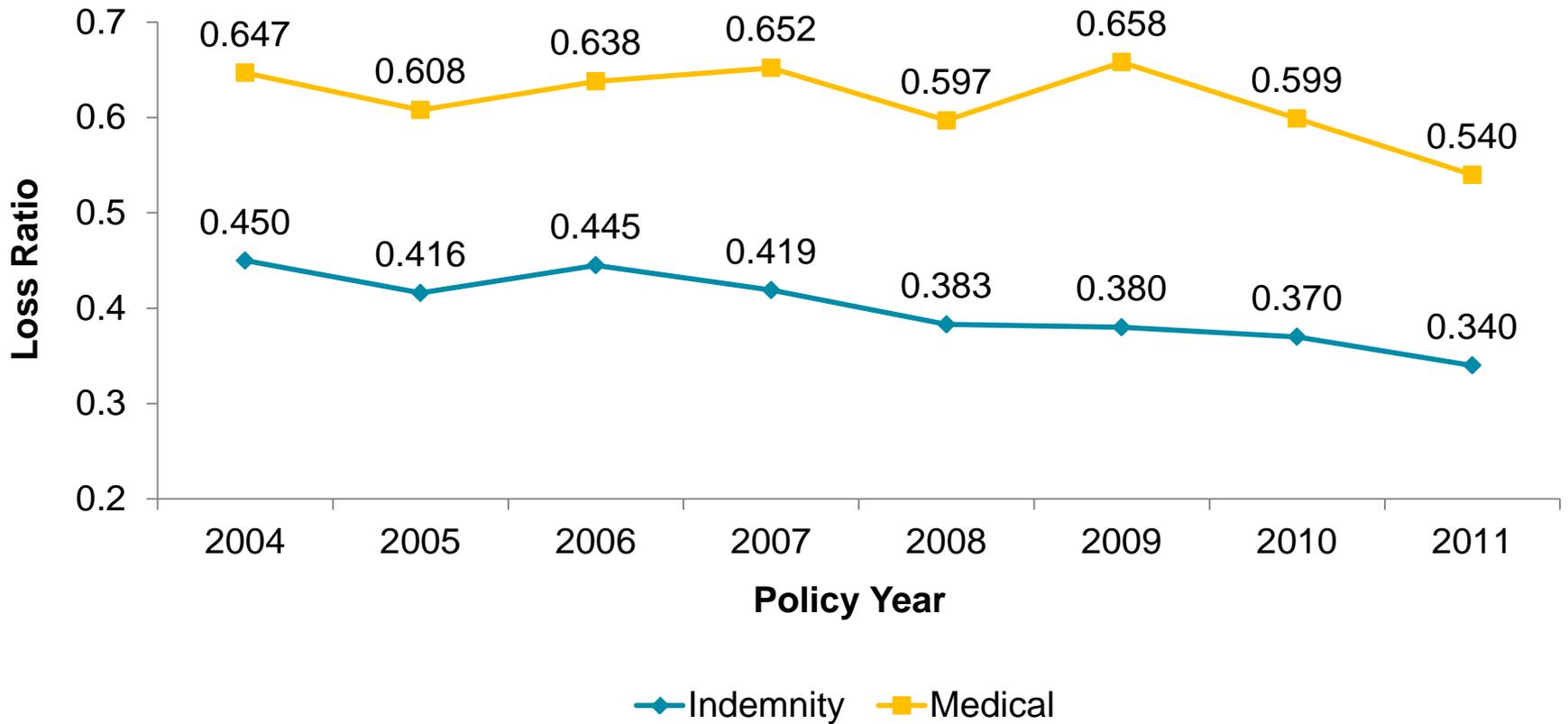


Source: Tennessee Loss Cost Filing, Proposed Effective 3/1/2014

3/1/2014 Loss Cost Filing Methodology for Indication

- Experience Period: Latest 2 Policy Years (No Change)
- Loss Methodology: Paid + Case (No Change)
- Loss Development: 5 Year Average (No Change)

Tennessee Indemnity and Medical Loss Ratios



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



Experience Period

NCCI's filed indications reflect the latest two policy years of experience. 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 consideration of premium volume in the state and is responsive to recent trends.

Tennessee's indication is primarily driven by improvement in reported medical loss ratios. This is attributable, in part, to lower than average volume of large losses reported to date for PY 2011.

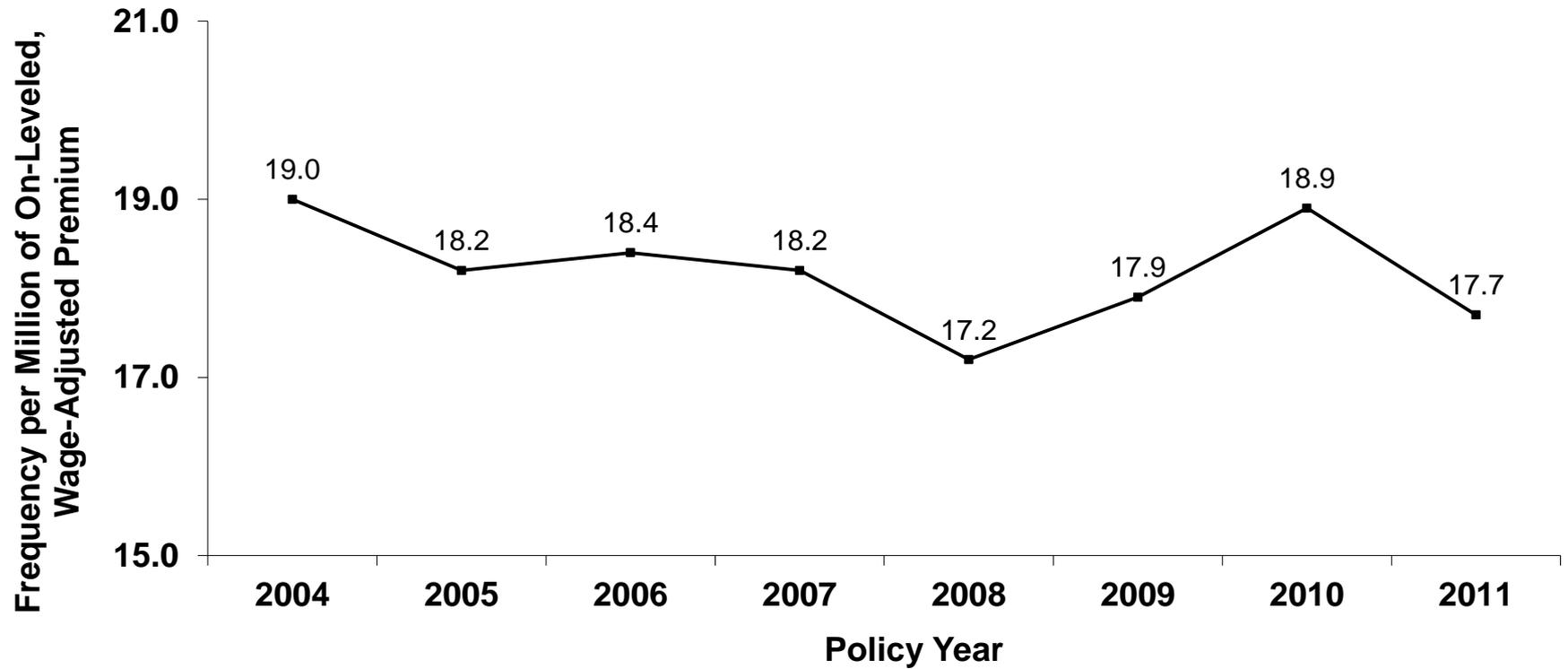
Trend

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

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

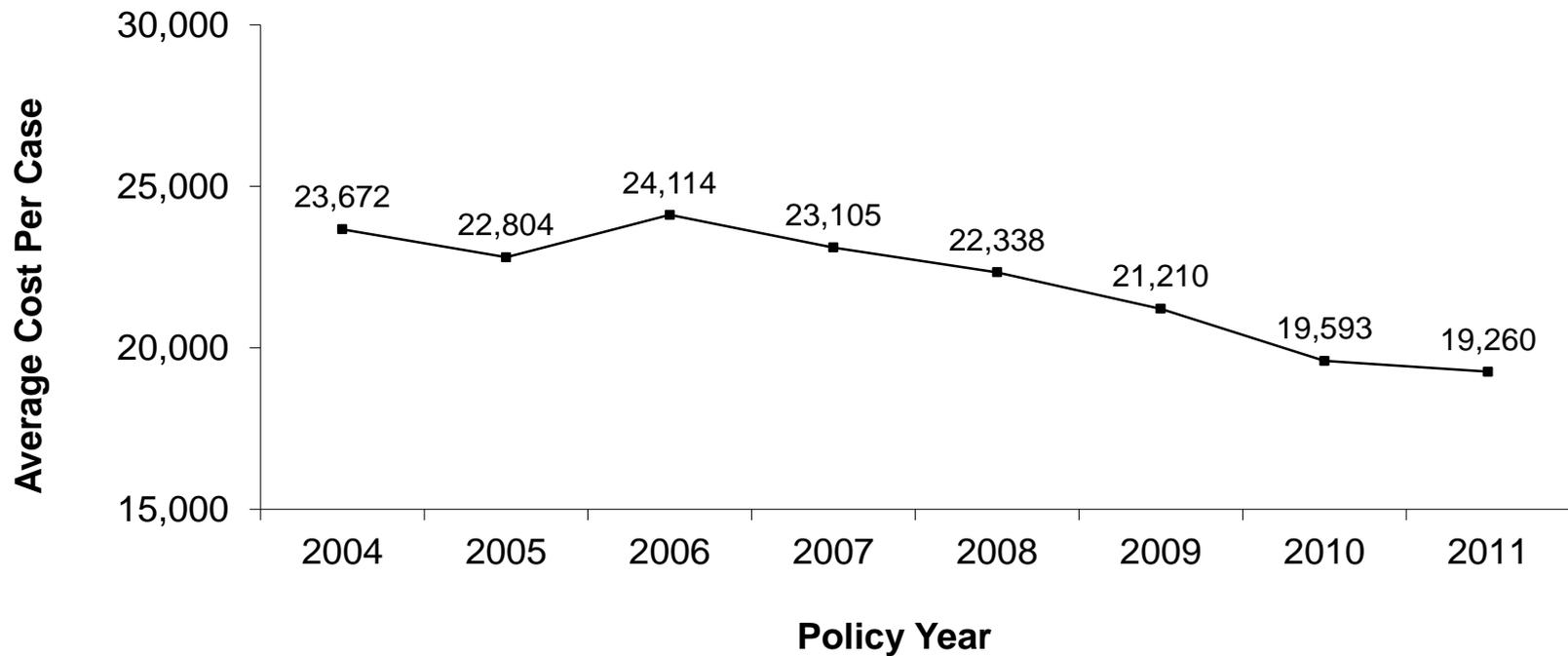
Tennessee Claim Frequency



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

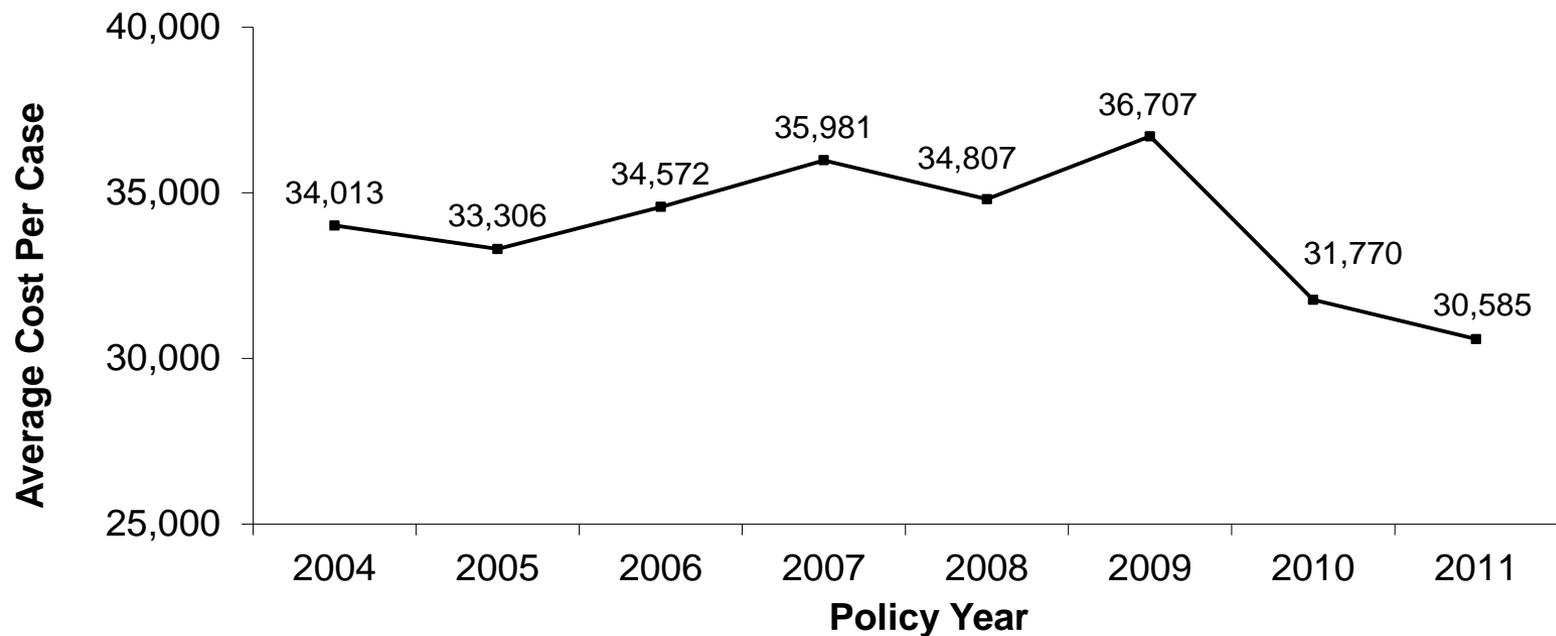


Tennessee Average Indemnity Severity in Excess of Wage Growth



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%	0.0%



Tennessee LAE

Provision Stated as a Percent of Losses

	Current	<i>Indicated</i>	Proposed
DCCE	12.5%	12.7%	xxx
AOE	7.3%	7.2%	xxx
LAE	19.8%	19.9%	19.8%

- NCCI’s standard method indicates a Defense and Cost Containment (DCCE) provision of 12.7% in Tennessee; this is equal to the countrywide indicated
- NCCI’s indicated Adjusting and Other Expense (AOE) provision has decreased slightly
- NCCI is proposing to maintain the current approved LAE provision



NCCI's Annual LAE Review

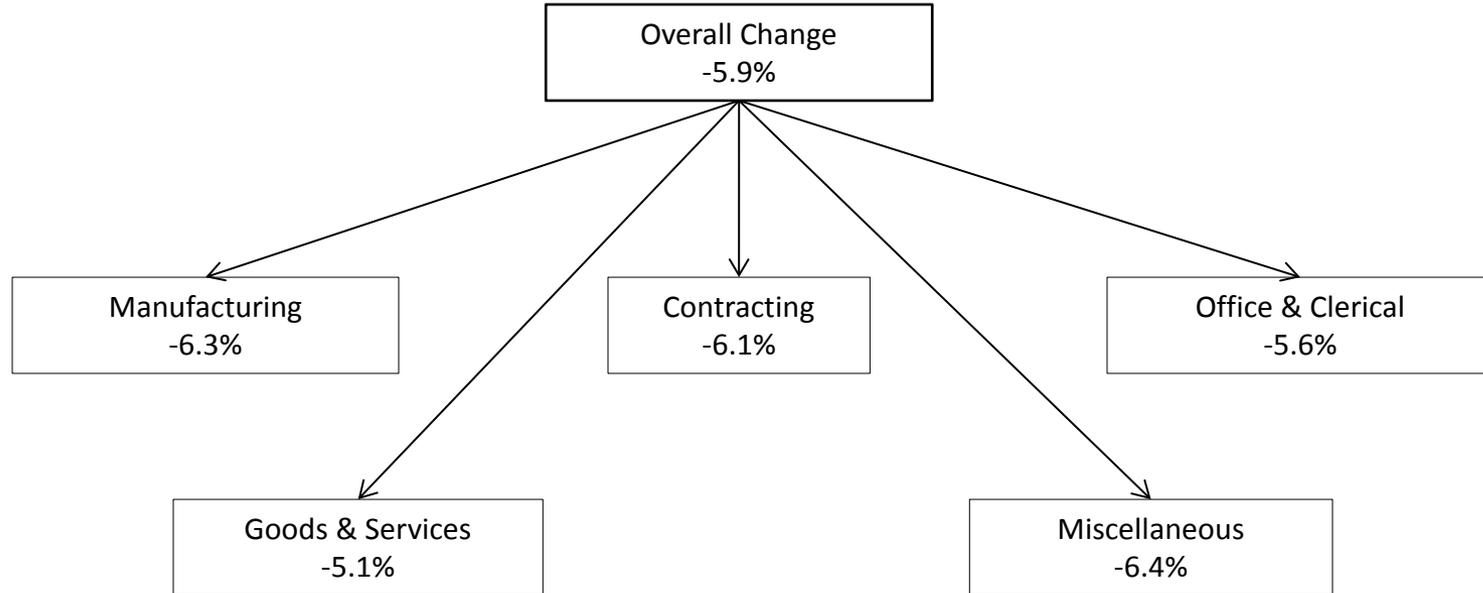
- Countrywide data from NCCI financial data call
- Results projected separately for DCCE and AOE
 - In most states, DCCE provision reflects countrywide result adjusted by state relativity of paid DCCE/paid loss
 - Countrywide AOE provision is used
- Because accident year data is used, estimates may change from year to year.
 - Estimates of DCCE historically showed some downward development
 - Estimates of AOE have not historically shown such a pattern

NCCI's Annual LAE Review

- NCCI investigated downward development in DCCE ratios
 - Loss and LAE development selections were revised to be more responsive to observed changes (2012 filing)
 - DCCE projections showed that downward development has abated (2013 filing)
- Current annual LAE review (2014 filing) reflects different mix of data providers. Projections for DCCE have declined, but for AOE have increased.
- A slight increase in the current total LAE provision is indicated, however NCCI proposes holding LAE at the current level.

Law-Only Filing Proposed Effective July 1, 2014

Overall filed decrease of 5.9% reflects estimated impact of TN SB200. Changes to individual class loss costs reflect split of indemnity and medical by class.



Tennessee SB 200

NCCI Estimated Impacts

Description of Provision	Overall Impact
Permanent Partial Disability Award Determination and Multipliers	-6.0%
Fatal Benefit Maximum Increase	+0.1%
Combined Impact	-5.9%

Tennessee SB 200

NCCI Estimated Impacts

Permanent Partial Disability Award Determination

- Current:
 - **Scheduled Injuries**—Duration of benefits varies by part of body injured
 - **Nonscheduled Injuries**—Duration limited to 400 week maximum, determined based on whole person disability rating
- SB 200:
 - Eliminates schedule of benefits; all injuries evaluated based on whole body impairment
 - Increases maximum duration to 450 weeks

Tennessee SB 200

NCCI Estimated Impacts

Permanent Partial Disability Multipliers

- Current:
 - For nonscheduled and scheduled injuries to arm and leg
 - Return to work with previous employer at equal or higher wage, multiplier up to 1.5
 - No return to work, or return at lower wage level, multiplier up to 6.0.
 - For other scheduled injuries, multiplier not limited
- SB 200:
 - Return to work at equal or higher wage, multiplier 1.0
 - No return to work, or return at lower wage, multipliers can range from 1.0 to 3.05, reflecting age, education, and local job availability

Tennessee SB 200

NCCI Estimated Impacts

Fatal Benefit Maximum

- Current: Maximum equal to 400 weeks multiplied by state average weekly wage (SAWW)
- SB 200: Maximum equal to 450 weeks multiplied by SAWW
- Estimated impact: +0.1%

Tennessee SB 200

NCCI Estimated Impacts

Other Key Provisions

- Dispute Resolution
 - Workers Compensation Court of Claims
 - Ombudsman Program
 - Medical Payment Committee
- Compensability threshold modified
- Requires development of treatment guidelines
- Credit for temporary disability payments made after Maximum Medical Improvement (MMI)
- Other
 - Electronic medical payments
 - Construction and interpretation of statutes
 - Determination of MMI for mental injuries

Tennessee Loss Cost Filings- Looking to the Future

NCCI will continue to monitor changes in Tennessee's workers compensation system and evaluate potential cost impacts. Rate filing analysis will consider:

- Impacts of implementation of TN SB 200
 - Modifications to law, if any are made
 - Impacts of unquantified changes as data flows into reported experience
- Impacts of economic changes or other national trends that affect workers compensation
- Ongoing analysis of development in DCCE ratios



Thank You!

