



# NCCI Presentation to Advisory Council on Workers' Compensation

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# Tennessee's Residual Market

# NCCI Services Expanded in Tennessee

Effective July 1, 2015, the assigned risk plan was replaced with NCCI's Workers Compensation Insurance Plan (WCIP) applicable for new and renewal assigned risk business only, effective on or after this date.

This role encompasses:

- Application processing
- Residual Market depopulation tools
- Customer service for producers and policyholders
- Maintenance of rules, forms, and manuals
- Dispute resolution concerning application of rules
- Servicing carrier selection process
- Monitoring adherence to servicing carrier performance standards



# Why NCCI?

## Experience

- Most experienced provider of workers compensation and employee injury data and statistics in the nation
- More than 80 years of experience managing residual market services across the country

## Enhanced Efficiency

- Centralized point of service for information
- Increased consistency through use of national rules and forms
- Structured and proven mechanism to address residual market policyholder disputes

## Expanded Options

- Multistate coverage can be provided to other NCCI Plan-administered states reinsured through the National Workers Compensation Reinsurance Association (NWCRA)

# Ensuring a Smooth Transition

- The Department of Commerce and Insurance approved NCCI's filed plans, rules, and forms necessary to implement NCCI's WCIP
- Producers and employers have access to NCCI's ***RMAPS***<sup>®</sup> ***Online Application Service***, an intuitive online application system
  - 99% of applications have been submitted online
- Servicing carriers will continue through the expiration of their contracts on December 31, 2016
  - Riverport Insurance Company
  - Technology Insurance Company
- The transition to NCCI's WCIP does not change the obligation of employers insured through June 30, 2016, to pay premiums owed to the current plan's assigned carriers





### Before July 1, 2015

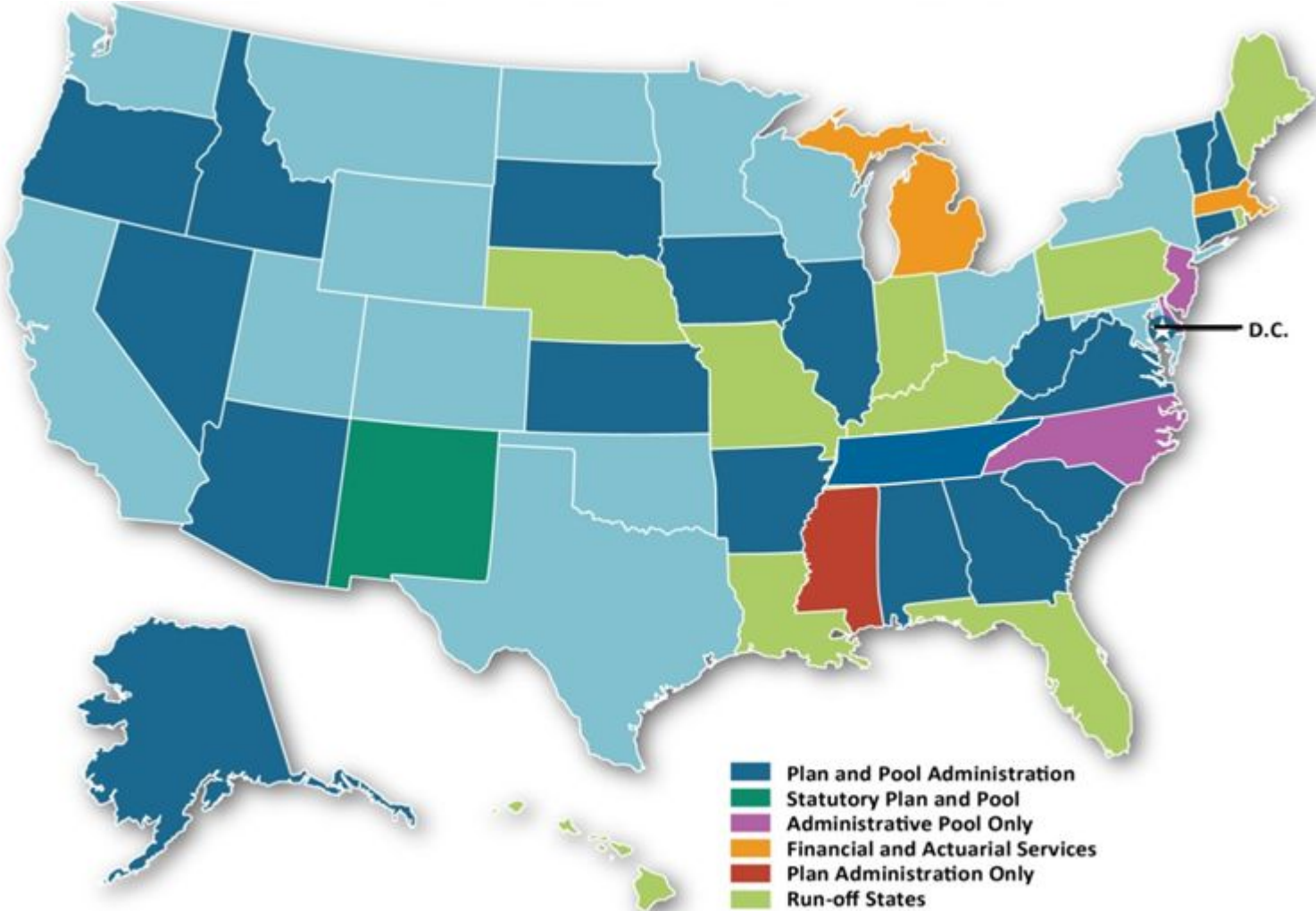
-  Tennessee Is the Only Policy Available
-  5% Flat Producer Fee
-  Compliance Determined From Tennessee Residual Markets Only
-  Plan Depopulation Initiative (PDI)
-  Tennessee Large Account Incurred Loss (TAIL) Plan

### On July 1, 2015

-  20 Other States' Coverage Potentially Available
-  Up To 8% Graduated Producer Fee
-  Compliance Determined From Voluntary and Residual Markets
-  Voluntary Coverage Assistance Program (VCAP<sup>®</sup> Service)
-  Loss Sensitive Rating Plan (LSRP)



# Where Does NCCI Provide Residual Market Services?



# Residual Market Shares

(includes Direct Assignments)

Calendar Year 2014 preliminary market shares

Tennessee	8.0%
Alabama	4.5%
Georgia	6.6%
North Carolina	5.7%
South Carolina	5.8%
Virginia	7.7%
Countrywide	6.8%

Market shares represent plan premium as a percentage of direct written premium.





# Residual Market Depopulation Tools

## Currently in place in Tennessee

- Loss sensitive rating plan (LSRP)
- Voluntary coverage assistance program (VCAP)
- Assigned risk differential
- Tabular surcharge
- Take-out credit
- Residual market expiration list

## Other available tools

- Removal of premium discount
- Assigned risk adjustment program (ARAP)

# Additional NCCI Functions in Tennessee

- Support efforts to further depopulate the Tennessee Assigned Risk market
- Manage the reserves for the TN residual market pools beginning with reserves valued as of 9/30/2015
- Provide recommendations for the Assigned Risk loss cost multiplier used to determine the rates for the Assigned Risk market





# Tennessee Voluntary Loss Cost Filing Proposed Effective March 1, 2016

# Tennessee Filing Summary

## Proposed Effective March 1, 2016

Proposed Change in Voluntary Loss Cost Level:

Component	Impact
Change in Experience	-1.2%
Change in Development	+2.0%
Change in Trend	-1.9%
Change in Loss Adjustment Expense	-0.2%
Change in Benefits	+0.4%
<b>Overall Average Loss Cost Level Change</b>	<b>-0.9%</b>

# Tennessee Filing Summary

## Proposed Effective March 1, 2016

Average Changes by Industry Group:

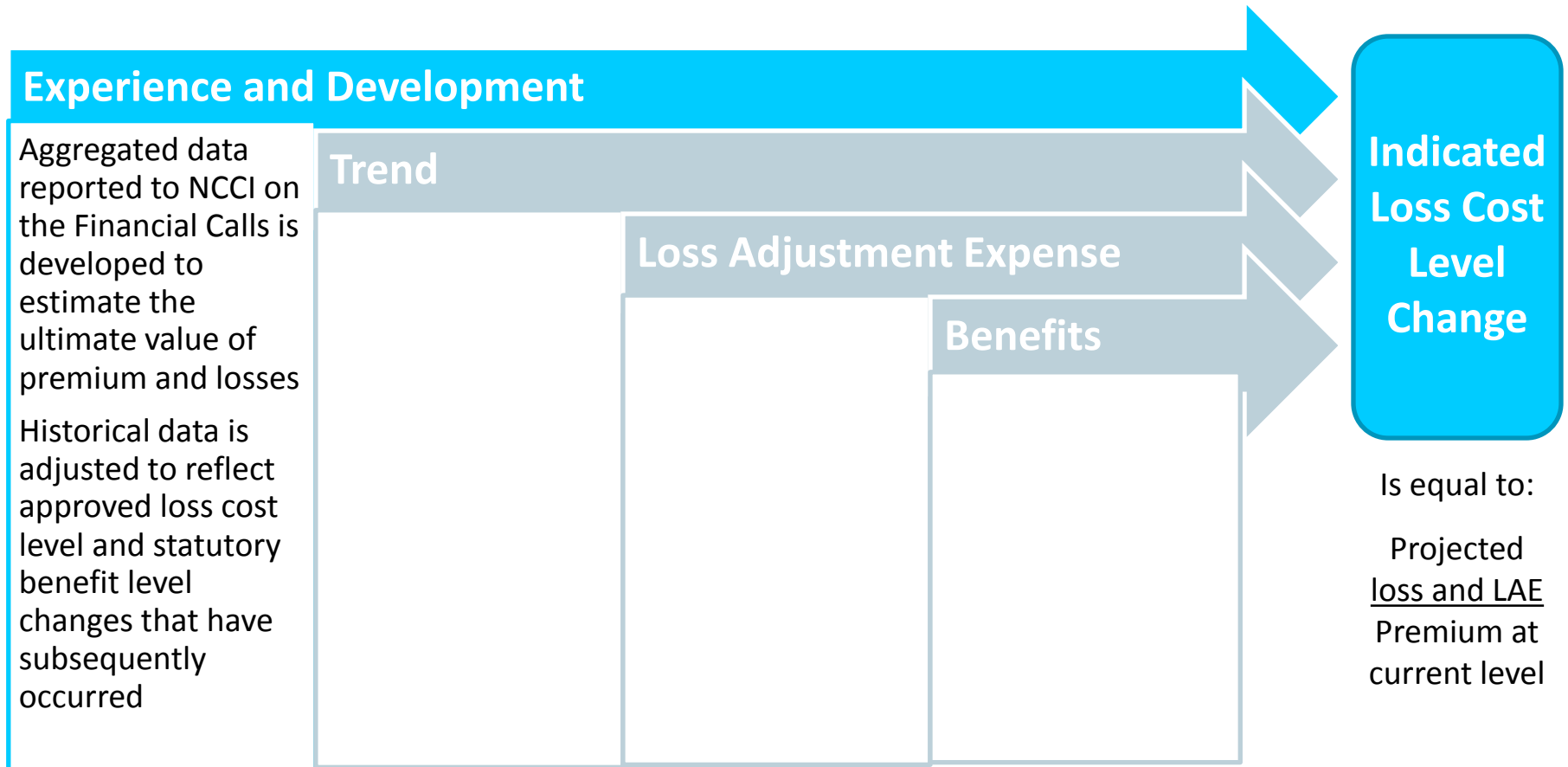
Industry Group	Change
Manufacturing	-3.6%
Contracting	-1.1%
Office and Clerical	-1.8%
Goods and Services	-1.0%
Miscellaneous	+2.5%

# Determining the Overall Loss Cost Level Change



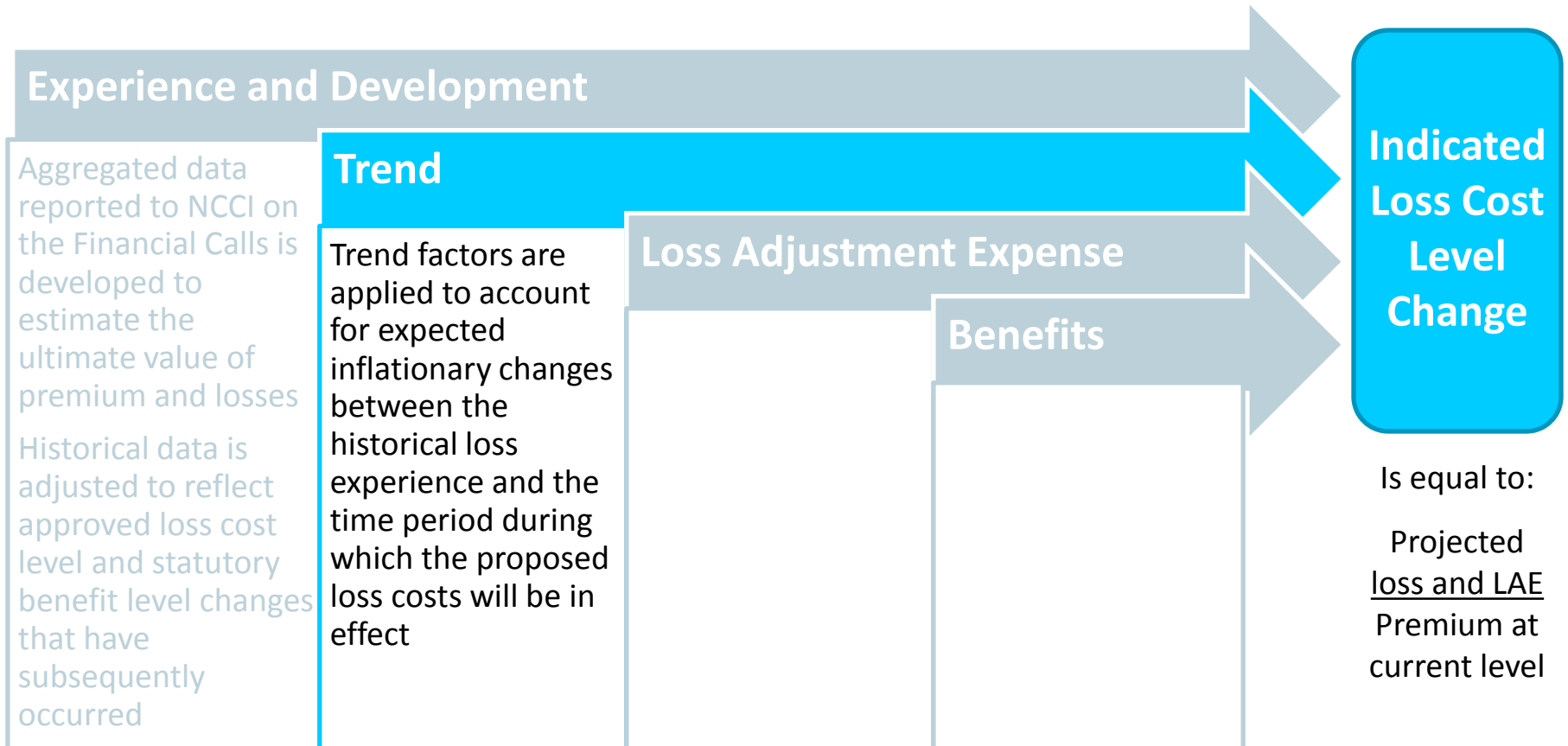
# Tennessee

## Determining the Overall Loss Cost Level Change



# Tennessee

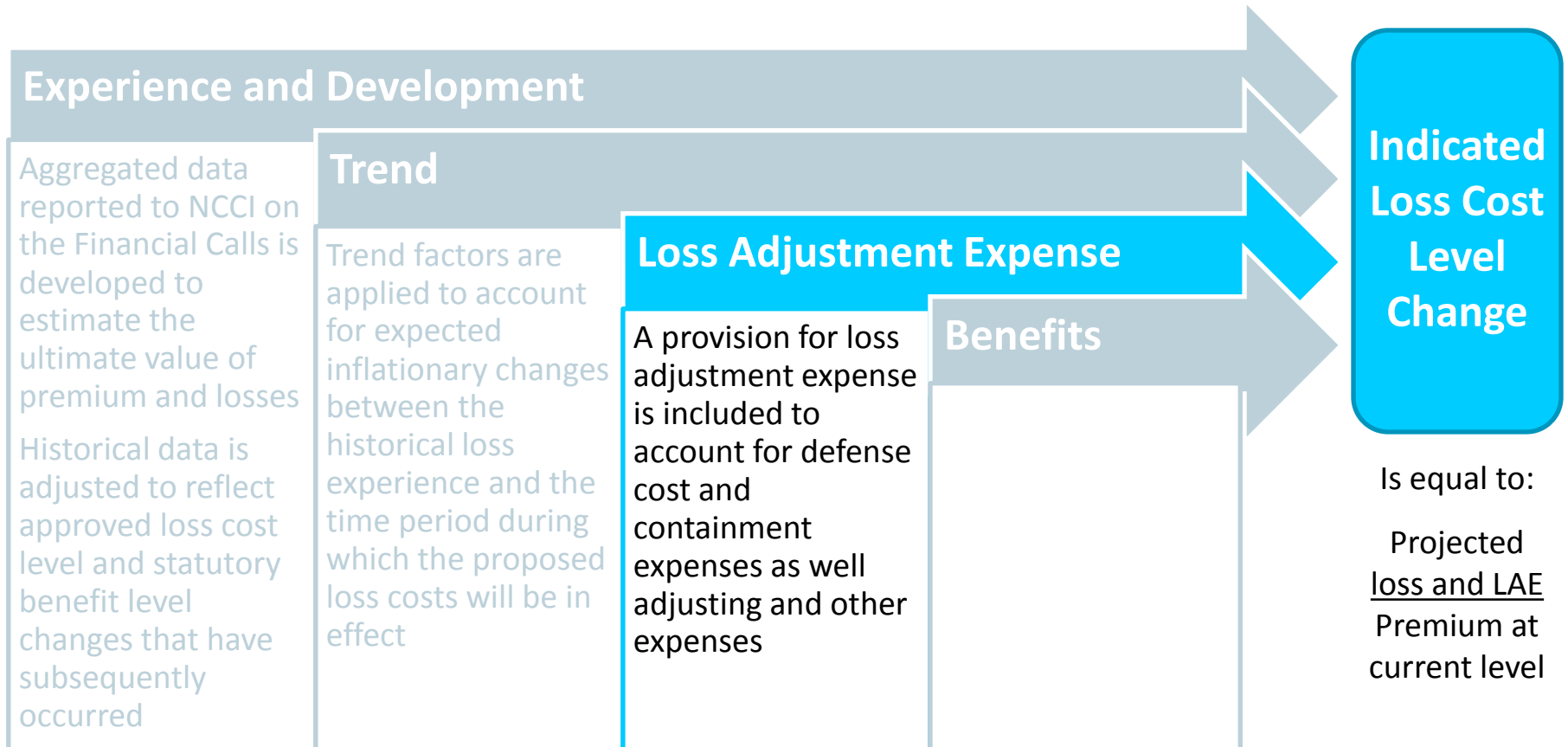
## Determining the Overall Loss Cost Level Change





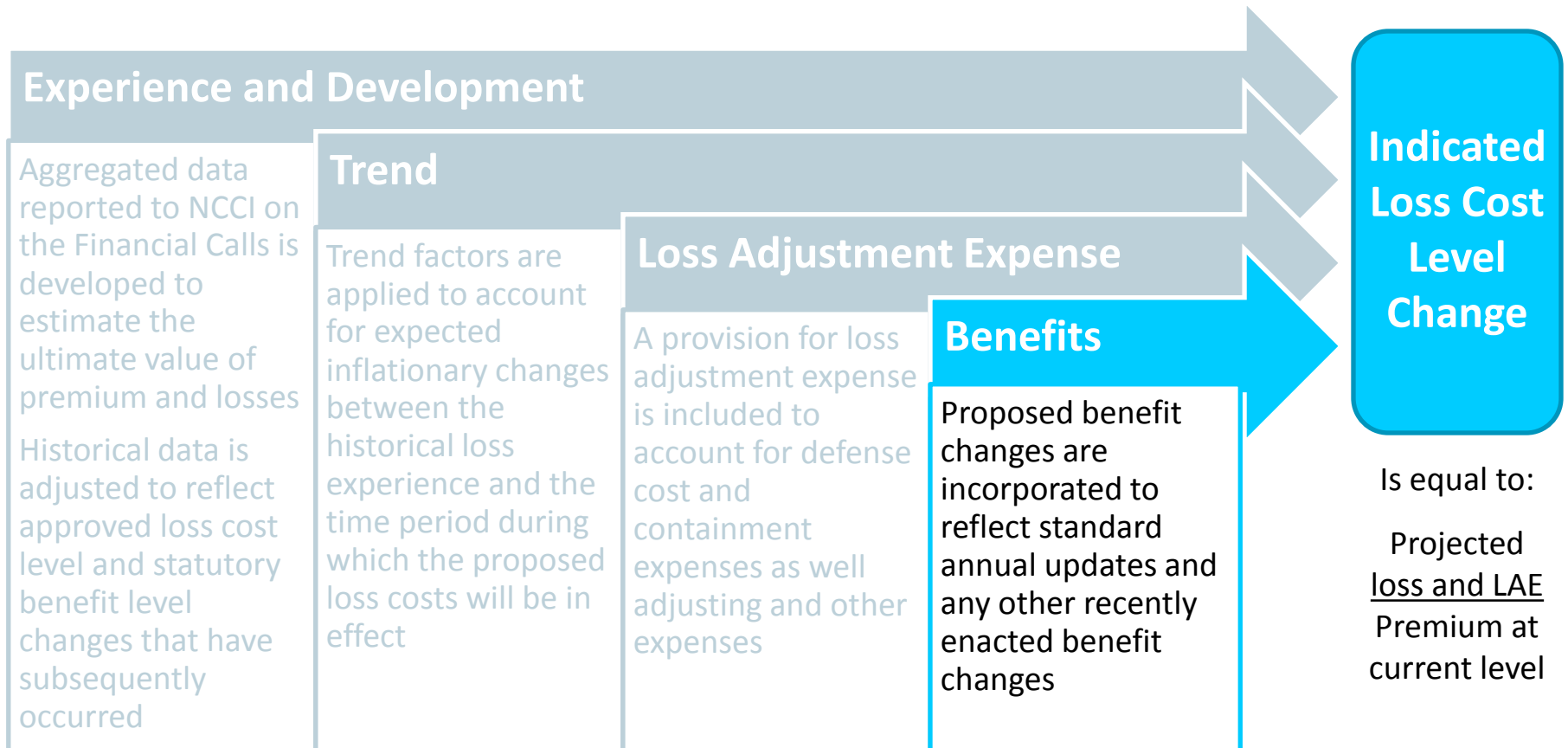
# Tennessee

## Determining the Overall Loss Cost Level Change



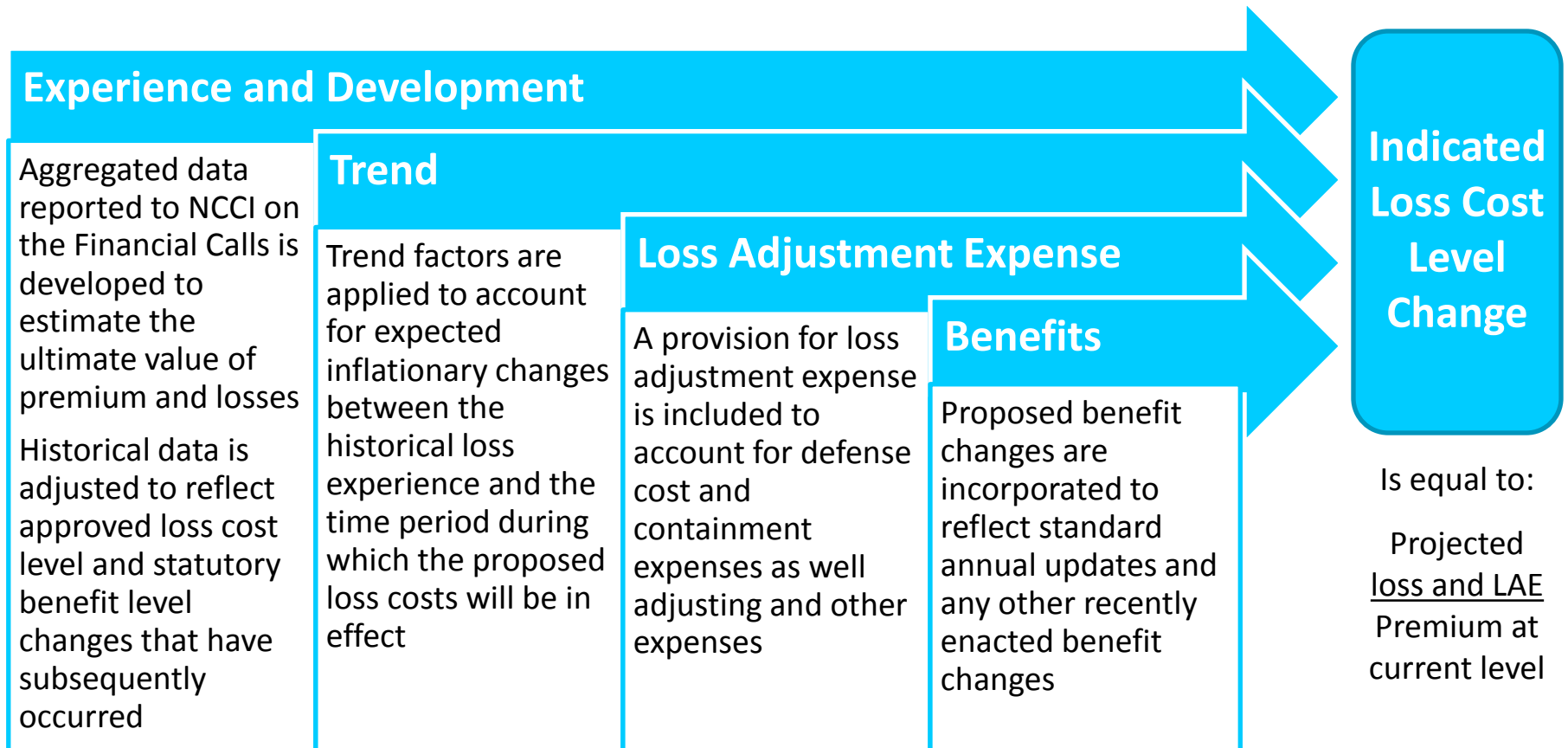
# Tennessee

## Determining the Overall Loss Cost Level Change



# Tennessee

## Determining the Overall Loss Cost Level Change



# Selections Underlying the Proposed Tennessee Loss Cost Level Change

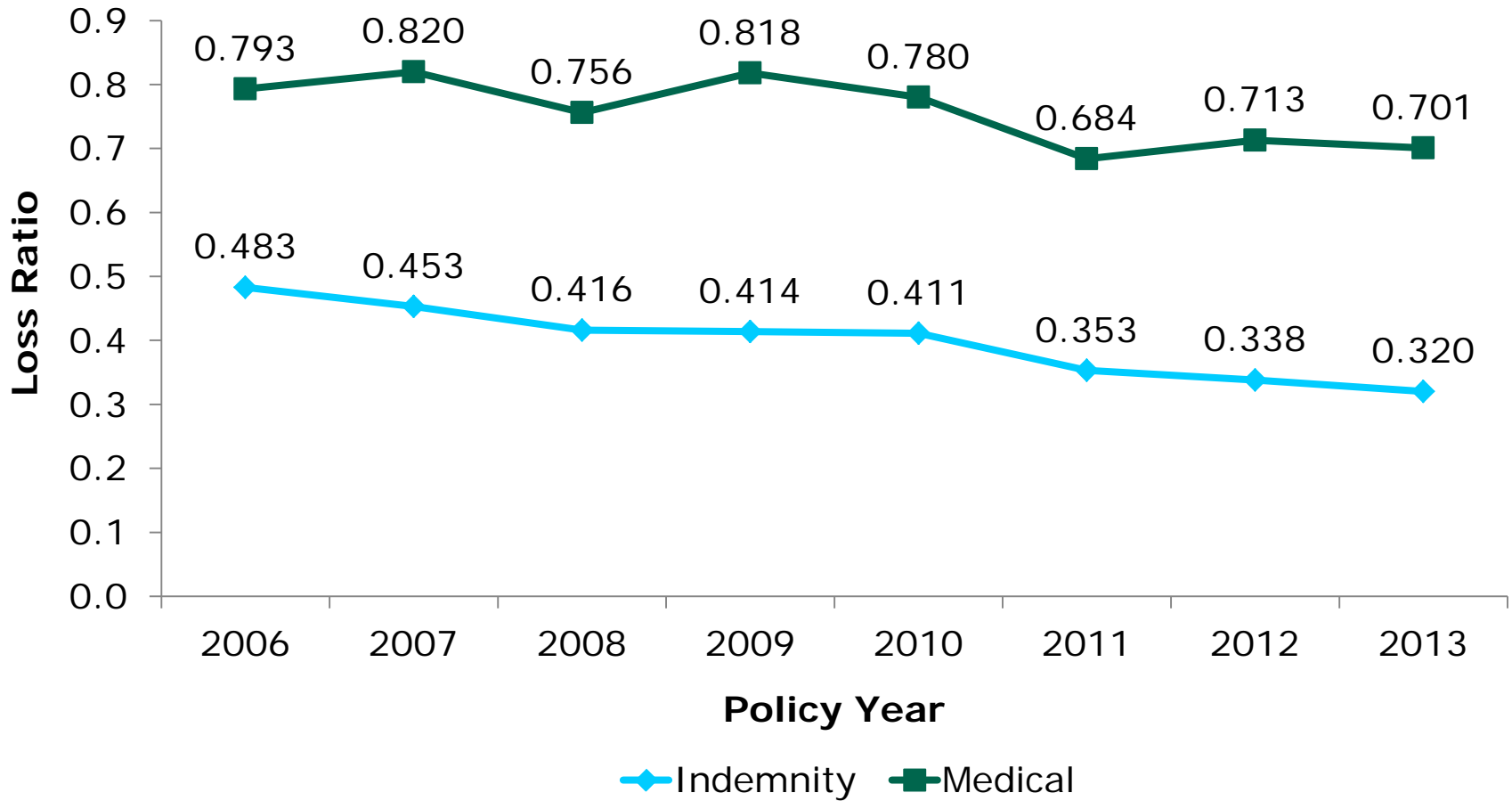


# Tennessee Filing Methodology Overview

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



# Tennessee's Indemnity and Medical Loss Ratios



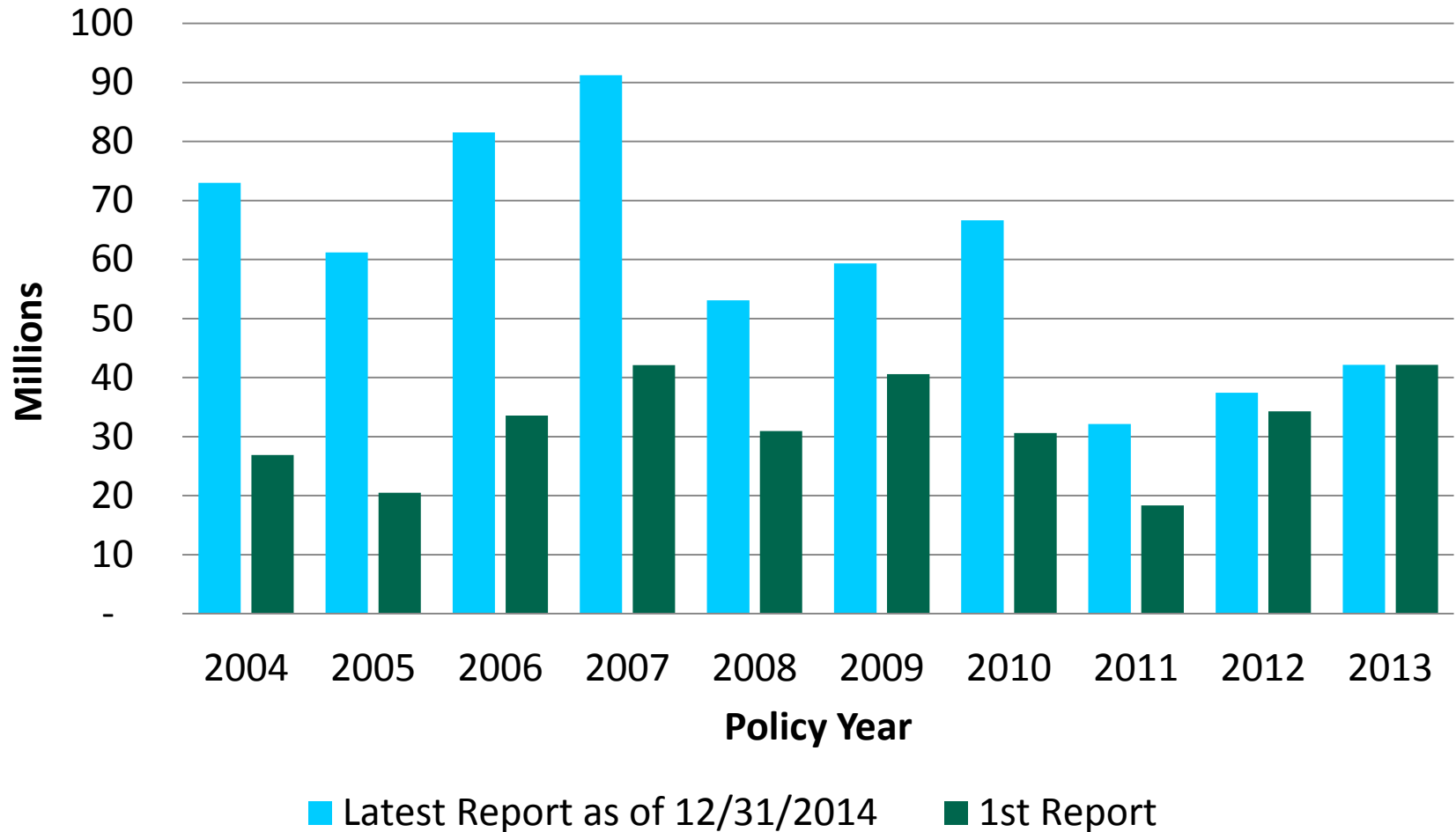
Based on NCCI's financial data at current benefit level and developed to ultimate



# Experience

- 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
  - The projected loss ratios for each of the latest two policy years indicates decreases of a similar magnitude
- Consistent with prior filings, the limited large loss procedure was utilized
  - No claims in the experience period exceed the large loss threshold

# Total Paid + Case Losses for Claims in Excess of \$500K



Based on NCCI's financial data



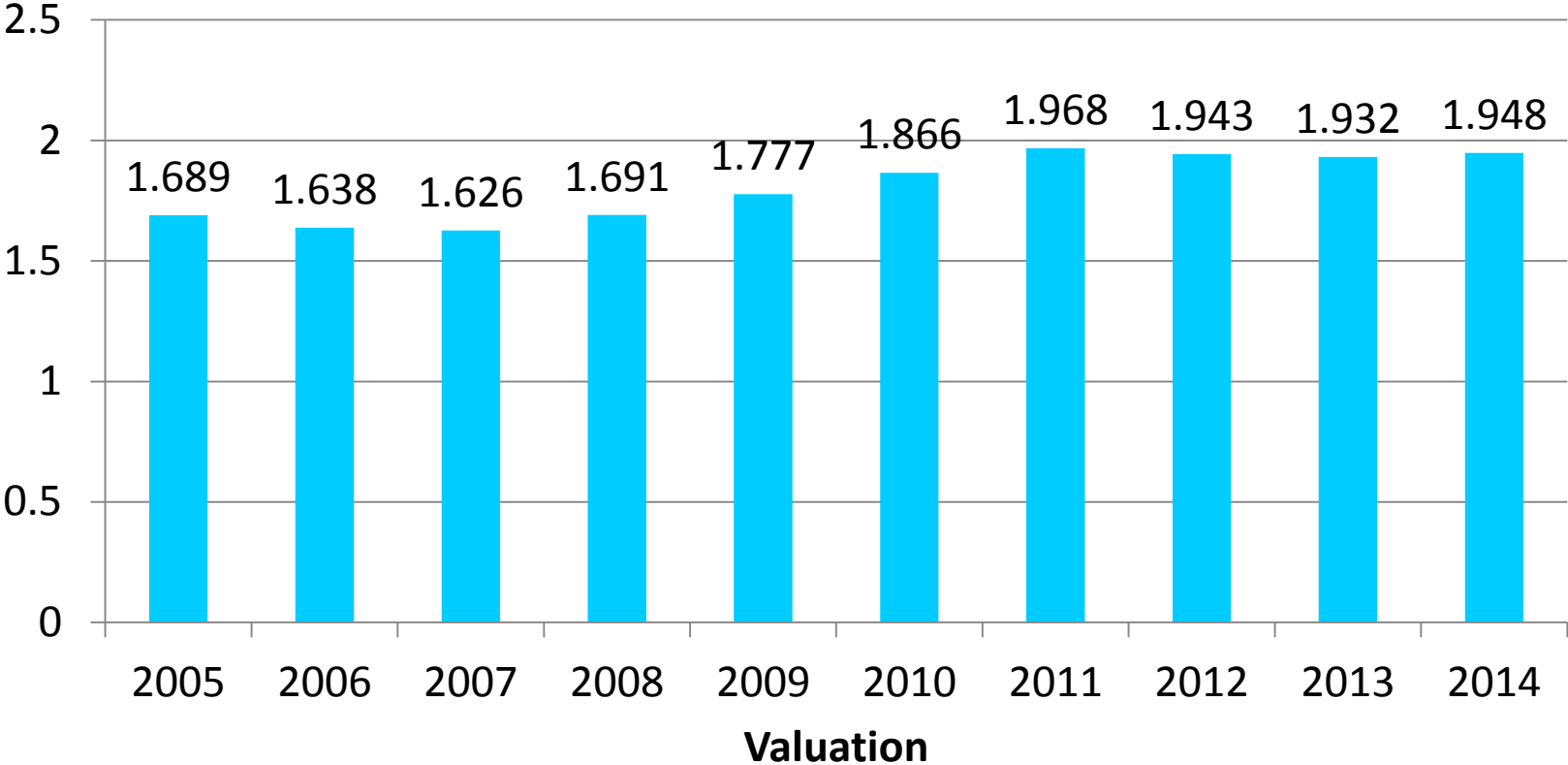


# Loss Type

- Prior filings relied on paid+case losses as a basis for the experience, as changes in settlement rules affected paid loss development patterns
  - In 2004, HB 3531 created a settlement lag where the medical portion of claims could not be settled until at least 3 years after the indemnity portion had been settled
  - HB 1503, effective 6/6/2011, removed this restriction on claim settlement
- The paid loss development patterns have stabilized, so NCCI is recommending the use of both paid losses and paid + case losses as a basis for the indication

# Medical Paid Loss Development Pattern

**Medical Paid Development**  
**1<sup>st</sup> report to 19<sup>th</sup> report**  
**Based on a 2-year average**



# Loss Development Averages

## ■ Paid Development

- For paid development factors, shorter term averages are typically used, in particular a 2-year or 3-year average
- To capture the most recent payment patterns, NCCI utilized a 2-year average of paid loss development factors

## ■ Paid + Case Development

- A longer term average is typically used, in particular a 5-year average, helps stabilize the higher degree of volatility that may be present in the development factors
- Consistent with prior filings, NCCI utilized a 5-year average of paid + case development factors

# Summary of Indications

Basis of Development	Policy Year 2012	Policy Year 2013	Average of Policy Years 2012 and 2013
Paid 2-year average	+1.0%	-2.6%	-0.8%
Paid + Case 5-yr average	-1.7%	-0.8%	-1.2%
<b>Average of Paid and Paid + Case Losses</b>	<b>-0.3%</b>	<b>-1.6%</b>	<b>-0.9%</b>



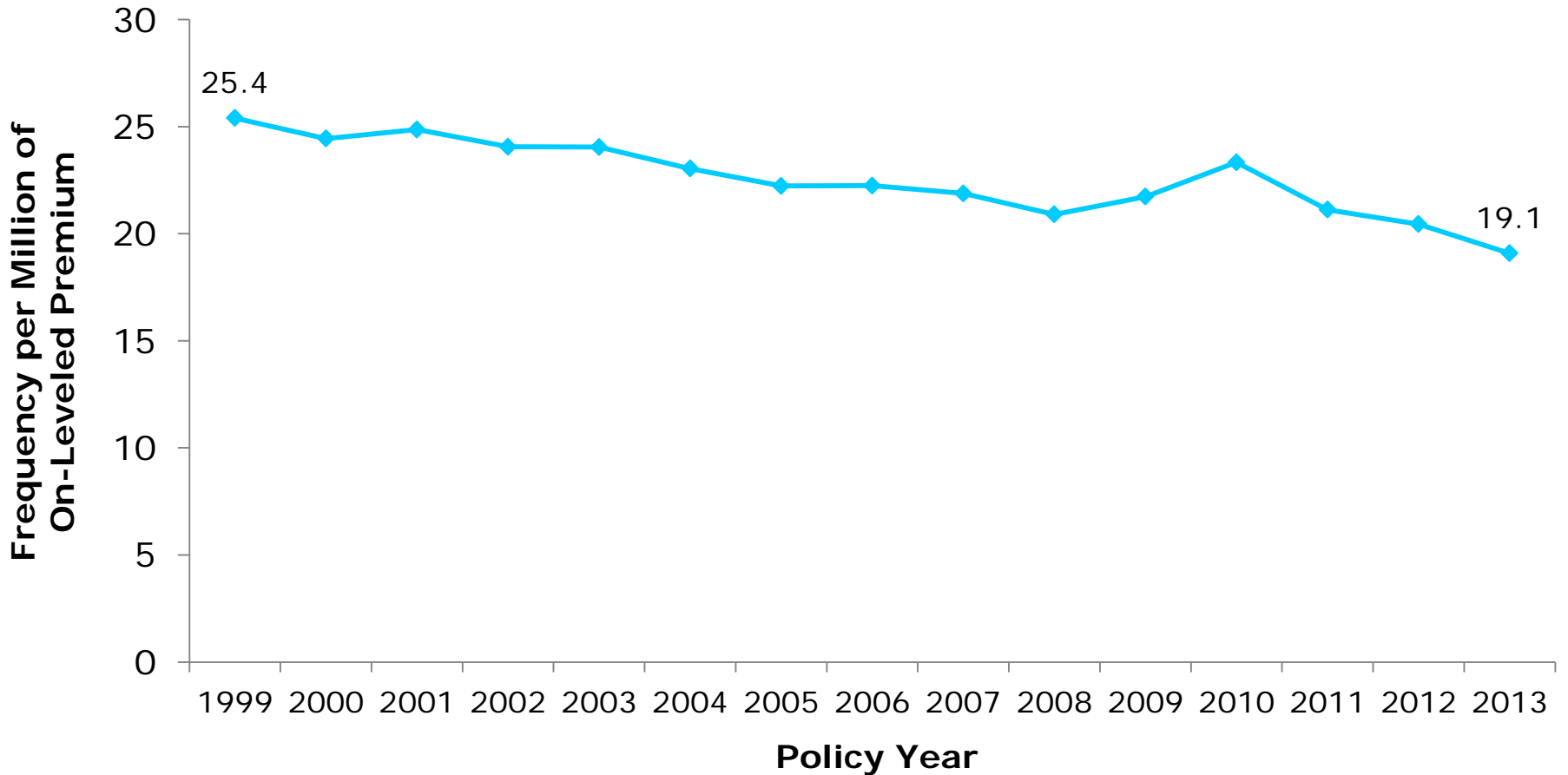
# Trend Analysis

- 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:

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

- Lost-time claim frequency continues to decrease
- Both indemnity and medical costs have increased at the latest point
- The changes in frequency are outpacing the changes in severity, so overall the loss ratio trends are favorable

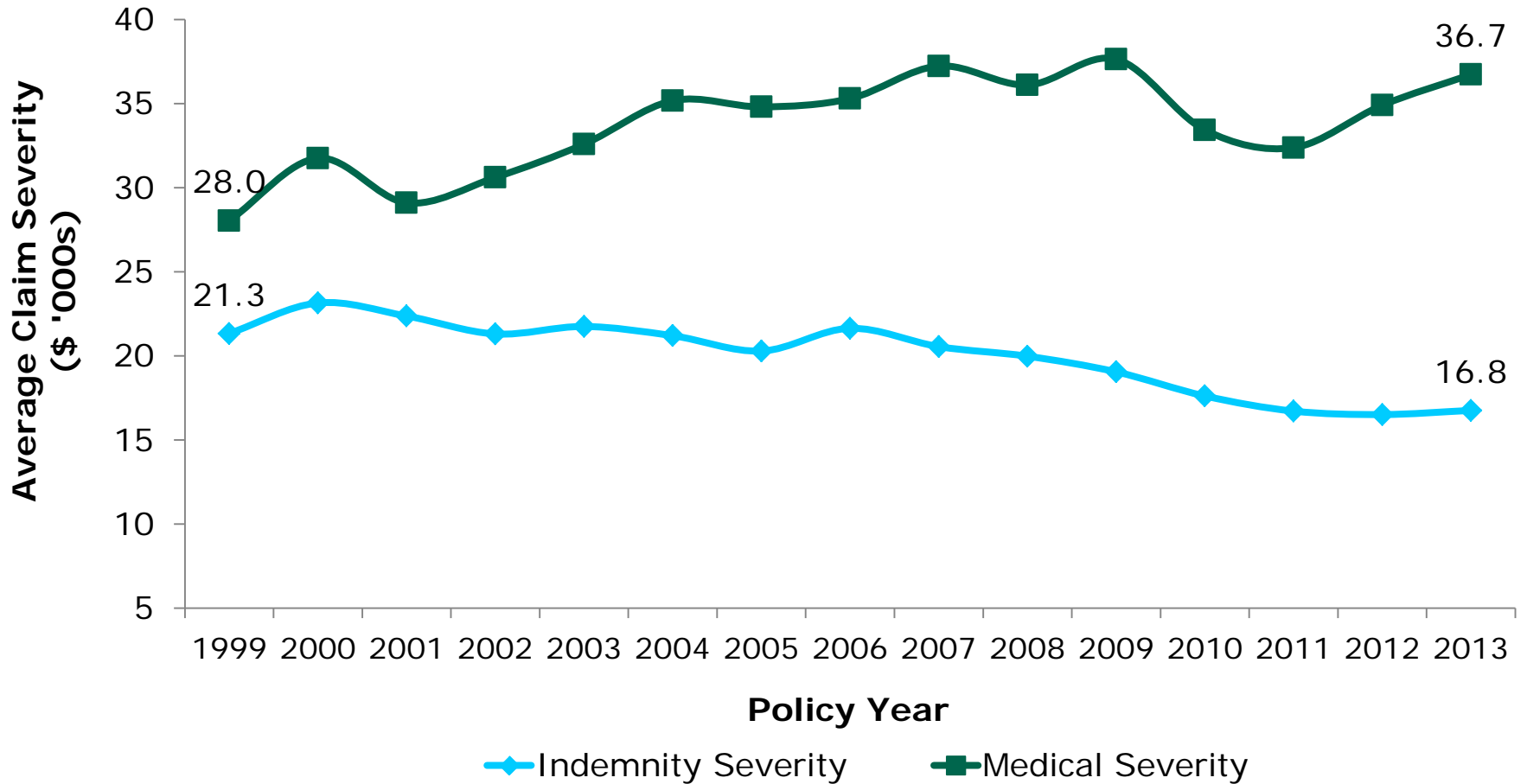
# Tennessee Claim Frequency



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 Severity adjusted to a common wage level



# Summary of Indicated Trends

	Frequency	Indemnity Severity	Medical Severity
Policy Year 5-Pt Exponential	-3.8%	-3.2%	-0.1%
Policy Year 8-Pt Exponential	-1.5%	-4.1%	-0.6%
Policy Year 15-Pt Exponential	-1.6%	-2.3%	+1.4%

	Indemnity Loss Ratio	Medical Loss Ratio
Policy Year 5-Pt Exponential	-6.9%	-3.9%
Policy Year 8-Pt Exponential	-5.6%	-2.2%
Policy Year 15-Pt Exponential	-3.9%	-0.2%
<b>Selected Trends</b>	<b>-4.0%</b>	<b>-0.5%</b>



# Tennessee Loss Adjustment Expense (LAE)

- The 19.8% provision for LAE includes separate provisions of
  - 12.7% for Defense and Cost Containment Expense (DCCE), based on countrywide analysis adjusted by state relativity
  - 7.1% for Adjusting and Other Expense (AOE) based on the countrywide analysis
- Countrywide DCCE ratios show an upward trend, with higher ratios in the most recent accident years
- Because accident year data is used, estimates may change from year to year
  - Estimates of countrywide DCCE historically showed some downward development
- The methodology for the countrywide LAE provision was revised slightly in this most recent analysis
  - Expected to increase stability in the analysis going forward

# Enhancement to the Calculation of the Countrywide Expense Ratios

## Prior Analysis

- Develop DCCE (AOE) to an ultimate basis
- Develop losses to an ultimate basis
- Determine the ratio of ultimate DCCE (AOE) to ultimate loss

## Current Analysis

- Develop DCCE (AOE) to a 10<sup>th</sup> report
- Develop losses to a 10<sup>th</sup> Report
- Determine the ratio of DCCE (AOE) to loss at a 10<sup>th</sup> report
- Apply a 10<sup>th</sup> to ultimate tail factor to determine the ultimate DCCE (AOE) to loss ratio

# 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:

$$\text{Relativity} = \frac{\text{TN Paid DCCE to TN Paid Loss}}{\text{CW Paid DCCE to CW Paid Loss}} = \frac{11.8\%}{12.1\%} = 0.975$$

$$\text{TN DCCE} = 0.975 \times 13.0\% = 12.7\%$$

- Tennessee LAE provision:



# Ratio of DCCE Paid to Limited Paid Losses Based on Financial Data

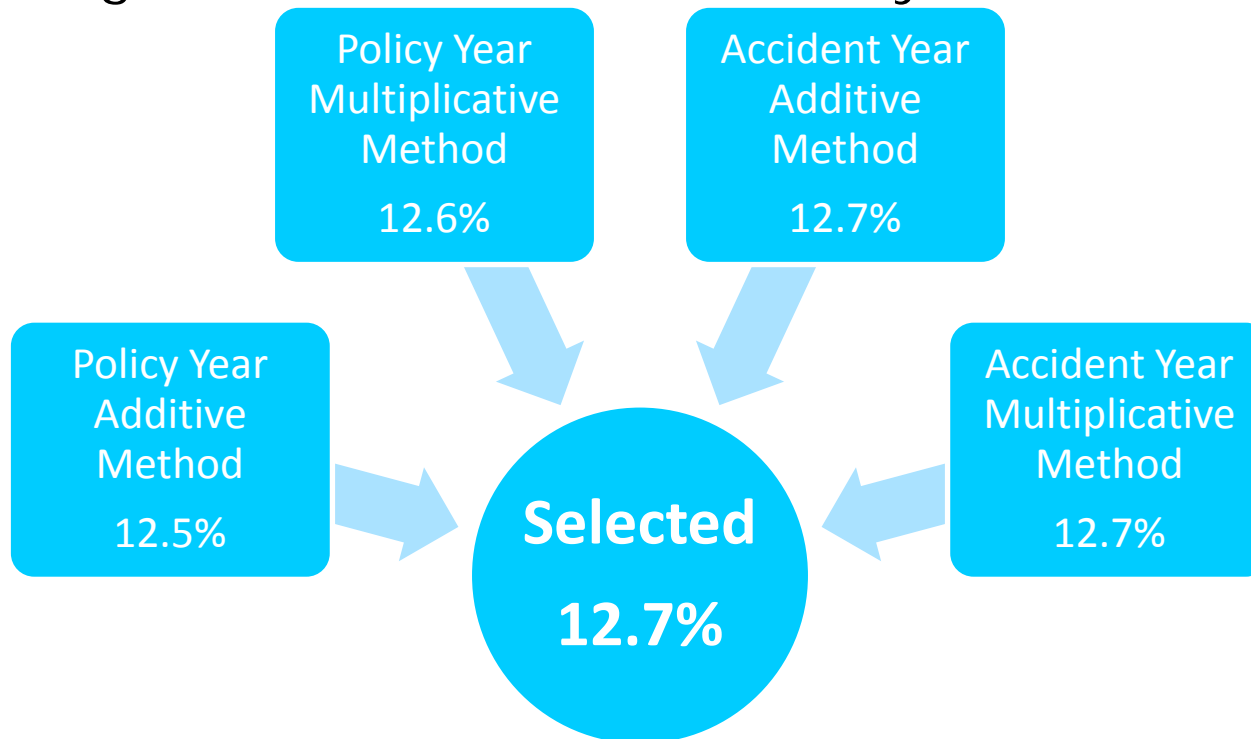
Policy Year	1st Report	2nd Report	3rd Report	4th Report	5th Report	6th Report	7th Report	8th Report	9th Report	10th Report	Ultimate
2004	7.6%	8.9%	9.8%	10.4%	10.7%	10.8%	10.9%	10.8%	10.8%	10.8%	?
2005	7.4%	8.6%	9.5%	10.0%	10.3%	10.4%	10.4%	10.4%	10.3%	→	?
2006	8.4%	9.2%	10.2%	10.7%	11.0%	11.2%	11.3%	11.3%	→	→	?
2007	8.7%	9.5%	10.3%	10.7%	11.0%	11.1%	11.0%	→	→	→	?
2008	9.3%	10.4%	11.3%	11.9%	12.1%	12.2%	→	→	→	→	?
2009	9.2%	10.4%	11.3%	11.7%	11.8%	→	→	→	→	→	?
2010	9.1%	9.9%	10.4%	10.7%	→	→	→	→	→	→	?
2011	10.0%	10.9%	11.6%	→	→	→	→	→	→	→	?
2012	10.4%	11.3%	→	→	→	→	→	→	→	→	?
2013	10.5%	→	→	→	→	→	→	→	→	→	?

NCCI calculates the DCCE provision based on financial data, which offers a reasonability check on the selection based on NCCI's standard methodology



# Estimated DCCE Provision Based on Financial Data

- The DCCE provision is estimated using additive and multiplicative methods:
  - Using a 3-year average of development factors and a selected 8<sup>th</sup> to ultimate tail factor
  - Average of the two latest available years



# Benefits

- Indemnity
  - 7/1/2015 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 +0.3% on indemnity costs; +0.1% on overall costs
- Medical
  - 1/1/2015 revision to the medical benefit levels reflecting the impact of the changes in the medical fee schedules
  - Estimated to have an impact +0.5% on medical costs; +0.3% on overall costs

# Final Summary



# Key Points

- Experience in the most recent two policy years is stable
- Paid loss data can now be used in conjunction with paid + case loss data as a basis for the loss cost indication
- Decreases in claim frequency are outpacing increases in claim severity, leading to more favorable indemnity and medical trend factors
- Decrease in loss adjustment expense based on the latest data and improved methodology



# Tennessee Filing Methodology

Component	Methodology Underlying 3/1/2015 Approved Loss Costs	Methodology Underlying 3/1/2016 Proposed Loss Costs
Experience Period	Most Recent 2 Policy Years 2011 & 2012	Most Recent 2 Policy Years 2012 & 2013
Loss Type	Paid + Case Losses	Average of Paid Losses and Paid + Case Losses
Annual Trend Factor	Indemnity: -3.5% Medical: 0.0%	Indemnity: -4.0% Medical: -0.5%
Loss Adjustment Expense Provision	20.1%	19.8%

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**Thank You!**

