

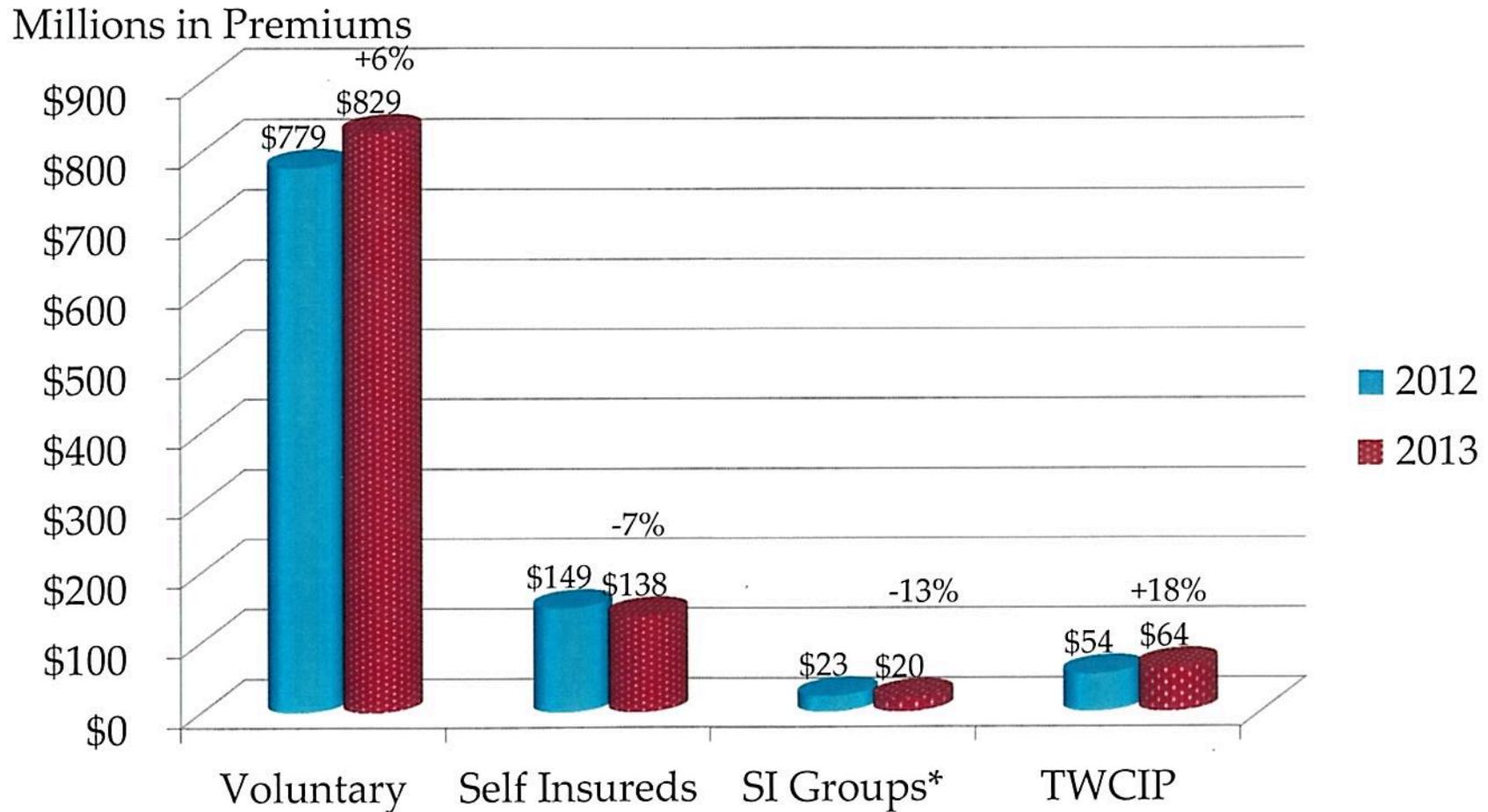
Overview of Tennessee's Workers' Compensation Market Conditions and Environment

August 28, 2014

Advisory Council on Workers' Compensation

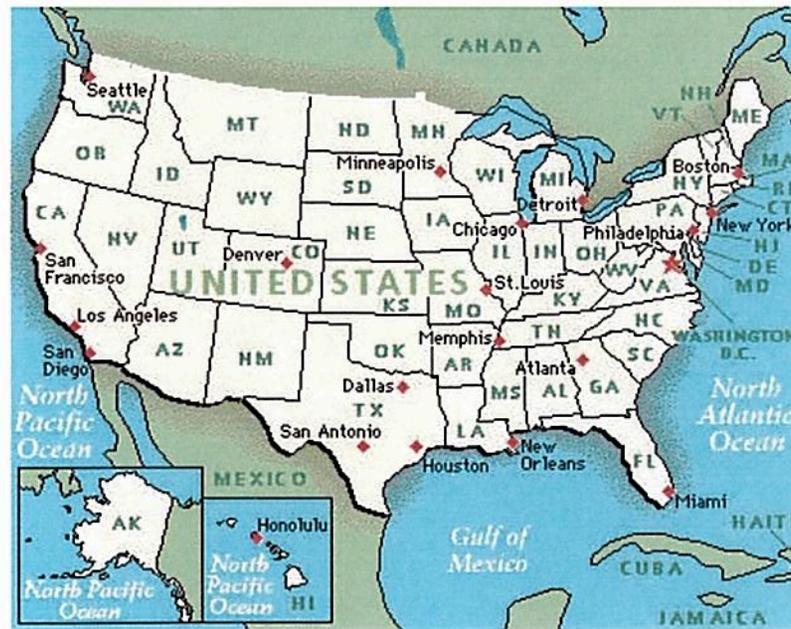
Presented by Mike Shinnick - TDCI

2013 Market Segments



- * Excluding government sponsored groups; Individual Self Insureds are on an equivalent premium basis, Group premiums are estimated.

National Picture



Property & Casualty Underwriting Results

Improved Significantly

Net Calendar Year Combined Ratio – Private Carriers

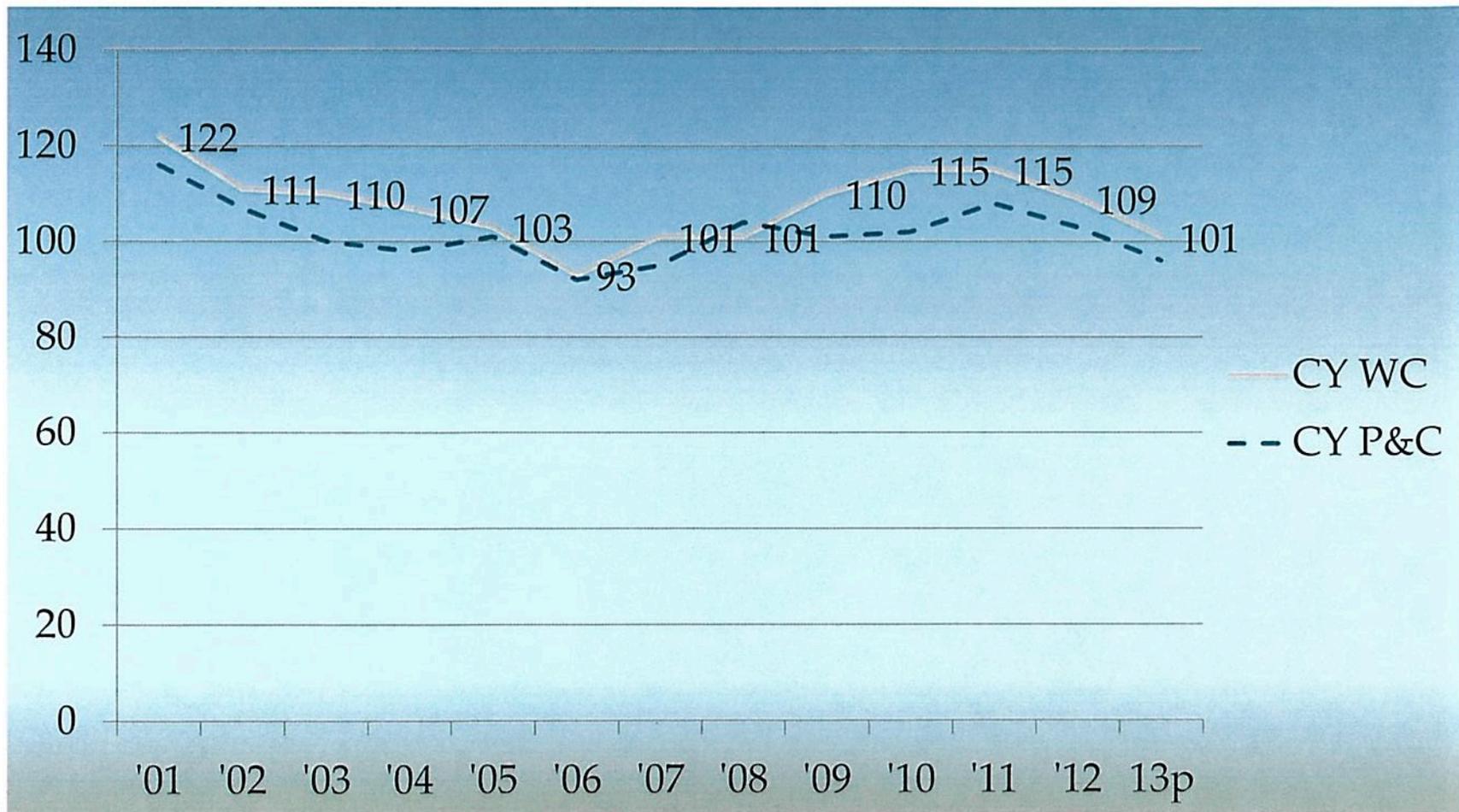
Combined Ratio = Expense Ratio + Loss & LAE Ratio;
results <100 equate to an underwriting profit

Line of Business	2011	2012	2013 preliminary
Personal Auto	102%	102%	100%
Homeowners	122%	102%	90%
Com. Multi Peril	113%	106%	96%
Com. Auto	104%	107%	105%
Workers' Comp	115%	108%	101%
Total P&C Industry	108%	103%	96%

Sources: NCCI for Workers Comp; Total P/C Industry: ISO

Calendar Year Combined Ratios

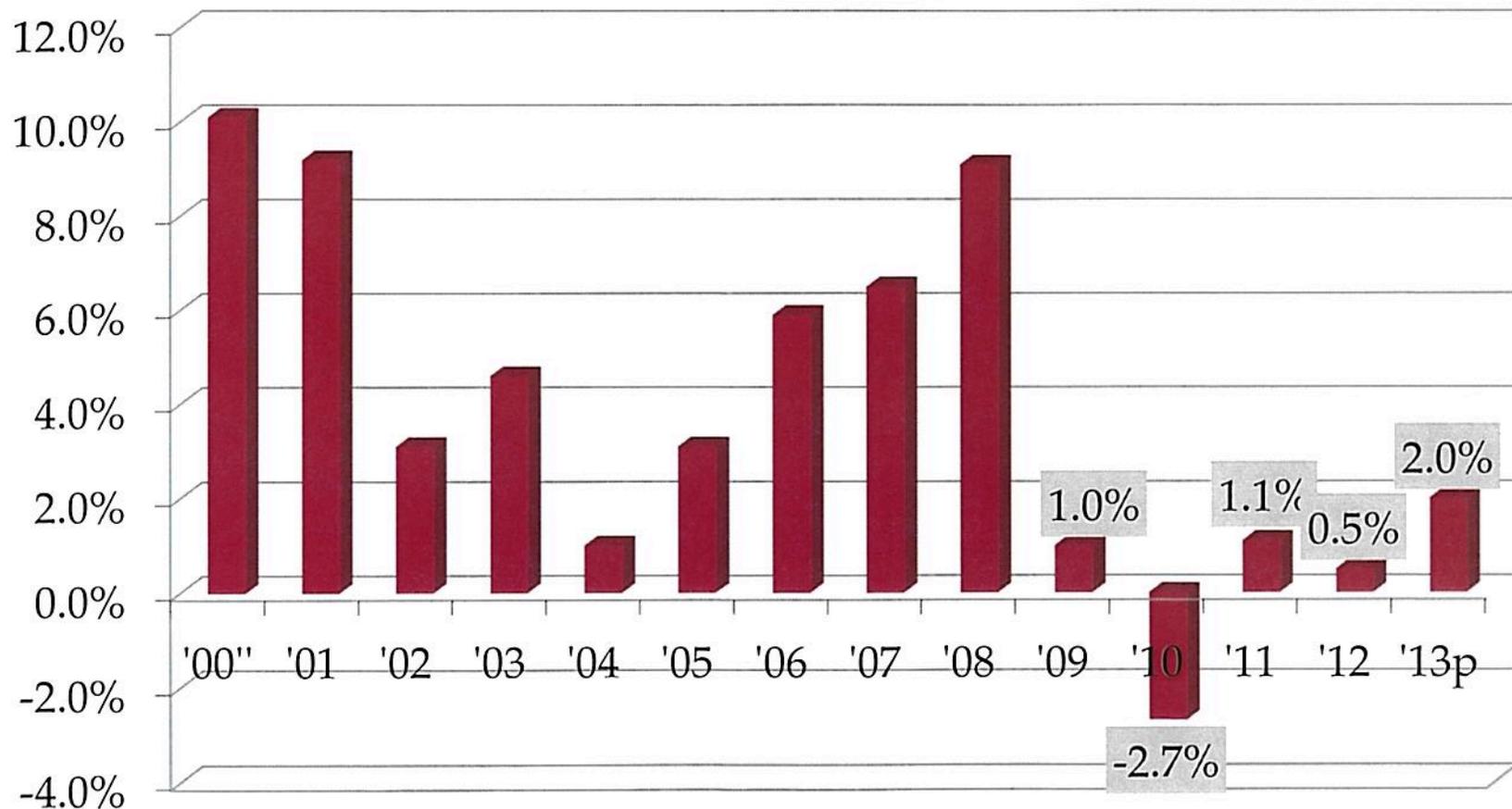
Except for 2008, WC Consistently Trails Overall P&C Results
(on Average 6 Points Less Favorable)



• Source: NCCI; Annual Statement Date; ISO; 2013 preliminary data

Workers' Compensation Indemnity Claims

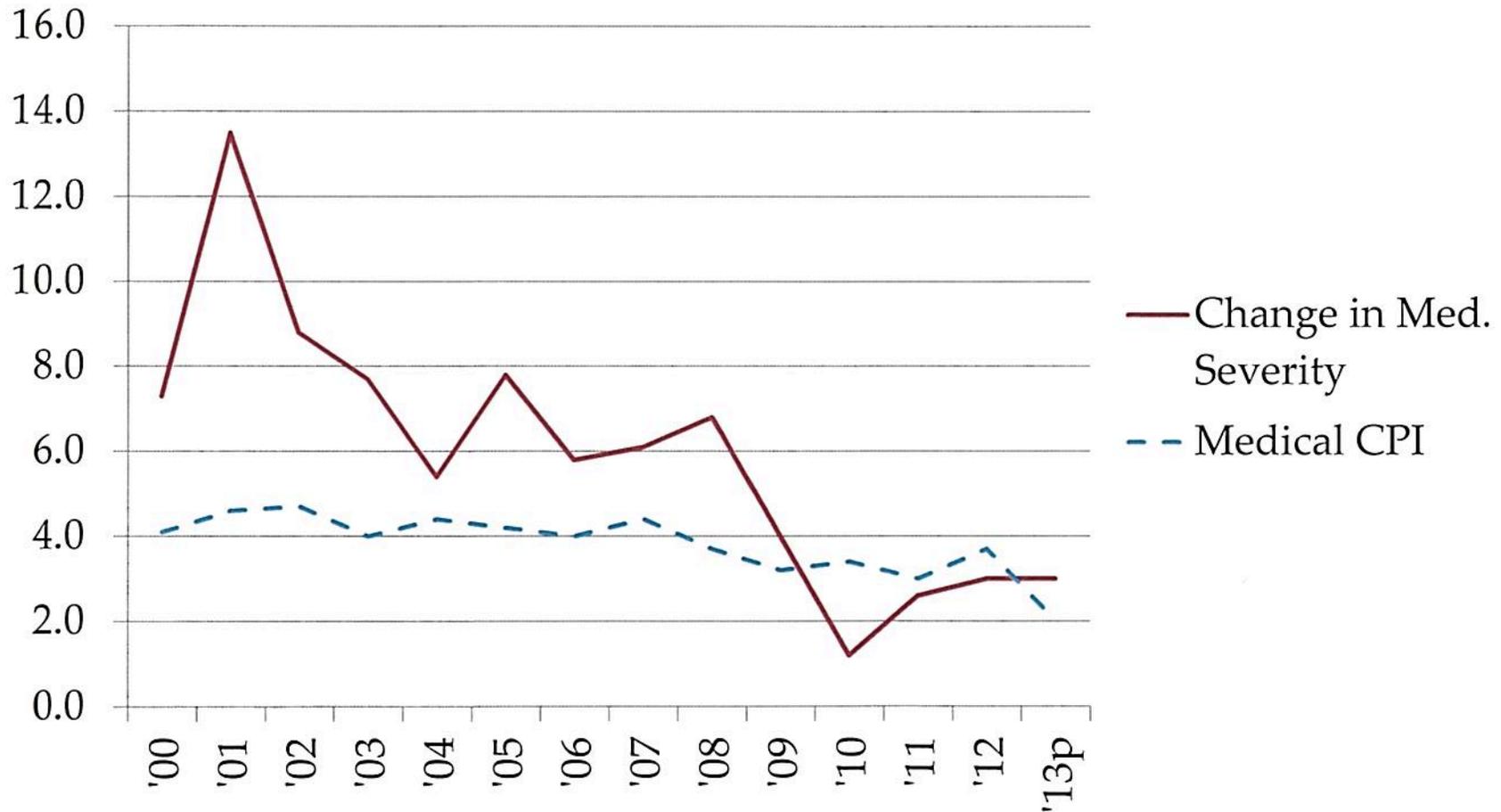
Cost – Another Modest Increase in 2013



Source: NCCI (2013 is preliminary)

WC Medical Claim Cost Trends

Percentage Change

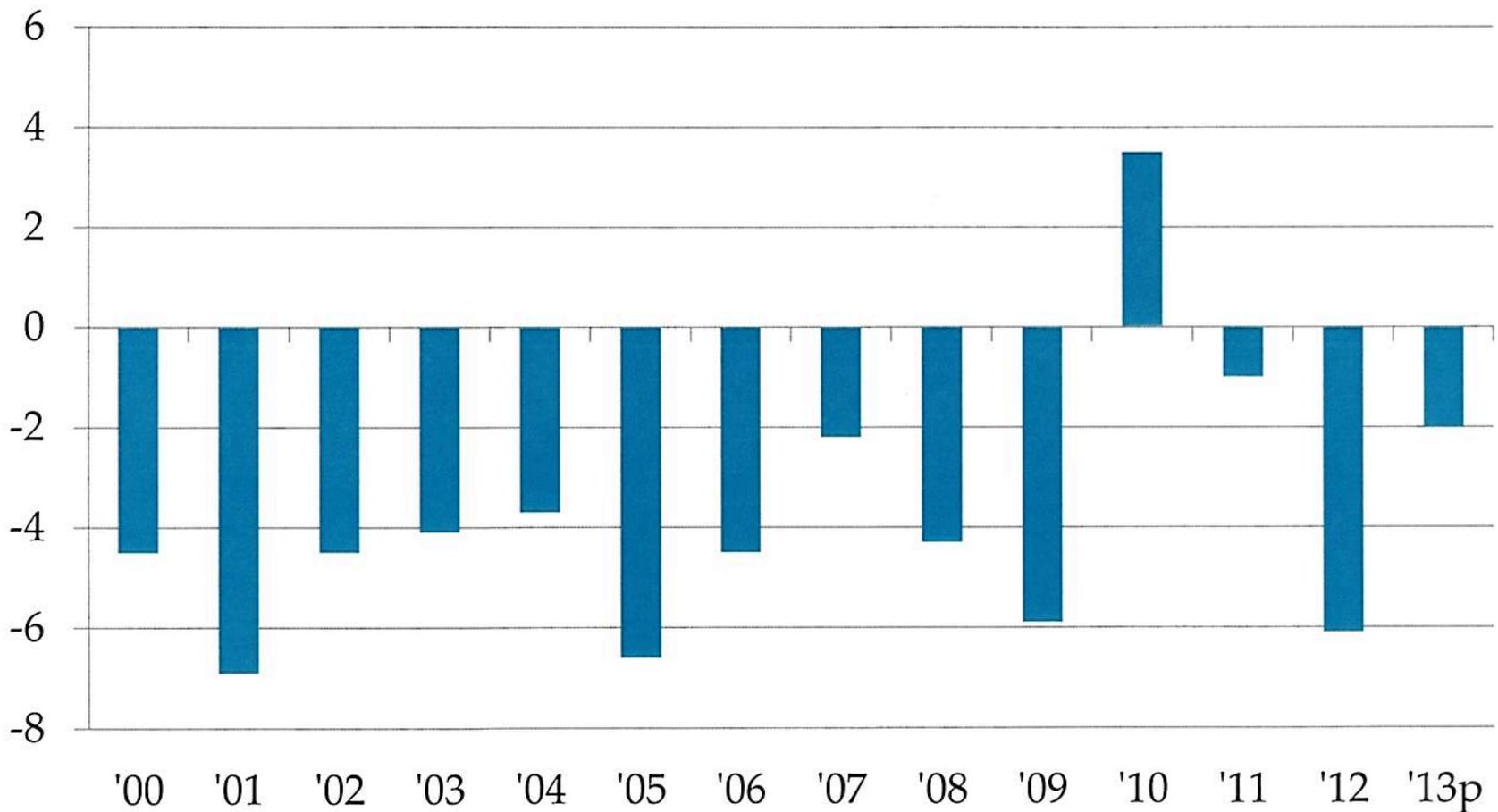


Sources: NCCI – Medical Severity; Economy.com – Medical CPI; 2013 is preliminary

WC Lost-Time Claim Frequency

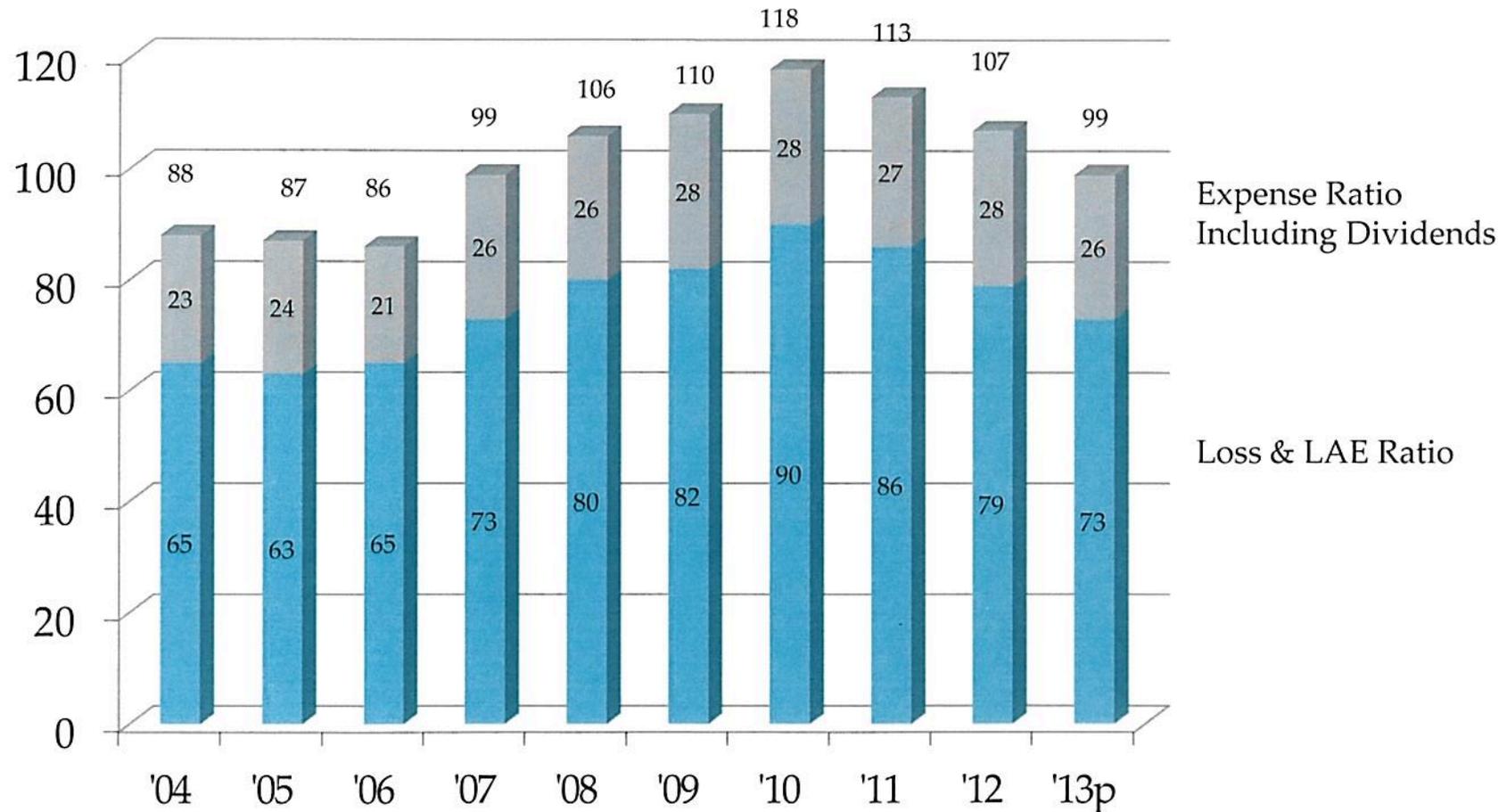
Continued to Decline in 2013

Percentage



Source: NCCI; 2013 is Preliminary; 2010 & 2011 frequency is adjusted for recessionary factors

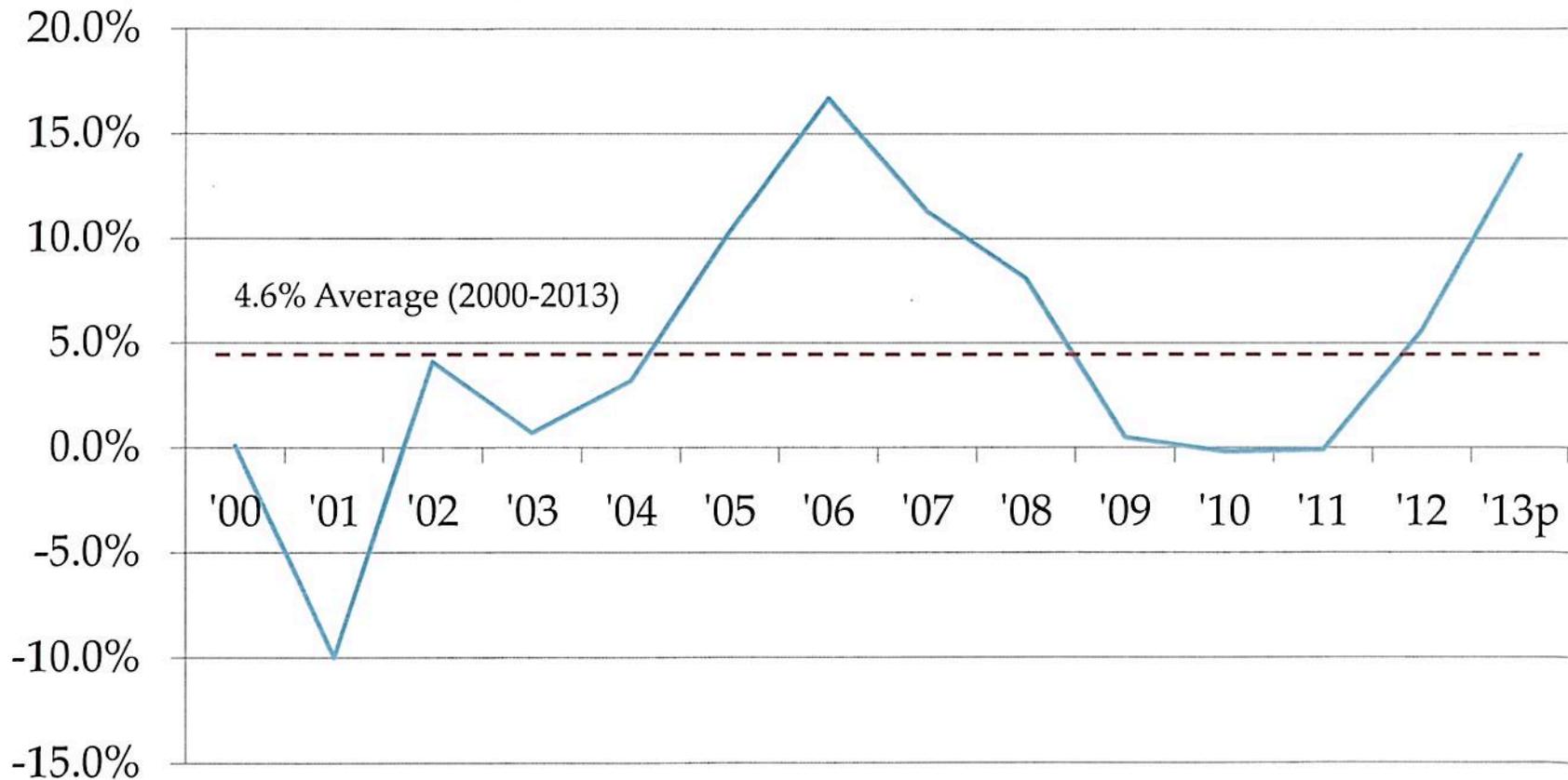
Countrywide Accident Year Combined Ratios



Source: NCCI; 2013 preliminary data

WC Operating Gain Rose Sharply

Pre-Tax Operating Gain Ratio – Private Carriers

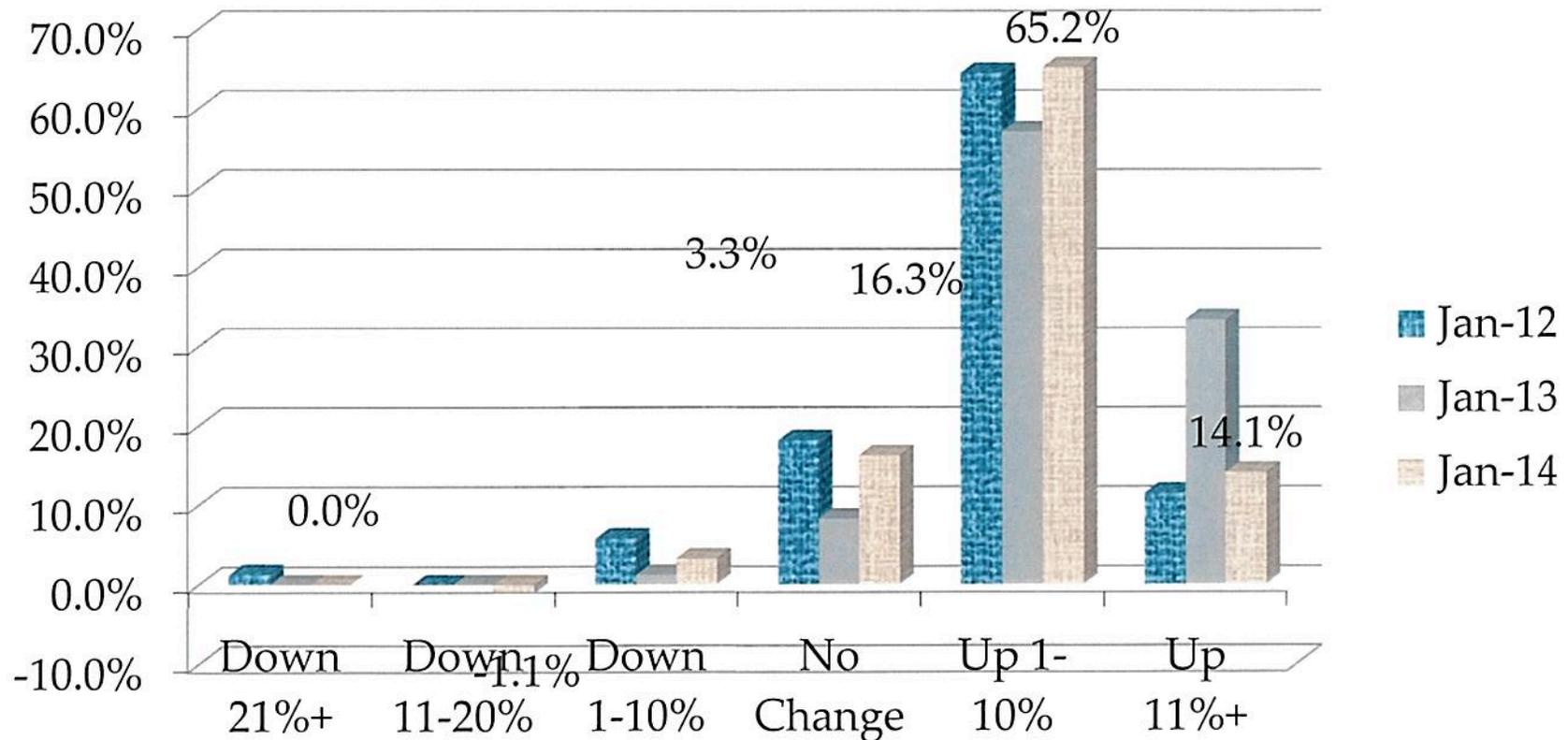


● Source: 2000-2012, Annual Statement Data; 2013 NCCI - preliminary

According to Goldman Sachs, Prices Appear to be Increasing

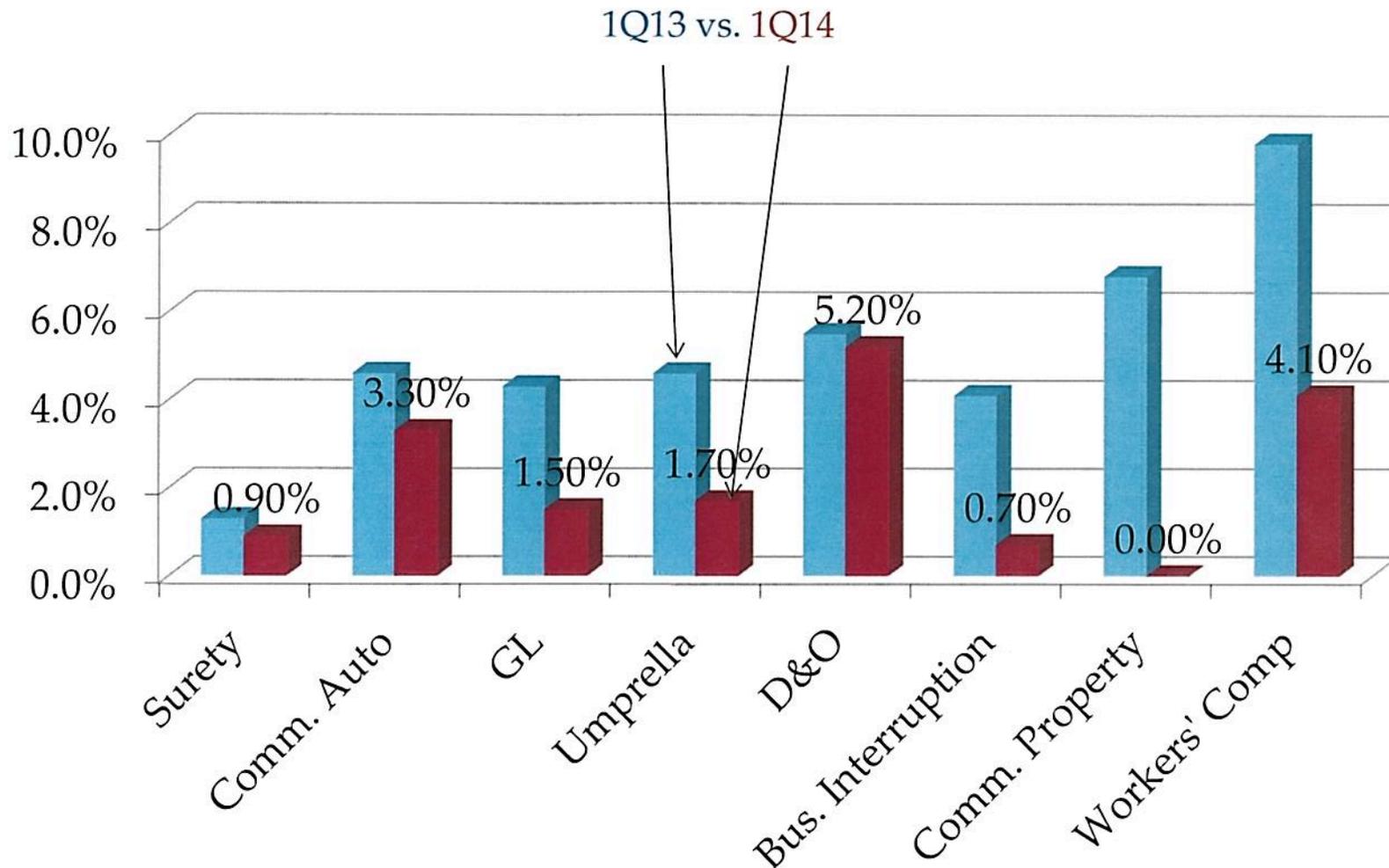
Agent Responses on WC Rates on Renewals vs. 12 Months Prior

Percentage of Respondents



Source: Goldman Sachs Research, Proprietary Survey, January 2014 Pricing Survey, Insurance: Property & Casualty (Exhibit 4, WC)

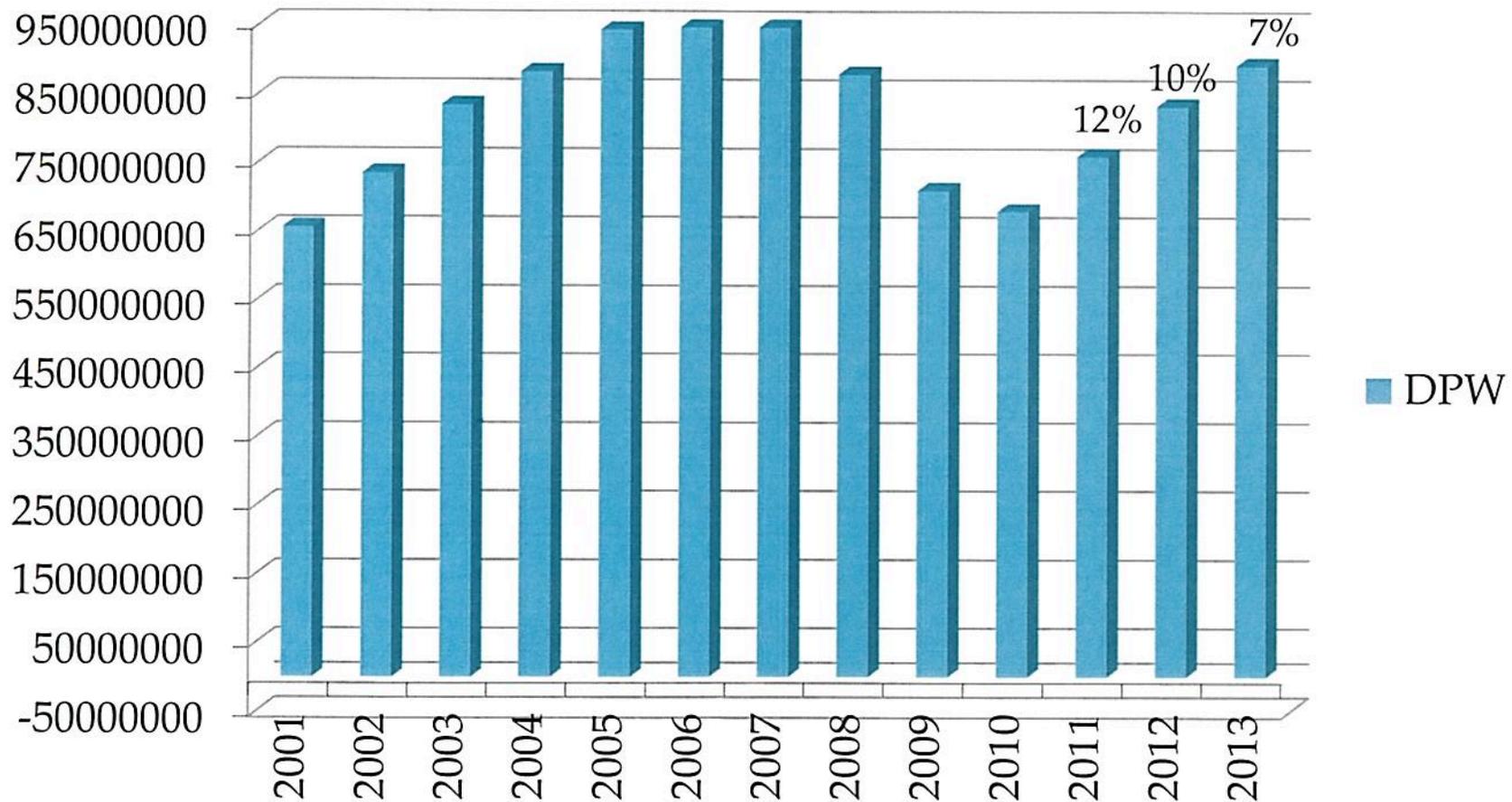
Change in Commercial Rate Renewals, by Line:



Tennessee Specific

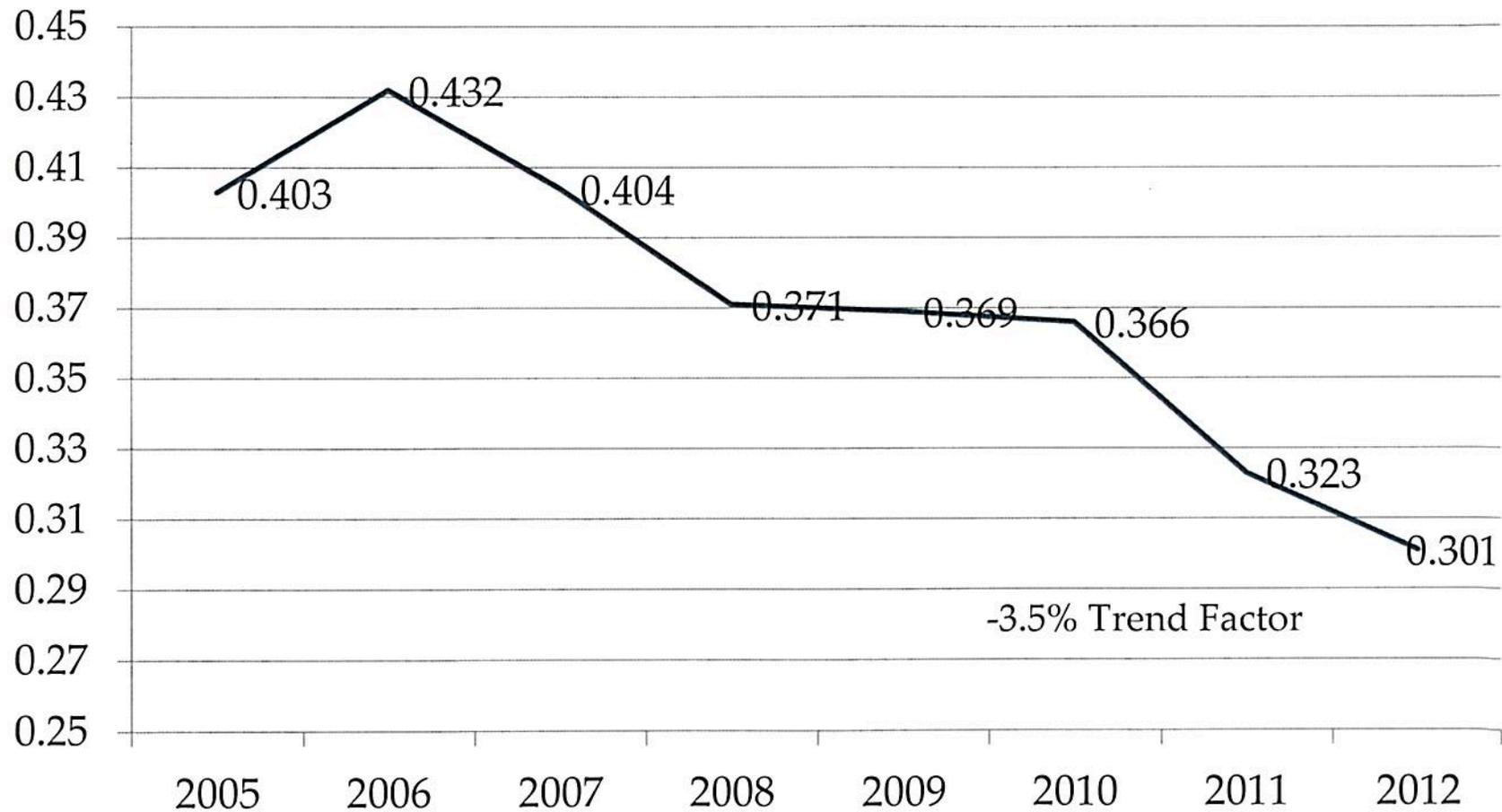


TN Direct Premium Written Premium (DPW) History



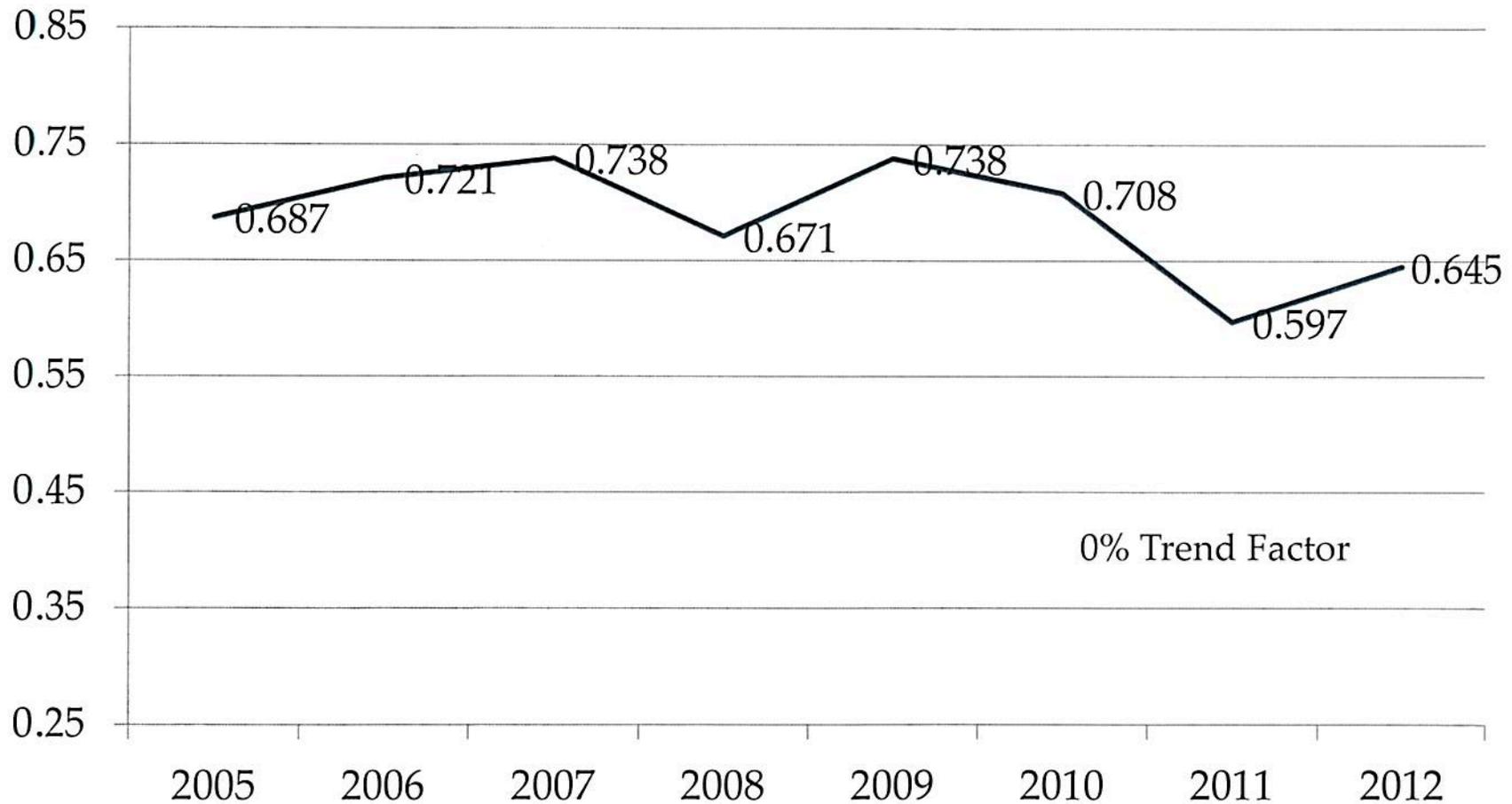
DPW: "Direct Premiums Written" - Property/casualty premiums collected by the insurer from policyholders, before reinsurance premiums are deducted. Insurers share some direct premiums and the risk involved with their reinsurers.

TN Indemnity Loss Ratio History



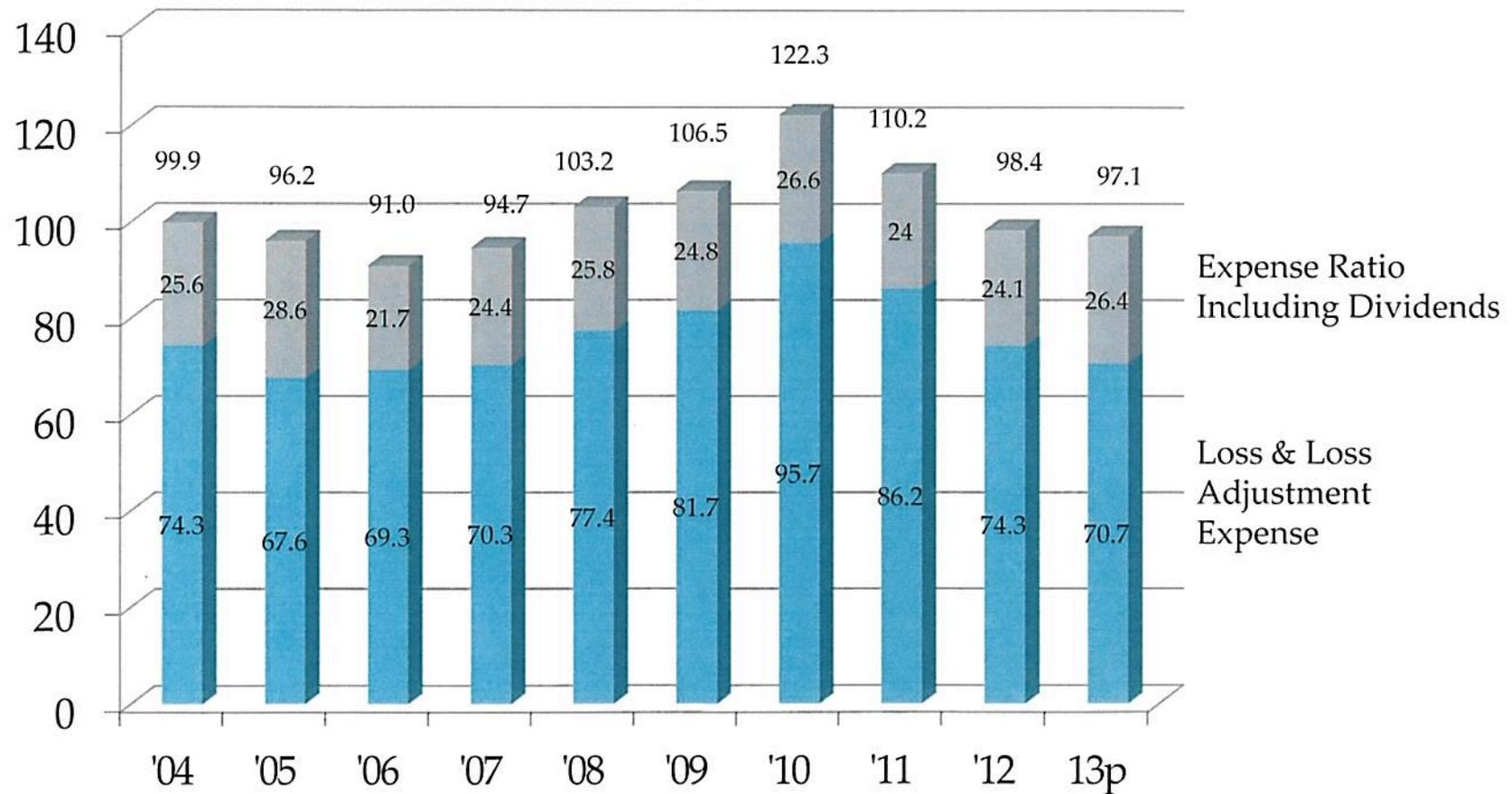
TN Workers Compensation Filing – March 1, 2015

TN Medical Loss Ratio History



TN Workers Compensation Filing – March 1, 2015

Tennessee Accident Year Combined Ratios



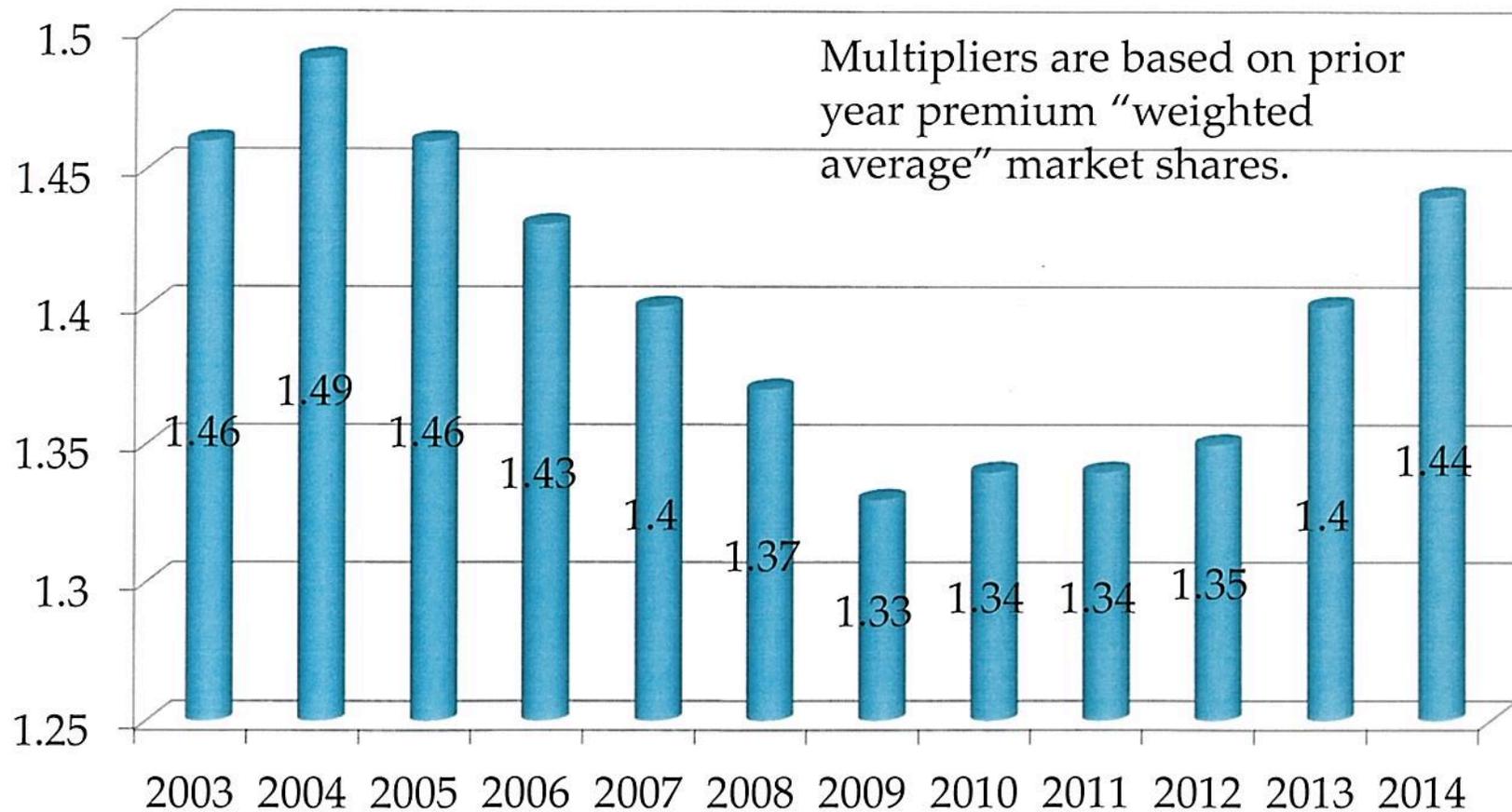
Source: NCCI - 2013 preliminary data

Loss Cost Filing & Final Approvals Since 2004 Reforms Implemented

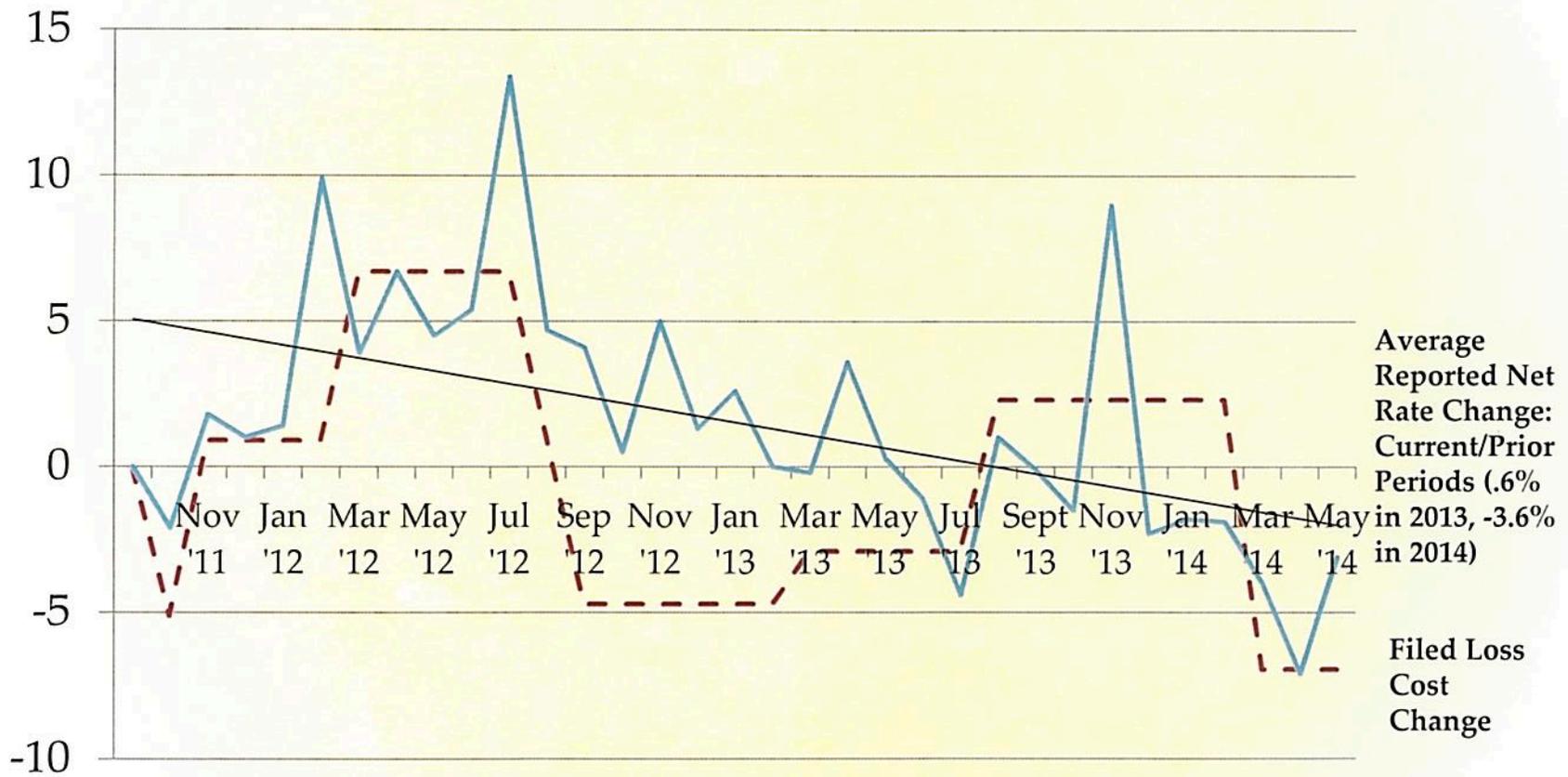
-36% since 2004 Reforms, if 3/1/15 filing approved

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	C&I Approved Rate	Effective Date
2005	3.9%	3.9%	3.9%	7/1/2005
2005	-6.9%	-6.9%	-6.9%	7/1/2005
2006	1.6%	1.6%	1.6%	3/1/2006
2007	1.4%	0%	1.4%	3/1/2007
2007	2.4%	2.4%	2.4%	7/1/2007
2007	-7.2%	-8.6%	-7.2%	3/1/2008
2008	-3.1%	-3.1%	-3.1%	7/1/2008
2008	-3.1%	-3.4%	-3.1%	3/1/2009
2009	-1%	-1%	-1%	3/1/2010
2010	-5.1%	-5.3%	-5.1%	3/1/2011
2011	6.3%	6.3%	6.3%	11/1/11
2011	1.6%	-3%	.4%	3/1/12
2012	-5.1%	-5.1%	-5.1%	8/9/12
2012	2.3%	1.6%	2.3%	3/1/13
2013	-8.4%	-6.95%	-6.95%	3/1/14
2013	-5.9%	-5.9%	-5.9%	7/1/14
2014	-9.6%			3/1/15

Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History



TN Price Change Analysis



Source: NCCI

2014 LCM Distribution

(by Direct Premium Written)

Median 1.44



- 80% are above 1.07 and below 1.70
- 27% above 1.56 Assigned Risk LCM

A complete listing of LCMs is posted on the Department's website

TN WC Premium Tax Revenues

	YE 8/31/10	YE 8/31/11	YE 8/31/12	YE 8/31/13
Self Insurance	\$6.7M	\$7.5M	\$6.4M	\$5.8M
Insurance	\$25.9M	\$26.6M	\$31.7M	\$34.4M
Total Premium Tax*	\$32.6M	\$34.1M	\$38.1M	\$40.2M

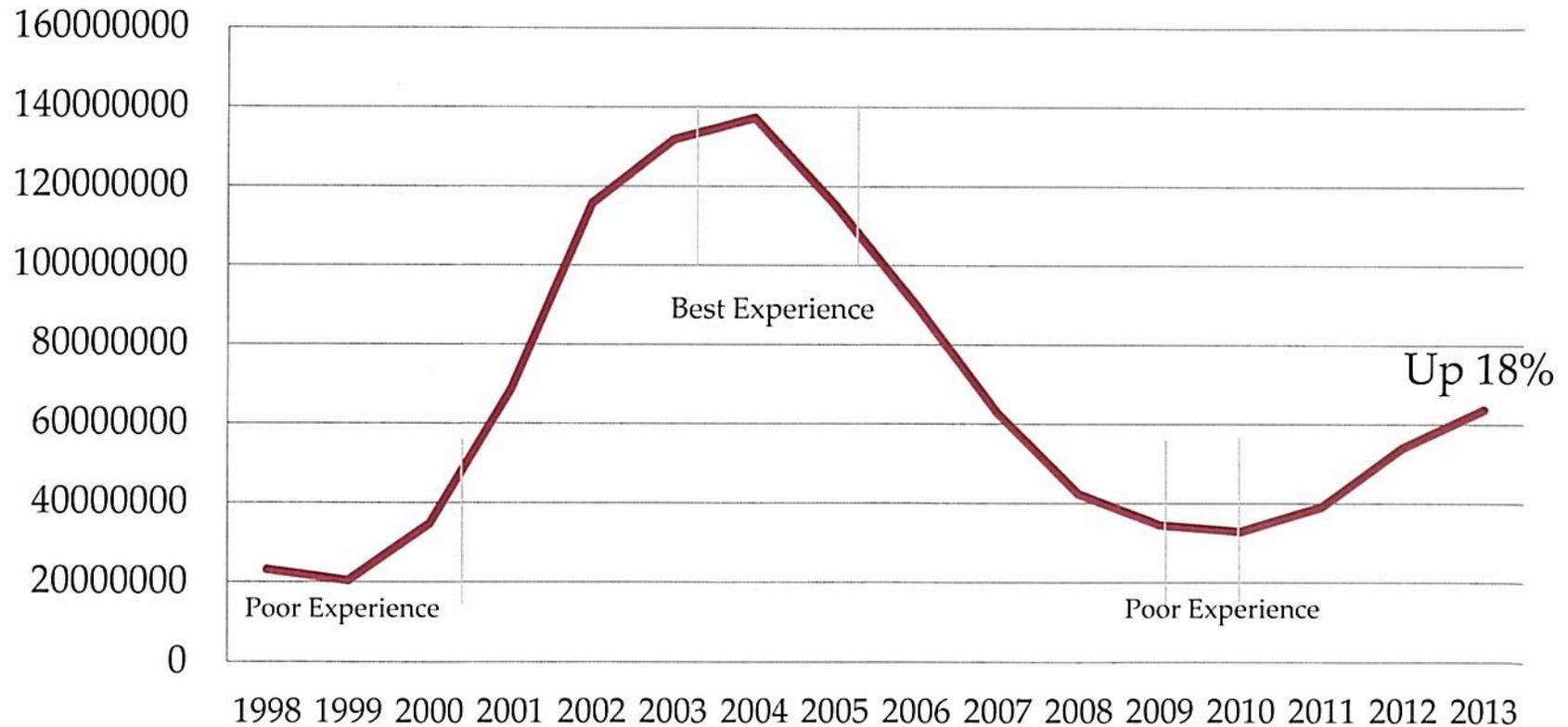
Data excludes .4% TOSHA Surcharge

Tennessee Workers Compensation Insurance Plan (TWCIP)

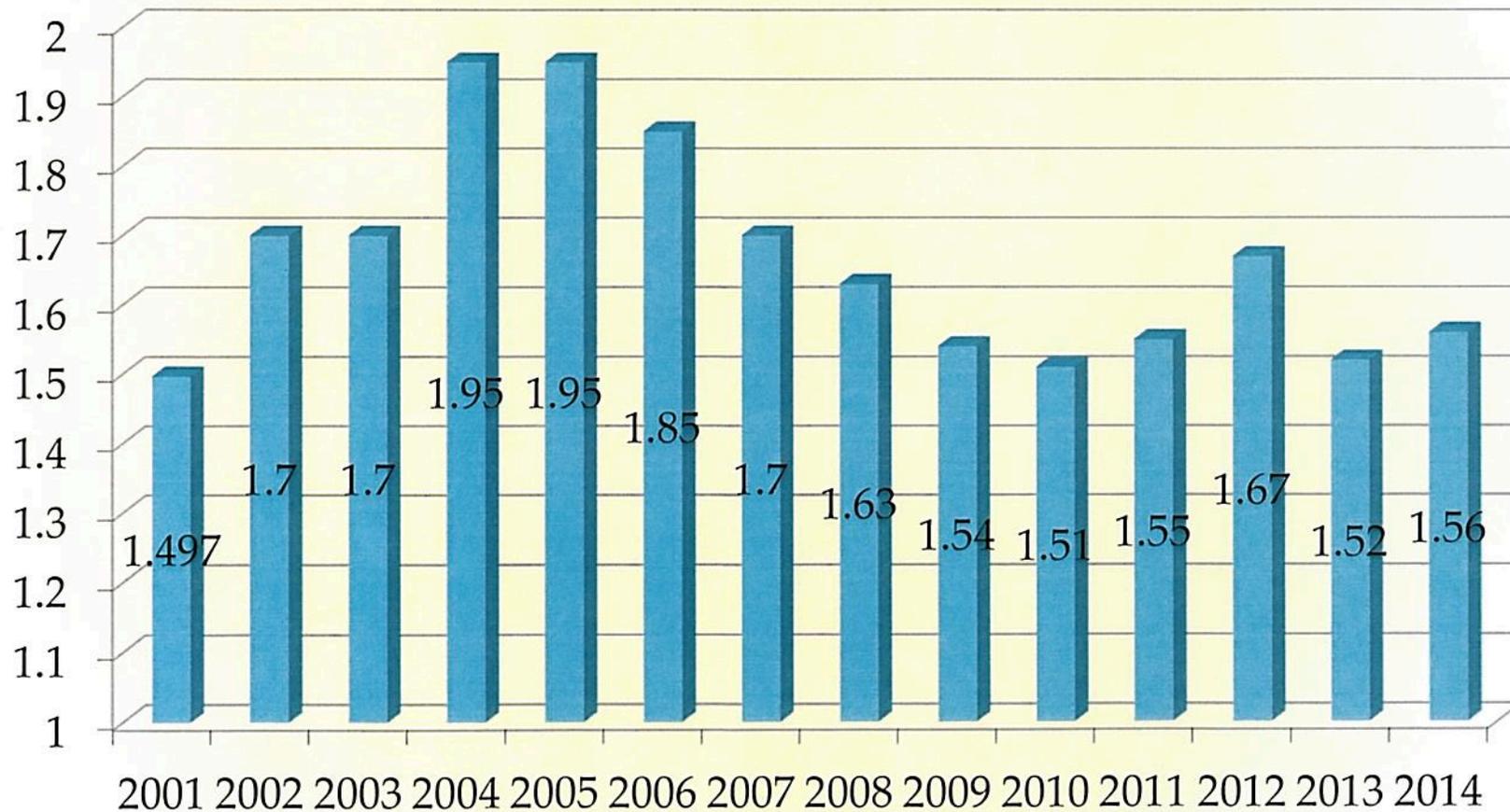


TWCIP Premium History

Premium

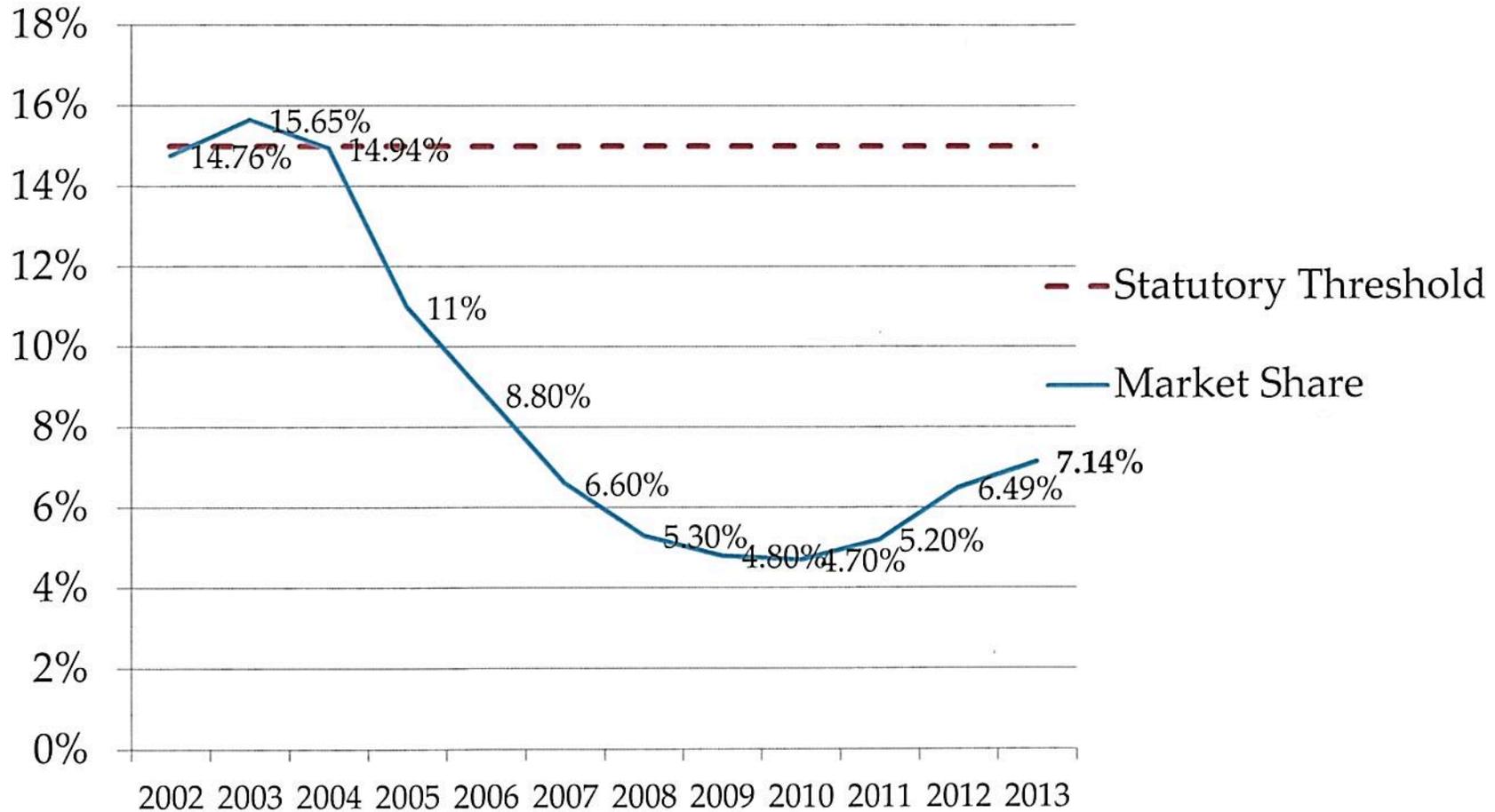


TWCIP LCM History



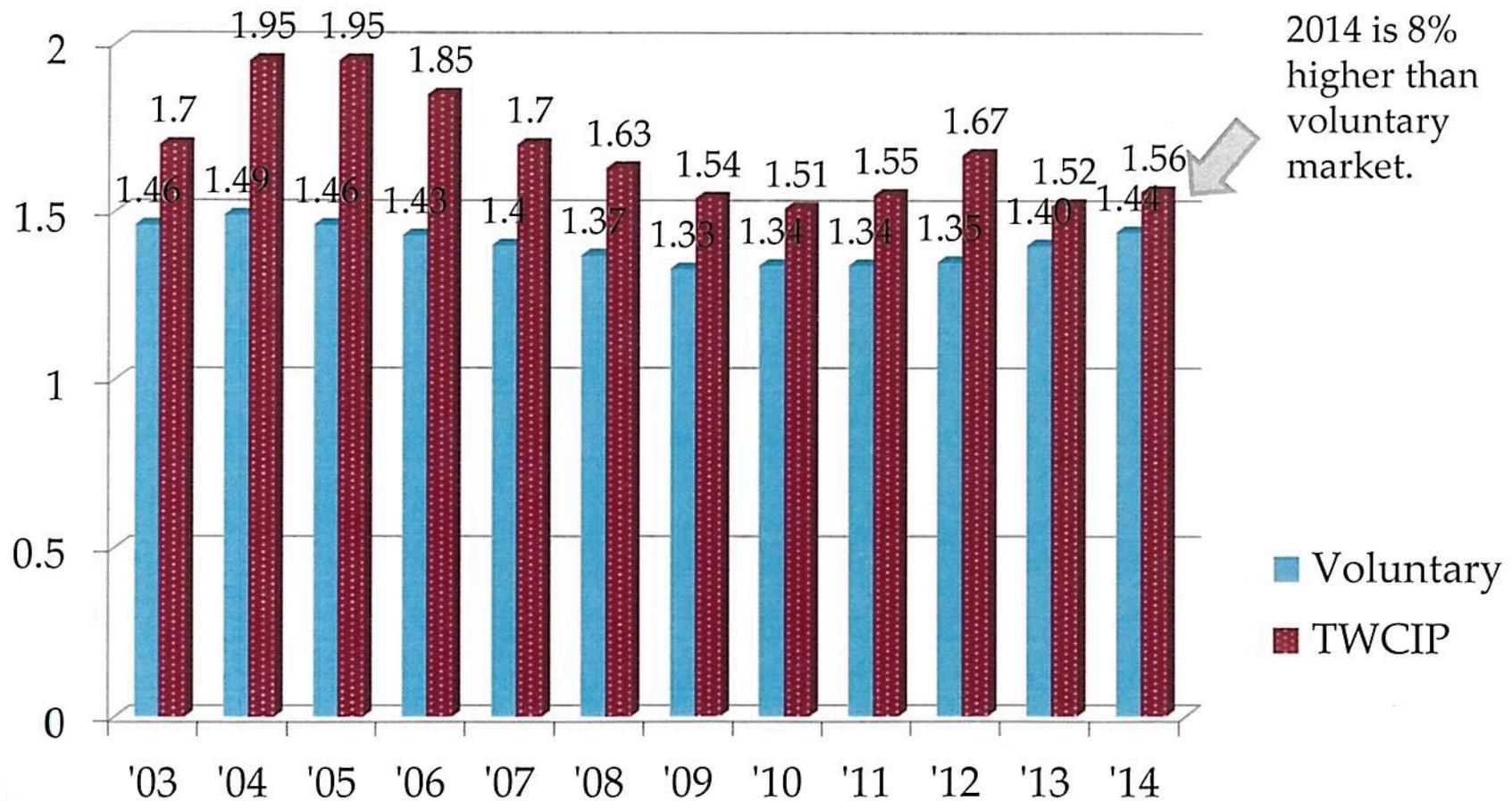
TN Assigned Risk Market Share - NAIC

Direct Premium Written

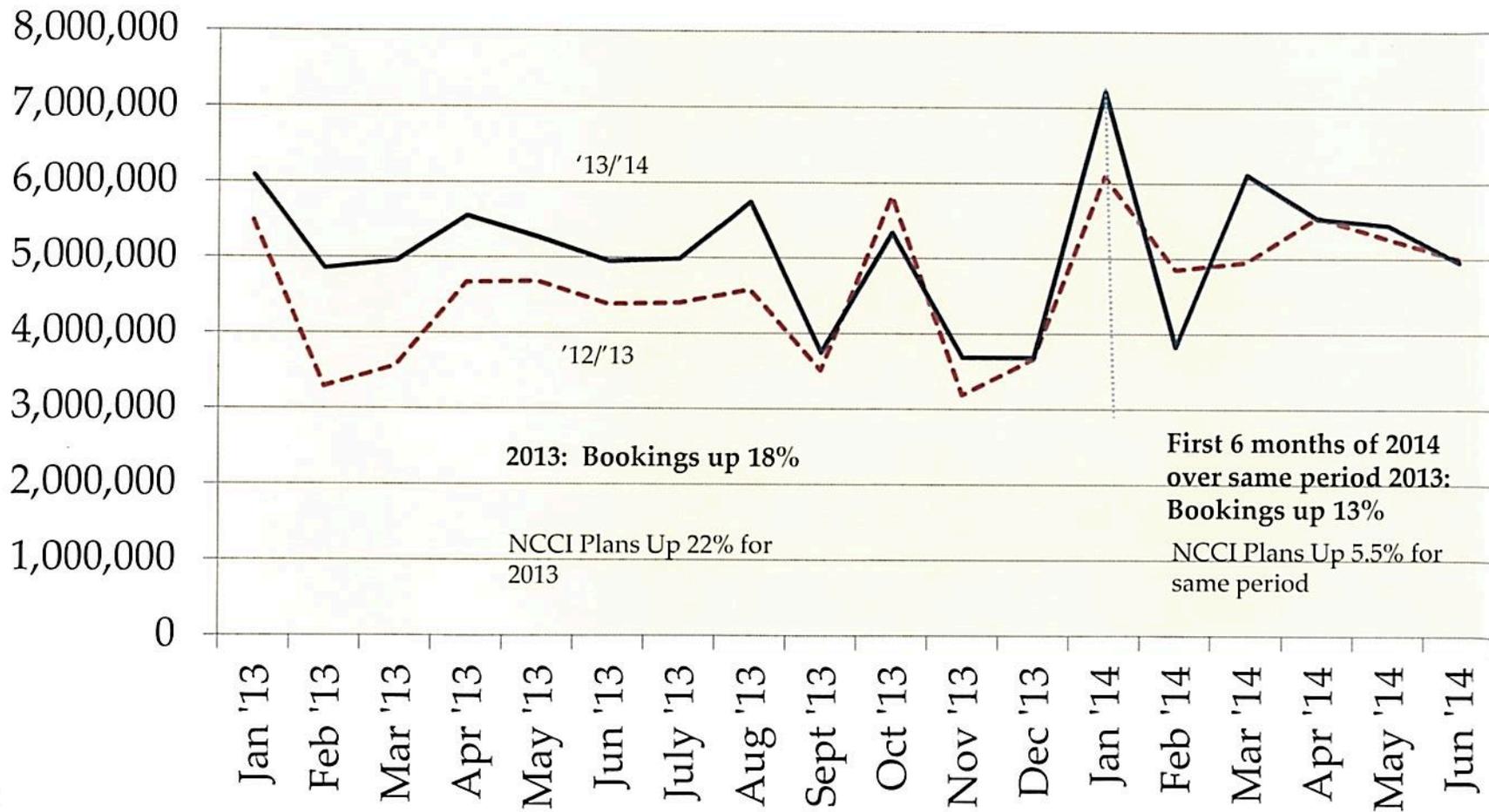


LCM History: Voluntary vs. TWCIP

TWCIP 19% On Average Higher



TN Assigned Risk Bookings



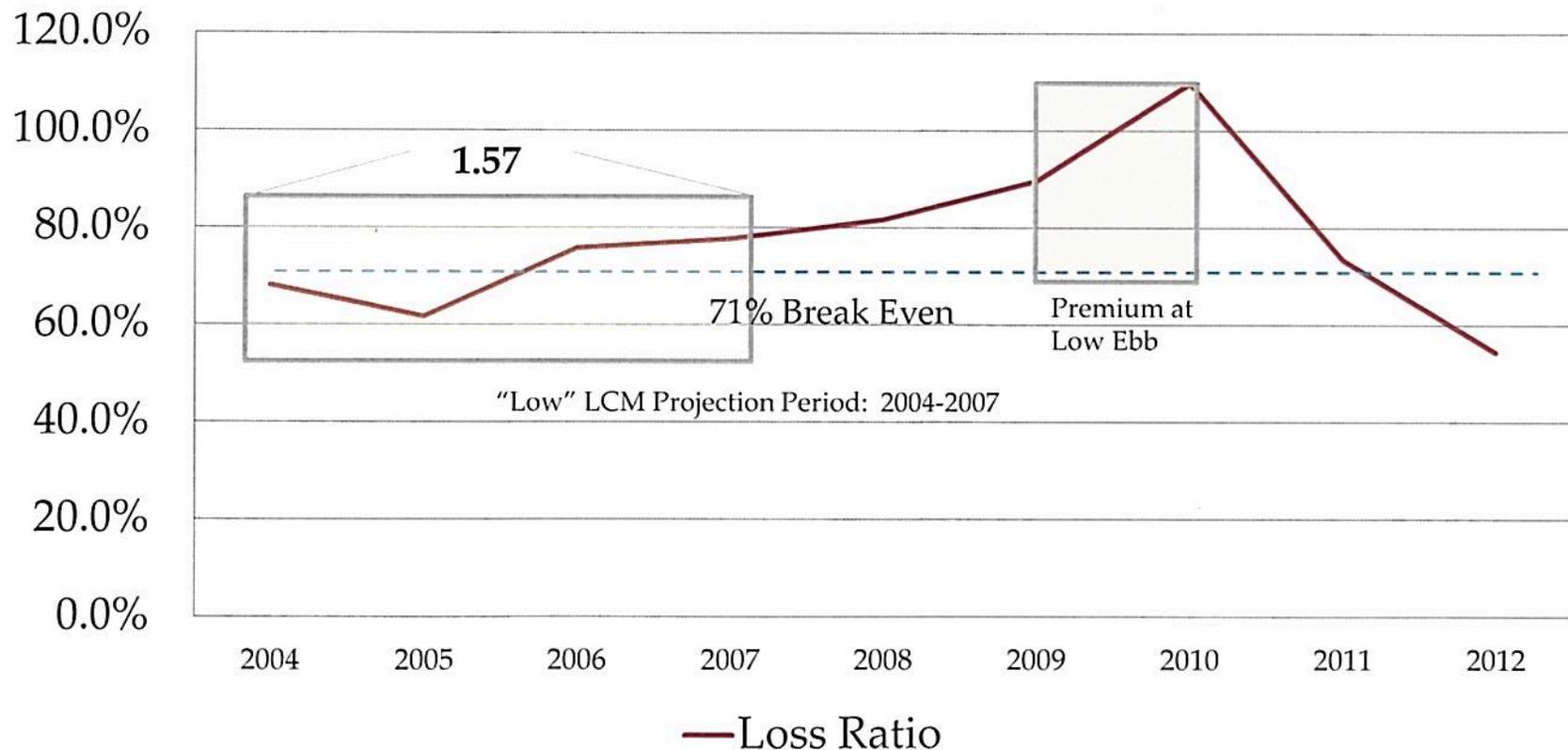
TCA § 56-5-314 (c)(6)(B)

- “...The commissioner shall annually establish the multiplier to be applied to the advisory prospective loss cost for the assigned risk plan. In establishing such multiplier, the commissioner shall consider the **estimated cost of providing required services** pursuant to this subsection and the **level of the multipliers in the voluntary market.**” (emphasis added)

Servicing Carrier & Direct Assignment

Carrier Loss Ratio History

(1.60 LCM Levelled)



Aon's Actuarial Estimate of Break Even

LCM for 3/1/15

Expected Recommendation 1.57



- Projections are “grossed up” to reflect 50% reduction in tabular surcharge effective 9/1/12.
- Full data period is 2004-2012. Experience for 2010 excluded due to \$5M+ claim. Had Aon used 2010 data, the full impact would have projected a 1.66 LCM.
- In low to mid-point estimates, no provision was included for adverse deviation due to 2015 premium being projected to be much higher than unprofitable 2009-2010 level, when cycle was in its low ebb.
- 1.57 “final target” reflects experience from 2004-2007, which encompasses upper end premium levels. Premiums for the next several years are expected to be at or near their peak. Low end recommendation due to introduction of TAIL plan for policies with standard premium of \$250,000 and up (1.65 maximum), which should significantly improve loss ratio for this segment.

Currently Four Active Self-Insured Groups

Self Insured Groups

Associated Builders & Contractors of Tennessee

Comptrust AGC of Tennessee

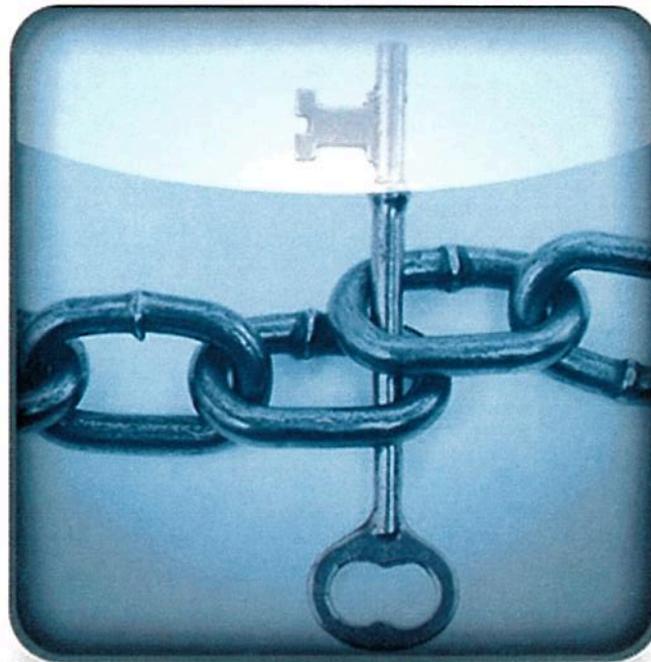
Tennessee Automotive Association

Tennessee Forestry Association

Tennessee Health Care Association (discontinued writing as of 4/1/14)

Insolvencies

- Individual carrier data included in this section includes insolvencies over \$1 million in total losses.



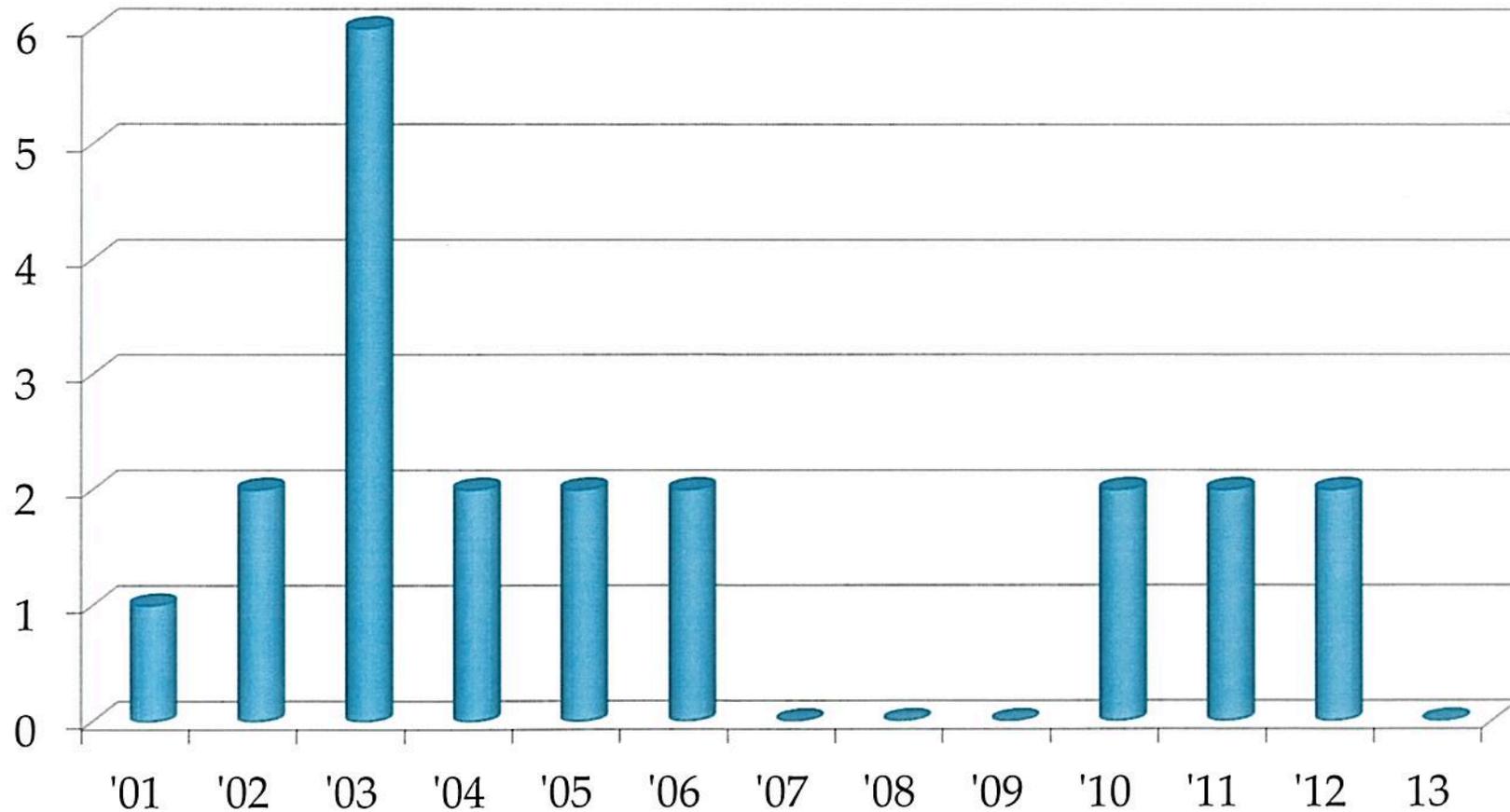
WC Insolvency Data – Valued 6/30/14

(Listing Only Carriers Having Over \$1M Total Unpaid Losses)

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,760	39,887,414	21,468,894
Home Ins. Co. (6/03)	126	2,837,722	4,677,658
Reciprocal of America (6/03)	313	1,867,665	2,731,543
Legion & Villanova (7/03)	1,878	42,220,996	20,278,478
Western Indemnity (8/8/03)	3	319,811	4,241,846
Casualty Reciprocal (8/04)	52	1,828,366	2,630,601
Realm National (6/05)	52	3,235,175	2,044,316
Imperial Casualty (5/10)	127	1,734,005	1,284,171
Pegasus (8/10)	6	20,596	1,353,500
Lumbermens Mutual (5/13) –	125	488,327	10,813,331
Ullico (5/13) -	41	517,423	3,988,187
Totals (all since 10/3/01)	4,483	94,957,500	75,512,525

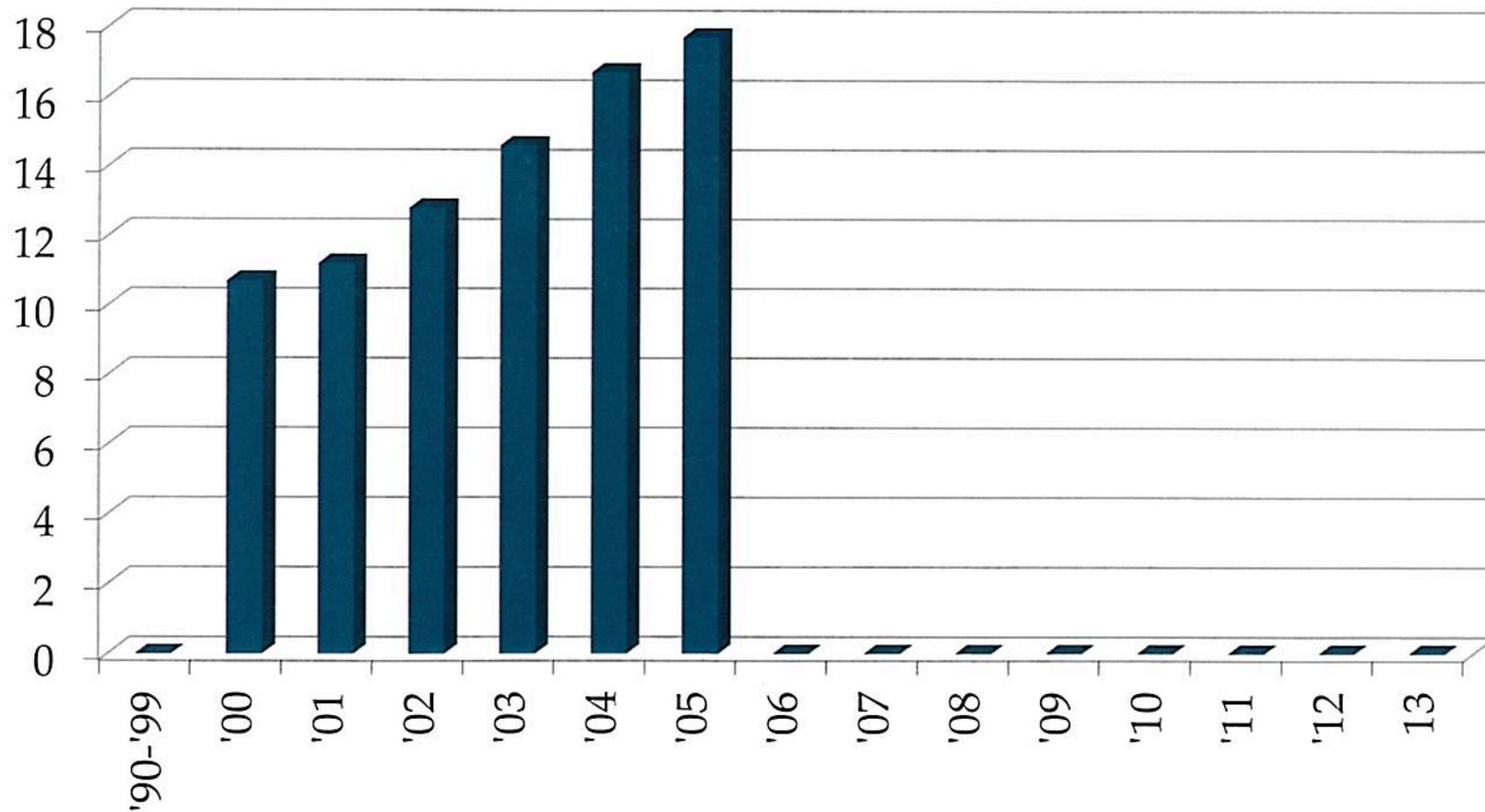
Source: TN Guarantee Association; administrative expenses not included in above data.

Number of WC Carrier Insolvencies Per Year Impacting TN

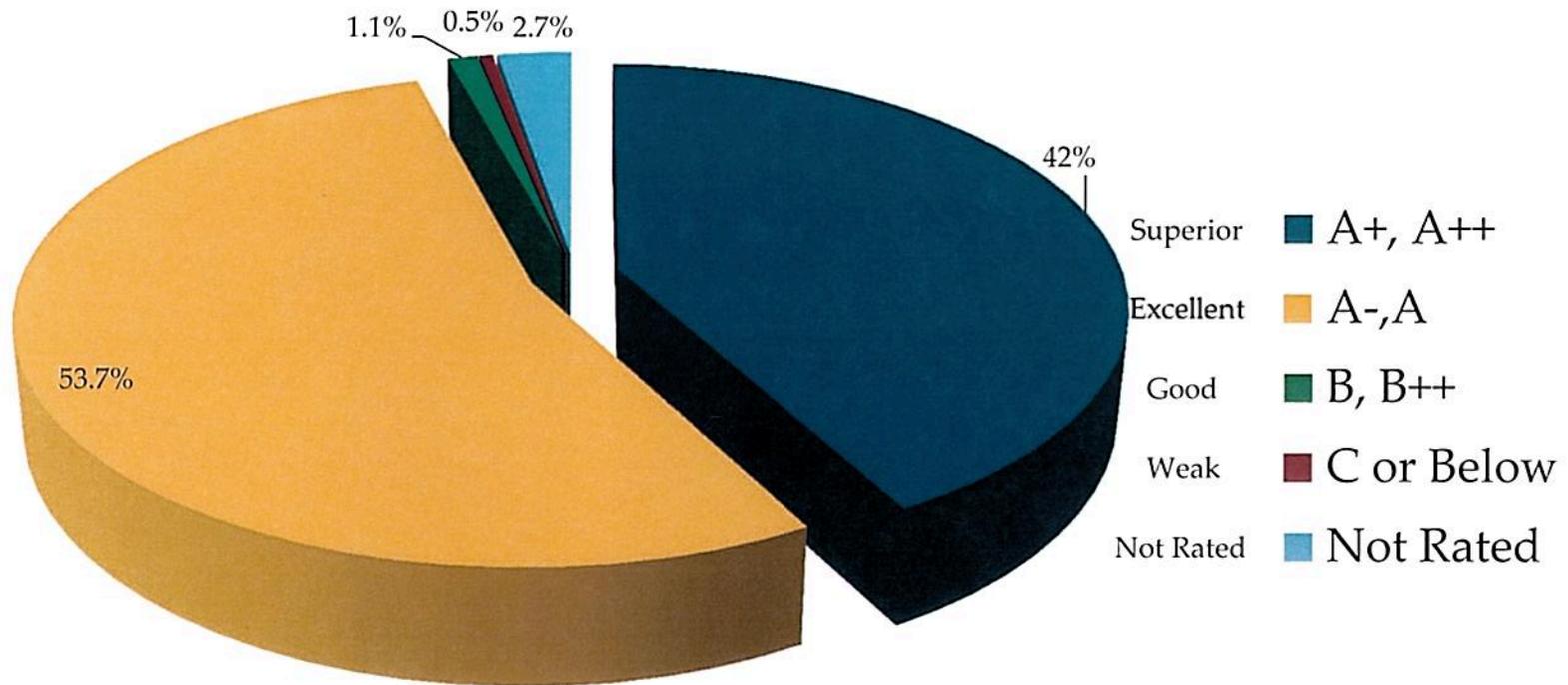


Source: TN Guarantee Association; 2003 Legion & Villanova are combined & shown as one.

TN Guaranty Fund Assessment History (Millions)



A.M. Best Ratings for Companies with >\$1M Premium – Premium Shares



As of August 2014;
Saw very little change in the actual ratings from August 2013, with minor premium distribution shifts

TN Restaurant Association

- We have a final Order from the Court which closed the receivership.

NCCI

Annual Issues Symposium Summary

Positives

- Improvement in Underwriting results
- Strong investment income
- Industry's capital position
- Employment growth continues
- Frequency and severity well behaved

Negatives

- Low interest rate environment
- Embedded bond yields continue to decline
- Uncertainty surrounding TRIA renewal
- Construction & Manufacturing employment lagging
- Uncertain impact of healthcare reform



“Balanced”

