

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

August 29, 2013

Advisory Council on Workers' Compensation

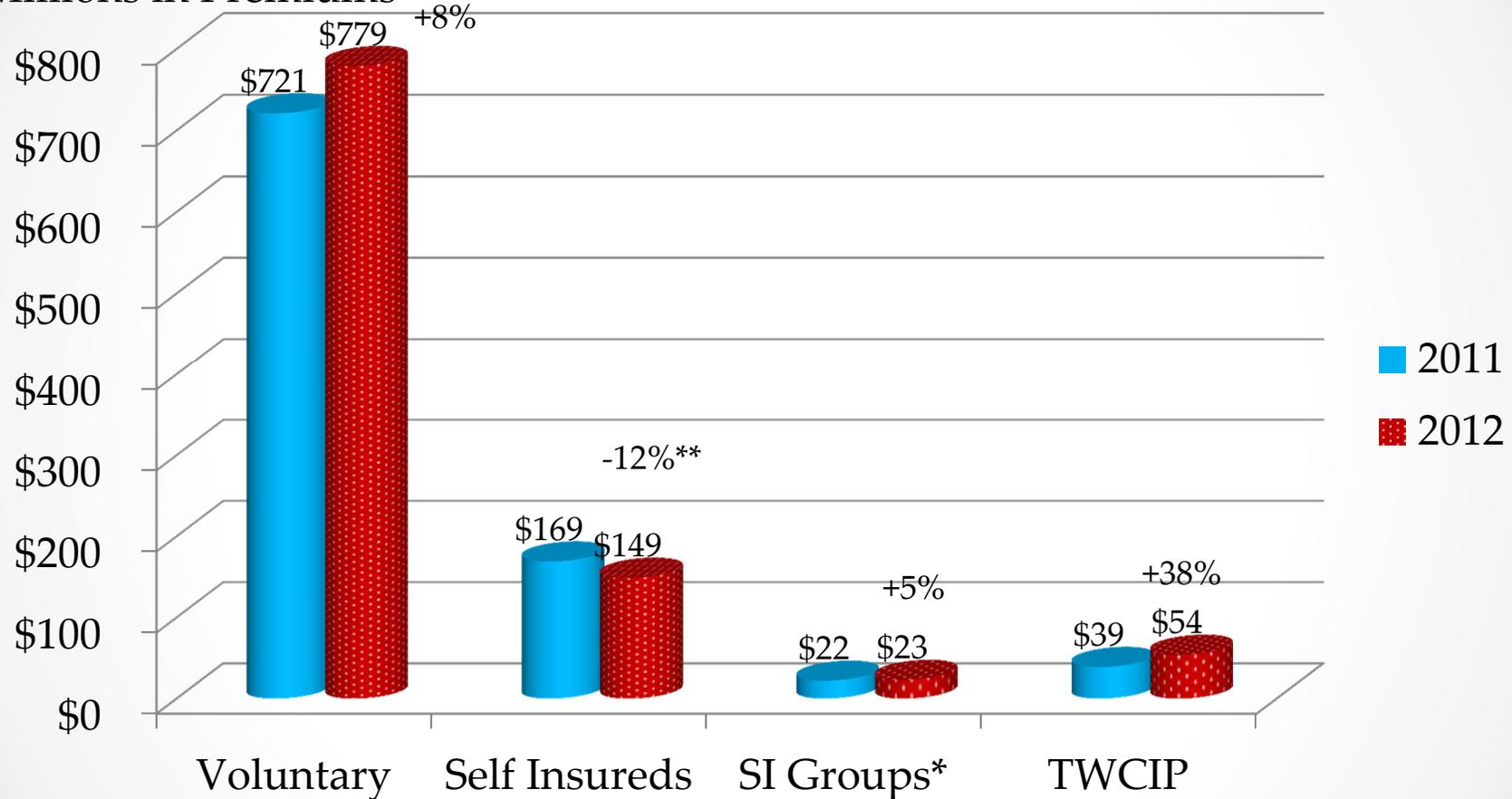
Presented by Mike Shinnick - TDCI

# Presentation Covers

- **Premium Segment Changes**
- **Key National Indicators**
- **National and State Price Changes**
- **2013 Voluntary LCM Distribution**
- **Assigned Risk Trends**
- **Assigned Risk Cycle Implications**
- **Likely Assigned Risk 2014 LCM Recommendation**
- **Insolvency Changes, Including Two New**
- **TN A.M. Best Ratings By Premium Concentrations**
- **NCCI AIS Summary**

# 2012 Market Segments

Millions in Premiums



- \* Excluding government sponsored groups; Individual Self Insureds are on an equivalent premium basis, Group premiums are estimated.
- \*\* Change in "equivalent premium" premium tax calculation: weighted average voluntary LCM vs. assigned risk LCM: 1.34/1.51(-11.3%); lost 5 & no new added

# National Picture



# Property & Casualty Underwriting Results

## Improved Significantly

Net Calendar Year Combined Ratio – Private Carriers

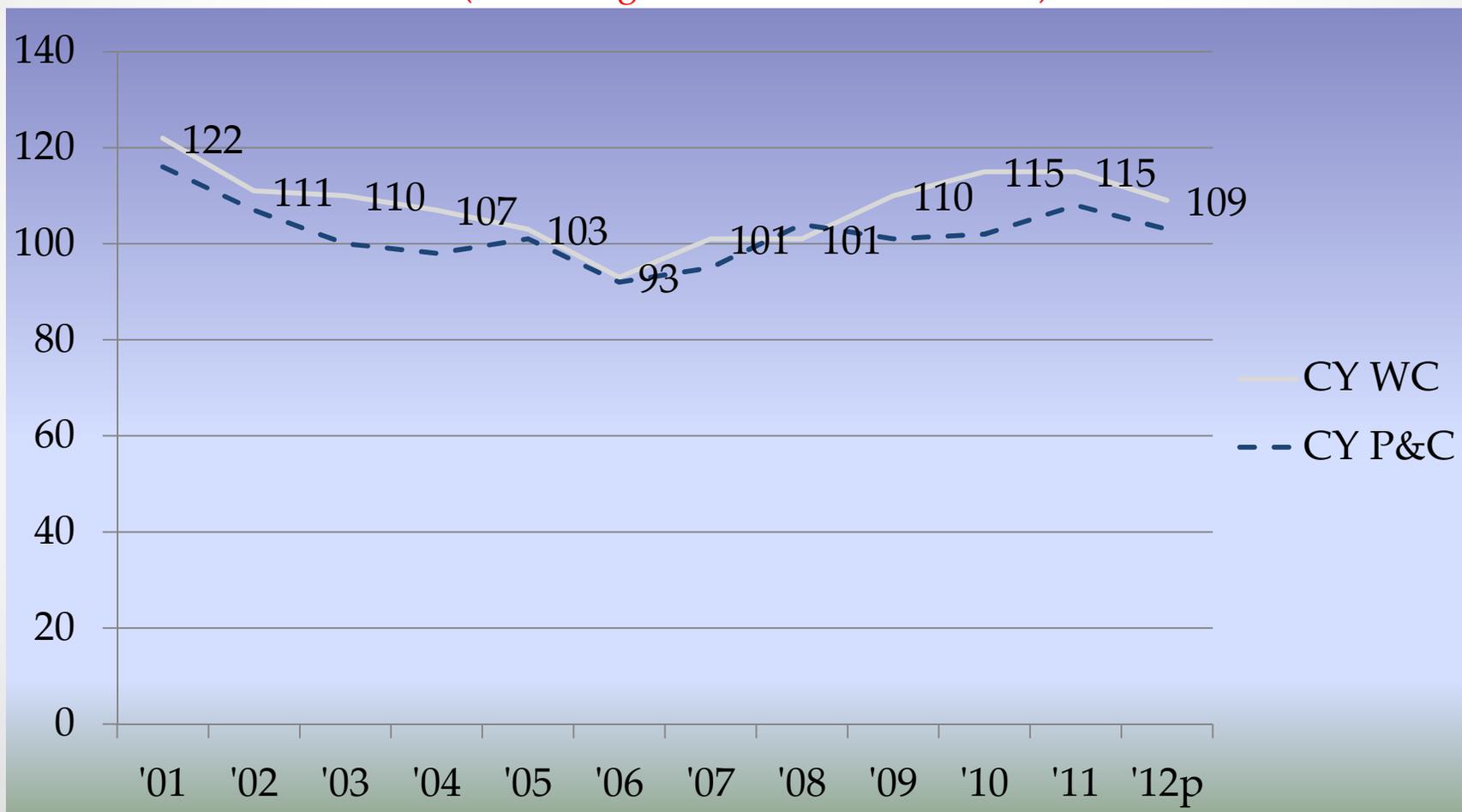
Combined Ratio = Expense Ratio + Loss & LAE Ratio;  
results <100 equate to an underwriting profit

Line of Business	2010	2011	2012 preliminary
Personal Auto	101%	102%	102%
Homeowners	107%	122%	104%
Com. Multi Peril	101%	113%	107%
Com. Auto	98%	104%	107%
Workers' Comp	115%	115%	109%
Total P&C Industry	102%	108%	103%

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

# Calendar Year Combined Ratios

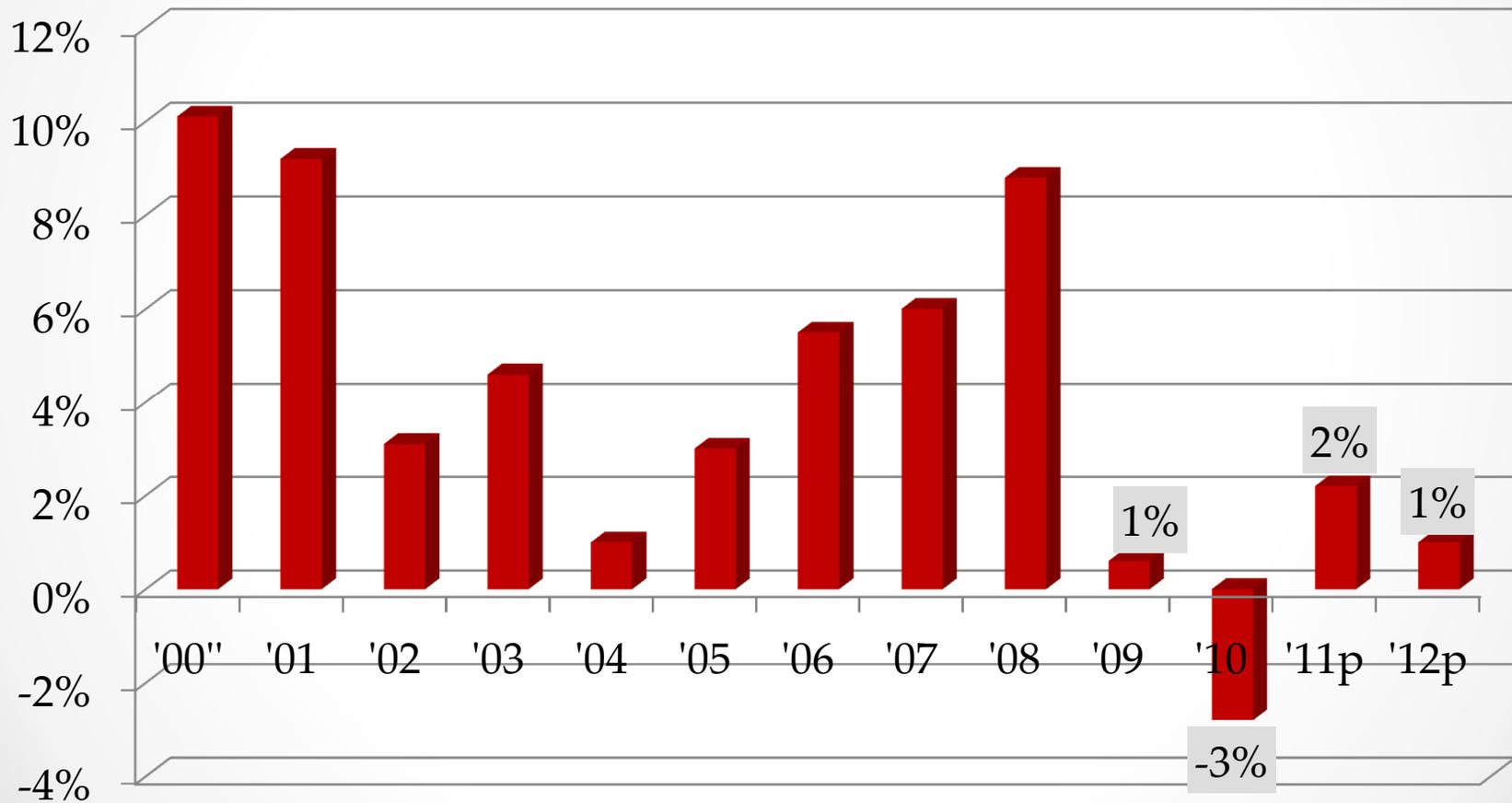
Except for 2008, WC Consistently Trails Overall P&C Results  
(on Average 6 Points Less Favorable)



• Source: NCCI; Annual Statement Date; ISO; 2011 preliminary data

# Workers' Compensation Indemnity Claims

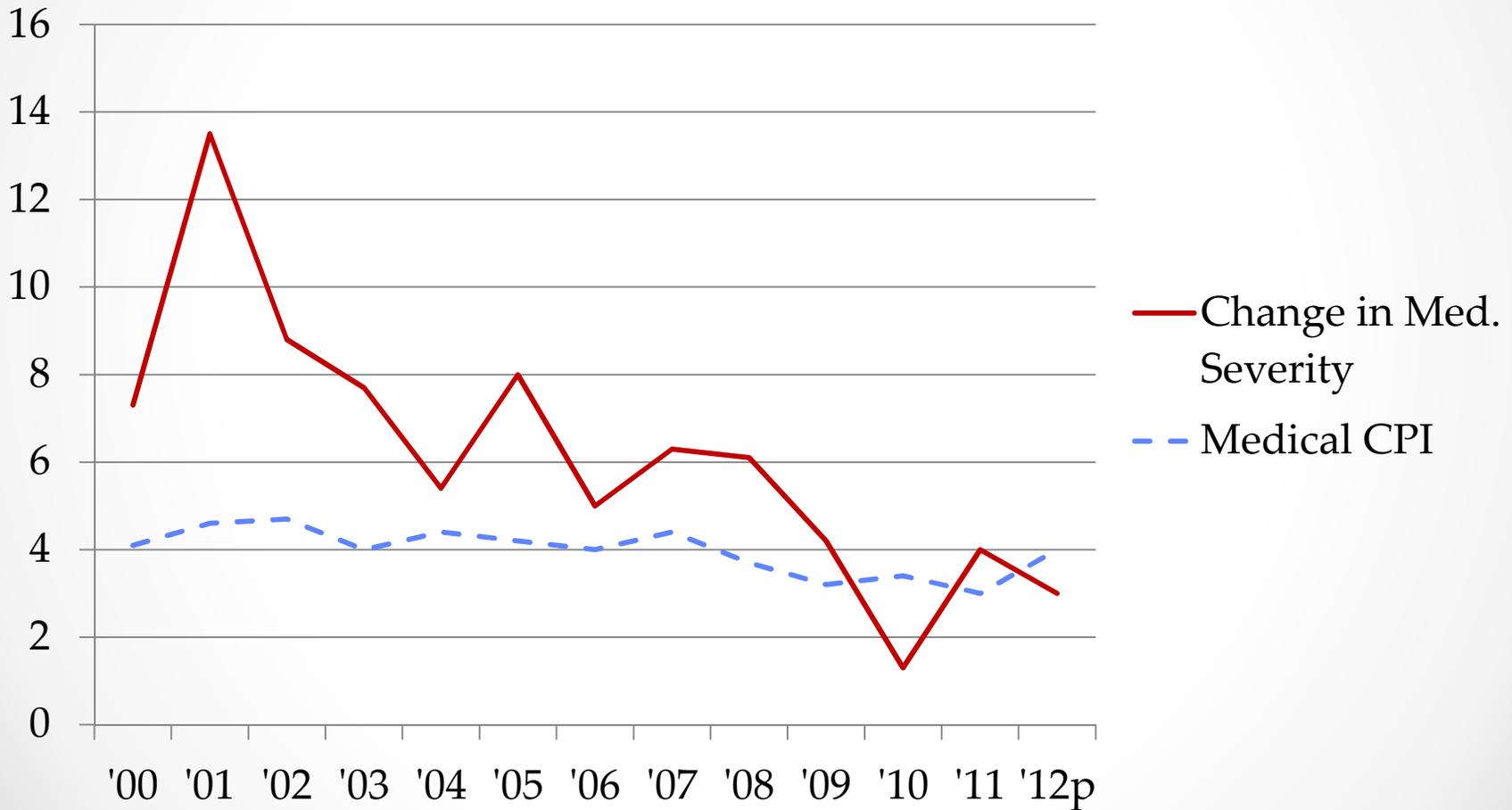
## Cost – Modest Increase in 2012



Source: NCCI (2012 is preliminary)

# WC Medical Claim Cost Trends

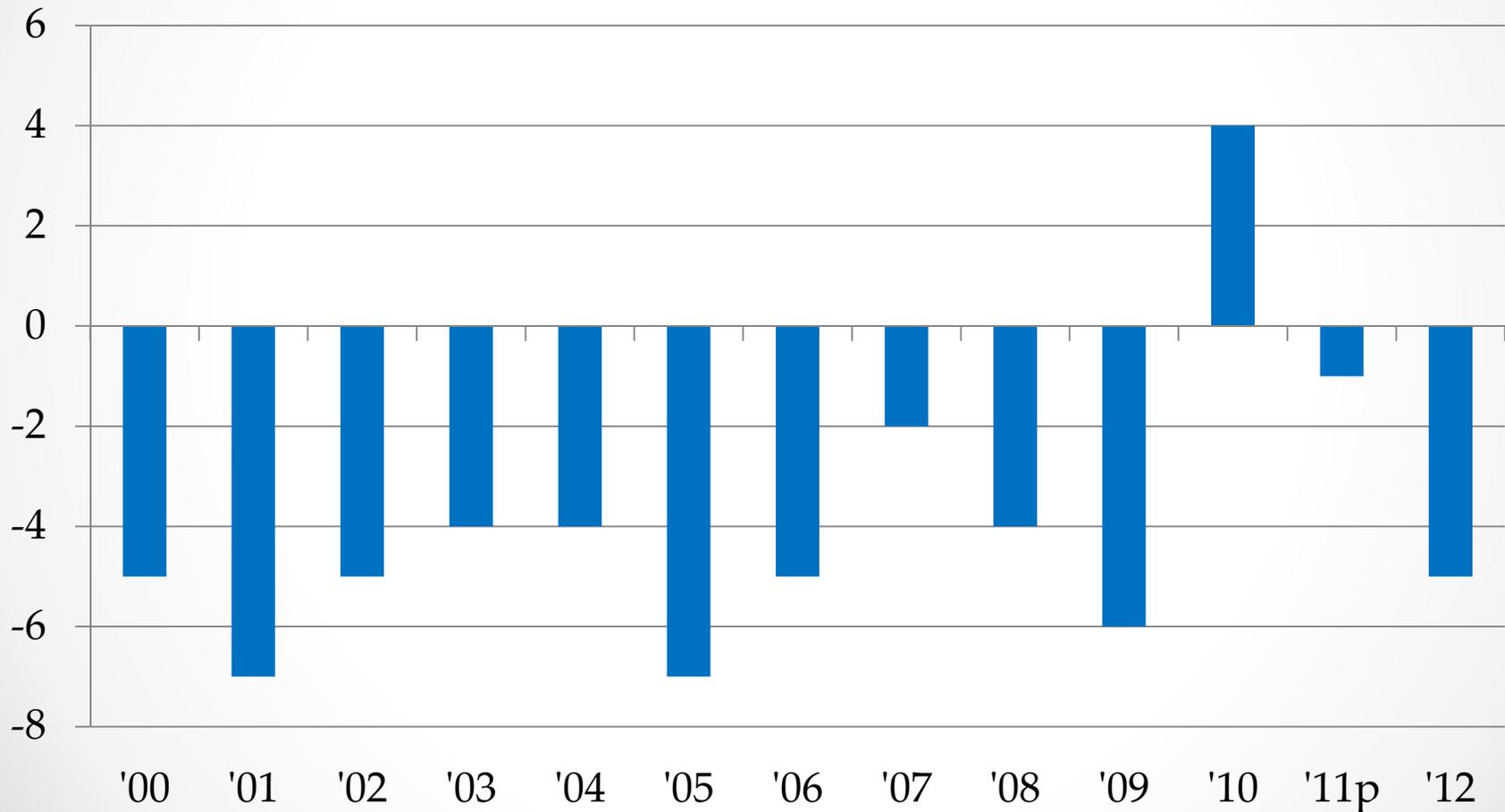
Percentage Change



Sources: NCCI – Medical Severity; Economy.com – Medical CPI; 2012 is preliminary

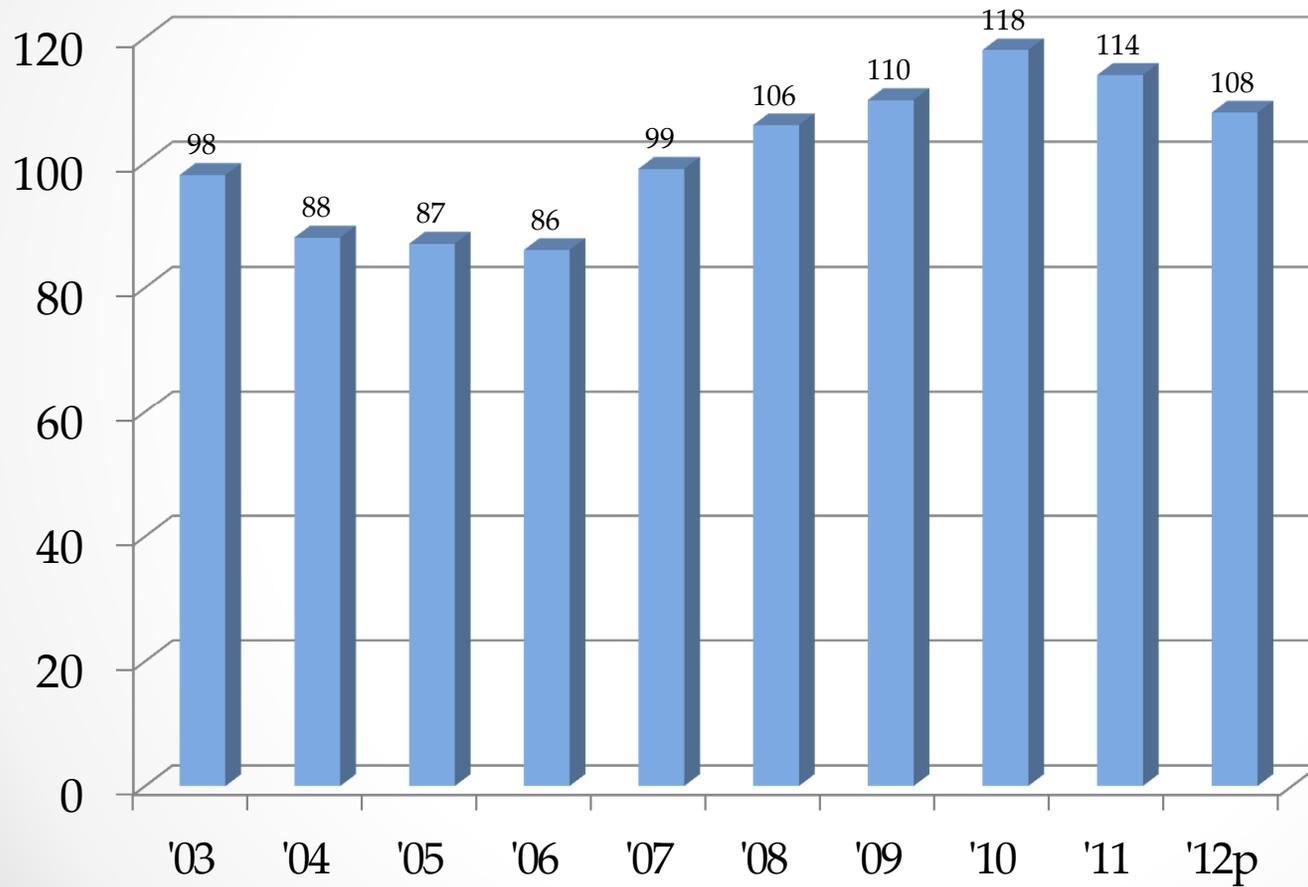
# WC Lost-Time Claim Frequency Continued to Decline in 2012

Percentage



Source: NCCI; 2012 is Preliminary; 2010 & 2011 frequency is adjusted for recessionary factors

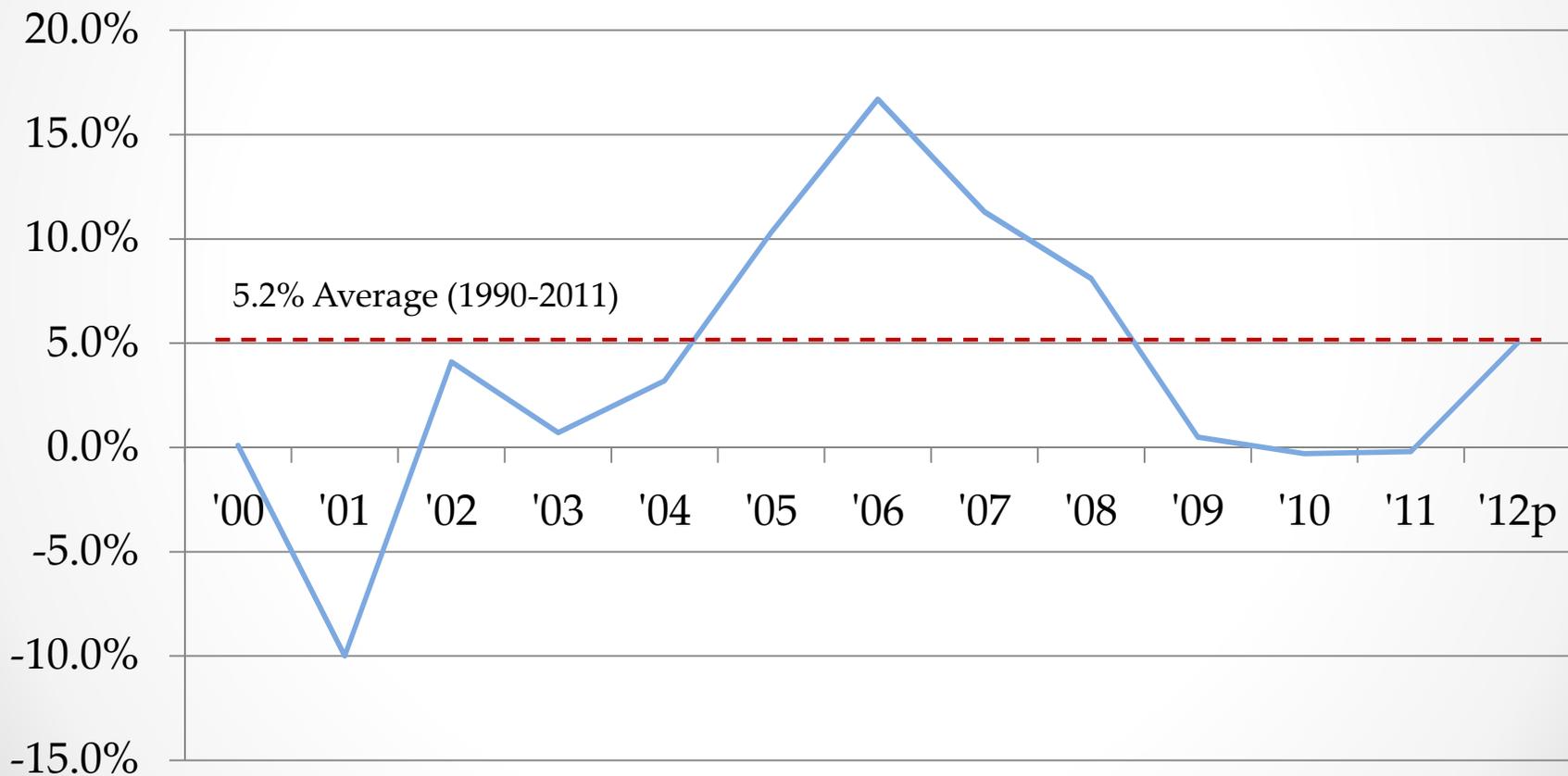
# Countrywide Accident Year Combined Ratios



Source: NCCI; 2012 preliminary data

# WC Operating Gain Reemerges

Pre-Tax Operating Gain Ratio – Private Carriers

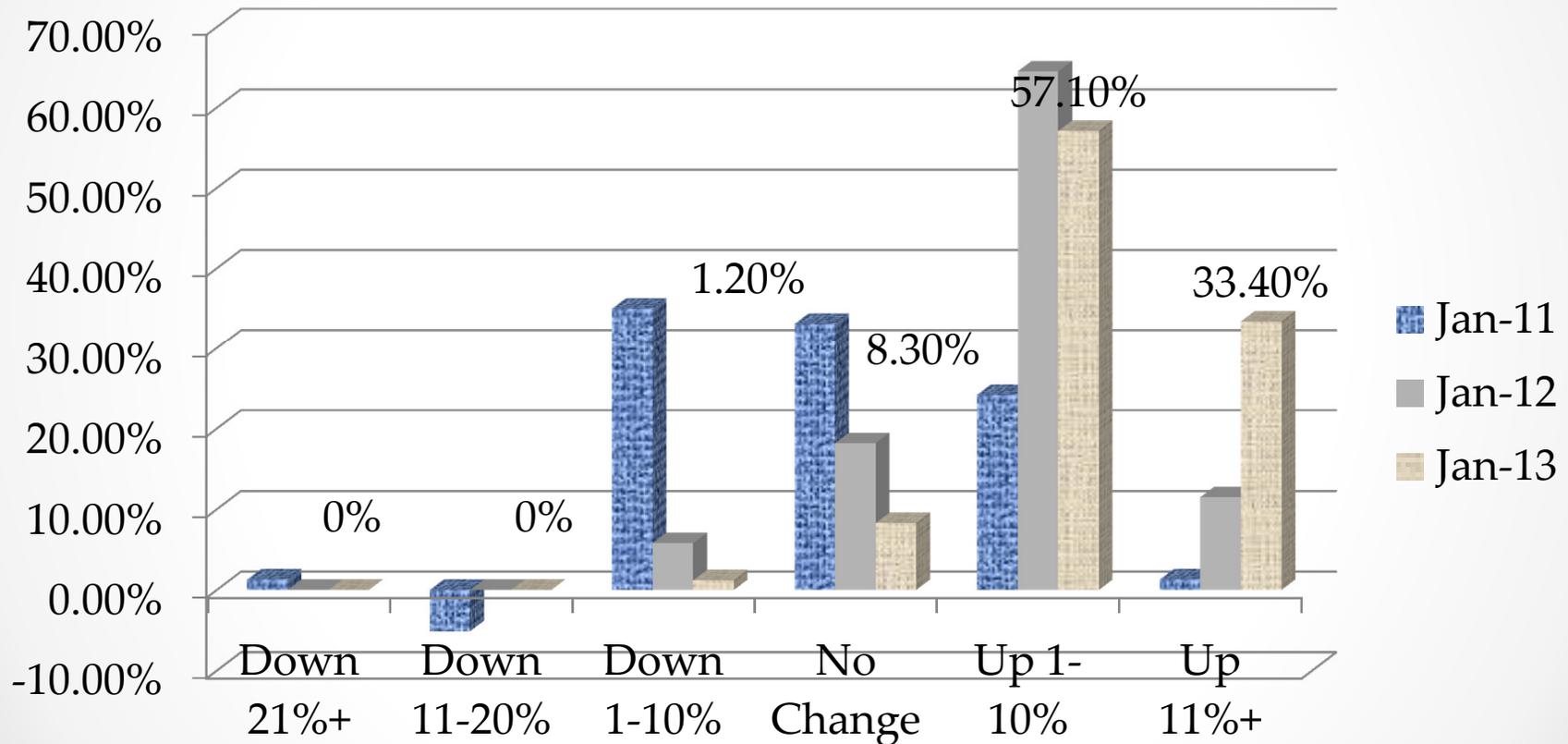


Source: 2000-2011, Annual Statement Data; 2012 NCCI - preliminary

## According to Goldman Sachs, Prices Appear to be Increasing

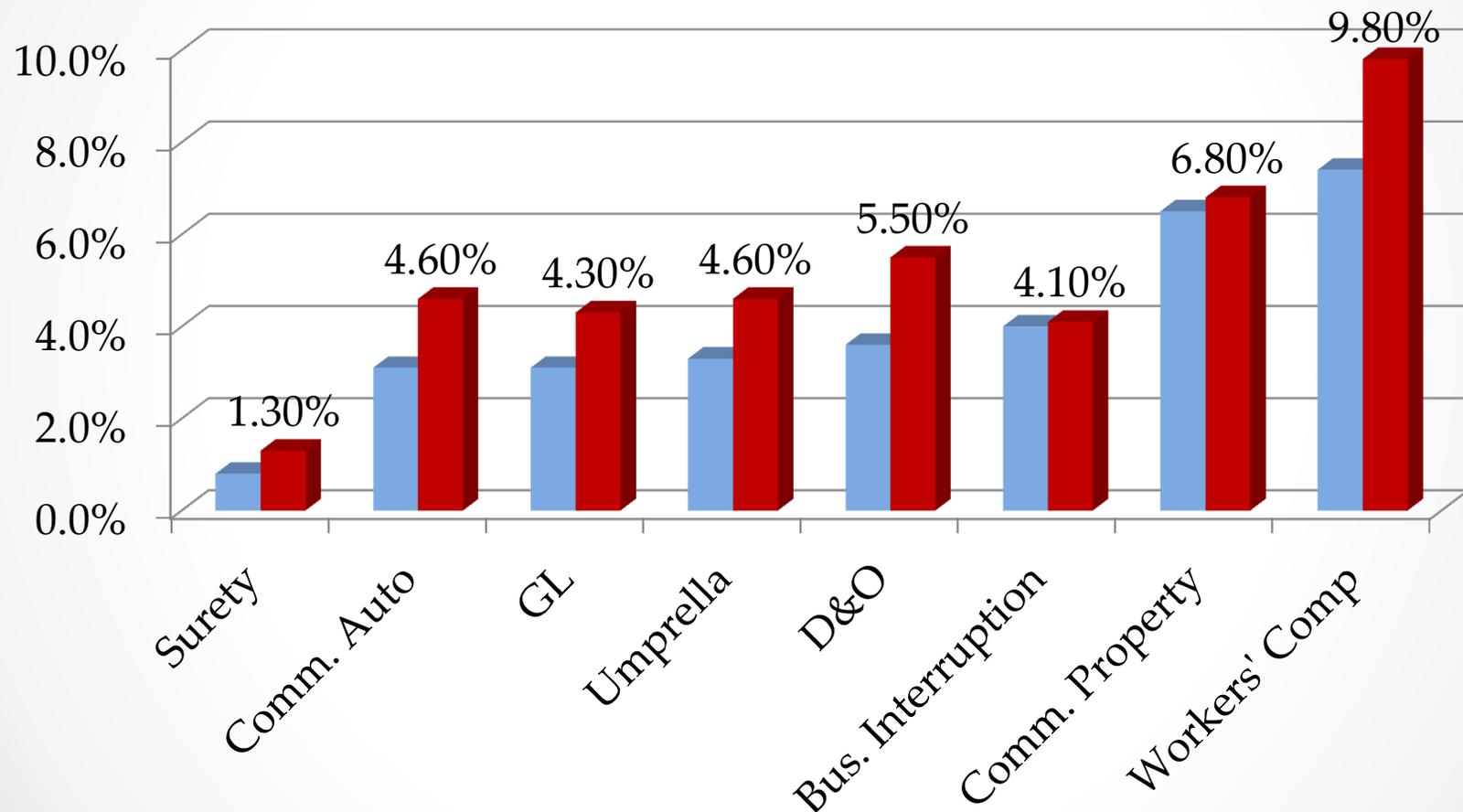
### Agent Responses on WC Rates on Renewals vs. 12 Months Prior

Percentage of Respondents



Source: Goldman Sachs Research, Proprietary Survey, January 2013 Pricing Survey, Insurance: Property & Casualty (Exhibit 4, WC)

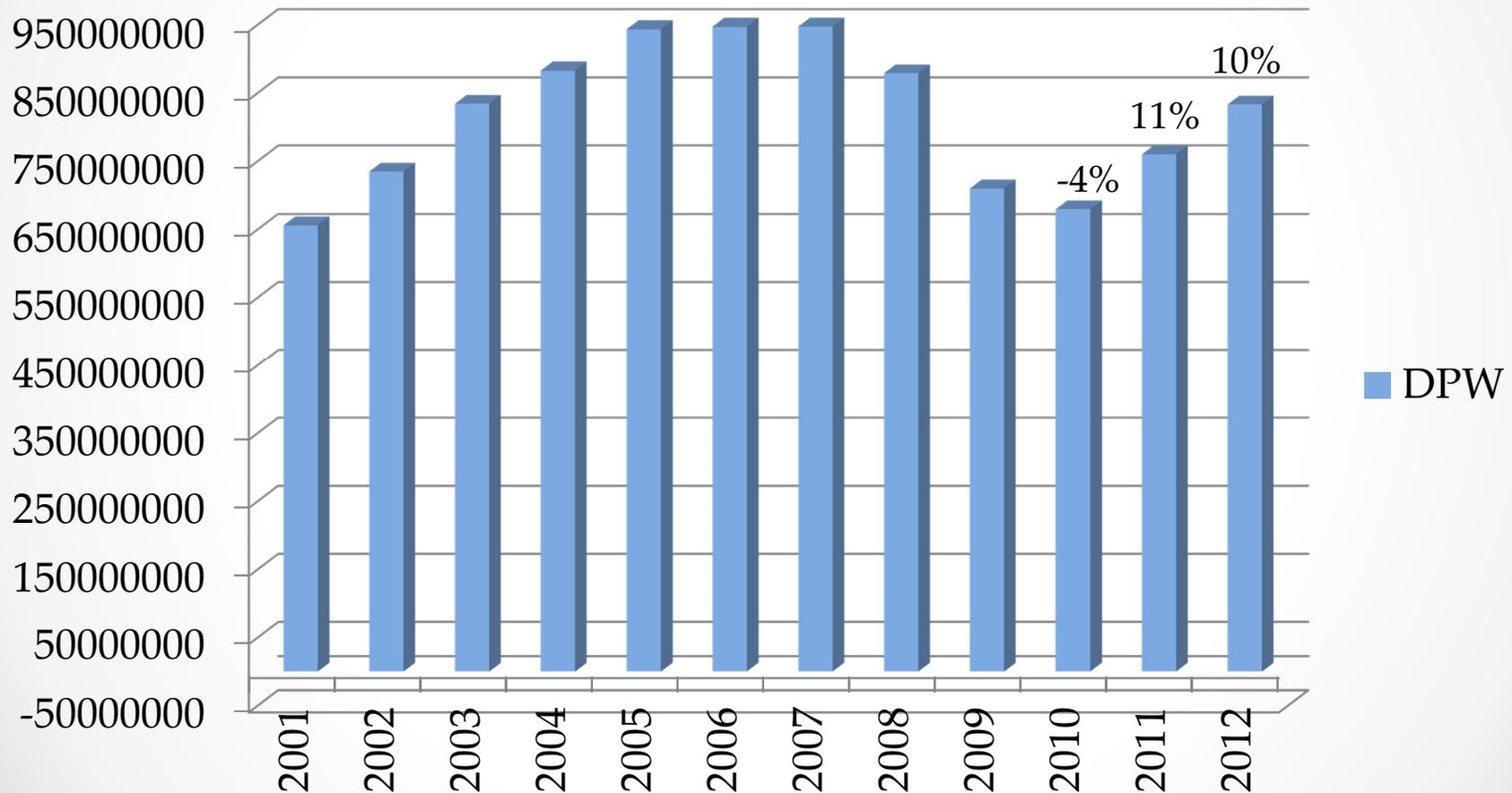
# Change in Commercial Rate Renewals, by Line: 1Q12 vs. 1Q13



# Tennessee Specific



# TN Direct Premium Written Premium (DPW) History



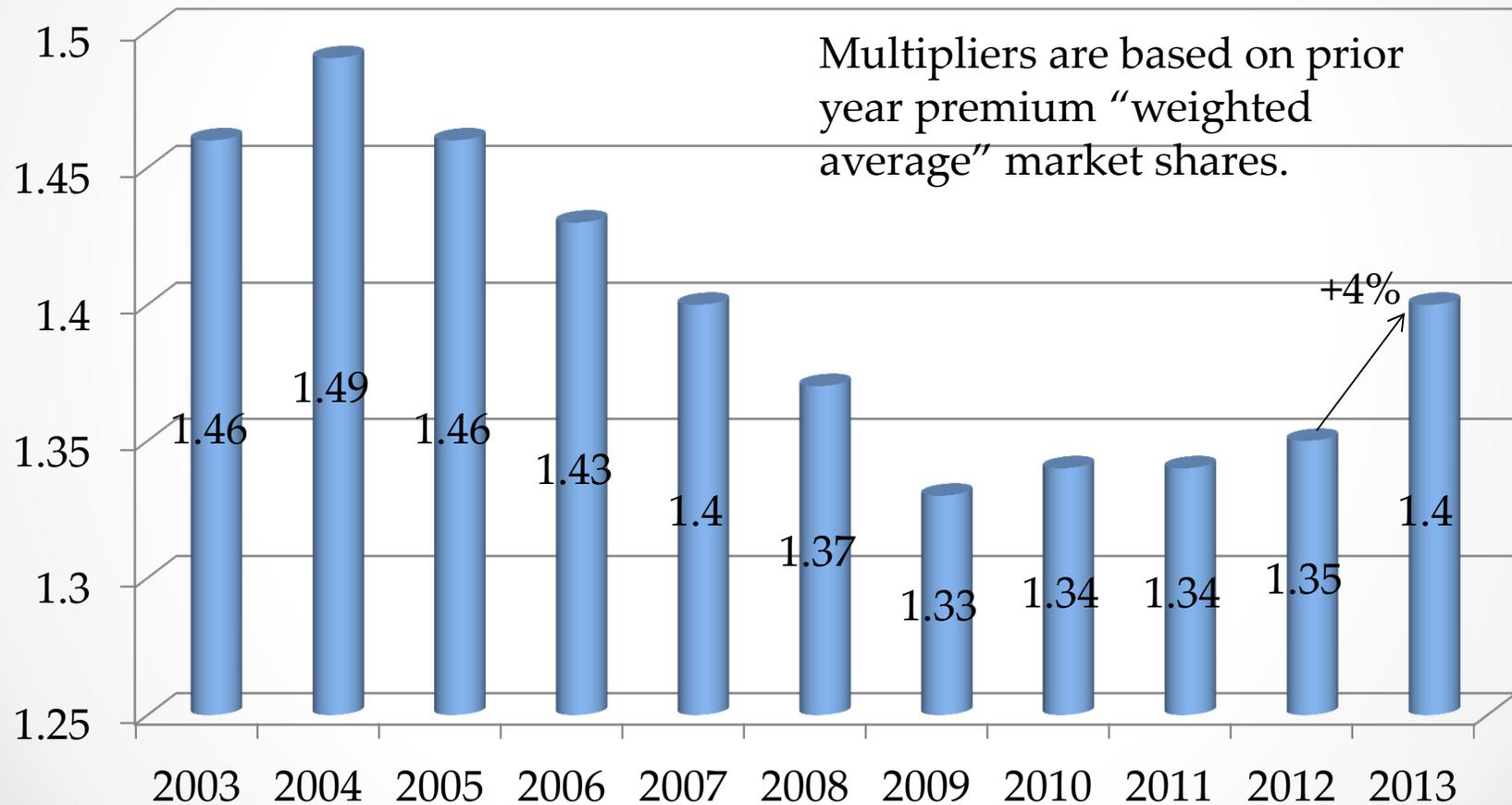
DPW: "Direct Premiums Written" - Property/casualty premiums collected by the insurer from policyholders, before reinsurance premiums are deducted. Insurers share some direct premiums and the risk involved with their reinsurers.

## Loss Cost Filing & Final Approvals Since 2004 Reforms Implemented

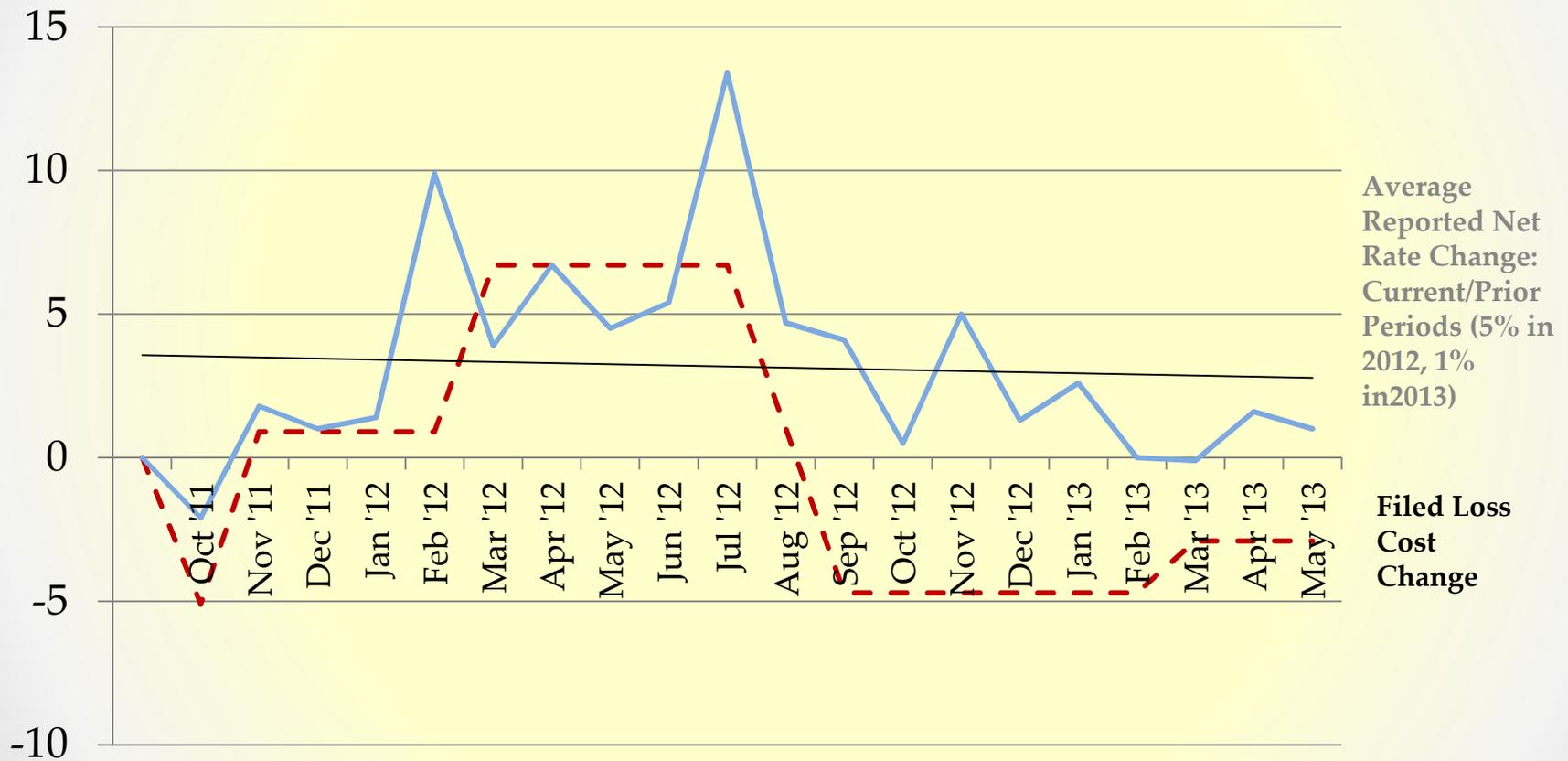
**-19% since 2004 Reforms\***

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	C&I Approved Rate	Effective Date
2004	-6.3%	-6.3%	-6.3%	9/1/2004
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

# Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History



# TN Price Change Analysis



Source: NCCI

# 2013 LCM Distribution

(by Direct Premium Written)

Median 1.40



- 80% are above 1.05 and below 1.63
- 25% above 1.52 Assigned Risk LCM

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

# TN WC Premium Tax Revenues

	YE 8/31/09	YE 8/31/10	YE 8/31/11	YE 8/31/12
Self Insurance	\$8M	\$6.7M	\$7.5M	\$6.4M
Insurance	\$31.8M	\$25.9M	\$26.6M	\$31.7M
Total Premium Tax*	\$39.8M	\$32.6M	\$34.1M	\$38.1M

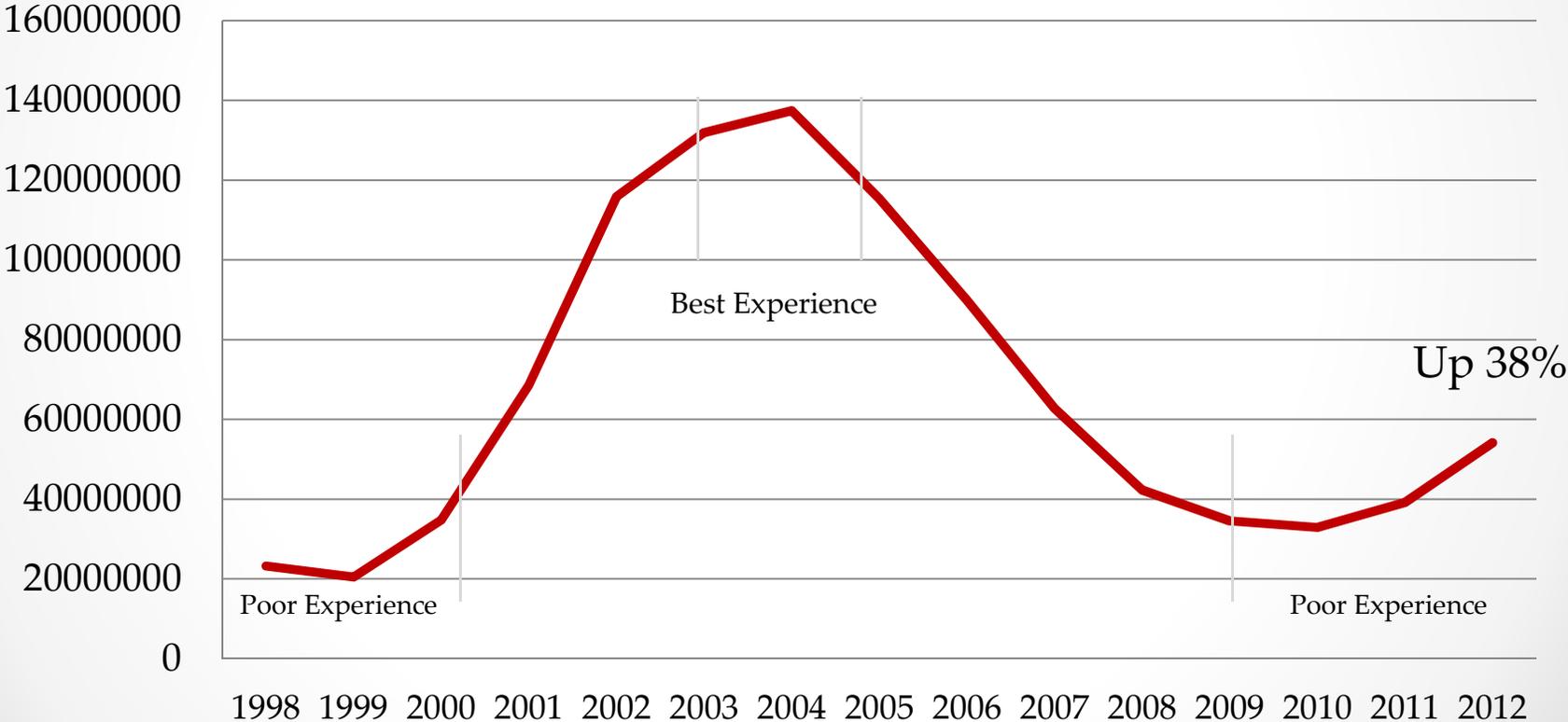
Data excludes .4% TOSHA Surcharge

# Tennessee Workers Compensation Insurance Plan (TWCIP)



# TWCIP Premium History

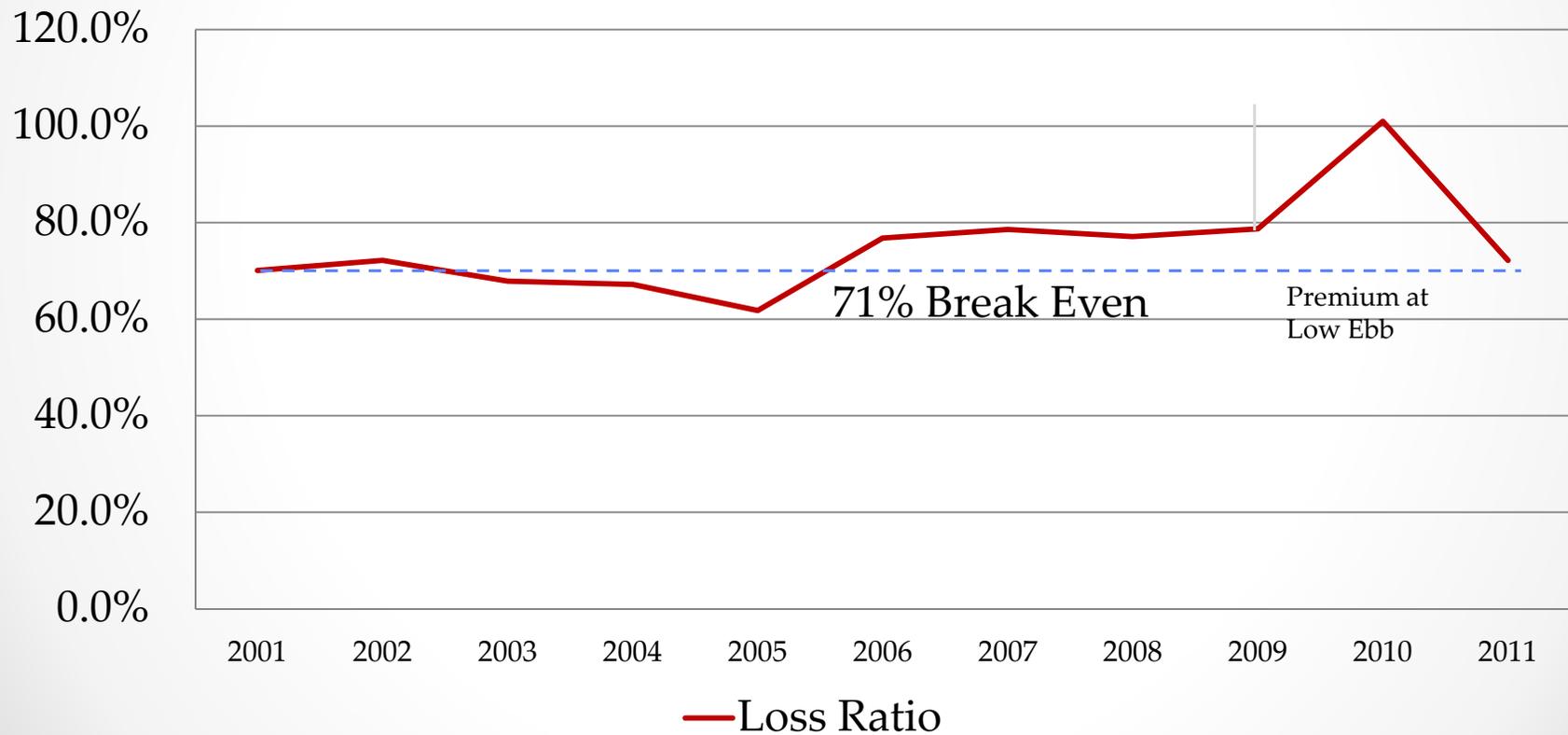
## Premium



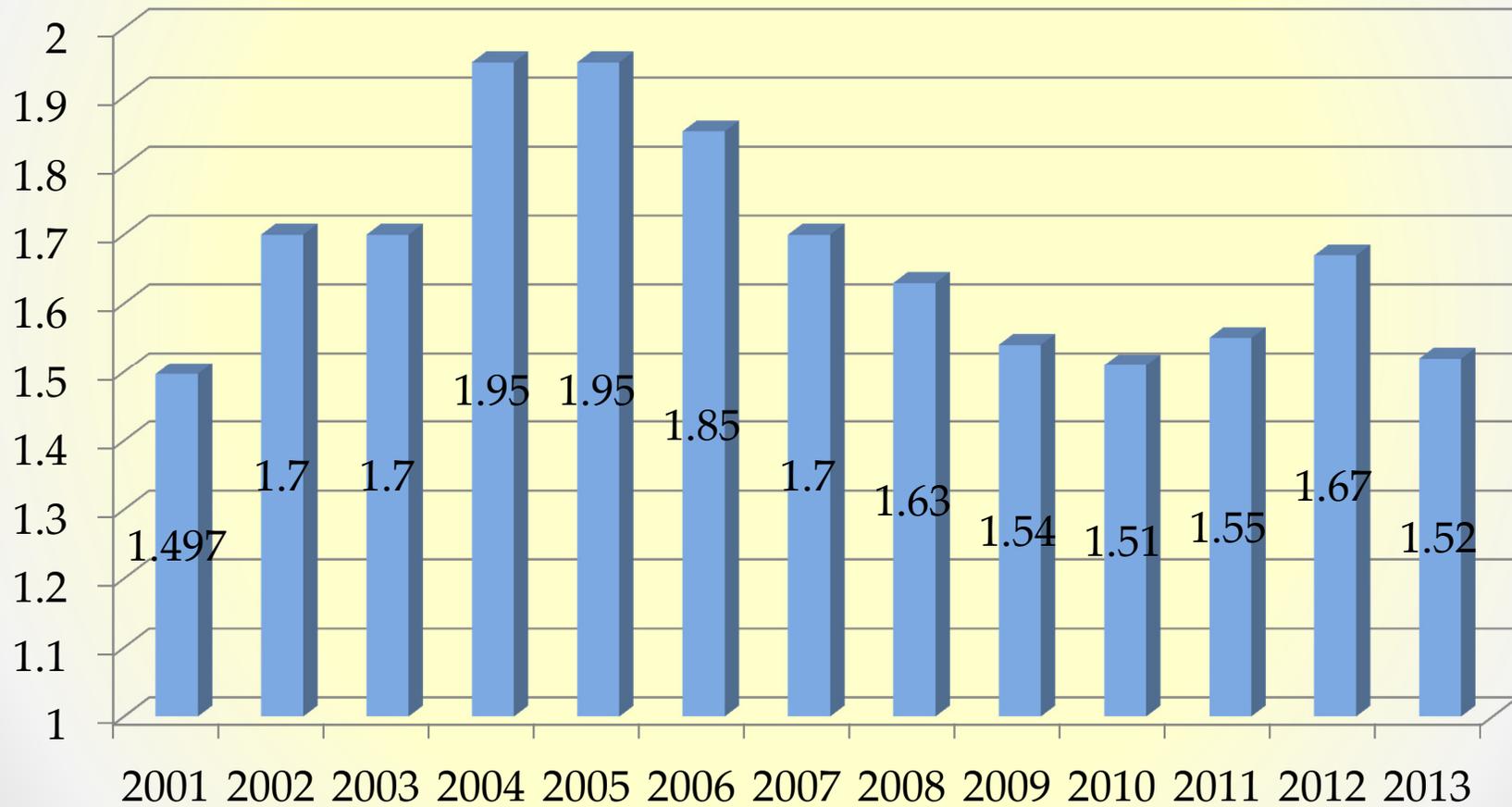
# Servicing Carrier & Direct Assignment

## Carrier Loss Ratio History

(1.55LCM Levelled)

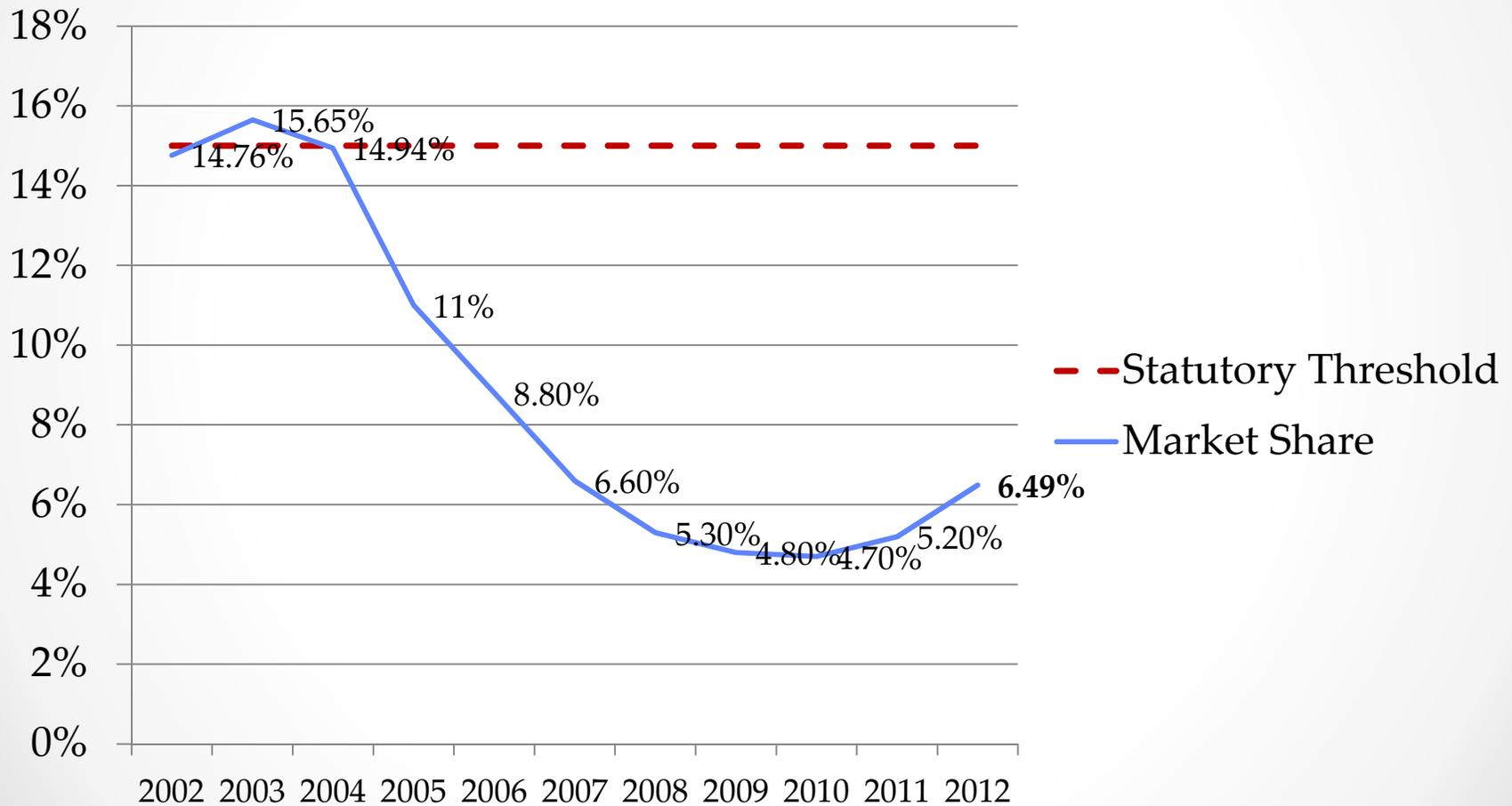


# TWCIP LCM History



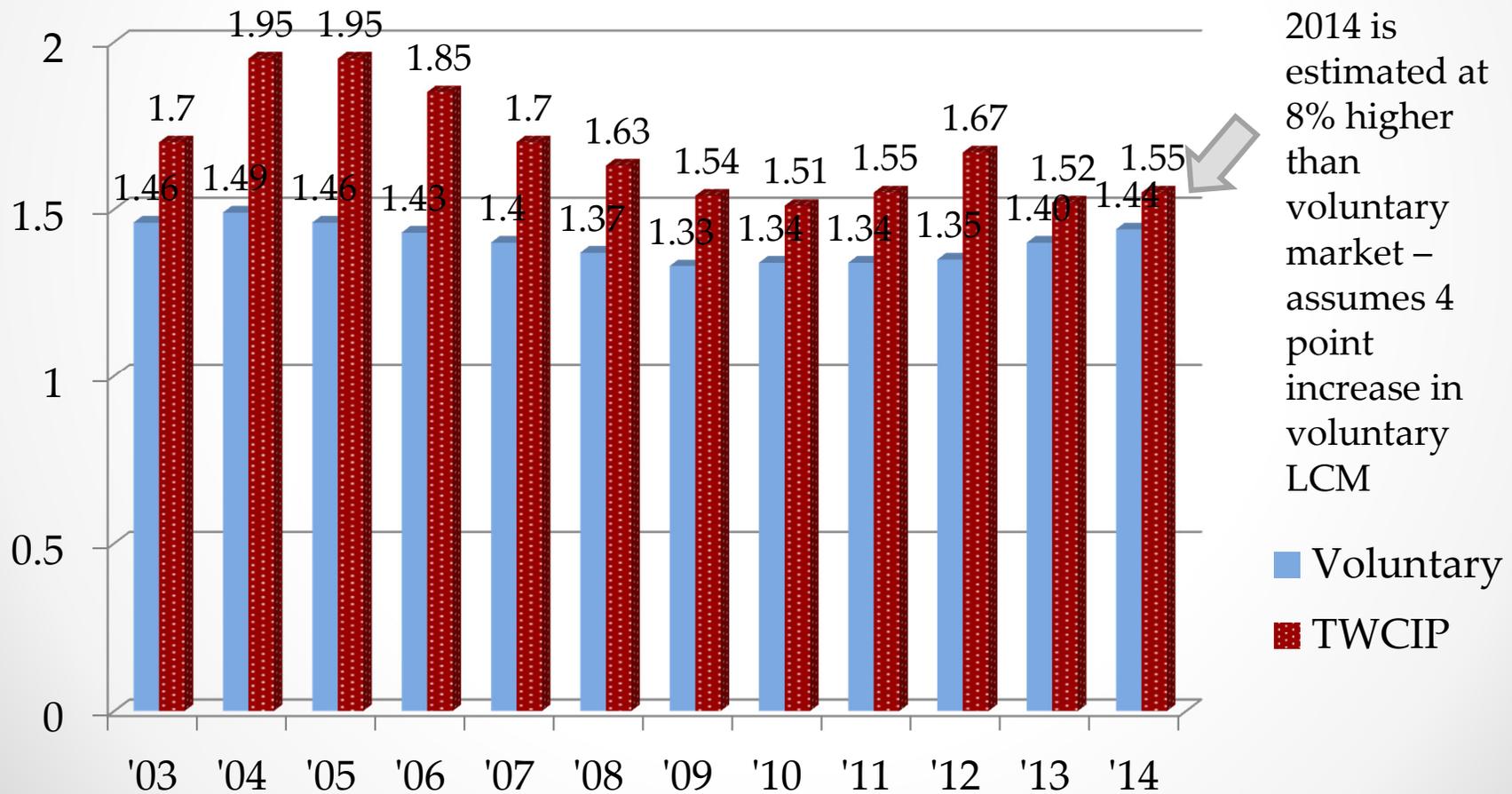
# TN Assigned Risk Market Share - NAIC

## Direct Premium Written



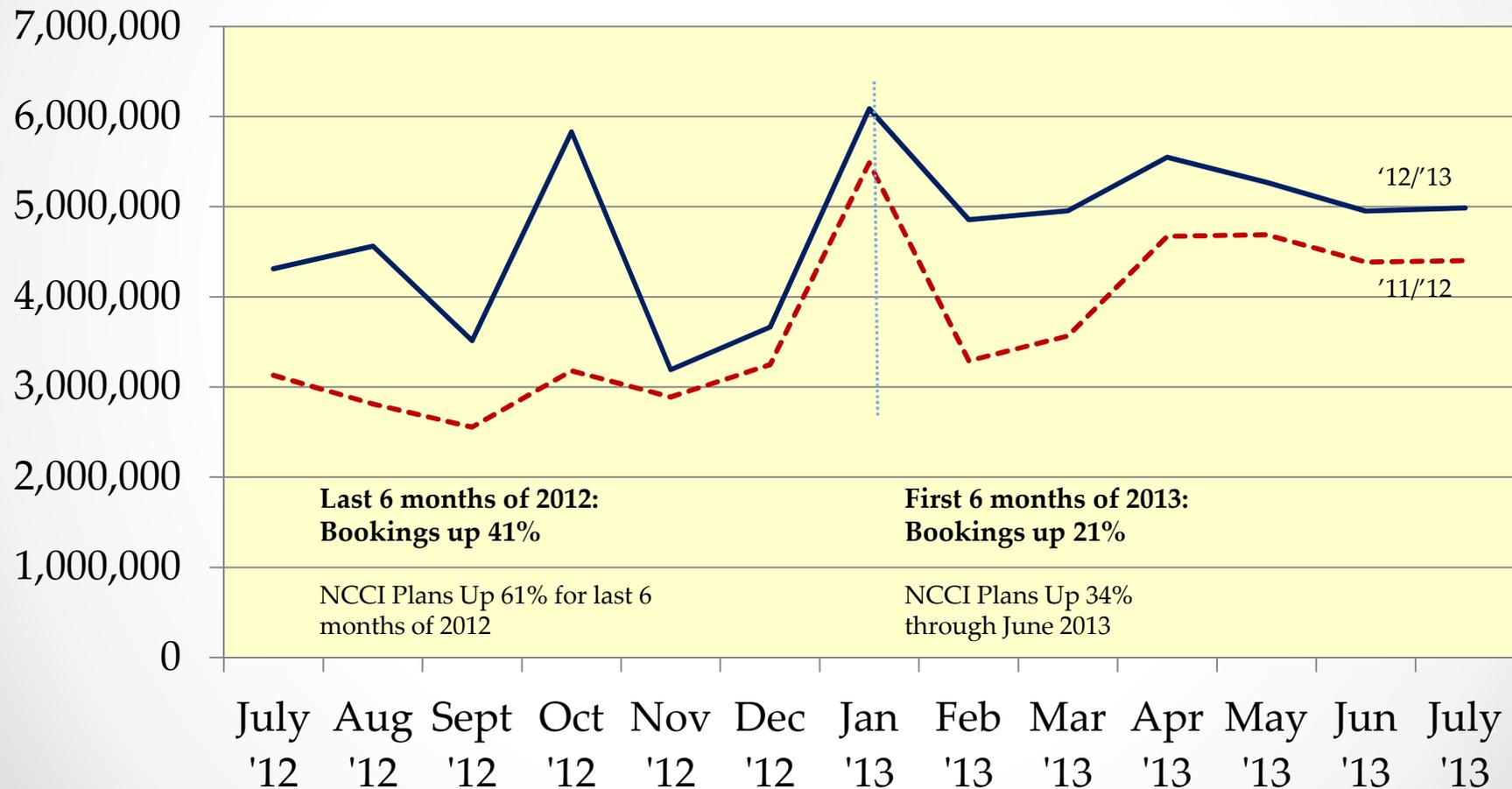
# LCM History: Voluntary vs. TWCIP

TWCIP 21% On Average Higher



# TN Assigned Risk Bookings Up, But Growth

## Slowing Since March 2013



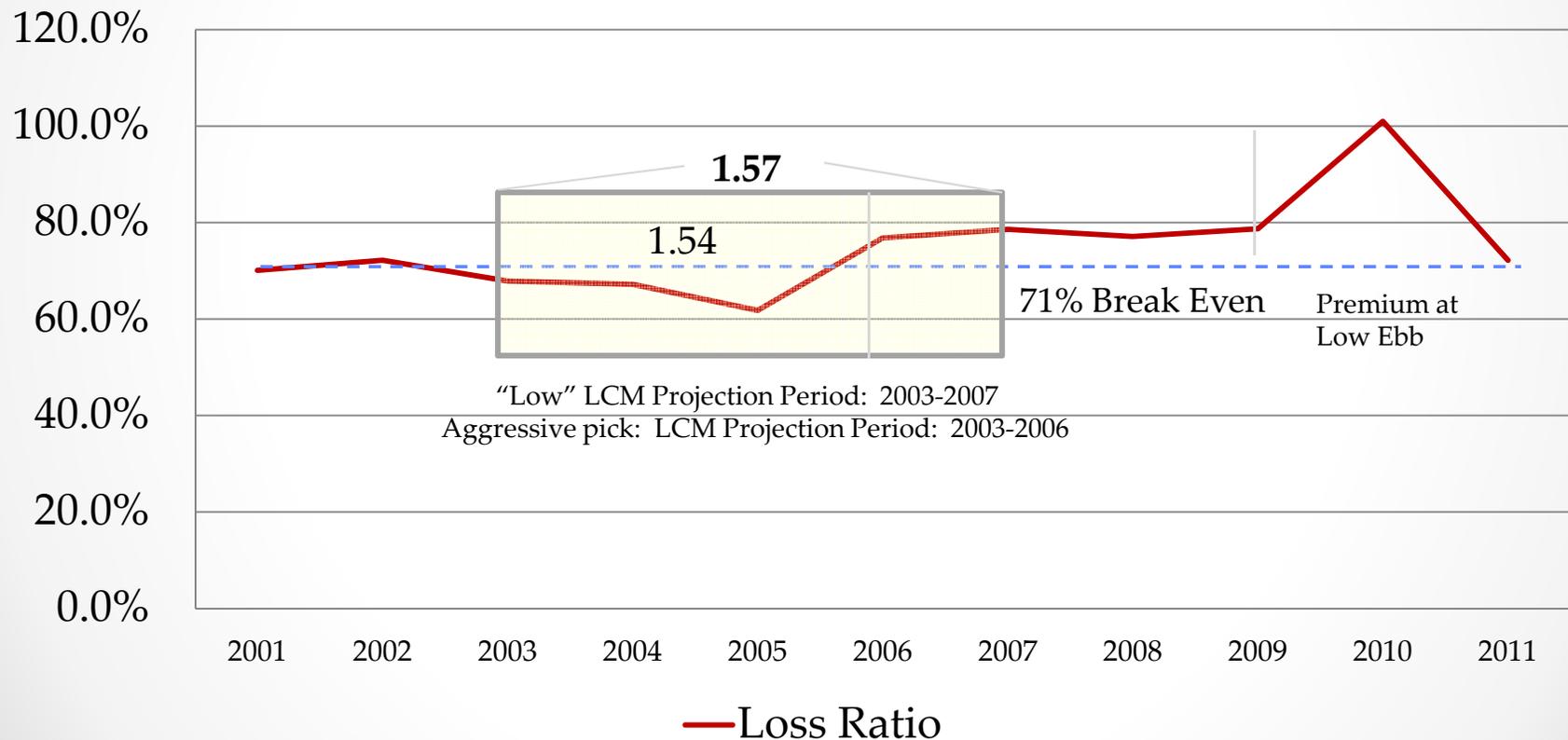
# TCA § 56-5-314 (c)(6)(B)

- “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

(1.55LCM Levelled)



# Aon's Actuarial Estimate of Break Even 3/1/14 LCM

## Likely Recommendation 1.55-1.56



- Projections are “grossed up” to reflect 50% reduction in tabular surcharge effective 9/1/12.
- MID POINT: Full data period is 2004-2011, excluding experience for 2010 due to \$5M+ claim. Had Aon used 2010 data, the full impact would have projected a HIGH of 1.66 LCM. **Six million dollar claim development in 2006 responsible for overall increase in the numbers.**
- No provision for adverse deviation due to 2014 premium projected to be much higher than 2009-2011, when cycle was in its low ebb.
- 1.54 “final target” reflects experience from 2003-2006, while 1.57 reflects “final target low” 2003-2007.
  - Same 2003-2006 data segment that produced current 1.52 LCM
  - Encompasses upper end of cycle premium levels. Premiums for the next several years are expected to grow significantly and approach the upper end range similar to what’s anticipated 2014 premium position. However, will likely factor premium levels not being as high as same point in prior cycle.
  - Recommendation of 1.55 or 1.56 likely to be made which is between “aggressive” and “low” end projections. This is due to introduction of TAIL plan for policies with a standard premium of \$250,000 and up (1.65 maximum). This should substantially improve loss ratio for this segment. TAIL Plan policies make up approximately 7% of the total premium.

# Currently Five 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

# Insolvencies

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



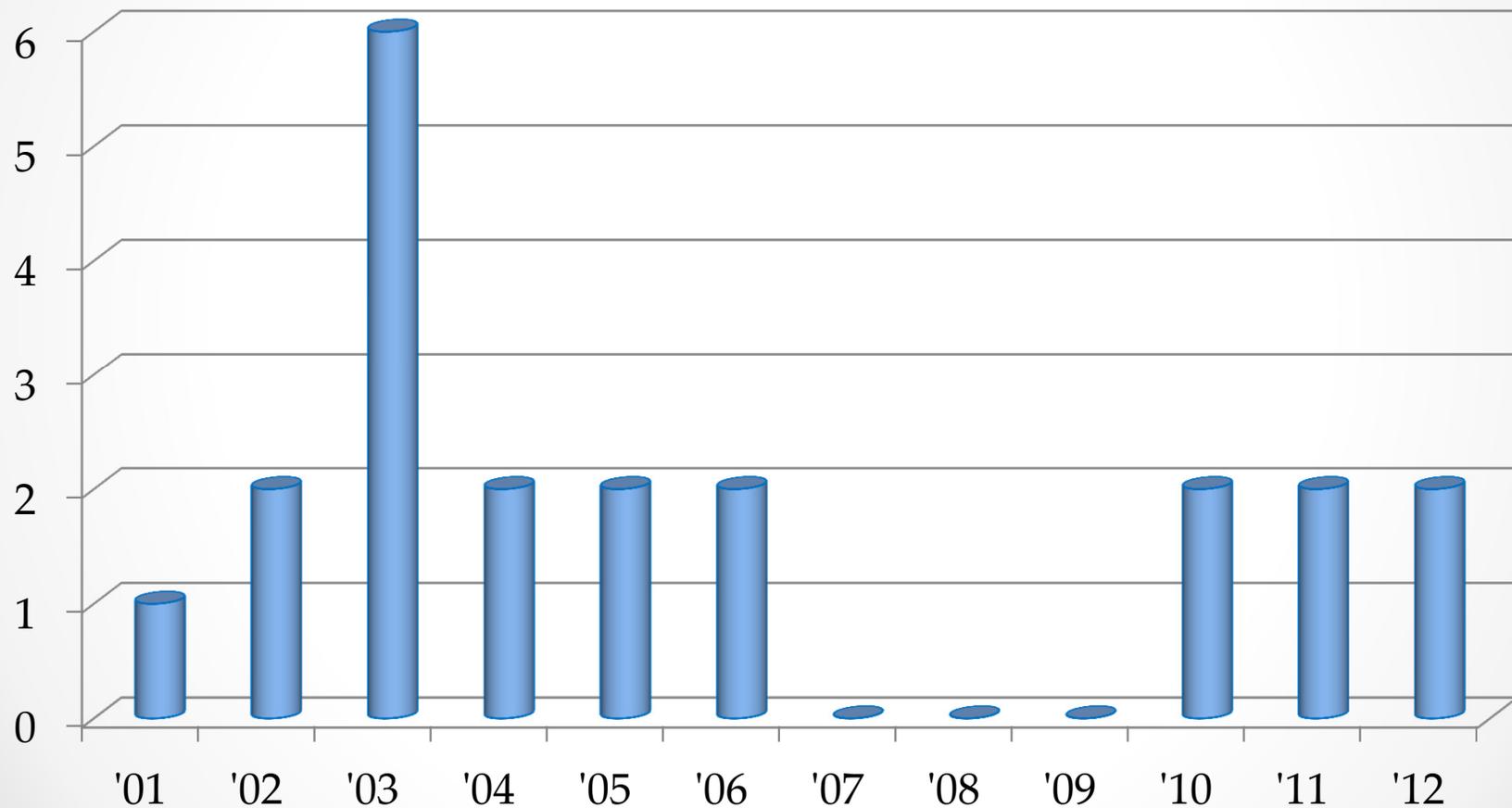
# WC Insolvency Data – Valued 7/31/13

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

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,759	38,018,295	24,408,008
Home Ins. Co. (6/03)	125	2,657,057	4,891,376
Reciprocal of America (6/03)	313	1,683,790	2,798,327
Legion & Villanova (7/03)	1,878	40,405,486	22,621,821
Casualty Reciprocal (8/04)	52	1,706,249	2,707,130
Realm National (6/05)	52	3,010,248	2,211,751
Imperial Casualty (5/10)	127	1,537,591	1,544,505
Pegasus (8/10)	6	192,621	1,181,475
Lumbermens Mutual (5/13) – PRELIMINARY	87	2,022	7,377,907
Ullico (5/13) - PRELIMINARY	40	7,522	*5,994,891
<b>Totals (all since 10/3/01)</b>	<b>4,439</b>	<b>89,220,881</b>	<b>75,737,191</b>

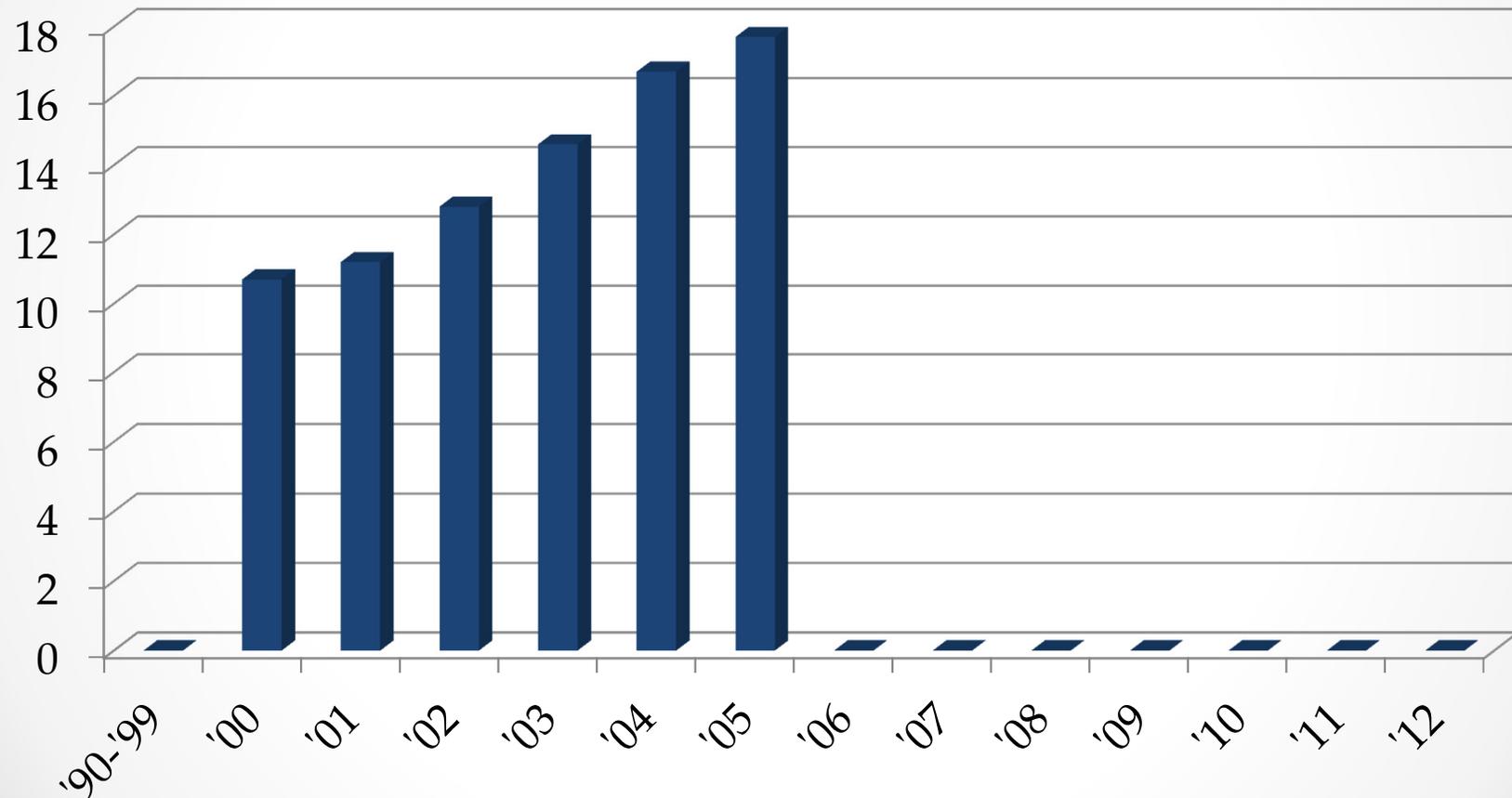
Source: TN Guarantee Association; \* projected, as not all claims have been reserved

# Number of WC Carrier Insolvencies Per Year Impacting TN

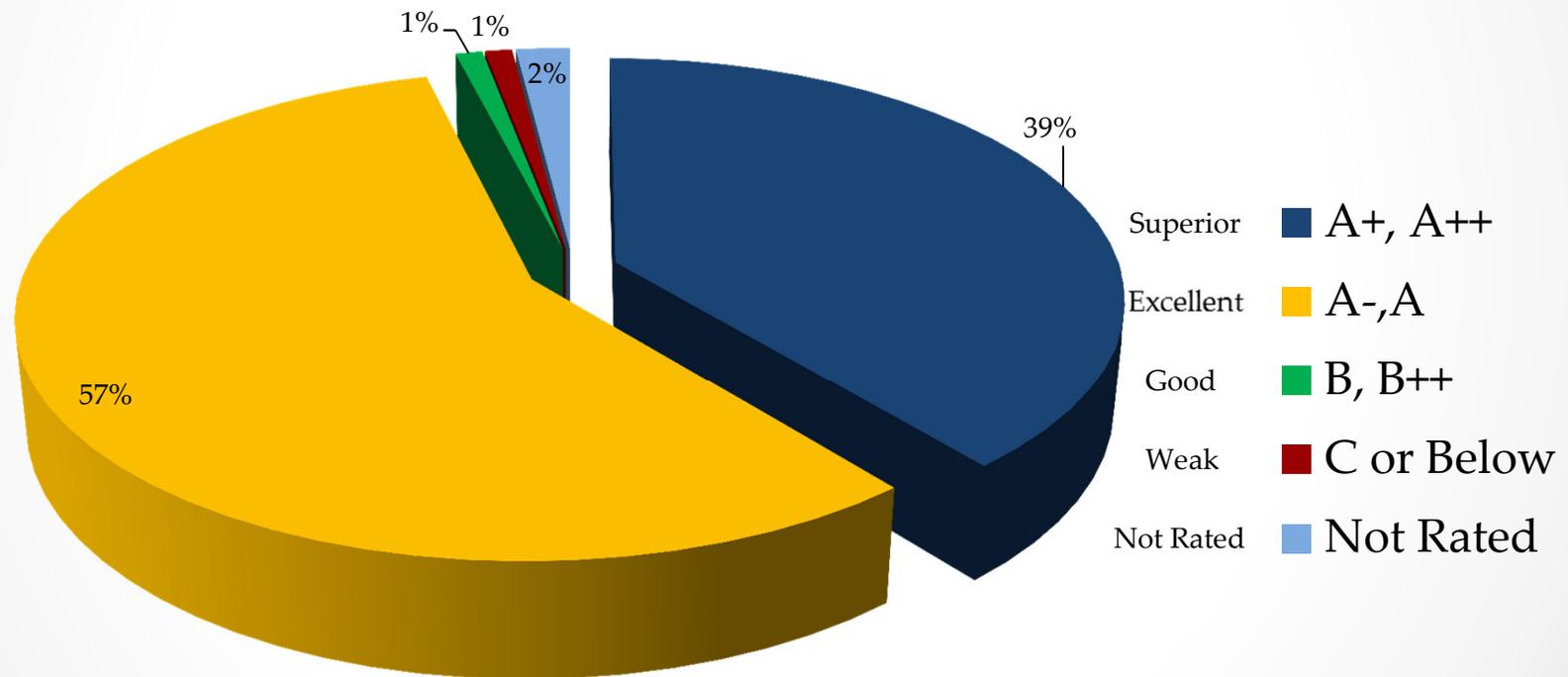


Source: TN Guarantee Association; 2003 Legion & Villanova are combined & shown as one.

# TN Guaranty Fund Assessment History (Millions)



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



As of July 31, 2013

# TN Restaurant Association

- All claims have been paid.
- TDCI is filing fees, a final return with the IRS then closure motion with the court.

# NCCI

## Annual Issues Symposium Summary

Negatives	Positives
<ul style="list-style-type: none"><li>• Underwriting results</li></ul>	<ul style="list-style-type: none"><li>• Premium increased</li></ul>
<ul style="list-style-type: none"><li>• Potential expansion of alternative systems for WC</li></ul>	<ul style="list-style-type: none"><li>• Frequency decline resumes</li></ul>
<ul style="list-style-type: none"><li>• Interest rates at historic lows</li></ul>	<ul style="list-style-type: none"><li>• Severity growth moderate</li></ul>
<ul style="list-style-type: none"><li>• Uncertain impact from healthcare reform</li></ul>	<ul style="list-style-type: none"><li>• Improved Countrywide AY Combined Ratio</li></ul>
<ul style="list-style-type: none"><li>• Pace of economic recovery</li></ul>	<ul style="list-style-type: none"><li>• Industry's capital position</li></ul>



*"Encouraging"*



# Summary: NCCI Filings Reported Quarterly



<b><u>Third Quarter 2012</u></b> <ul style="list-style-type: none"><li>• <b>TWCIP Change</b></li></ul>	<ul style="list-style-type: none"><li>• Revision to TWCIP Rehabilitation and Tabular Surcharge Reduction Incentive Plan</li></ul>
<b><u>Fourth Quarter 2012</u></b> <ul style="list-style-type: none"><li>• <b>02-TN-2012</b></li></ul>	<ul style="list-style-type: none"><li>• Revision to Basic Manual State Rule Exceptions for Rule 2-E-1-B and Rule 2-E-3</li></ul>
<b><u>First Quarter 2013</u></b> <ul style="list-style-type: none"><li>• <b>None</b></li></ul>	<ul style="list-style-type: none"><li>• N/A</li></ul>
<b><u>Second Quarter 2013</u></b> <ul style="list-style-type: none"><li>• <b>Item R-1406-2013</b></li><li>• <b>Item R-1407-2013</b></li></ul>	<ul style="list-style-type: none"><li>• Update to the Retrospective Rating Plan Parameters – Excess Loss Factors</li><li>• Update to the Retrospective Rating Plan Parameters – State Hazard Group Differentials</li></ul>

# Summary: NCCI Filings Reported Quarterly (continued)

<u>First Quarter 2013</u> <ul style="list-style-type: none"><li>• None</li></ul>	
<u>Second Quarter 2013</u> <ul style="list-style-type: none"><li>• <b>Item R-1406-2013</b></li><li>• <b>Item R-1407-2013</b></li></ul>	<ul style="list-style-type: none"><li>• Update to the Retrospective Rating Plan Parameters – Excess Loss Factors</li><li>• Update to the Retrospective Rating Plan Parameters – State Hazard Group Differentials</li></ul>