

Areas Reviewed

- Overall Methodology
- Experience period and reasonableness of overall result
- Loss ratio trends
- Provision for loss adjustment expenses
- Allocation to classes
- Not reviewed: Offset of effect of EL increased limits changes

Overall Methodology

- Unchanged from prior filings
- Appropriately reflects estimated effects of benefit changes
- NCCI applies judgment
 - Selection of trend factors: discussed further
 - Selection of loss development factors (meta-judgment): 5 year average continues to balance recent experience with credibility
 - Selection of number of years of experience (meta-judgment): discussed further

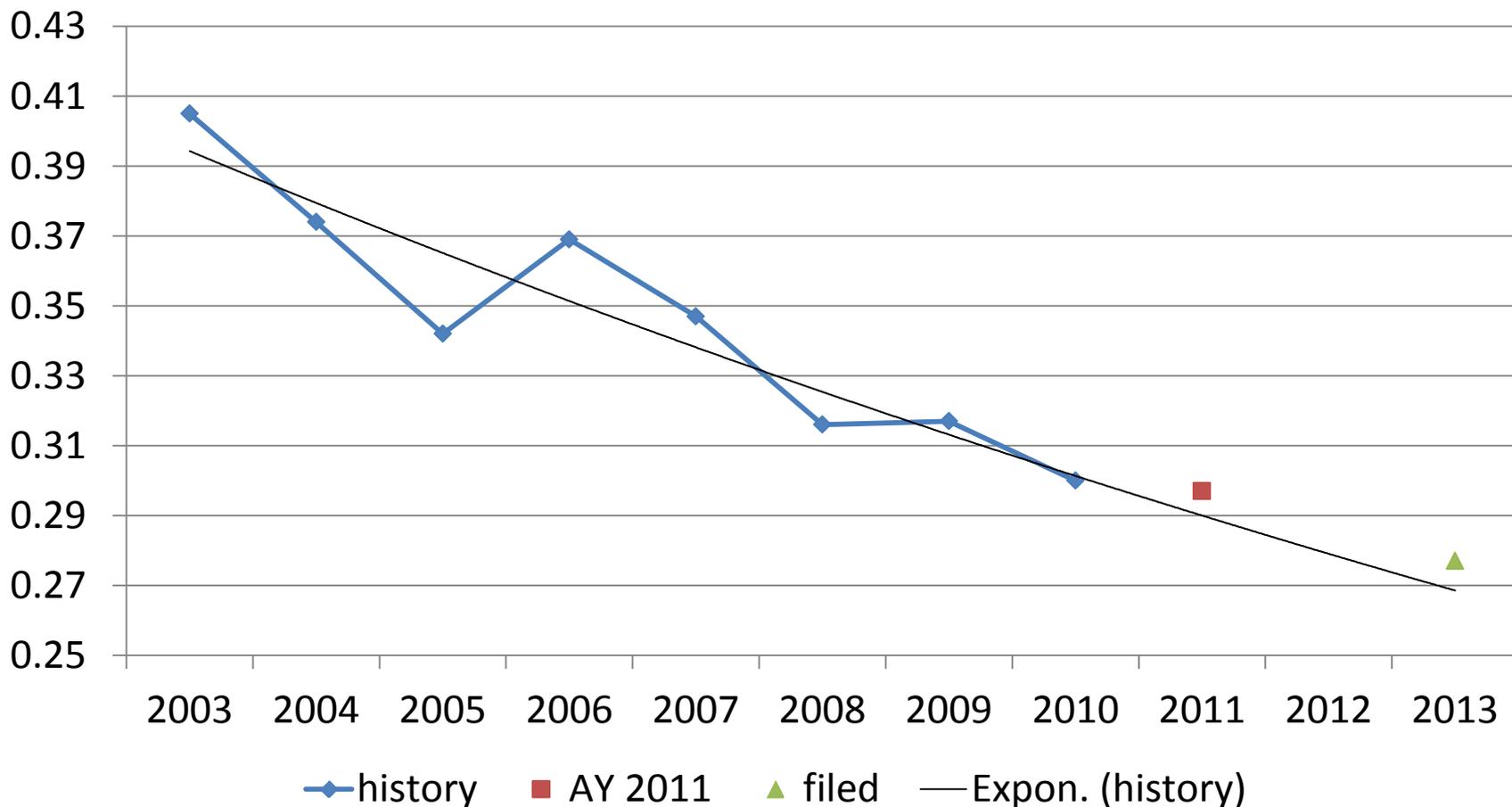
Experience Period and Reasonableness of Overall Result

- NCCI standard procedure averages latest two policy years
 - Captures recent, relevant experience
 - *Assumes* that much experience is sufficiently credible
- For this filing, the result is an averaging of indications of +7.0% (PY 2009) and -2.3% (PY 2010) - a difference of 9.3% - to get +2.3%
 - 2005 to 2012 filing differences range from 0.2% to 6.2% and average 4.75%
 - This unprecedented gap should have been a red flag to the NCCI to dig deeper
 - Projected indemnity loss ratios are 33.6% and 34.5% - very close
 - Projected medical loss ratios are 63.3% and 71.7% and account for the gap in the indications
 - In fact, the medical loss ratio has shown large swings over recent years. **I recommend using more years to project the medical loss ratio**

Loss Ratio Trends

- Indemnity on-level loss ratios show steady decline a little over 3.5%
 - Accident Year 2011 is a little above the trend line, as is the projected loss ratio for the 3/1/13 PY
 - NCCI's selected projection at -3.0% is reasonable

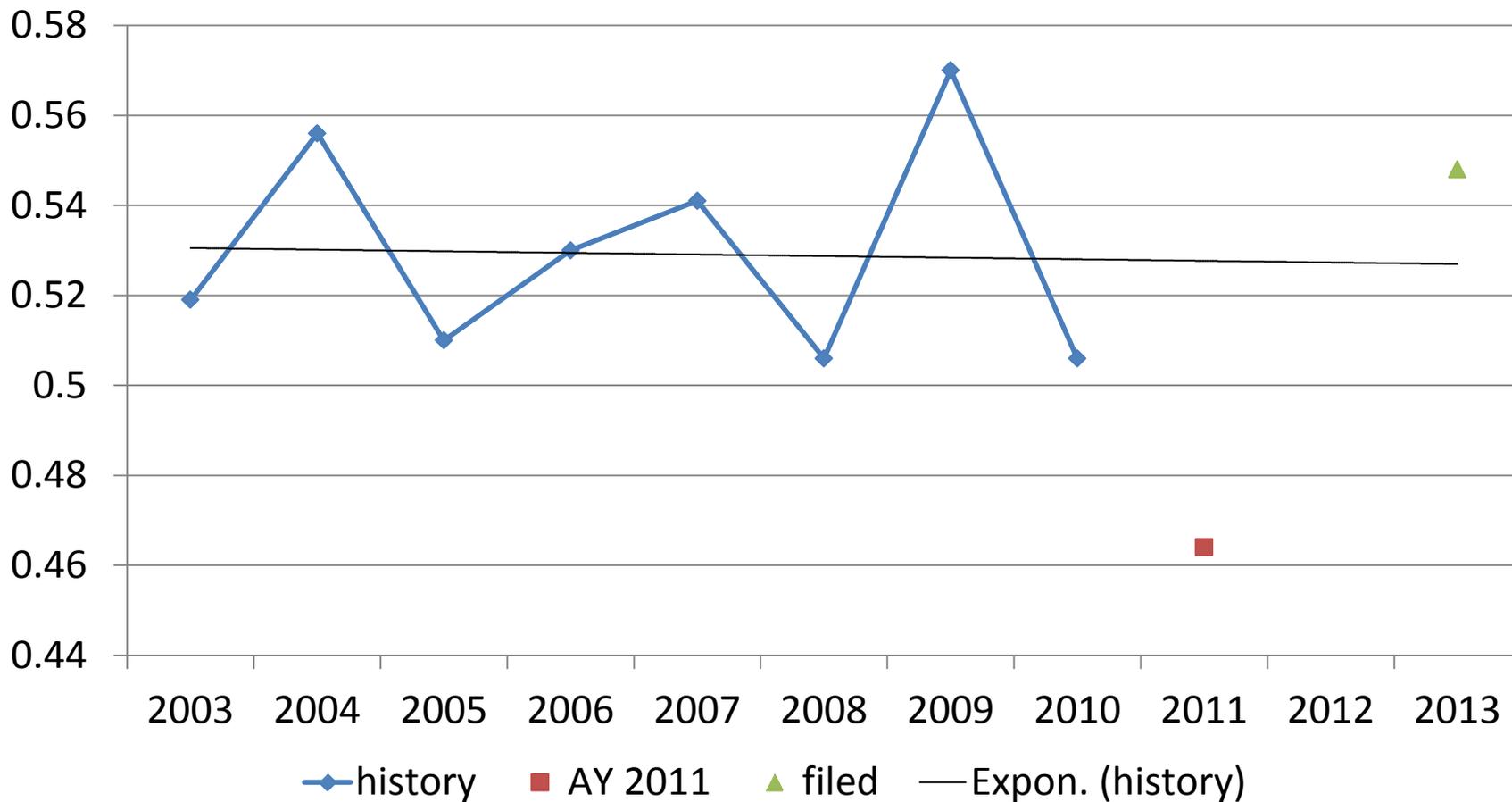
Indemnity Loss Ratio Trend



Loss Ratio Trends

- Medical on-level loss ratios shows considerable volatility and *no* positive trend since the 2004 (and subsequent) reforms
 - Accident Year 2011 was better than any of the prior policy years from 2003 forward

Medical Loss Ratio Trend



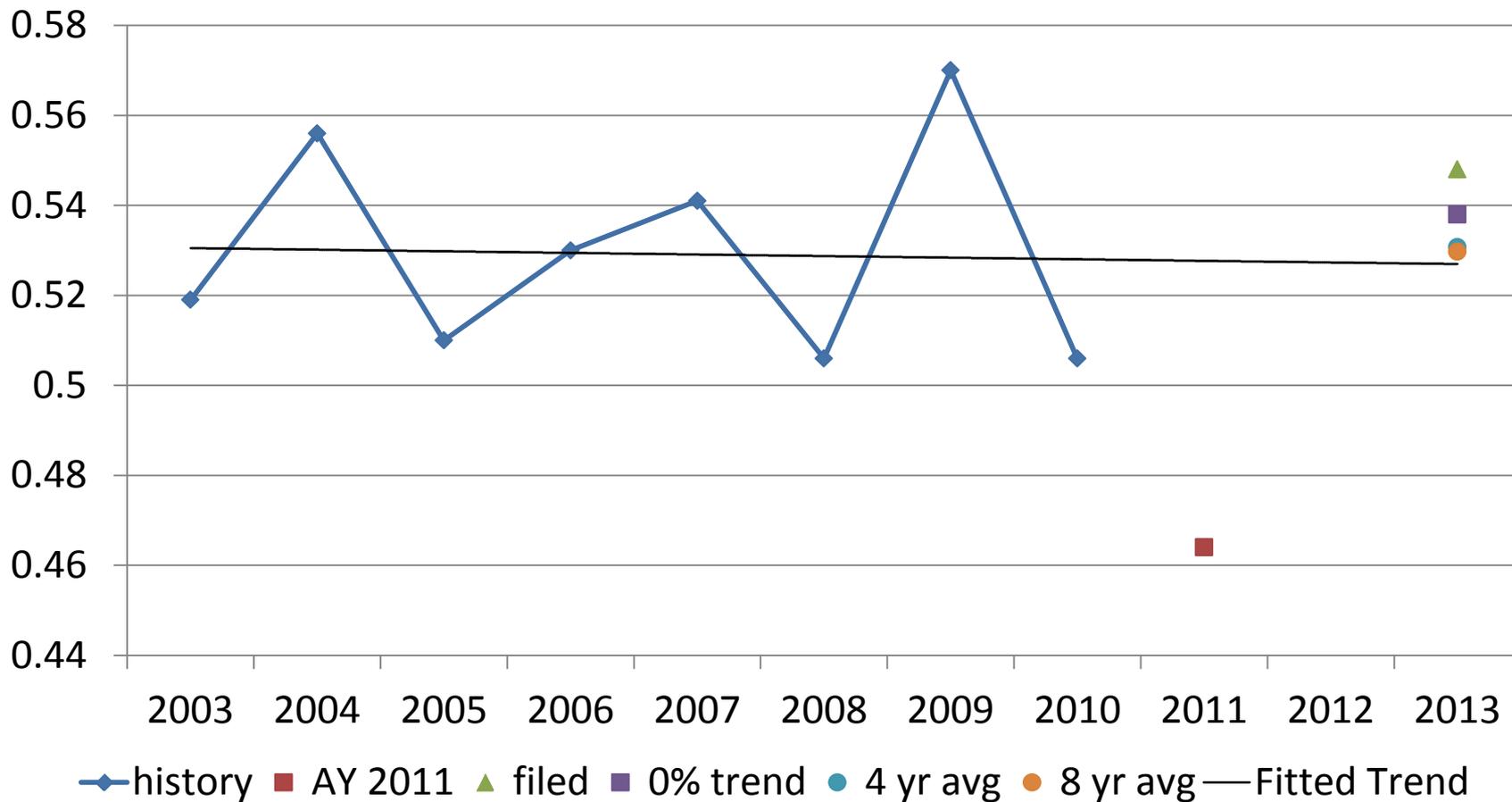
Loss Ratio Trends

- Medical on-level loss ratios shows considerable volatility and *no* positive trend since the 2004 (and subsequent) reforms
 - NCCI makes no argument in support of a positive trend other than to refer to last year's approval
 - Need to include years prior to reform to get a trend over 0.0%
 - Accident Year 2011 was better than any of the prior policy years from 2003 forward
- Using no trend rather than +0.5% reduces the indication to +1.1%

Loss Ratio Trends

- Medical on-level loss ratios show considerable volatility and *no* positive trend since the 2004 (and subsequent) reforms
- Using no trend rather than +0.5% reduces the indication to +1.1%
 - Still gives 50% weight to PY 2009: highest on-level loss ratio in last 8 policy years
 - Very good 2011 accident year experience casts doubt that 2013 will revert to average of 2009 and 2010
- Using 0.0% trend, the 4- 5- and 8-year averages are all very close to the trend line
- **I recommend using 0.0% trend and a longer term average for the medical loss ratio, resulting in an indication of about +0.0%**

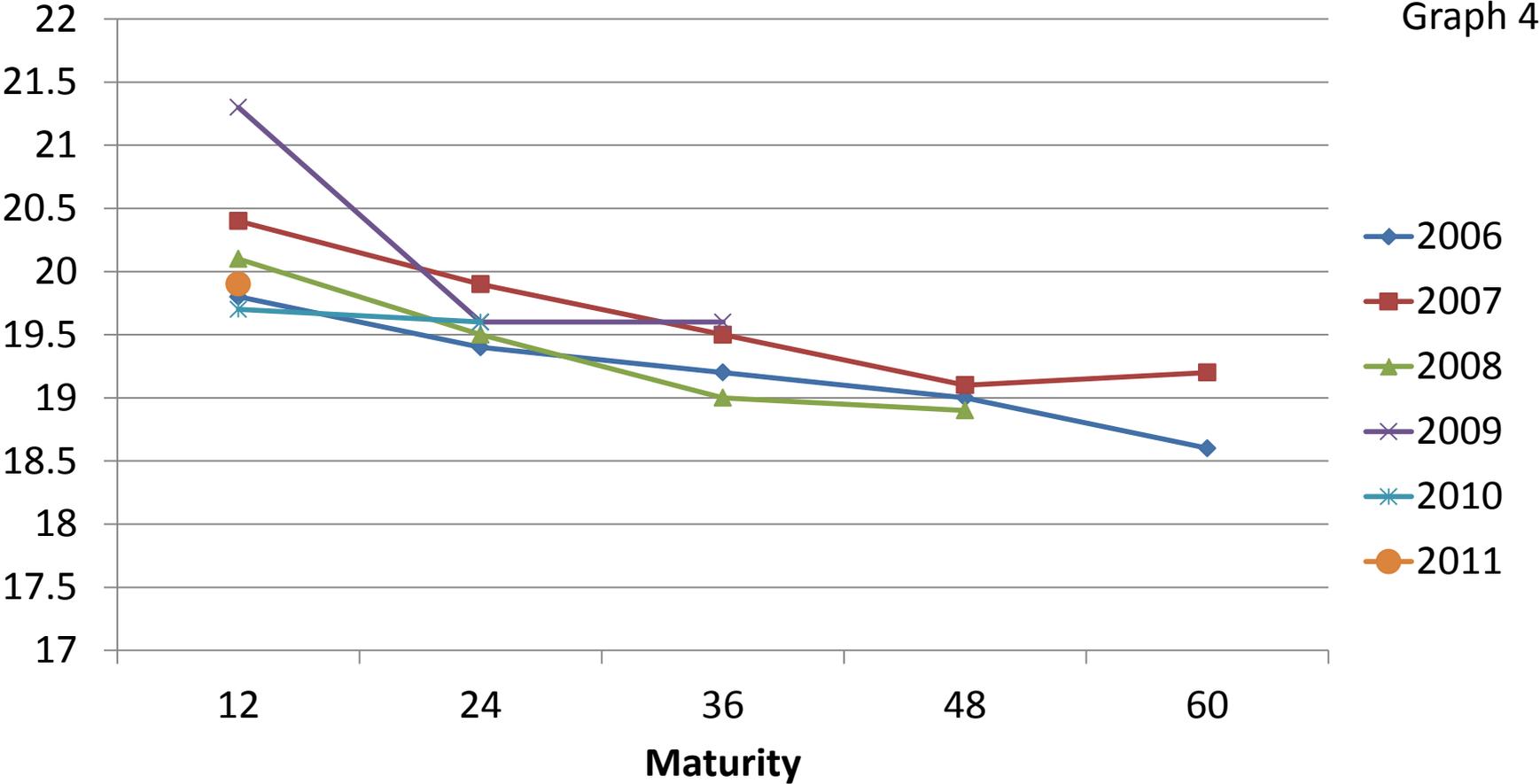
Medical Loss Ratio Trend



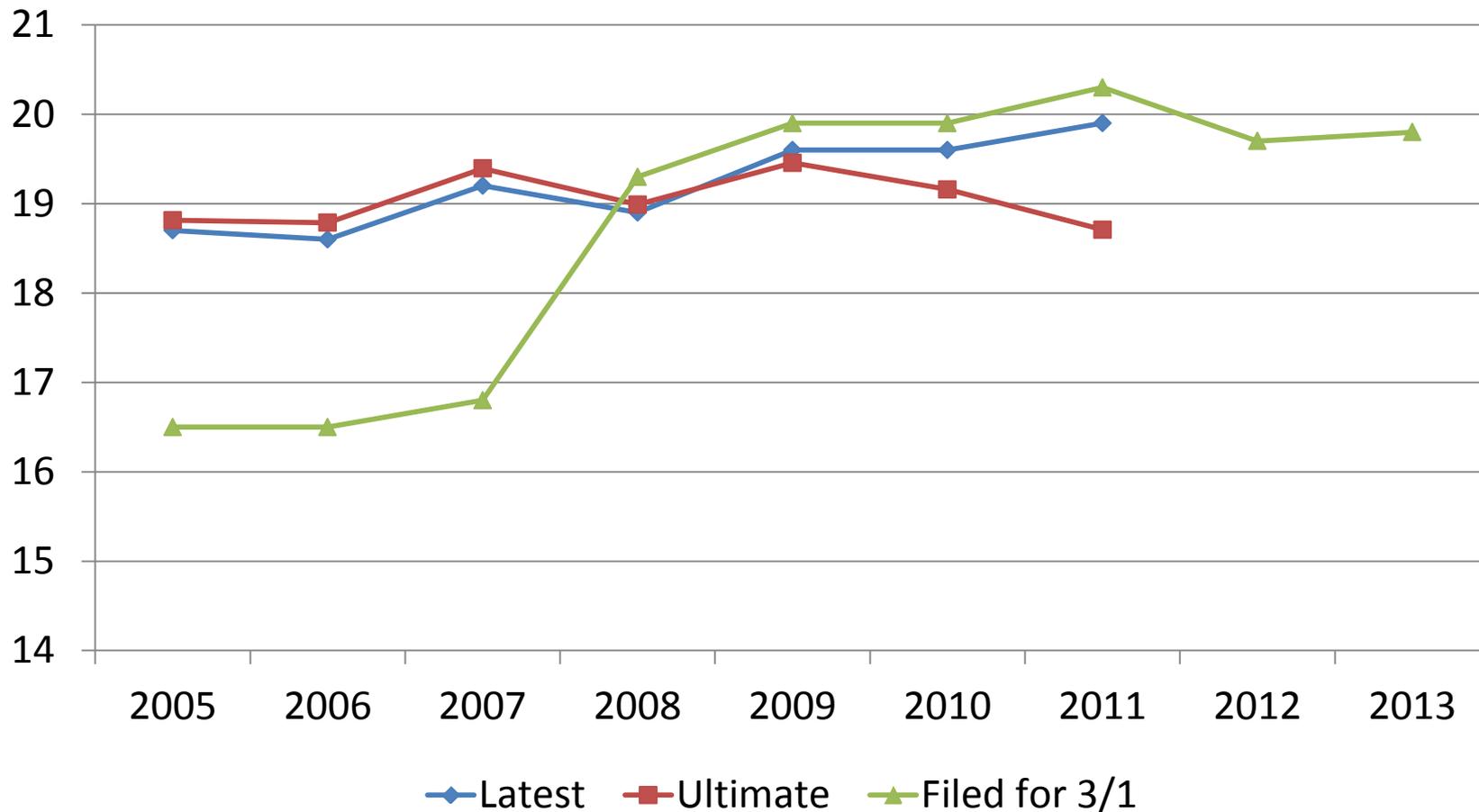
Provision for LAE

- NCCI's methodology averages the developed lae / developed loss ratios from the latest two years
- Fails to recognize that there is persistent downward development in these ratios
 - Results in a consistent overstatement of the needed LAE ratio
 - Both SAS and the Advisory Council actuaries have pointed this out on numerous occasions
- **I recommend using a 5-year *developed* average (19.1%), resulting in an indication of +1.7%**
 - Consistent with ByNAC recommendation of 2-year developed average (19.0%)

Accident Year “Developed” LAE Ratios Develop Downward over Time



Provision for LAE



Allocation to Classes / EL Offset

- Consistent with national methodology
- Continues to weight miscellaneous classes against statewide indication
 - As ordered by DC&I a few years ago
 - Miscellaneous is not a homogenous group
 - Driven by a few large self-rated classes
- Did not review EL offset
 - Such an offset is appropriate
 - Similar calculations performed regularly by NCCI

Summary

- In my opinion, a reasonable range of indications is from about -0.5% to +1.5%
 - Filed loss cost change (+2.3%) is above a reasonable range of estimates
 - I would have selected something between -0.5% and 0.0%