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

Advisory Council on Workers’ Compensation
National Picture
Property & Casualty Underwriting Results

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

Net Calendar Year Combined Ratio – Private Carriers

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2017</th>
<th>2018</th>
<th>2019 preliminary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>103%</td>
<td>98%</td>
<td>99%</td>
</tr>
<tr>
<td>Homeowners</td>
<td>107%</td>
<td>104%</td>
<td>99%</td>
</tr>
<tr>
<td>Com. Multi Peril</td>
<td>108%</td>
<td>107%</td>
<td>105%</td>
</tr>
<tr>
<td>Com. Auto</td>
<td>111%</td>
<td>108%</td>
<td>109%</td>
</tr>
<tr>
<td>Workers’ Comp</td>
<td>89%</td>
<td>83%</td>
<td>85%</td>
</tr>
<tr>
<td>Total P&amp;C Industry</td>
<td>104%</td>
<td>99%</td>
<td>99%</td>
</tr>
</tbody>
</table>

Sources: NCCI for Workers Compensation; Annual Statement Data for Total P/C Industry
Calendar Year Combined Ratios

WC Trailed P&C Results Up to 2014 - Now Trending Favorably
Since 2008, WC Averages 1 Point More Favorable

Source: NCCI; NAIC Annual Statement Data; 2019 preliminary data
Cost Driver Roundup

• Average indemnity claim severity for the past two years has been stable at a 3.7% increase, tracking just above wage inflation for the past five years.

• Medical lost-time severity is projected to decrease to 3% in 2019, averaging 2.8% for the past two years. Since 2008, medical lost-time claim severity increases have tracked modestly above medical care price changes.

Source: NCCI
WC Lost-Time Claim Frequency Continued to Decline in 2019, Just above the Annual Average

Average Annual Change of -3.3% since 2009

Source: NCCI; 2019 is Preliminary; 2010 & 2011 frequency are adjusted for recessionary factors
Pretax Operating Gain – Matches Best Result in 21 years

Source: NAIC Annual Statement Data; 2019 NCCI - preliminary
Tennessee Specific
2018 and 2019 WC Market Segment

Millions in Premiums

<table>
<thead>
<tr>
<th>Segment</th>
<th>2018</th>
<th>2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary</td>
<td>$757,487,865</td>
<td>$709,695,881</td>
<td>-6%</td>
</tr>
<tr>
<td>Self Insureds</td>
<td>$92,066,929</td>
<td>$80,782,322</td>
<td>-12%</td>
</tr>
<tr>
<td>SI Groups*</td>
<td>$65,742,426</td>
<td>$56,682,433</td>
<td>-14%</td>
</tr>
<tr>
<td>WCIP</td>
<td>$9,448,468</td>
<td>$8,918,271</td>
<td>-6%</td>
</tr>
</tbody>
</table>

* Excluding government sponsored groups; Individual Self-Insureds are on an equivalent premium basis, Group premiums are estimated.
Breakdown of Tennessee 2019 Direct Premium Written Change

Component Change

- DPW Change: -6.9%
- Payroll: 5.6%
- Loss Cost & Mix: -16.8%
- Carrier Discounting: 1.7%
- Other Factors: 4.2%

Source: NCCI. “Other factors” include change in deductible, changes in experience modifications, as well as impact of premium audits.
## Loss Cost Filing & Final Approvals – Past 10 Years

<table>
<thead>
<tr>
<th>Year Filing Made</th>
<th>NCCI Filed Rate</th>
<th>Advisory Council Recommendation</th>
<th>C&amp;I Approved Rate</th>
<th>Effective Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>-5.1%</td>
<td>-5.3%</td>
<td>-5.1%</td>
<td>3/1/2011</td>
</tr>
<tr>
<td>2011</td>
<td>6.3%</td>
<td>6.3%</td>
<td>6.3%</td>
<td>11/1/11</td>
</tr>
<tr>
<td>2011</td>
<td>1.6%</td>
<td>-.3%</td>
<td>.4%</td>
<td>3/1/12</td>
</tr>
<tr>
<td>2012</td>
<td>-5.1%</td>
<td>-5.1%</td>
<td>-5.1%</td>
<td>8/9/12</td>
</tr>
<tr>
<td>2012</td>
<td>2.3%</td>
<td>1.6%</td>
<td>2.3%</td>
<td>3/1/13</td>
</tr>
<tr>
<td>2013</td>
<td>-8.4%</td>
<td>-6.95%</td>
<td>-6.95%</td>
<td>3/1/14</td>
</tr>
<tr>
<td>2013</td>
<td>-5.9%</td>
<td>-5.9%</td>
<td>-5.9%</td>
<td>7/1/14</td>
</tr>
<tr>
<td>2014</td>
<td>-9.6%</td>
<td>-6.5%</td>
<td>-8.2%</td>
<td>3/1/15</td>
</tr>
<tr>
<td>2015</td>
<td>-0.9%</td>
<td>-1.2%</td>
<td>-.9%</td>
<td>3/1/16</td>
</tr>
<tr>
<td>2016</td>
<td>-2.7%</td>
<td>-2.7%</td>
<td>-2.7%</td>
<td>8/28/16</td>
</tr>
<tr>
<td>2016</td>
<td>-12.8%</td>
<td>-12.8%</td>
<td>-12.8%</td>
<td>3/1/17</td>
</tr>
<tr>
<td>2017</td>
<td>-12.6%</td>
<td>-12.6%</td>
<td>-12.6%</td>
<td>3/1/18</td>
</tr>
<tr>
<td>2018</td>
<td>-19.0%</td>
<td>-14%</td>
<td>-19%</td>
<td>3/1/19</td>
</tr>
<tr>
<td>2019</td>
<td>-8.2% net</td>
<td>-4%</td>
<td>-7.1%</td>
<td>3/1/20</td>
</tr>
</tbody>
</table>

-52.5% approved since 2014 Reforms
Multipliers are based on prior year premium “weighted average” market shares.
TN WC Net Pricing Changes: Past 10 Years

- LC Changes
- LCM Changes
- Net Changes

Average Reported Rate Table Comparisons

Source: NCCI’s State Insight (rounded to .10)
Tennessee Workers’ Compensation Insurance Plan (WCIP)
WCIP Premium History
TN WC Assigned Risk LCM History

1.95
1.95
1.85
1.7
1.63
1.54
1.51
1.55
1.67
1.52
1.56
1.58
1.66
1.7
1.709
1.707
1.753

TN Assigned Risk Market Share vs. NCCI Plan States Market Shares - NAIC Direct Premium Written

- **Statutory Threshold**
- **TN**
- **NCCI Plan States**

Graph showing market share trends from 2008 to 2019.
• **NCCI/TOSHA/Bureau/TDCI Sponsored**
  - 1.5 Hour Safety/Cost Containment Webinar
  - Attendees: $10,000 and above in premium
  - Bright Horizons→Comp (Cost Containment in person presentations) offered to policyholders representing 12% of the premium in the assigned risk plan through the end of 2019
  - Webinar offered to policyholders representing half of assigned risk plan premium this year
Currently Two Active Self-Insured Groups

<table>
<thead>
<tr>
<th>Self Insured Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tennessee Automotive Association</td>
</tr>
<tr>
<td>Tennessee Forestry Association</td>
</tr>
</tbody>
</table>
Insolvencies

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

No new insolvencies in 2019!

Assessment not required.
Authorization

Department Authorization No. 335599