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

Advisory Council on Workers’ Compensation

Mike Shinnick | Manager, Workers’ Compensation  August 27, 2019
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>2016</th>
<th>2017</th>
<th>2018 preliminary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>106%</td>
<td>103%</td>
<td>98%</td>
</tr>
<tr>
<td>Homeowners</td>
<td>93%</td>
<td>107%</td>
<td>104%</td>
</tr>
<tr>
<td>Com. Multi Peril</td>
<td>102%</td>
<td>108%</td>
<td>107%</td>
</tr>
<tr>
<td>Com. Auto</td>
<td>111%</td>
<td>111%</td>
<td>108%</td>
</tr>
<tr>
<td>Workers’ Comp</td>
<td>94%</td>
<td>89%</td>
<td>83%</td>
</tr>
<tr>
<td>Total P&amp;C Industry</td>
<td>104%</td>
<td>104%</td>
<td>99%</td>
</tr>
</tbody>
</table>

Sources: NCCI for Workers Compensation; Annual Statement Data for Total P/C Industry
Historically WC Trailed P&C Results, but Trending Favorably Since 2008, Averages 1 Point Less Favorable

Source: NCCI; NAIC Annual Statement Data; 2018 preliminary data
“Delivering—as a reminder that we must continue delivering on our 100-year-old promise to workers and their families.” Bill Donnell (NCCI CEO)

<table>
<thead>
<tr>
<th>Direct written premium was flat</th>
<th>Loss costs decreased</th>
<th>Very low combined ratio</th>
<th>Reserve deficiencies evaporated</th>
<th>Net written premium rose sharply</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment, wages, and payroll increased</td>
<td>Investment gains on insurance transactions slipped a bit</td>
<td>Economic factors contributed to a milder decrease in frequency</td>
<td>Indemnity and medical severity changes moderated</td>
<td>Gain from operations increased</td>
</tr>
</tbody>
</table>

Source: NCCI
Cost Driver Roundup

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

- Medical lost-time severity is projected to have decreased to 1% in 2018, averaging 2.6% for the past two years. Since 2008, medical lost-time claim severity increases have tracked closely with medical care price changes.

Source: NCCI
WC Lost-Time Claim Frequency Continued to Decline in 2018, but at a Slower Pace

Average Annual Change of -3.2% since 2009

Potential causes for 2018 drop
• Strong economy with new job growth pressuring safety
• Bad winter, increasing slip and fall claims
• Random volatility

Source: NCCI; 2018 is Preliminary; 2010 & 2011 frequency is adjusted for recessionary factors
Pretax Operating Gain – Best Result in Over 20 Year Period!

Private Carriers

2017: 17 point underwriting gain + 9 point investment gain

Average 10% Over this Period

Source: NAIC Annual Statement Data; 2018 NCCI - preliminary
Breakdown of Countrywide 2018 Direct Premium Written Change

Component Change

- DPW Change: 0.3%
- Payroll: 5.3%
- Loss Cost & Mix: -8.9%
- Carrier Discounting: 0.8%
- Other Factors: 3.1%

Source: NCCI
Tennessee Specific
2017 and 2018 WC Market Segment ($000)

* Excluding government sponsored groups; Individual Self Insureds are on an equivalent premium basis, Group premiums are estimated. CAGC Group discontinued writing coverage after 2017.
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.
Breakdown of Tennessee 2018 Direct Premium Written Change

Component Change

- DPW Change: -5.0%
- Payroll: 7.2%
- Loss Cost & Mix: -13.3%
- Carrier Discounting: 0.8%
- Other Factors: 1.4%

Source: NCCI
### 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>2009</td>
<td>-.1%</td>
<td>-.1%</td>
<td>-.1%</td>
<td>3/1/2010</td>
</tr>
<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>
</tbody>
</table>

-48.6% since 2014 Reforms
Tennessee Voluntary Market Weighted Average Loss Cost Multiplier History

Multipliers are based on prior year premium “weighted average” market shares.
TN WC Net Pricing Changes: Past 10 Years

-25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25%


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

![Graph showing WCIP Premium History from 2009 to 2018. The graph indicates a steady increase in premium amounts from $30,000,000 in 2009 to $66,000,000 in 2017. The premium decreases slightly in 2018.](image-url)
TN Assigned Risk Market Share vs. NCCI Plan States Market Shares - NAIC Direct Premium Written

[Graph showing the comparison of Statutory Threshold and TN and NCCI Plan States market share percentages from 2008 to 2018.]
• **BrightHorizons → Comp.**
  – $100,000 premium policies and over
  – Policyholder visits providing experience modification analysis, cost containment guides, and encourage step-up
  – Segment represents 12.4% of the premium in the Plan

**POLICY DATA RESEARCH: CHANGES FROM POLICY YEAR 2017 TO 2018**

- **TN POLICY COUNT REDUCTION RELATIVE TO COUNTRYWIDE:**
  - -3%

- **TN PREMIUM REDUCTION RELATIVE TO COUNTRYWIDE:**
  - -12%
POLICY DATA RESEARCH: CHANGES FROM POLICY YEAR 2017 TO 2018

• TN SEGMENT CHANGE RELATIVE TO COUNTRYWIDE CHANGE*

+12%

* During this period, the TN minimum premium changed from $800 to $1250.
2019 rates are 9% higher than weighted average voluntary rates, yet a 35% differential remains.
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 2018!

Assessment not required.
Authorization

Department Authorization No. 335556