

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

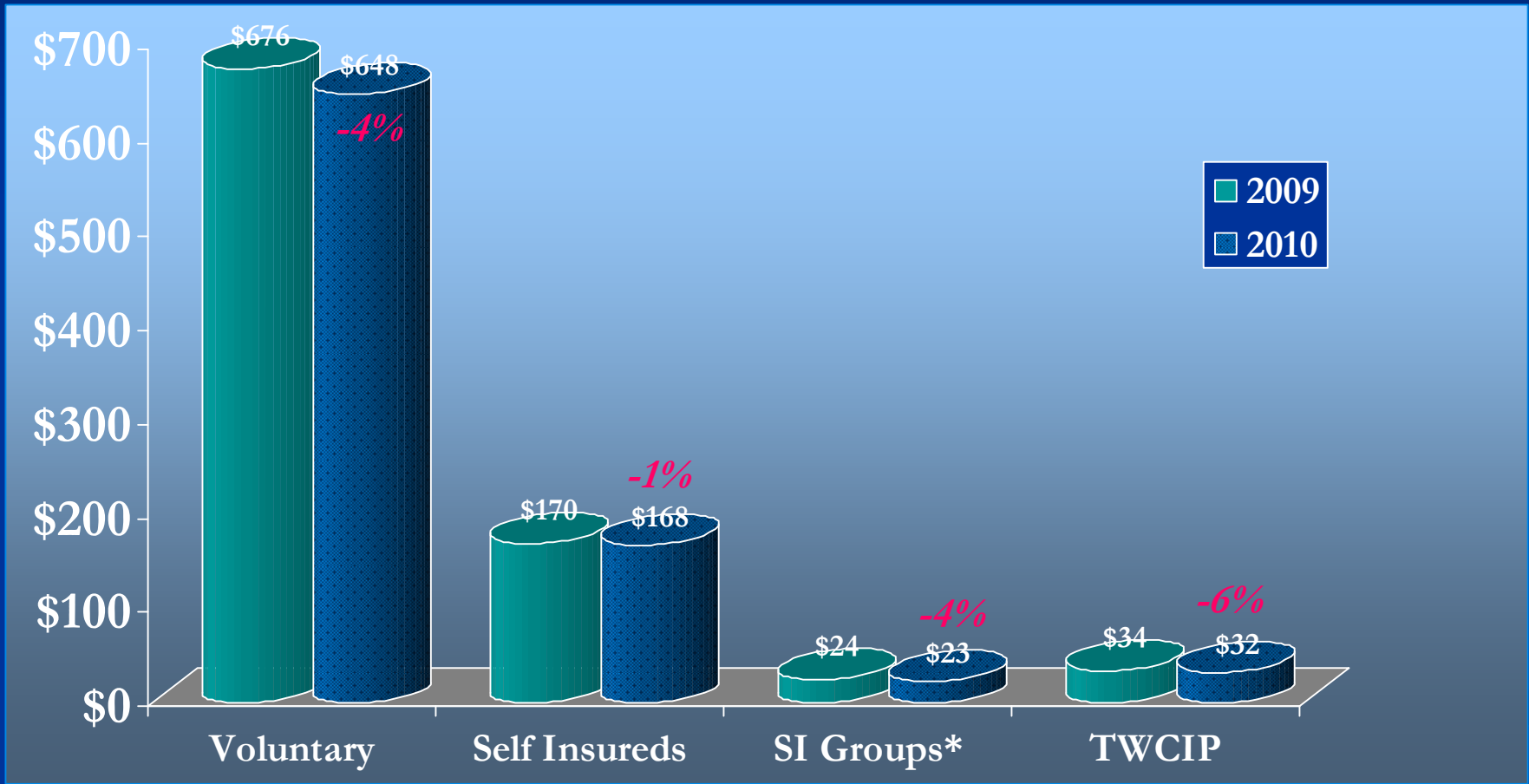
**Tennessee Advisory Council on
Workers' Compensation**

August 22, 2011

Mike Shinnick, Workers' Compensation Manager
Tennessee Department of Commerce & Insurance

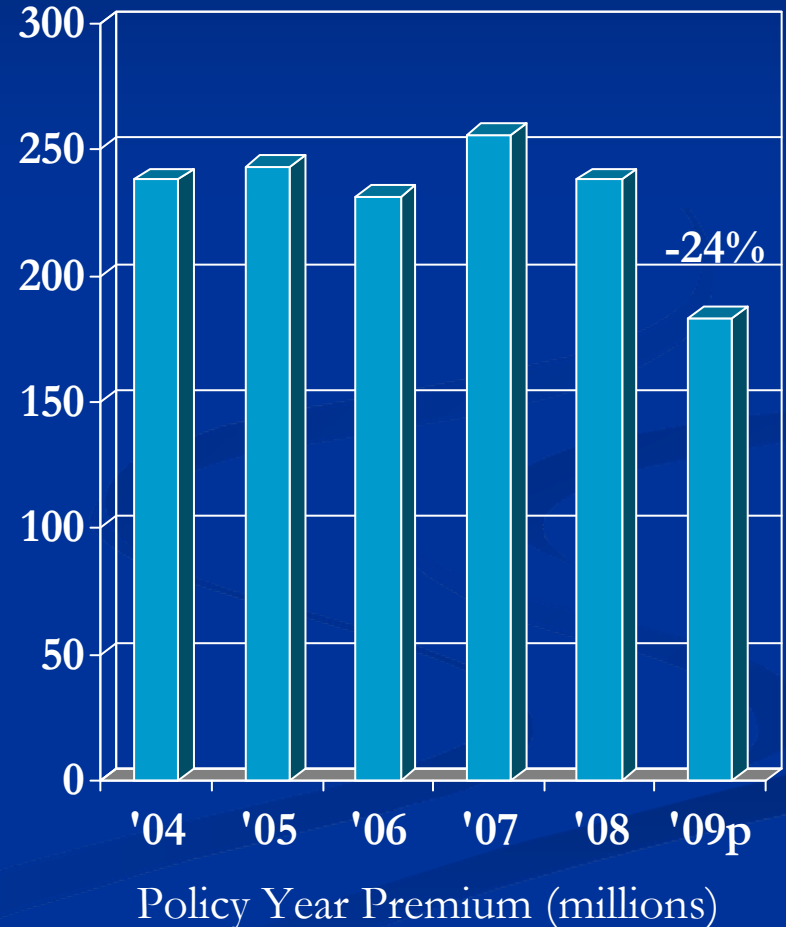
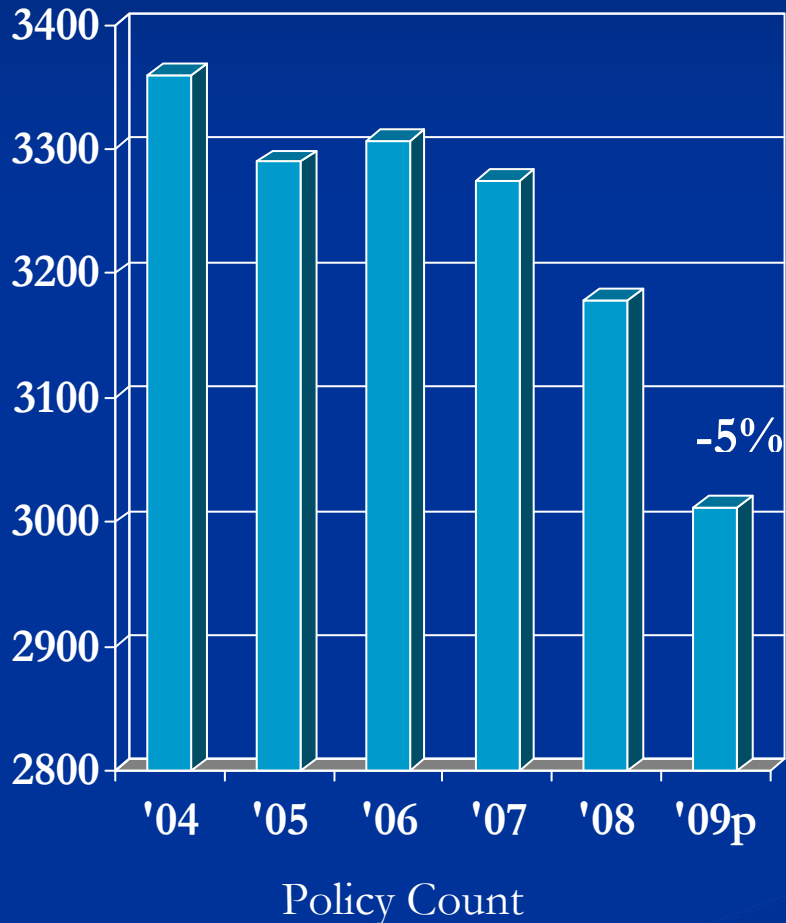
2010 Market Segments

Million in Premiums



* Excluding government sponsored groups, Individual Self Insureds are on an equivalent premium

TN Large Deductibles History



National Picture



Workers' Comp Outperforms Overall P&C

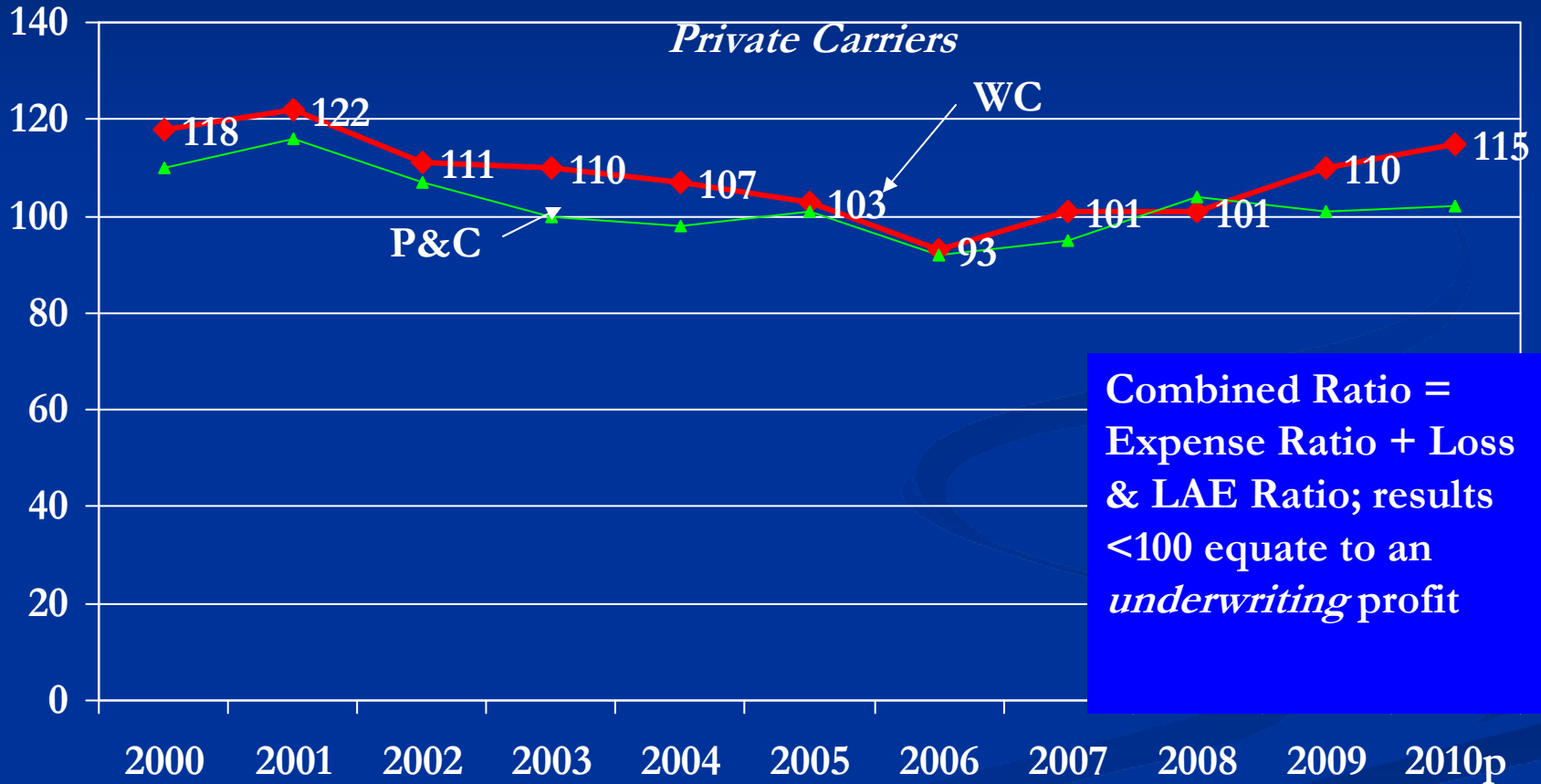
Net Calendar Year Combined Ratio – Private Carriers

Line of Business	2008	2009	2010 preliminary
Personal Auto	100%	101%	101%
Homeowners	117%	105%	107%
Com. Multi Peril	104%	97%	101%
Com. Auto	97%	100%	98%
Workers' Comp	101%	110%	115%
Total P&C Industry	104%	101%	102%

Sources: NCCI for Workers' Compensation; Best Preview & ISO for all other lines

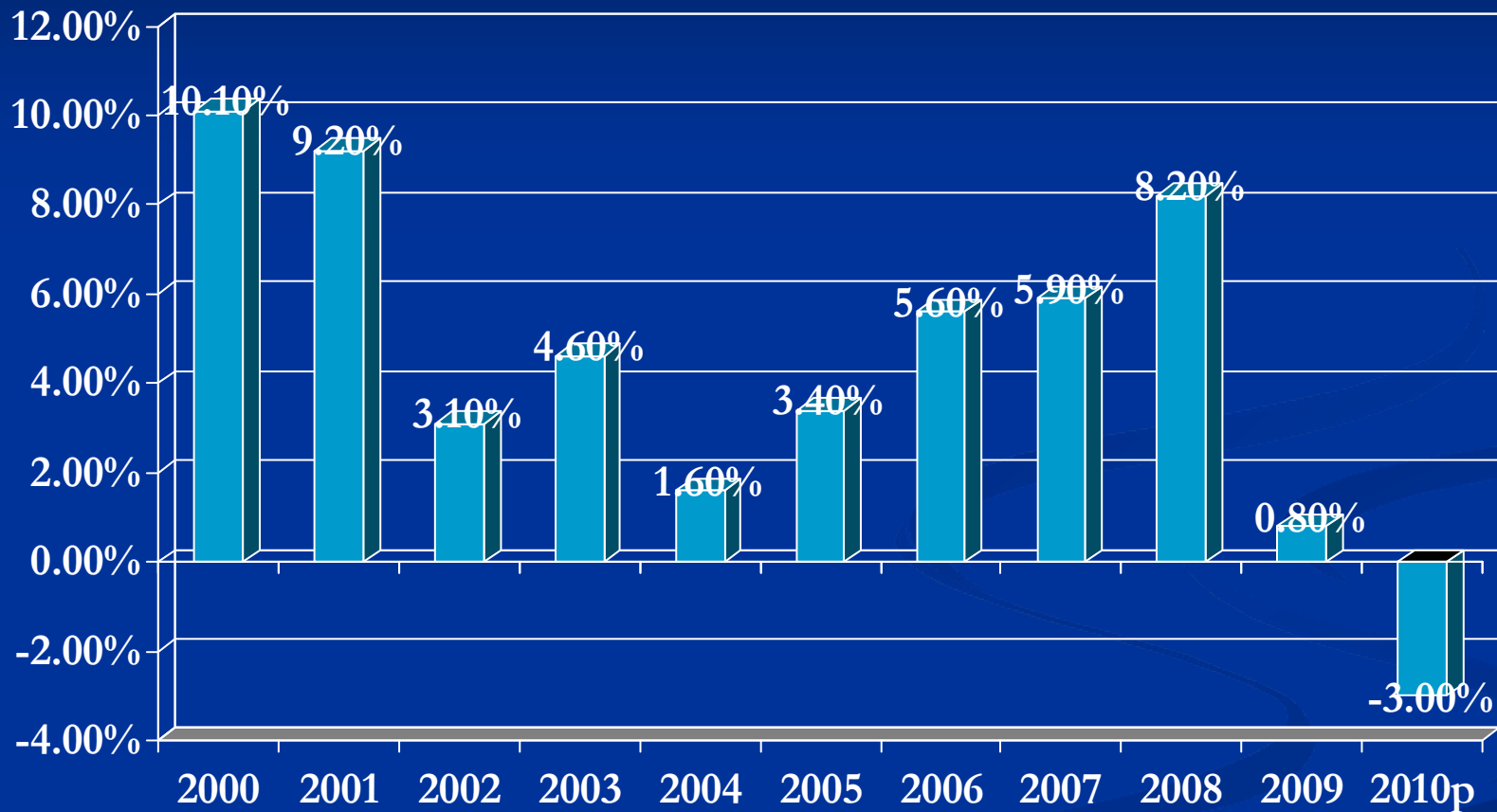
WC and P&C Calendar Year Combined Ratios

Except for 2008, WC Consistently Trails Overall P&C Results, on Average 6 Points Worse



Source: NCCI (2010 is preliminary)

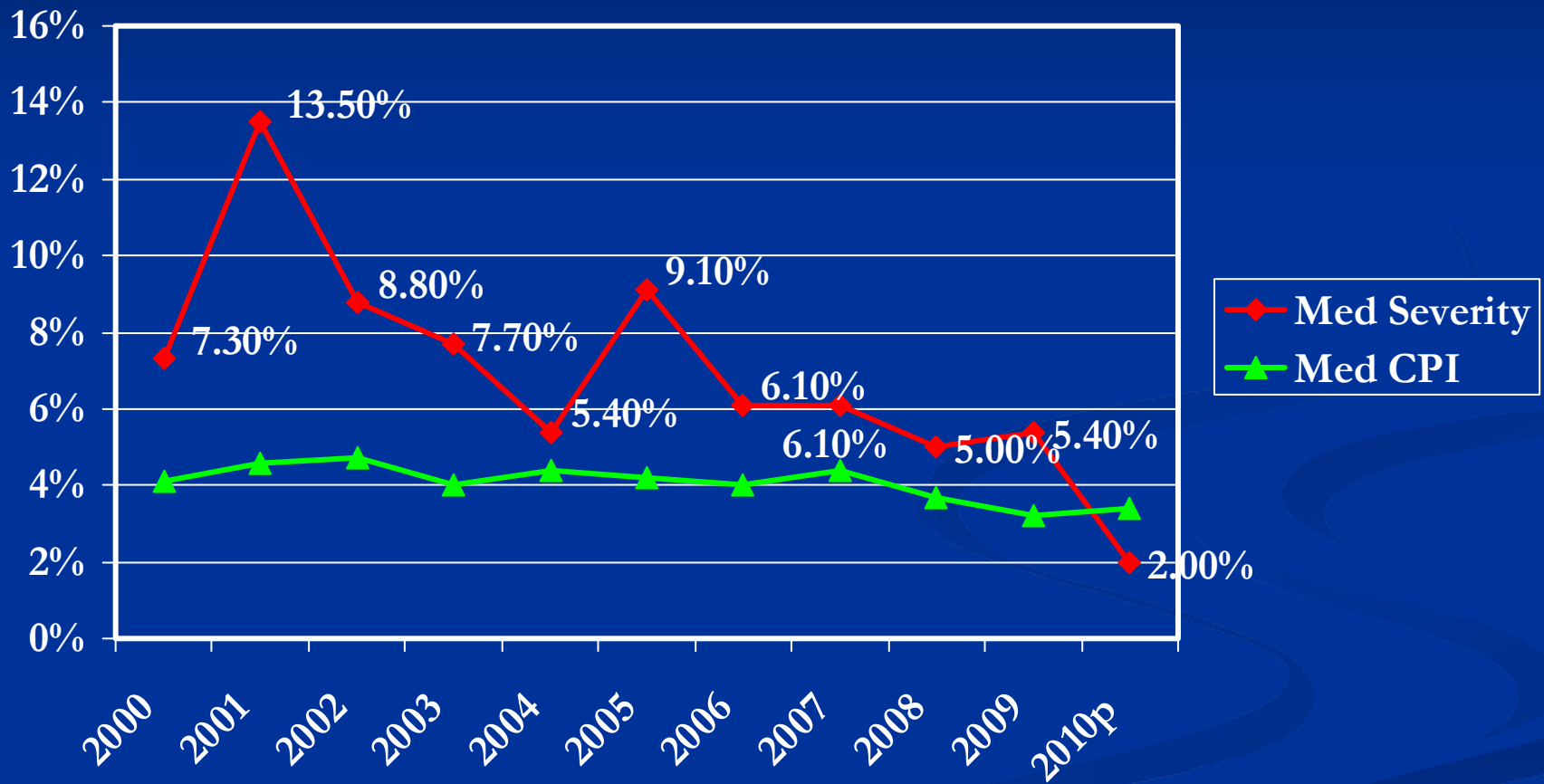
Workers' Compensation Indemnity Claims Cost Decreases in 2010



Source: NCCI (2010 is preliminary)

WC Medical Claim Cost Trends

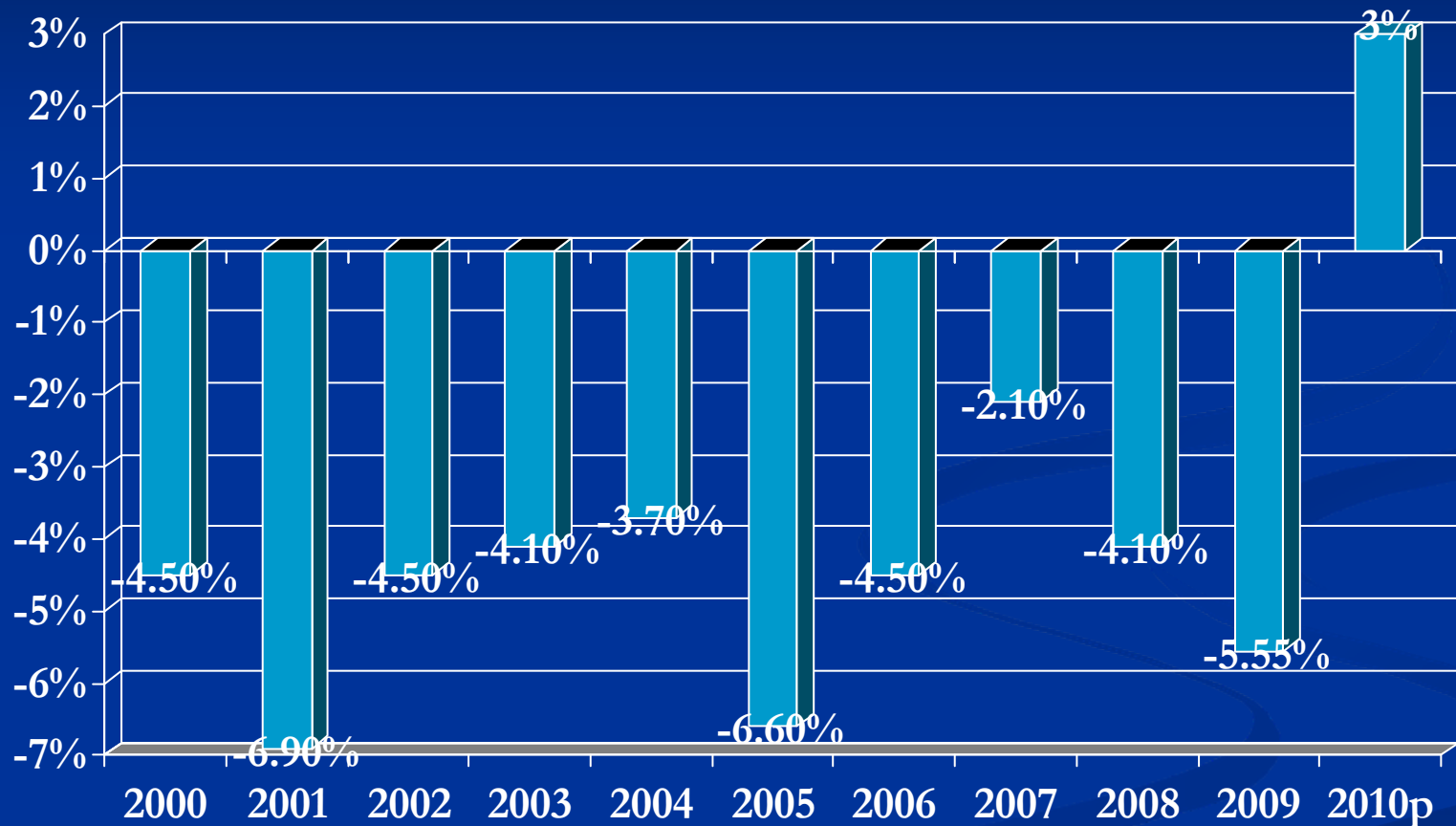
(Lost Time Cases)



Sources: NCCI - Med Severity; Economy.com – Medical CPI

* preliminary

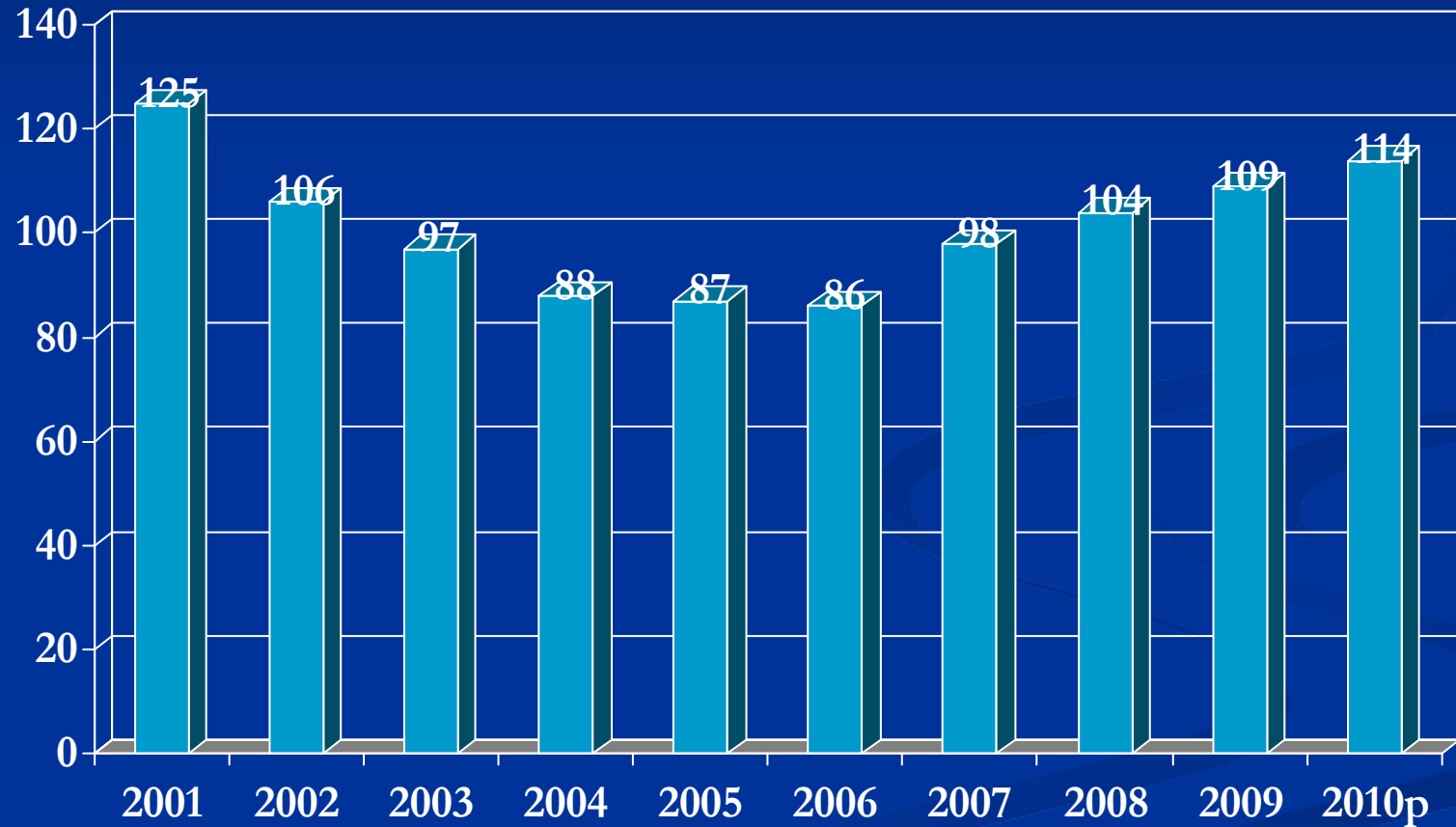
Lost Time Frequency Shifts in 2010



Source: NCCI

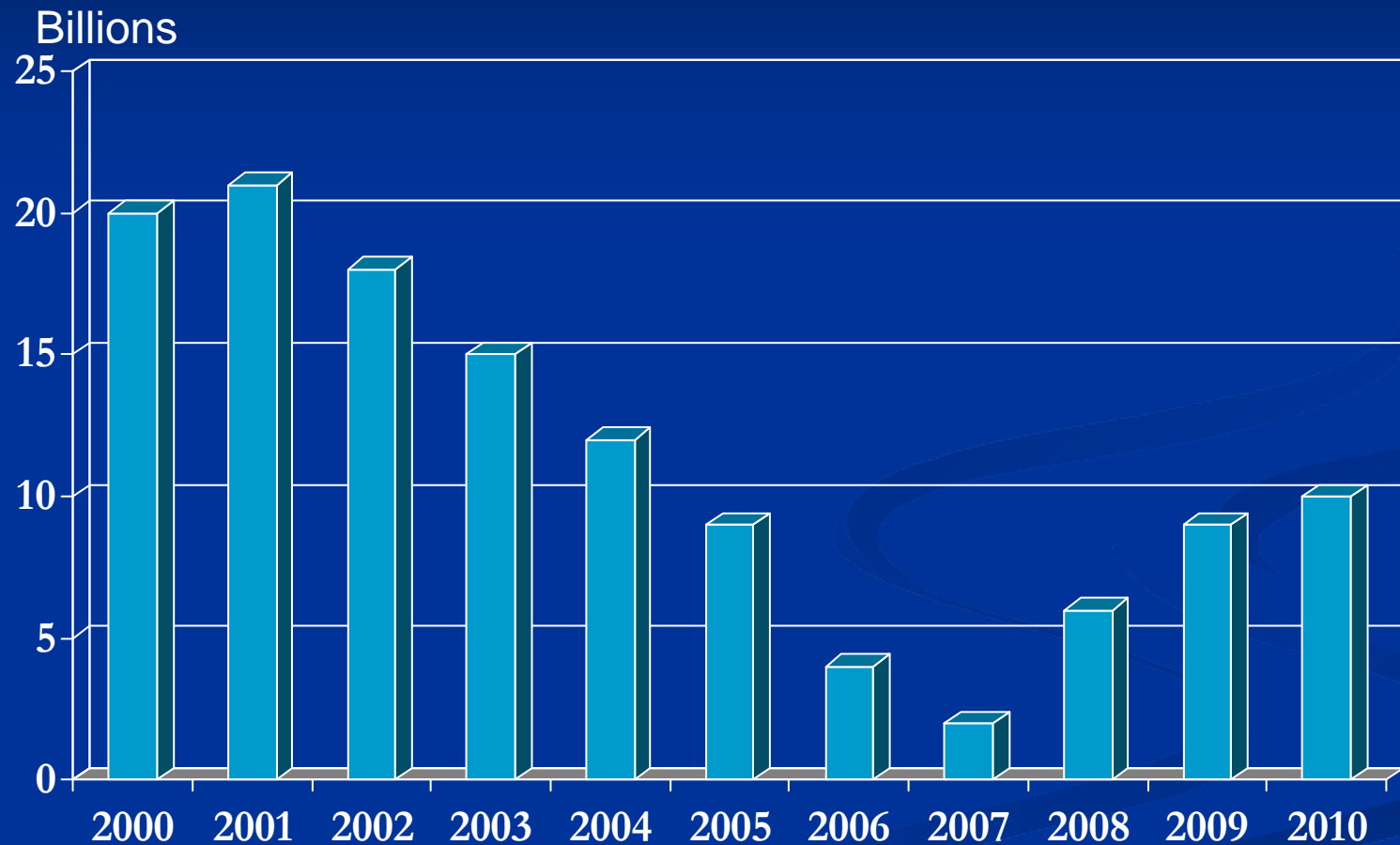
* Preliminary; 2010 frequency is adjusted for recessionary factors

Accident Year Combined Ratio Workers' Compensation Private Carriers



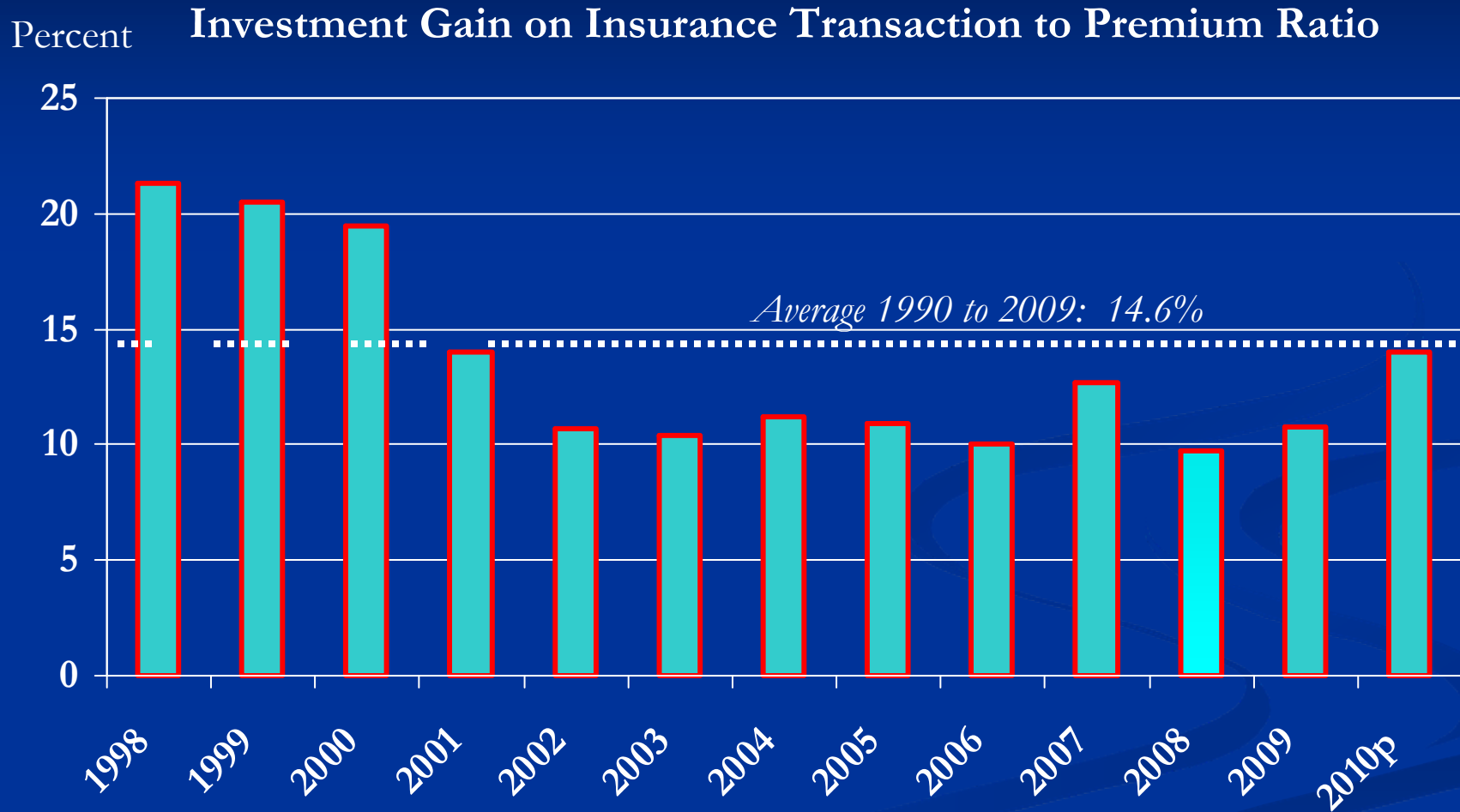
Source: NCCI; 2010 is preliminary

Calendar Year WC Reserve Deficiencies Though Increasing are “Manageable”



Source: NCCI

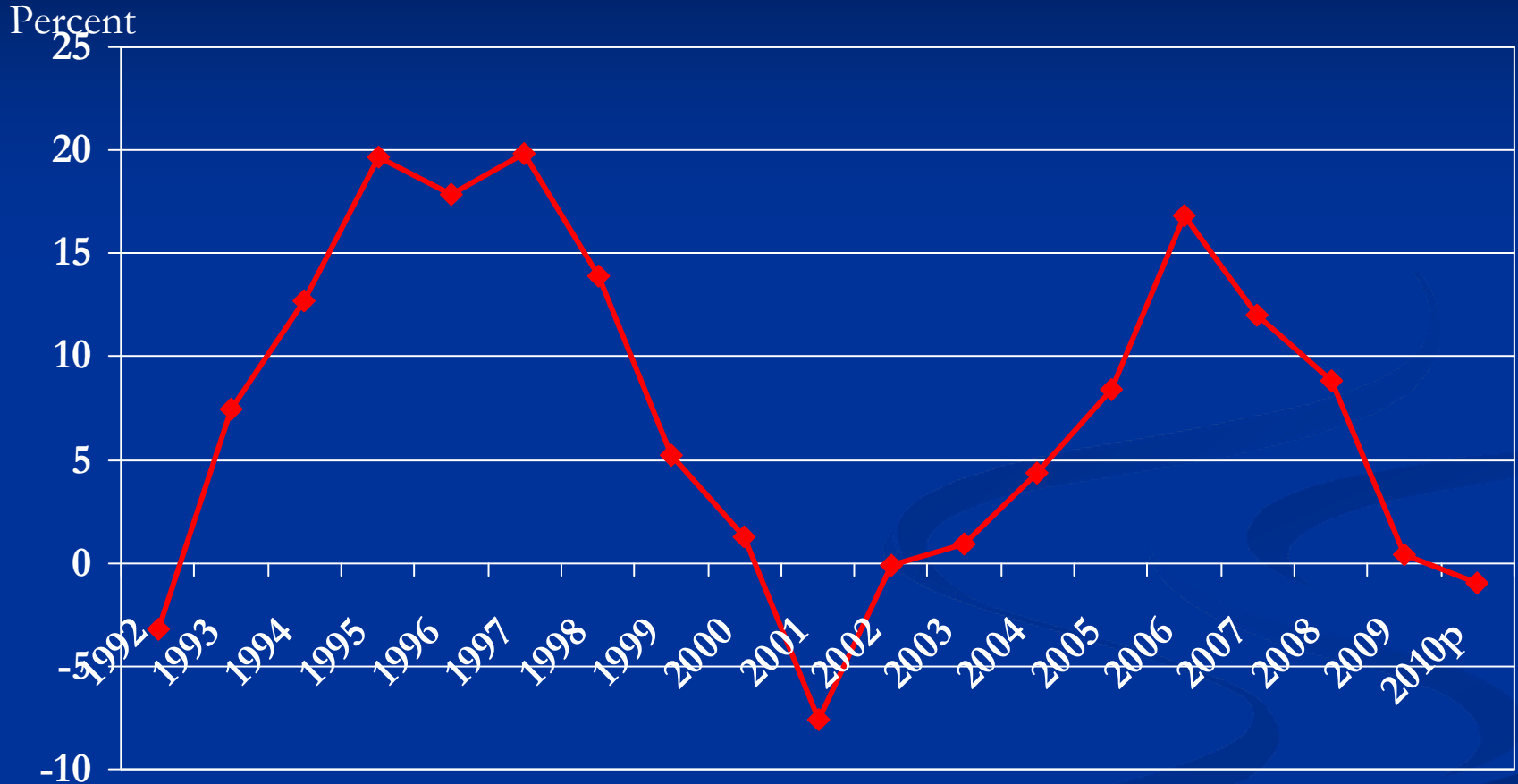
Improved WC Investment Returns in 2010



Sources: A.M. Best/NCCI (2010 is preliminary); Private Carrier results

WC Results – Operating Gain Slips

Pre-Tax Operating Gain Ratio – Private Carriers

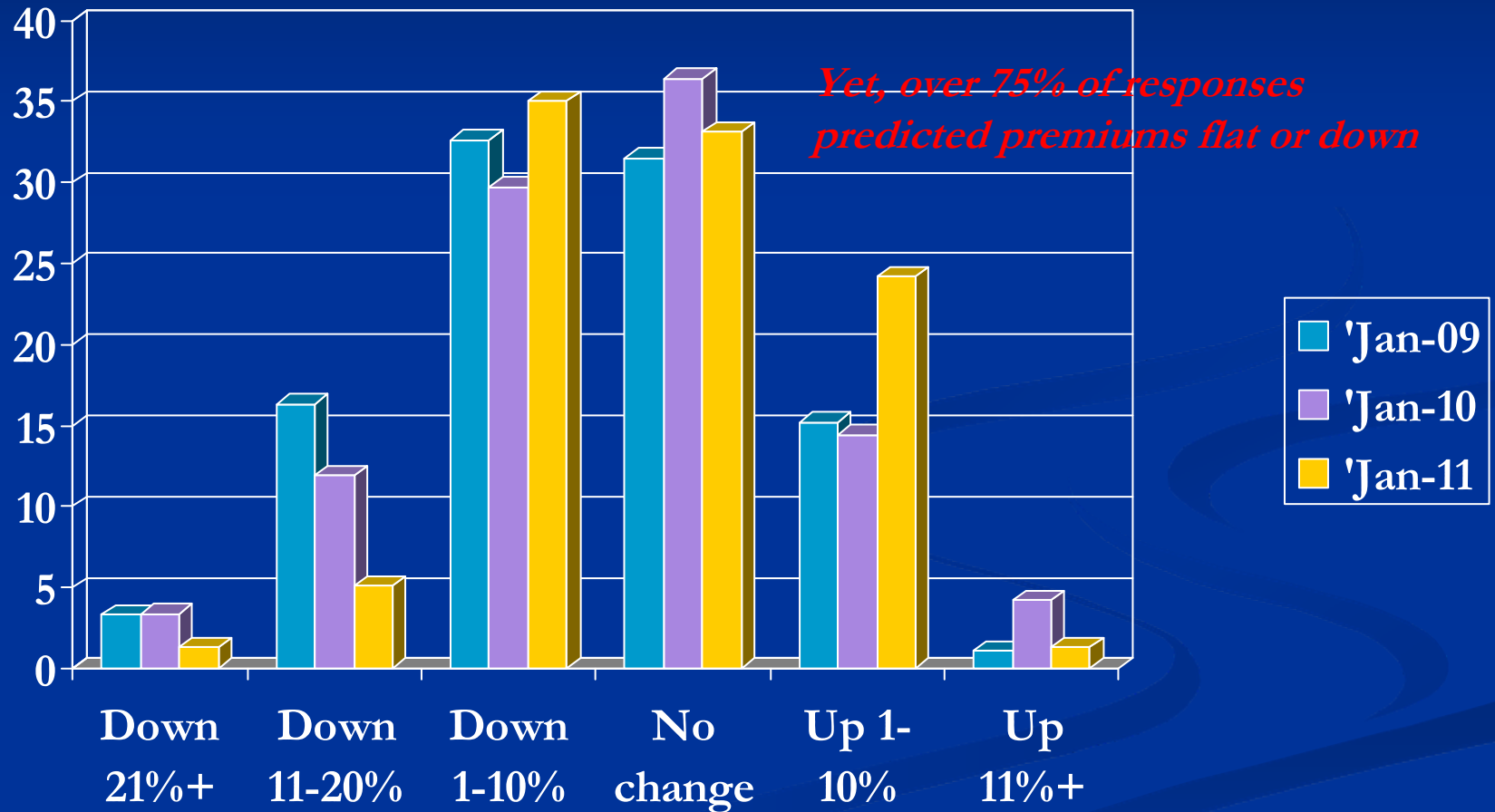


Source: 1992-2009, Annual Statement Data; 2010 NCCI. Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

* 2010 is preliminary

According to Goldman Sachs, Pricing Declines Continue to Moderate

Agent Responses on Policy Renewal Premiums vs. 12 Months Prior

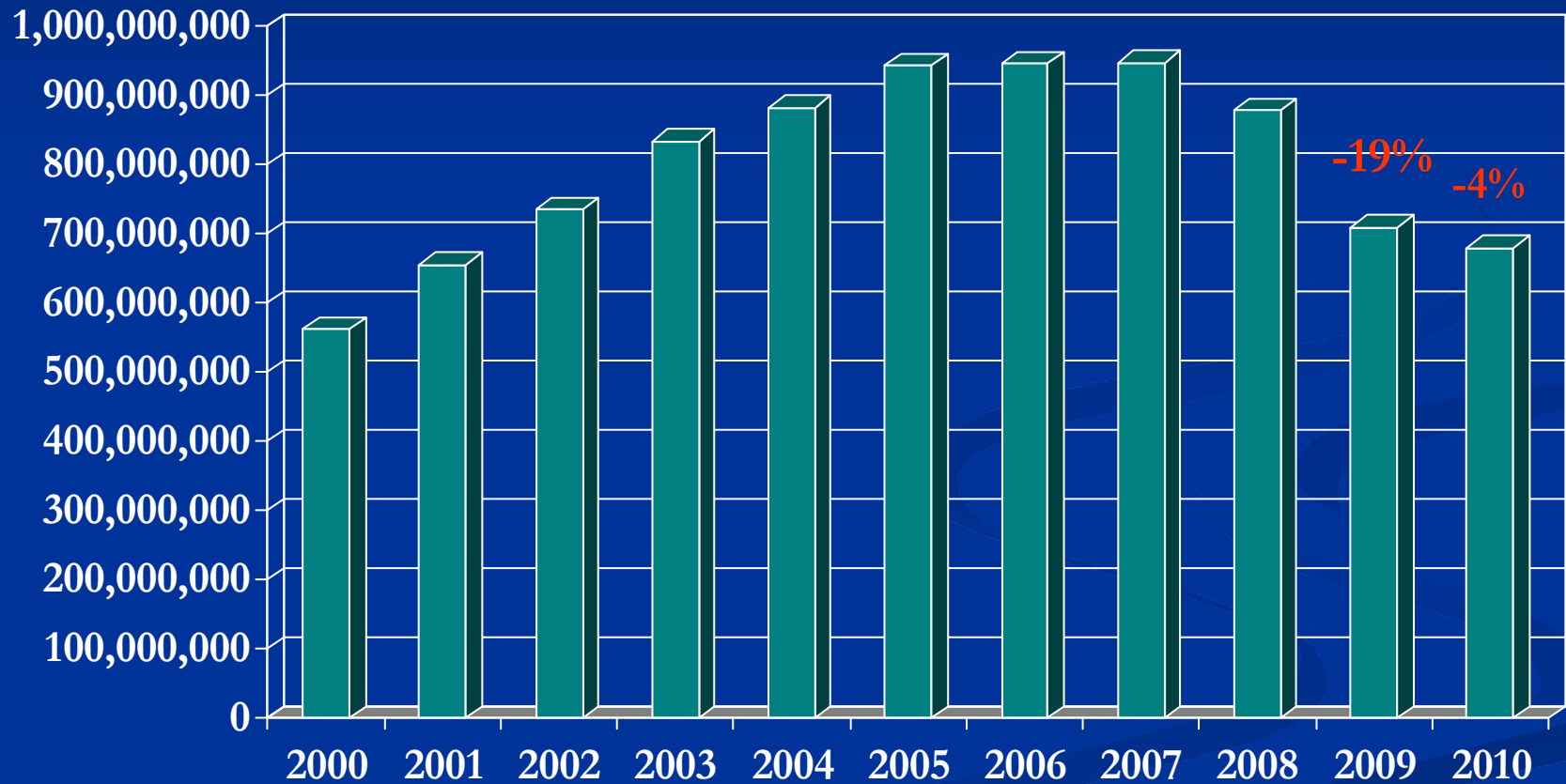


Source: Goldman Sachs Research, Proprietary Survey, "January 2010 Pricing Survey, Insurance: Property & Casualty" (Exhibit 8 Workers' Compensation, Percentage of Respondents)

Tennessee Specific

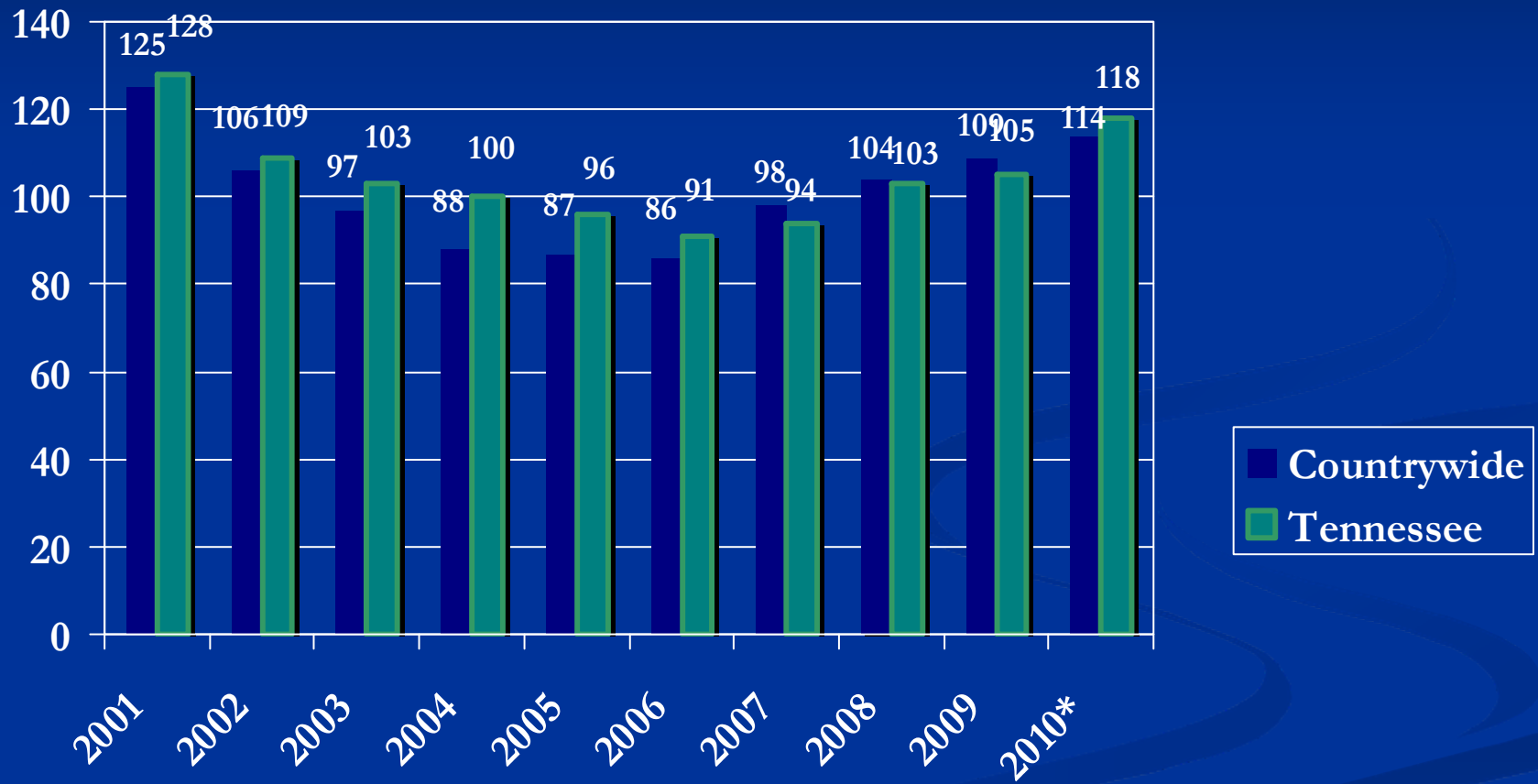


Tennessee Direct Premium Written History



Source: NAIC (Annual Statements)

Accident Year Combined Ratios



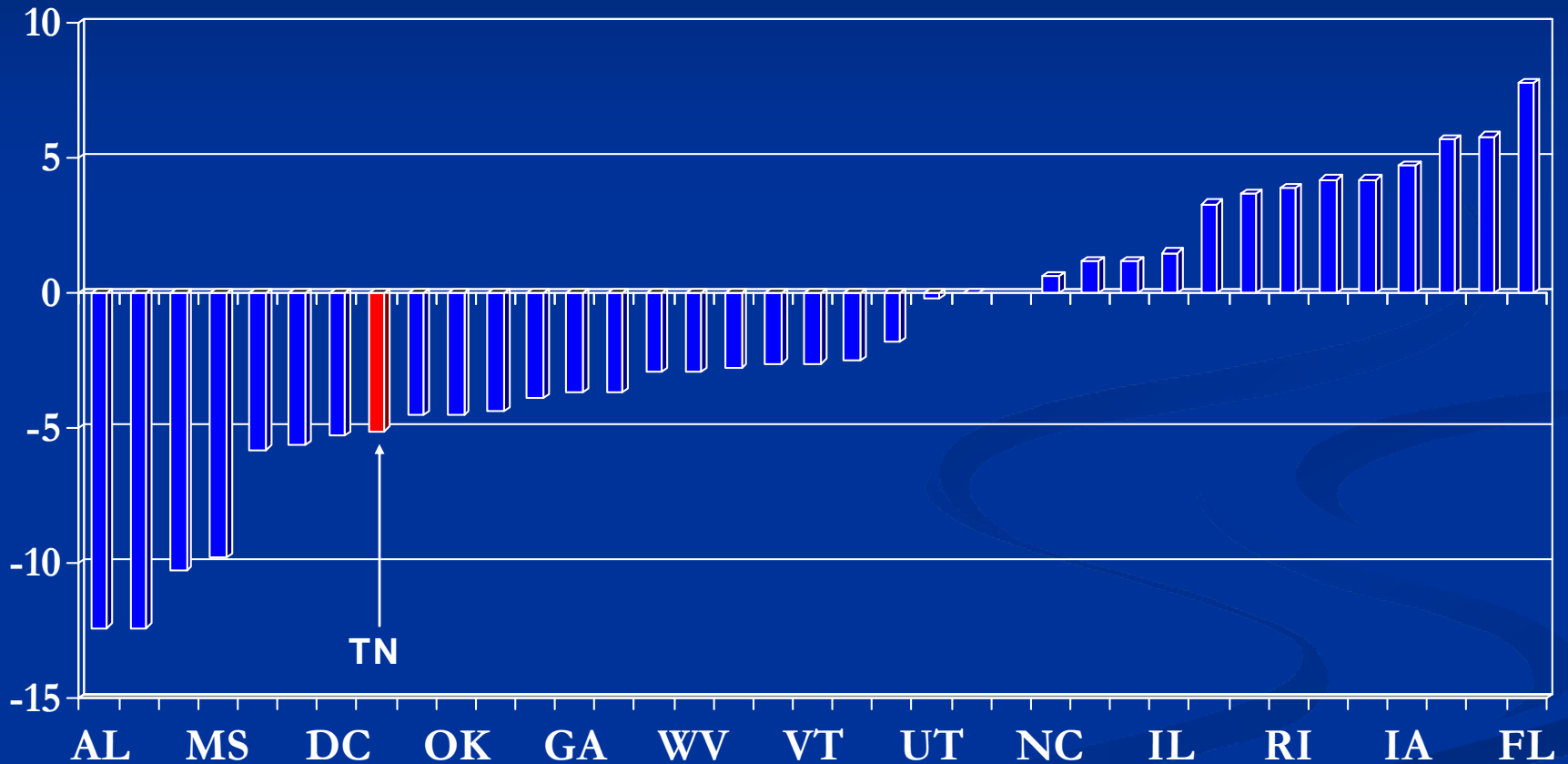
Source: NCCI; 2010 preliminary data

Loss Cost Filing & Final Approvals Since 2004 Reforms Were Implemented

Year Filing Made	NCCI Filed Rate	Advisory Council Recommendation	Commerce & Insurance 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% (net -3.3%)	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

-18.7% approved since 9/1/04

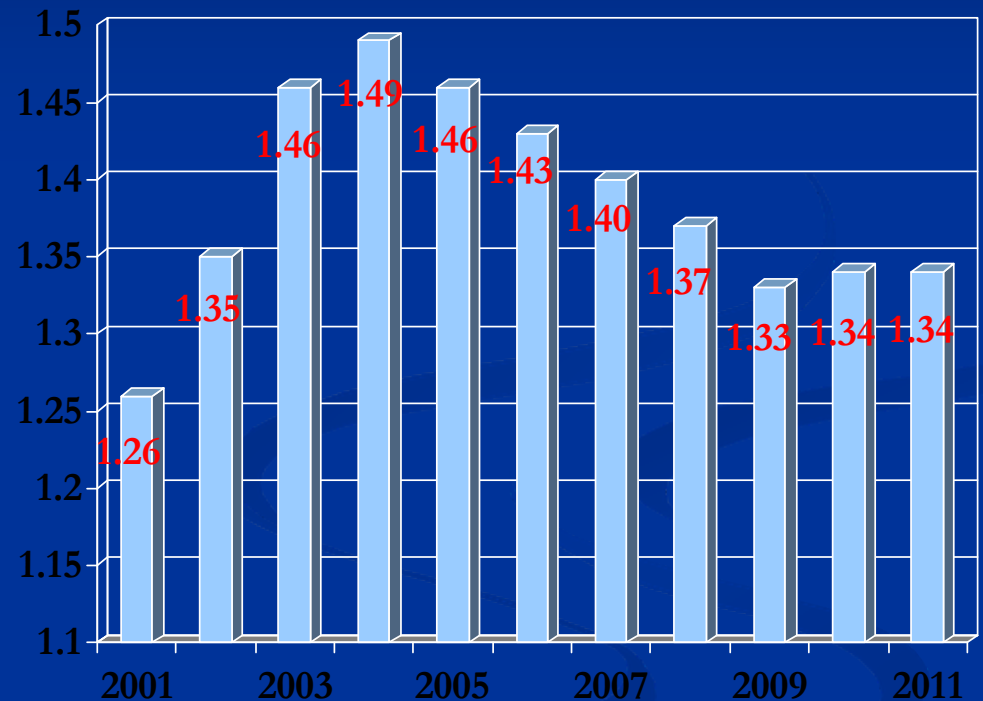
Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



Source: NCCI; states filed through 4/15/2011

Tennessee Voluntary Market Loss Cost Multipliers (LCMs)

Market appears at this stage to have bottomed out. Multipliers are based on prior year premium “weighted average” market shares.



2010 LCM Distribution

(by Direct Premium Written)

Median 1.35



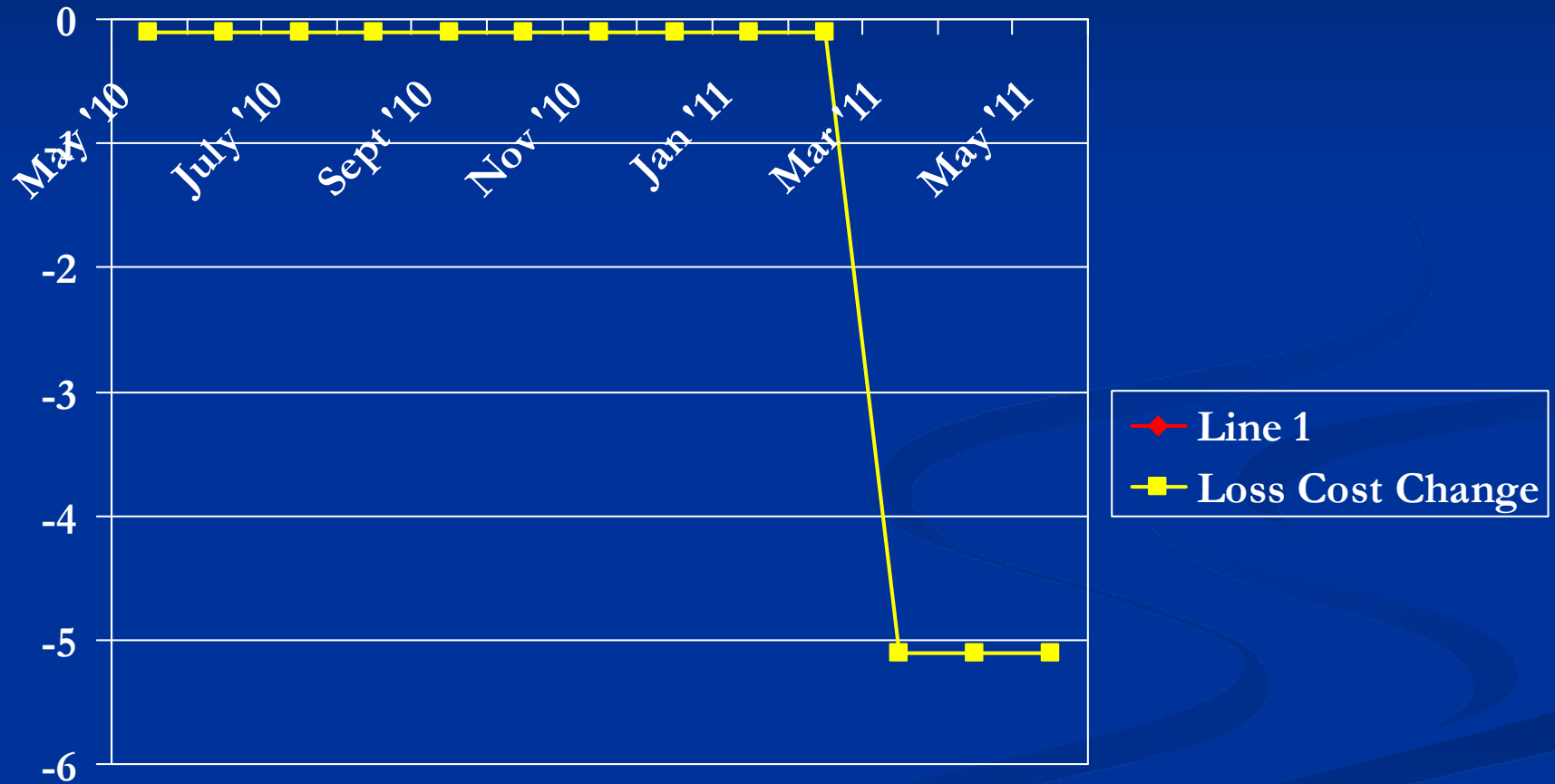
✓ 90% above 1.04

✓ 90% below 1.58

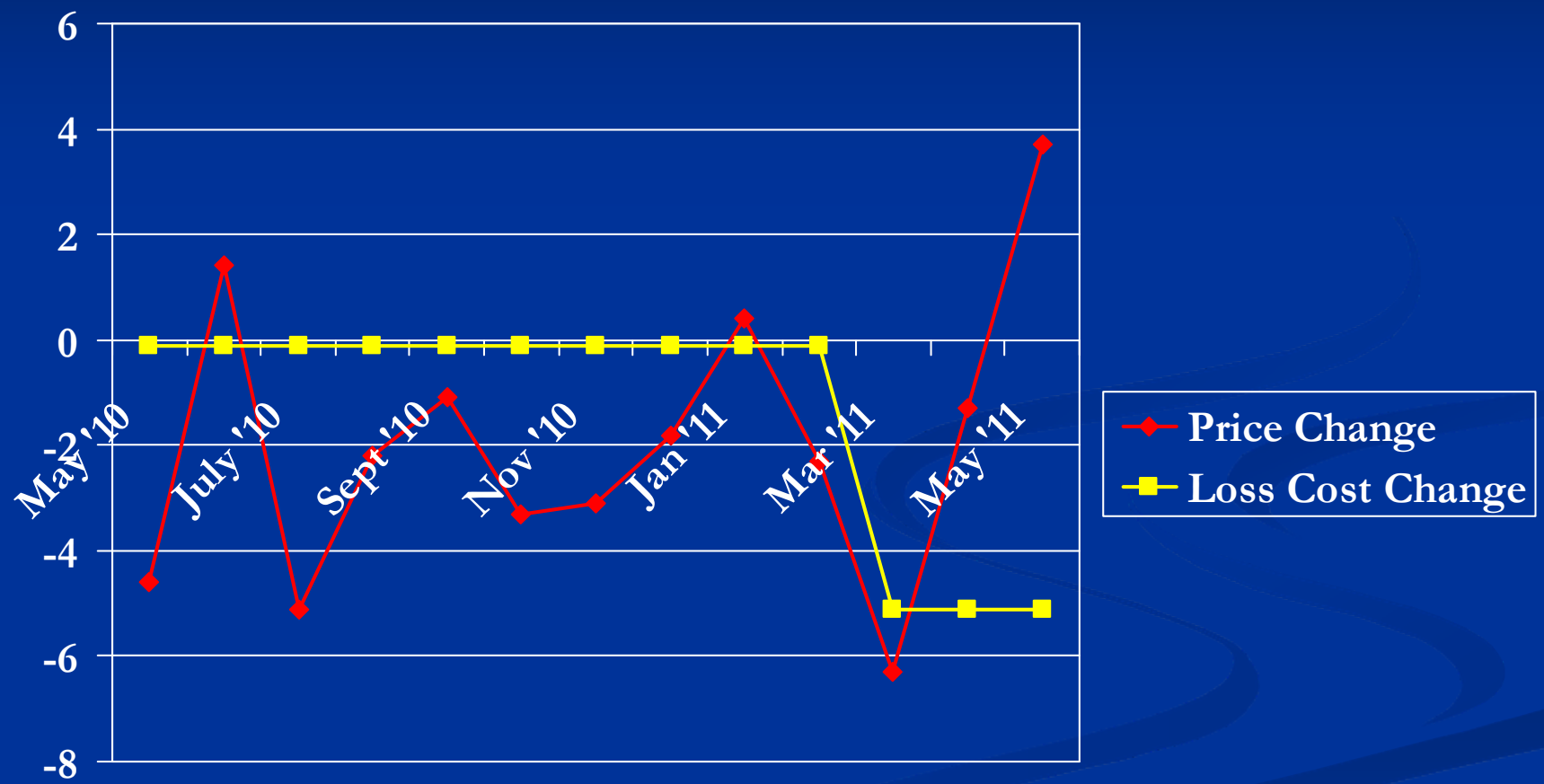
✓ 10% above 1.55 Assigned Risk LCM

A complete listing of lost cost multipliers is posted on Department's website

Loss Cost Change Pricing Element



NCCI TN Price Change Analysis



Source: NCCI; Loss cost change since one year prior

Average reported net rate change between current & prior policy periods

TN WC Premium Tax Revenues

	YE 8/31/07	YE 8/31/08	YE 8/31/09	YE 8/31/10
Self Insurance	\$10,164,858	\$9,662,965	\$8,013,028	\$6,718,164
Insurance	\$32,789,581	\$35,317,758	\$31,791,246	\$25,910,877
Total Premium Tax*	\$42,954,439	\$44,980,723	\$39,804,274	\$32,629,041

Data excludes .4% TOSHA Surcharge

Overview of Voluntary Market Conditions

- Continued profitability decline (cyclical)
- Prices continue to soften into second quarter '10
- Investment climate improved in 2010, though 2011 appears to be on a reversal
- 9 new companies filed LCM's since 7/1/10
- Reinsurance market remains soft, especially for the catastrophe layers.

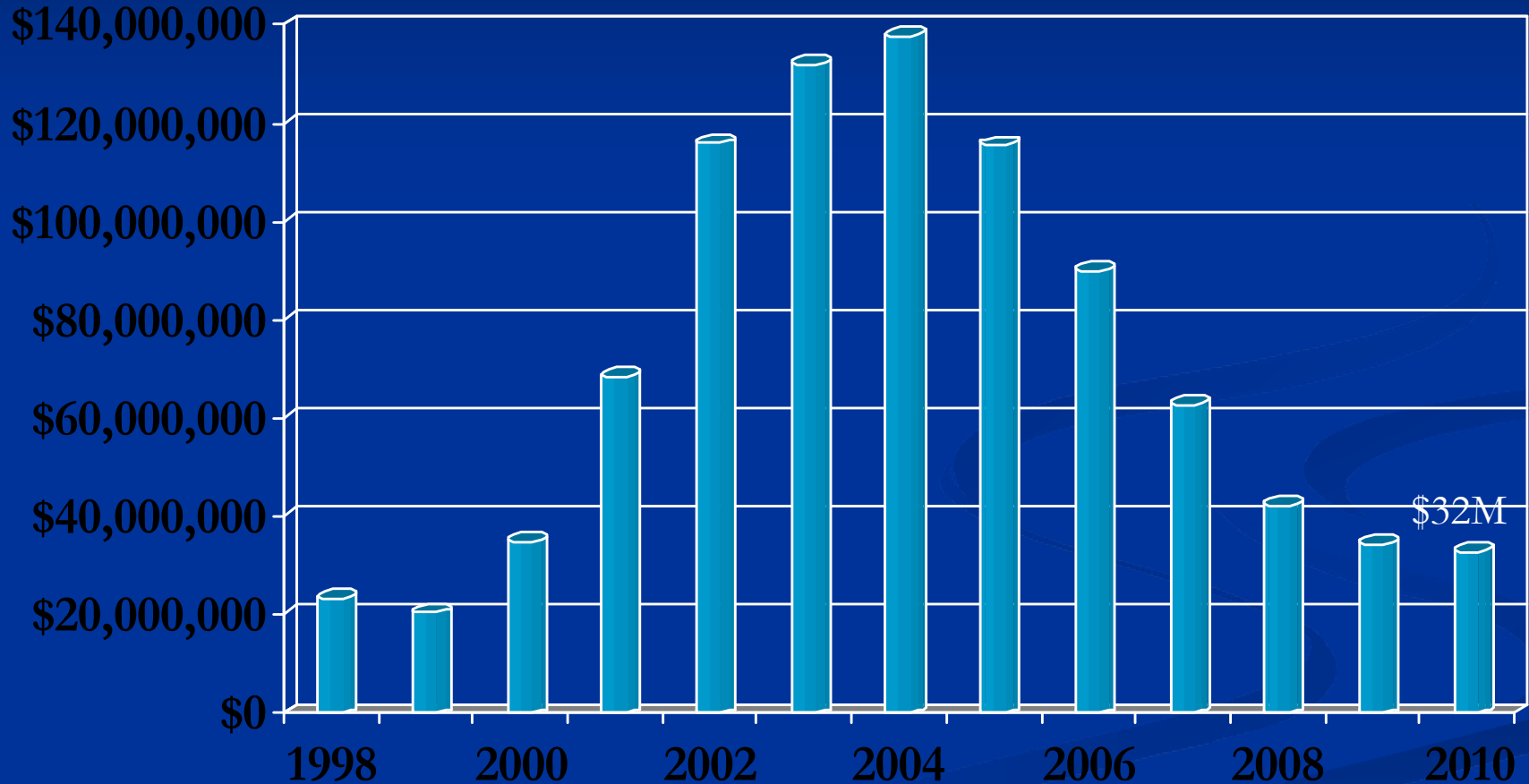
Source of Reinsurance market information: AonBenfield.

TWCIP

“The Assigned Risk Plan”

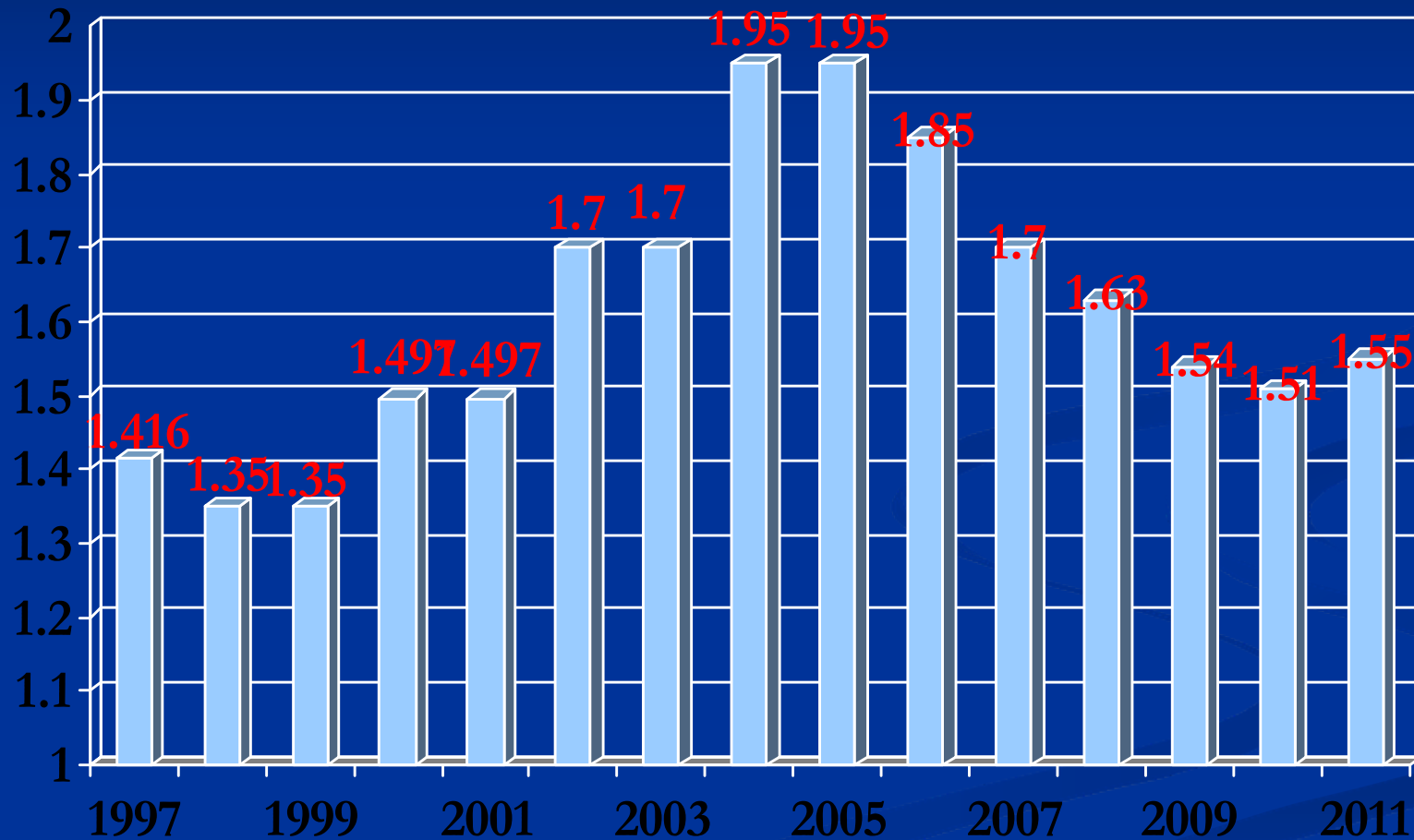


TN Assigned Risk Premium History



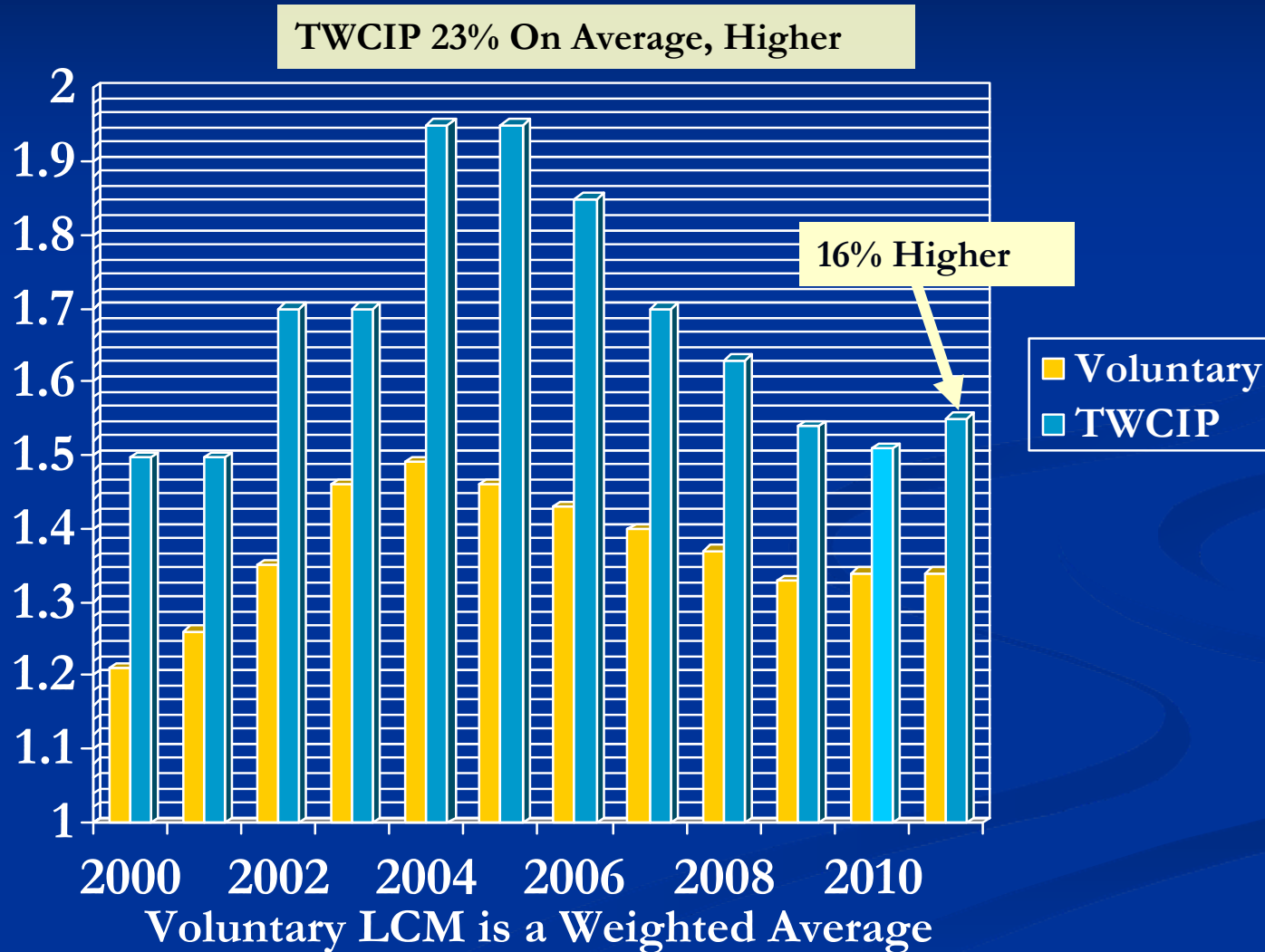
Source: Aon

TN Assigned Risk Loss Cost Multiplier History

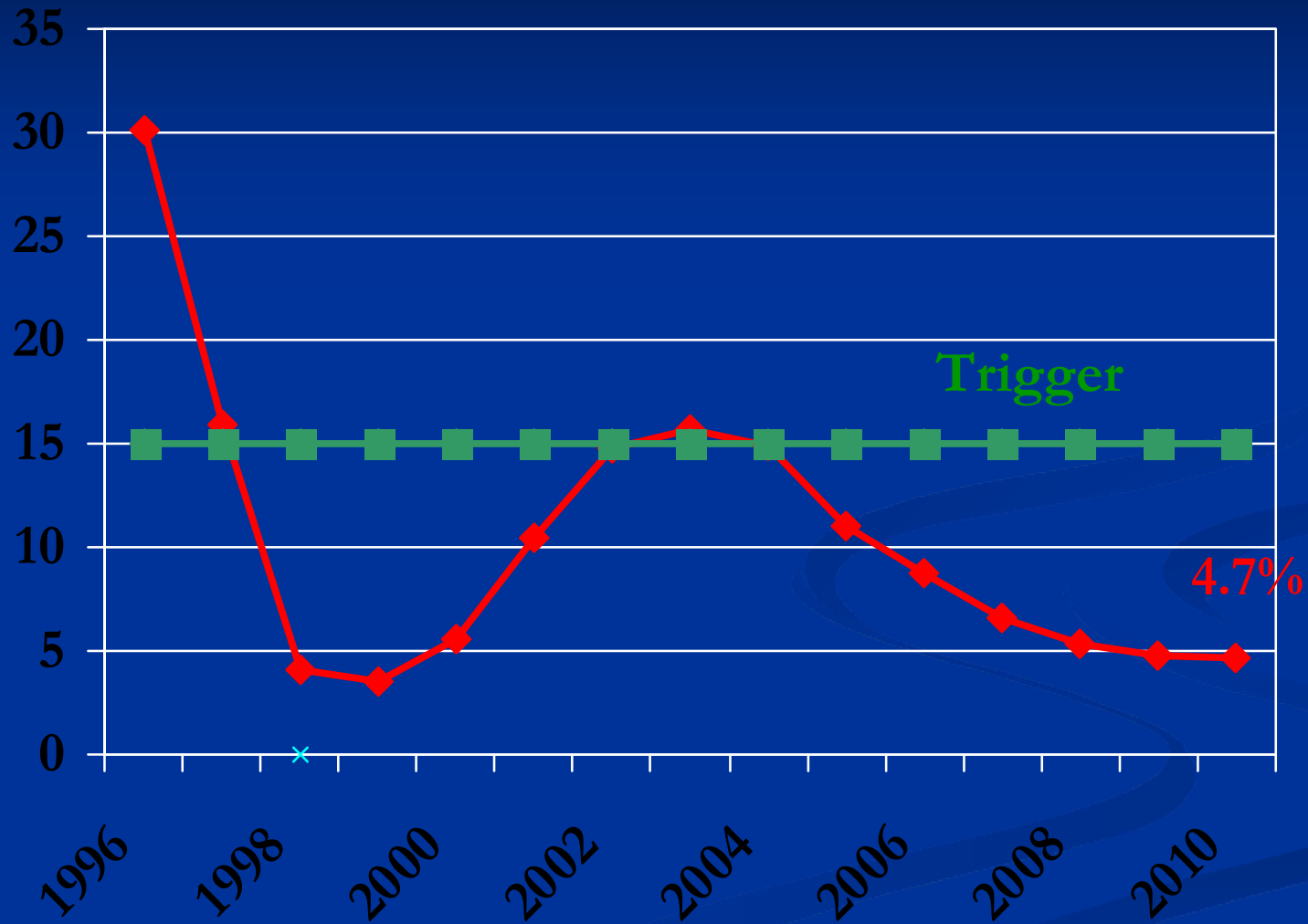


LCM History: Voluntary vs. TWCIP

2010 Was the Lowest Differential in 12 Years

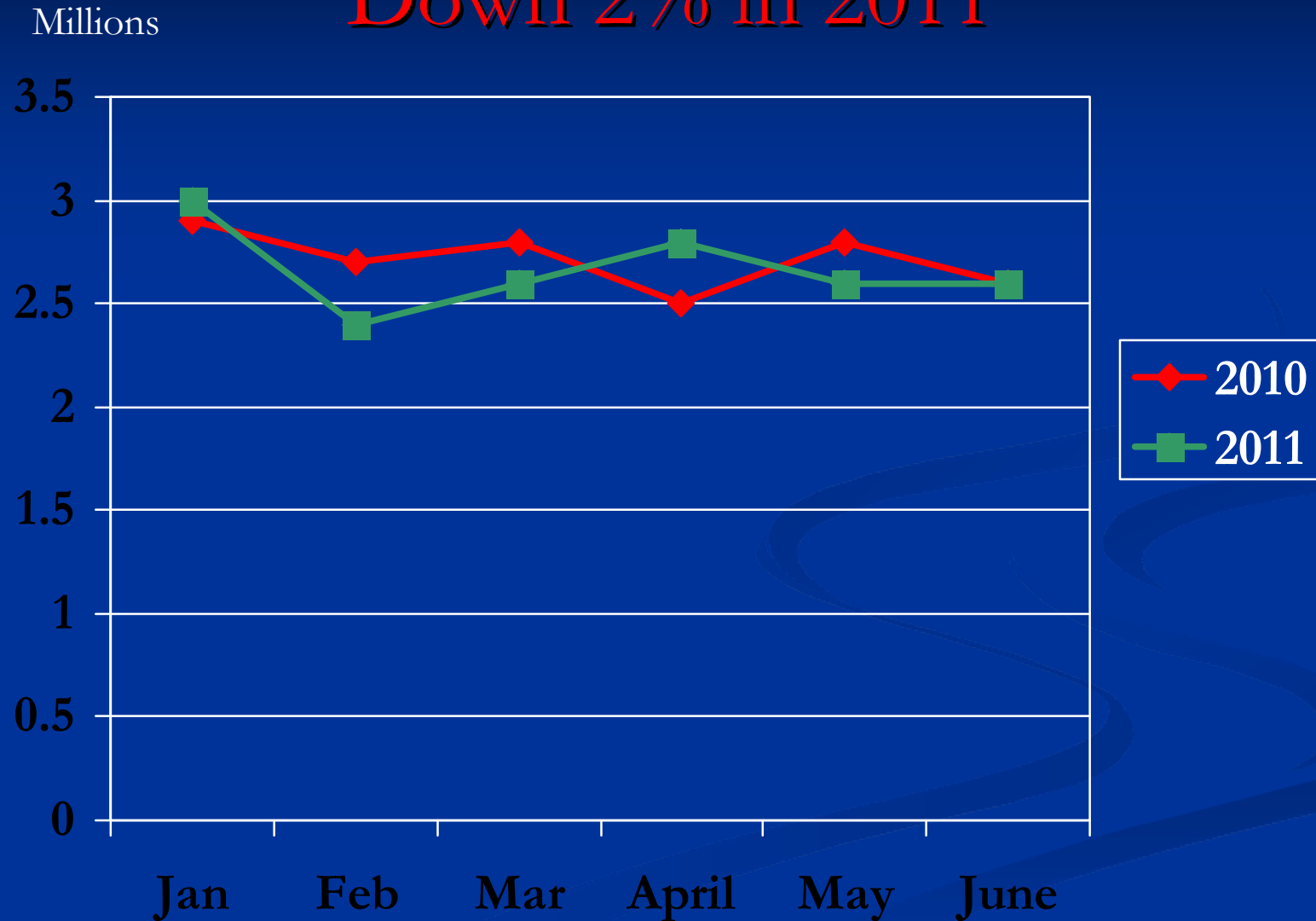


TN Assigned Risk Market Share - NAIC Direct Premium Written

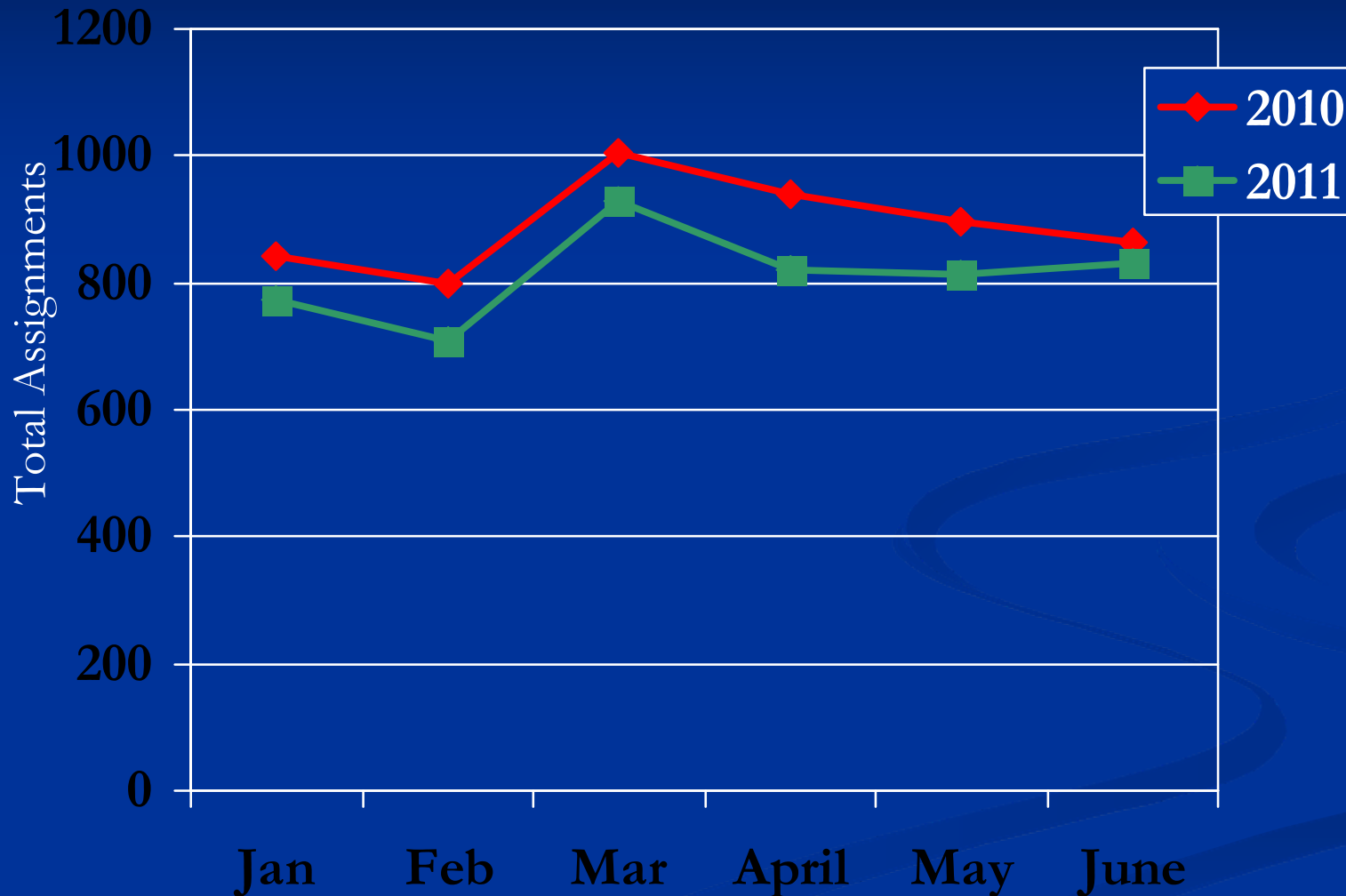


TN Assigned Risk Premium Bookings

Down 2% in 2011



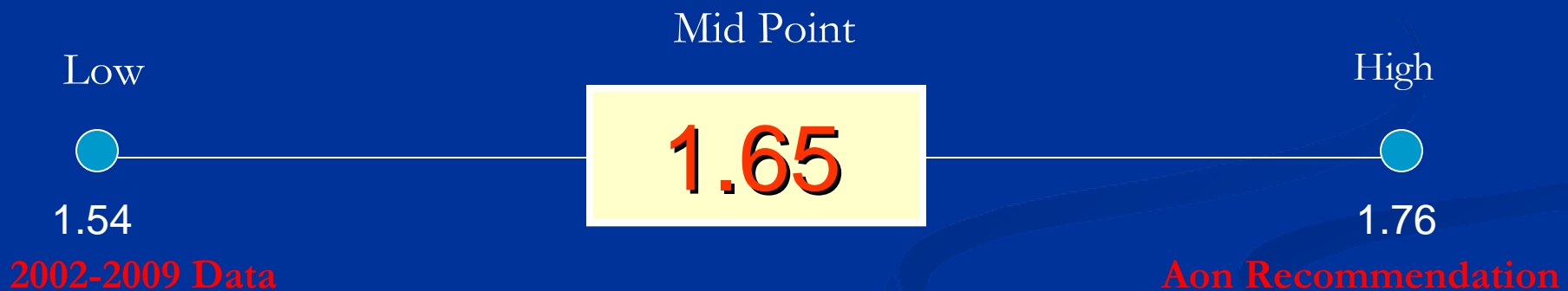
TN Assigned Risk Policy Count Down 9% in 2011



Aon's Actuarial Estimate of Break Even LCM for 3/1/2012

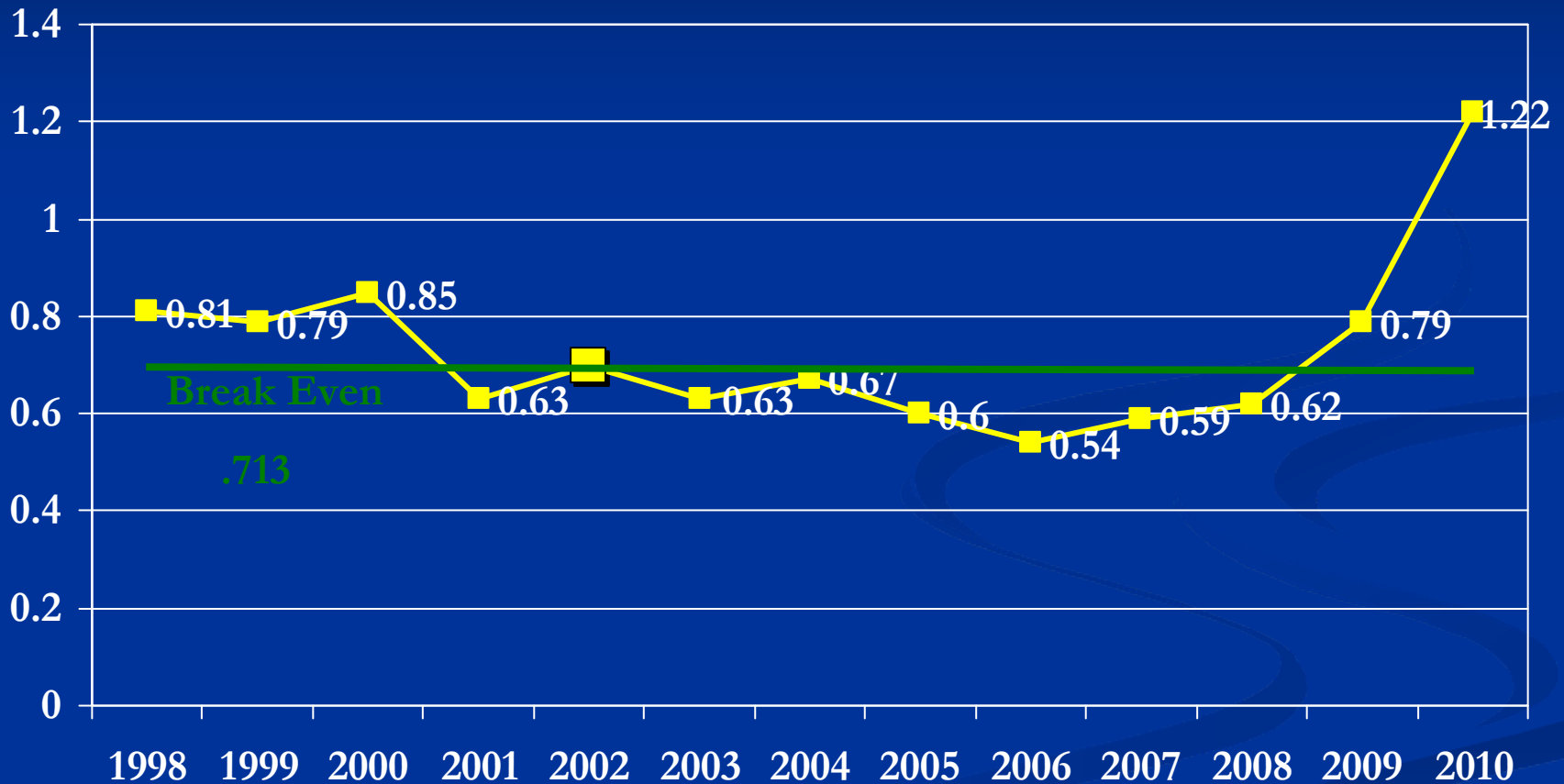
August 15, 2011 - Report Highlights

(Includes both Servicing Carrier & Direct Assignment Carriers loss data)

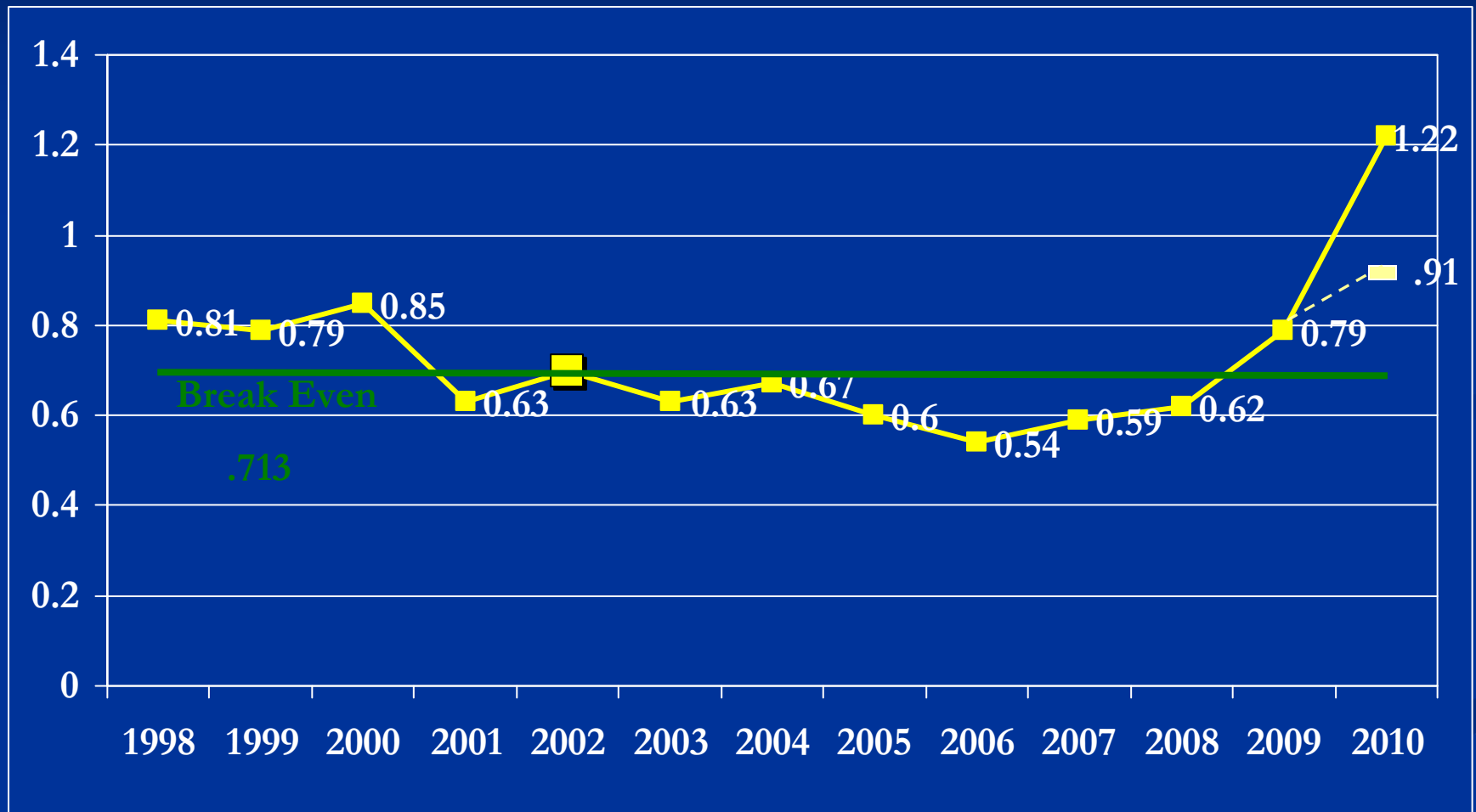


- Projected full impact of adverse development is now 14.8 percent
- Though not shown in Aon's report, the latest 2010 loss ratio for servicing carriers is 125.6%, well ahead of the pace for the early low premium years.
- Provision for uncollected premium, federal income taxes, and other expenses is up slightly to 29.5 points.

TWCIP (Servicing Carriers Only) Loss Ratio Valued 3/31/11 Leveled at 1.55 LCM



TWCIP (Servicing Carriers Only) Loss Ratio Valued 3/31/11 Leveled at 1.55 LCM



2010 impacted by one claim with an incurred amount of \$5.1M; loss ratio falls to .91 dropping this loss

2010

Self Insurance



List of Self-Insured Groups

Self-Insured Groups	Status
Associated Builders & Contractors of TN	Active
Comptrust AGC of Tennessee	Active
Home Builders Association of TN	Active
TN Automotive Association	Active
TN Forestry Association	Active
TN Health Care Association	Active
TN Road Builders Association	Not Active – Run Off
TN Association of Business Company Owners' Managed Program	Not Active – Run Off
TN Restaurant Association	Not Active
TN Trucking Association Self-Insured Group Trust	Not Active

Overview of Self-Insurance Market (2010)

- **Self-Insured Employers** – 97
- Number of employees – 238,748
- Total “Premium Equivalent” – \$168 million

- **Self-Insured Groups** – 6
- Number of employees – 33,555
- Total Premium – \$23 million

Insolvencies

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



WC Insolvency Data - Valued 6/29/11

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

Carrier (Liquidation Date)	Total # Claims	Total \$ Amount Paid Claims	Total \$ Unpaid Claims
Reliance (10/01)	1,758	35,339,185	27,157,320
Home Ins. Co. (6/03)	124	2,497,872	2,497,872
Reciprocal of America (6/03)	313	1,491,425	3,233,085
Legion & Villanova (7/03)	1,874	37,564,635	27,161,399
Casualty Reciprocal (8/04)	52	2,849,914	1,424,781
Realm National (6/05)	52	2,592,726	3,997,374
Imperial Casualty (5/10)*	124	1,079,164	2,836,124
Pegasus (8/10)*	6	93,626	1,315,755
Atlantic Mutual (4/11)*	12	3,335	1,394,030
Totals (all since 10/3/01)	4,315	83,511,882	71,017,740

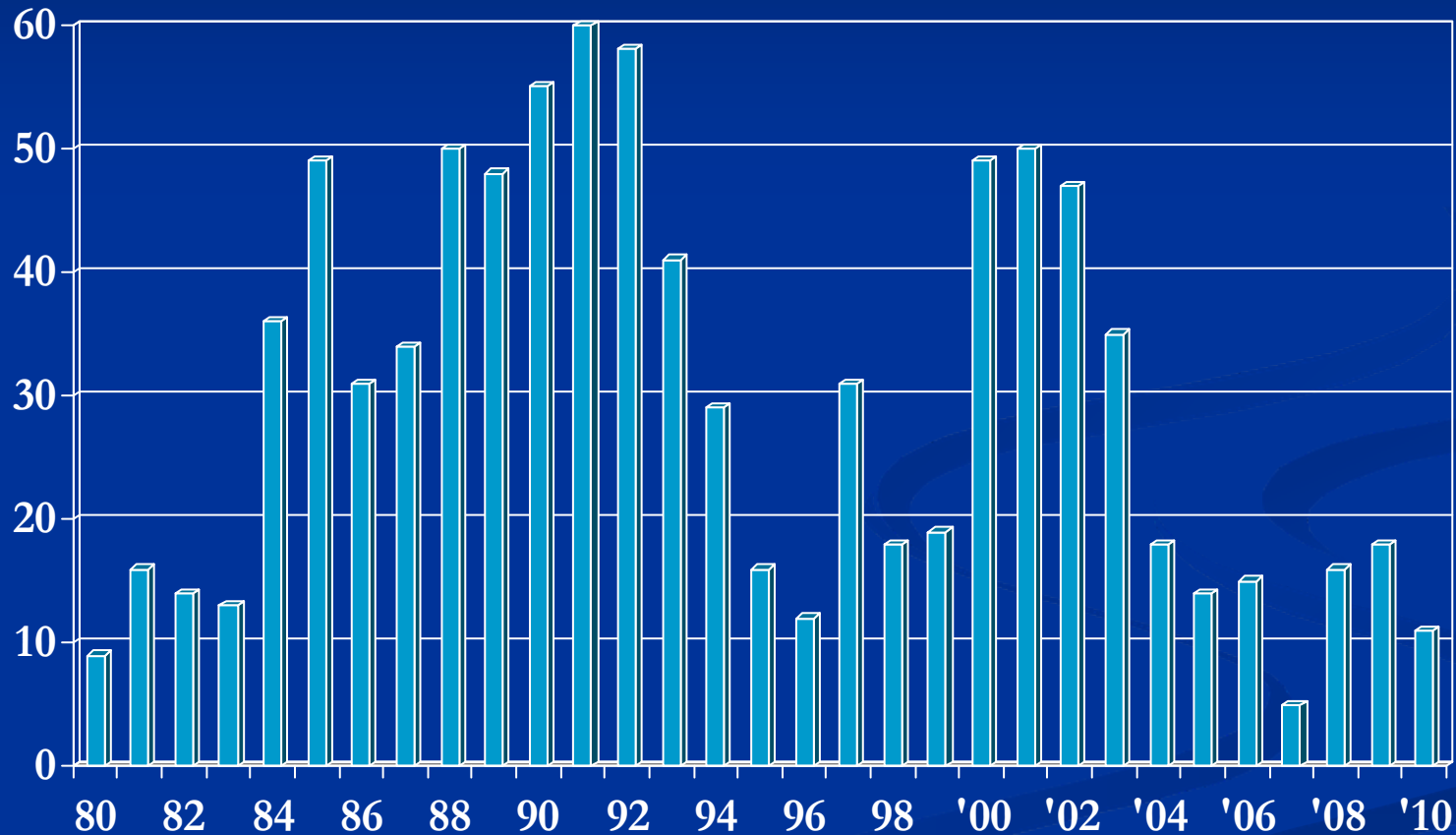
WC Insolvency Data

On the radar screen:

- **Kemper Group (IL Domestic)**
 - Agreed Orders entered by Commissioner Flowers on July 6, 2005 suspending Kemper Companies licensed in TN.
 - Premium as of December 31, 2009: \$ -2K
 - \$8.3 million in unpaid losses

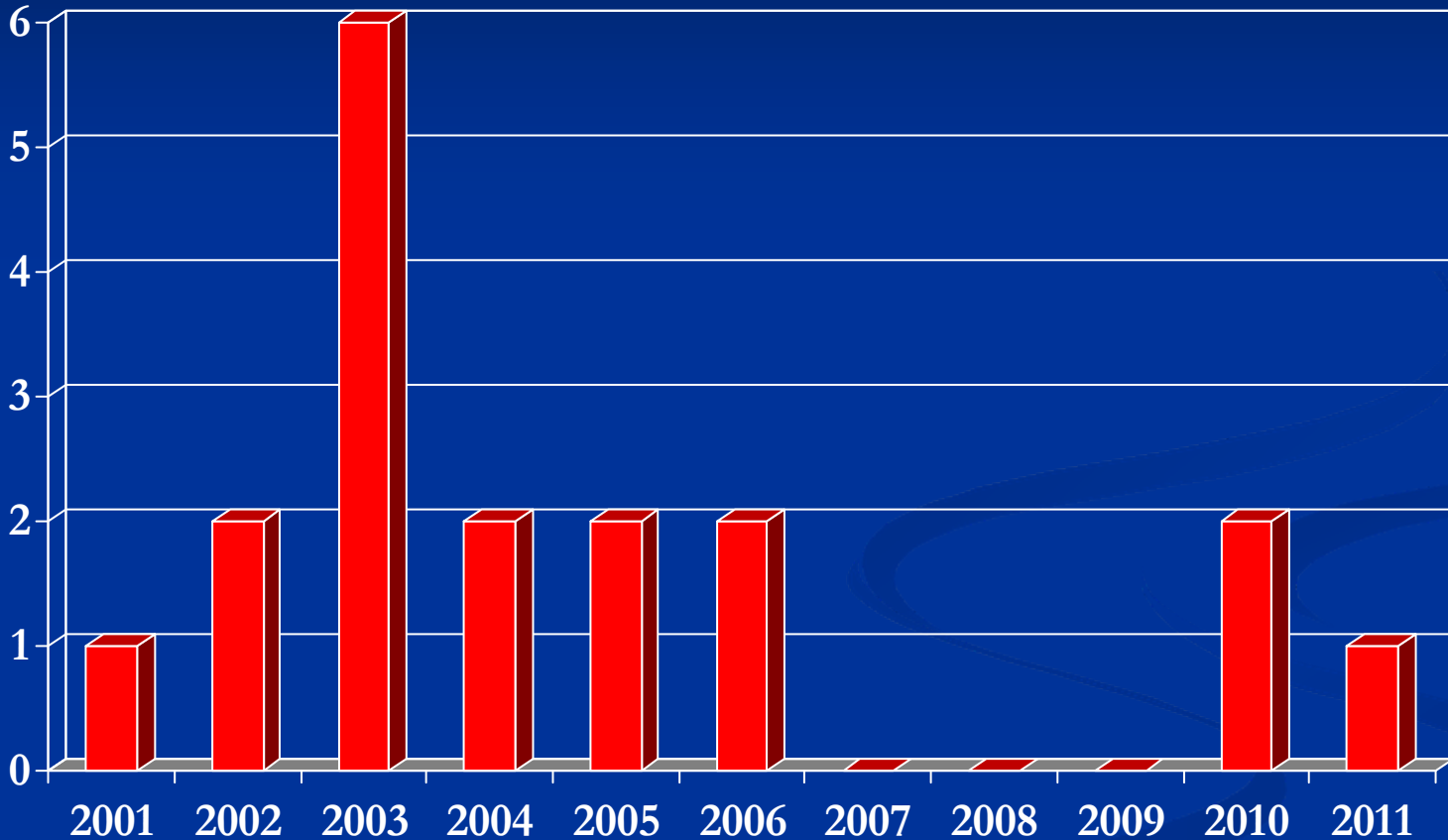
P&C Insurer Impairments: 1980-2010

The number of impairments varies significantly over the P&C insurance cycle, with peaks occurring well into hard markets



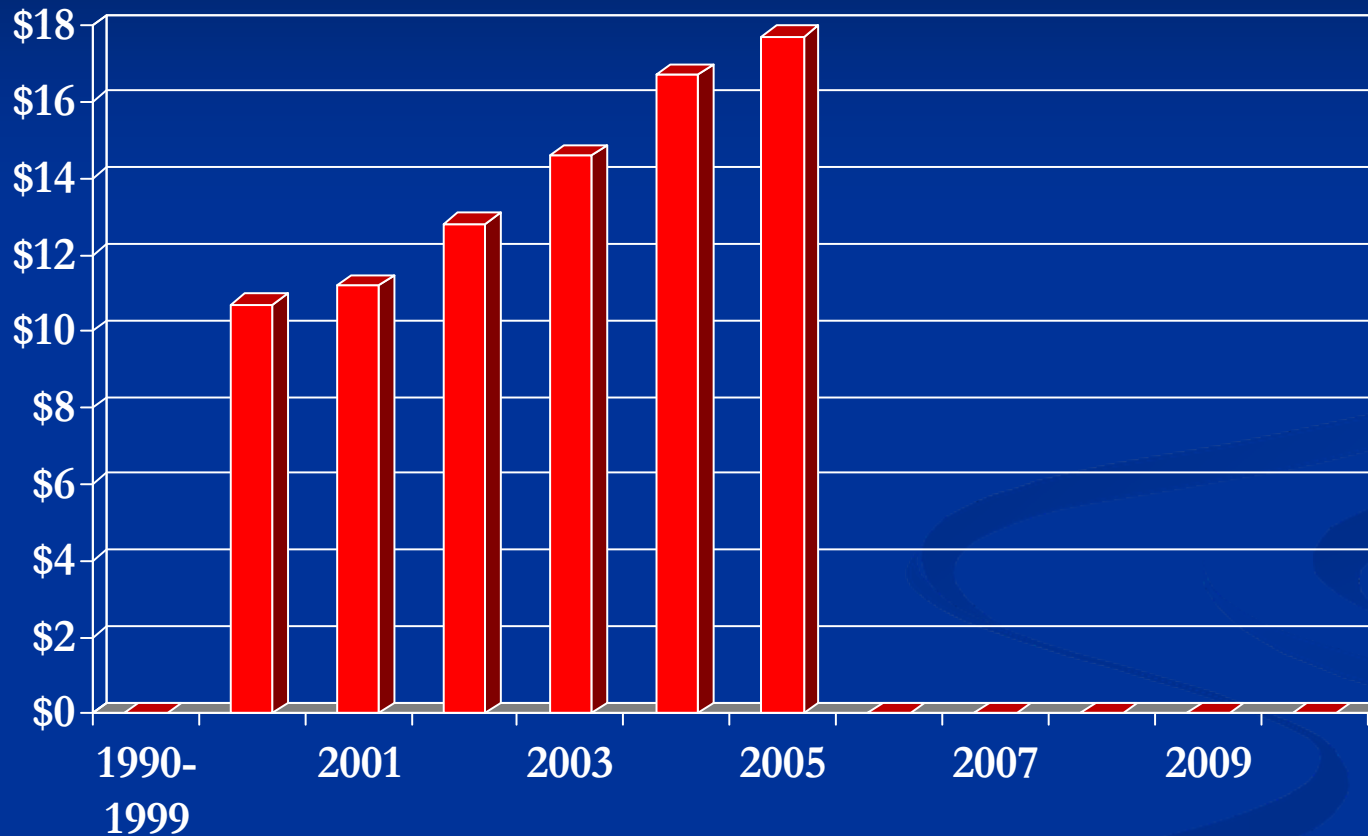
Source: A.M. Best and Insurance Information Institute; 2010 preliminary estimate

Number of WC Carrier Insolvencies Per Year Impacting TN



Source: TN Guaranty Association; 2003 Legion and Villanova are combined & shown as one

TN Guaranty Fund Assessment History (Millions)



Source: TN Guaranty Association; \$73M assessed since 2001, representing 51% of total losses (see slide 42)

TN Trucking Association Self-Insurance Group Trust

- *Court entered order declaring liquidation complete on May 24, 2011 and closed proceedings.*

TN Restaurant Association Self-Insurance Group Trust

- *Restaurant liquidator has paid all claims in full and all litigation has been settled.*
- *Final procedural administrative tasks necessary for closure of the estate are almost complete.*
- *We will file a motion asking the court for a summary order closing restaurant receivership after these tasks are complete, expected by the end of 2011.*

Overall Market Summary

POSITIVES

- National company failure rate remains moderate
- Smallest TN residual market in 11 years
- Market remains very competitive
- Improved investment returns in 2010

NEGATIVES

- 18 point TN pure underwriting loss - worst “combined ratio” in 9 years
- First frequency increase in 13 years
- NCCI describes today’s market as “deteriorating”
- Latest “Plan” results are poorer than expected

Summary: NCCI Filings Reported Quarterly

<p>Third Quarter 2010</p>	<p>No filings made</p>
<p>Fourth Quarter 2010</p>	<p>No filings made</p>
<p>First Quarter 2011</p> <p>Item 01-TN-2001</p> <p>Item RM-01-TN-2011</p> <p>Item 02-TN-2011</p> <p>Item RM-02TN-2011 B-1422</p>	<p>Implemented “gross receipts” rule to determine chargeable payroll for non-exempt commercial construction projects effective March 1, 2011</p> <p>Assigned Risk version of Item 01-TN-2001</p> <p>Revisions to B-1420 to amend premium determination for each partner and sole proprietor, basing it on the maximum payroll amount for partners and sole proprietors in the construction industry, effective March 1, 2011.</p> <p>Assigned Risk version of Item 02-TN-2011</p> <p>Revision to Miscellaneous Values payroll determination formula for Taxicab, Athletic Sports or Park (both contact and non-contact) and Carnival, Circus or Amusement Device Operator, adjusting to state average week wage instead of census factor, effective March 1, 2012.</p>
<p>Second Quarter 2011</p> <p>Item B-1423</p> <p>Item P-1409</p>	<p>Eliminated “ex-medical” coverage rules from the manuals effective March 1, 2012</p> <p>Withdrawal of “ex-medical” endorsements</p>

Overview of the Tennessee Workers' Compensation Market Conditions and Environment

Copies of Presentation:
tn.gov/commerce/insurance