



Florida 1/1/2016 Workers Compensation Rate Filing

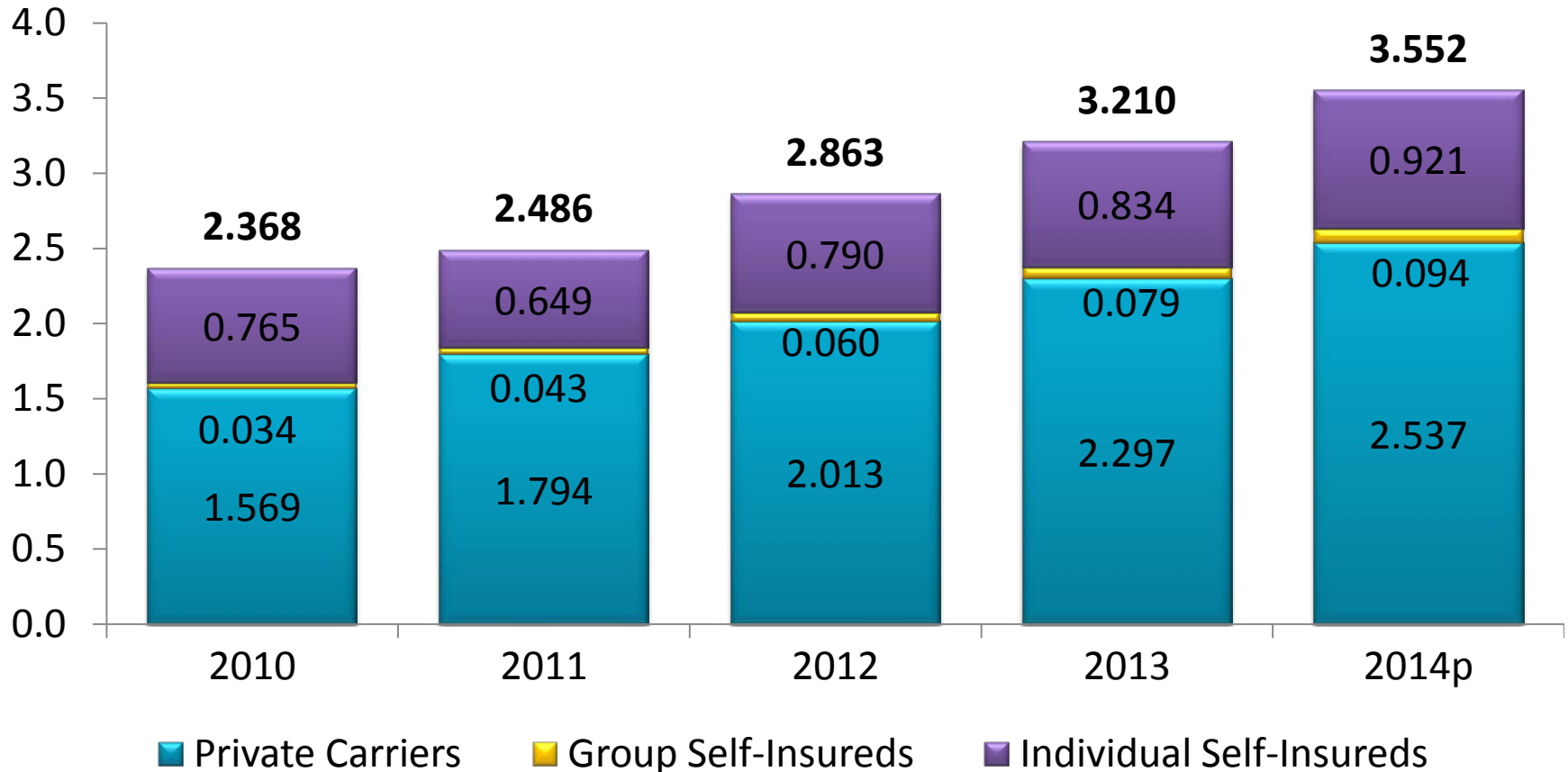
Kirt Dooley, FCAS, MAAA

October 21, 2015

Florida's Workers Compensation Premium Volume

Direct Written Premium

\$ Billions



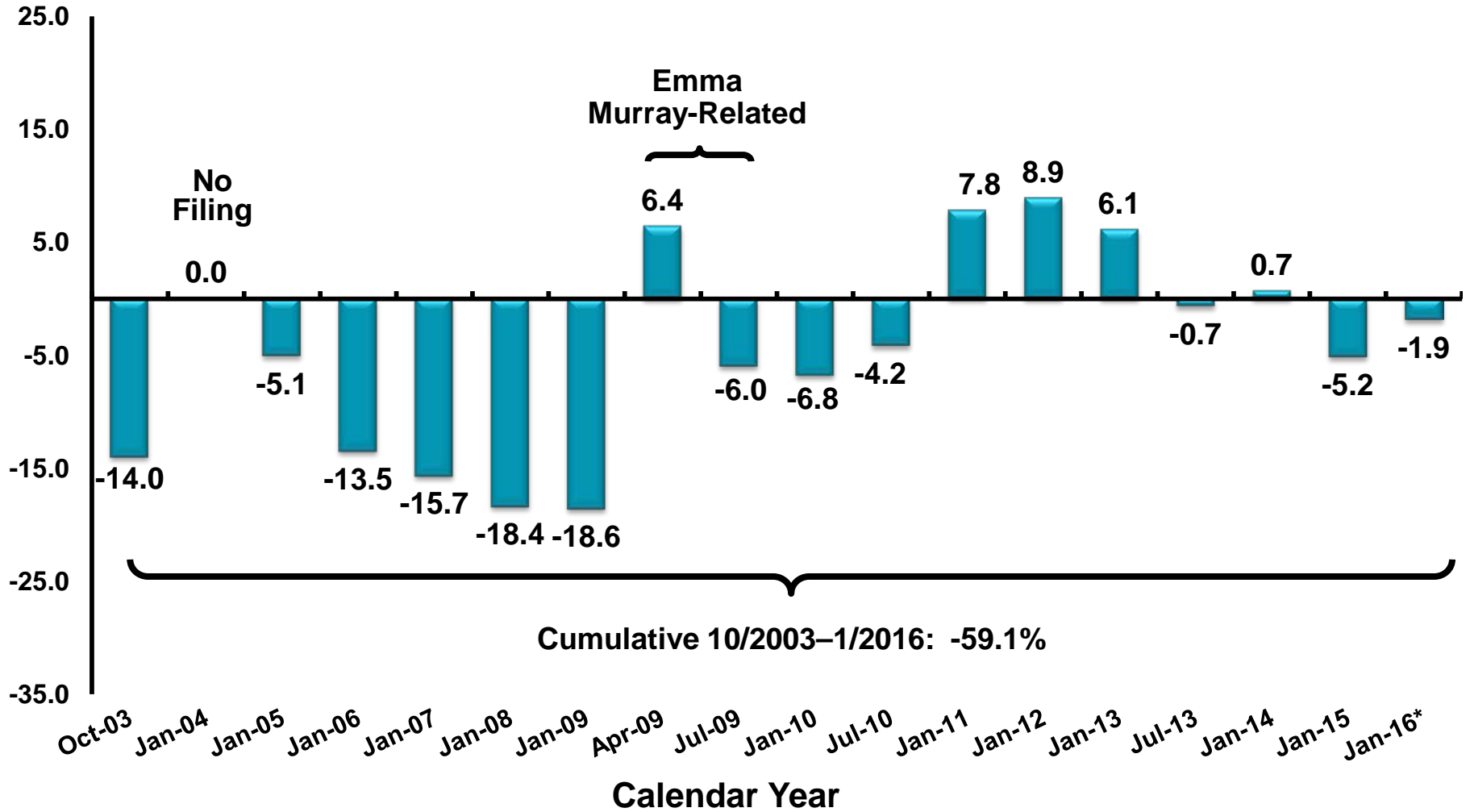
p Preliminary

Source for Private Carriers: NAIC Annual Statement data, state page, line 16-Workers Compensation



Florida's Historical Rate Changes

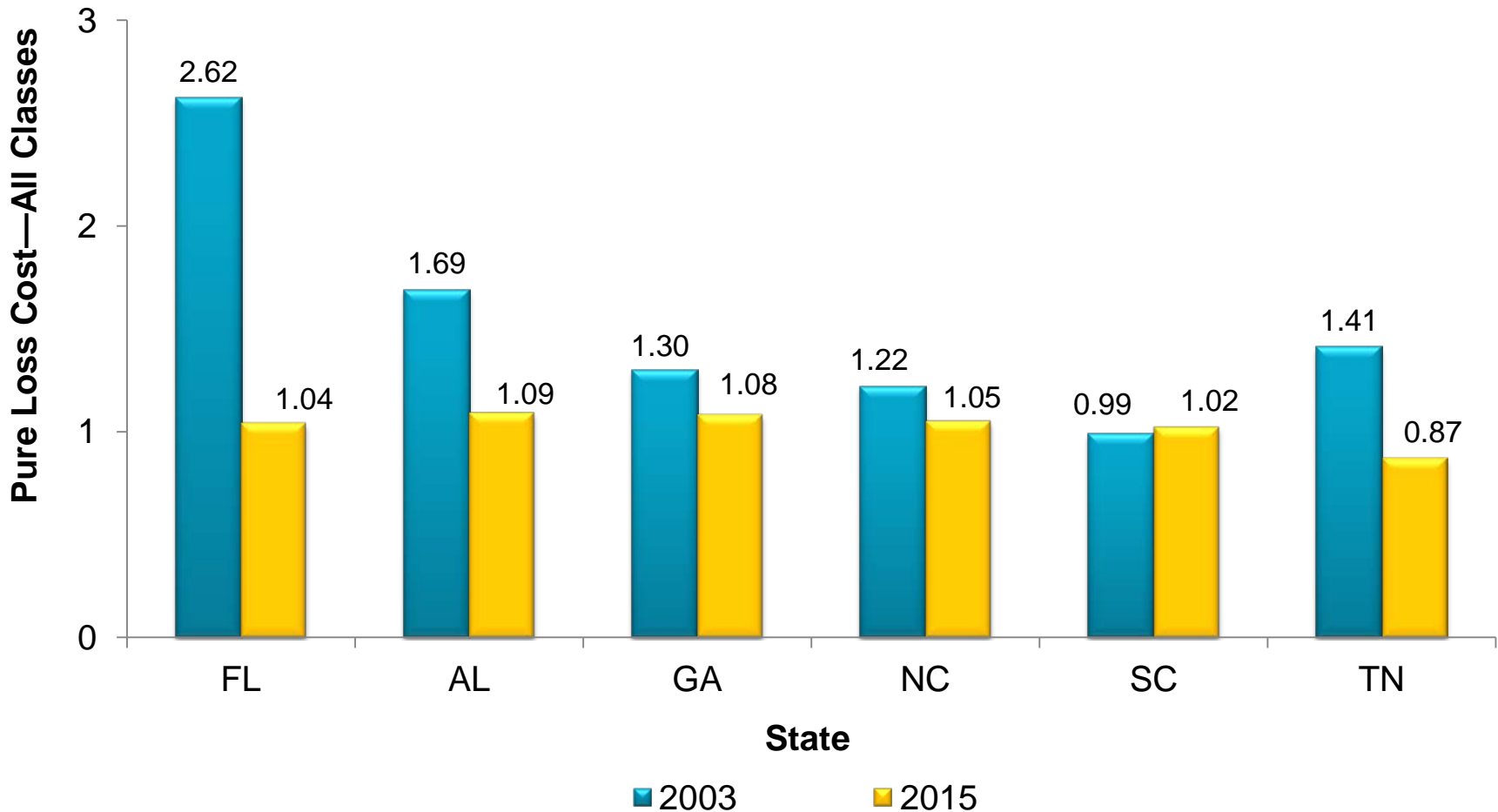
Percent



*Pending



Current Average Voluntary Pure Loss Costs Using Florida's Payroll Distribution

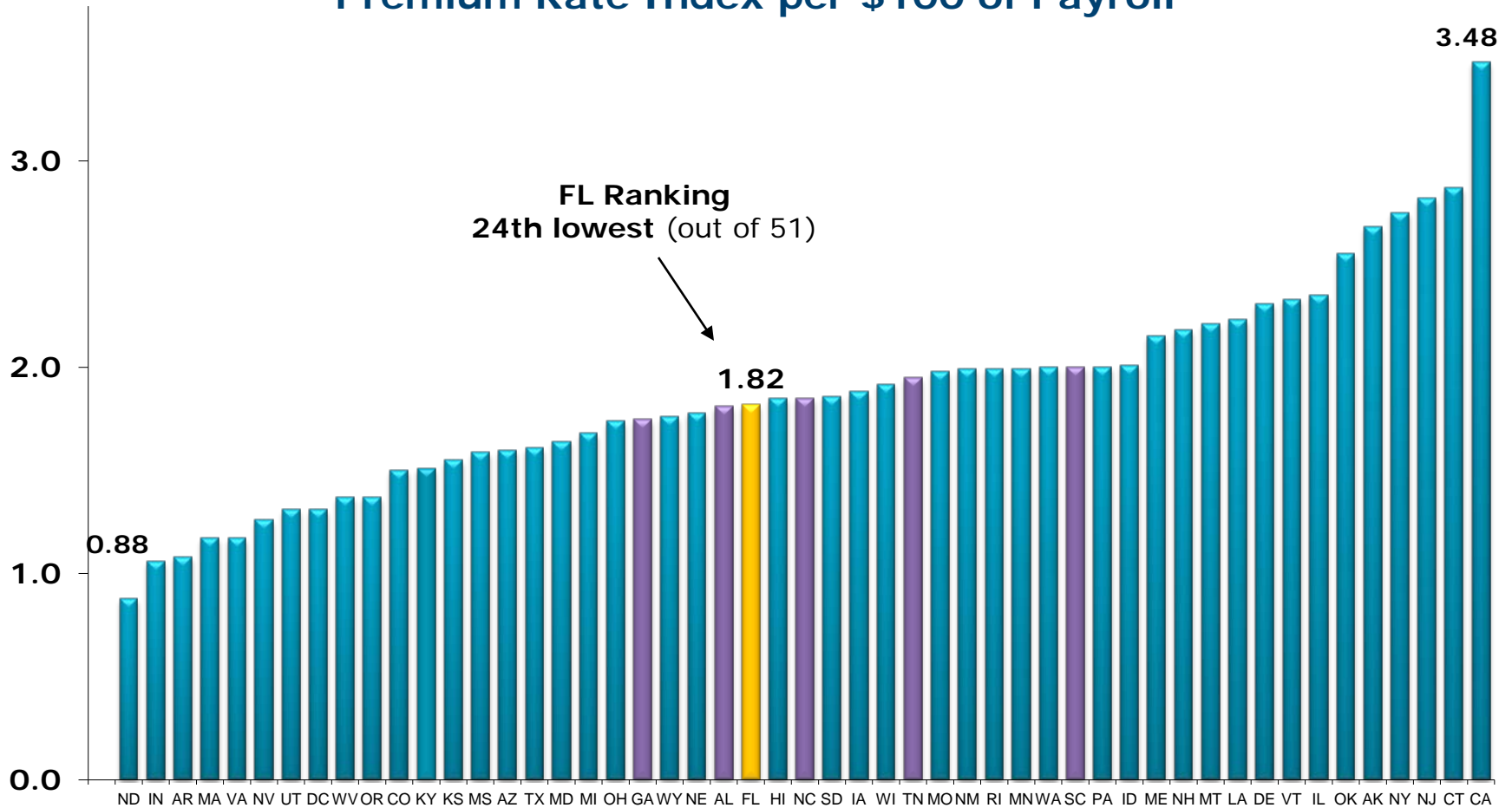


Based on the latest NCCI approved rates and loss costs in the various states



Workers Compensation Premium Rate Ranking

Premium Rate Index per \$100 of Payroll



Source: 2014 Oregon Workers' Compensation Premium Rate Ranking Summary
 Indexes based on rates in effect on January 1, 2014



Florida January 1, 2016 Workers Compensation Filing Summary of Proposed Rate Change

Component	Impact
Change in Loss Experience	-3.4%
Change in Trend	-1.2%
Change in Benefits	0.0%
Change in Production & General Expenses	+0.6%
Change in Loss Adjustment Expense	-0.3%
Change in Profit & Contingencies	+2.2%
Change in Taxes and Assessments	0.0%
Offset for the Change in Expense Constant	+0.3%
Total Average Rate Change	-1.9%



Florida January 1, 2016 Workers Compensation Filing Changes by Industry Group

	Proposed Change 1/1/2016	Cumulative Change* 10/1/2003 – 1/1/2016
Manufacturing	-4.7%	-58.6%
Contracting	+1.0%	-59.6%
Office & Clerical	-5.1%	-62.0%
Goods & Services	-1.6%	-57.5%
Miscellaneous	-1.8%	-57.2%
Overall Average	-1.9%	-59.1%

*Cumulative changes assume full approval of 1/1/2016 filing

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Experience Period

- Two policy years are again used as the experience base in this year's filing
 - This is consistent with the last four filings
- Policy year data reflects a more accurate matching of losses and premium
- Use of two calendar-accident years would have resulted in a change of -2.0%

Loss Development

- No changes to methodology
- Average of paid and paid + case loss development
 - Consistent with previous Florida filings
 - Neither method clearly superior to the other
 - Makes use of all available information
- Three-year average development factors
 - Consistent with last five Florida filings
 - Loss development factors relatively stable

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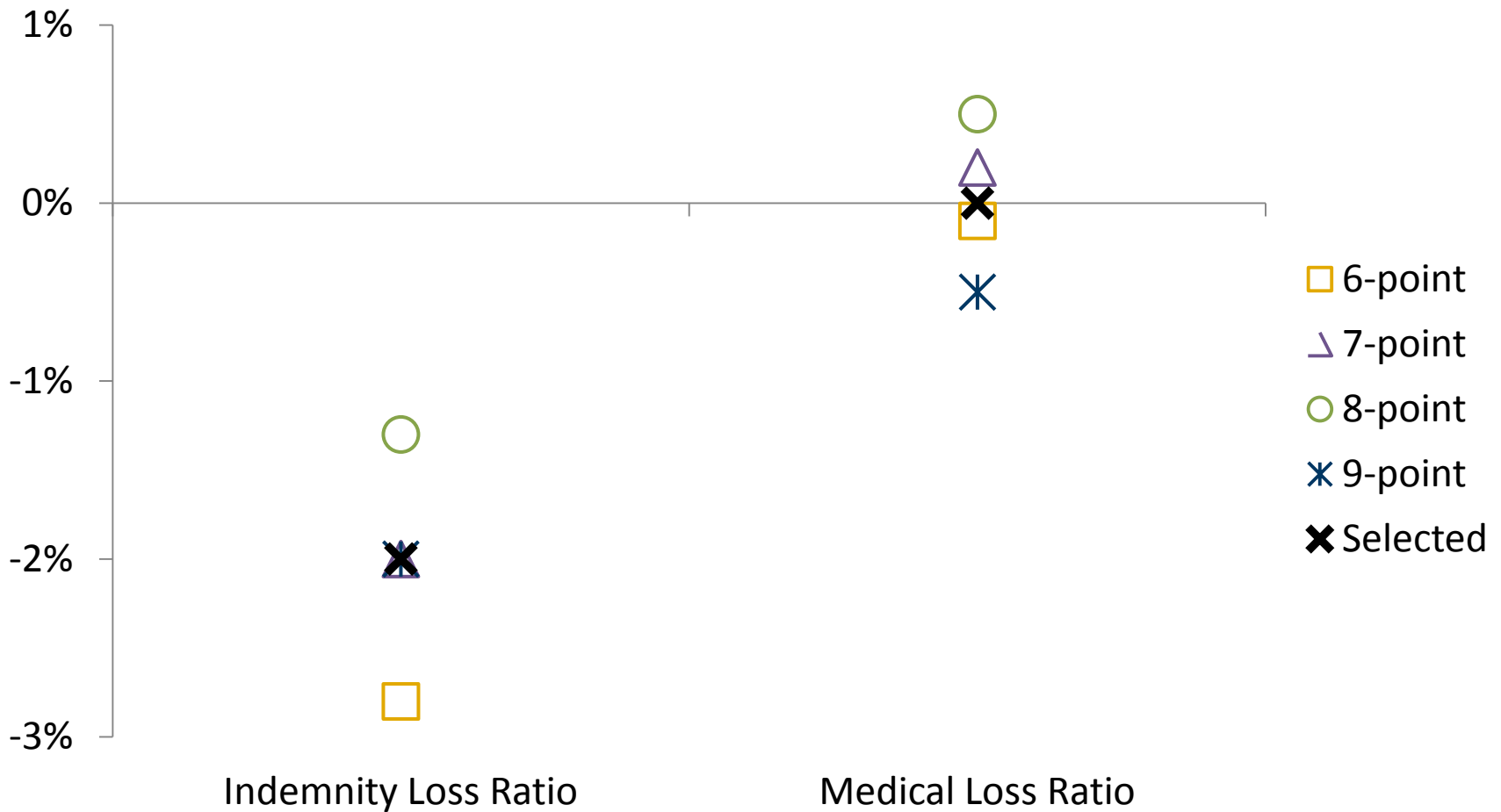


Trend Summary

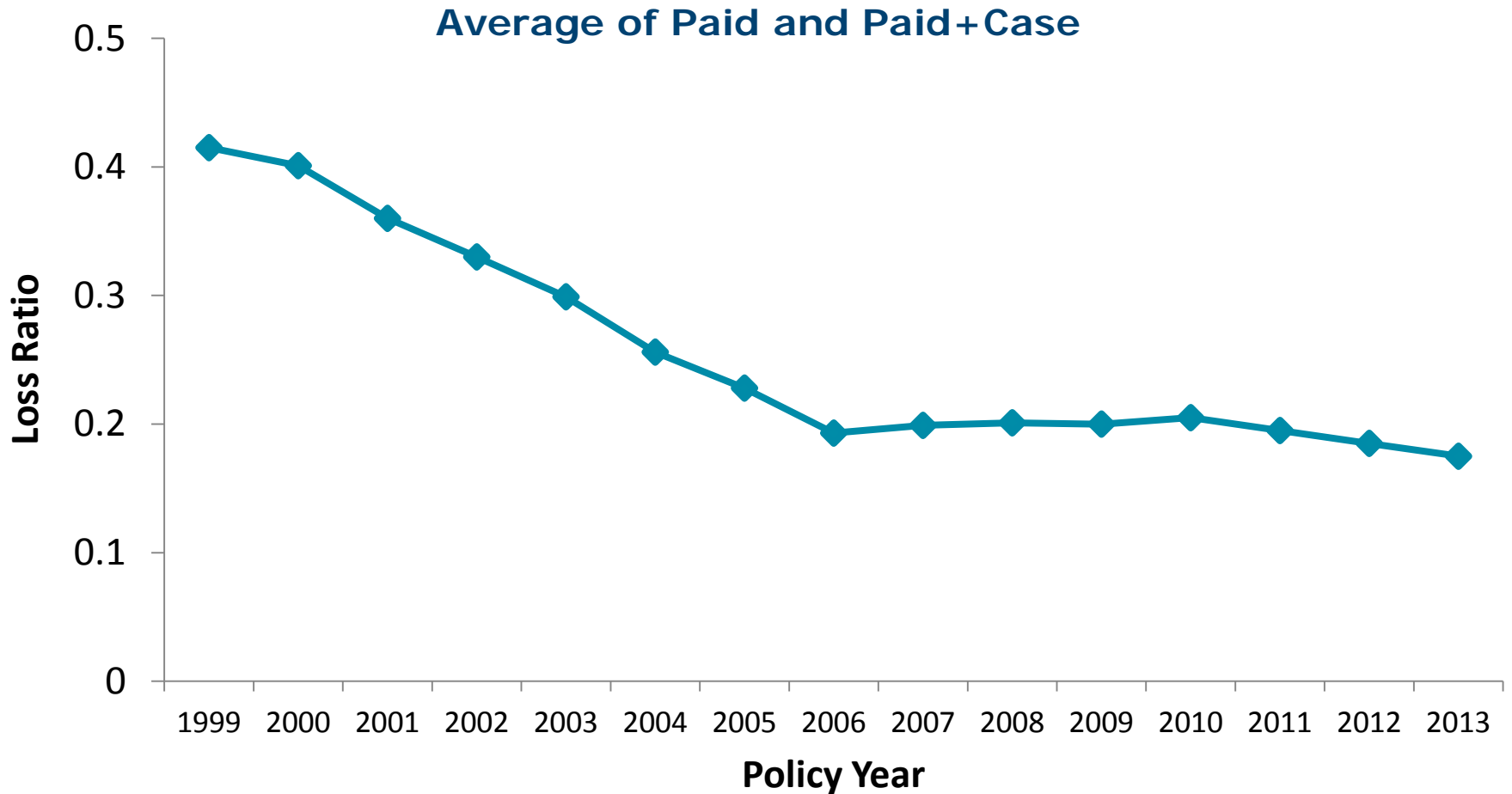
The selected trends are based, in part, on a review of observed loss ratios for policies effective after 2003.

	Indemnity Loss Ratio	Medical Loss Ratio
Exponential Trend Fits to Historical Data		
5-point (PY 2009-2013)	-3.6%	-1.3%
6-point (PY 2008-2013)	-2.8%	-0.1%
7-point (PY 2007-2013)	-2.0%	+0.2%
8-point (PY 2006-2013)	-1.3%	+0.5%
9-point (PY 2005-2013)	-2.0%	-0.5%
10-point (PY 2004-2013)	-2.8%	-1.4%
Current approved trend	-2.0%	+0.5%
Proposed trend	-2.0%	0.0%

Exponential Trend Fits



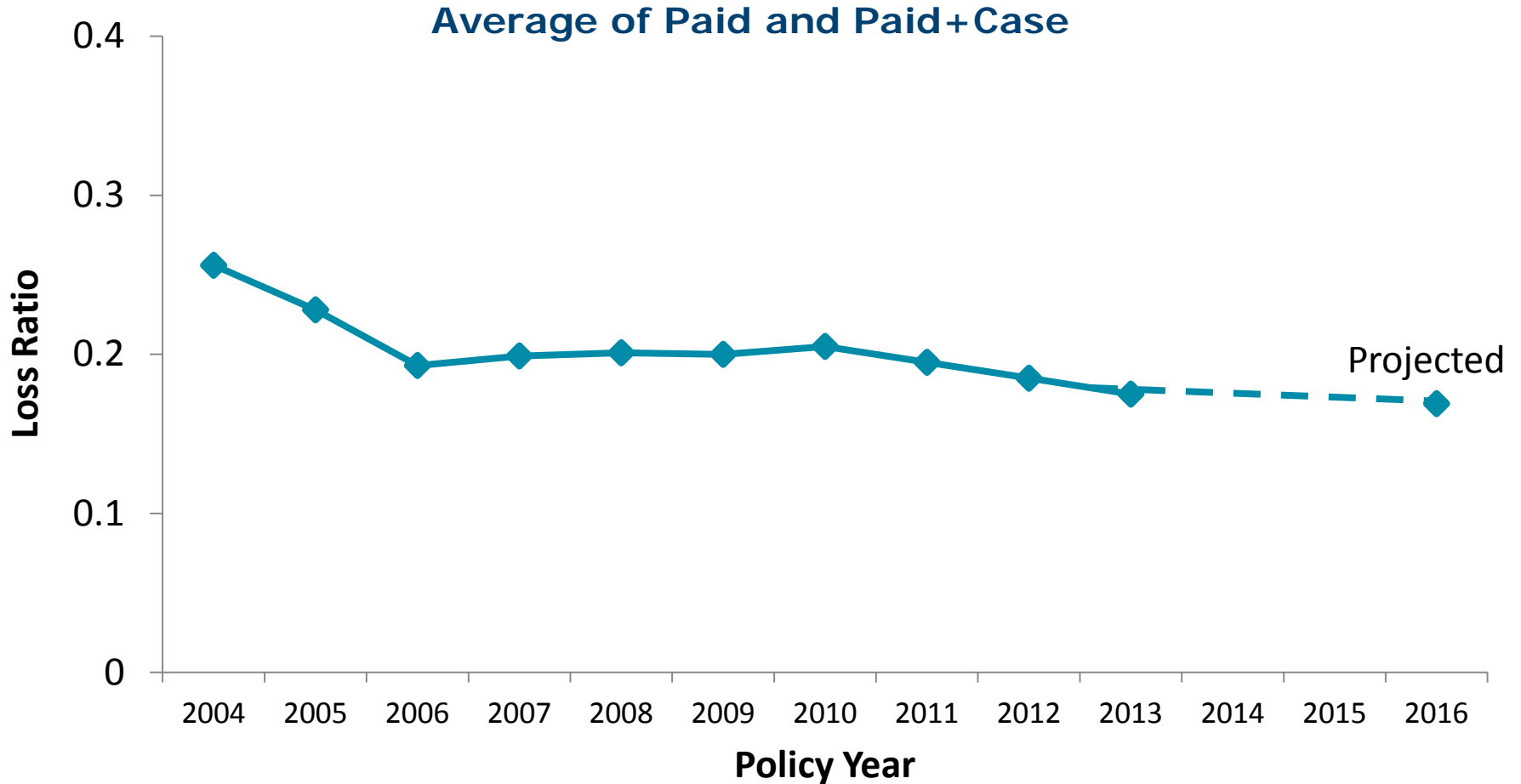
Florida's Indemnity Loss Ratio Standard Coverage



Based on NCCI's financial data developed to ultimate and adjusted to the current level.



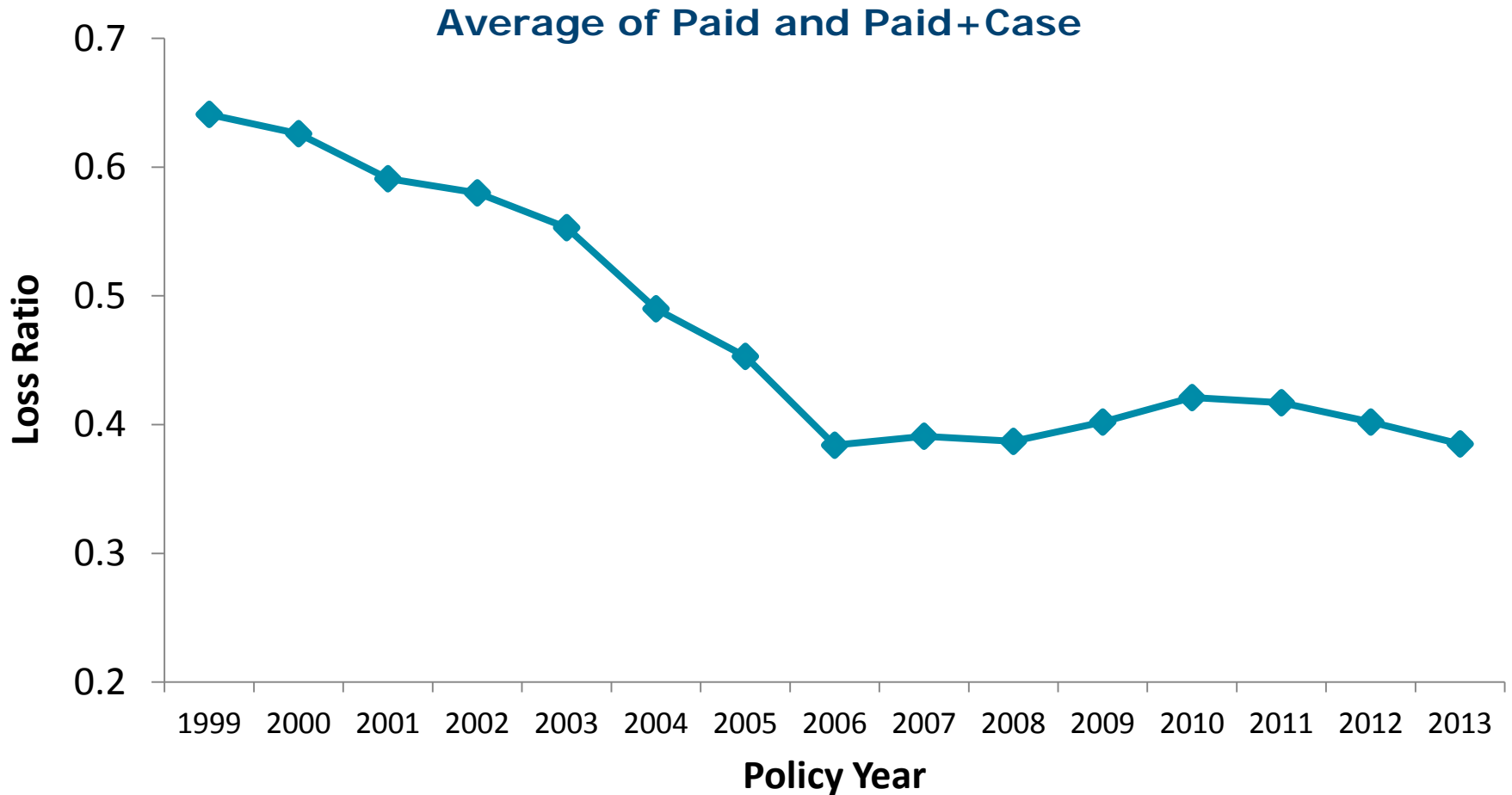
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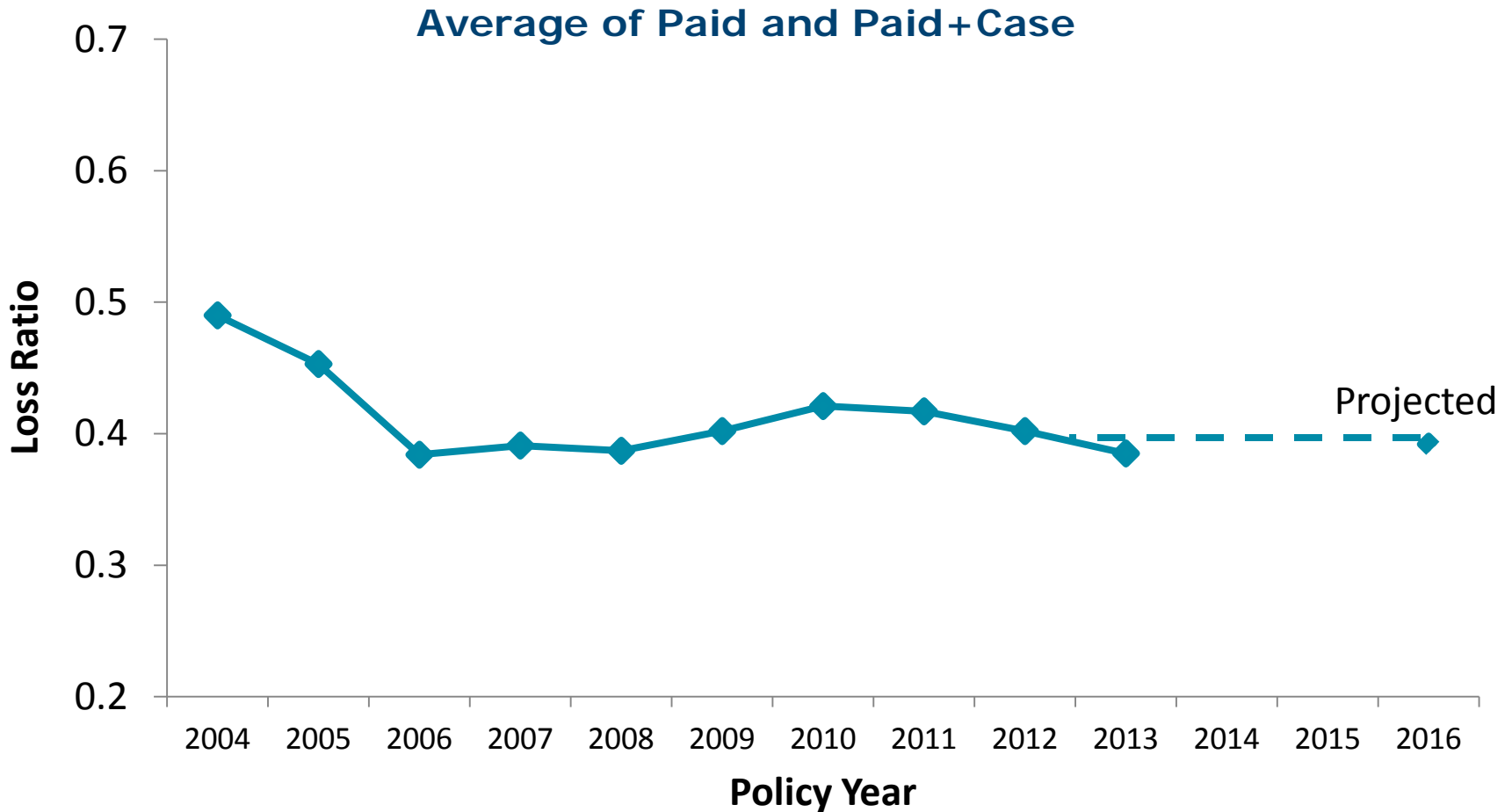


Florida's Medical Loss Ratio Standard Coverage



Based on NCCI's financial data developed to ultimate and adjusted to the current level.

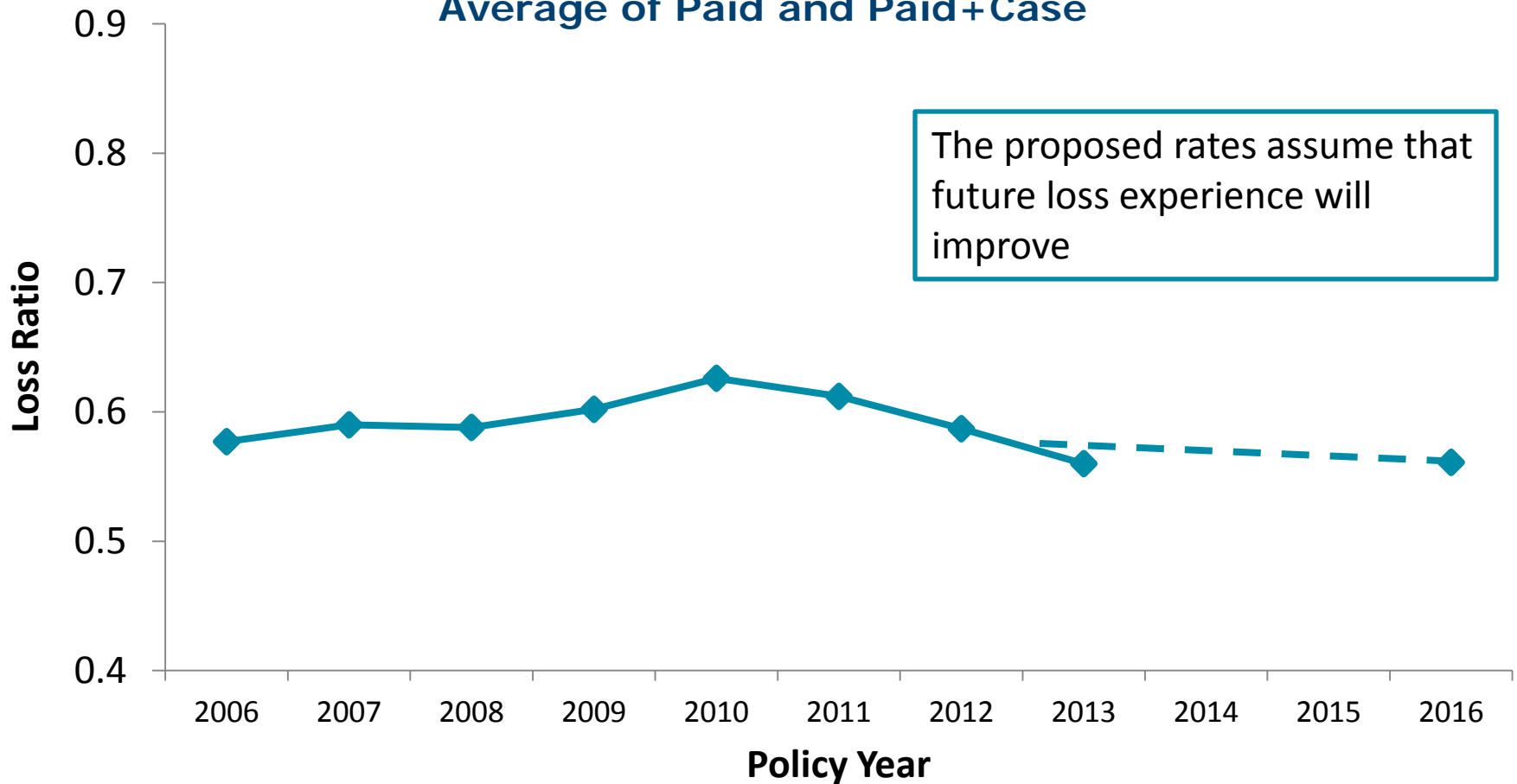
Florida's Medical Loss Ratio Standard Coverage



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Florida's Total Loss Ratio (Excl. LAE) Standard Coverage

Average of Paid and Paid+Case



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Profit & Contingencies Provision

- Unprecedented economic conditions have caused interest rates to remain near historic lows for an extended period
 - This is expected to negatively impact the insurance industry's investment income for the foreseeable future
- A higher profit & contingencies (P&C) provision is clearly justified by an internal rate of return analysis

Internal Rate of Return Model

- The internal rate of return model estimates the P&C provision necessary to generate a total rate of return commensurate with the cost of capital
- Two key inputs, the cost of capital and return on investment, rely on assumptions about future interest rates
- Model revisions provide multiple indications based on alternative sets of assumptions
 - Static: interest rates remain level
 - Dynamic: interest rates change as forecasted

Profit & Contingencies Provision

	Indicated P&C Provision
Internal Rate of Return Model Indications	
Static interest rates	4.8%
Dynamic interest rates	2.6%
Dynamic interest rates, with one-year lag	3.8%
Current approved	2.5%
Proposed	4.0%

Values do not include a provision for anticipated policyholder dividends.

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Florida January 1, 2016 Workers Compensation Filing Summary

- Over the past several years, total loss experience has been relatively stable
- A stable system still requires minor periodic adjustments to the average rate level
- Full approval is important to help maintain stable rates going forward