



LAURI GOLDMAN
SENIOR ATTORNEY

VIA ELECTRONIC TRANSMISSION

October 3, 2007

Mr. Steve Parton
General Counsel
Office of Insurance Regulation
200 East Gaines Street
Tallahassee, FL 32399-4206

RE: In the Matter of National Council on Compensation Insurance, Inc.
Case No. 91678-07-CO
Pre-filed expert testimony

Dear Mr. Parton:

On behalf of the Insurance Consumer Advocate, I respectfully submit the attached pre-filed expert testimony related to the above referenced matter. This office filed exhibits with your office and copied counsel for NCCI on Monday, October 1, 2007.

Attached is the final report authored by Mr. Stephen Alexander, actuary for the Office of the Insurance Consumer Advocate. Mr. Alexander will be present to testify at the scheduled hearing on October 8, 2007.

Sincerely,

A handwritten signature in cursive script that reads "Lauri Goldman".

cc w/ attachments: Tom Maida
Belinda Miller
Jim Watford
Steve Fredrickson

REPRESENTING ALEX SINK, CHIEF FINANCIAL OFFICER, STATE OF FLORIDA

200 EAST GAINES STREET, TALLAHASSEE, FLORIDA 32399-0308
(850)413-5926 FAX 850-487-0453

October 3, 2007

**Actuarial Analysis of
Office of Insurance Regulation
Filing Number 07-16218
Workers Compensation Insurance
National Council on Compensation Insurance, Inc.**

Office of the Consumer Advocate
State of Florida

Prepared by:
Stephen A. Alexander, FCAS, MAAA, MBA



TABLE OF CONTENTS

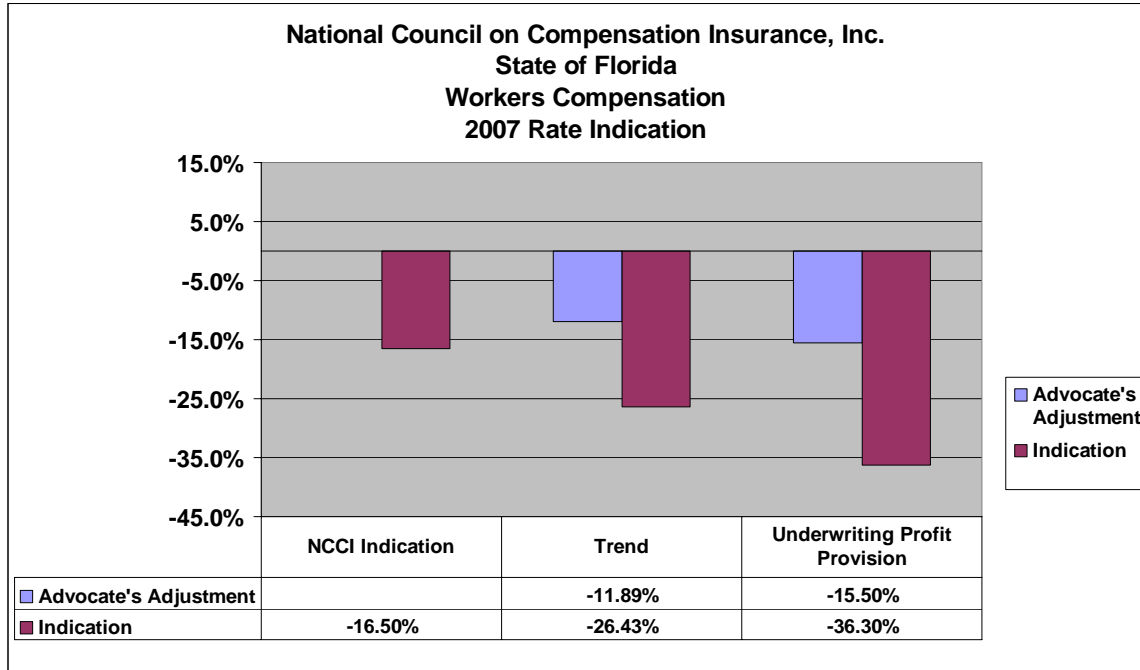
LIMITATIONS..... 3
CONCLUSION..... 4
FLORIDA WORKERS COMPENSATION MARKET 5
ANALYSIS..... 7
 Loss Trends..... 7
 Underwriting Profit Provision..... 9
AUTHORITY 15
BACKGROUND 16
EXHIBITS 17

LIMITATIONS

This examination's conclusions are developed in the accompanying text and exhibits, which together comprise the report. The conclusions in this report are related to its stated purpose only and may not be applicable for other purposes. This report should only be distributed in its entirety and should not replace the due diligence on behalf of any third party. The author reserves the right to make or approve any changes to this report. Judgments as to the conclusions, indications, methods, and data contained in this report should be made only after studying the report in its entirety. The author is available to explain any matter presented herein, and it is assumed that the user of the report will seek such explanation as to any matter in question.

CONCLUSION

The following chart summarizes the adjustments made to NCCI’s average rate indication using the NCCI methodology:



Two issues have been identified: 1) loss trends, and 2) underwriting profit provision. Additional issues may be identified pursuant to public hearings and requests for additional information.

The Consumer Advocate’s selected indemnity and medical trends should be adopted because: 1) they are fully supported by Florida experience, 2) if any member or subscriber to the NCCI believes the approved rates are inadequate, such member or subscriber may file for a deviation pursuant to Section 627.211 F.S. or alternatively file its own rating plan pursuant to Section 627.091 F.S.

FLORIDA WORKERS COMPENSATION MARKET

Writing workers compensation insurance in Florida has become a low risk, highly profitable business that does not require large amounts of capital to cushion against potential unexpected claims or expenses. That the Florida workers compensation insurance business has been highly profitable is evident in the high levels of investment income, declining loss ratios, declining policyholder dividend ratios and the increasing number of insurers entering the business in the state. Claims results from year to year are highly predictable based on historical performance over the last several years and are improving with no reversal on the horizon.

The Florida workers compensation insurance industry in 2006 returned 51.5% of premiums to Florida employers and employees in loss payments (44.1% of premiums), dividends (2.9% of premiums) or contributions to the Special Disability Trust Fund (4.5% of premiums). It should be noted that the highly competitive group health insurance business in the state of Florida in 2006 returned an average of 81.1% of premiums in claims payments (source: National Association of Insurance Commissioners (NAIC), Exhibit 12), and since workers compensation is a combination of medical insurance and disability insurance, it would be logical to expect a similar rate of return of claims payments from workers compensation insurers. Furthermore, it should be noted that workers compensation insurers earn significant amounts of investment income averaging between 10% and 15% of premiums because of the long delays in paying some workers compensation claims.

According to the NAIC, Florida workers compensation loss ratios have declined from 64.6% in 1999 to 44.1% in 2006, while over the same time period policyholder dividend ratios have also declined from 6.6% to 2.9%. According to the Office of Insurance Regulation report “2006 Workers Compensation Annual Report” dated January of 2007, the number of insurers writing workers compensation business in the state of Florida has increased from 237 in 2003 to 245 in 2005 after the reforms of 2003. Here again the contrast with group health insurance is stark, only 20 companies write \$9.9 billion in group health premiums in Florida while the 245 workers compensation writers only write \$3.7 billion.

Florida is a “rate” state for which the NCCI files rates instead of loss costs. There are only a few states left in the United States that continue to use this type of legacy system. In most states today the NCCI files loss costs and private carriers file loss cost multipliers to add their estimated expenses and profit. Furthermore, in many states most large workers compensation insurers individually file their own rating plans, an option that is available in Florida, but is seldom used.

It is noteworthy that the declining workers compensation loss ratios in the state of Florida have not stimulated significant deviations from the NCCI filed rate levels. To quote the above cited OIR report “the use of rate deviations has ceased to be a meaningful factor in the workers compensation marketplace in Florida” (page 33).

Therefore, given the current regulatory scheme, it is recommended that the OIR pursue a strategy of pushing NCCI filed rates down to a level that encourages more insurers to file their own rating plans or begin to file more upward deviations from the NCCI filed rates. Ideally, the NCCI rates should be viewed as a benchmark from which insurers deviate both up and down based upon their own assessments of expenses and profit. Based on the highly profitable recent workers compensation results in the state of Florida, it is time to pursue a more aggressive workers compensation rate reduction strategy.

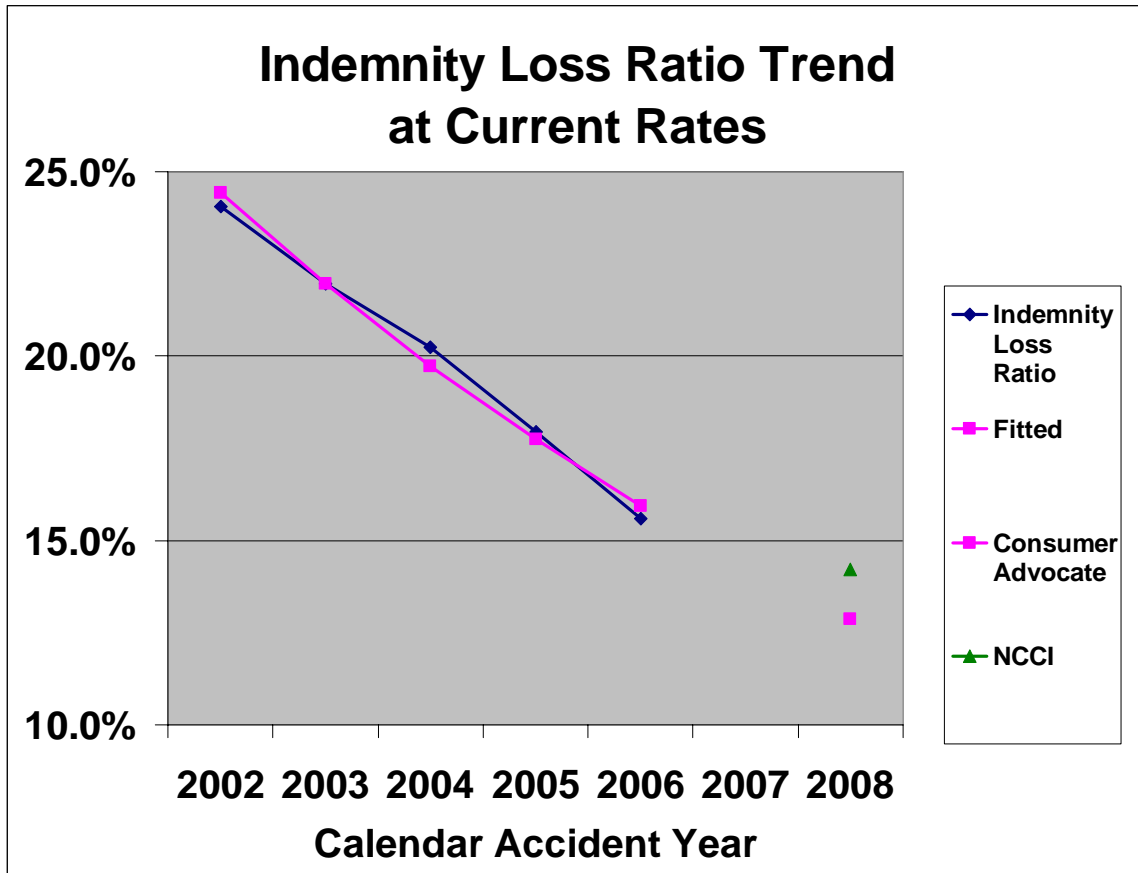
Although not within the scope of the subject hearing, it is believed that policy makers should consider options to increase rate competition in workers compensation insurance. One such recommended option is the adoption of a loss cost system and the adoption of appropriate incentives to encourage insurers to file their own rating plans independent of the NCCI.

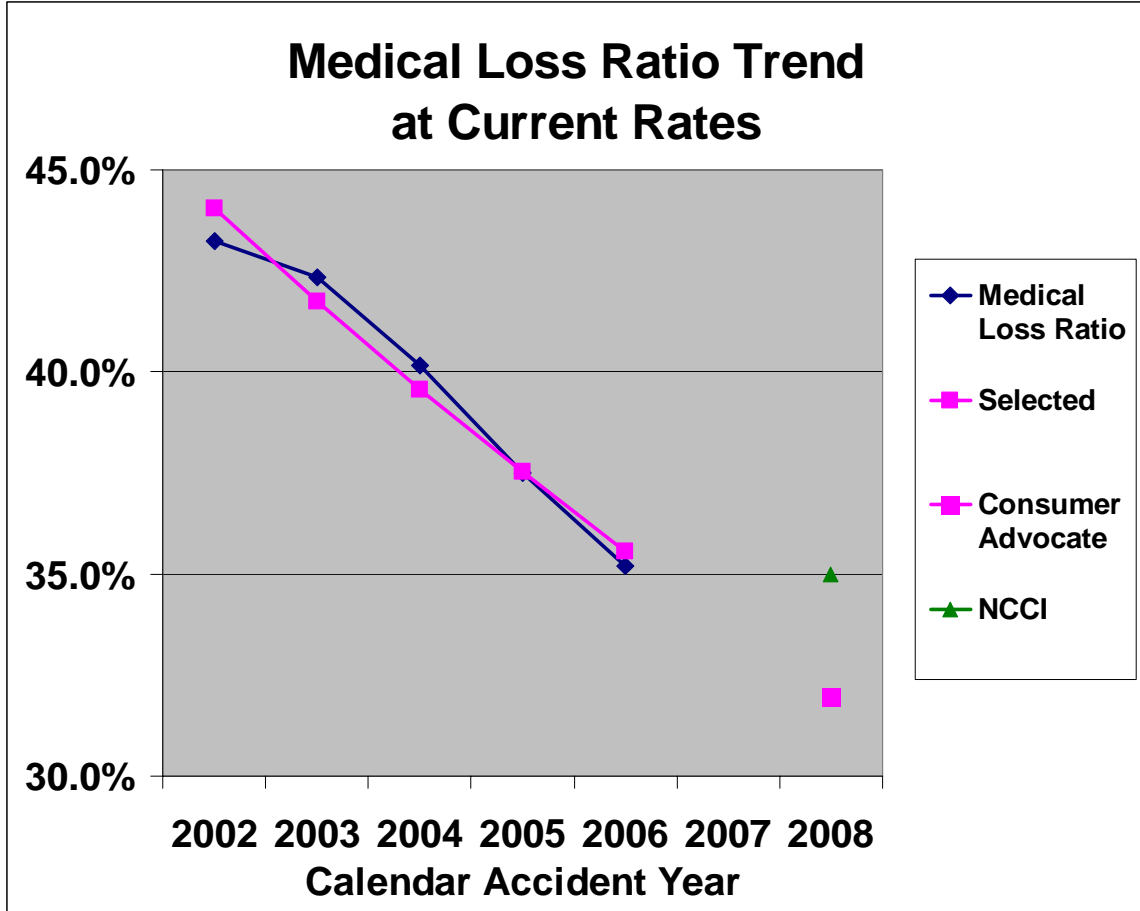
ANALYSIS

Loss Trends

The Consumer Advocate’s selected annual loss ratio trends are -10.1% for indemnity and -5.2% for medical versus the NCCI’s -6.0% for indemnity and -1.0% for medical. The selected -10.1% indemnity and -5.2% medical annual loss ratio trends are consistent with the actual trends experienced in the state of Florida over the last five years.

The historical trends over the last five years cannot continue indefinitely, and a moderation or reversal is inevitable, however it is believed that the reasonable approach at this time is to assume that the historical pattern will persist until some moderation becomes evident in the trend data. Substitution of the Consumer Advocate’s selected trends for the NCCI’s proposed trends reduces the indication by 11.9% to -26.4% $((1 - .119) \times (1 - .165) - 1)$ from the NCCI indication of -16.5%.





Underwriting Profit Provision

The underwriting profit necessary to realize a reasonable rate of return on surplus is directly related to the amount of surplus. For example, if an insurer writes an insurance policy for \$100 and breaks even on underwriting but makes \$15 on investment income, the insurer has a net gain of \$15. If the amount of surplus needed to support the \$100 policy is \$150, then the insurer makes 10% on surplus (\$15/\$150). However, if the surplus needed to support the policy is only \$50, then the insurer could lose \$10 on underwriting, which when added to the investment income gain of \$15 would still net a profit of \$5, and the \$5 net profit divided by the \$50 of surplus would provide a 10% return on surplus.

The surplus in this illustration represents the amount of investment necessary to be in the business of writing insurance. Therefore, underwriting profit, investment income and the rate of return on surplus are all related to each other, and if the surplus necessary to write insurance is reduced, an insurer can lose money on underwriting and still realize a satisfactory return on surplus.

Surplus provides a cushion for claims and expenses that exceed what the insurer expected. The premium to surplus ratio measures the adequacy of the surplus cushion available for unexpected claims and expenses. The rule of thumb used for decades by insurance regulators and other experts as a safe and efficient use of capital is a premium to surplus ratio of 2 to 1.

The Consumer Advocate's selected -11.0% underwriting profit provision is predicated on a premium to surplus ratio of 2 to 1 while the NCCI's 0.0% underwriting profit provision is equivalent to an assumed premium to surplus ratio of .64 to 1 based on a presentation titled "State of the Line" (see chart below) given by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary at the Annual Issues Symposium on May 10, 2007 in Orlando, Florida.

It is believed that the .64 to 1 premium to surplus ratio used in the Mealy presentation is extremely safe and overcapitalized. Substitution of the Consumer Advocate's selected underwriting profit provision of -11.0% for the NCCI's proposed underwriting profit provision of 0.0% reduces the indication by 15.5% to -36.3% $((1-.155)) \times (1 - .264) - 1$ from the previously adjusted indication of -26.4%.

The National Association of Insurance Commissioners uses Insurance Regulatory Information System (IRIS) Ratios to determine if an insurer has an unusual premium to surplus ratio. A gross premium to surplus ratio greater than 9 to 1 or 900% or a net premium to surplus ratio greater than 3 to 1 or 300% may be considered unduly risky and may subject the insurer to regulatory action.

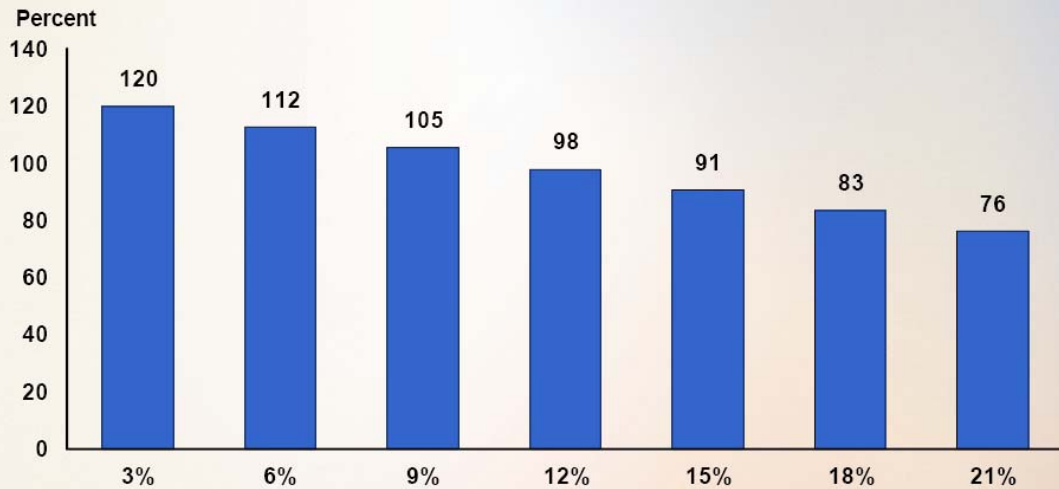
IRIS Ratio Number	Description	Unusual Values Equal to or	
		% Over	% Under
1	Gross Premiums to Surplus	900	n/a
1A	Net Premiums to Surplus	300	n/a
2	Change in Net Writings	33	-33
3	Surplus Aid to Surplus	15	n/a
4	Two-Year Overall Operating Ratio	100	n/a
5	Investment Yield	10	4.5
6	Change in Surplus	50	-10
7	Liabilities to Liquid Assets	105	n/a
8	Gross Agents' Balances to Surplus	40	n/a
9	One-Year Reserve Development to Surplus	20	n/a
10	Two-Year Reserve Development to Surplus	20	n/a
11	Estimated Current Reserve Deficiency to Surplus	25	n/a

Title XXXVII, Section 624.4095 of the Florida Insurance Code provides that “(1) Whenever an insurer's ratio of actual or projected annual written premiums as adjusted in accordance with subsection (4) to current or projected surplus as to policyholders as adjusted in accordance with subsection (6) exceeds 10 to 1 for gross written premiums or exceeds 4 to 1 for net written premiums, the office shall suspend the insurer's certificate of authority or establish by order maximum gross or net annual premiums to be written by the insurer consistent with maintaining the ratios specified herein unless the insurer demonstrates to the office's satisfaction that exceeding the ratios of this section does not endanger the financial condition of the insurer or endanger the interests of the insurer's policyholders.”

In the chart below Mr. Mealy shows various returns on surplus produced by alternate combined ratios assuming a premium to surplus ratio of .64 to 1. The combined ratio is the ratio of the sum of all losses and expenses to premium. A combined ratio of 120% is equivalent to an underwriting loss of 20%. Notice that this chart indicates a workers compensation insurer can lose 20% on underwriting and still realize a 3% return on surplus. This is possible because of the long delay in the payout of some workers compensation claims, which allows insurers to earn investment income on claim reserves.

According to the Mealy chart, a combined ratio of approximately 100% (underwriting profit of 0.0%) will produce a return on surplus of approximately 10.9% after federal income tax. The 10.9% return on surplus is the NCCI's current targeted rate of return as described by Martin H. Wolf, Ph.D., NCCI Director of Economic Research and Senior Economist in his "Overview of Proposed Changes to How NCCI Estimates the Cost of Capital", NCCI Actuarial Committee Meeting, May 9, 2007, Orlando, Florida. This 0.0% underwriting profit result using a premium to surplus ratio of .64 to 1 is consistent with the NCCI's 0.0% underwriting profit provision using their internal rate of return model in the subject filing.

Workers Compensation Combined Ratios for Given Returns on Surplus

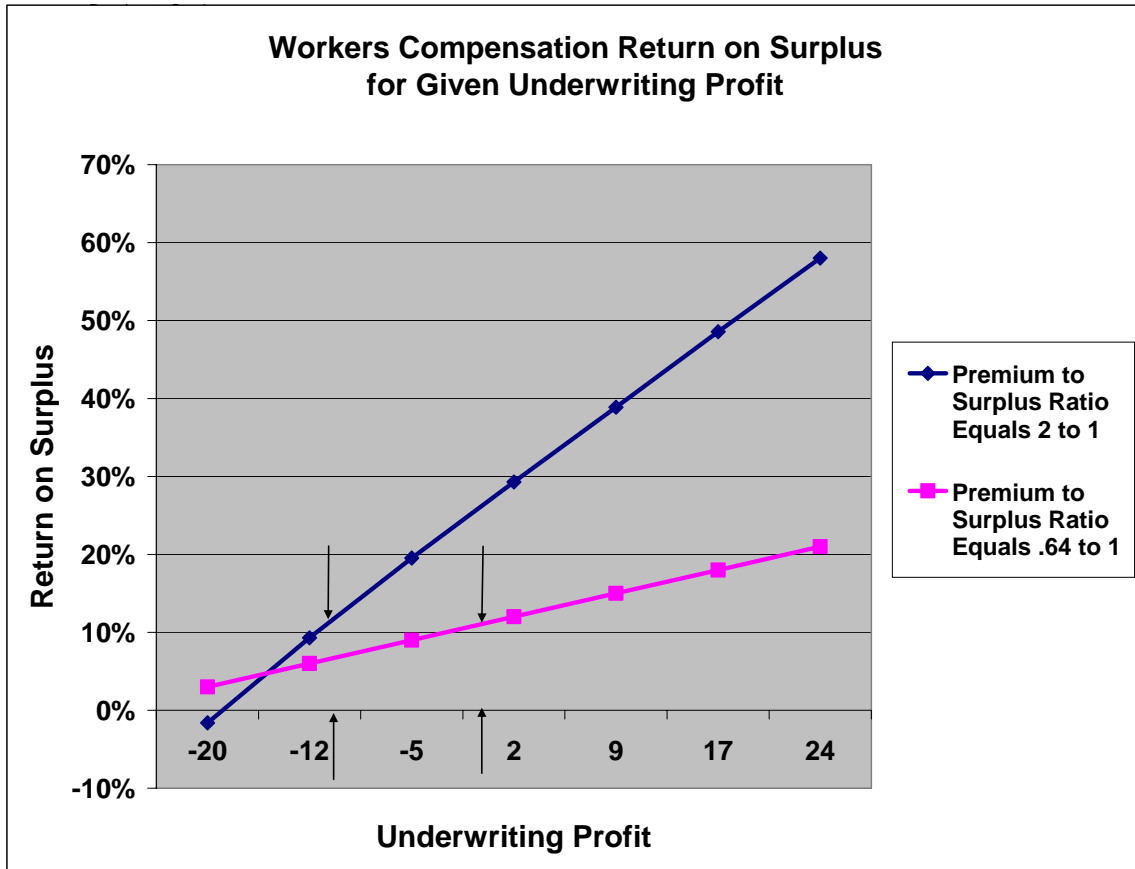


Return on Surplus

Assumptions: 5.1% Pre-Tax Investment Yield; 3.9% After-Tax Investment Yield
WC Premium to Surplus Ratio = .64; WC Reserves to Premium Ratio = 2.9



The following chart illustrates how a premium to surplus ratio of 2 to 1 can result in a 10.9% return on surplus with an -11.0% underwriting profit.

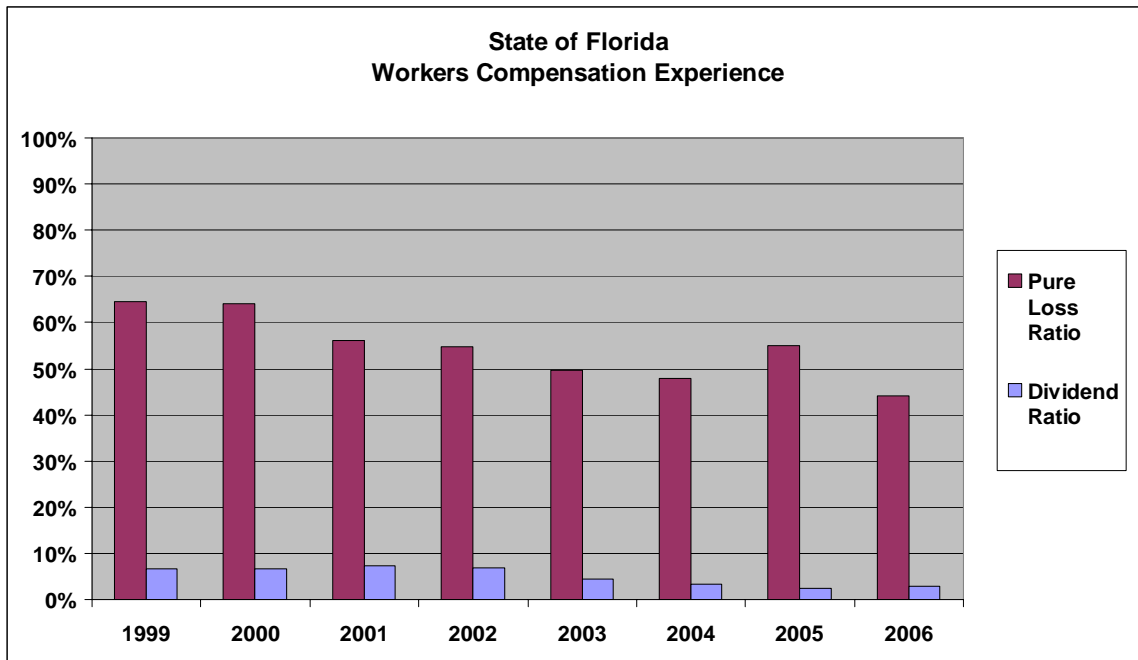


As further evidence that a .64 to 1 premium to surplus ratio is unreasonable, J. David Cummins and Gregory Nini of the Wharton School at the University of Pennsylvania in a paper dated November 9, 2000 investigated the use of equity capital in the property-liability insurance industry. Among Mr. Cummins achievements are the following: Alpha Kappa Psi Spangler Awards, best article, *Journal of Risk and Insurance*; Robert I. Mehr best article awards, American Risk and Insurance Association; Best feature article awards, *Journal of Risk and Insurance*; *Journal of Financial Intermediation* best article of year 2000 award; Casualty Actuarial Society prizes for best article in *Journal of Risk and Insurance*; Brian Hey Prize for best financial paper, Institute of Actuaries; First Prize, Best Financial Paper, Centennial Meeting of the International Actuarial Association.

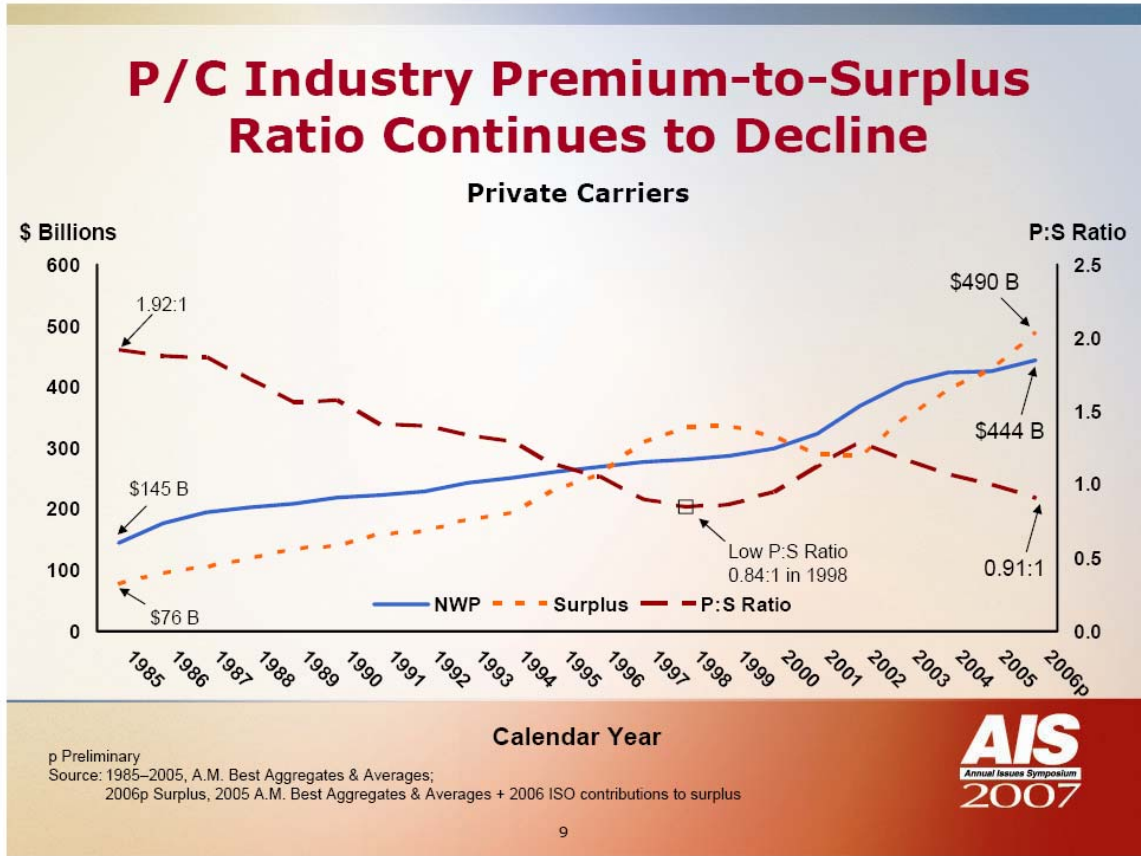
The objective of the subject paper authored by Mr. Cummins and Mr. Nini was to determine whether the sharp decline in leverage (premium to surplus ratios) in the property and casualty industry over the past fifteen years represented an over-utilization of capital or a rational response to changing market conditions. Using best practice technical, cost, and revenue frontiers, estimated using data envelopment analysis (DEA), they estimated each insurer's optimal capital utilization, which they compared with its actual capital utilization. They concluded that measured capital over-utilization

represented a true inefficiency which adversely affected firm financial performance. They also found that the decline in leverage (premium to surplus ratios) was primarily attributable to capital gains on investments and provided evidence that insurers were reluctant to pay out capital accumulations as dividends, even if it meant over utilizing capital.

The reluctance of Florida workers compensation insurers to pay policyholder dividends even as loss ratios have improved is evident in the following chart based on insurer experience as reported to the NAIC. This chart shows the ratios of losses incurred (excluding loss adjustment expenses) and dividends incurred to premiums earned.



The sharp decline in leverage (premium to surplus ratios) observed by Mr. Cummins and Mr. Nini in 2000 has been maintained up through 2005 even after the effects of 9/11 and the hurricanes of 2004 and 2005 as illustrated by this chart taken from Mr. Mealy's presentation in Orlando on May 10, 2007.



It should be evident from the above analysis that writing workers compensation insurance in Florida is a low risk, highly profitable business that does not require large amounts of capital to cushion potential unexpected claims or expenses. Claims results from year to year are highly predictable based on historical performance over the last several years and are improving with no reversal on the horizon. Therefore, it is believed a premium to surplus ratio of 2 to 1 is reasonable and conservative and a premium to surplus ratio of .64 to 1 is unduly conservative and represents an overuse of capital that could be better deployed in stockholder or policyholder dividends. If the full recommended reduction of 36.3% is not approved, then insurers will in effect be allowed to earn profits on excess surplus that is not necessary to support their premium writings.

AUTHORITY

This actuarial examination is conducted pursuant to Section 627.0613 Florida Statutes, which provides that: “the Chief Financial Officer must appoint a consumer advocate who must represent the general public of the state before the department and the office. The consumer advocate must report directly to the Chief Financial Officer, but is not otherwise under the authority of the department or of any employee of the department. The consumer advocate has such powers as are necessary to carry out the duties of the office of consumer advocate, including, but not limited to, the powers to:

- (1) Recommend to the department or office, by petition, the commencement of any proceeding or action; appear in any proceeding or action before the department or office; or appear in any proceeding before the Division of Administrative Hearings relating to subject matter under the jurisdiction of the department or office.
- (2) Have access to and use of all files, records, and data of the department or office.
- (3) Examine rate and form filings submitted to the office, hire consultants as necessary to aid in the review process, and recommend to the department or office any position deemed by the consumer advocate to be in the public interest.
- (4) Prepare an annual budget for presentation to the Legislature by the department, which budget must be adequate to carry out the duties of the office of consumer advocate.”

BACKGROUND

The Office of Insurance Regulation (OIR) received the subject NCCI Filing, OIR File Number: 07-16218 (Filing), on August 24, 2007, which was submitted as “prior approval” with effective dates of January 1, 2008 for new and renewal business.

EXHIBITS

Exhibits 1 - 11

Exhibit 1

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Indicated Rate Change

	NCCI	Consumer Advocate
(1) Standard Coverage Adjusted Cost Ratio =(Average of line (30) amounts - Standard Coverage)	59.5%	52.4%
(2) =(Average of line (30) amounts - Large Deductible Coverage)	57.2%	50.6%
(3) Average Cost Ratio, Weighted by Net Premium	59.2%	52.2%
(4) NCCI Current Target Cost Ratio	72.2%	72.2%
(5) Effect of Change in Production and General Expenses	1.001	1.001
(6) Effect of Change in Loss Based Expenses	1.021	1.021
(7) Effect of Change in Expense Constant	0.997	0.997
(8) Effect of Change in Profit and Contingency Margin	-	0.110
(9) Target Cost Ratio Adjusted for (5) through (8)	70.9%	81.9%
(10) Indicated Premium Level Change	-16.5%	-36.3%

Notes:

- (1) equals average of Exhibits 2 and 3, Row (30)
- (2) equals average of Exhibits 4 and 5, Row (30)
- (3) equals [(1) x (0.870) + (2) x (0.130)]
- (4) NCCI Exhibit I-F, Row (2)
- (5) NCCI Exhibit I-G, Row (2)
- (6) NCCI Exhibit I-I, Row (2)
- (7) NCCI Exhibit I-K, Row (2)
- (8) Exhibit 8, Row (11)
- (9) equals (4)/(5)/(6)/(7)+(8)
- (10) equals (3) / (9) - 1

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2006 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$3,741,465,279	\$3,741,465,279
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.776	0.776
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,903,377,057	\$2,903,377,057
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (First Report)		\$87,166,337	\$234,466,301
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		5.483	1.821
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$477,933,026	\$426,963,134
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.213	1.213
(9) Composite Adjustment Factor = (7) * (8)		1.213	1.213
(10) Adjusted Indemnity Cost = (6) * (9)		\$579,732,760	\$517,906,282
(11) Indemnity Cost Ratio = (10) / (3)		0.200	0.178
(12) Trend Length		2.366	2.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.899	0.777	0.777
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.155	0.139
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.155	0.139
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (First Report)		\$295,152,339	\$570,843,706
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.593	1.729
(19) Developed Medical Benefit Cost = (17) * (18)		\$1,060,482,354	\$986,988,768
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.998	0.998
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.211	1.211
(23) Adjusted Medical Cost = (19) * (22)		\$1,283,792,365	\$1,194,822,940
(24) Medical Cost Ratio = (23) / (3)		0.442	0.412
(25) Trend Length		2.366	2.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.948	0.881	0.881
(27) Projected Medical Cost Ratio = (24) * (26)		0.390	0.363
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.991	0.991
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.386	0.359
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2006 = (16) + (29)		0.541	0.498

Notes:

based on NCCI Exhibit I-A adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2005 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$3,540,982,305	\$3,540,982,305
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.688	0.688
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,436,195,826	\$2,436,195,826
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (Second Report)		\$205,063,678	\$305,551,026
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.228	1.366
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$456,881,875	\$417,382,702
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.213	1.213
(9) Composite Adjustment Factor = (7) * (8)		1.213	1.213
(10) Adjusted Indemnity Cost = (6) * (9)		\$554,197,714	\$506,285,217
(11) Indemnity Cost Ratio = (10) / (3)		0.227	0.208
(12) Trend Length		3.366	3.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.899	0.698	0.698
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.159	0.145
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.159	0.145
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (Second Report)		\$494,387,123	\$646,386,875
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.879	1.373
(19) Developed Medical Benefit Cost = (17) * (18)		\$928,953,404	\$887,489,179
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.006	1.006
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.220	1.220
(23) Adjusted Medical Cost = (19) * (22)		\$1,133,581,402	\$1,082,983,521
(24) Medical Cost Ratio = (23) / (3)		0.465	0.445
(25) Trend Length		3.366	3.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.948	0.836	0.836
(27) Projected Medical Cost Ratio = (24) * (26)		0.389	0.371
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.991	0.991
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.385	0.368
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.544	0.513

Notes:

based on NCCI Exhibit I-B adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2006 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$3,052,107,360	\$3,052,107,360
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.776	0.776
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,368,435,311	\$2,368,435,311
 Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (First Report)		\$63,361,728	\$140,888,217
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		6.967	2.785
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$441,441,159	\$392,373,684
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.213	1.213
(9) Composite Adjustment Factor = (7) * (8)		1.213	1.213
(10) Adjusted Indemnity Cost = (6) * (9)		\$535,468,126	\$475,949,279
(11) Indemnity Cost Ratio = (10) / (3)		0.226	0.201
(12) Trend Length		2.366	2.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.899	0.777	0.777
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.176	0.156
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.176	0.156
 Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (First Report)		\$209,824,068	\$384,351,512
(18) Factor to Develop Medical Benefit Cost (See App A-II)		4.057	2.104
(19) Developed Medical Benefit Cost = (17) * (18)		\$851,256,244	\$808,675,581
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.998	0.998
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.211	1.211
(23) Adjusted Medical Cost = (19) * (22)		\$1,030,508,676	\$978,961,633
(24) Medical Cost Ratio = (23) / (3)		0.435	0.413
(25) Trend Length		2.366	2.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.948	0.881	0.881
(27) Projected Medical Cost Ratio = (24) * (26)		0.384	0.364
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.991	0.991
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.380	0.361
 Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2006 = (16) + (29)		0.556	0.517

Notes:

based on NCCI Exhibit I-C adjusted for Annual Trend Factor Rows (13) and (26)

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2005 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$3,514,069,472	\$3,514,069,472
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.688	0.688
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,417,679,797	\$2,417,679,797
 Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (Second Report)		\$173,498,217	\$244,595,729
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.630	1.696
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$456,300,311	\$414,834,356
(7) Factor to Adjust Ind Benefit Cost to Current Benefit Level (See App A-I)		1.000	1.000
(8) Factor to Include Loss Based Expenses		1.213	1.213
(9) Composite Adjustment Factor = (7) * (8)		1.213	1.213
(10) Adjusted Indemnity Cost = (6) * (9)		\$553,492,277	\$503,194,074
(11) Indemnity Cost Ratio = (10) / (3)		0.229	0.208
(12) Trend Length		3.366	3.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.899	0.698	0.698
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.160	0.145
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.160	0.145
 Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (Second Report)		\$392,819,627	\$491,678,828
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.974	1.544
(19) Developed Medical Benefit Cost = (17) * (18)		\$775,425,944	\$759,152,110
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.006	1.006
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.220	1.220
(23) Adjusted Medical Cost = (19) * (22)		\$946,235,220	\$926,376,619
(24) Medical Cost Ratio = (23) / (3)		0.391	0.383
(25) Trend Length		3.366	3.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.948	0.836	0.836
(27) Projected Medical Cost Ratio = (24) * (26)		0.327	0.320
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.998	0.998
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.326	0.320
 Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.486	0.465

Notes:

based on NCCI Exhibit I-D adjusted for Annual Trend Factor Rows (13) and (26)

Exhibit 6

Office of the Consumer Advocate
 Review of OIR Filing Number 07-16218
 National Council on Compensation Insurance, Inc.

Medical Trend

Cal-Acc Year	Paid	Paid+Case	Average	Consumer Advocate	NCCI
2002	43.7%	42.8%	43.3%	44.0%	
2003	42.8%	41.9%	42.4%	41.7%	
2004	40.7%	39.6%	40.2%	39.6%	
2005	38.4%	36.6%	37.5%	37.5%	
2006	36.5%	33.9%	35.2%	35.6%	
2007					
2008				32.0%	35.0%
Selected Annual Change				-5.2%	-1.0%
Annual Trend Factor				94.8%	99.0%

Notes:

based on NCCI Filing Explanatory Memorandum,
 Appendix A-III
 2008 year trended to 7/1/2008

Exhibit 7

Office of the Consumer Advocate
 Review of OIR Filing Number 07-16218
 National Council on Compensation Insurance, Inc.

Indemnity Trend

Cal-Acc Year	Paid	Paid+Case	Average	Consumer Advocate	NCCI
2002	24.5%	23.6%	24.1%	24.4%	
2003	22.5%	21.4%	22.0%	22.0%	
2004	20.9%	19.6%	20.3%	19.7%	
2005	18.8%	17.1%	18.0%	17.7%	
2006	16.5%	14.7%	15.6%	15.9%	
2007					
2008				12.9%	14.2%
Selected Annual Change				-10.1%	-6.0%
Annual Trend Factor				89.9%	94.0%

Notes:

based on NCCI Filing Explanatory Memorandum,
 Appendix A-III
 2008 year trended to 7/1/2008

Exhibit 8

Office of the Consumer Advocate
 Review of OIR Filing Number 07-16218
 National Council on Compensation Insurance, Inc.

Underwriting Profit Provision

(1)	Target Rate of Return on Surplus after FIT	10.9%
(2)	Federal Income Tax Rate	14.0%
(3)	Target Rate of Return on Surplus before FIT	12.7%
(4)	Premium to Surplus Ratio	2.00
(5)	Target Rate of Return on Premium before FIT	6.3%
(6)	Investment Income Rate	5.10%
(7)	Investment Income on Surplus as % of Premium	2.55%
(8)	Reserve to Premium Ratio	2.90
(9)	Investment Income on Reserves as % of Premium	14.79%
(10)	Total Investment Income as % of Premium	17.34%
(11)	Underwriting Profit Provision	-11.00%

Notes:

- (1) "Overview of Proposed Changes to How NCCI Estimates the Cost of Capital", Martin H. Wolf, Ph.D., Actuarial Committee Meeting, May 9, 2007, Orlando, FL
- (2) Exhibit 9, Column (9)
- (3) equals (3) / (1 - (4))
- (4) based on actuarial judgment
- (5) equals (5) / (6)
- (6) & (8) Annual Issues Symposium presentation given May 10, 2007 in Orlando, Florida by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary titled "State of the Line"
- (7) equals (6) / (4)
- (9) equals (8) x (6)
- (10) equals (9) + (7)
- (11) equals (5) - (10)

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Combined Ratio versus Return on Surplus
Premium to Surplus Ratio: 2 to 1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Premium	Losses & Expenses	Reserves	Surplus	Underwriting Income	Investment Income on Insurance Transactions	Investment Income on Surplus	Net Income Before FIT	Federal Tax Rate	Federal Income Tax	Net Income After FIT	Return on Surplus After FIT
100	120	290	50	-20.00	14.79	2.55	-2.66	-70%	1.86	(0.80)	-2%
100	112	290	50	-12.00	14.79	2.55	5.34	13%	0.69	4.65	9%
100	105	290	50	-5.00	14.79	2.55	12.34	21%	2.57	9.77	20%
100	98	290	50	2.00	14.79	2.55	19.34	24%	4.69	14.65	29%
100	91	290	50	9.00	14.79	2.55	26.34	26%	6.90	19.44	39%
100	83	290	50	17.00	14.79	2.55	34.34	29%	10.05	24.29	49%
100	76	290	50	24.00	14.79	2.55	41.34	30%	12.33	29.01	58%

Notes:

- (1) & (2) Annual Issues Symposium presentation (Presentation) given May 10, 2007 in Orlando, Florida by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary titled "State of the Line"
- (3) & (4) Premium to Surplus ratio equals 2.00 per Page 20 of Presentation
- (5) equals (1) - (2)
- (6) equals 5.1% of (3) per Page 20 of Presentation,
- (7) equals 5.1% of (4) per Page 20 of Presentation,
- (8) equals (5) + (6) + (7)
- (9) Exhibit 10, Column (9)
- (10) equals (8) - ((12) x (4))
- (11) equals (8) + or - (10)
- (12) equals (11) / (4)

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Unusual Insurance Regulatory Information System (IRIS) Ratios

IRIS Ratio Number	Description	Unusual Values Equal to or	
		% Over	% Under
1	Gross Premiums to Surplus	900	n/a
1A	Net Premiums to Surplus	300	n/a
2	Change in Net Writings	33	-33
3	Surplus Aid to Surplus	15	n/a
4	Two-Year Overall Operating Ratio	100	n/a
5	Investment Yield	10	4.5
6	Change in Surplus	50	-10
7	Liabilities to Liquid Assets	105	n/a
8	Gross Agents' Balances to Surplus	40	n/a
9	One-Year Reserve Development to Surplus	20	n/a
10	Two-Year Reserve Development to Surplus	20	n/a
11	Estimated Current Reserve Deficiency to Surplus	25	n/a

Notes:

- 1 & 1A These ratios measure an insurer's ability to support its existing business, as well as any growth. Since surplus provides a cushion for claims and expenses that exceed what the insurer expected, this ratio measures the adequacy of the surplus cushion available for unexpected claims and expenses.
- The rule of thumb used for decades by insurance regulators and other experts as a safe and efficient use of capital is a premium to surplus ratio of 200%. It is believed that the 64% premium to surplus ratio used in the Mealy presentation is extremely safe and overcapitalized.

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Combined Ratio versus Return on Surplus
Premium to Surplus Ratio: .64 to 1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Premium	Losses & Expenses	Reserves	Surplus	Underwriting Income	Investment Income on Insurance Transactions	Investment Income on Surplus	Net Income Before FIT	Federal Tax Rate	Federal Income Tax	Net Income After FIT	Return on Surplus After FIT
100	120	290	156	-20.00	14.79	7.97	2.76	-70%	(1.93)	4.69	3%
100	112	290	156	-12.00	14.79	7.97	10.76	13%	1.38	9.38	6%
100	105	290	156	-5.00	14.79	7.97	17.76	21%	3.70	14.06	9%
100	98	290	156	2.00	14.79	7.97	24.76	24%	6.01	18.75	12%
100	91	290	156	9.00	14.79	7.97	31.76	26%	8.32	23.44	15%
100	83	290	156	17.00	14.79	7.97	39.76	29%	11.63	28.13	18%
100	76	290	156	24.00	14.79	7.97	46.76	30%	13.95	32.81	21%

Notes:

- (1) & (2) Annual Issues Symposium presentation (Presentation) given May 10, 2007 in Orlando, Florida by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary titled "State of the Line"
- (3) & (4) Premium to Surplus ratio equals .64 per Page 20 of Presentation
- (5) equals (1) - (2)
- (6) equals 5.1% of (3) per Page 20 of Presentation,
- (7) equals 5.1% of (4) per Page 20 of Presentation,
- (8) equals (5) + (6) + (7)
- (9) equals (10) / (8)
- (10) equals (8) x (9)
- (11) equals (8) - (10)
- (12) per Page 20 of Presentation

Office of the Consumer Advocate
Review of OIR Filing Number 07-16218
National Council on Compensation Insurance, Inc.

Comprehensive Group Medical Insurance
State of Florida 2006 Experience

Company Name	Member @ End of Current Year	Member Months @ End of Current Year	Direct Premiums Written	Direct Premiums Earned	Direct Claims Paid	Direct Claims Incurred	Incurred Loss Ratio
BCBS Of FL	850	8,317	2,390,095	2,387,957	1,803,641	1,895,359	79.4%
Aetna Health Inc FL Corp	563	6,985	2,023,368	2,022,891	1,620,766	1,630,315	80.6%
United Healthcare Of FL Inc	258	3,239	1,080,920	1,080,920	891,963	873,481	80.8%
Health Options Inc	245	3,518	966,868	966,610	776,270	761,855	78.8%
AvMed Inc	182	2,149	634,022	634,022	522,481	539,764	85.1%
Humana Medical Plan Inc	151	1,819	525,429	525,429	442,238	447,913	85.2%
Vista Health Plan Inc	171	2,049	507,738	510,331	399,611	412,032	80.7%
Neighborhood Health Partnership Inc	109	1,430	413,508	413,508	311,970	301,332	72.9%
Capital Health Plan Inc	104	1,245	361,534	361,534	328,996	324,937	89.9%
Humana Hlth Ins Co Of FL Inc	84	1,060	331,342	331,342	277,393	275,290	83.1%
Cigna Healthcare Of FL Inc	69	919	254,145	254,145	228,742	222,089	87.4%
Florida Health Care Plan Inc	42	524	160,372	160,372	125,173	124,097	77.4%
Health First Health Plans Inc	33	398	109,386	109,386	94,956	95,078	86.9%
Health Care Svc Corp A Mut Leg Res	12	133	40,987	40,987	34,302	35,099	85.6%
Public Health Trust Dade County FL	11	129	37,049	37,432	34,833	31,852	85.1%
Vista Hlthpln of S FL Inc	9	114	20,431	22,815	21,162	19,992	87.6%
Medical Savings Ins Co	7	105	17,774	17,900	14,131	14,354	80.2%
Total Health Choice Inc	2	27	6,498	6,529	5,478	5,907	90.5%
Great West Healthcare of FL Inc	0	4	1,138	1,138	1,729	1,309	115.0%
Avalon Healthcare Inc	0	1	282	282	89	223	79.1%
	2,902	34,165	9,882,886	9,885,530	7,935,924	8,012,278	81.1%

