

September 30, 2008

**Actuarial Analysis of
Office of Insurance Regulation
Filing Number 08-17889
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



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EXECUTIVE SUMMARY

It is recommended that the National Council on Compensation Insurance (NCCI) reduce rates by 34.6% rather than the 14.1% proposed by the NCCI. The NCCI's proposed rates are excessive, because the proposed underwriting profit provision is excessive, and because the projected loss and loss adjustment expense ratio is excessive.

The proposed underwriting profit provision is excessive, because it contemplates risk-based returns on excess capital that is not reasonably at risk from underwriting workers compensation insurance. The projected loss and loss adjustment expense ratio is excessive, because it is inconsistent with the downward trend in loss and loss adjustment expense ratios over the last five years.

Florida's workers compensation rates have been reduced 51.5% since the reforms of 2003. Nevertheless, Florida's workers compensation system still only returned 48.5 cents (Exhibit 13) of every premium dollar in claim payments to injured workers in 2007. This is the lowest return of the ten states with the largest workers compensation markets in the United States (Florida, Texas, California, Georgia, North Carolina, Wisconsin, New Jersey, Pennsylvania, Illinois and New York).

It has been independently estimated in this report (Exhibit 13) that the NCCI has overcharged Florida employers by an average of 24.6% for the last nine years. This overpayment pattern is independent of the 2003 reforms, because it has occurred both before and after the 2003 reforms. Furthermore, it is expected to continue to occur even after implementation of the proposed 14.1% rate reduction.

The State of Florida has an excess profits law that requires the return of workers compensation excess profits to employer policyholders. However, this law's excess profits formula assumes that the NCCI's profit provision is not excessive, and therefore it does not fully capture the excess profits built into the NCCI's rates.

This is evident in the minimal workers compensation excess profits of \$87.8 million that have been ordered returned to employers in compliance with current law over the last nine years compared to the estimated premium overcharges of \$4.9 billion based upon a comparison of Florida's workers compensation loss ratios to countrywide loss ratios. This disparity strongly suggests that the actual excess profits are much greater than recoverable under current law.

While Florida's workers compensation insurers have enjoyed inflated premiums, low payouts to injured workers, and low dividends to employers, they have built their capital (surplus) to historic highs. The average net premium to surplus ratio of the top ten workers compensation insurers in Florida is just 72% (.72 to 1) (Exhibit 10).

Standard and Poor's estimates that property and casualty insurers could safely operate at a net premium to surplus ratio of 200% (2 to 1) and estimates that the entire property and casualty insurance industry has excess capital of \$300 billion. Even the Insurance Information Institute, an industry trade group, estimates that the industry may be overcapitalized by as much as \$100 billion.

Additionally, based on a risk-based capital analysis of the top ten workers compensation insurers in Florida, Florida workers compensation insurers are holding from 180% to over 500% of minimum risk-based capital (Exhibit 12). Minimum risk-based capital is a statutorily required estimate of the minimum capital required to support all the risks that an insurer is subject to, such as: 1) investment risk, 2) pricing risk, 3) interest rate risk, 4) credit risk, 5) adverse loss reserve development risk.

The recognition of excess capital is important to the evaluation of this filing, because the NCCI's proposed rates are based upon providing insurers an average rate of return of approximately 11.0% on excess capital, when such excess capital is being invested at an average annual rate of return of approximately 4.0%.

In other words, the NCCI's proposed rates are based upon policyholders making up the 7% difference by paying higher rates (through a higher underwriting profit provision), even though excess capital is not at reasonable risk of loss from underwriting workers compensation insurance.

It is the position of the Consumer Advocate that policyholders should not be expected to pay higher rates so that insurers can realize risk-based returns on excess capital that is not reasonably at risk.

EXCESSIVE RATES

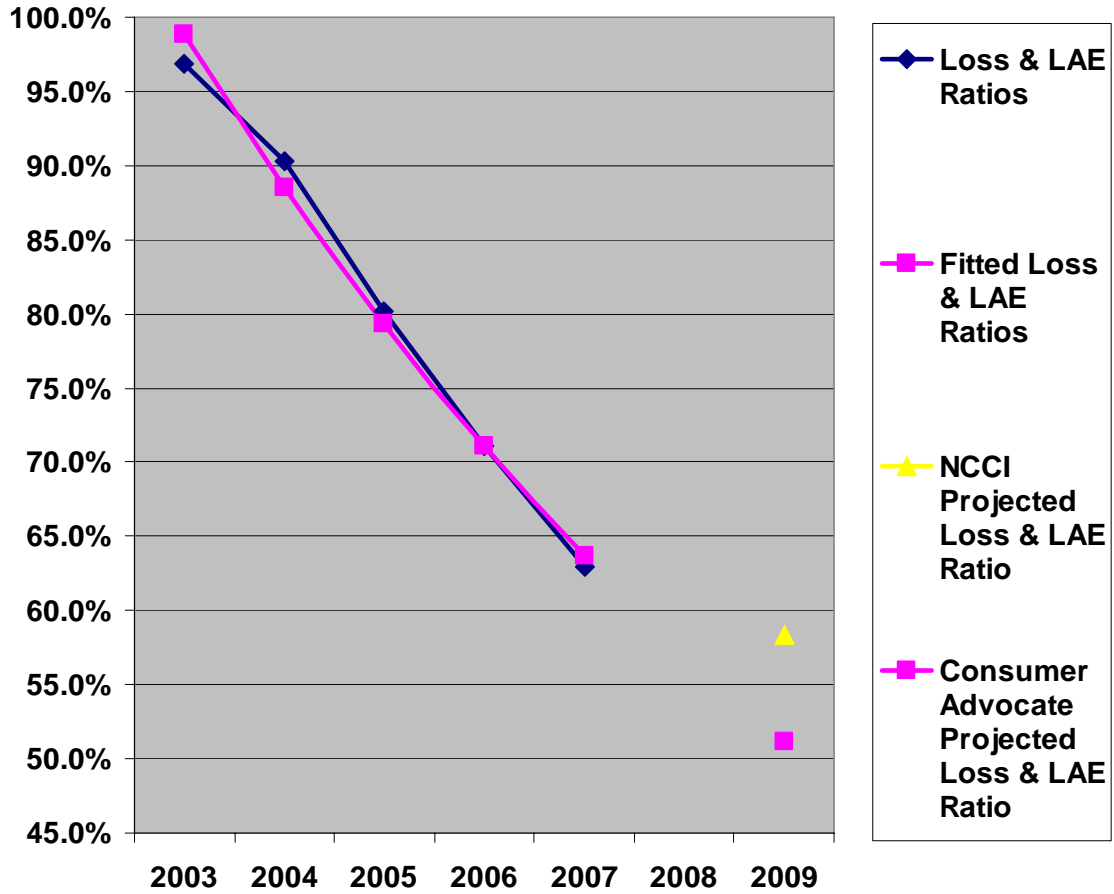
The NCCI has been able to maintain excessive rate levels in Florida by overstating underwriting profit requirements and overestimating expected future loss and loss adjustment expense ratios. Expected future loss and loss adjustment expense ratios have been overstated by consistently overstating loss ratio trends. Underwriting profit requirements have been overstated by assuming excessive amounts of capital (surplus) are needed to cushion against adverse experience.

Excessive Estimates of Future Loss and Loss Adjustment Expense Ratios

Since the reforms of 2003, the NCCI has consistently overestimated the next year's loss and loss adjustment expense ratio. Each year the NCCI has assumed that the historical downward trend in this ratio would moderate. In fact, subsequent experience has shown that the downward trend has continued without moderation.

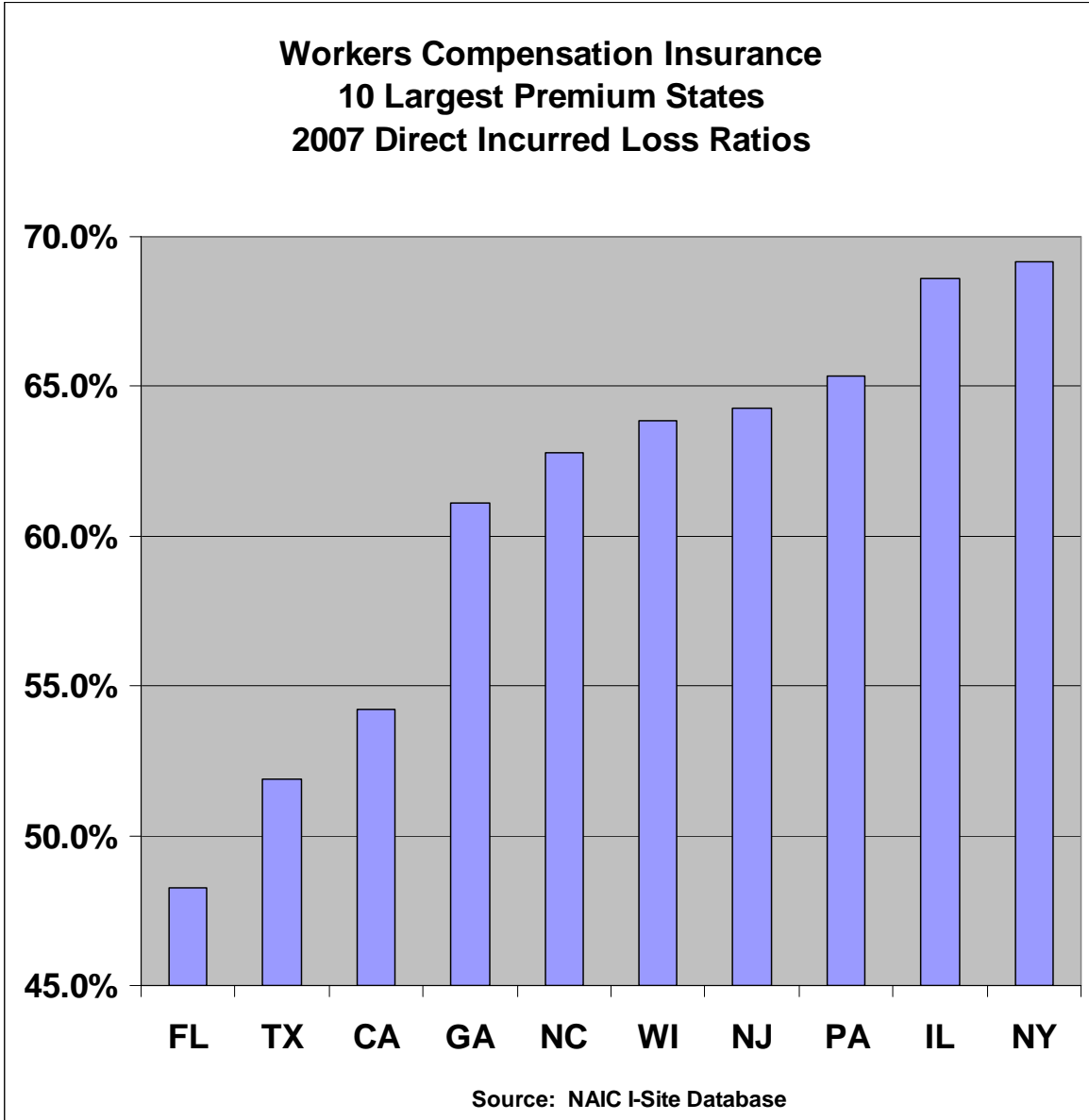
The following chart illustrates the NCCI's projected loss and loss adjustment expense ratio for 2009 compared to the Consumer Advocate's projected loss and loss adjustment expense ratio. The Consumer Advocate's projected loss and loss adjustment expense ratio is consistent with the actual trend over the last five years, while the NCCI's projected loss and loss adjustment expense ratio again assumes the trend will moderate. The downward trend in the loss and loss adjustment expense ratio is well established and consistent. Therefore, it is the Consumer Advocate's position that this trend should be assumed to continue until there is some evidence that it is moderating.

Loss & Loss Adjustment Expense Ratios at Current Rates and Benefit Levels

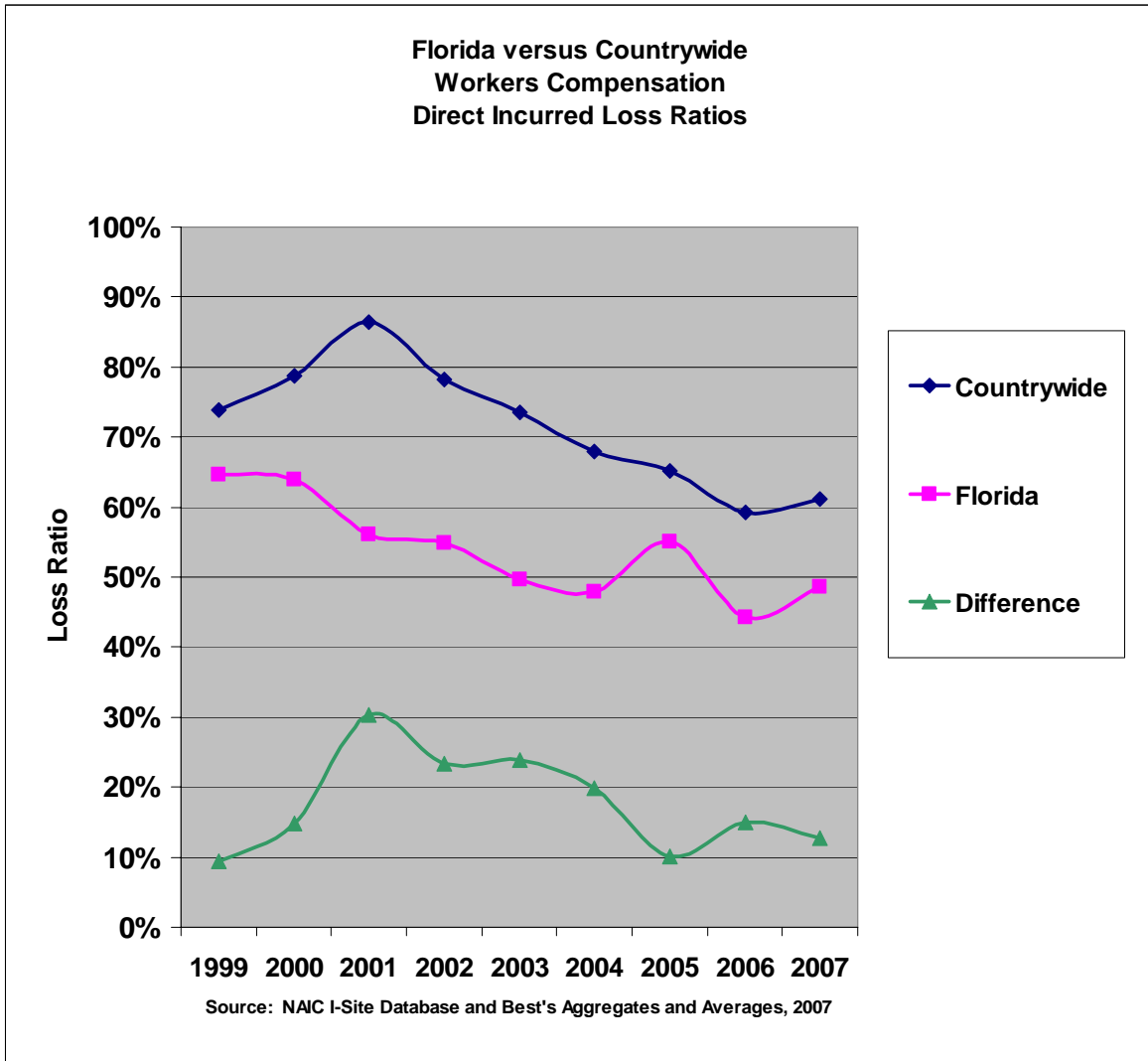


Loss Ratio Comparisons

In 2007 the State of Florida's workers compensation system only returned 48.5 cents of every premium dollar in claim payments to injured workers. This is the lowest return of the ten states with the largest workers compensation markets in the United States (Florida, Texas, California, Georgia, North Carolina, Wisconsin, New Jersey, Pennsylvania, Illinois and New York). The following chart compares Florida's 2007 loss ratio to these other states:



For each of the last nine years the State of Florida’s workers compensation system has returned a smaller percentage of the premium dollar to injured workers than the countrywide average. The odds against this happening by chance are more than 500 to 1. The following chart shows this consistent underpayment pattern:



These consistently low payout (loss) ratios (ratios of losses incurred to premiums earned) suggest that Florida employers have paid \$4.9 billion too much for workers compensation insurance over the last nine years (Exhibit 13).

In other words, if Florida employers had paid \$4.9 billion (or 24.6% of premium) less in premiums, then Florida’s ratios of losses incurred to premiums earned would have been comparable to the countrywide ratios. These estimated overpayments of premiums by Florida employers are independent of the 2003 reforms, because the same overpayment pattern has occurred both before and after the reforms.

Countrywide, workers compensation insurers earned profits in 1999 and 2000, because of high levels of investment income, but on average were unprofitable in 2001 and 2002 because of lower levels of investment income. From 2003 through 2007 workers compensation insurers again earned profits countrywide. Consequently, for the full nine year period, it is believed workers compensation insurers made reasonable profits countrywide.

The State of Florida has an excess profits law that requires the return of workers compensation excess profits to employer policyholders. However, this law's excess profits formula assumes that the NCCI's profit provision is not excessive, and therefore it does not fully capture the excess profits built into the NCCI's rates.

This is evident in the minimal workers compensation excess profits of \$87.8 million that have been ordered returned to employers in compliance with current law over the last nine years compared to the estimated premium overcharges of \$4.9 billion based upon a comparison of Florida's workers compensation loss ratios to countrywide loss ratios. This disparity strongly suggests that the actual excess profits are much greater than recoverable under current law.

Excessive Underwriting Profit Requirement

The NCCI overstates its underwriting profit loading by overstating the amount of capital (surplus) necessary to underwrite workers compensation insurance (see Exhibit 9 for an exact calculation). Insurers must by law maintain adequate surplus as a cushion against adverse experience. However, as the size of the actual surplus cushion increases, an insurer must earn a larger underwriting profit to realize the same return on surplus. The Consumer Advocate's position is that workers compensation insurers only need 50 cents of surplus to cushion each dollar of net earned premium. The NCCI's position is that workers compensation insurers need a cushion of approximately \$2.00 of surplus for every \$1 of premium.

Insurers earn profits from underwriting and also from investment income on invested reserves and surplus. Underwriting profit is the difference between premiums earned and all loss, loss adjustment and other underwriting expenses. In addition to investment income on invested surplus, workers compensation insurers earn investment income from invested reserves for: 1) unpaid losses, 2) loss adjustment expenses, and 3) unearned premiums. Workers compensation insurers' total invested reserves average more than three times earned premium (Best's Aggregates and Averages, 2007).

Workers compensation insurers earn investment income on loss, loss adjustment and unearned premium reserves at an average return on invested reserves of approximately 4.0% per year, which is approximately 12% of earned premium, since workers compensation reserves are more than three times earned premium. Additionally, workers compensation insurers earn investment income on invested surplus. If the amount of surplus necessary to safely underwrite workers compensation insurance is equal to one half of earned premiums (the position of the Consumer Advocate), then an additional 4% return on invested surplus equals an additional 2% of earned premium, and total investment income as a percentage of earned premium is approximately 14% of earned premium.

A workers compensation insurer earning investment income of 14% of earned premium can have underwriting losses of approximately 9.0% of earned premium and still have a net profit of 5% (14% - 9%) of earned premium. If surplus is one half of net earned premium, then this 5% profit on net earned premium is equal to a 10% return on surplus. Therefore, based on this simplified example, rates could be set to provide an underwriting loss of 9% and workers compensation insurers could still realize a 10% return on surplus, because the 9.0% underwriting loss is more than compensated for by the 14% investment return as a percentage of premium.

If the surplus necessary to safely underwrite workers compensation insurance is equal to 2 times earned premium (the approximate position of the NCCI), then an additional 4% return on invested surplus equals an additional 8% ($2 \times 4.0\%$) of earned premium, and total investment income as a percentage of earned premium is approximately 20% (12% investment income on reserves and 8% investment income on surplus). Consequently, an insurer that earns investment income of 20% of premium and earns a 2.5% underwriting profit on earned premium will realize a 22.5% ($20.0\% + 2.5\%$) return on premium and an 11.25% return on surplus ($22.5\% / 2$). In other words, this insurer must load into its rates a 2.5% underwriting profit provision to realize an 11.25% return on surplus.

Therefore, the major difference between the NCCI's proposed +2.50% underwriting profit provision and the Consumer Advocate's recommended -8.61% underwriting profit provision (see Exhibit 9 for an exact calculation) is a difference in the assumed reasonable amount of surplus cushion necessary to support writing workers compensation insurance.

The Consumer Advocate's position is that the NCCI is only entitled to a risk-based return on capital that is subject to a reasonable risk of loss. By loading an excessive underwriting profit provision into rates, insurers will earn a risk-based return on excess capital that is not reasonably at risk of loss due to underwriting workers compensation insurance.

Excess Capital

The recognition of excess capital is important to the evaluation of this filing, because the NCCI's proposed rates are based upon providing insurers an average rate of return of approximately 11.0% on excess capital, when such excess capital is being invested at an average annual rate of return of approximately 4.0%.

In other words, the NCCI's proposed rates are based upon policyholders making up the 7% difference by paying higher rates (through a higher underwriting profit provision), even though excess capital is not at reasonable risk of loss from underwriting workers compensation insurance.

Standard and Poor's estimates that property and casualty insurers can safely operate at a net premium to surplus ratio of 200% (2 to 1) and estimates that the entire property and casualty industry has excess capital of \$300 billion. The Standard and Poor's Factual Stock Report of June 28, 2008 for Zenith National Insurance Corporation, the second largest writer of workers compensation insurance in the State of Florida, states:

“As of December 31, 2007 (latest available aggregate data), the industry had \$517.9 billion in policyholder surplus (or capital) supporting its written premium base of \$440.8 billion (for the 12 months ended December 31, 2007). The industry was leveraging its capital at less than a 1:1 ratio. Assuming a historical benchmark 2:1 leverage of capital, we estimate the industry had “excess capital” of approximately \$300 billion. “

Even the Insurance Information Institute, an industry trade and lobbying group, estimates that the industry may be overcapitalized by as much as \$100 billion. In his *Earlybird Forecast for 2008*, Robert P. Hartwig CPCU, President of the Insurance Information Institute wrote the following on December 17, 2007:

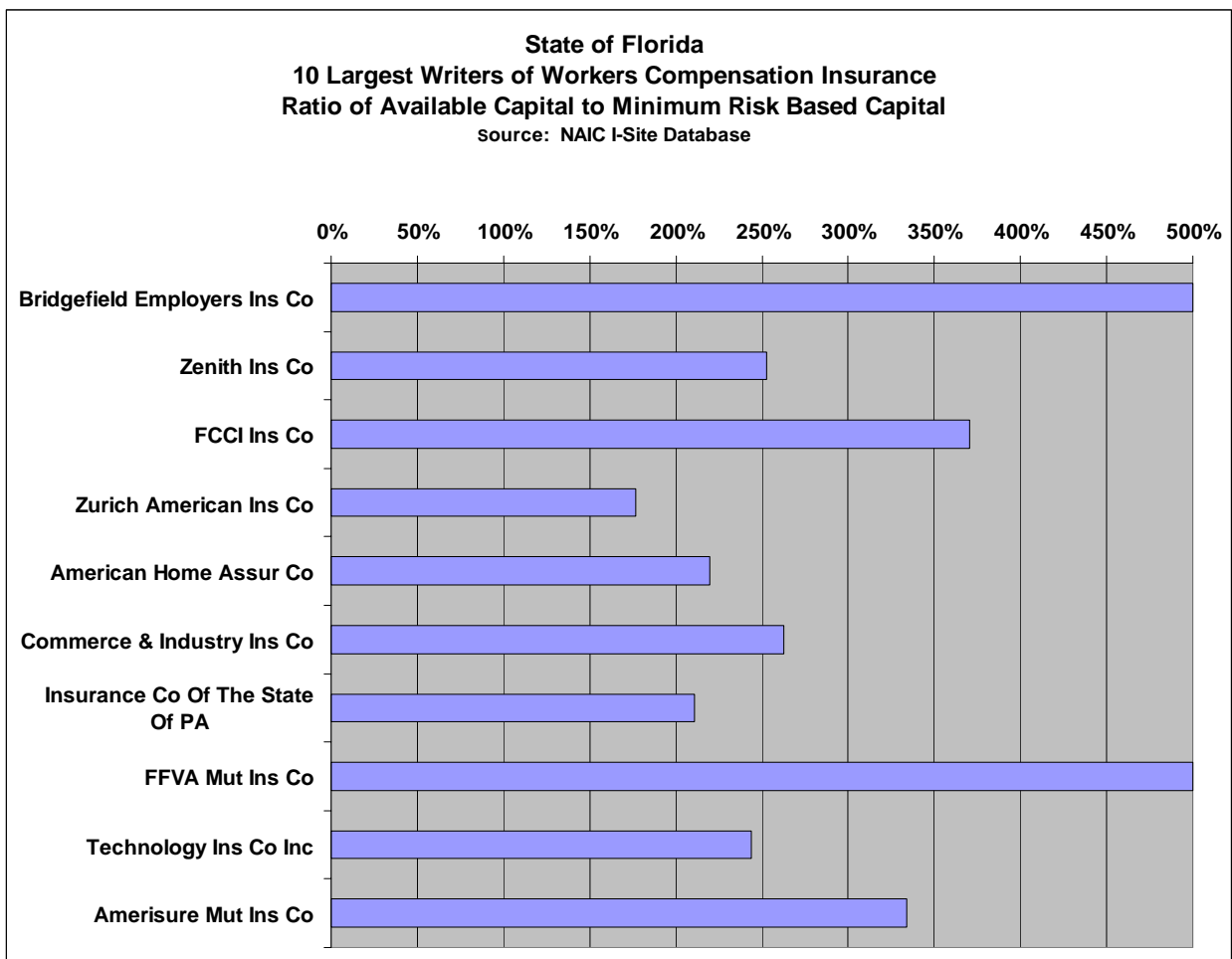
“Irrespective of the source of earnings, the vast majority of the industry's profits in 2007 will be reinvested back into the business. At the same time, there is excess capital in the industry today—estimated by some analysts to be as much as \$100 billion—that is driving down returns on equity. In an effort to manage this impact insurers are returning capital to shareholders in the form of increased dividend and share repurchases. Share repurchase activity in 2007 will shatter all previous records and could constitute a return of 4.5 to 5.0 percent of industry capital to owners. Through the third quarter of 2007, \$17.4 billion in share repurchases had been transacted, a figure that is already 133 percent above the previous record of \$7.1 billion for all of 2006. It is likely total share repurchases will exceed \$20 billion by year's end.

Excess capital can be measured by comparing available capital (surplus) to risk-based capital or by comparing net premiums written to statutory surplus.

Risk-Based Capital

Risk-based capital analysis exists for the protection of policyholders of insurance companies. Insurance regulators place minimum capital requirements upon insurers based on the premise that policyholders will receive limited payments should an insurer fail. However, insurance companies can become overcapitalized by consistently earning excessive profits over long periods of time. This is exactly what has happened to the State of Florida's workers compensation market and more broadly to the entire property and casualty insurance industry.

The following chart illustrates the excessive capitalization of the top ten writers of workers compensation insurance in the State of Florida. The ratios of available capital (statutory surplus) to minimum risk-based capital range from 180% to 370% for 8 of the ten largest writers in Florida. The two notable exceptions that have accumulated capital in excess of 500% of minimum levels are: Bridgefield Employers (1,676%) and FFVA Mutual (866%).



Authorized control level risk-based capital is reported on each insurer's statutory annual statement. Capital that falls at or below this level may be used as justification by an insurance regulator to seize control of an insurer to protect policyholders. Minimum risk-based capital is equal to 200% of authorized control level risk-based capital and is an estimate of the minimum capital required to support all the risks that an insurer is subject to, such as: 1) investment risk, 2) pricing risk, 3) interest rate risk, 4) credit risk, 5) adverse loss reserve development risk.

Premium to Surplus Ratio

The net premium to surplus ratio of the top ten writers of workers compensation insurance in Florida was only 72% (.72 to 1) in 2007 (Exhibit 10). This ratio is far below the maximum permissible ratio of 300% (3 to 1) according to the Insurance Regulatory Information System (IRIS). IRIS considers a net premium to surplus ratio between 0% and 300% (3 to 1) to be within an acceptable range. Furthermore, the 72% ratio is well below the 200% (2 to 1) ratio considered reasonable by Standard and Poor's. Historically the net premium to surplus ratio of the property and casualty insurance industry has been declining. In 1985 this ratio stood at 192% (1.92 to 1) and the projected ratio for 2007 is 85% (.85 to 1). This is further evidence that the industry has accumulated excess capital.

IRIS is a database of insurance companies in the United States run by the National Association of Insurance Commissioners and is designed to provide information about insurers' financial solvency. IRIS uses the financial statements of each insurer to calculate a series of financial ratios, which are then taken as a measure of the insurer's overall financial condition. If the ratios do not fit into a predetermined range, IRIS identifies the company for possible further scrutiny by appropriate authorities. IRIS acts as an early-warning system that aids insurance regulators in identifying those companies that may have financial problems.

TECHNICAL ANALYSIS

Two issues have been identified: 1) loss ratio trend rates, and 2) underwriting profit provision. After adjusting for these two issues, the average rate reduction should be 34.6% instead of the 14.1% recommended by the NCCI. The difference between the NCCI's indication of -14.1% and the Consumer Advocate's indication of -34.6% is -20.5%, which is approximately equal to the estimated average excess of 24.6% in NCCI rate levels over the last nine years.

Loss Ratio Trends

The Consumer Advocate's selected annual loss ratio trend rates are -12.6% (Exhibit 7) for indemnity benefits and -9.3% (Exhibit 6) for medical benefits. These selected trend rates are identical to the average loss ratio trend rates over the last five years in Florida. The NCCI has selected loss and loss adjustment expense ratio trend rates of -7.0% for indemnity and -3.0% for medical.

Since the average loss ratio trend rates over the last five years in Florida are well established and consistent, it is believed that these trend rates should be assumed to continue until there is some evidence that they are moderating. Substitution of the Consumer Advocate's proposed trend rates for the NCCI's selected trend rates reduces the indication by 10.5% to -24.6% from the NCCI indication of -14.1%.

Underwriting Profit Provision

The Consumer Advocate's selected -8.61% underwriting profit provision (Exhibit 9) is predicated on a premium to surplus ratio of 2 to 1 while the NCCI's 2.5% underwriting profit provision is predicated on a premium to surplus ratio of approximately .64 to 1 based on a presentation titled "State of the Line" given by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary at the Annual Issues Symposium on May 10, 2007 in Orlando, Florida. A similar slide was not provided in Mr. Mealy's 2008 State of the Line presentation.

There is overwhelming evidence in this report that the NCCI's assumed premium to surplus ratio represents an excessive level of capitalization. If the NCCI's proposed rates incorporating a +2.5% profit provision are approved, then the estimated return on actual surplus at risk from underwriting workers compensation insurance will be 28.97% (Exhibit 9). Substitution of the Consumer Advocate's selected underwriting profit provision of -8.61% for the NCCI's proposed underwriting profit provision of 2.5% reduces the indication by 10.0% to -34.6% from the previously adjusted indication of -24.6%.

AUTHORITY

This actuarial examination has been conducted pursuant to the responsibility of the Office of Insurance Consumer Advocate to represent the general public of the state in matters affecting insurance rate and form filings.

Specifically, at Section 627.0613(3), Florida Statutes: 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:

...(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.

BACKGROUND

The Office of Insurance Regulation (OIR) received the subject NCCI Filing on August 28, 2008, OIR File # 08-17889. The filing was submitted on a "prior approval" basis with an effective date of January 1, 2009, for new and renewal business and requests a 14.1% average rate reduction.

CREDENTIALS & BIO

Stephen A. Alexander is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. He has over 30 years of actuarial and risk management experience in government, consulting and the insurance industry. Currently, Mr. Alexander examines homeowners, medical malpractice, workers compensation, private passenger auto, commercial auto, general liability and other property and casualty rate filings for the Office of the Consumer Advocate. He testifies at rate hearings and before legislative committees. Mr. Alexander prepared a comprehensive review of the Florida title insurance industry and prepared analyses of various legislative proposals to modify the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation.

EXHIBITS

Exhibits 1 – 13

Office of the Consumer Advocate
 Review of OIR Filing Number 08-17889
 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)	58.2%	51.6%
(2) =(Average of line (30) amounts - Large Deductible Coverage)	65.7%	54.5%
(3) Average Cost Ratio, Weighted by Net Premium	59.2%	52.0%
(4) Target Cost Ratio	0.7293	0.8404
(5) Effect of Change in Production and General Expenses	0.996	0.996
(6) Effect of Change in Loss Based Expenses	1.014	1.014
(7) Effect of Change in Profit and Contingency Margin	1.047	1.047
(8) Target Cost Ratio Adjusted for (5) through (8)	0.6897	0.7948
(9) Indicated Premium Level Change	-14.1%	-34.6%

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 (0.871) + (2) x (0.129)]
- (4) NCCI Exhibit I-F, Row (2) and Exhibit 9, Row (14)
- (5) NCCI Exhibit I-G, Row (2)
- (6) NCCI Exhibit I-I, Row (2)
- (7) NCCI Exhibit I-J, Row (2)
- (8) equals (4)/(5)/(6)/(7)
- (9) equals (3) / (8) - 1

Office of the Consumer Advocate
Review of OIR Filing Number 08-17889
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2007 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$3,194,909,681	\$3,194,909,681
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.749	0.749
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,392,987,351	\$2,392,987,351
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (First Report)		\$78,449,594	\$202,162,100
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		5.238	1.749
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$410,918,973	\$353,581,513
(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		1.238	1.238
(9) Composite Adjustment Factor = (7) * (8)		1.238	1.238
(10) Adjusted Indemnity Cost = (6) * (9)		\$508,717,689	\$437,733,913
(11) Indemnity Cost Ratio = (10) / (3)		0.213	0.183
(12) Trend Length		2.366	2.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.874	0.728	0.728
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.155	0.133
(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	0.133
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (First Report)		\$258,376,461	\$511,206,587
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.242	1.541
(19) Developed Medical Benefit Cost = (17) * (18)		\$837,656,487	\$787,769,351
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.993	0.993
(21) Factor to Include Loss Based Expenses		1.238	1.238
(22) Composite Adjustment Factor = (20) * (21)		1.229	1.229
(23) Adjusted Medical Cost = (19) * (22)		\$ 1,029,759,599.25	\$ 968,431,646.81
(24) Medical Cost Ratio = (23) / (3)		0.430	0.405
(25) Trend Length		2.366	2.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.907	0.794	0.794
(27) Projected Medical Cost Ratio = (24) * (26)		0.342	0.377
(28) Proposed Change in Medical Benefits (See Appendix C-II)		1.002	1.002
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.342	0.378
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2006 = (16) + (29)		0.497	0.511

Notes:

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

Office of the Consumer Advocate
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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		\$3,705,087,797	\$3,705,087,797
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.623	0.623
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,308,269,698	\$2,308,269,698
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (Second Report)		\$208,733,491	\$297,988,708
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.167	1.355
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$452,325,475	\$403,774,699
(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		1.238	1.238
(9) Composite Adjustment Factor = (7) * (8)		1.238	1.238
(10) Adjusted Indemnity Cost = (6) * (9)		\$559,978,938	\$499,873,078
(11) Indemnity Cost Ratio = (10) / (3)		0.243	0.217
(12) Trend Length		3.366	3.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.874	0.636	0.636
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.154	0.138
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.154	0.138
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (Second Report)		\$521,998,785	\$657,686,694
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.784	1.297
(19) Developed Medical Benefit Cost = (17) * (18)		\$931,245,832	\$853,019,642
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.989	0.989
(21) Factor to Include Loss Based Expenses		1.238	1.238
(22) Composite Adjustment Factor = (20) * (21)		1.224	1.224
(23) Adjusted Medical Cost = (19) * (22)		\$1,140,200,635	\$1,044,421,895
(24) Medical Cost Ratio = (23) / (3)		0.494	0.452
(25) Trend Length		3.366	3.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.907	0.720	0.720
(27) Projected Medical Cost Ratio = (24) * (26)		0.356	0.408
(28) Proposed Change in Medical Benefits (See Appendix C-II)		1.002	1.002
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.356	0.409
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.511	0.547

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 08-17889
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2007 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2006		\$2,716,626,389	\$2,716,626,389
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.749	0.749
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,034,753,165	\$2,034,753,165
 Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (First Report)		\$63,199,496	\$135,637,756
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		6.735	2.693
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$425,648,606	\$365,272,477
(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		1.238	1.238
(9) Composite Adjustment Factor = (7) * (8)		1.238	1.238
(10) Adjusted Indemnity Cost = (6) * (9)		\$526,952,974	\$452,207,326
(11) Indemnity Cost Ratio = (10) / (3)		0.259	0.222
(12) Trend Length		2.366	2.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.874	0.728	0.728
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.188	0.162
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.188	0.162
 Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (First Report)		\$203,220,296	\$384,822,053
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.936	2.054
(19) Developed Medical Benefit Cost = (17) * (18)		\$799,875,085	\$790,424,497
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.993	0.993
(21) Factor to Include Loss Based Expenses		1.238	1.238
(22) Composite Adjustment Factor = (20) * (21)		1.229	1.229
(23) Adjusted Medical Cost = (19) * (22)		\$983,313,638	\$971,695,708
(24) Medical Cost Ratio = (23) / (3)		0.483	0.477
(25) Trend Length		2.366	2.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.907	0.794	0.794
(27) Projected Medical Cost Ratio = (24) * (26)		0.384	0.379
(28) Proposed Change in Medical Benefits (See Appendix C-II)		1.002	1.002
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.384	0.379
 Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2006 = (16) + (29)		0.573	0.541

Notes:

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

Office of the Consumer Advocate
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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		\$3,050,015,476	\$3,050,015,476
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.623	0.623
(3) Premium Adjusted to Current Level = (1) * (2)		\$1,900,159,642	\$1,900,159,642
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2006 (Second Report)		\$166,865,745	\$229,921,771
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.529	1.626
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$422,003,469	\$373,852,800
(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		1.238	1.238
(9) Composite Adjustment Factor = (7) * (8)		1.238	1.238
(10) Adjusted Indemnity Cost = (6) * (9)		\$522,440,295	\$462,829,766
(11) Indemnity Cost Ratio = (10) / (3)		0.275	0.244
(12) Trend Length		3.366	3.366
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.874	0.636	0.636
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.175	0.155
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.175	0.155
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2006 (Second Report)		\$411,540,853	\$503,413,484
(18) Factor to Develop Medical Benefit Cost (See App A-II)		1.962	1.536
(19) Developed Medical Benefit Cost = (17) * (18)		\$807,443,154	\$773,243,111
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		0.989	0.989
(21) Factor to Include Loss Based Expenses		1.238	1.238
(22) Composite Adjustment Factor = (20) * (21)		1.224	1.224
(23) Adjusted Medical Cost = (19) * (22)		\$988,618,863	\$946,744,947
(24) Medical Cost Ratio = (23) / (3)		0.520	0.498
(25) Trend Length		3.366	3.366
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.907	0.720	0.720
(27) Projected Medical Cost Ratio = (24) * (26)		0.375	0.359
(28) Proposed Change in Medical Benefits (See Appendix C-II)		1.002	1.002
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.375	0.359
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.550	0.514

Notes:

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

Office of the Consumer Advocate
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 National Council on Compensation Insurance, Inc.

Medical Trend

Cal-Acc Year	Paid	Paid+Case	Average	Consumer Advocate	NCCI
2003	51.2%	49.9%	50.6%	51.5%	
2004	48.0%	46.9%	47.5%	46.8%	
2005	44.0%	42.1%	43.1%	42.4%	
2006	40.2%	37.0%	38.6%	38.5%	
2007	35.3%	33.5%	34.4%	34.9%	
2008				31.6%	
2009				28.7%	32.8%
Selected Annual Change				-9.3%	-3.0%
Annual Trend Factor				90.7%	97.0%

Notes:

- 1) based on NCCI Appendix A-III, Page 48
- 2) 2009 year trended to 7/1/2009

Office of the Consumer Advocate
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Indemnity Trend

Cal-Acc Year	Paid	Paid+Case	Average	Consumer Advocate	NCCI
2003	28.2%	27.2%	27.7%	28.3%	
2004	26.0%	25.0%	25.5%	24.8%	
2005	22.5%	20.9%	21.7%	21.6%	
2006	19.9%	17.8%	18.9%	18.9%	
2007	17.7%	15.2%	16.5%	16.5%	
2008				14.5%	
2009				12.6%	14.3%
Selected Annual Change				-12.6%	-7.0%
Annual Trend Factor				87.4%	93.0%

Notes:

- 1) based on NCCI Appendix A-III, Page 48
- 2) 2009 year trended to 7/1/2009

Office of the Consumer Advocate
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Medical and Indemnity
 Combined Trend Including LAE
 (1) (2) (3) (4)

Cal-Acc Year	Paid	Paid+Case	Average	Consumer Advocate	NCCI
2003	98.3%	95.4%	96.9%	98.9%	
2004	91.6%	89.0%	90.3%	88.5%	
2005	82.3%	78.0%	80.2%	79.3%	
2006	74.4%	67.8%	71.1%	71.0%	
2007	65.6%	60.3%	63.0%	63.7%	
2008					
(5) 2009				52.0%	59.2%

Notes:

- (1) - (4) (Exhibit 6 + Exhibit 7) x 1.238
- (5) Exhibit 1, Row (3)

Office of the Consumer Advocate
Review of OIR Filing Number 08-17889
National Council on Compensation Insurance, Inc.

Underwriting Profit and Return on Surplus

	<u>NCCI Proposed</u>	<u>NCCI Actual *</u>	<u>Consumer Advocate Proposed</u>
(1) Underwriting Profit	2.50	2.50	(8.61)
(2) Premium	100.00	100.00	88.89
(3) Surplus	156.25	50.00	50.00
(4) Premium to Surplus Ratio	0.640	2.00	2.00
(5) Losses & Expenses	97.50	97.50	97.50
(6) Reserves	319.00	319.00	319.00
(7) Investment Income on Reserves	13.08	13.08	13.08
(8) Investment Income on Surplus	6.41	2.05	2.05
(9) Net Income Before Federal Income Tax	21.99	17.63	6.52
(10) Federal Income Tax Rate	17.3%	17.8%	17.0%
(11) Federal Income Tax	3.80	3.14	1.11
(12) Net Income After Federal Income Tax	18.19	14.48	5.41
(13) Return on Surplus After Federal Income Tax & Before Policyholder Dividends	11.64%	28.97%	10.82%
(14) Target Cost Ratio	0.7293	0.7293	0.8404

Notes:

* return on actual capital at risk from underwriting workers compensation insurance

- (1) (2) - (5)
- (2) - (6) Bests Aggregates and Averages, 2007, predominate workers compensation insurers composite annual statements. Reserves include loss, LAE and unearned premium reserves. Annual Issues Symposium presentation given May 10, 2007 in Orlando, Florida by Dennis Mealy, FCAS, MAAA, NCCI Chief Actuary titled "State of the Line", Page 20 footnote, premium to surplus ratio = .64.
- (7) equals 4.1% of (6) per Bests Aggregates and Averages, 2007, workers compensation insurers composite annual statements.
- (8) equals 4.1% of (3) per Bests Aggregates and Averages, 2007, workers compensation insurers composite annual statements.
- (9) (1) + (7) + (8)
- (10) (11) / (9)
- (11) $.35 \times (1) + .15 \times ((7) + (8))$. Assumes 35% average federal income tax rate on underwriting income and 15% average federal income tax rate on investment income and 17% alternative minimum tax based on actuarial judgment.
- (12) (9) - (11)
- (13) (12) / (3). 10.82% based on "Measuring the Cost of Capital in the Property and Casualty Insurance Industry", Frank Schmid and Martin H. Wolf, NCCI Research Brief, January 2008
- (14) NCCI Exhibit I-F, Row (2)
 $.8404 = .7293 + (2.50 + 8.61)/100$

Office of the Consumer Advocate
Review of OIR Filing Number 08-17889
National Council on Compensation Insurance, Inc.
Top 10 Workers Compensation Insurers in Florida

2007 Net Premium to Surplus Ratios

Company Name	(1) Florida Direct Written Premium	(2) Countrywide Net Written Premiums	(3) Surplus	(4) Net Premium to Surplus
Bridgefield Employers Ins Co	420,330,457	-	93,624,151	0%
Zenith Ins Co	198,423,279	703,140,464	451,094,649	156%
FCCI Ins Co	156,064,852	508,476,284	420,558,267	121%
Zurich American Ins Co	117,850,249	5,864,798,473	6,744,712,291	87%
American Home Assur Co	107,890,937	7,659,985,607	7,296,956,336	105%
Commerce & Industry Ins Co	94,608,185	2,046,468,903	2,687,933,985	76%
Insurance Co Of The State Of PA	89,817,237	1,023,234,449	1,900,373,159	54%
FFVA Mut Ins Co	86,528,007	98,355,044	112,750,581	87%
Technology Ins Co Inc	67,957,644	95,639,476	132,652,289	72%
Amerisure Mut Ins Co	67,464,708	422,244,948	594,760,470	71%
Total or Average	1,406,935,555	18,422,343,648	20,435,416,178	72%

Notes:

- (1) - (3) NAIC I-Site Database
(4) (2) / (3), total weighted by (1)

Office of the Consumer Advocate
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 National Council on Compensation Insurance, Inc.

Florida 2007 Dividend Ratios

Company Name	(1) Florida Direct Earned Premium	(2) Florida Dividends Paid	(3) Dividend Ratio
Bridgefield Employers Ins Co	420,330,457	39,702,904	9.4%
Zenith Ins Co	200,779,625	9,480,183	4.7%
FCCI Ins Co	162,734,519	12,493,868	7.7%
Zurich American Ins Co	92,199,437	-	0.0%
American Home Assur Co	124,018,069	-	0.0%
Commerce & Industry Ins Co	125,993,259	-	0.0%
Insurance Co Of The State Of PA	82,374,852	-	0.0%
FFVA Mut Ins Co	88,552,799	5,398,791	6.1%
Technology Ins Co Inc	67,474,569	864,488	1.3%
Amerisure Mut Ins Co	65,559,241	2,822,207	4.3%
All Other Insurers	1,704,910,210	49,376,745	2.9%
	3,134,927,037	120,139,186	3.8%

Notes:

(1)&(2) NAIC I-Site Database

(3) (2) / (1)

Office of the Consumer Advocate
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2007 Minimum Risk-Based Capital Ratios

Company Name	(1) Minimum Risk-Based Capital	(2) Surplus	(3) Ratio
Bridgefield Employers Ins Co	5,585,886	93,624,151	1676%
Zenith Ins Co	178,383,844	451,094,649	253%
FCCI Ins Co	113,619,534	420,558,267	370%
Zurich American Ins Co	3,820,951,310	6,744,712,291	177%
American Home Assur Co	3,205,474,758	7,041,184,336	220%
Commerce & Industry Ins Co	995,951,700	2,616,883,985	263%
Insurance Co Of The State Of PA	851,664,334	1,796,898,777	211%
FFVA Mut Ins Co	13,018,440	112,750,581	866%
Technology Ins Co Inc	54,428,784	132,652,289	244%
Amerisure Mut Ins Co	178,197,266	594,760,470	334%
Average			461%

Notes:

(1)&(2) NAIC I-Site Database

(3) (2) / (1)

Office of the Consumer Advocate
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 National Council on Compensation Insurance, Inc.

Excess Premiums

Year	(1) Countrywide Direct Incurred Loss Ratio	(2) Florida Direct Incurred Loss Ratio	(3) Difference	(4) Florida Direct Earned Premium	(5) Estimated Excess Premium	(6) % Excess Premiums
1999	73.9%	64.6%	9.3%	2,384,935,636	301,270,602	12.6%
2000	78.8%	64.0%	14.8%	2,543,119,012	477,265,064	18.8%
2001	86.4%	56.0%	30.4%	2,722,254,760	957,400,760	35.2%
2002	78.2%	54.9%	23.3%	2,838,130,553	846,879,631	29.8%
2003	73.5%	49.6%	23.9%	3,252,766,527	1,056,748,085	32.5%
2004	67.9%	48.0%	19.9%	3,307,111,594	970,344,987	29.3%
2005	65.2%	55.0%	10.2%	3,563,786,657	554,931,427	15.6%
2006	59.3%	44.2%	15.1%	3,762,896,577	955,527,881	25.4%
2007	61.2%	48.5%	12.7%	3,134,927,037	650,500,119	20.8%
				27,509,928,353	6,770,868,556	24.6%

Notes:

- (1) 2007: NAIC I-Site Database, 1999-2006: Best's Aggregates and Averages.
- (2) NAIC I-Site Database
- (3) (1) - (2)
- (4) NAIC I-Site Database
- (5) (4) x ((1) - (2) / (1))
- (6) (5) / (4)

