

October 2, 2006

**Actuarial Analysis of
Office of Insurance Regulation
Filing Number 06-11437
Workers Compensation Insurance
National Council on Compensation Insurance, Inc.**

Office of the Consumer Advocate
State of Florida

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PRELIMINARY

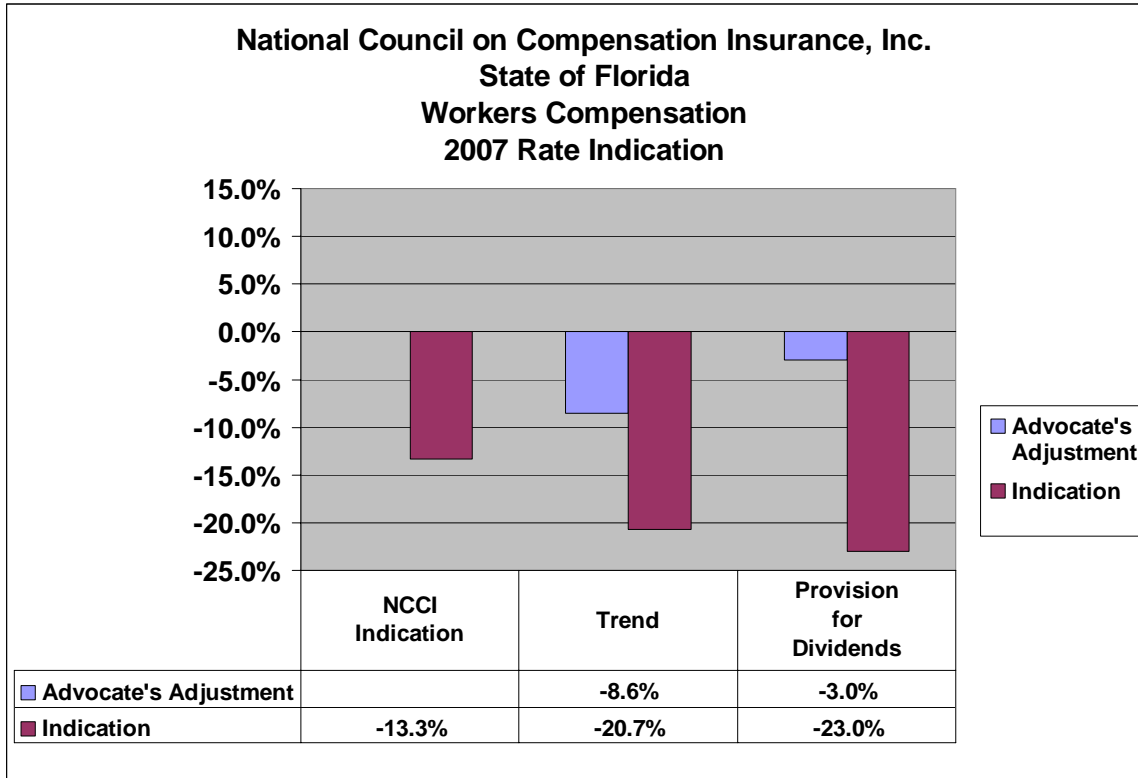
LIMITATIONS

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

PRELIMINARY

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) provision for dividends. Additional issues may be identified pursuant to public hearings and requests for additional information.

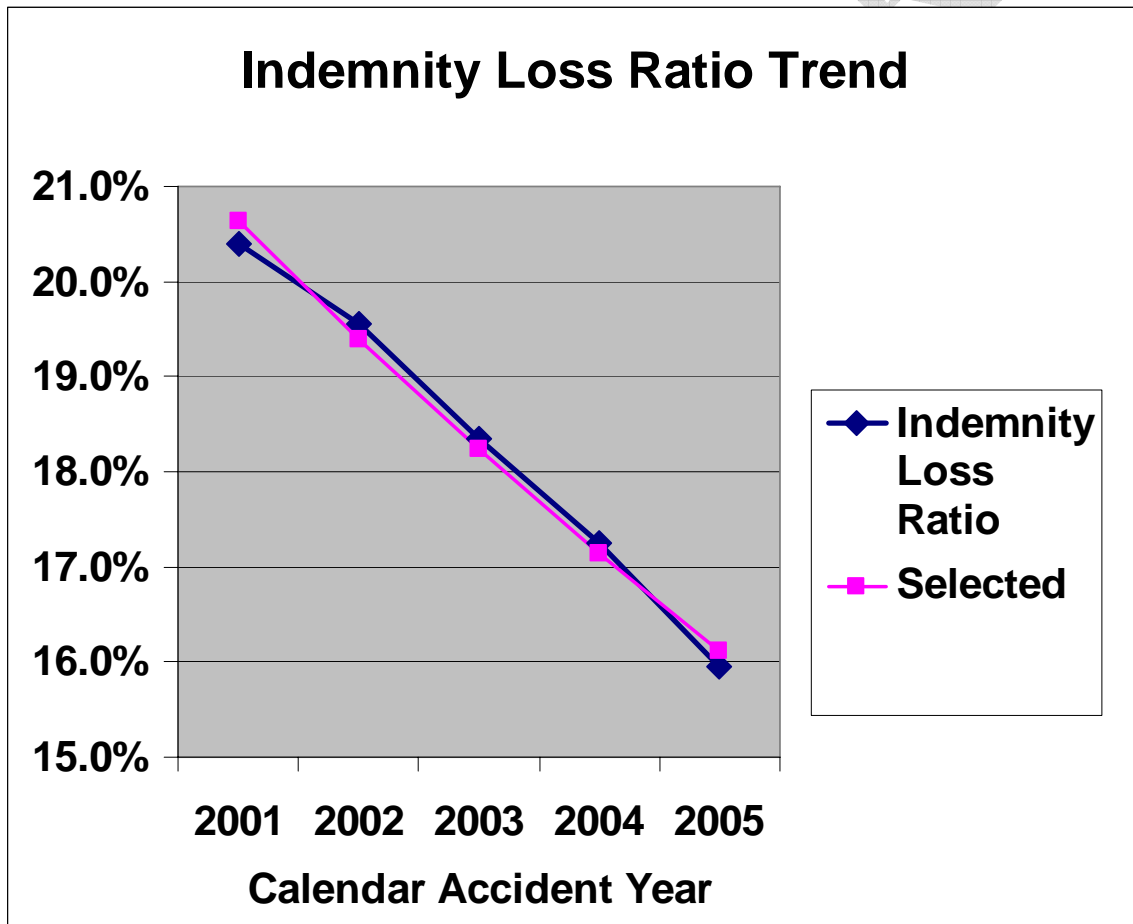
The Consumer Advocate’s selected indemnity and medical trends should be adopted because: 1) they are fully supported by Florida experience, 2) the 2003 reforms continue to have had a major impact upon the number of new cases and petitions filed before the Florida Office of Judges of Compensation Claims (OJCC), 3) the lack of attorney involvement in workers compensation claims has been shown by the NCCI to dramatically decrease the cost of claims, 4) Florida employers have overpaid approximately \$1.7 billion in workers compensation premiums over the last ten years, and 5) if any member or subscriber to the NCCI believes the approved rates are inadequate, they may file for a deviation pursuant to Section 627.211 F.S.

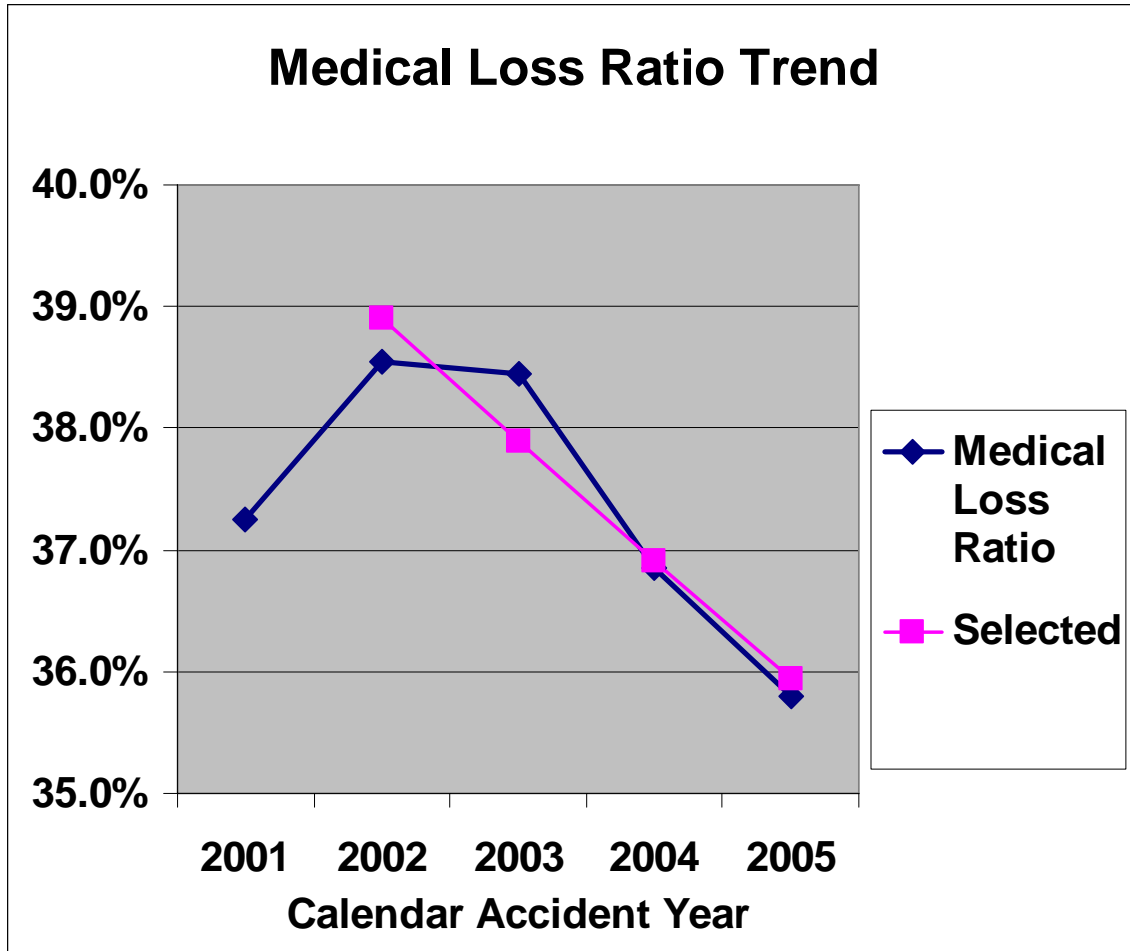
Finally, the NCCI provision for policyholder dividends should not be allowed until the NCCI provides: 1) additional support for its selected provision, and 2) its members’ and subscribers’ actual policyholder dividend payment history in the state of Florida.

ANALYSIS

Loss Trends

The Consumer Advocate’s selected annual loss ratio trends are -6.0% for indemnity and -2.6% for medical versus the NCCI’s -3.0% for indemnity and +.5% for medical. The selected -6.0% indemnity and -2.6% medical annual loss ratio trends are consistent with the actual trends experienced in the state of Florida over the last three to five years. It is unlikely that future loss ratio trends will match exactly the latest experience; nevertheless, it is believed that there is an equal probability of trends being more or less than those selected. Substitution of the Consumer Advocate’s selected trends for the NCCI’s proposed trends reduces the indication by 8.6% to -20.7% $((1-.086) \times (1 - .133) - 1)$ from the NCCI indication of -13.3%.

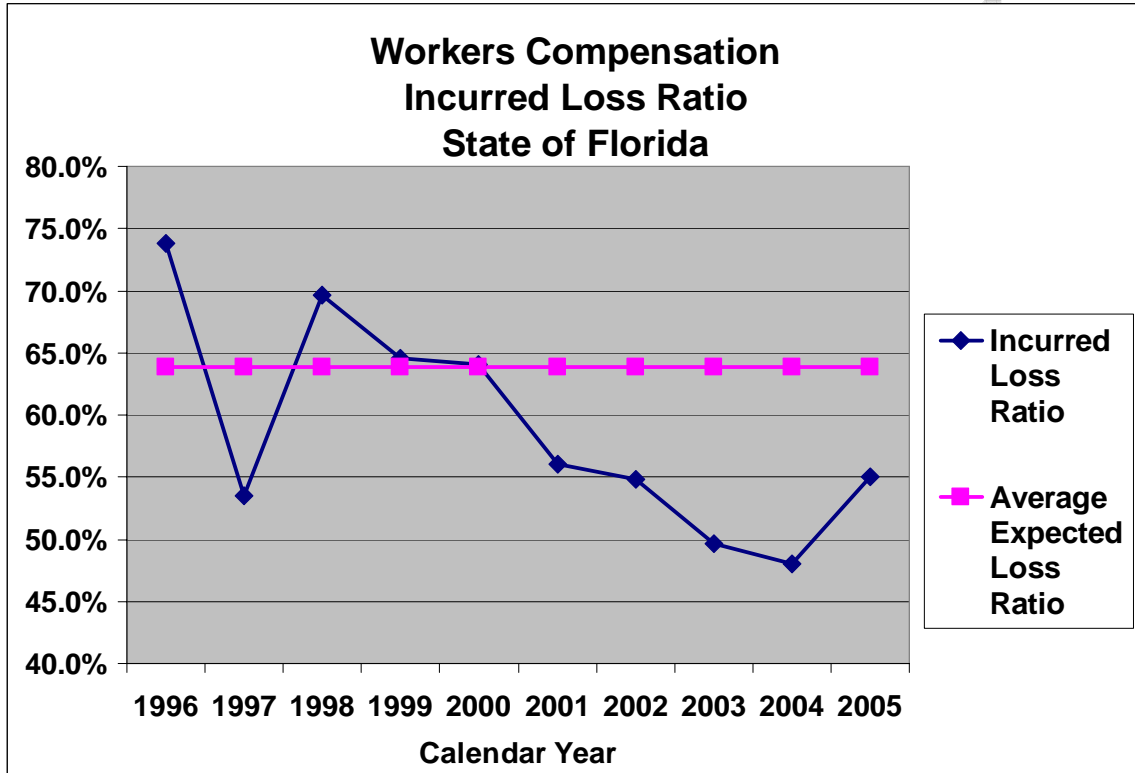




The NCCI states that: “no clear pattern of behavior is discernable from Florida’s medical loss ratio history over the past five calendar-accident years (Filing Page 10).” The Consumer Advocate respectfully disagrees and believes that there is a clear downward trend in the medical loss ratios that coincides with the 2003 reforms.

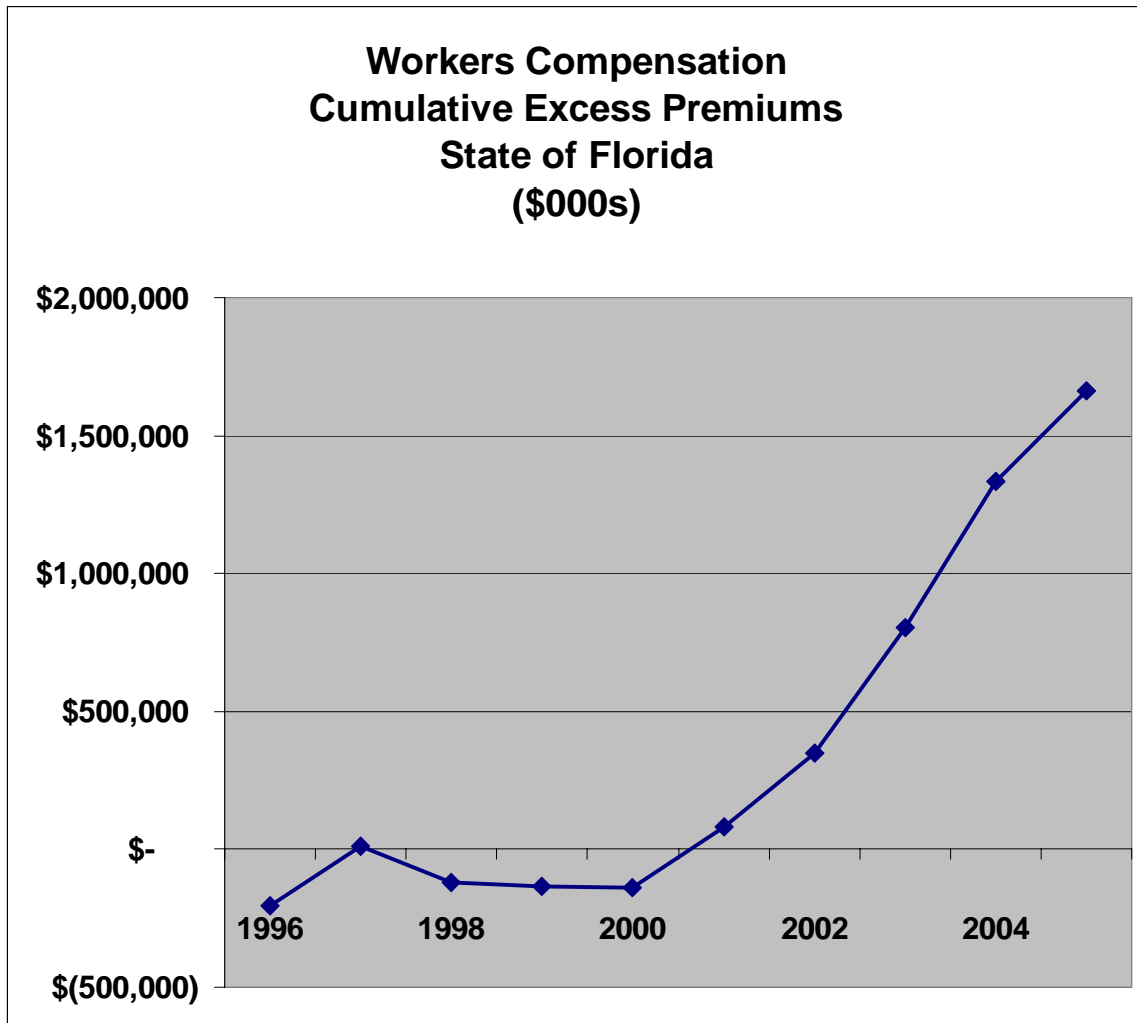
Florida Loss Ratios

Actual incurred loss ratios excluding loss adjustment expenses in the state of Florida (based on NAIC statutory annual statement data) have been considerably less than the average expected loss ratios excluding loss adjustment expenses built into the NCCI's rate requests, as shown in the following chart:



The average expected loss ratio excluding loss adjustment expenses is estimated using a three year average after adjustment for average premium discount and expense constant (Exhibit 8). Data for the other seven years was not available, but is not considered material to the overall conclusion that excess premiums have been charged in Florida by workers compensation insurers during the last 10 years. The expected loss ratio is the estimated share of premiums needed to pay losses after consideration of investment income and after payment of expenses, federal income taxes, policyholder dividends and an allowance for profit.

Because recent incurred loss ratios have been favorable to Florida workers compensation insurers, it is estimated that Florida employers have paid excess premiums of approximately \$1.7 billion over the last ten years, as illustrated in the following chart:



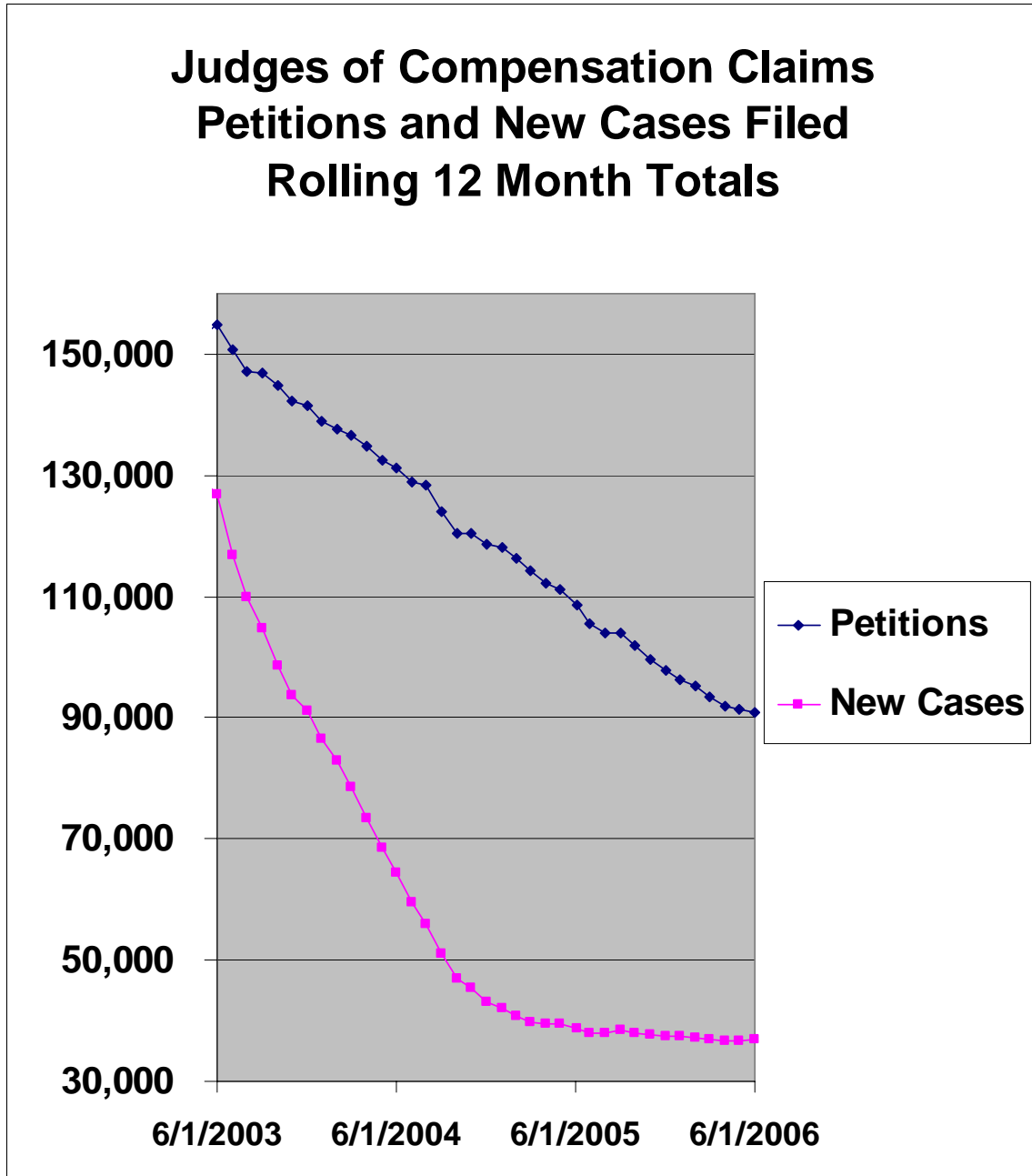
PRR

2003 Reforms

On March 6, 2003, the NCCI submitted the following statement to the House Select Committee on Workers' Compensation: "Attorney involvement is significant in Florida and also helps explain cost drivers. When attorneys are not involved the difference in claim costs between Florida and countrywide is minimal. When attorneys are involved, the difference in claim size between Florida and countrywide is nearly 40 percent."

Furthermore, a recent NCCI research brief found that: "Costs of claims with an attorney are more than 4 times higher than those without an attorney for claims without surgery and for claims with surgery, total average claims costs are 1.8 times higher with an attorney. (Carpal Tunnel Claims Rank Second Among Major Lost Time Diagnoses, April 2005, by NCCI Chief Economist Harry Shuford and Associate Economist Tanya Restrepo.)

Because of the 2003 reforms, fewer Florida plaintiff attorneys are interested in representing injured workers and are turning down cases they would have accepted prior to the 2003 reforms. This is evident in the number of petitions and new cases coming before the Florida OJCC, as shown in the following chart:



The OJCC reported in its FY 2004-05 annual report (pages 2 and 3) that: “The attorney fee limits in the 2003 reforms have been spectacularly successful (emphasis added) in reducing the volume and cost of litigation In 2004-05, the OJCC began clearing out a backlog of cases that built up when attorney fees often amounted to 40% of the clients’ recovery, and for the most part the judges now strictly enforce the 2003 reforms. The judges have endured ugly backlash from enforcing those attorney fee limits.....”

A petition is filed with the OJCC when a worker thinks there is an entitlement to benefits, and the insurer disagrees. In the above chart, new cases represent the first petitions filed for each case, and therefore new cases are a subset of total petitions. It is not unusual for multiple petitions to be filed on the same case.

PRELIMINARY

Provision for Dividends

Section 627.072 F.S. provides: (1) as to workers' compensation and employer's liability insurance, the following factors shall be used in the determination and fixing of rates:(d) dividends, savings, or unabsorbed premium deposits allowed or returned by insurers to their policyholders, members, or subscribers (emphasis added). The NCCI's only support for its selected dividend provision is the following statement: "a dividend provision of 2.42% was included in the IRR (Internal Rate of Return) model." The NCCI revealed that this provision was imbedded within its proposed profit provision in response to the OIR standard interrogatories (response to Question 3, Page 31); it was not disclosed in its initial filing.

Compare the lack of support for the proposed policyholder dividend provision to the support provided for the proposed expense provisions. The NCCI documented in its initial filing three years of general and production expense experience and 10 years of loss adjustment expense experience. Therefore, it is recommended that the NCCI provide similar documentation for the dividend experience of its members and subscribers in the state of Florida in support of its selected dividend percentage. Until such supporting documentation is submitted, the Commissioner of Insurance has no basis to determine whether the proposed provision is excessive, inadequate or unfairly discriminatory in accordance with Section 627.062(1) F.S. Elimination of the NCCI's proposed provision for dividends reduces the indication by 3.0% to -23.0% $((1-.030)) \times (1 - .207) - 1$ from the previously adjusted indication of -20.7%.

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: 06-11437 (Filing), on August 29, 2006, which was submitted as “prior approval” with effective dates of January 1, 2007 for new and renewal business.

PRELIMINARY

EXHIBITS

Exhibit 1	Indicated Rate Change
Exhibit 2	Standard Coverage, Calendar-Accident Year 2005 Experience
Exhibit 3	Standard Coverage, Calendar-Accident Year 2004 Experience
Exhibit 4	Large Deductible, Calendar-Accident Year 2005 Experience
Exhibit 5	Large Deductible, Calendar-Accident Year 2004 Experience
Exhibit 6	Medical Trend
Exhibit 7	Indemnity Trend
Exhibit 8	Expected Loss Ratio

PRELIMINARY

Exhibit 1

Office of the Consumer Advocate
 Review of OIR Filing Number 06-11437
 National Council on Compensation Insurance, Inc.

Indicated Rate Change

(1) Standard Coverage Adjusted Cost Ratio =(Average of line (30) amounts - Standard Coverage)	57.70%
(2) =(Average of line (30) amounts - Large Deductible Coverage)	55.01%
(3) Average Cost Ratio, Weighted by Net Premium	57.29%
(4) NCCI Current Target Cost Ratio	70.03%
(5) NCCI Provision for Dividends	2.42%
(6) Discount Period (years)	2.00
(7) Discount Rate	5.29%
(8) Discounted Provision for Dividends	2.18%
(9) Target Cost Ratio Adjusted to Remove Dividends	72.21%
(10) Effect of Change in Production and General Expenses	0.996
(11) Effect of Change in Premium Discount	0.974
(12) Target Cost Ratio Adjusted for (10) and (11)	74.44%
(13) Indicated Premium Level Change	-23.0%

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 (0.848) + (2) x (0.152)]
- (4) NCCI Exhibit I-F, Row (2)
- (5) NCCI response to OIR interrogatories Question (3)
- (6) NCCI response to OIR interrogatories Attachment 6B
- (7) NCCI response to OIR interrogatories Attachment 4i
- (8) equals (5) / ((1 + (7))^(6))
- (9) equals (4) + (8)
- (10) NCCI Exhibit I-G, Row (2)
- (11) NCCI Exhibit I-K, Row (2)
- (12) equals (9) / (10) / (11)
- (13) equals (3) / (12) - 1

Office of the Consumer Advocate
Review of OIR Filing Number 06-11437
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 12/31/2005		\$3,492,928,716	\$3,492,928,716
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.839	0.839
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,930,567,193	\$2,930,567,193
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2005 (First Report)		\$82,806,894	\$241,359,615
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		5.671	1.936
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$469,597,896	\$467,272,215
(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)		\$569,622,248	\$566,801,196
(11) Indemnity Cost Ratio = (10) / (3)		0.194	0.193
(12) Trend Length		2.333	2.333
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.940	0.866	0.866
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.168	0.167
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.168	0.167
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2005 (First Report)		\$263,298,030	\$541,892,888
(18) Factor to Develop Medical Benefit Cost (See App A-II)		3.960	1.917
(19) Developed Medical Benefit Cost = (17) * (18)		\$1,042,660,199	\$1,038,808,666
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.008	1.008
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.223	1.223
(23) Adjusted Medical Cost = (19) * (22)		\$1,274,864,796	\$1,270,155,512
(24) Medical Cost Ratio = (23) / (3)		0.435	0.433
(25) Trend Length		2.333	2.333
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.974	0.940	0.940
(27) Projected Medical Cost Ratio = (24) * (26)		0.409	0.407
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.998	0.998
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.408	0.407
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.576	0.574

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 06-11437
National Council on Compensation Insurance, Inc.

Standard Coverage
Calendar-Accident Year 2004 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2005		\$3,172,026,948	\$3,172,026,948
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.809	0.809
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,566,169,801	\$2,566,169,801
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2005 (First Report)		\$199,720,020	\$311,432,266
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.222	1.414
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$443,777,884	\$440,365,224
(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)		\$538,302,574	\$534,163,017
(11) Indemnity Cost Ratio = (10) / (3)		0.210	0.208
(12) Trend Length		3.333	3.333
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.940	0.814	0.814
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.171	0.169
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.171	0.169
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2005 (First Report)		\$454,410,530	\$609,895,919
(18) Factor to Develop Medical Benefit Cost (See App A-II)		2.009	1.536
(19) Developed Medical Benefit Cost = (17) * (18)		\$912,910,755	\$936,800,132
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.023	1.023
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.241	1.241
(23) Adjusted Medical Cost = (19) * (22)		\$1,132,830,043	\$1,162,474,346
(24) Medical Cost Ratio = (23) / (3)		0.441	0.453
(25) Trend Length		3.333	3.333
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.974	0.916	0.916
(27) Projected Medical Cost Ratio = (24) * (26)		0.404	0.415
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.998	0.998
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.403	0.414
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.574	0.583

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 06-11437
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 12/31/2005		\$3,664,206,421	\$3,664,206,421
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.839	0.839
(3) Premium Adjusted to Current Level = (1) * (2)		\$3,074,269,187	\$3,074,269,187
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2005 (First Report)		\$67,716,382	\$151,700,543
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		7.903	3.090
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$535,162,567	\$468,754,678
(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)		\$649,152,194	\$568,599,424
(11) Indemnity Cost Ratio = (10) / (3)		0.211	0.185
(12) Trend Length		2.333	2.333
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.940	0.866	0.866
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.183	0.160
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.183	0.160
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2005 (First Report)		\$200,006,808	\$372,788,981
(18) Factor to Develop Medical Benefit Cost (See App A-II)		4.819	2.386
(19) Developed Medical Benefit Cost = (17) * (18)		\$963,832,808	\$889,474,509
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.008	1.008
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.223	1.223
(23) Adjusted Medical Cost = (19) * (22)		\$1,178,482,229	\$1,087,564,040
(24) Medical Cost Ratio = (23) / (3)		0.383	0.354
(25) Trend Length		2.333	2.333
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.974	0.940	0.940
(27) Projected Medical Cost Ratio = (24) * (26)		0.360	0.333
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.998	0.998
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.360	0.332
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.543	0.492

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 06-11437
National Council on Compensation Insurance, Inc.

Large Deductible
Calendar-Accident Year 2004 Experience

Premium:	Annual Trend Factor	Paid	Paid + Case
(1) Standard Earned Premium Valued as of 12/31/2005		\$3,093,144,001	\$3,093,144,001
(2) Factor to Adjust Premium to Current Level (See Appendix A-I)		0.809	0.809
(3) Premium Adjusted to Current Level = (1) * (2)		\$2,502,353,497	\$2,502,353,497
Indemnity Benefit and LAE Cost:			
(4) Indemnity Benefit Cost Valued as of 12/31/2005 (First Report)		\$181,293,336	\$259,480,265
(5) Factor to Develop Indemnity Benefit Cost (See App A-II)		2.778	1.771
(6) Developed Indemnity Benefit Cost = (4) * (5)		\$503,632,887	\$459,539,549
(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)		\$610,906,692	\$557,421,473
(11) Indemnity Cost Ratio = (10) / (3)		0.244	0.223
(12) Trend Length		3.333	3.333
(13) Application of Indemnity Trend Factor = Annual Trend Factor ^ (12)	0.940	0.814	0.814
(14) Projected Indemnity Cost Ratio = (11) * (13)		0.199	0.181
(15) Proposed Change in Indemnity Benefits (See Appendix C-II)		1.000	1.000
(16) Projected Indemnity Cost Ratio Including Benefit Change = (14) * (15)		0.199	0.181
Medical Benefit and LAE Cost:			
(17) Medical Benefit Cost Valued as of 12/31/2005 (First Report)		\$396,516,458	\$508,181,803
(18) Factor to Develop Medical Benefit Cost (See App A-II)		2.232	1.671
(19) Developed Medical Benefit Cost = (17) * (18)		\$885,024,734	\$849,171,793
(20) Factor to Adjust Med Benefit Cost to Current Benefit Level (See App A-I)		1.023	1.023
(21) Factor to Include Loss Based Expenses		1.213	1.213
(22) Composite Adjustment Factor = (20) * (21)		1.241	1.241
(23) Adjusted Medical Cost = (19) * (22)		\$1,098,226,308	\$1,053,736,429
(24) Medical Cost Ratio = (23) / (3)		0.439	0.421
(25) Trend Length		3.333	3.333
(26) Application of Medical Trend Factor = Annual Trend Factor ^ (25)	0.974	0.916	0.916
(27) Projected Medical Cost Ratio = (24) * (26)		0.402	0.386
(28) Proposed Change in Medical Benefits (See Appendix C-II)		0.998	0.998
(29) Projected Medical Cost Ratio Including Benefit Change = (27) * (28)		0.401	0.385
Total Benefit and LAE Cost:			
(30) Adjusted Cost Ratio for Accident Year 2005 = (16) + (29)		0.600	0.566

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 06-11437
 National Council on Compensation Insurance, Inc.

Medical Trend

	Paid	Paid+Case	Average	4 Year Fitted
2001	36.4%	38.1%	37.3%	
2002	37.9%	39.2%	38.6%	38.9%
2003	37.7%	39.2%	38.5%	37.9%
2004	36.4%	37.3%	36.9%	36.9%
2005	35.9%	35.7%	35.8%	35.9%
Annual Change				-2.6%
Annual Trend Factor				97.4%

Notes:

based on NCCI Filing Explanatory Memorandum, page 10

Exhibit 7

Office of the Consumer Advocate
 Review of OIR Filing Number 06-11437
 National Council on Compensation Insurance, Inc.

Indemnity Trend

	Paid	Pd+Case	Average	5 Year Fitted
2001	20.3%	20.5%	20.4%	20.6%
2002	19.7%	19.4%	19.6%	19.4%
2003	18.5%	18.2%	18.4%	18.2%
2004	17.3%	17.2%	17.3%	17.1%
2005	16.0%	15.9%	16.0%	16.1%
Annual Change				-6.0%
Annual Trend Factor				94.0%

Notes:

based on NCCI Filing Explanatory Memorandum, page 7

Exhibit 8

Office of the Consumer Advocate
 Review of OIR Filing Number 06-11437
 National Council on Compensation Insurance, Inc.

Expected Loss Ratio

(1) Filing Effective Date	1/1/2001	1/1/2002	1/1/2003
(2) Midpoint of Prospective Rate Period	1/1/2002	1/1/2003	1/1/2004
(3) Target Cost Ratio	71.58%	70.52%	65.63%
(4) Loss Adjustment Expense	19.00%	19.00%	22.00%
(5) Average Premium Discount	10.66%	10.79%	11.31%
(6) Premium from Expense Constant	1.42%	1.42%	1.42%
(7) Expected Loss Ratio	66.39%	65.50%	59.81%

Notes:

- (2) assumes annual policies in effect with new rates for one year
- (3) NCCI Filings Exhibits II-A or II-B
- (4) NCCI Filings Exhibits II-A or II-B
- (5) NCCI Filings Exhibit II-F
- (6) NCCI Filings Exhibit II-F
- (7) equals $(3) / (1 + (4)) / (1 - (5)) / (1 + (6))$

PRELIMINARY

