



## **Summary of the Proposed Tennessee Workers Compensation Loss Cost and Assigned Risk Rate Filings Effective March 1, 2025**

The National Council on Compensation Insurance (NCCI)<sup>1</sup> is pleased to provide this summary of the accompanying proposed workers compensation insurance loss cost<sup>2</sup> and assigned risk rate<sup>3</sup> filings that were filed under separate cover on September 30, 2024, with the Tennessee Department of Commerce and Insurance for its review and approval.

The filings recommend a –3.6% loss cost decrease in the voluntary market and a –4.4% decrease in the assigned risk market, effective March 1, 2025.

### **Tennessee Overview**

This filing is based on premium and loss experience for Policy Years 2021 and 2022 evaluated as of December 31, 2023. The financial data experience period evaluated as of December 31, 2023, shows continued improvement when compared with the data evaluated as of December 31, 2022. Tennessee's lost-time claims relative to premium decreased in the latest policy year. NCCI has observed a longer-term trend of improving loss experience in Tennessee, primarily driven by a reduction in claim frequency.

The filed assigned risk rates reflect a small decrease in the assigned risk multiplier, resulting in slightly more of a decrease in the proposed assigned risk rate level change than the proposed voluntary loss cost level change.

### **Countrywide Overview**

The workers compensation (WC) system remains healthy. The Calendar Year 2023 combined ratio for workers compensation was 86%, a sign of underwriting profitability, where the net written premium increased by 1%.


Frequency has continued its long-term decline and on a countrywide basis, while claim severity changes were considered moderate for 2023. The continued focus on worker safety and technological advancements are regarded as contributing to fewer workplace injuries over time. The latest medical severity change aligns with projected medical inflation, while indemnity severity tracked with changes in average weekly wages.

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<sup>1</sup> NCCI is a licensed rate service organization authorized to make recommended loss cost and assigned risk rate filings on behalf of workers compensation insurance companies in Tennessee. NCCI's filings are objectively prepared, utilizing widely accepted actuarial ratemaking methodologies.

<sup>2</sup> "Loss cost" refers to the portion of workers compensation rates that are filed by the rate service organization and are allocated to pay losses but not carrier expenses. Some states include certain carrier expenses and assessments in the definition of "advisory loss costs." Carriers can use the approved loss costs as the basis for their rates, typically adjusting them for expenses with a loss cost multiplier.

<sup>3</sup> The assigned risk rate is filed for use on policies written through the Assigned Risk Plan, a program established by state insurance regulatory authorities that sets the rules and procedures for providing insurance coverage to parties that are unable to obtain coverage in the voluntary market. For the assigned risk market, NCCI files a full rate that includes the Servicing Carriers' expenses.



Payroll increased by 6% between 2022 and 2023, driven by increases in both employment and wages. Conversely, WC system costs have increased at a slower pace than wages during the same period. The great reshuffle of jobs has also slowed significantly as employee turnover settles near pre-pandemic levels and we see signs of the labor market normalizing rather than deteriorating.

Economic inflation as measured with the Consumer Price Index has been elevated over the past few years. However, this economic inflation has not generally translated to higher WC medical and indemnity benefit costs:

- Medical inflation has been more stable in the aggregate with the WC Weighted Medical Price Index showing an average increase of 2.6% for the past 3 years. Medical fee schedules have helped moderate price increases in workers compensation in states that have adopted them.
- Indemnity severity has largely been tracking wage inflation in recent years—a pattern which is not unusual considering indemnity costs are essentially wage replacement benefits for injured workers.

## **Conclusion**

The workers compensation system continues to be healthy. While consumer inflation has been elevated, the inflation for workers compensation medical costs remained stable. The increases observed in indemnity severity are largely driven by increased wages, which have risen significantly in recent years. Workers Compensation premiums are based on payroll, which is an inflation-sensitive exposure base. The combination of continued frequency declines and moderate benefit costs at or below the level of wage growth, have continued to put downward pressure on overall WC system costs relative to collected premiums.