



*NCCI Holdings, Inc.*

# **Workers Compensation Update**

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CAGNY Meeting  
May 15, 2006

# P/C Industry Net Written Premium Growth Has Slowed

## Private Carriers

Line of Business (LOB)	2003	2004	2005p	2004-2005p Change
Personal Auto	\$151.2 B	\$157.3 B	\$161.2 B	2.5%
Homeowners	\$45.8 B	\$49.5 B	\$51.6 B	4.2%
Other Liability (Incl Prod Liab)	\$38.8 B	\$43.0 B	\$43.4 B	0.9%
<b>Workers Compensation</b>	<b>\$31.1 B</b>	<b>\$34.7 B</b>	<b>\$37.8 B</b>	<b>8.8%</b>
Commercial Multiple Peril	\$27.4 B	\$29.1 B	\$27.6 B	-5.2%
Commercial Auto	\$25.4 B	\$26.6 B	\$26.9 B	1.1%
Fire & Allied Lines (Incl EQ)	\$17.6 B	\$17.6 B	\$18.1 B	2.8%
All Other Lines	\$67.1 B	\$66.3 B	\$59.1 B	-10.9%
<b>Total P/C Industry</b>	<b>\$404.4 B</b>	<b>\$424.1 B</b>	<b>\$425.7 B</b>	<b>0.4%</b>

p Preliminary

Source: Workers Compensation, NCCI;  
All other lines, Best's Review Preview and ISO



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# Industry Results Good in Spite of Catastrophes

Net Combined Ratio—Private Carriers

Line of Business (LOB)	Calendar Year		
	2003	2004	2005p
Personal Auto	98%	94%	95%
Homeowners	98%	94%	103%
Other Liability (Incl Prod Liab)	116%	117%	119%
<b>Workers Compensation</b>	<b>109%</b>	<b>107%</b>	<b>102%</b>
Commercial Multiple Peril	100%	101%	112%
Commercial Auto	95%	93%	94%
Fire & Allied Lines (Incl EQ)	79%	87%	110%
All Other Lines	100%	100%	103%
<b>Total P/C Industry</b>	<b>100%</b>	<b>98%</b>	<b>101%</b>

p Preliminary

Source: Workers Compensation, NCCI;  
All other lines, Best's Review Preview and ISO



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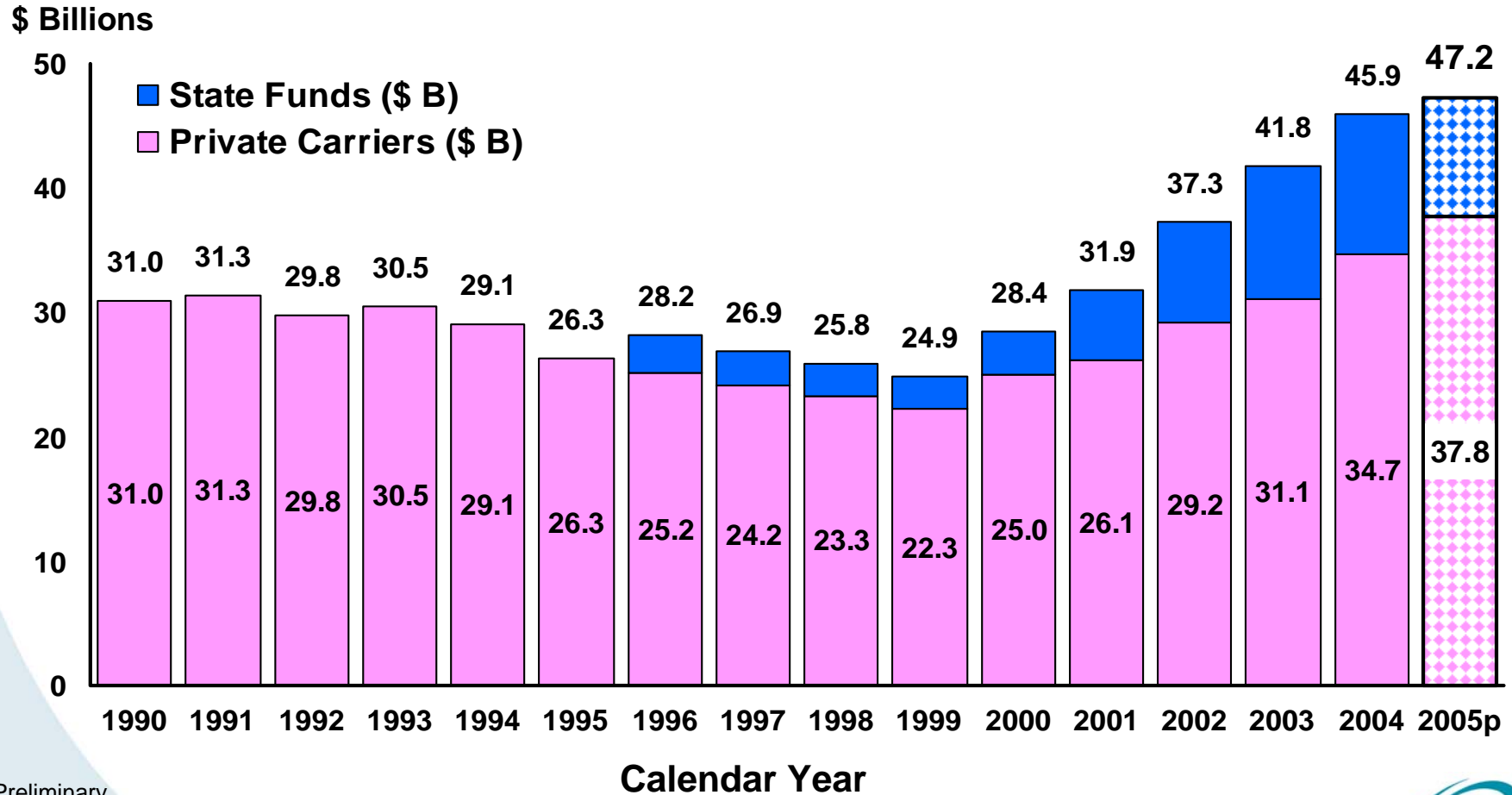


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# **Workers Compensation Results**

# Workers Compensation Premium Continued to Rise in 2005

## Net Written Premium—Private Carriers



p Preliminary

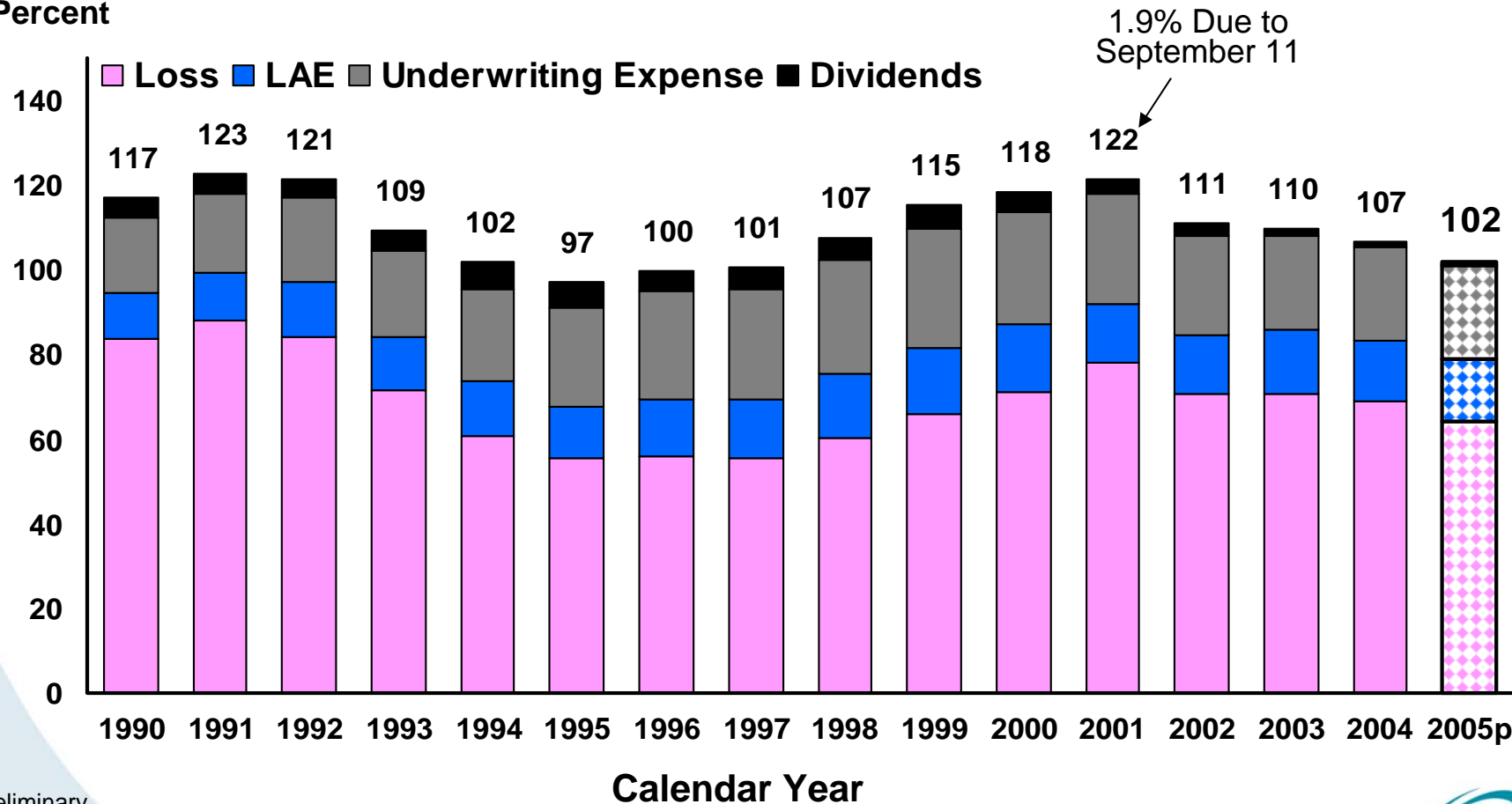
Source: 1990-2004 Private Carriers, A.M. Best Aggregates & Averages; 2005p, NCCI  
 1996-2005p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements  
 State Funds available for 1996 and subsequent



# WC Calendar Year Combined Ratio Improved Again in 2005

## Private Carriers

Percent



p Preliminary

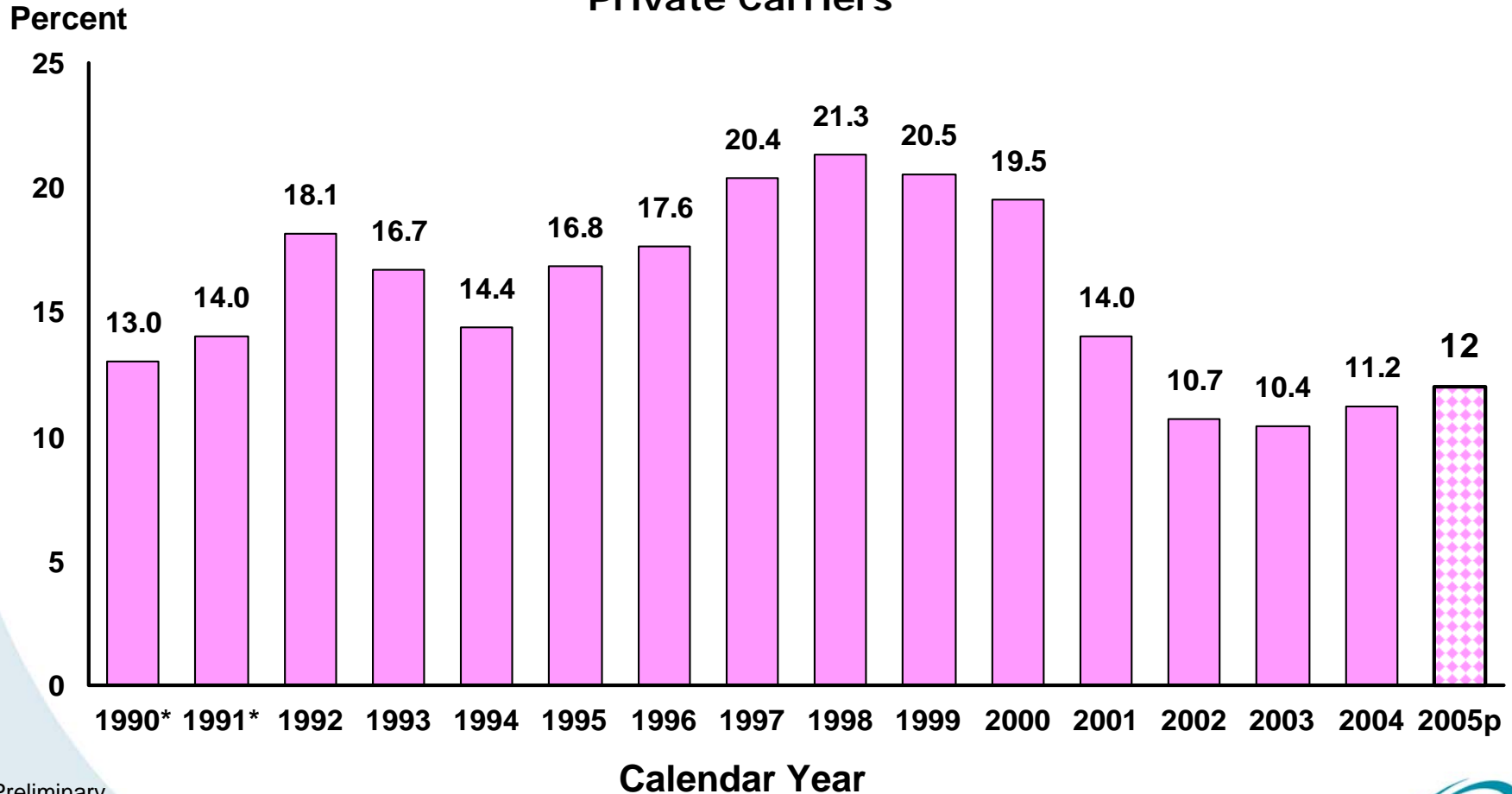
Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI



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# Low Workers Compensation Investment Returns Continued in 2005

## Investment Gain on Insurance Transactions to Premium Ratio Private Carriers



p Preliminary

\* Adjusted to include realized capital gains to be consistent with 1992 and after

Investment Gain on Insurance Transactions includes Other Income

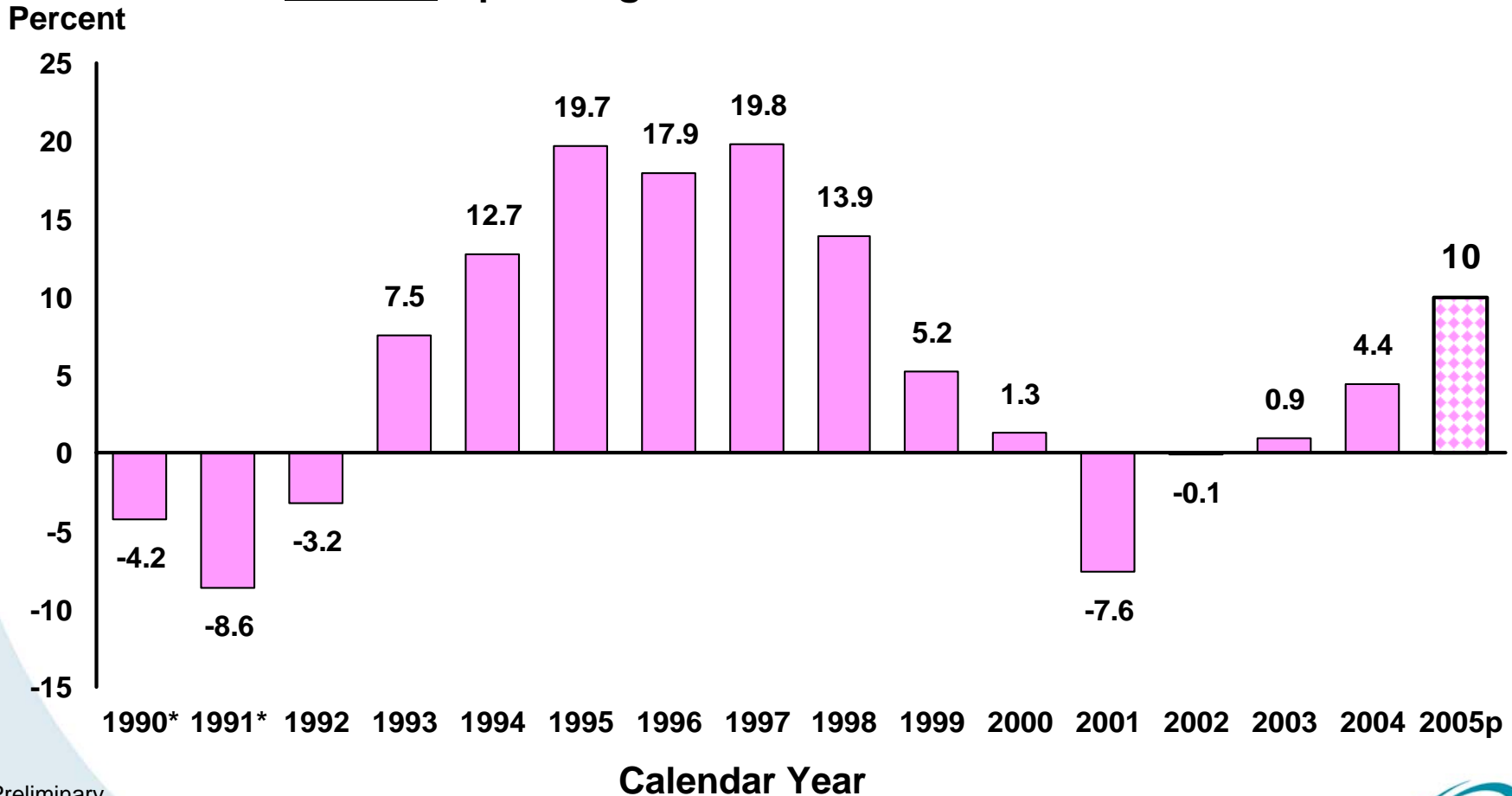
Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI



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# 2005 Workers Compensation Results Improved Over 2004

## Pre-Tax Operating Gain Ratio—Private Carriers



p Preliminary

\* Adjusted to include realized capital gains to be consistent with 1992 and after

Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

Source: 1990-2004, A.M. Best Aggregates & Averages; 2005p, NCCI

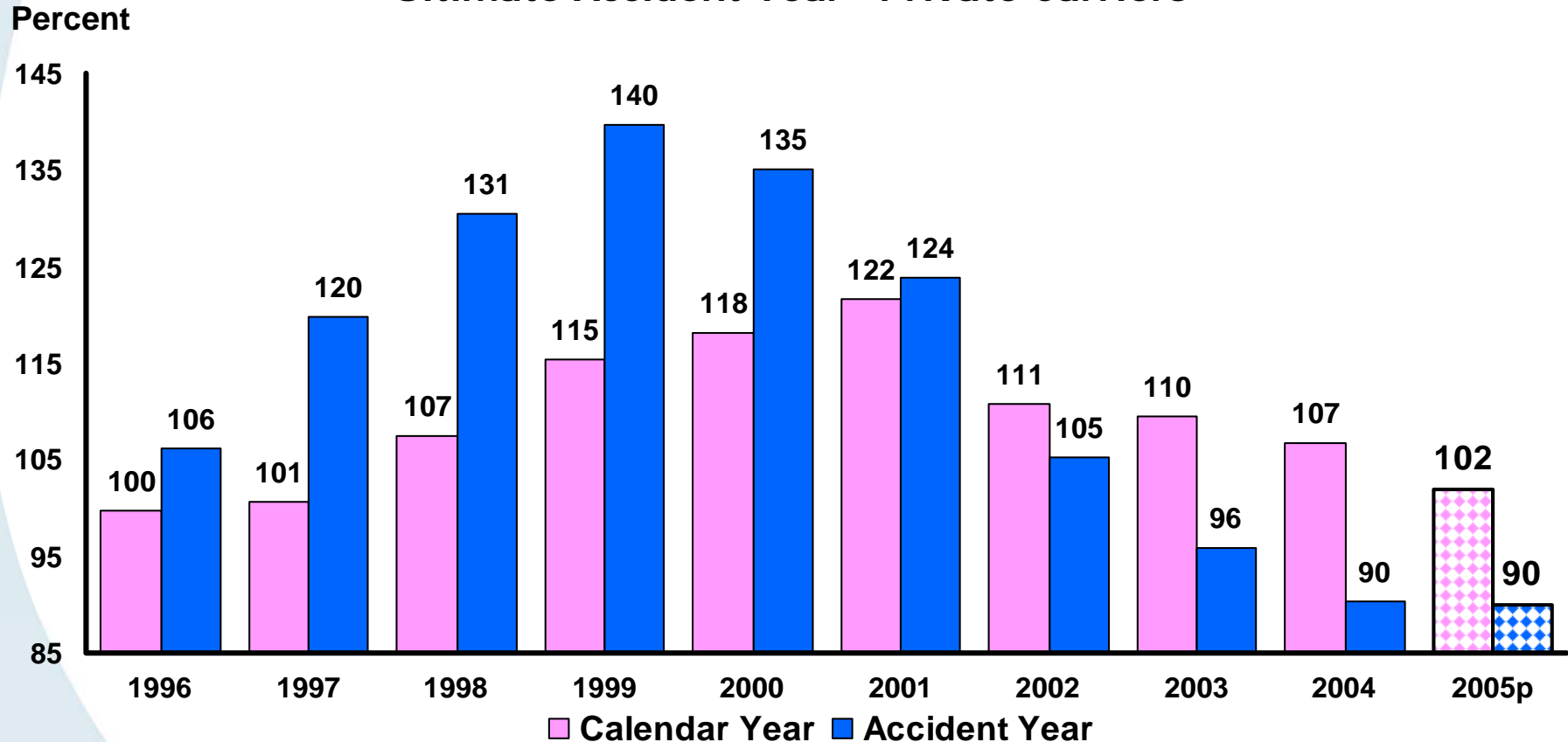


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# Accident Year Combined Ratio— Another Underwriting Profit in 2005

Workers Compensation Calendar Year vs.  
Ultimate Accident Year—Private Carriers



p Preliminary

Accident Year data is evaluated as of 12/31/2005 and developed to ultimate

Source: Calendar Years 1996-2004, A.M. Best Aggregates & Averages;

Calendar Year 2005p and Accident Years 1996-2005p, NCCI analysis based on Annual Statement data

Includes dividends to policyholders

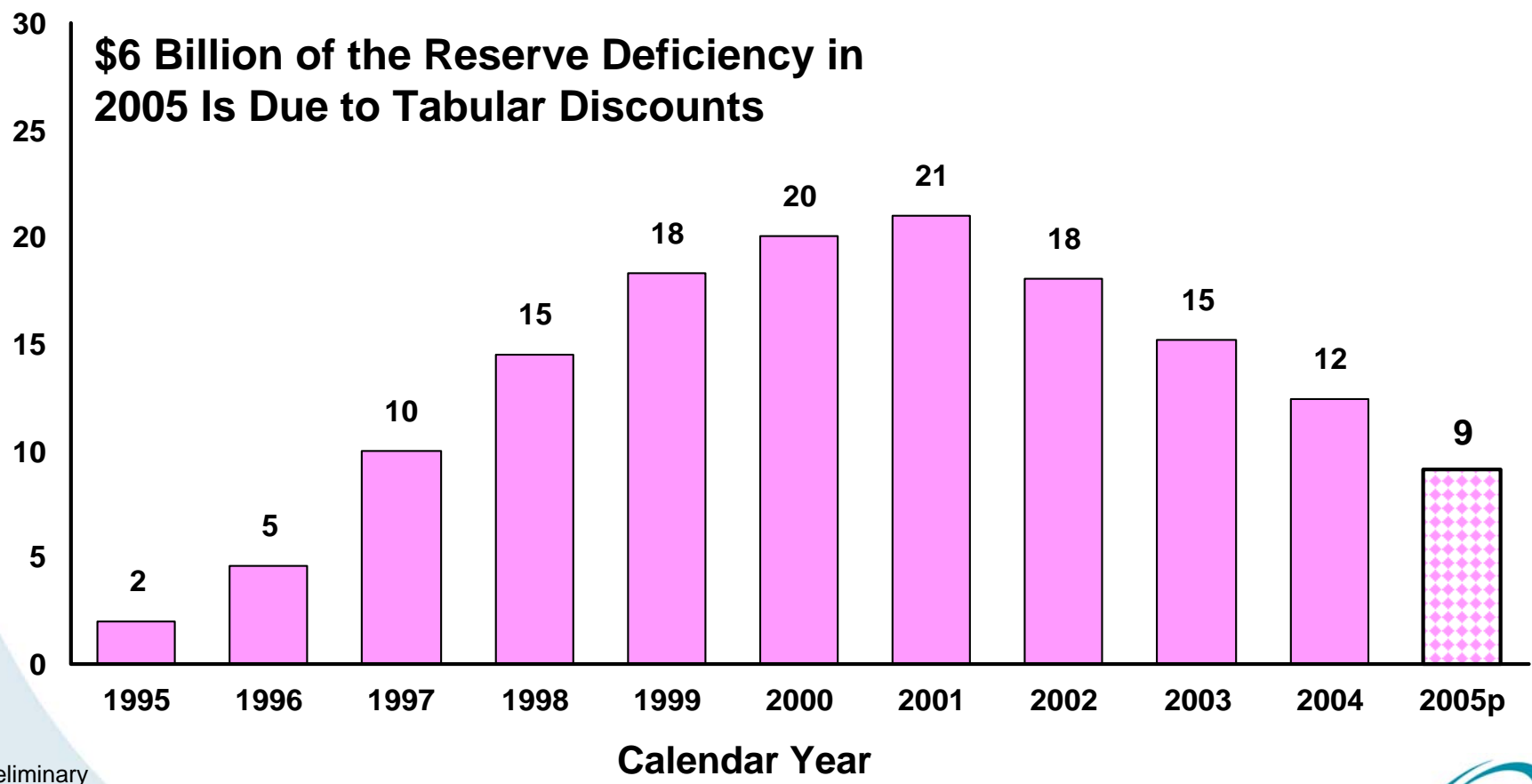


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# Workers Compensation Reserve Deficiencies Continue to Decline

Loss and LAE Reserve Deficiency—Private Carriers

\$ Billions

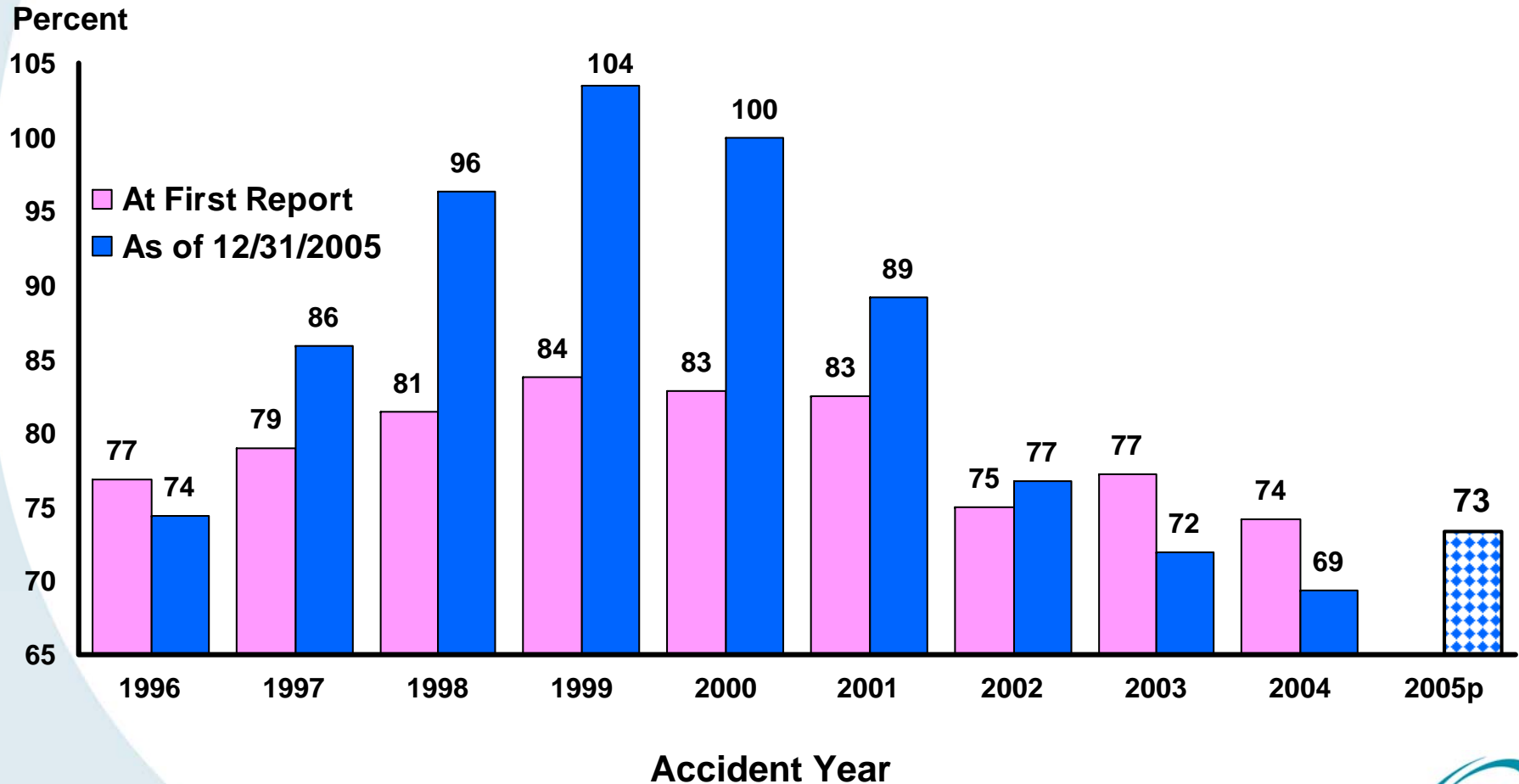


p Preliminary  
Considers all reserve discounts as deficient  
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections  
Source: 1995-2005p, NCCI analysis



# Workers Compensation Accident Year Loss and LAE Ratios

As Reported—Private Carriers



p Preliminary  
Reported Loss and LAE ratios from Schedule P  
Source: 1996-2005p, NAIC Annual Statement data as reported

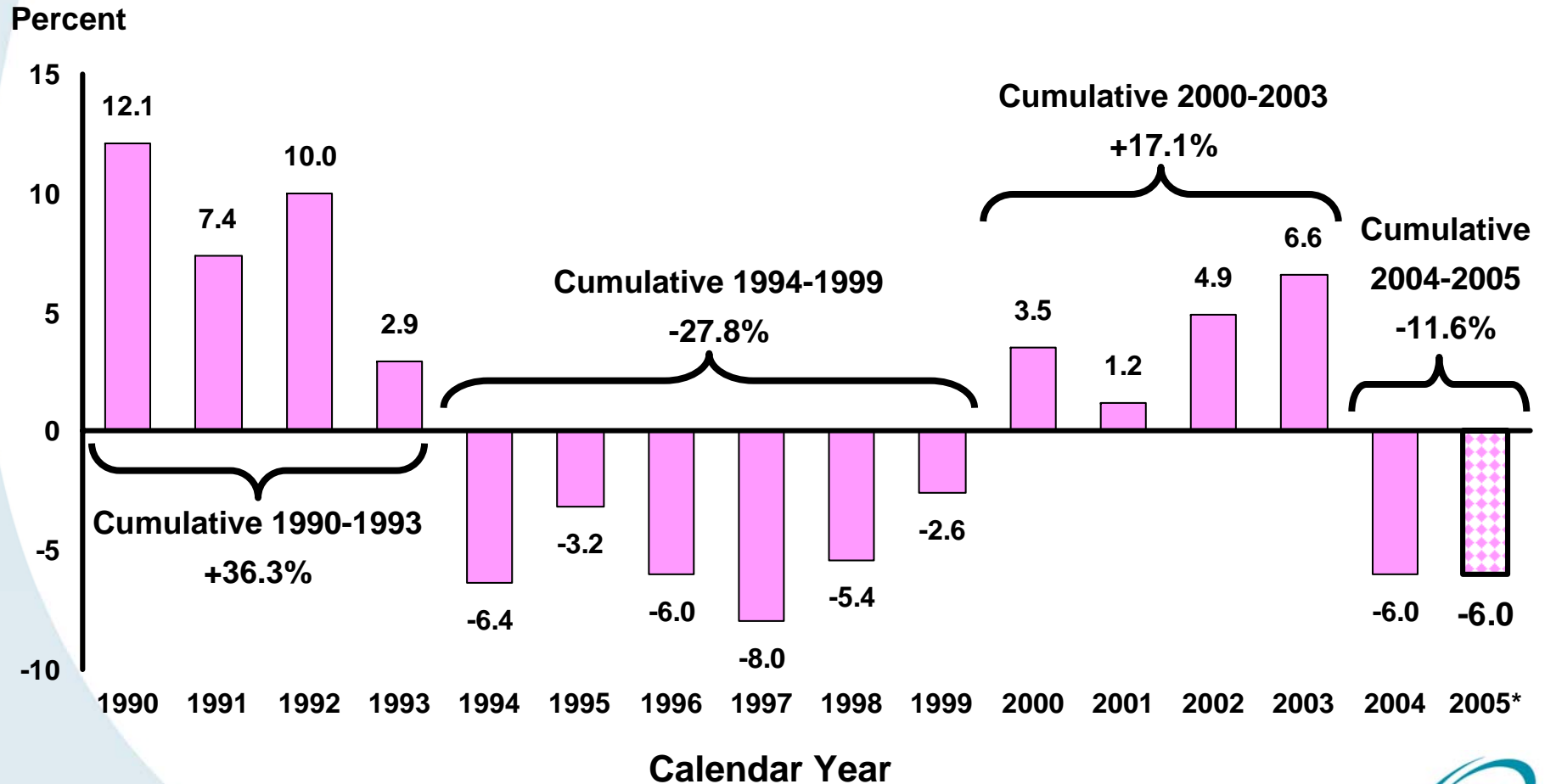


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# **Workers Compensation Premium Drivers**

# Average Approved Bureau Rates/Loss Costs

## History of Average WC Bureau Rate/Loss Cost Level Changes



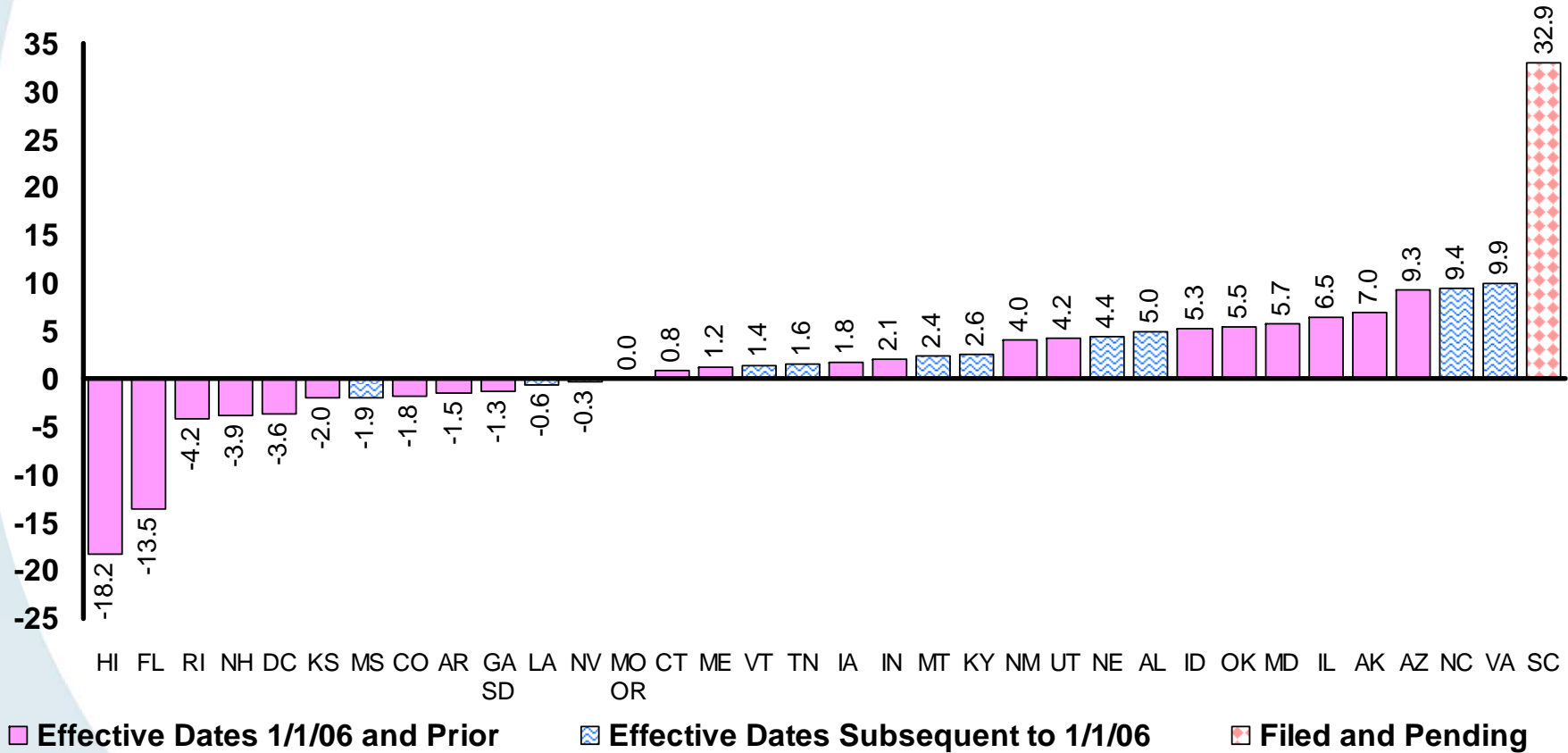
\* States approved through 04/13/2006

Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by the applicable rating organization

# Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

Excludes Law-Only Filings

Percent



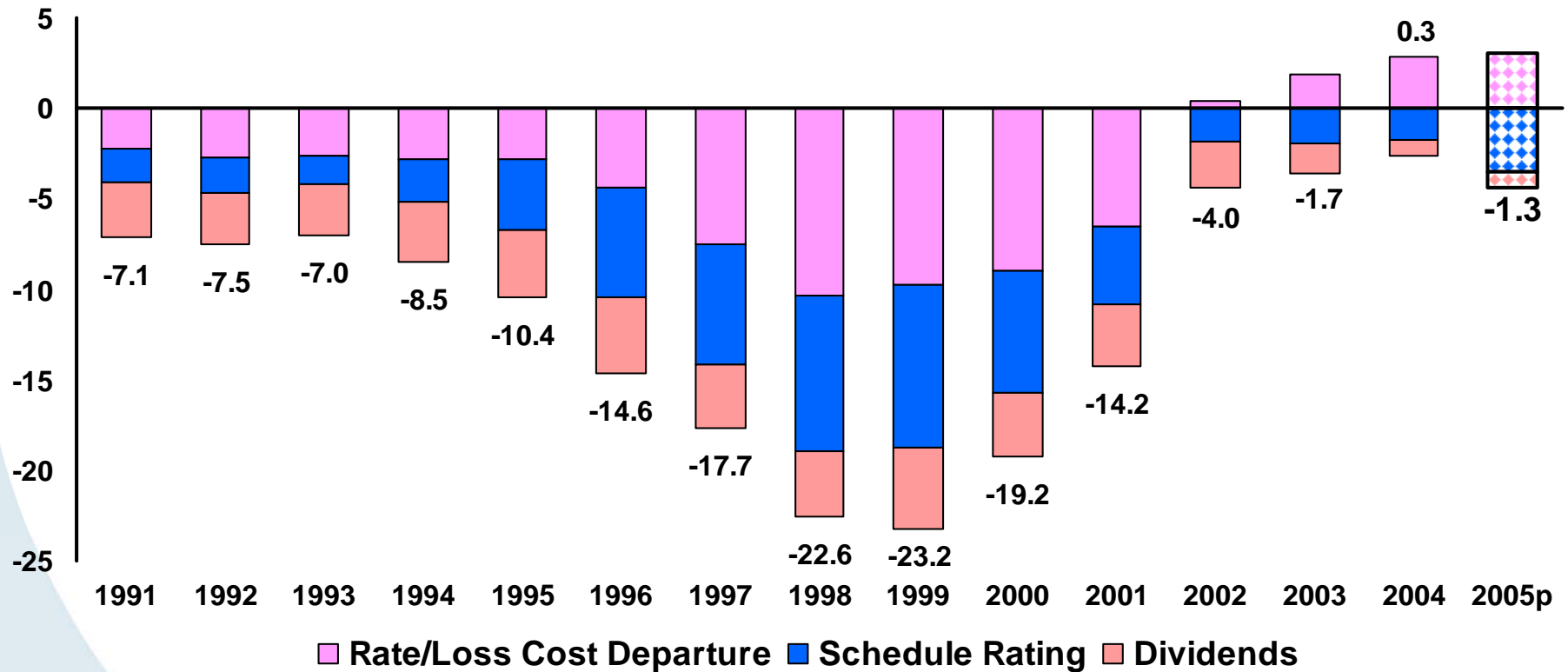
States filed through 04/20/2006



# Impact of Discounting on Workers Compensation Premium

## NCCI States—Private Carriers

Percent



p Preliminary  
 NCCI benchmark  
 Dividend ratios are based on  
 Based on data through 12/31/04



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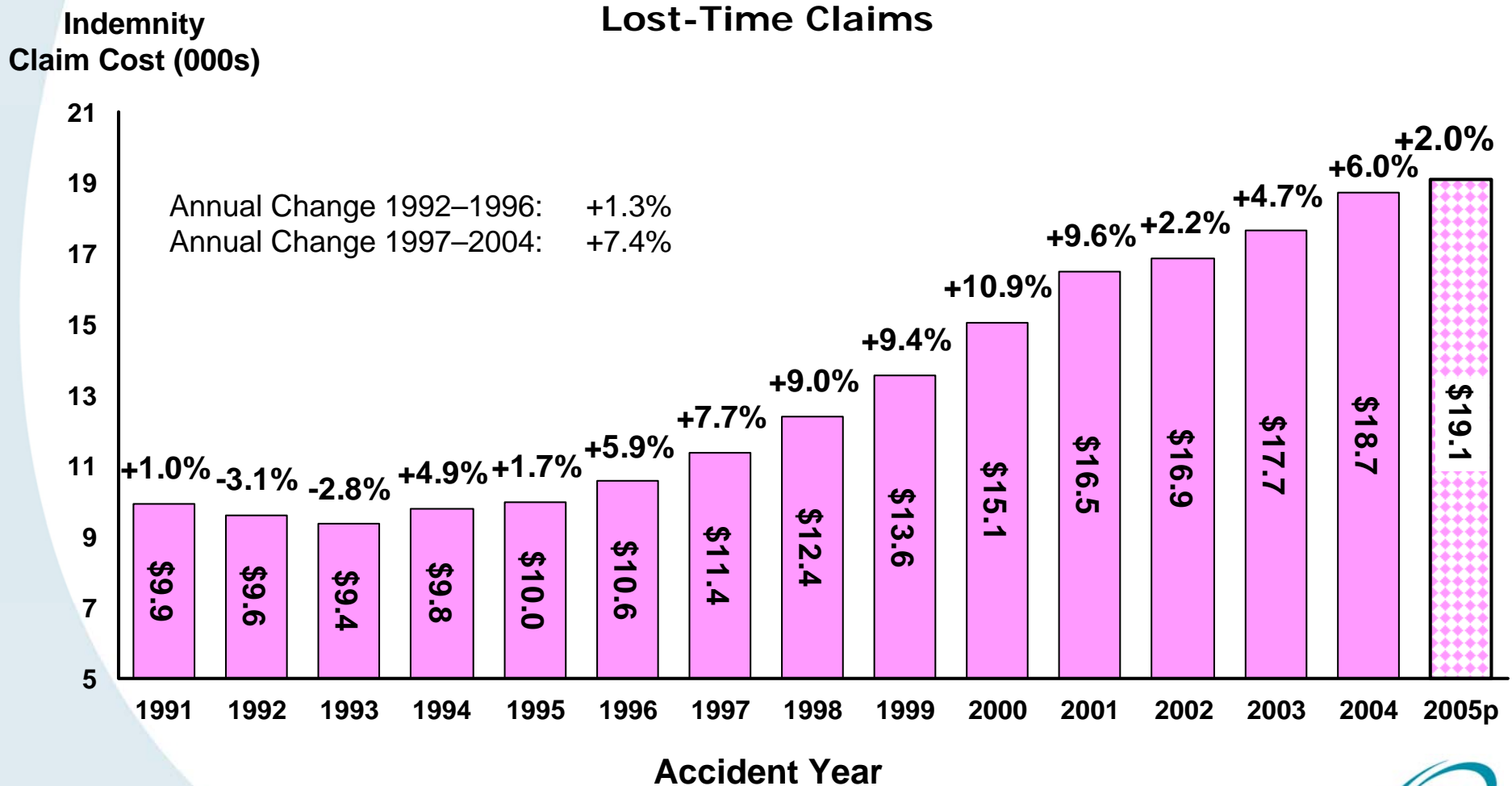


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# **Workers Compensation Loss Drivers**



# The Growth in WC Indemnity Claim Costs Has Eased in Recent Years

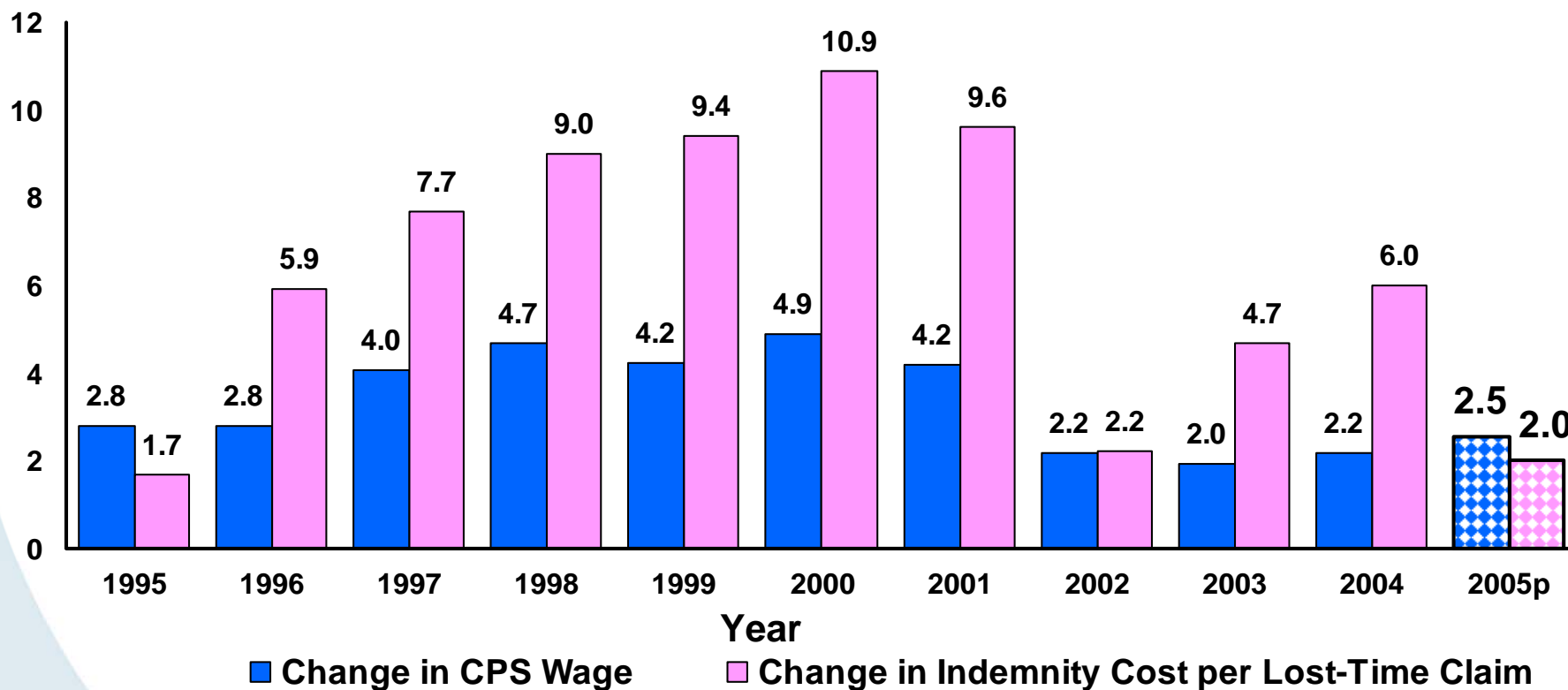


2005p: Preliminary based on data valued as of 12/31/2005  
 1991-2004: Based on data through 12/31/2004, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# Workers Compensation Indemnity Severity Is No Longer Outpacing Wage Inflation

## Lost-Time Claims

Percent Change



Indemnity severity 2005p: Preliminary based on data valued as of 12/31/2005

Indemnity severity 1995-2004: Based on data through 12/31/2004, developed to ultimate

Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies

Source: CPS Wage (Current Population Survey), Economy.com; Accident year indemnity severity, NCCI

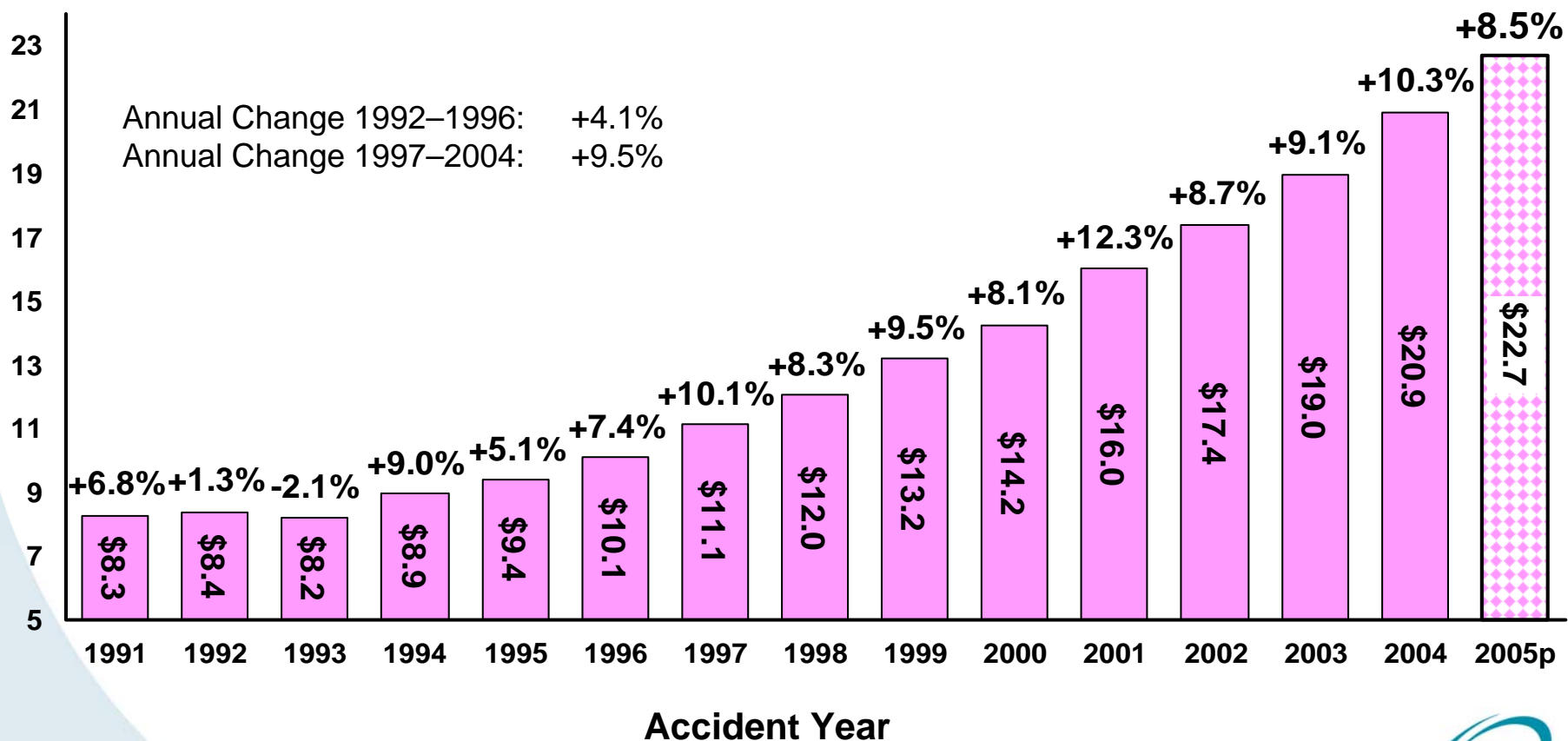


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# WC Medical Claim Cost Trends— Growth Continued in 2005

Medical  
Claim Cost (000s)

Lost-Time Claims

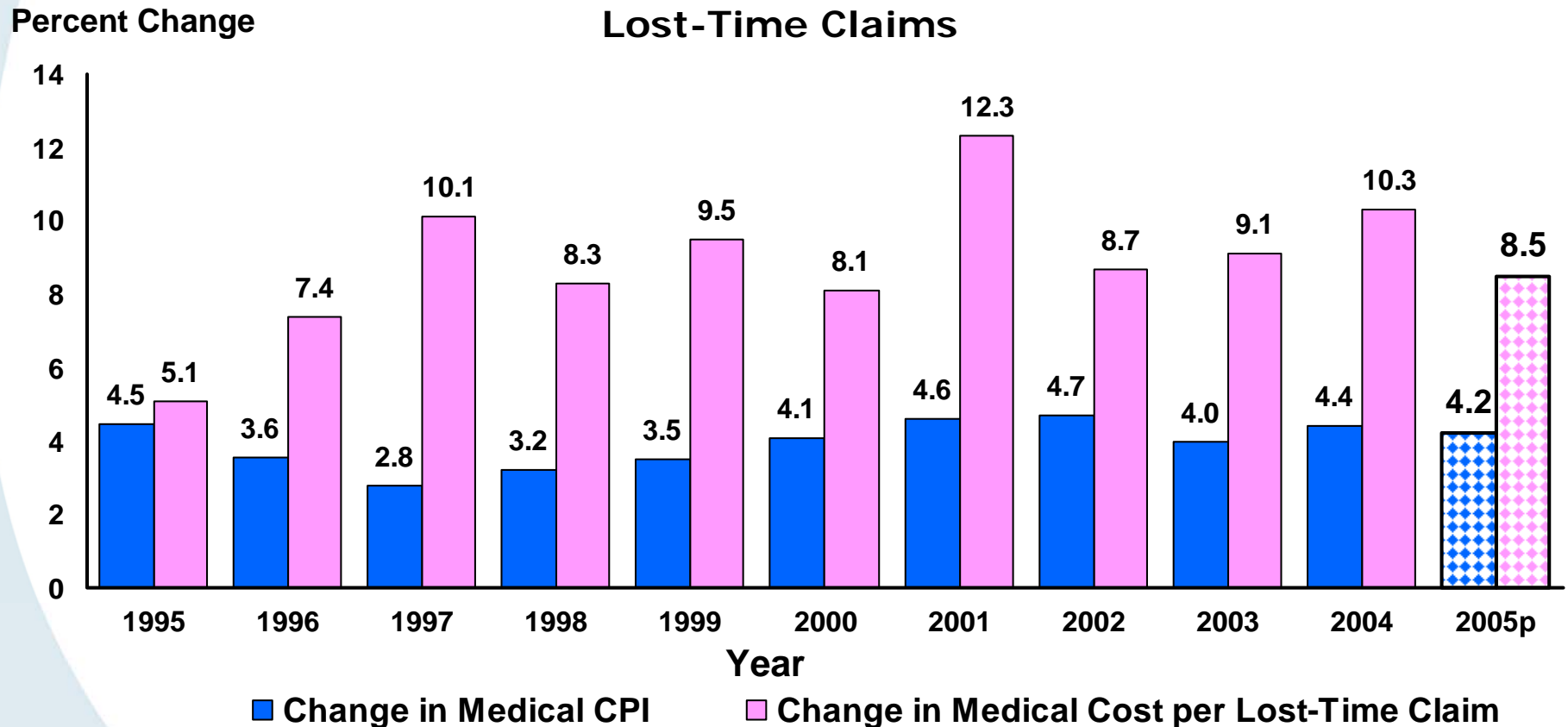


2005p: Preliminary based on data valued as of 12/31/2005  
1991-2004: Based on data through 12/31/2004, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies



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# Workers Compensation Medical Severity Has Been Growing Much Faster Than the Medical CPI



Medical severity 2005p: Preliminary based on data valued as of 12/31/2005  
 Medical severity 1995-2004: Based on data through 12/31/2004, developed to ultimate  
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies  
 Source: Medical CPI, Economy.com; Accident year medical severity, NCCI

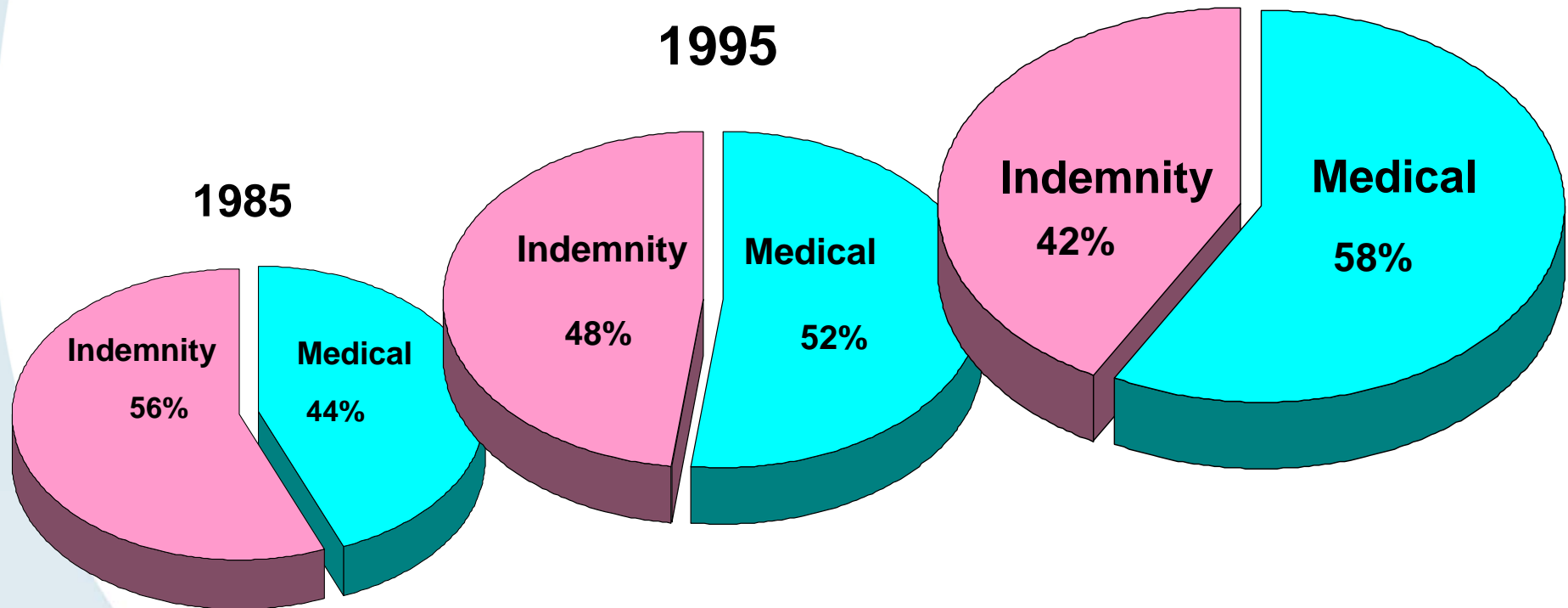


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# Workers Compensation Medical Losses Are More Than Half of Total Losses

All Claims—NCCI States

2005p

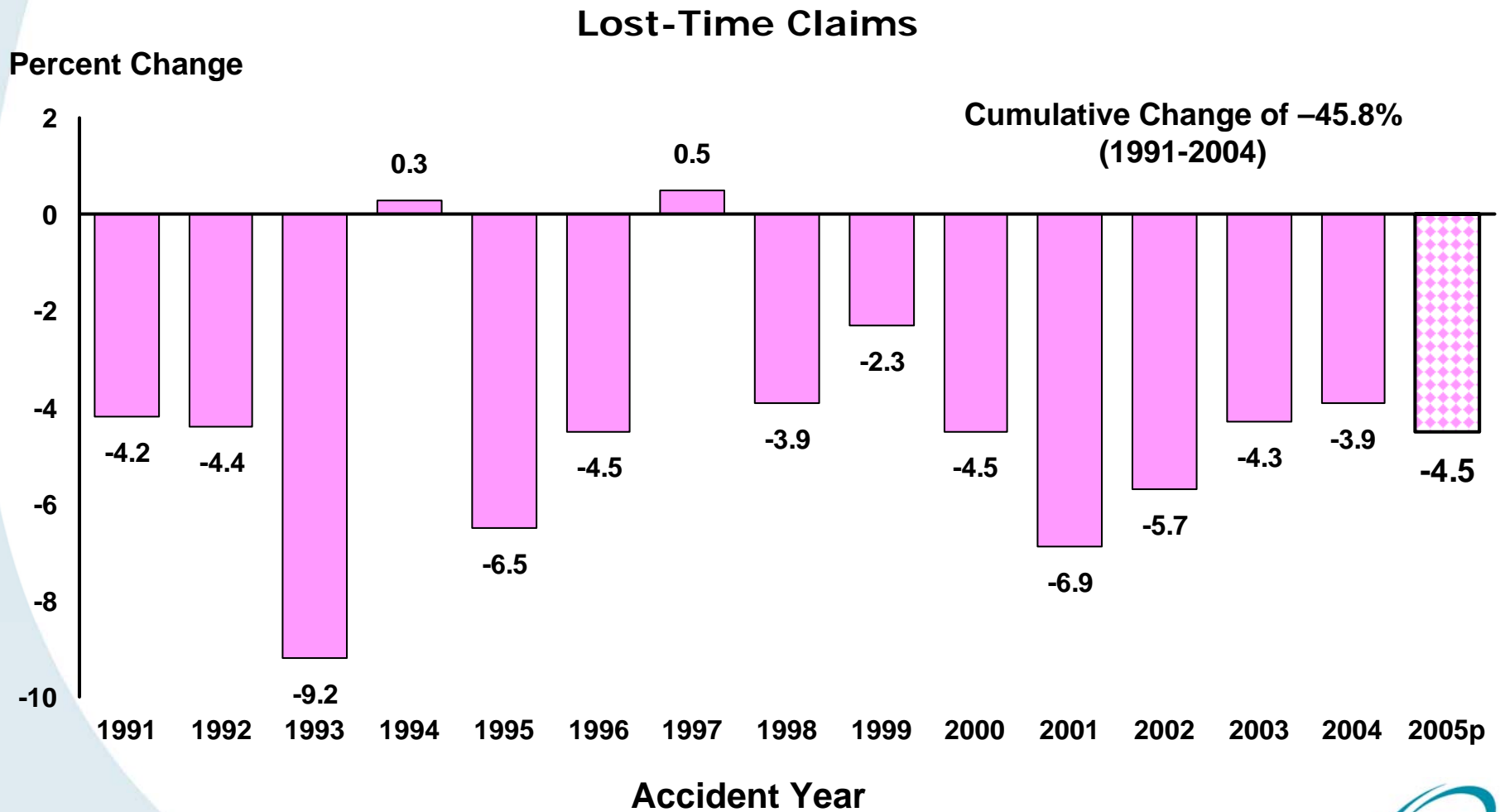


2005p: Preliminary based on data valued as of 12/31/2005  
1985, 1995: Based on data through 12/31/2004, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes the effects of deductible policies



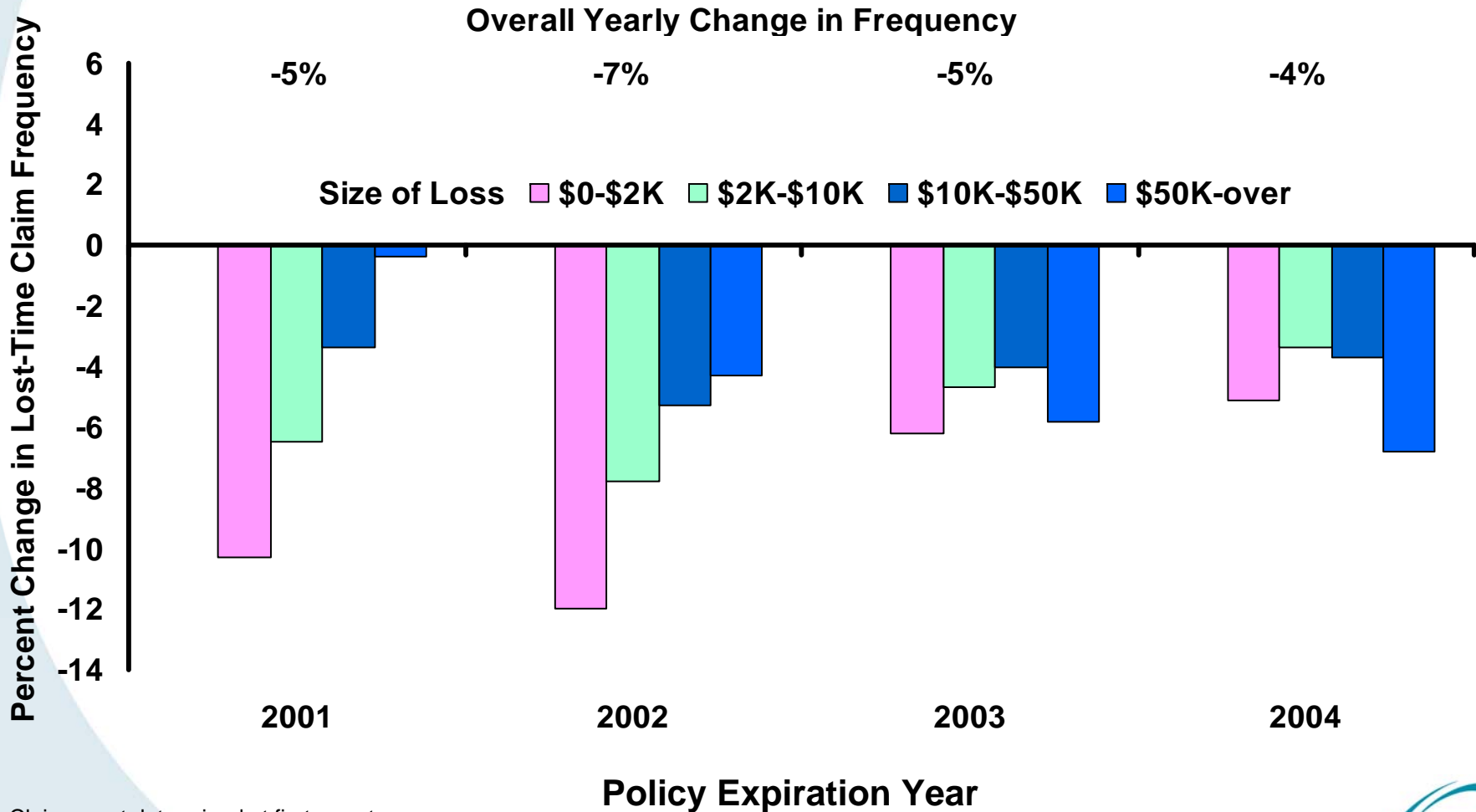
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# Workers Compensation Lost-Time Claim Frequency Continues its Decline



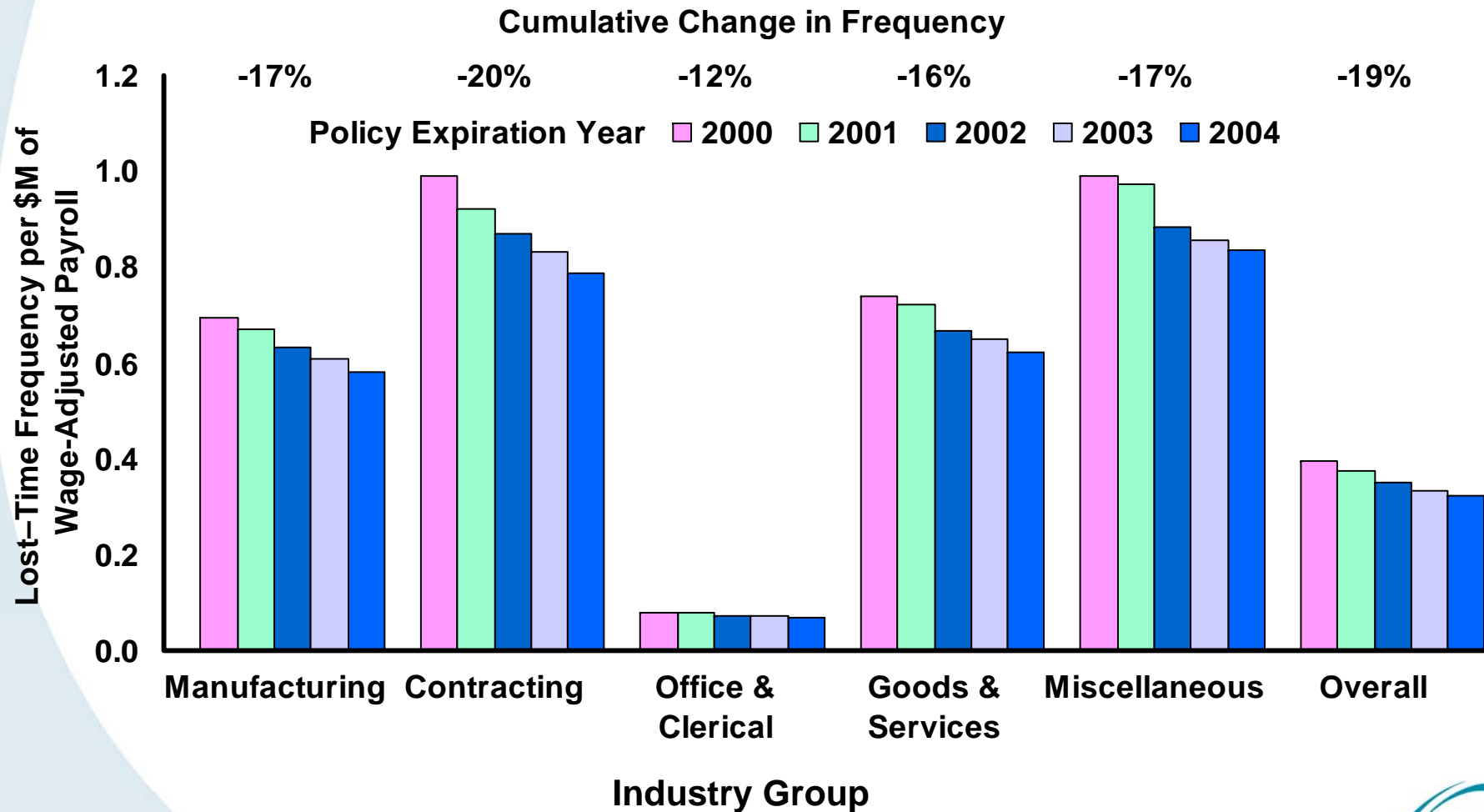
2005p: Preliminary based on data valued as of 12/31/2005  
 1991-2004: Based on data through 12/31/2004, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes the effects of deductible policies

# Declines in Frequency Now Uniform by Size of Loss



Claim count determined at first report  
 Loss size adjustments vary by year, averaging 3.8% indemnity and 7.4% medical  
 Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation  
 All NCCI states and TX; excludes NV

# Claim Frequency Has Declined for All Industry Groups



Frequency = Lost-Time Claims / Payroll; Payroll adjusted for inflation  
 All NCCI states; excludes NV and TX



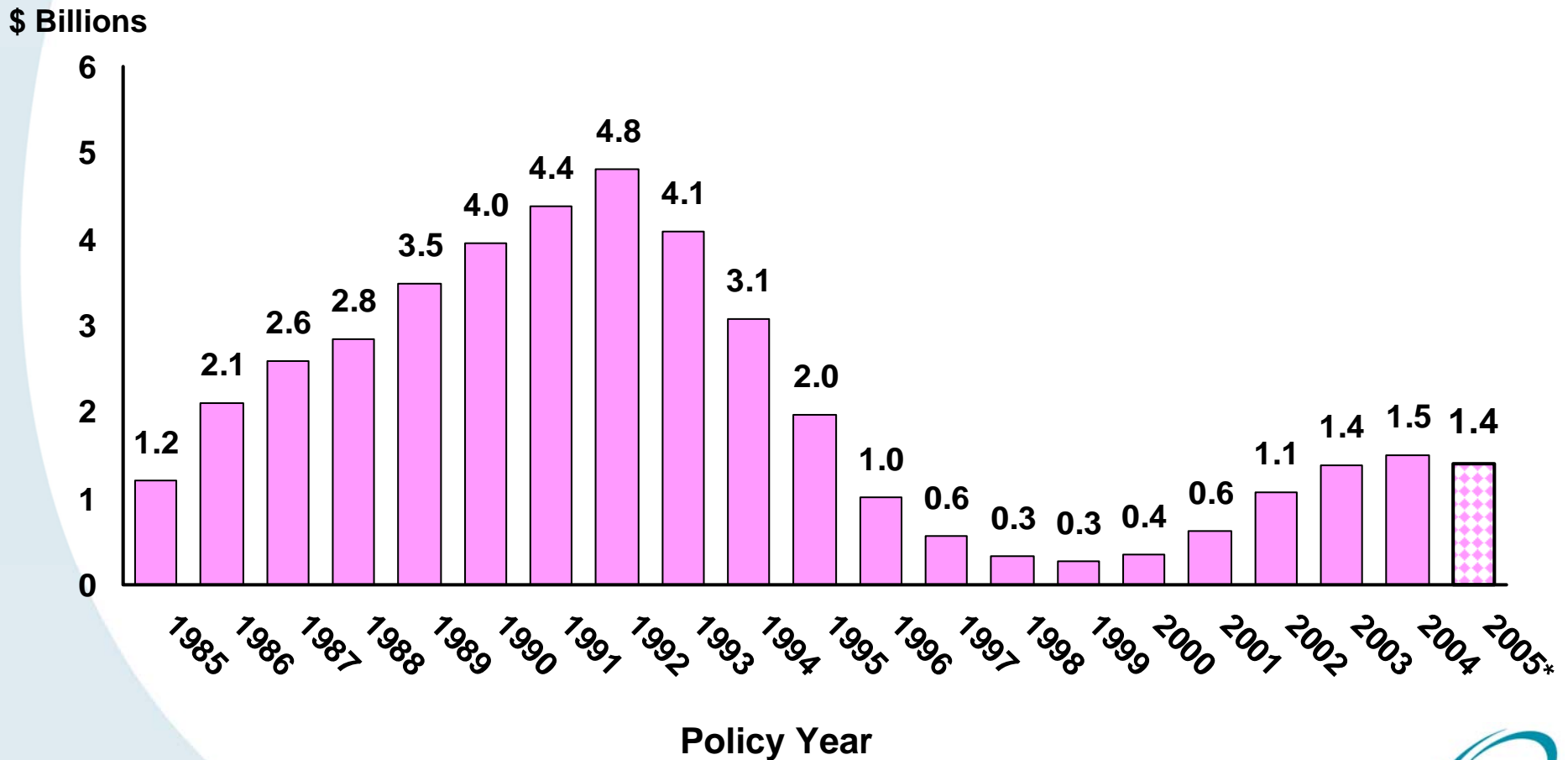


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# **Workers Compensation Residual Market**

# Workers Compensation Residual Market Premium Volume Declines

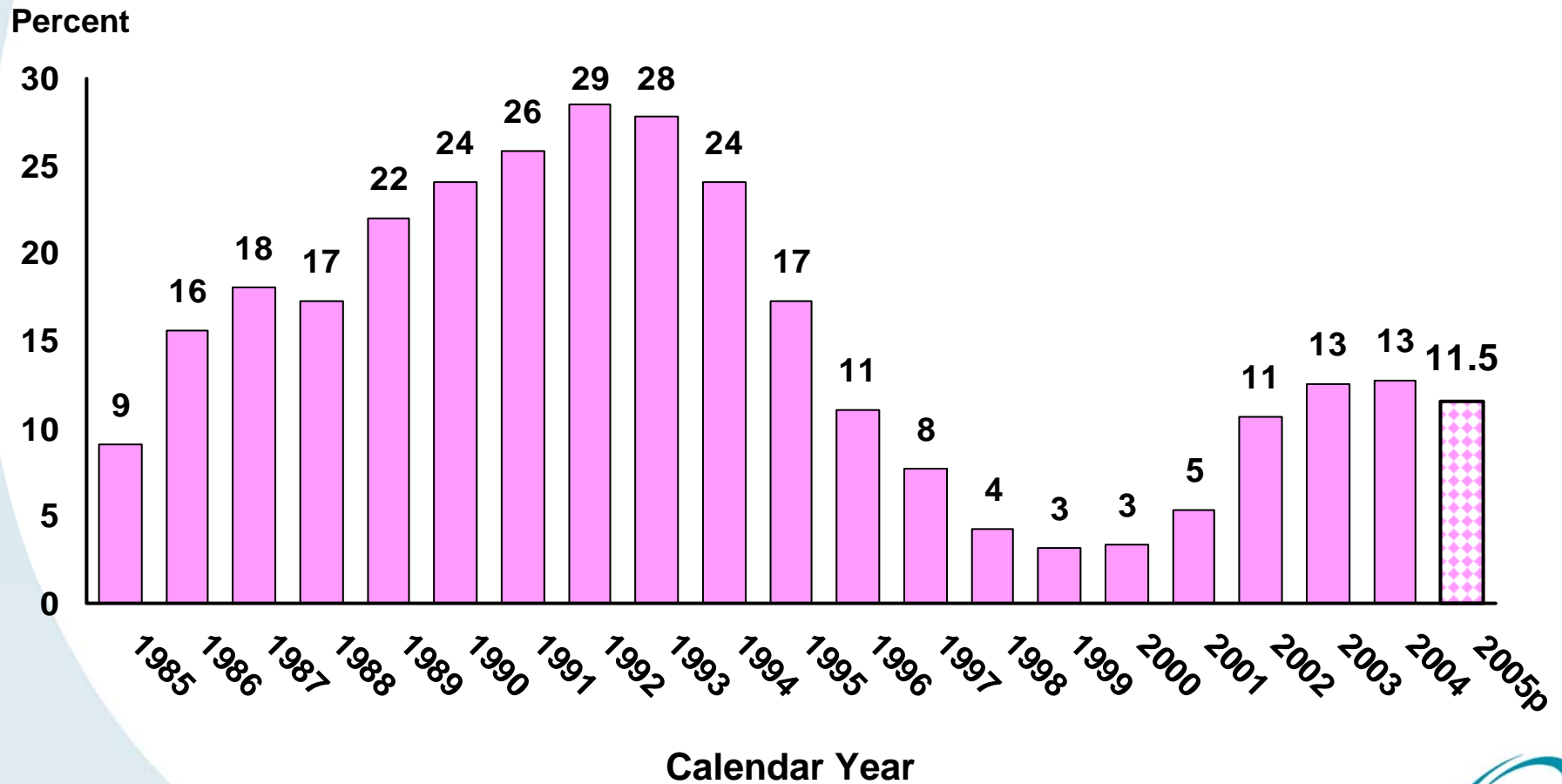
NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2005



\* Incomplete Policy Year Projected to Ultimate

# Workers Compensation Residual Market Shares Continue to Decline

Workers Compensation Insurance Plan States\*  
Premium As a Percent of Direct Written Premium



p Preliminary

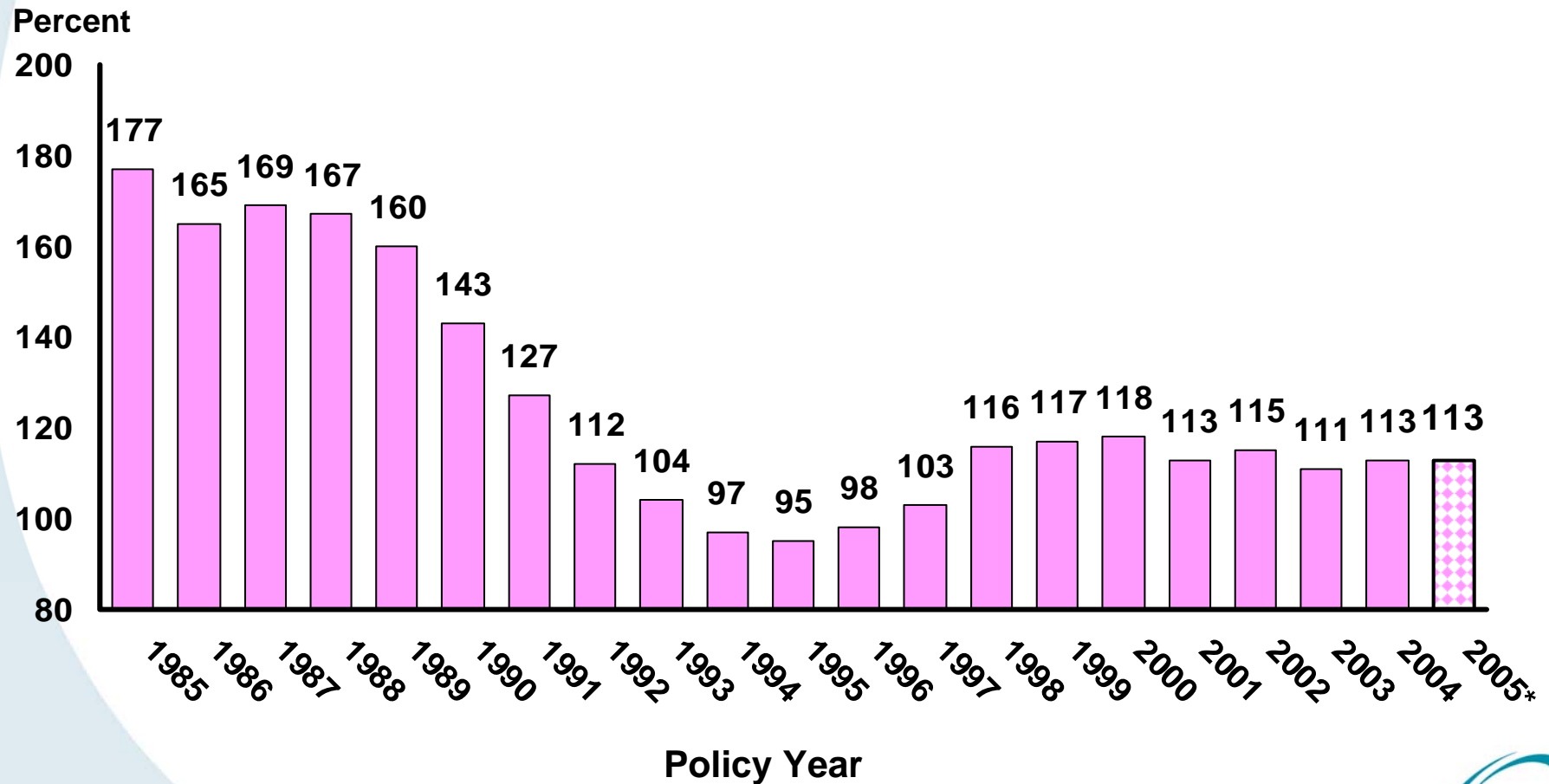
\* NCCI Plan states plus DE, IN, MA, MI, NJ, NC



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# Workers Compensation Residual Market Combined Ratios

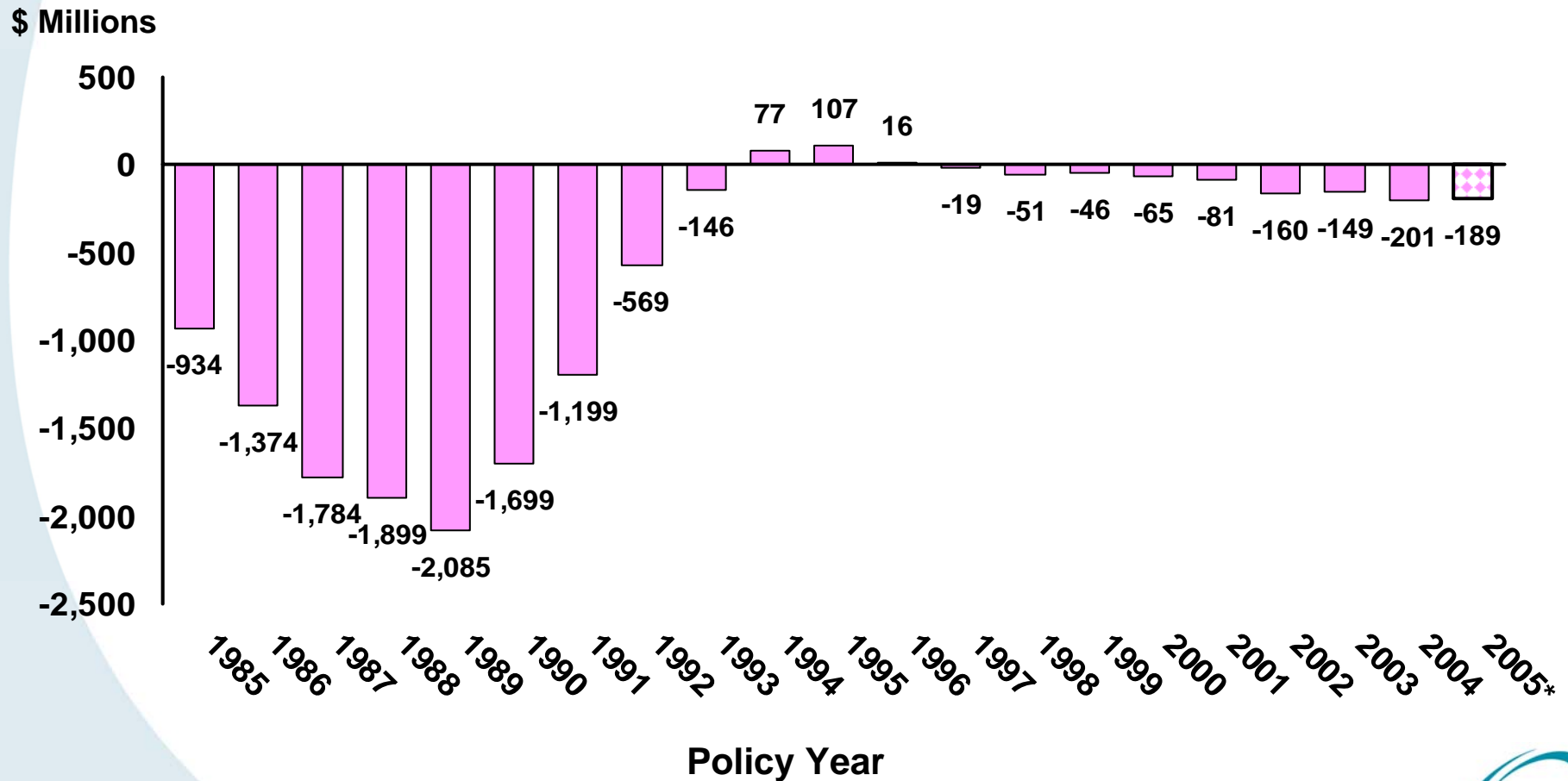
NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2005



\* Incomplete Policy Year Projected to Ultimate

# Workers Compensation Residual Market Underwriting Results

NCCI-Serviced Workers Compensation Residual Market Pools  
as of December 31, 2005



\* Incomplete Policy Year Projected to Ultimate



# Residual Markets Are Depopulating in Most States

First Quarter 2006 vs. First Quarter 2005

Size of Risk	2005	2006	Change
\$ 0 - \$ 2,499	36,003	35,442	-2%
\$ 2,500 - \$ 4,999	6,698	5,941	-11%
\$ 5,000 - \$ 9,999	4,563	4,028	-12%
\$ 10,000 - \$ 49,999	4,496	3,936	-12%
\$ 50,000 - \$ 99,999	633	515	-19%
\$ 100,000 and over	362	231	-36%
<b>Total</b>	<b>52,755</b>	<b>50,093</b>	<b>-5%</b>

Total number of  
Includes residual  
AL, AK, AR, AZ, CT,



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# In Summary

## Positives

- Results continue to improve
- Frequency continues to decline
- Indemnity severity moderating
- Industry making progress on reserve deficiency
- Residual Market depopulation underway
- TRIA renewed

## Negatives

- Low investment returns continue to put pressure on underwriting results
- Medical costs continue to rise
- Recent reforms under attack
- Underwriting cycle
- TRIA renewed

