



State of the Workers Compensation Market and Recent Experience Rating Changes

Presented by:

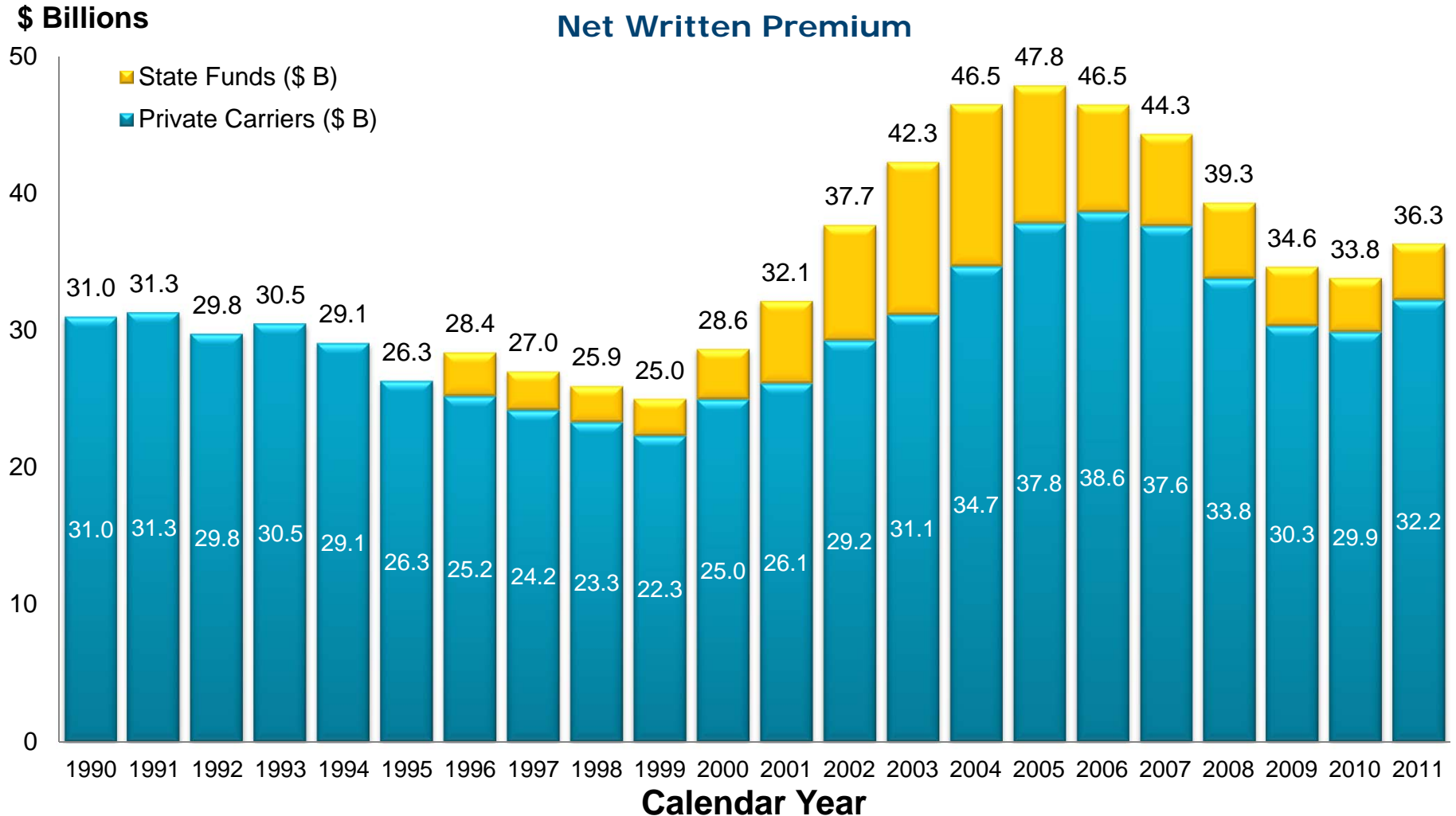
*Tony DiDonato, FCAS, MAAA
Director & Senior Actuary, NCCI*

CASE Spring Meeting
March 27, 2013
Nashville, TN



Workers Compensation Countrywide Premium

Countrywide Workers Compensation Premium—First Increase in Years



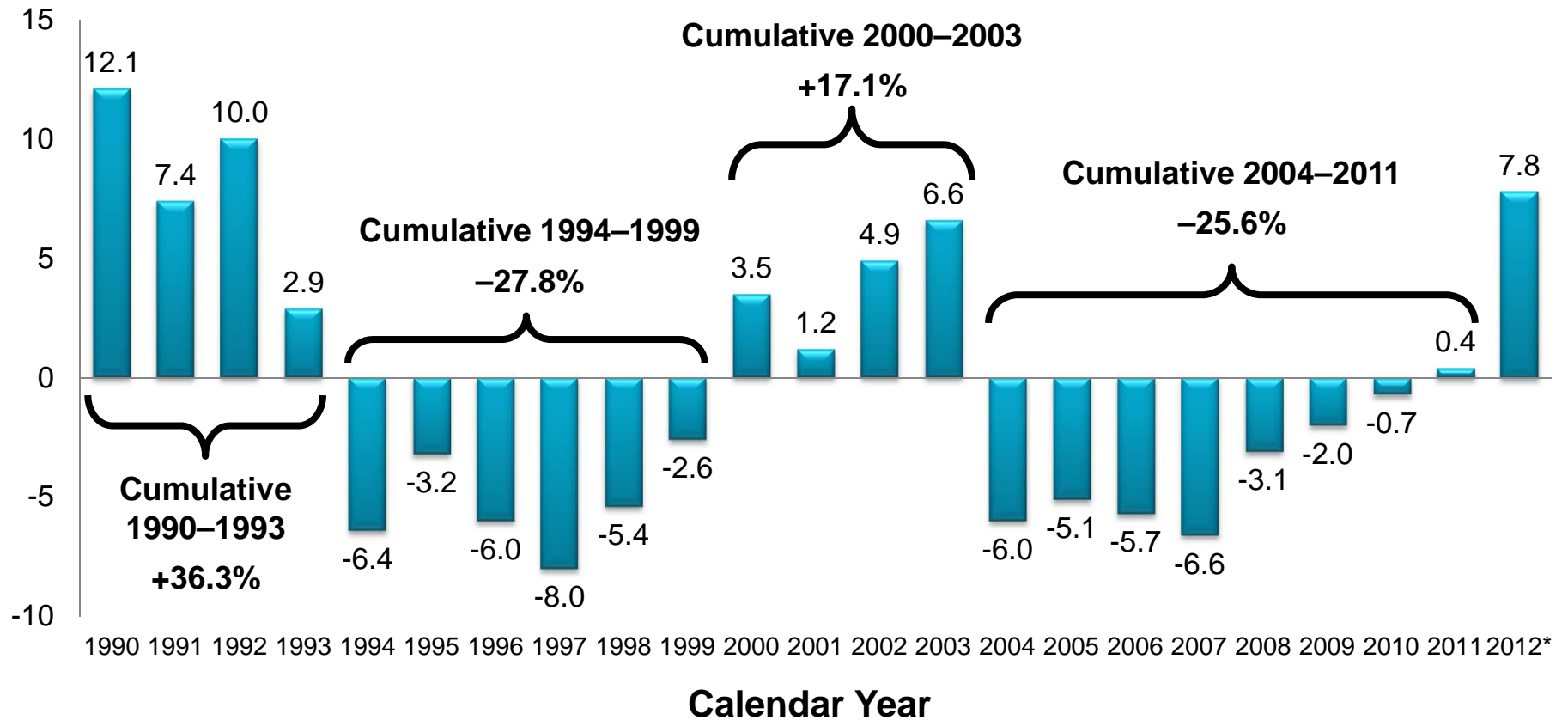
Source: 1990–2010 Private Carriers, Annual Statement Data; 2011, NCCI
 1996–2011 State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent



Countrywide Average Approved Bureau Rates/Loss Costs

History of Average Workers Compensation Bureau Rate/Loss Cost Level Changes

Percent



* Preliminary

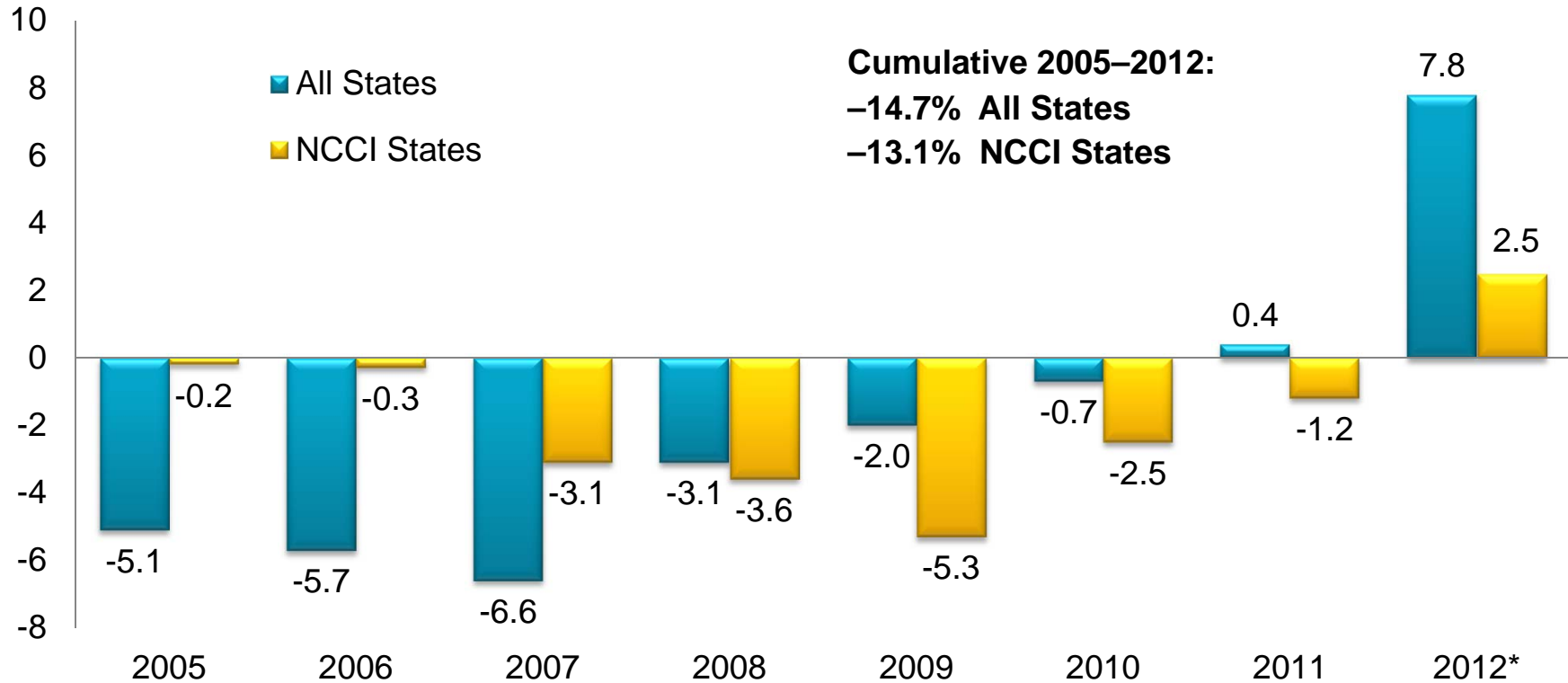
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates



Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. NCCI States

Percent



Calendar Year

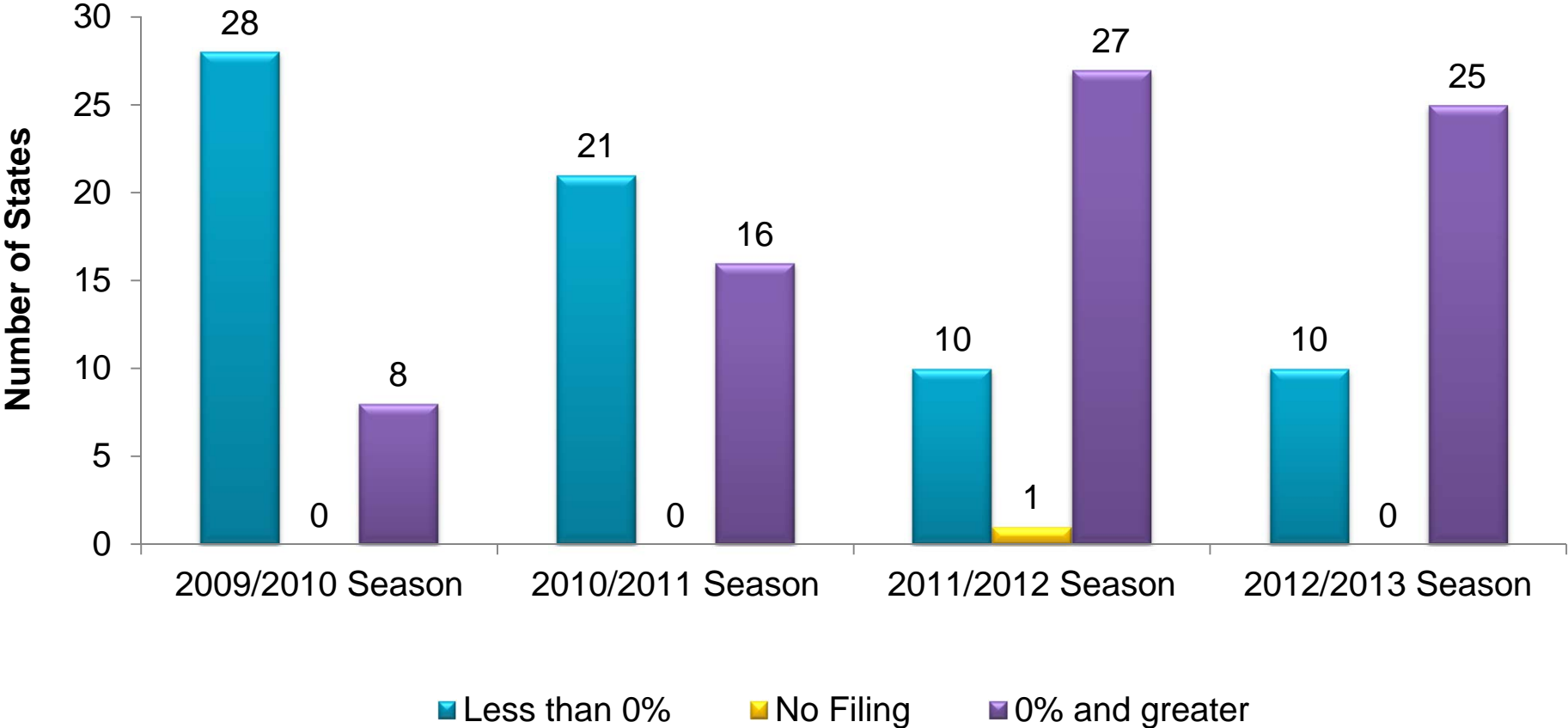
* Preliminary

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



Status of NCCI Filing Activity

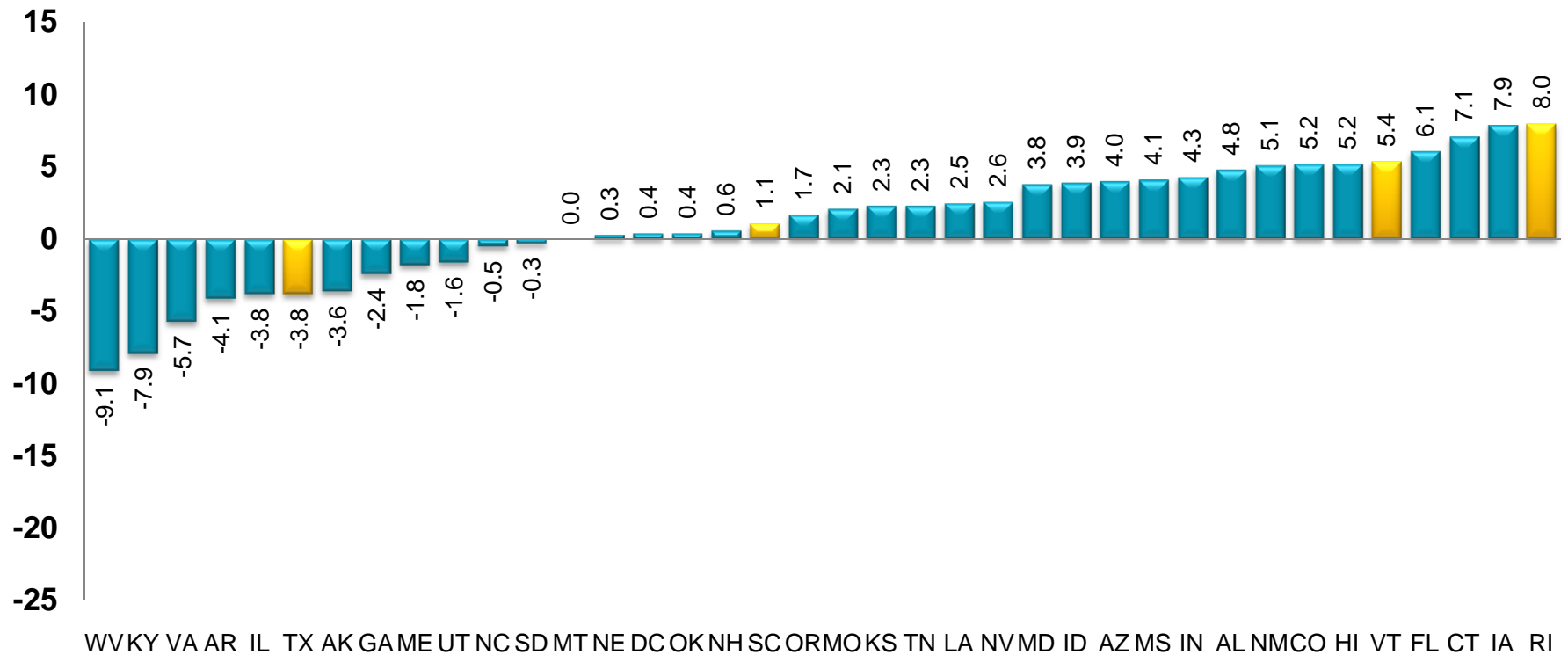
Voluntary Market Filings



Current NCCI Voluntary Market Rate/Loss Cost Level Changes

Excludes Law-Only Filings

Percent



■ Approved ■ Pending

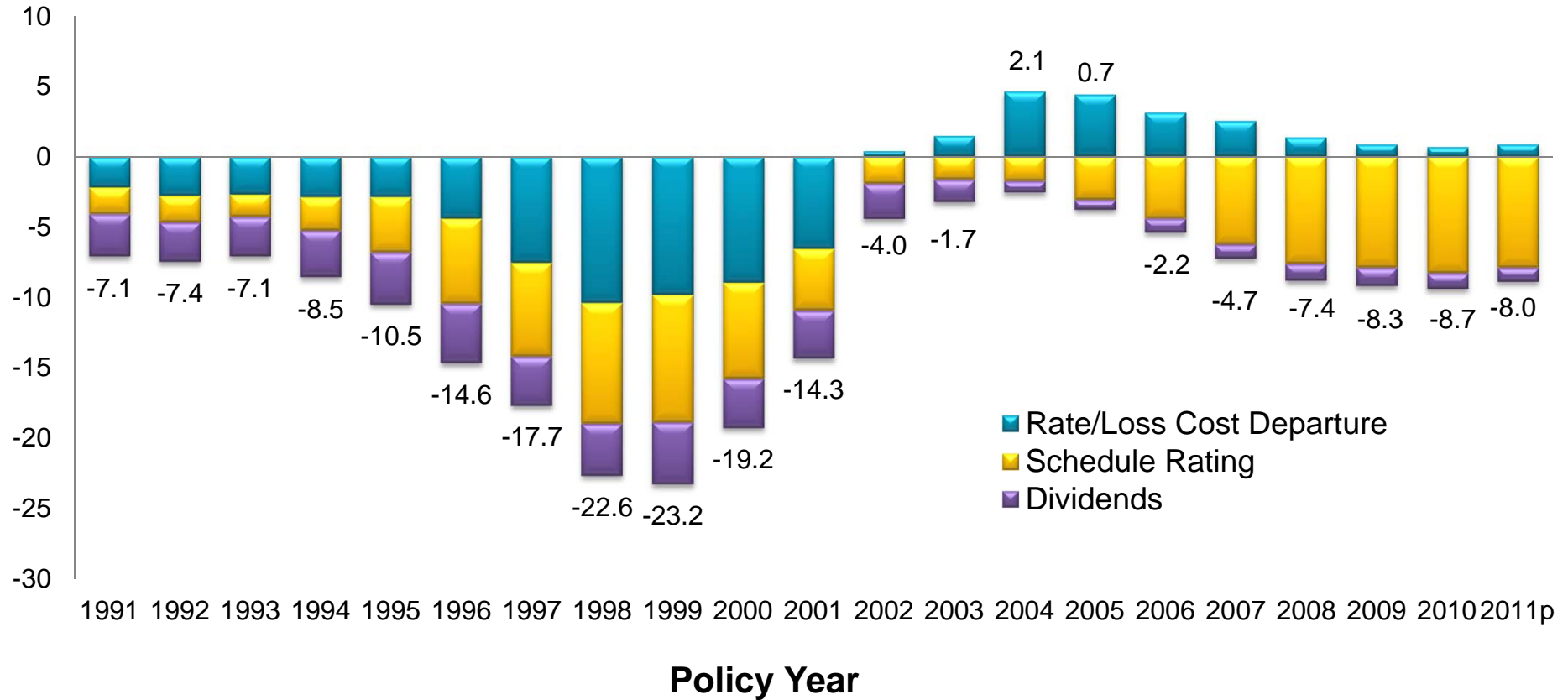
Reflects the most recent experience filing in each jurisdiction



Countrywide Impact of Discounting on Workers Compensation Premium

Percent

NCCI States—Private Carriers

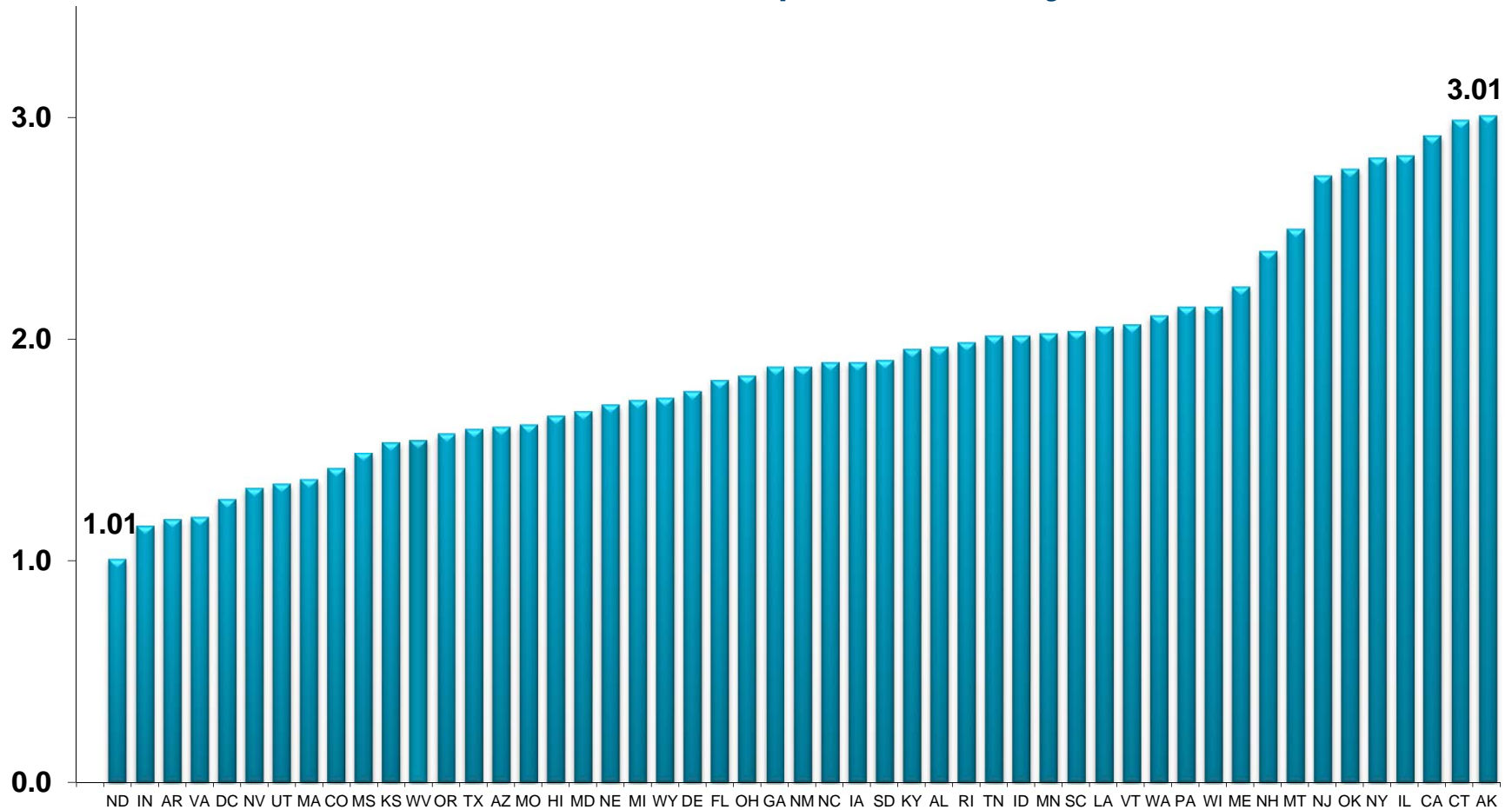


p Preliminary
 Dividend ratios are based on calendar year statistics
 NCCI benchmark level does not include an underwriting contingency provision
 Based on data through 12/31/2011 for the states where NCCI provides ratemaking services



Workers Compensation Premium Rate Ranking

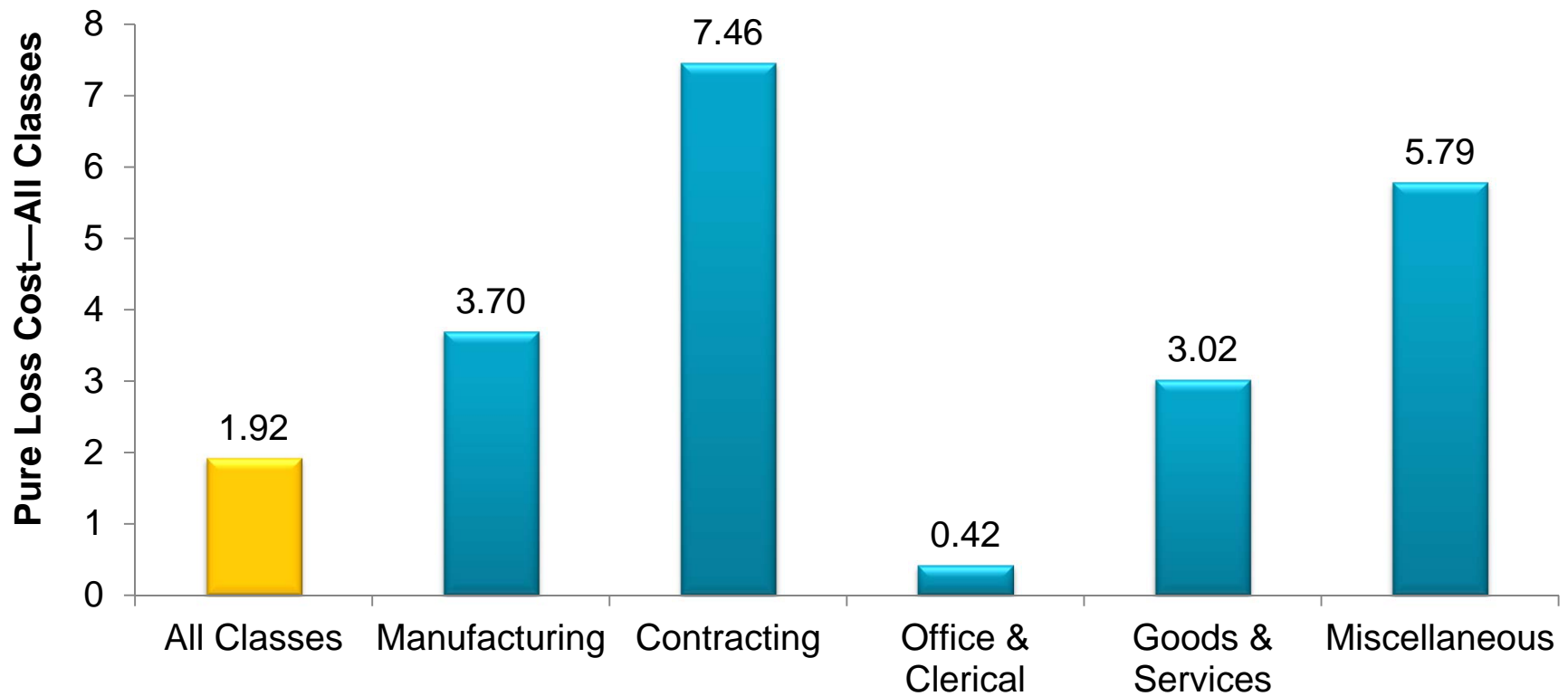
Premium Rate Index per \$100 of Payroll



Source: 2012 Oregon Workers' Compensation Premium Rate Ranking Summary
 Indexes based on rates in effect on January 1, 2012



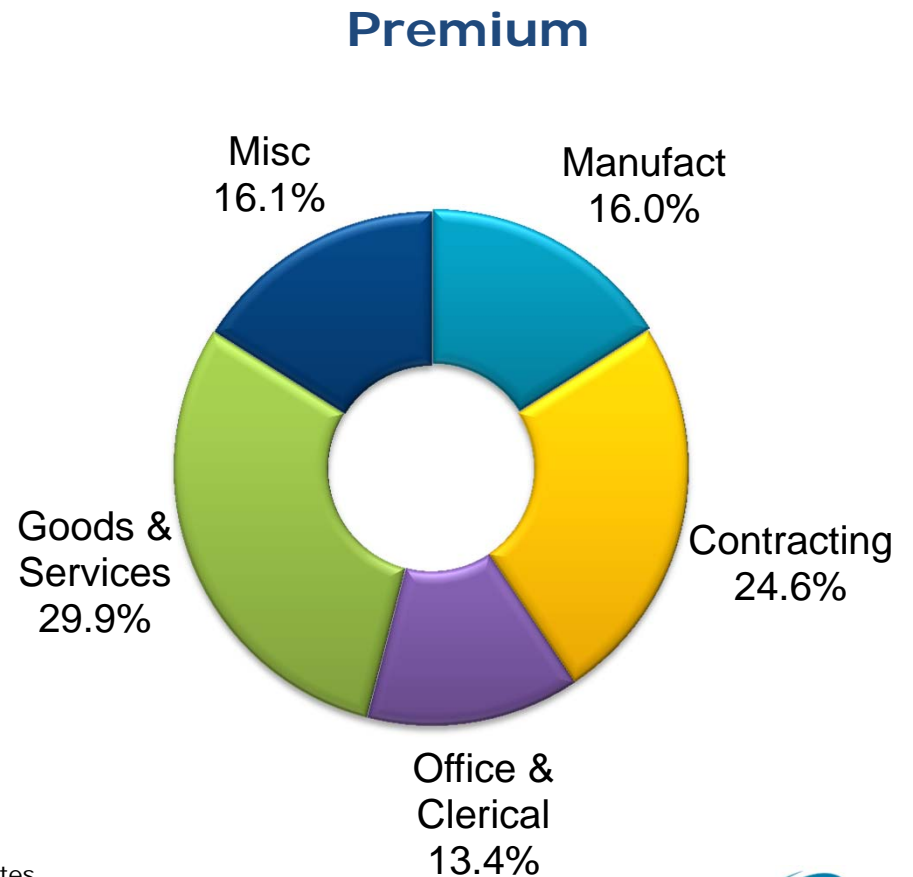
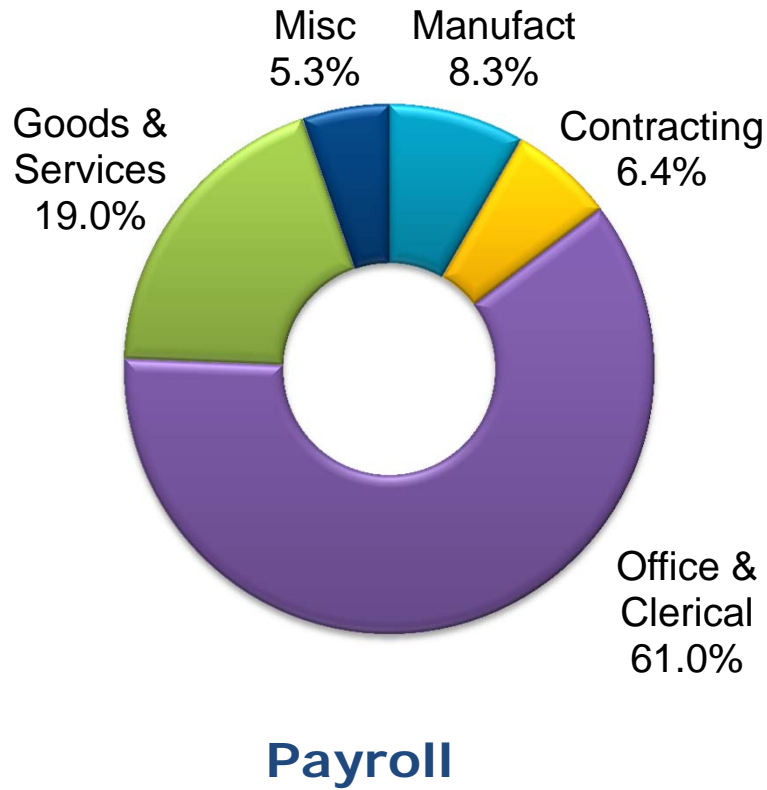
Countrywide Average Rates by Industry Group



Calculated from WCSP payroll and company-level premium data in NCCI states

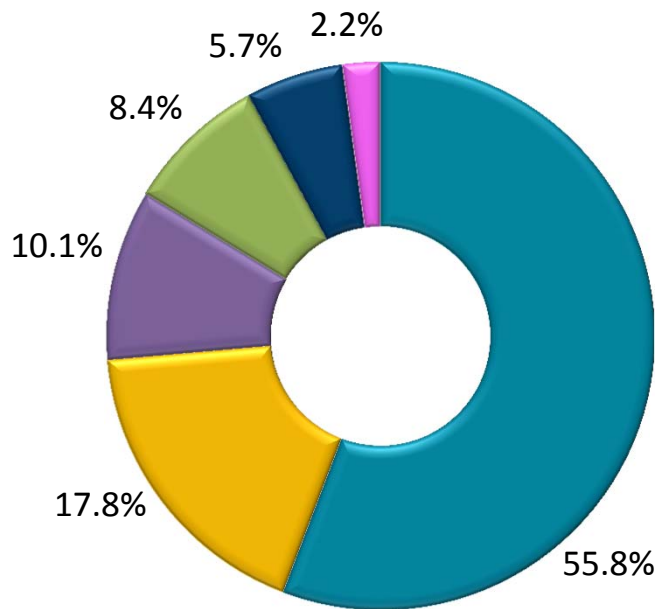


Countrywide Distribution of Payroll and Premium by Industry Group



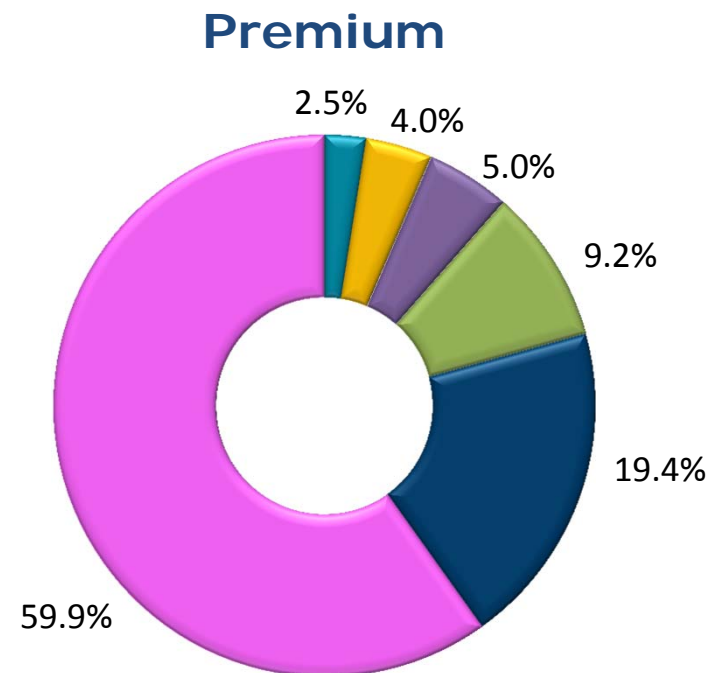
Calculated from WCSP payroll and company-level premium data in NCCI states

Countrywide Policy Size Comparison by Policy Count and Premium



Policy Count

- \$0-\$1,999
- \$2,000-\$4,999
- \$5,000-\$9,999
- \$10,000-\$24,999
- \$25,000-\$99,999
- \$100,000 and greater



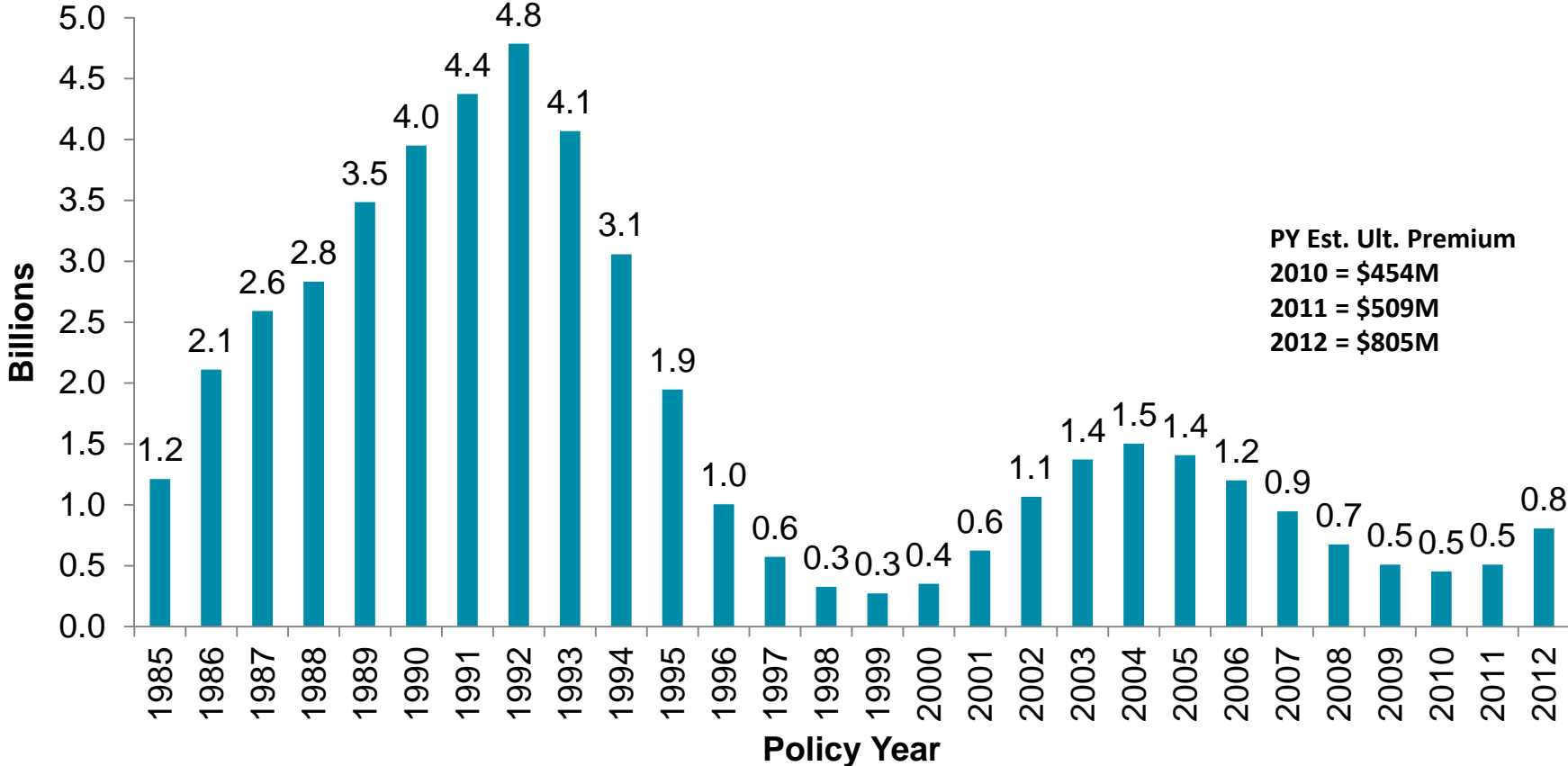
Premium

Calculated from WCSP payroll and company-level premium data in NCCI states



Estimated Ultimate Premium All Pools Combined

Traumatic Only



NCCI residual market pool data valued as of 9/30/12, which excludes direct assignment policy premium.



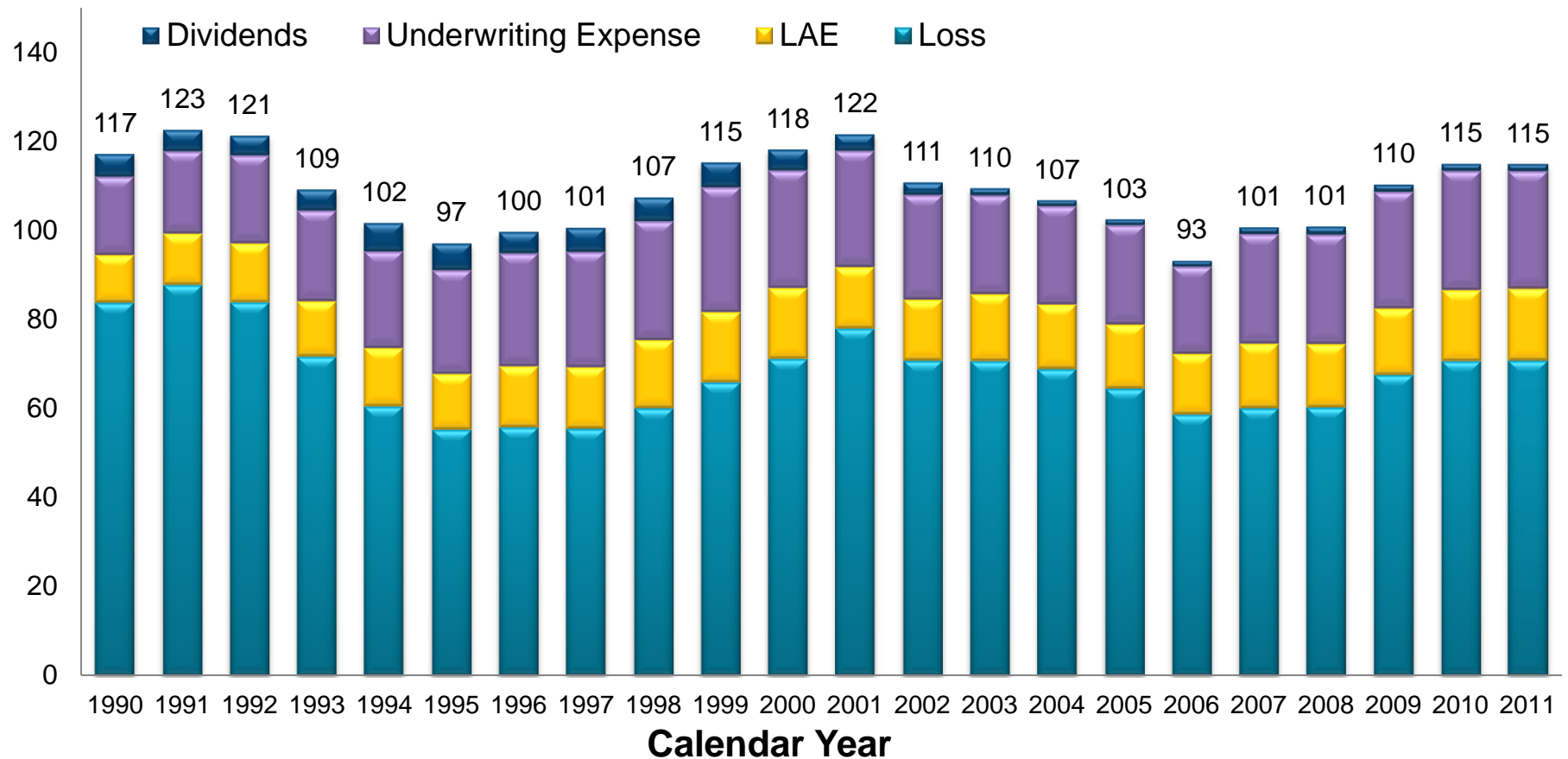


Workers Compensation Combined Ratios

Countrywide Workers Compensation Calendar Year Combined Ratio Remains High

Private Carriers

Percent



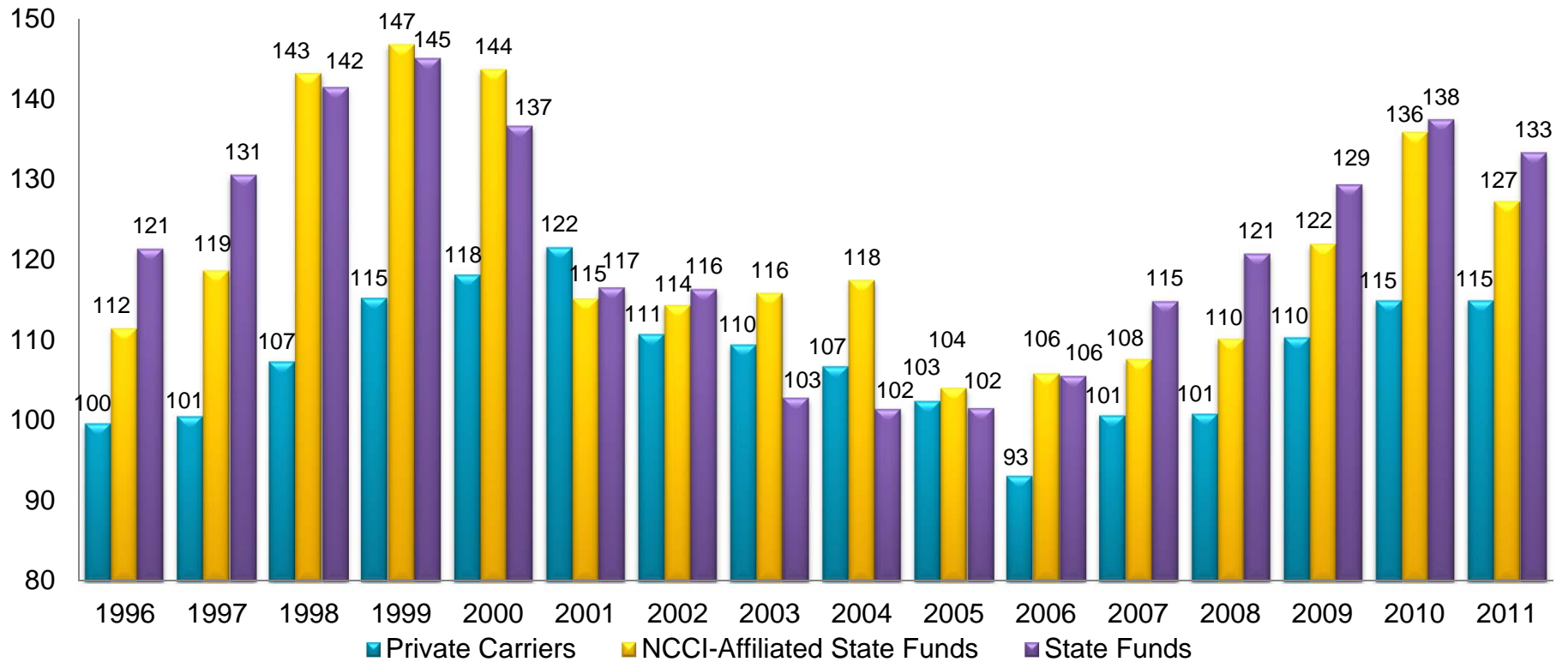
Source: 1990–2011, Annual Statement Data



Countrywide Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds

Percent



Calendar Year

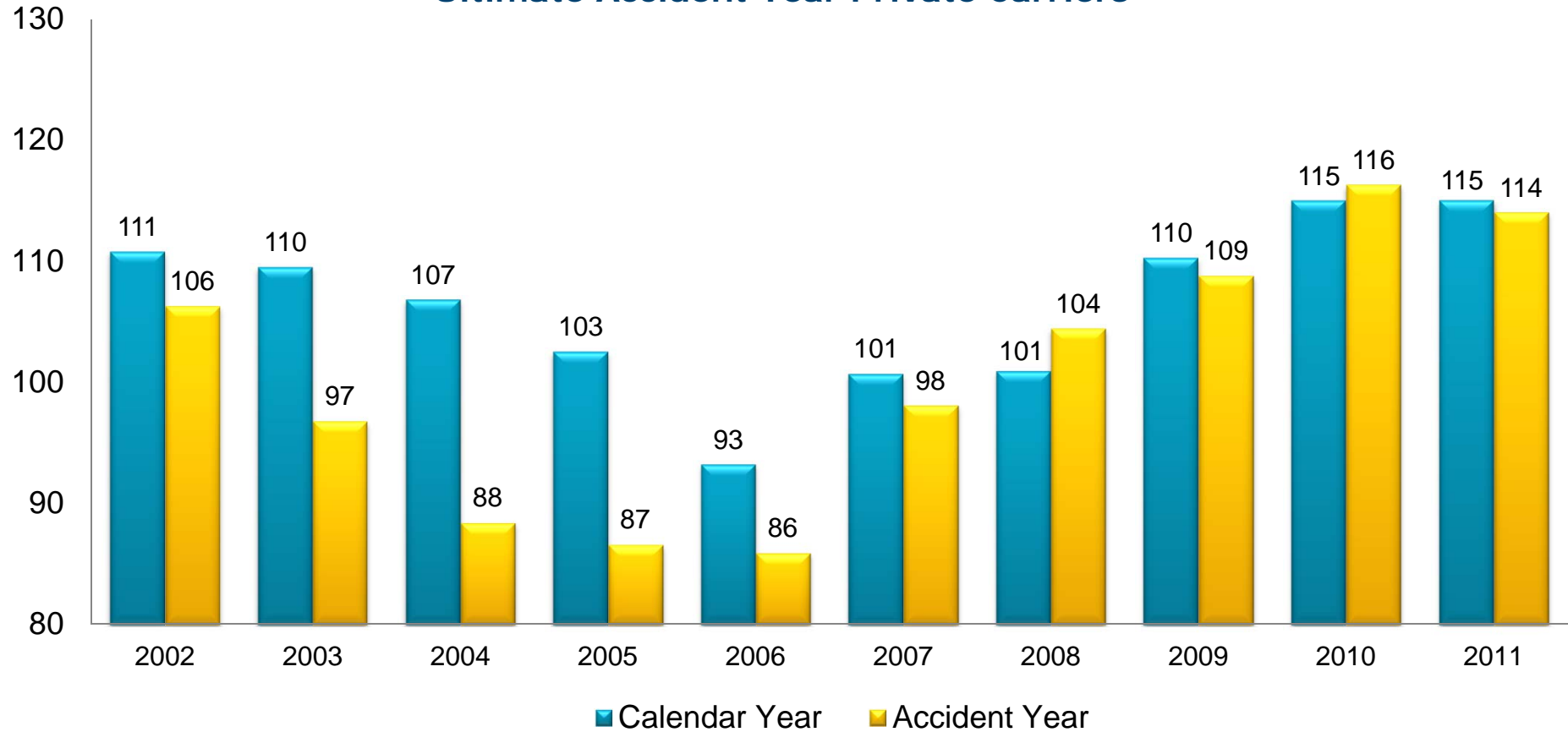
Source: 1996–2011 Private Carriers, Annual Statement Data
 1996–2011 NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
 1996–2011 State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements



Countrywide Accident Year Net Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year Private Carriers

Percent

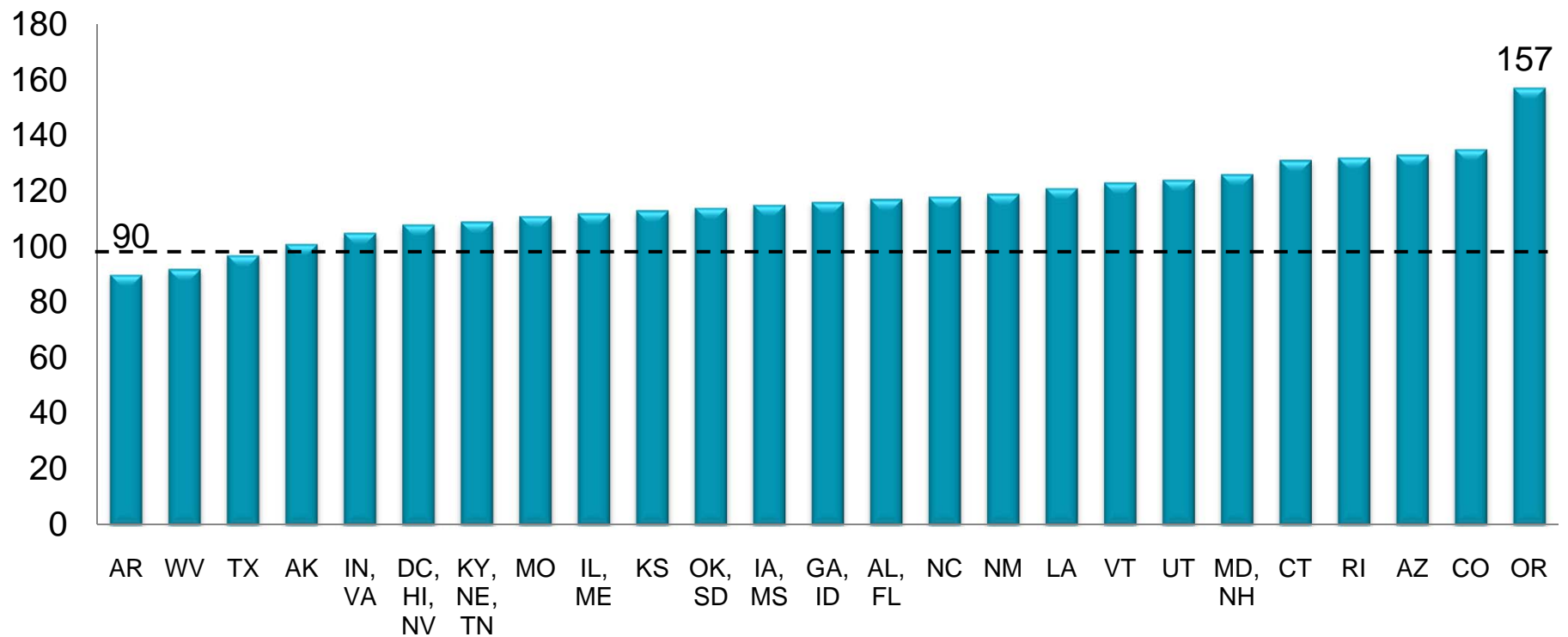


Accident Year data is evaluated as of 12/31/2011 and developed to ultimate
 Source: Calendar Years 2002–2011, Annual Statement Data;
 Ultimate Accident Years 2001–2011, NCCI analysis based on Annual Statement Data
 Includes dividends to policyholders



Results Vary From State to State

Accident Year 2011 Combined Ratios



Data is evaluated as of 12/31/2011



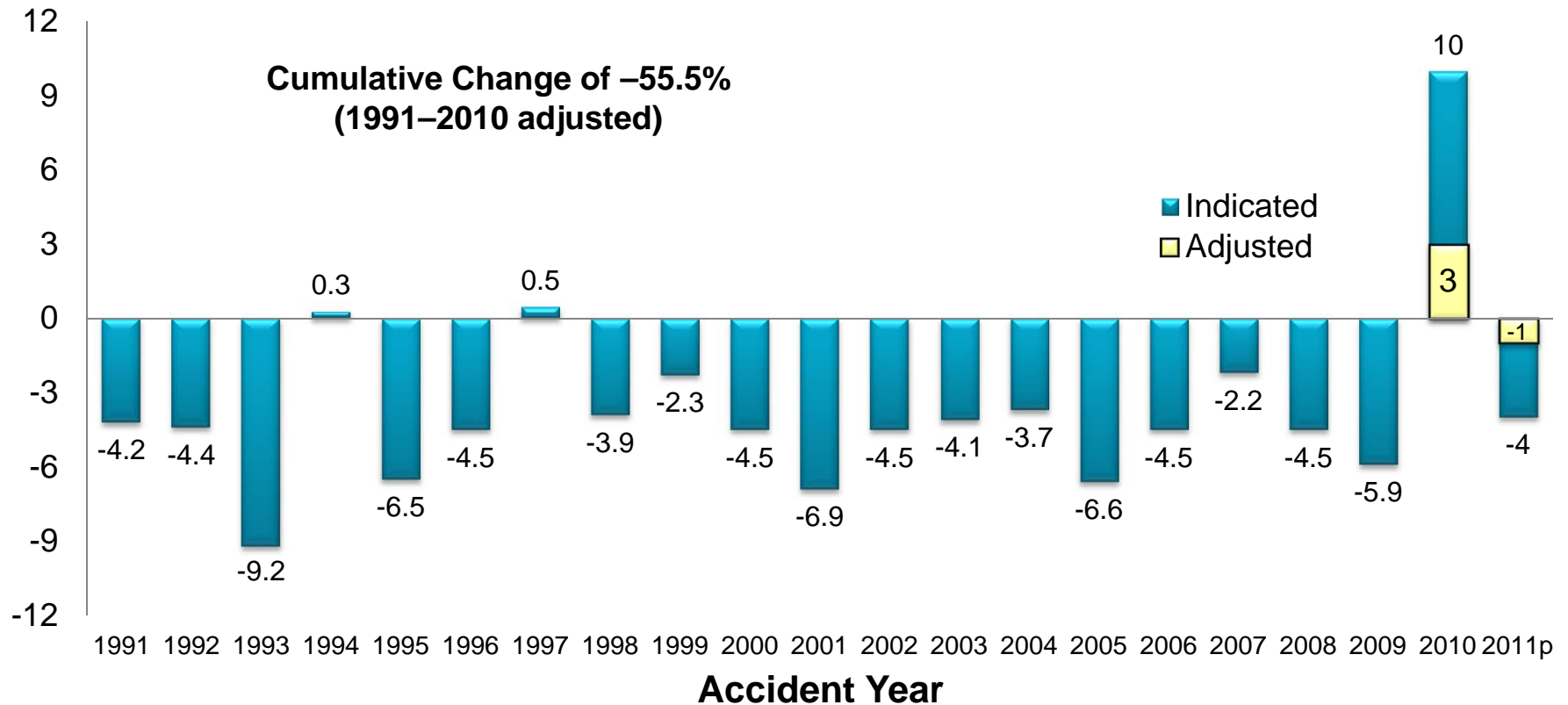


Claim Frequency

Countrywide Workers Compensation Lost-Time Claim Frequency Declined in 2011

Percent

Lost-Time Claims



2011p: Preliminary based on data valued as of 12/31/2011

1991-2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

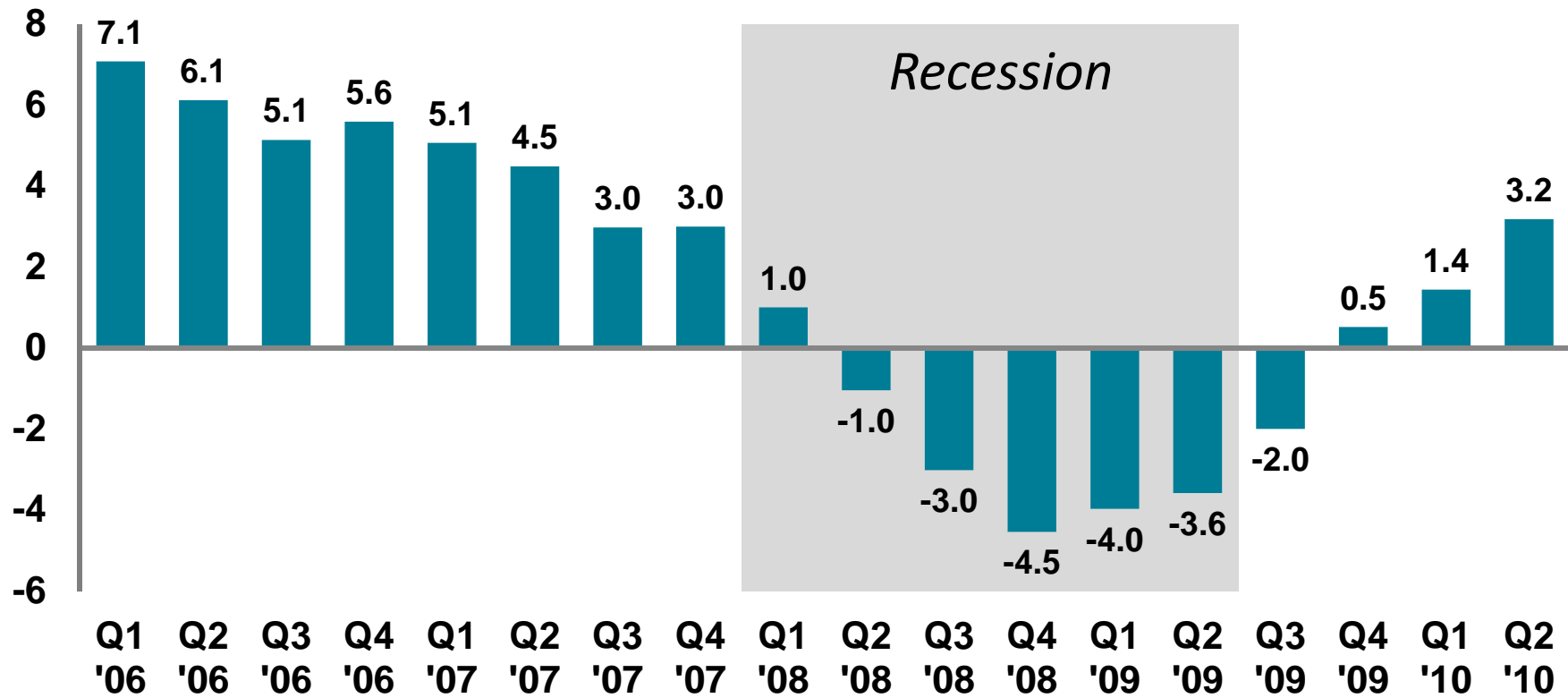
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level



The Recession Impacted Premium Audits

Final Premium vs. Estimated Premium by Policy Effective Quarter

Percent



NCCI's **Statistical Plan** audited premium compared to policy-estimated premium
 Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies and mid-term cancellations



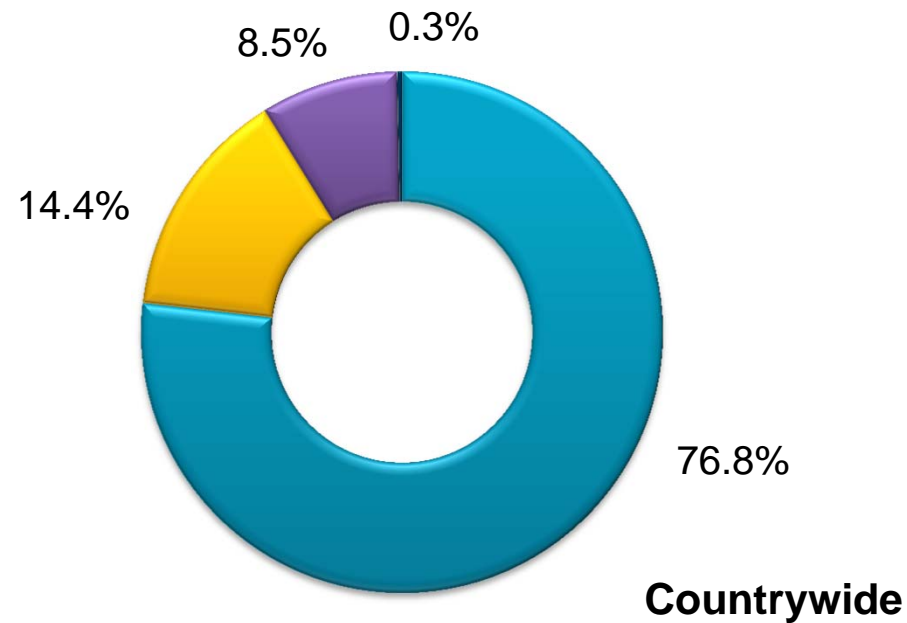
Adjustments to Indicated Change in Lost-Time Claim Frequency

Accident Year 2010 & 2011

Estimated Adjustments to Frequency Change

	2010	2011
Unadjusted Frequency Change	+10%	-4%
CY Premium Adjustment	-6%	+4%
Workweek and Industry Group Mix	-1%	-1%
<hr/>		
Adjusted Frequency Change	+3%	-1%

Countrywide Distribution of Claims by Injury Type



■ Medical Only ■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

Based on NCCI's *Statistical Plan* data



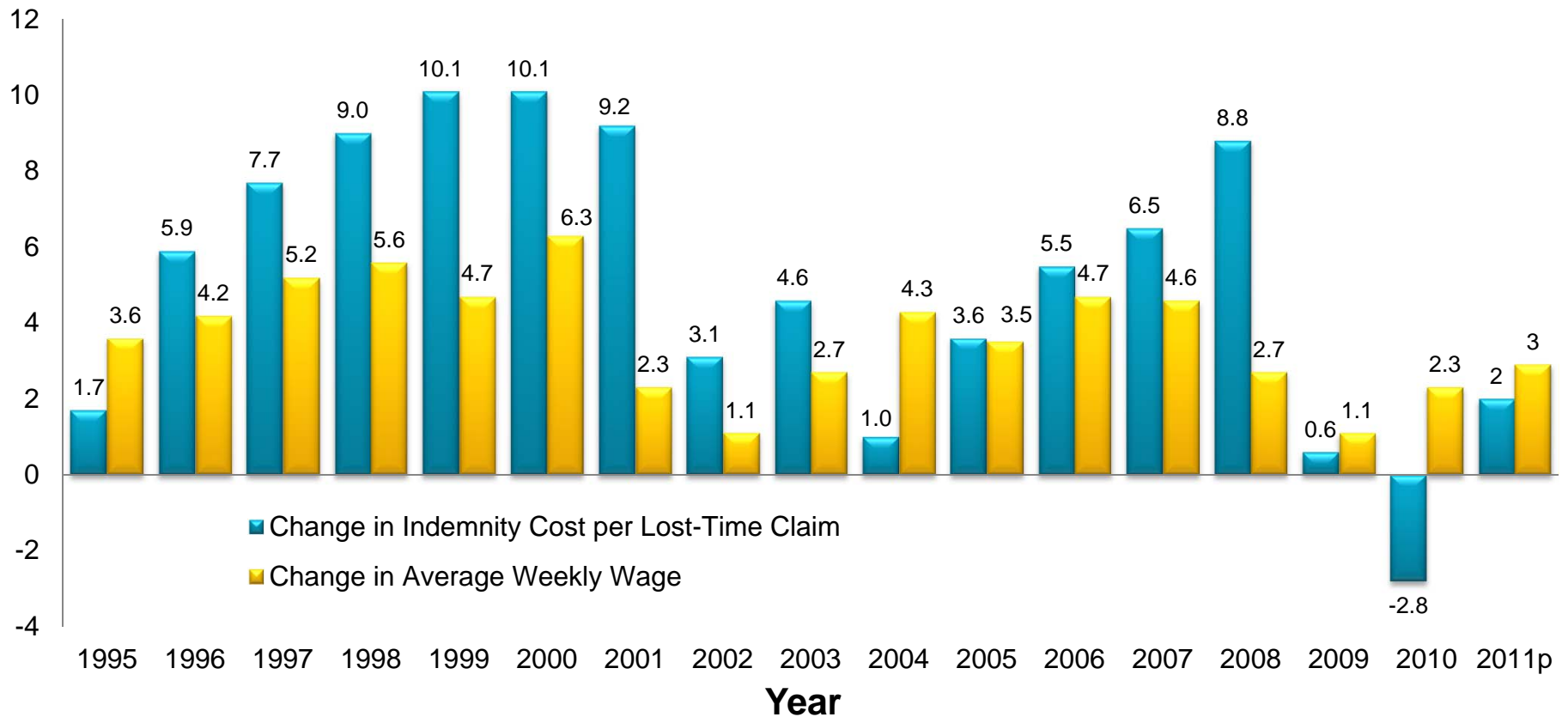


Indemnity Severity

Countrywide Workers Compensation Indemnity Severity— Modest Increase in 2011

Percent Change

Average Indemnity Cost per Lost-Time Claim



p Preliminary

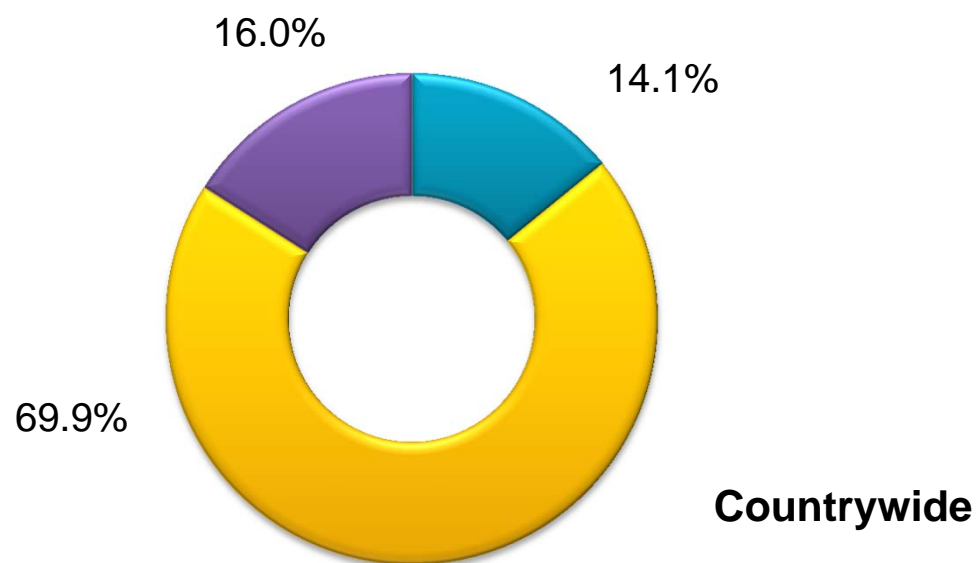
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Sources: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Economy.com; 2009–2011p, NCCI

Accident year indemnity severity—NCCI states, NCCI



Countrywide Indemnity Loss Distribution by Injury Type



■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

Based on NCCI's *Statistical Plan* data



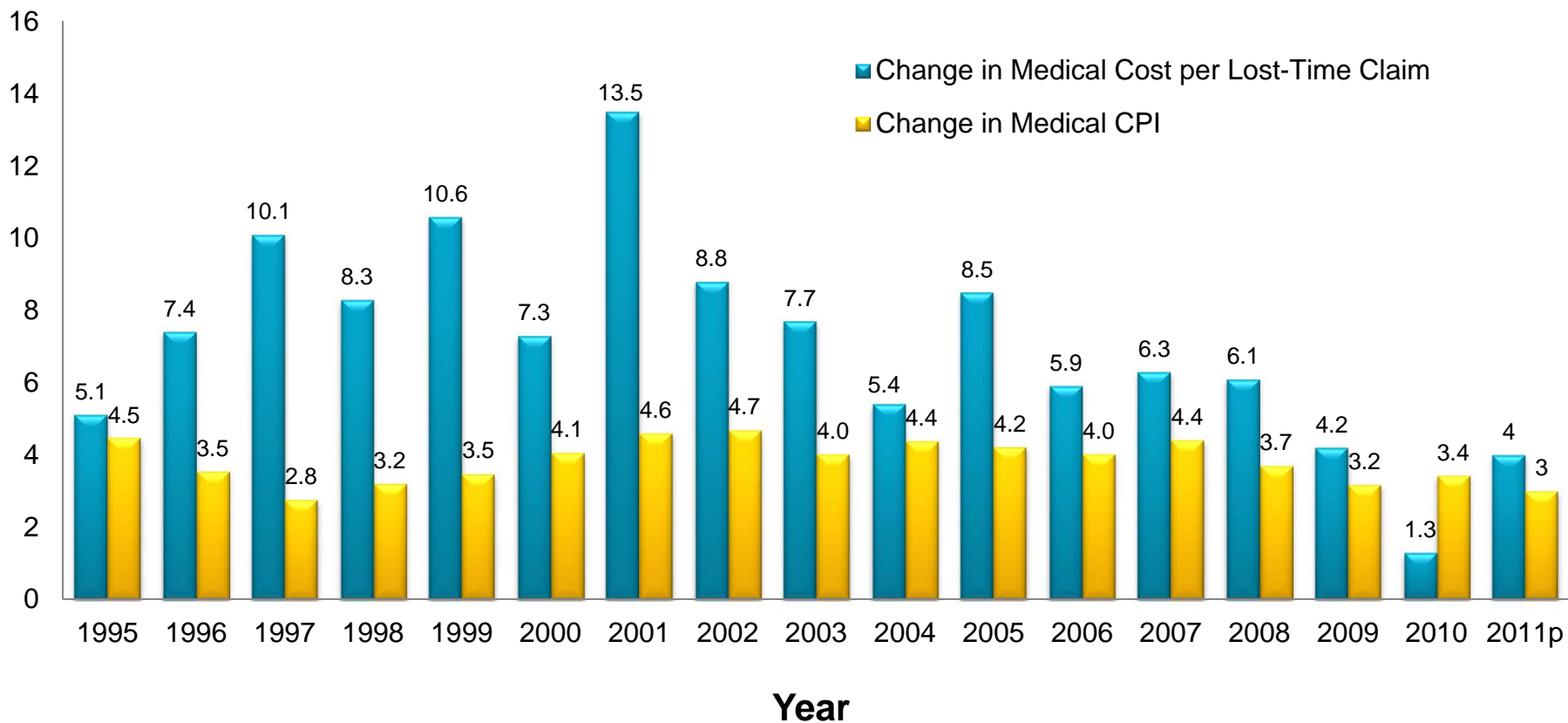


Medical Severity

Countrywide Workers Compensation Medical Severity—Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Percent Change



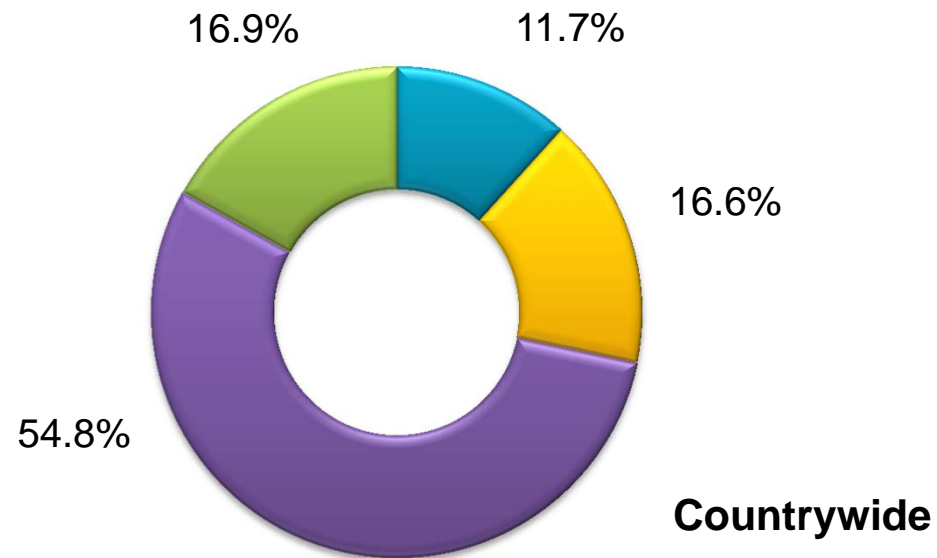
p Preliminary

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Sources: Medical CPI—All states, Moody's Economy.com; Accident year medical severity—NCCI states, NCCI



Countrywide Medical Loss Distribution by Injury Type



■ Medical Only ■ Temporary Total ■ Permanent Partial ■ Permanent Total/Fatal

Based on NCCI's *Statistical Plan* data

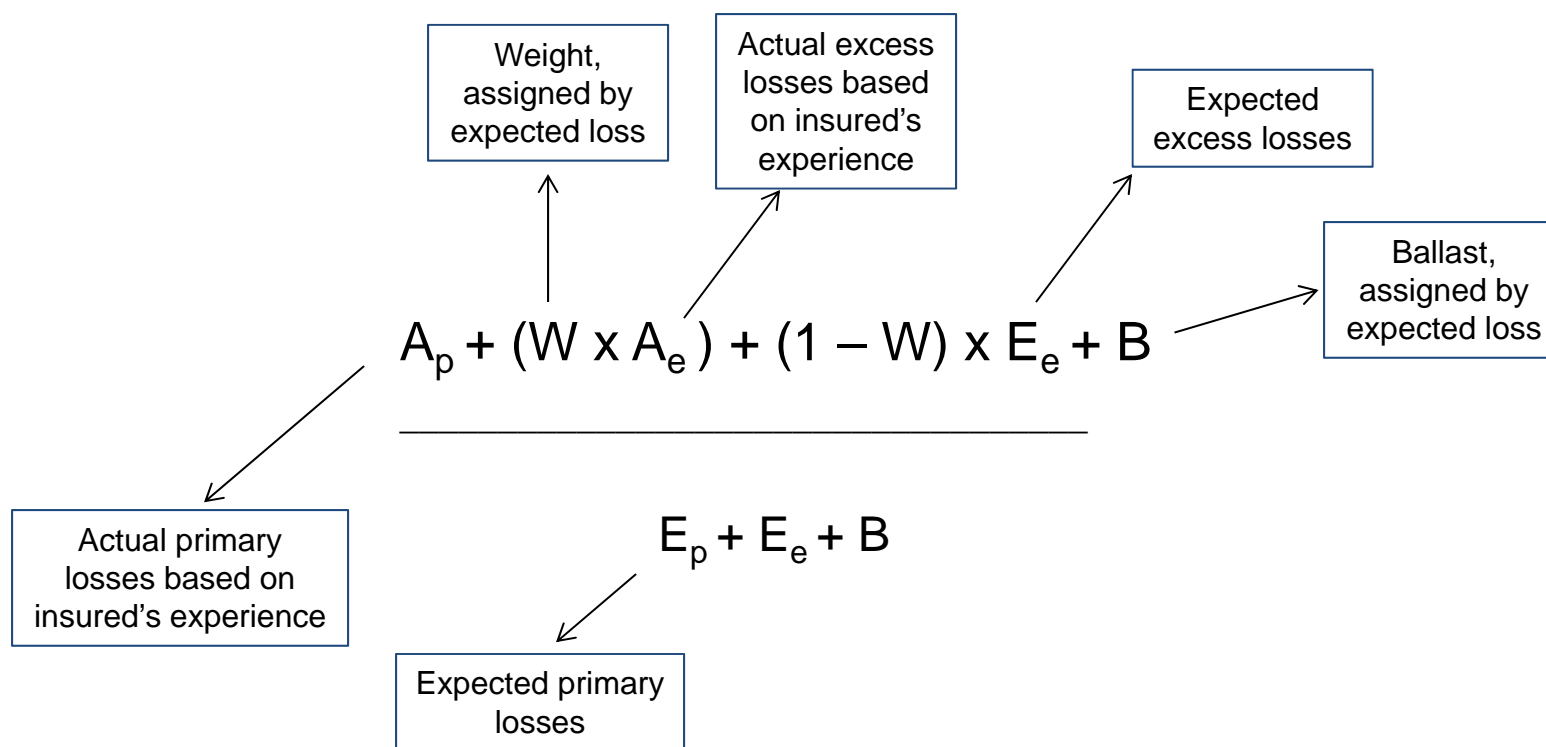




NCCI Experience Rating Plan: Recent Changes to the Primary/Excess Split Point

Experience Rating Plan

Experience Rating Formula



Actual primary losses: actual losses that have been capped at the split point

Actual excess losses: actual losses that are above the split point, subject to accident limit

Expected losses: calculated by multiplying insured's payroll in 100's by class ELR

Expected primary losses: calculated by multiplying expected losses by class D-ratio

Expected excess losses: Expected losses – expected primary losses

Experience Rating Plan

Item E-1402

- Effective 1/1/2013 and subsequent in NCCI states
- Increases the primary/excess split point
- Indexes the split point, so future increases are automatic
- Revises the maximum modification formula/cap, so the maximum mod is not less than 1.10
- Experience rating changes will be premium-neutral statewide



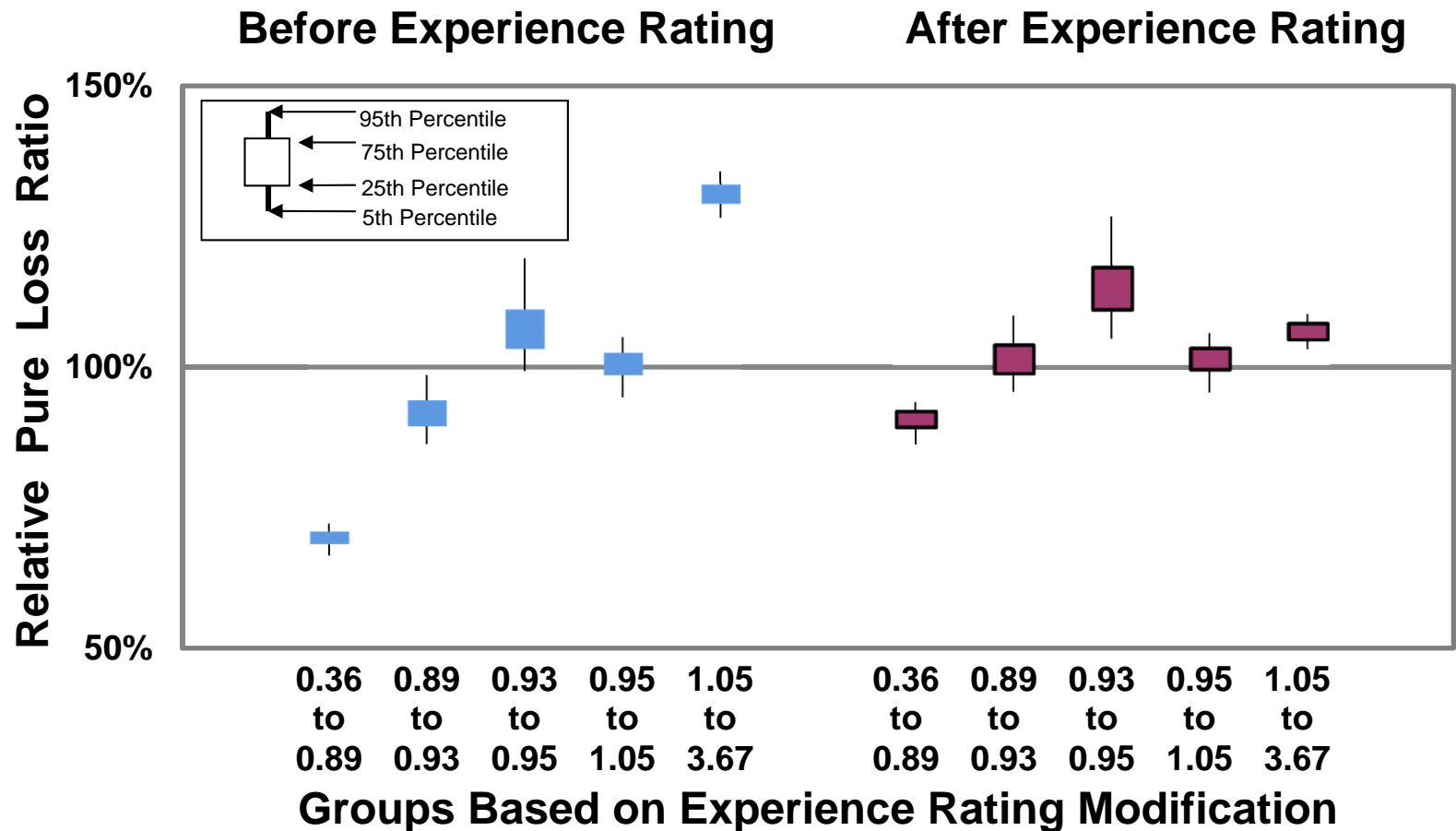
Experience Rating Plan Split Point Review

- The split point separates losses into primary and excess components. It had been \$5,000.
- If the split point is not indexed for claim cost “inflation,” a greater proportion of losses fall into the excess category as time goes on.
- Since excess losses receive less weight than primary losses in the experience rating formula, **the plan becomes less responsive.**
- Performance testing indicates that the split point needs to be increased to \$15,000. This is not surprising since the average cost of a claim has tripled since the last split point update (20 years ago).



Quintile Analysis: Prior \$5,000 Split Point

PY 2006 Experience Under the ER Plan, Indexed for Severity Inflation

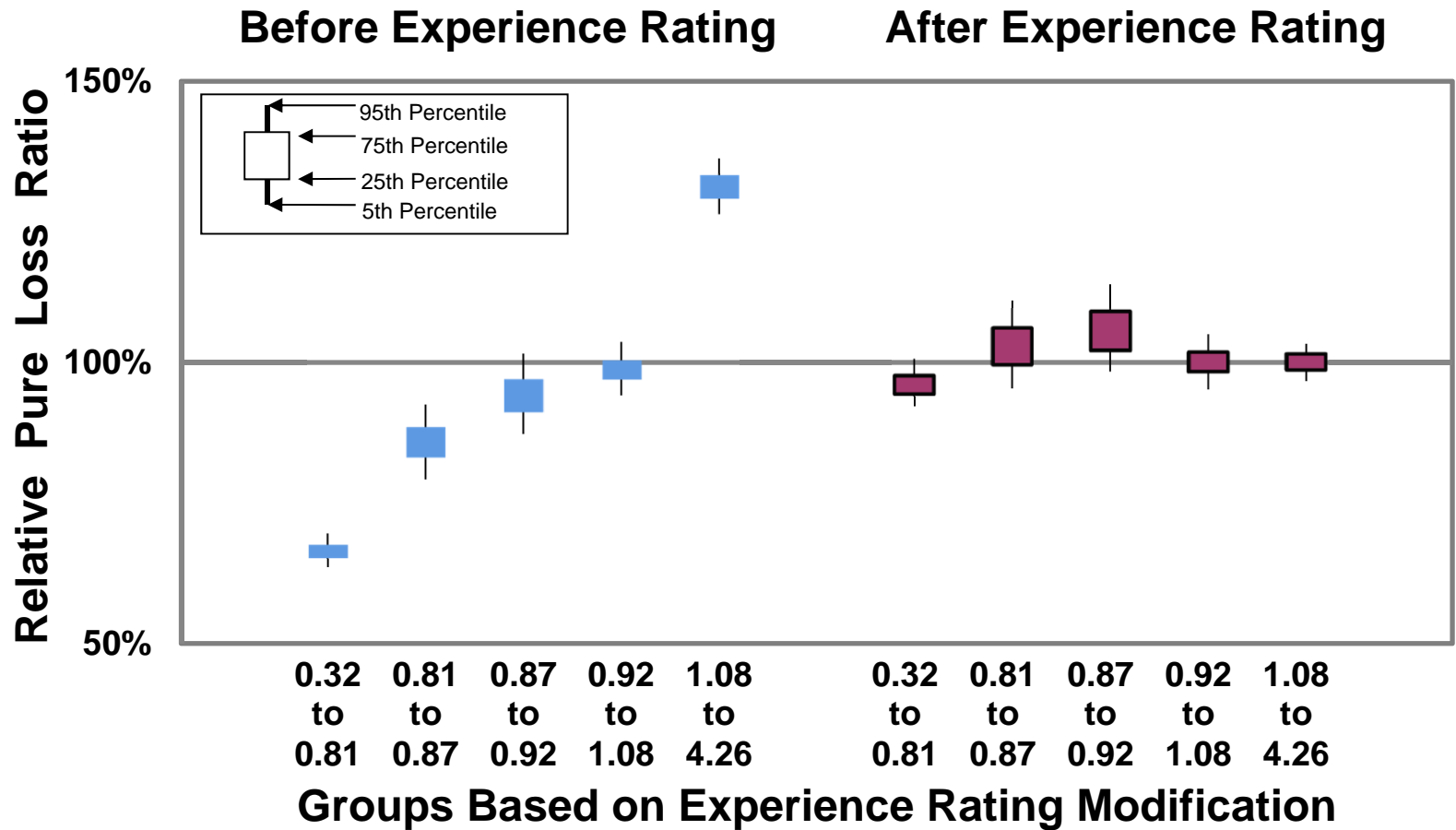


Relative Pure Loss Ratio = Loss Ratio for Quintile / Loss Ratio for All Quintiles Combined



Quintile Analysis: Indicated \$15,000 Split Point

PY 2006 Experience Under the ER Plan, Indexed for Severity Inflation



Relative Pure Loss Ratio = Loss Ratio for Quintile / Loss Ratio for All Quintiles Combined



Experience Rating Plan

Item E-1402

- The effective date coincides with the effective date of the loss cost or rate filing
- A transition program* is phasing in the split point change:
 - Year 1, the split point is being increased to \$10K
 - Year 2, the split point will be further increased to \$13.5K
 - Year 3, the split point will be increased all the way to the indicated split point of approximately \$17K (\$15K plus two years of inflation adjustment rounded to the nearest \$500)
- Subsequent annual filings will increase the split point as indicated

* A 4-year transition was approved in MO



Typical Annual Mod Changes Under No Change in Split Point

- The 2013 split point change is not occurring in isolation
- The regular annual update of the NCCI ER values is also occurring
 - This can change mods by several percent
- Employer experience is also updated annually
 - This is typically the biggest driver of changes in mods, especially for large mod changes
- Changes in the split point will become part of the regular annual update of the experience rating values

Typical Annual Mod Changes

Under No Change in Split Point

Distribution of Differences Between 2010 and 2011 Mod Values for Selected States*

% Change in Mod	% of Risks	Average Mod	
		2010*	2011*
Change <-15%	4.5%	1.22	0.96
-15%≤Change<-10%	3.4%	1.11	0.98
-10%≤Change<-5%	5.1%	1.05	0.98
-5%≤Change<0%	20.6%	1.00	0.97
No Change	22.5%	0.93	0.93
0%<Change<5%	31.6%	0.93	0.95
5%≤Change<10%	4.3%	0.95	1.02
10%≤Change<15%	2.9%	0.95	1.06
15%≤Change<20%	2.0%	0.95	1.11
20%<Change	3.1%	0.95	1.22

* For some states the difference between 2011 and 2012 is used

Preliminary Mods and Final Mods

- Experience rating (ER) values using a \$10,000 split point were filed on a state-by-state basis for loss cost and rate filings effective 1-1-13 and subsequent
- When a loss cost filing was pending, preliminary mods were issued by NCCI
- Preliminary mods use approved ER values and were issued under a \$5K split point until the rate (loss cost) filing was approved
- Final mods that use the revised split point were issued once the rate (loss cost) filing was approved



Preliminary Mods and Final Mods

- In 2012, Preliminary mods were computed using:
 - 3-years of updated actual losses for employers
 - Prior approved split point (\$5,000)
 - Prior approved Expected Loss Rates (ELR)
 - Prior approved D-ratio, Weights, & Ballasts
- Upon approval, Final mods were computed using:
 - 3-years of updated actual losses for employers
 - New split point (\$10,000)
 - New ELR
 - New D-ratio, New Weights, & New Ballasts
- NCCI is analyzing the comparison of preliminary and final mod results as states are approved

Comparisons of Preliminary Mods to Final Mods

Initial Snapshot of Mod Results from Recently Approved States*

% Change in Prelim_Mod to Final_Mod	% of Risks	Average Mod	
		Preliminary SP = \$5K	Final SP = \$10K
Change \leq -15%	0.07%	1.68	1.31
-15% < Change \leq -10%	0.43%	0.81	0.72
-10% < Change \leq -5%	11.45%	0.85	0.79
-5% < Change < 0%	61.64%	0.93	0.90
No Change	4.48%	0.99	0.99
0% < Change \leq 5%	9.97%	1.08	1.11
5% < Change \leq 10%	8.04%	1.20	1.29
10% < Change \leq 15%	3.23%	1.30	1.46
15% < Change	0.68%	1.44	1.70
Total	100.00%	0.98	0.97

* Based upon a sample of 75,007 intrastate risks from the following 26 states: MO, AZ, IN, OR, IL, NM, MD, OK, ID, HI, KS, FL, NH, TN, IA, ME, CO, AL, NE, CT, GA, MS, LA, AK, VA, NV



Conclusions

- NCCI is currently tracking the change in split point by doing comparisons of preliminary to final mod values for a large sample of risks
- The results are very similar to NCCI's previous countrywide split point research. That is:
 - The majority of risks receive credits
 - Credits and debits are larger under \$10K split point
- This comparison differs slightly from NCCI's countrywide research, which isolated the split point change across a full year's risks in all NCCI states
- The initial snapshot of results from the split point change is consistent with NCCI's previous countrywide research





Thank You!