

WORKERS' COMPENSATION CURRENT ISSUES UPDATE (SESSION C-31)

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Casualty Actuarial Society
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Another Year of Premium Declines

Net Written Premium by Line—Private Carriers and State Funds

Line of Business	2007	2008	2009	2008– 2009 Change
Personal Auto	\$159.1 B	\$158.0 B	\$156.5 B	-0.9%
Homeowners	\$57.3 B	\$58.3 B	\$59.5 B	2.1%
Other Liability (Incl Prod Liab)	\$44.3 B	\$41.1 B	\$38.0 B	-7.4%
Workers Compensation	\$45.5 B	\$40.2 B	\$35.0 B	-12.9%
Commercial Multiple Peril	\$31.1 B	\$30.1 B	\$28.5 B	-5.3%
Commercial Auto	\$25.5 B	\$23.7 B	\$21.8 B	-8.1%
Fire & Allied Lines (Incl EQ)	\$21.9 B	\$24.2 B	\$23.4 B	-3.3%
All Other Lines	\$63.1 B	\$65.2 B	\$58.4 B	-10.4%
Total All Lines	\$ 447.7 B	\$ 440.6 B	\$ 421.1 B	-4.4%

Source: A.M. Best Co., U.S. Workers' Compensation , 2009 Market Review

State Funds included in WC are AZ, CA, CO, HI, ID, KY, LA, ME, MD, MN, MO, MT, NM, NY, OR, RI, TX, UT Annual Statements

Combined Ratios

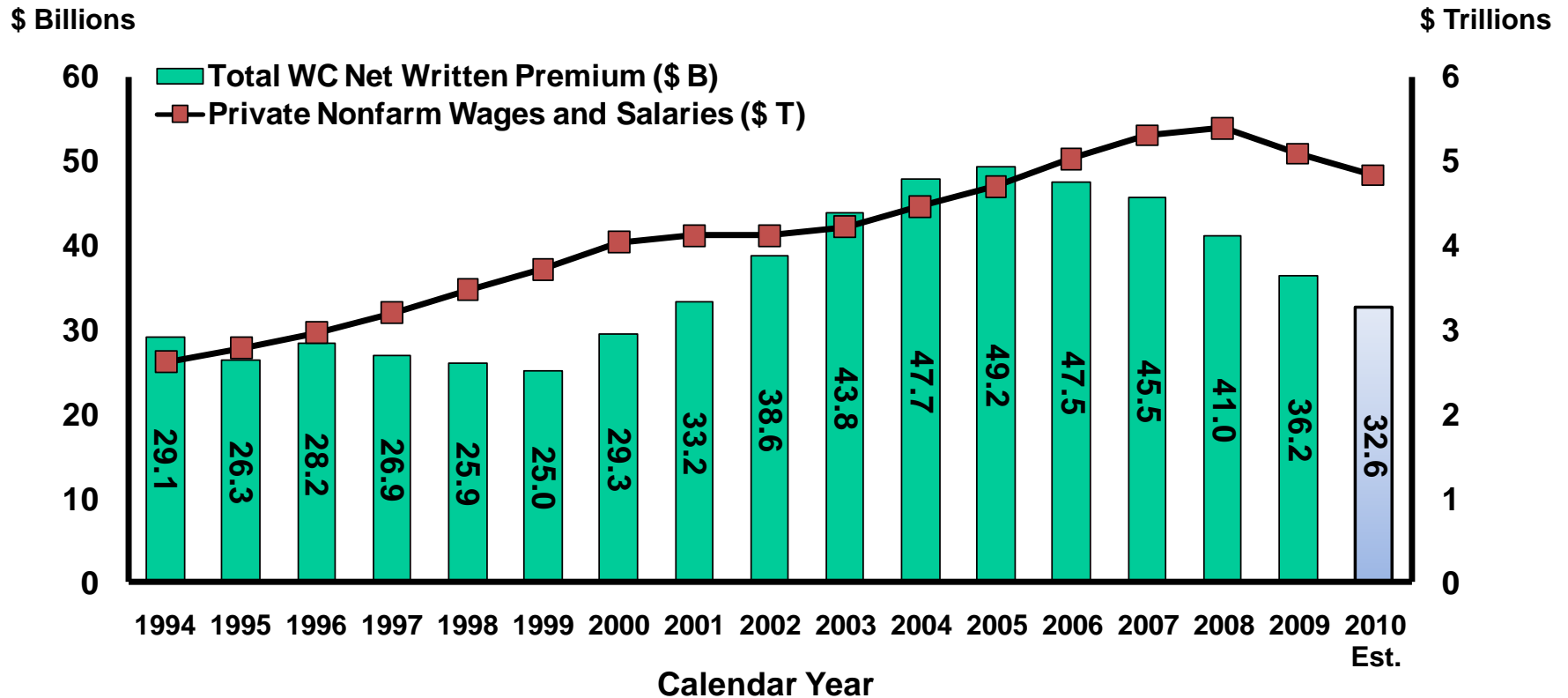
Net Combined Ratios (C/R) Private Carriers and State Funds

Line of Business	2007	2008	2009
Personal Auto	98%	100%	101%
Homeowners	96%	117%	106%
Other Liability (Incl Prod Liab)	99%	95%	106%
Workers Compensation	104%	105%	111%
Commercial Multiple Peril	92%	104%	97%
Commercial Auto	94%	97%	100%
Fire & Allied Lines (Incl EQ)	69%	99%	80%
All Other Lines	92%	118%	96%
C/R All Lines (P/C)	96%	105%	101%

Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Workers Compensation Premium Volume Continues to Decline

Net Written Premium Private Carriers and State Funds

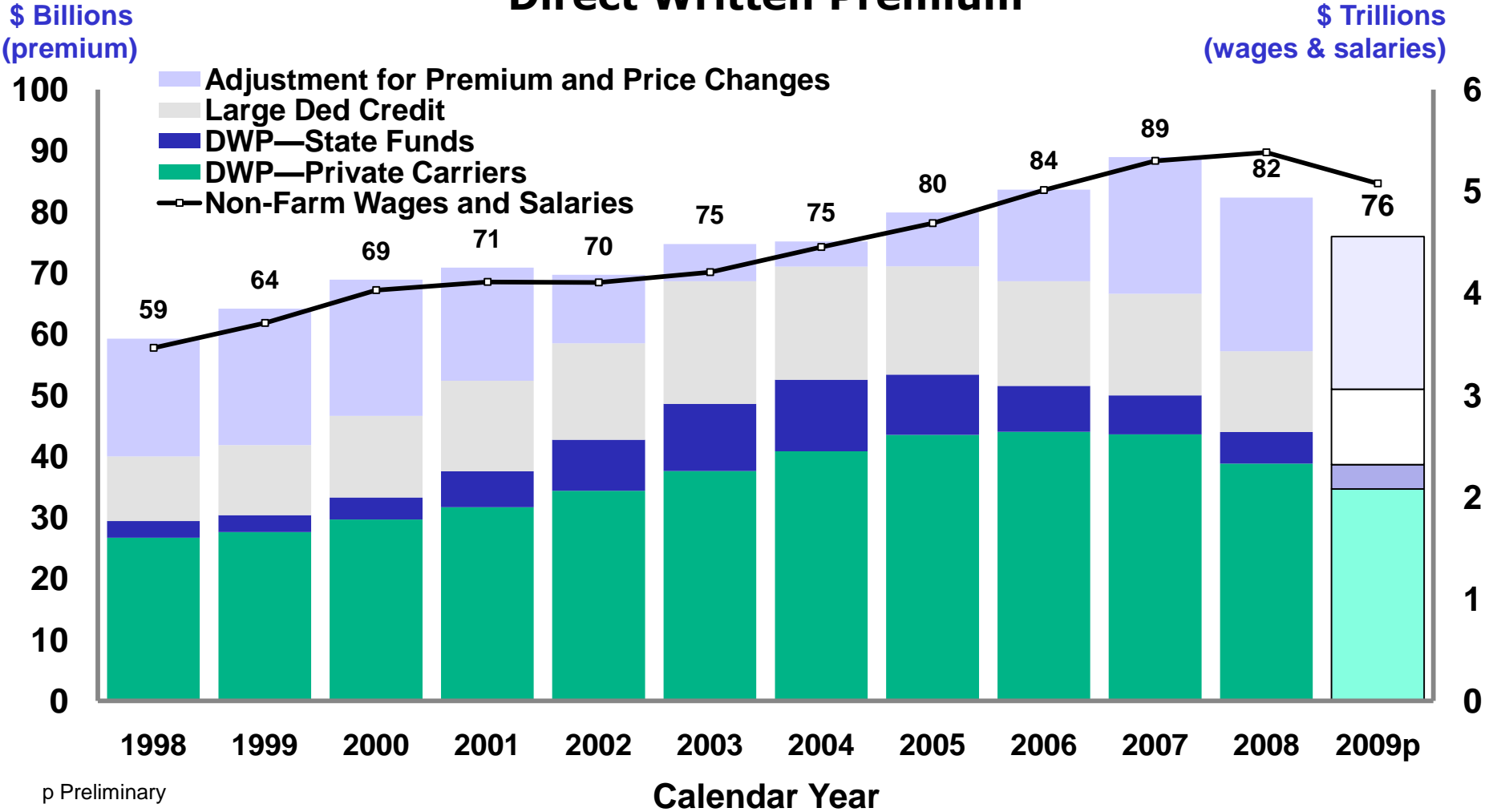


2010 Est. =A.M. Best Co. Projection

Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Adjusted Workers Compensation Premium Volume

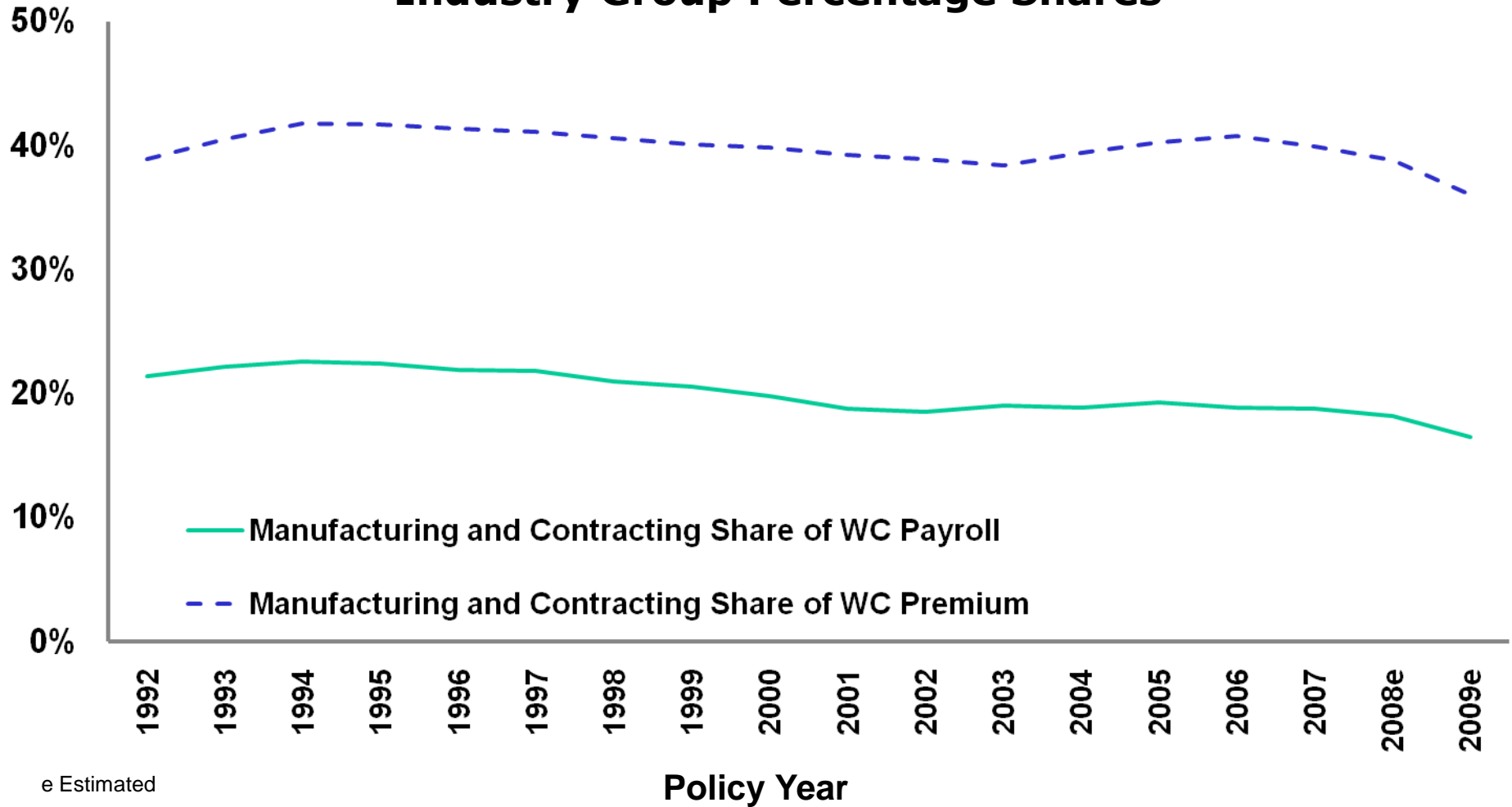
Direct Written Premium



Source: 1998–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI
 1998–2009p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 Adjustment for premium and price level changes relative to 1995; premium adjustment to 1995 rate level

Manufacturing and Contracting 20% of WC Payroll But 40% of WC Premium

Industry Group Percentage Shares



e Estimated

Source: Based on the states where NCCI provides ratemaking services
2008 and 2009 are NCCI projections

Contributions to Workers Compensation Net Written Premium Decline

**Calendar Years 2007–2009
Private Carriers and State Funds**

2-Year Change in Countrywide NWP	-23%
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Known Pricing Impacts

Change in Bureau Rates and Loss Costs	-7%
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Change in Carrier Pricing	-4%
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Economic Impacts

Change in Total Payroll	-4%
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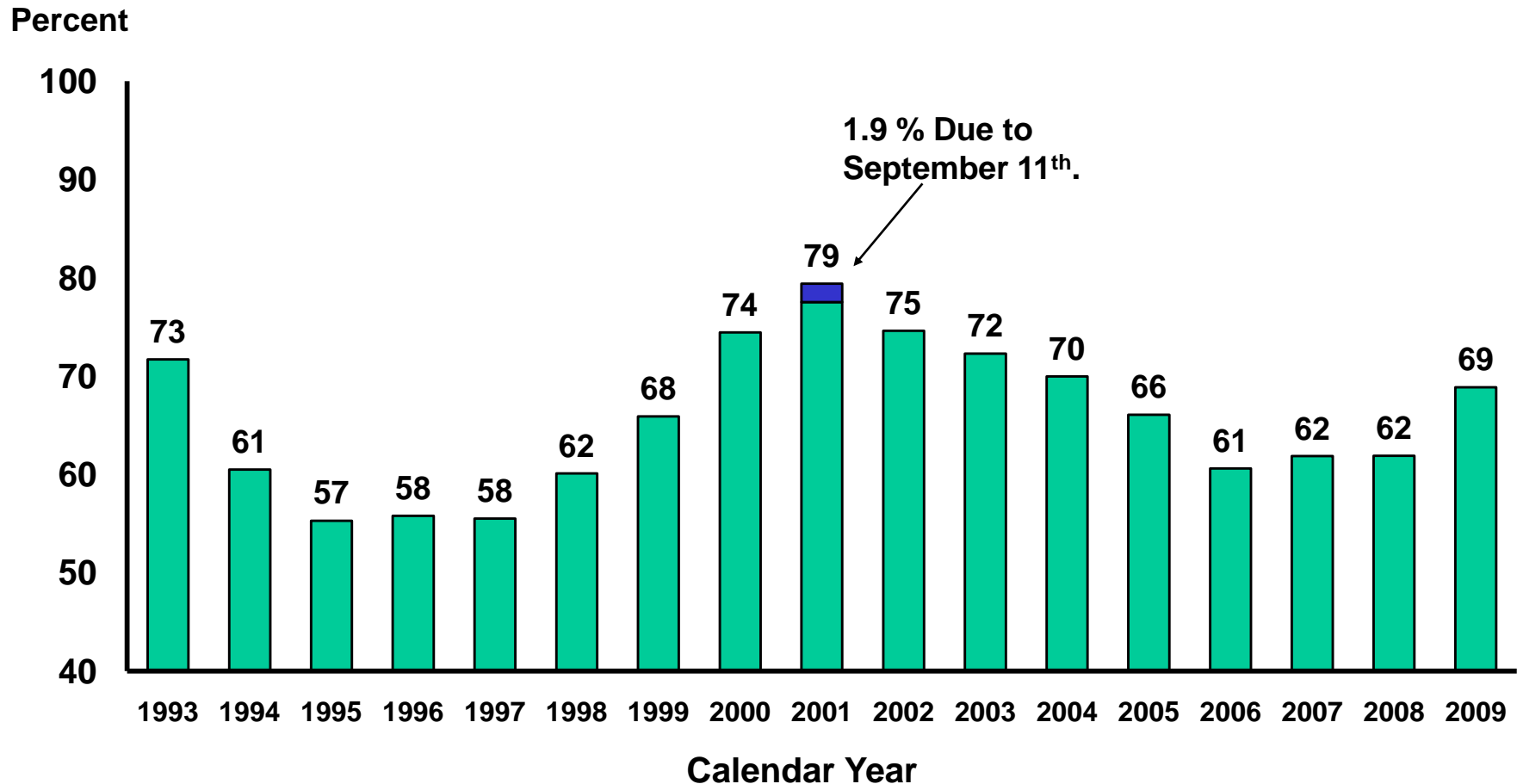
Impact of Recession on Industry Group Mix	-4% to -6%
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Impact of Recession by Firm Size	-4% to -6%
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Other Impacts	+1% to -2%
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Calendar Year Workers Compensation Loss Ratio Shows Deterioration

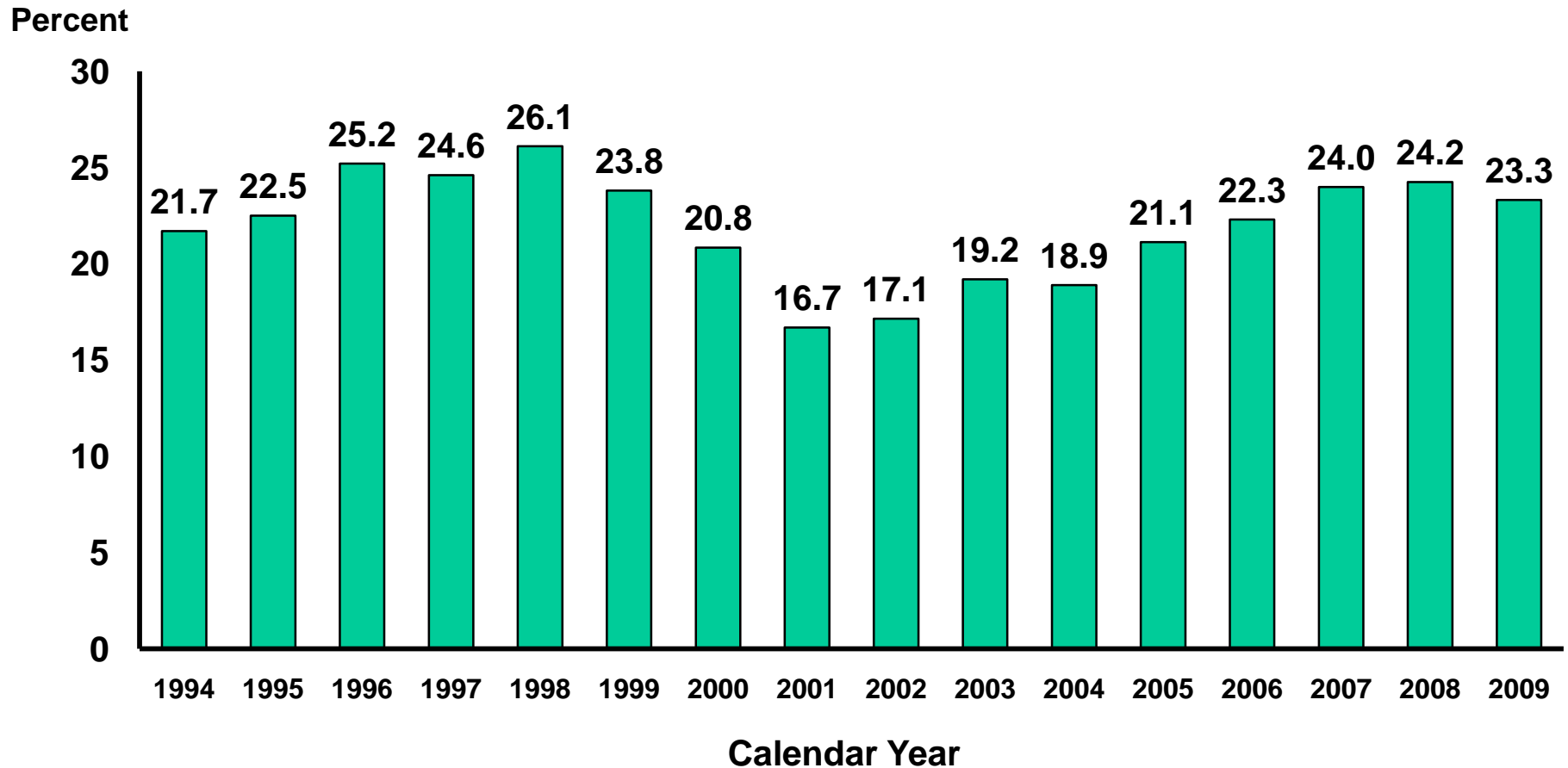
Net Loss Ratios—Private Carriers and State Funds



Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*
September 11 est. from NCCI

Workers Compensation Ratio of Loss Adjustment Expense to Loss Ratio

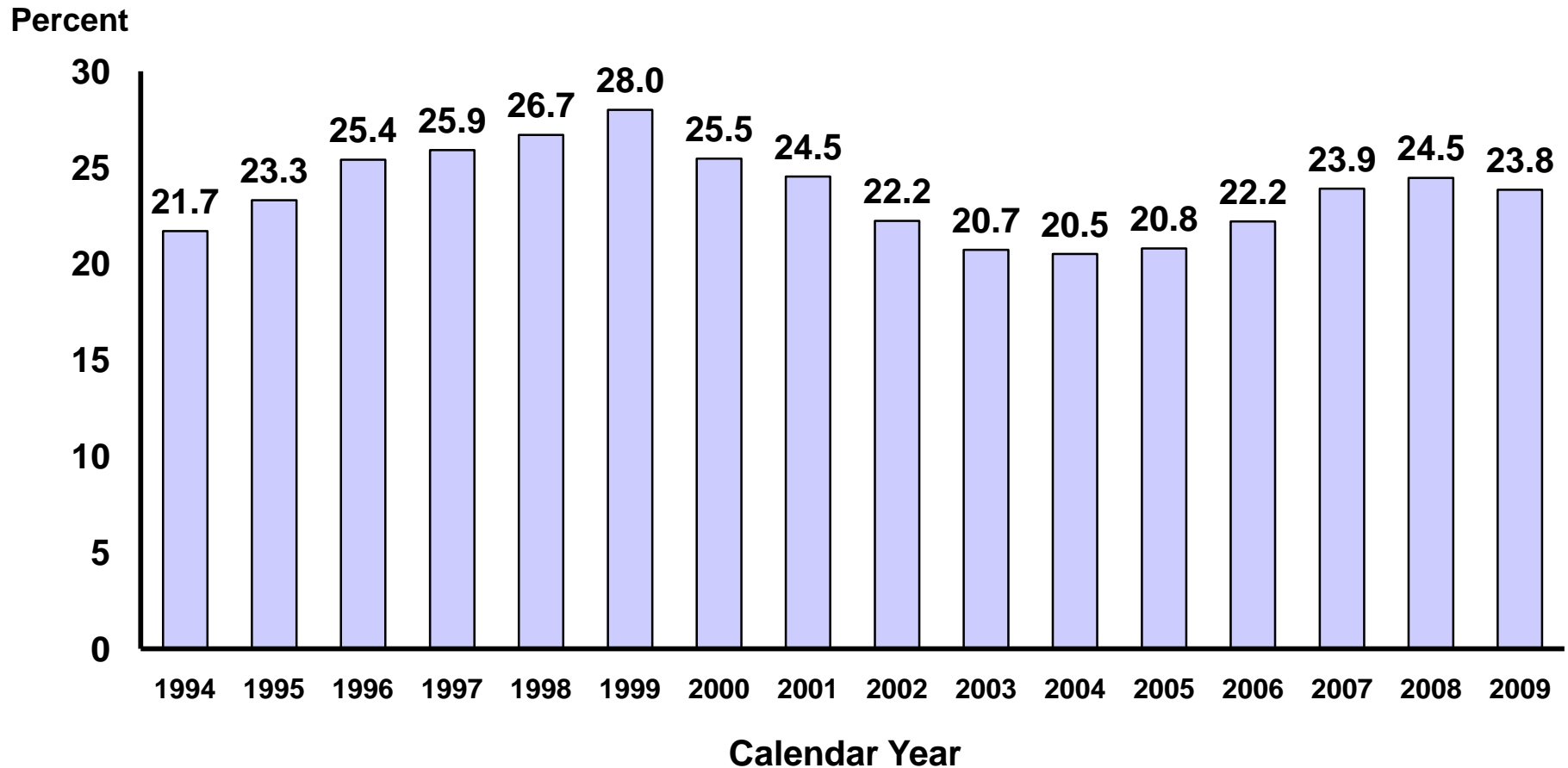
Private Carriers and State Funds



Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Workers Compensation Expense Ratios

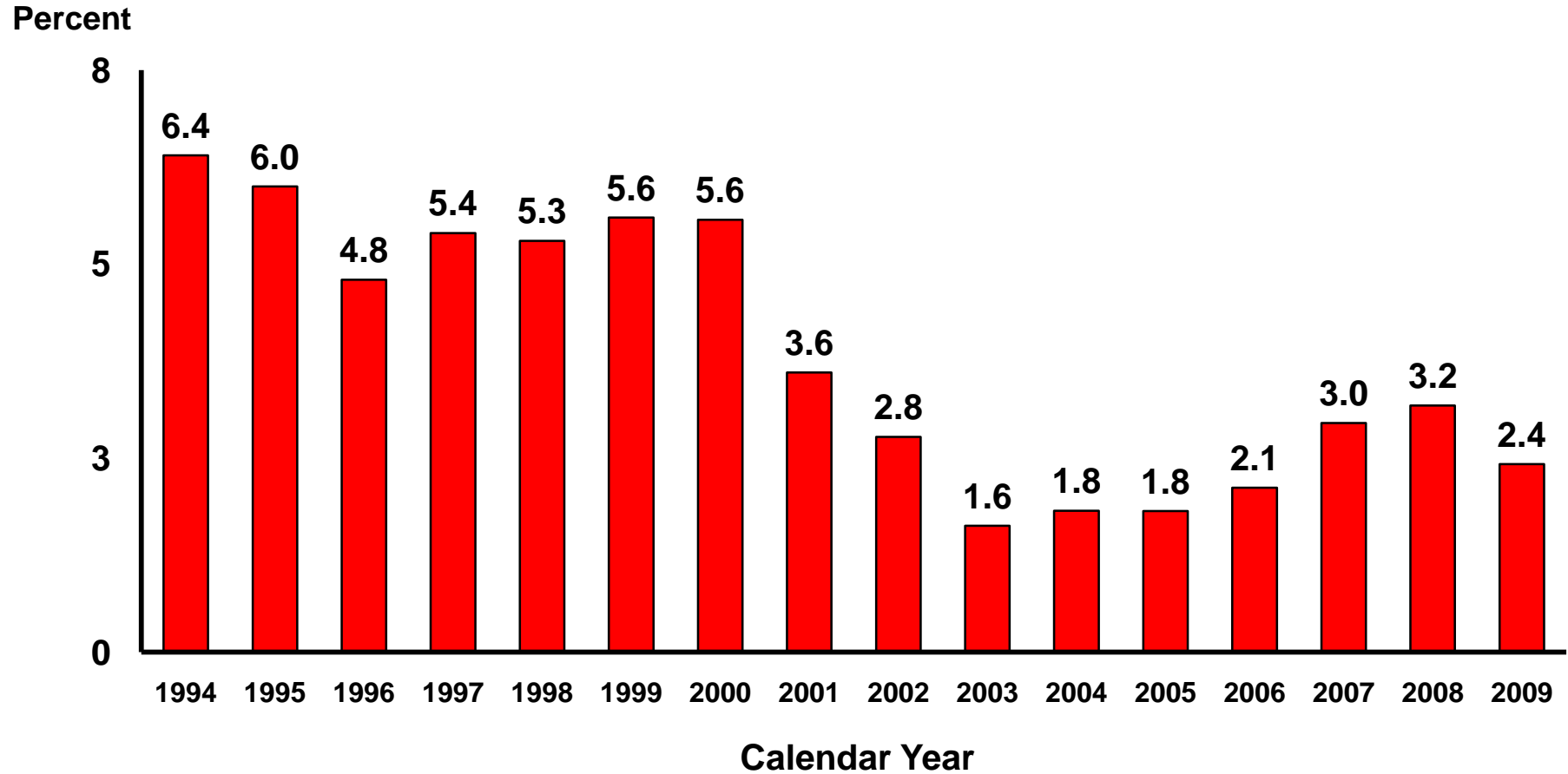
Underwriting Expenses to NWP (Excl Dividends) Private Carriers and State Funds



Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Workers Compensation Ratio of Policyholder Dividends to Net Earned Premium

Private Carriers and State Funds

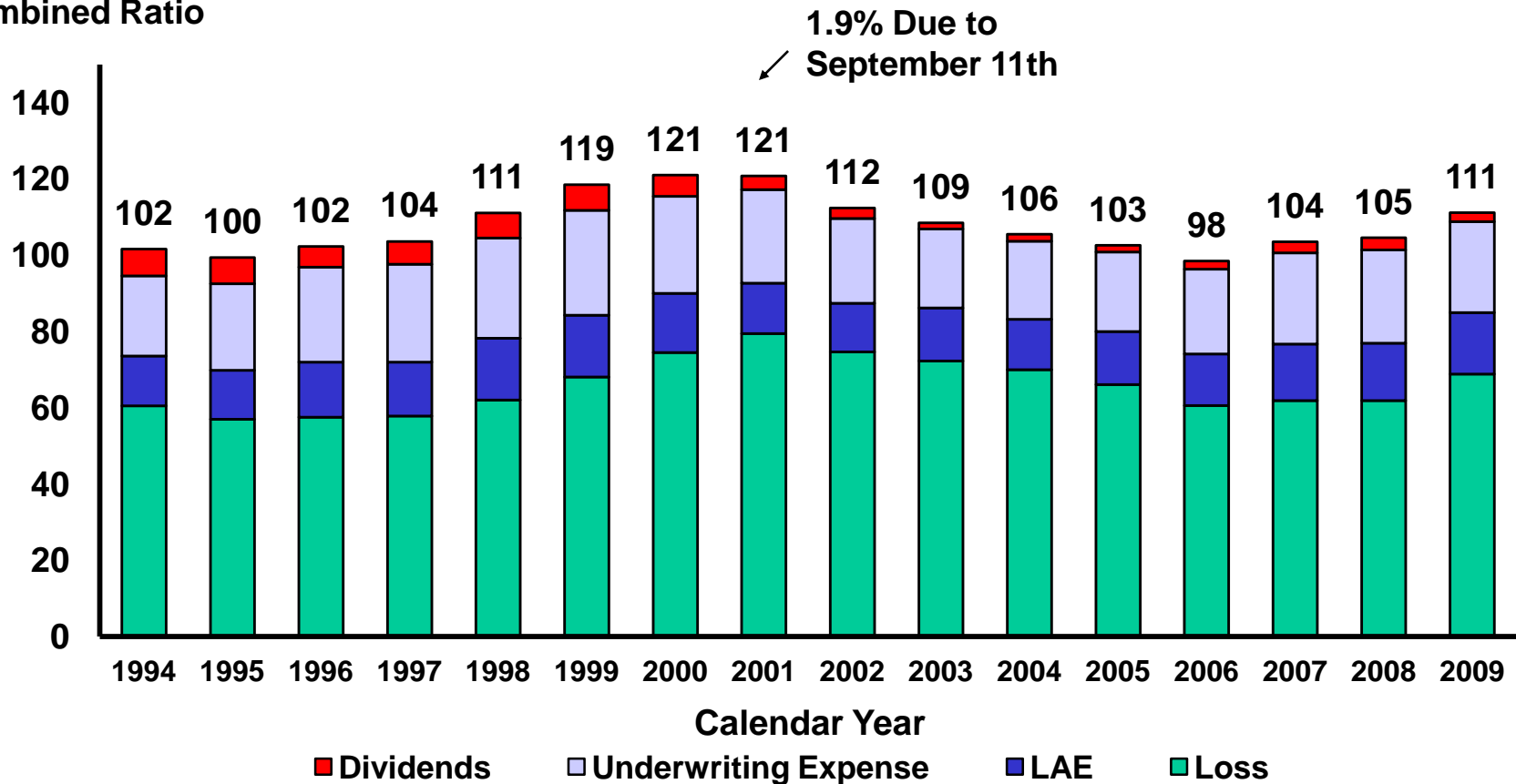


Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Workers Compensation Calendar Year Combined Ratio is Trending up

Net Combined Ratios—Private Carriers and State Funds

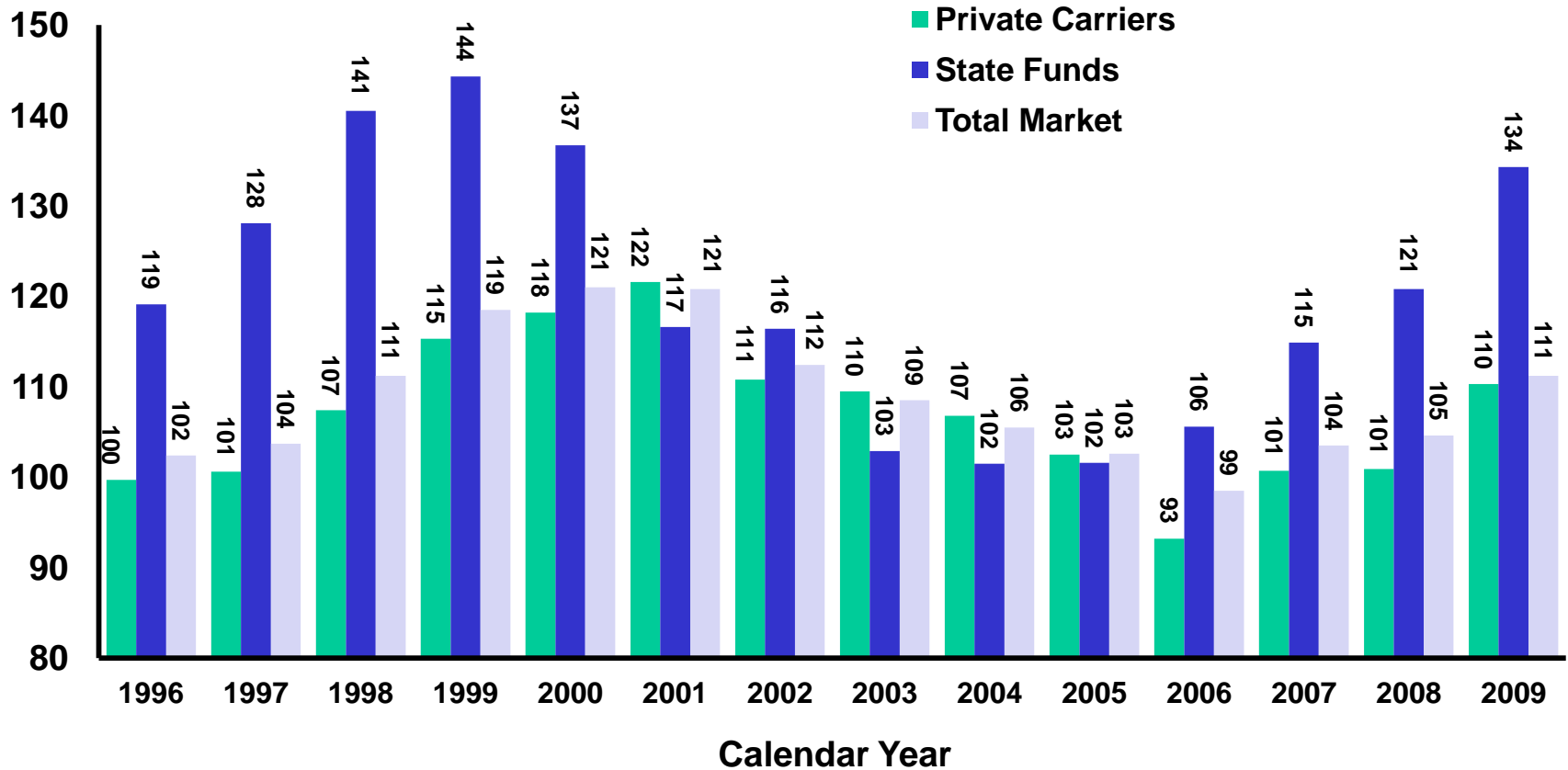
Combined Ratio



Source: Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review

Workers Compensation Calendar Year Net Combined Ratios

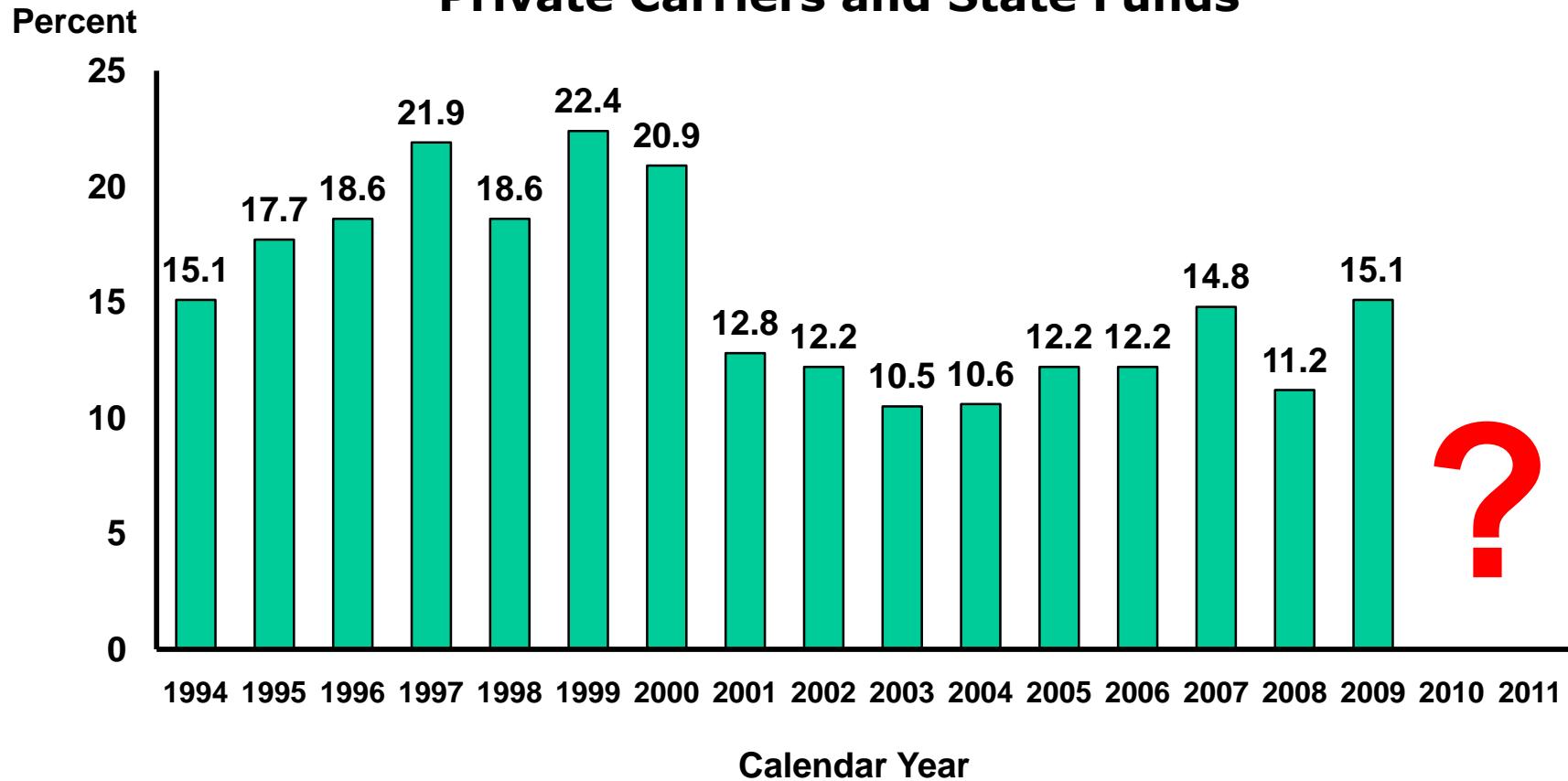
Combined Ratio



Source: *Best's Aggregates & Averages, U.S. Workers' Compensation, 2009 Market Review*

Workers Compensation Investment Returns Remain Low

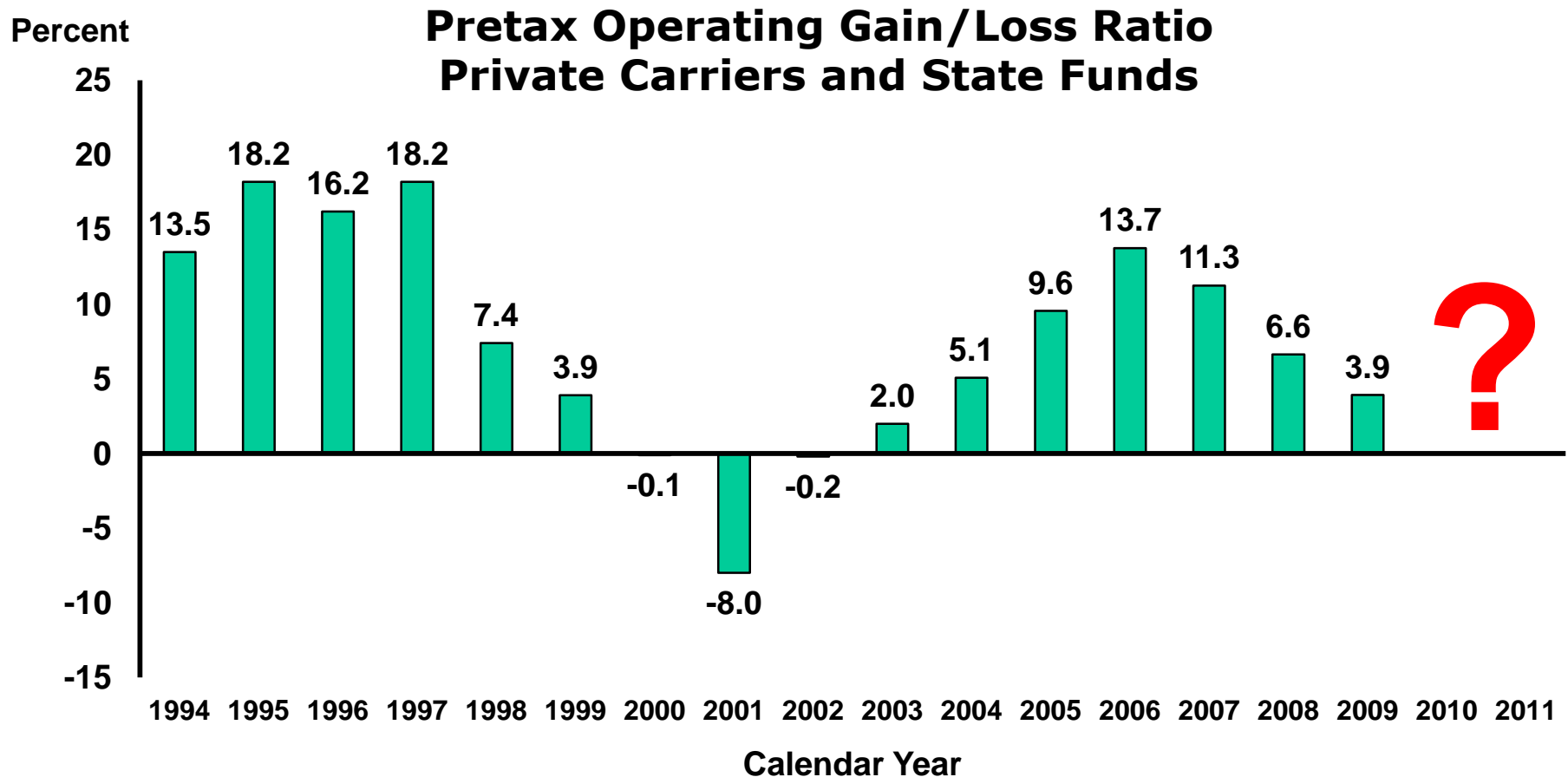
Investment Gain and Other Income to Premium Private Carriers and State Funds



Source for 1994–2009: *Best Aggregates & Averages*

Investment gain includes investment income on insurance transactions and realized capital gains.

Workers Compensation Results Deteriorated in 2009



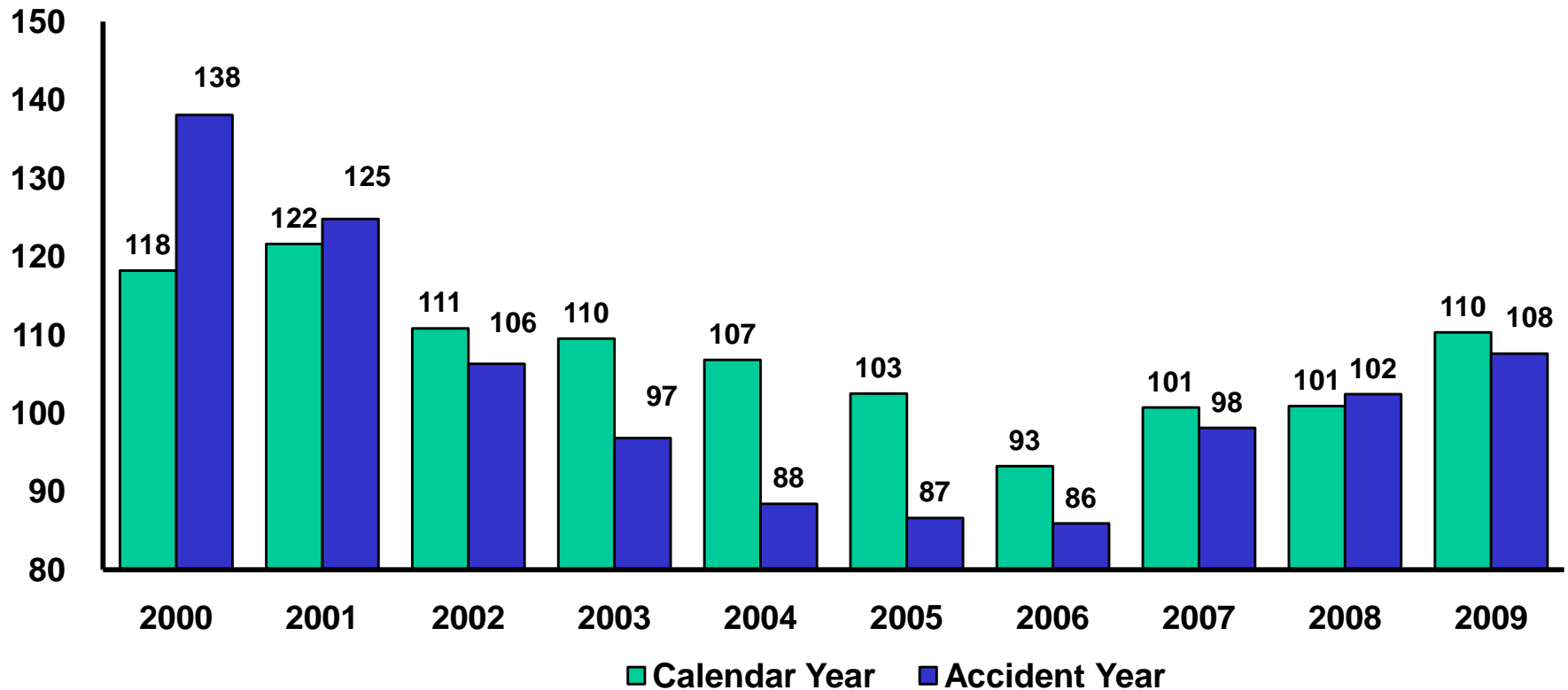
Source for 1994–2009: *Best Aggregates & Averages*

Investment gain includes investment income on insurance transactions and realized capital gains.

AY 2009 Combined Ratio Showed Significant Deterioration

WC Calendar Year vs. Ultimate Accident Year Countrywide—Private Carriers

Combined Ratio



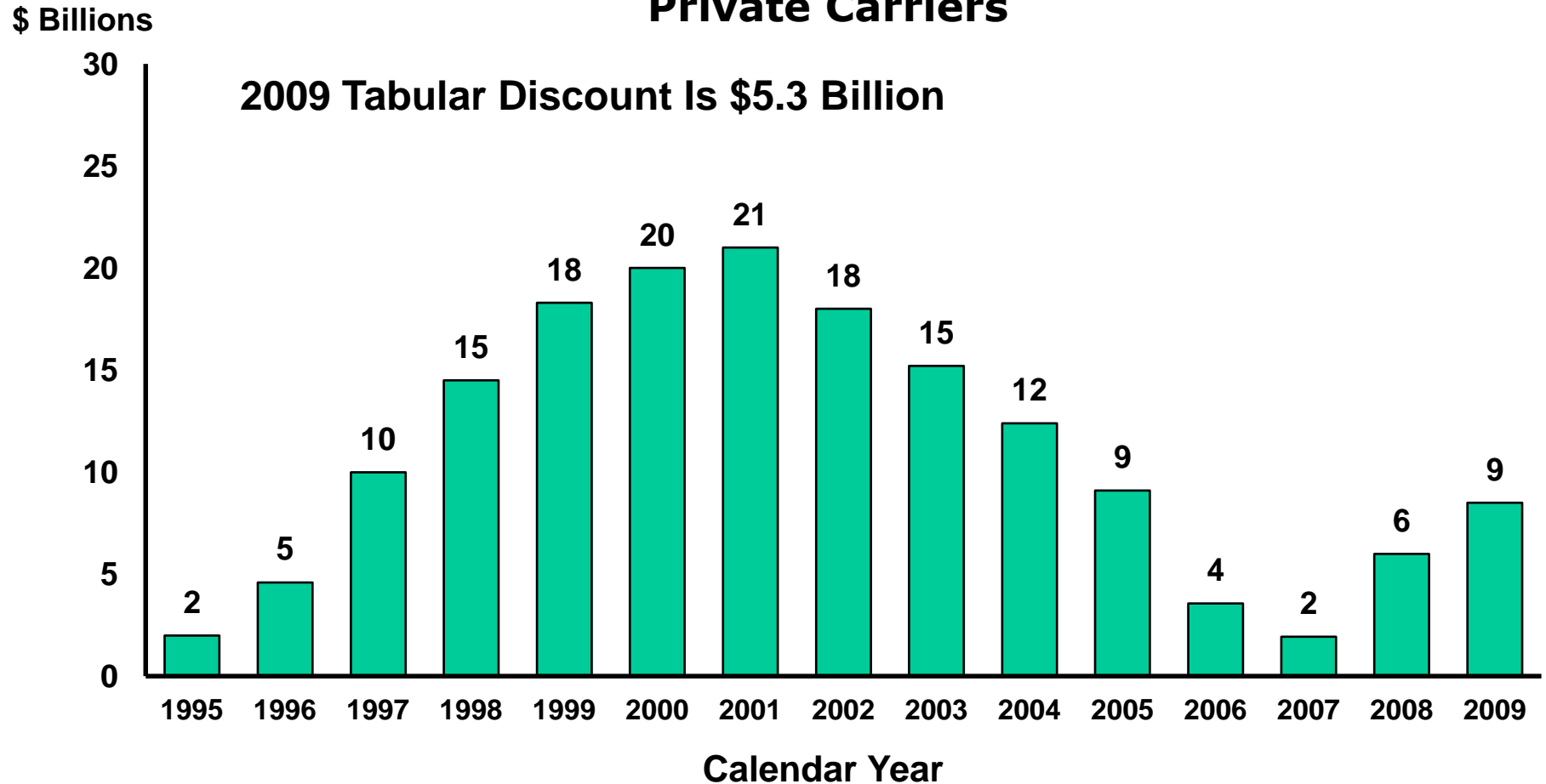
CY 2000-2009: Best's Aggregates & Averages; AY 2000-2009: NCCI analysis based on Annual Statement data
Accident year data is evaluated as of 12/31/2009 and developed to ultimate.
Includes dividends to policyholders.

What Have Been The Key Factors Impacting Workers Compensation Results?

- **Premium**
- **Reserve Levels**
- **Pricing**
- **Economic Downturn**
- **Loss Severity Trends**
- **Frequency Trends**
- **Investments**

Calendar Year Reserve Deficiencies On the Rise

Workers Compensation Loss and LAE Reserve Deficiency Private Carriers



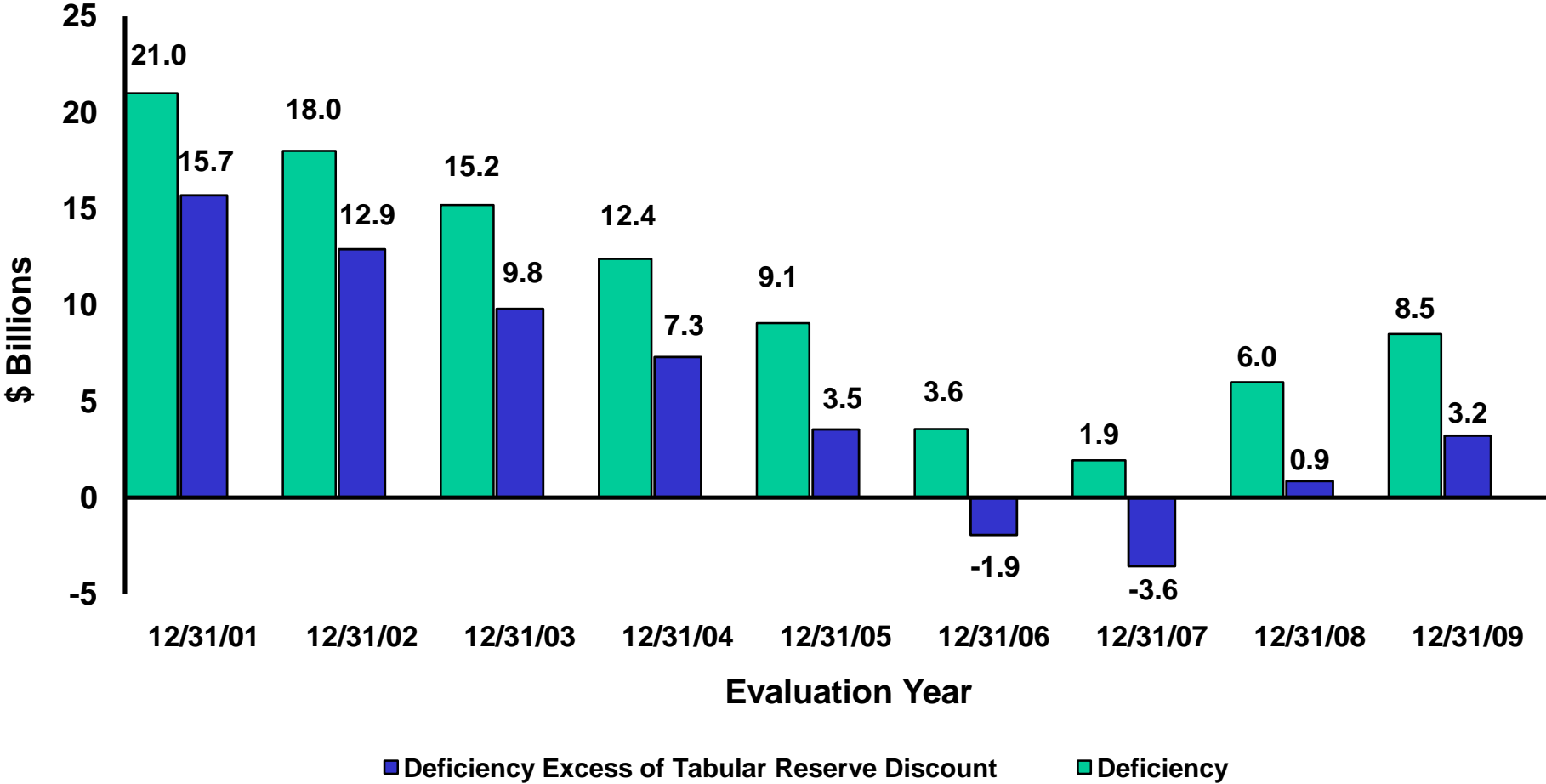
Considers all reserve discounts as deficiencies

Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

Source: NCCI analysis

Deficiency Excess of Tabular Reserves

Workers Compensation Loss & LAE Reserves Private Carriers

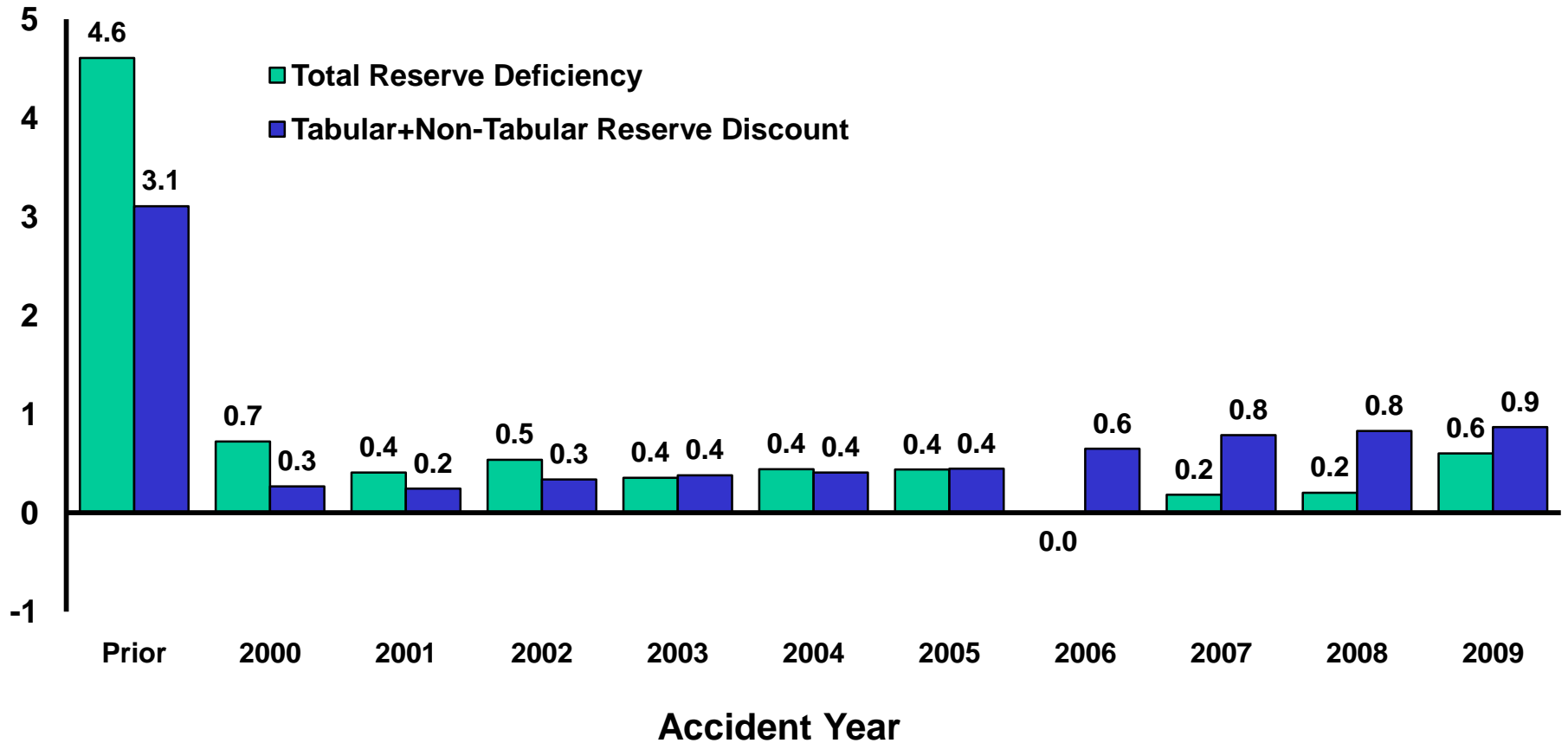


Excess Deficiency is equal to Deficiency less Tabular Reserve Discount
 Figures are based on the respective Annual Statement data for each evaluation date and NCCI latest selections

Reserve Deficiency by Accident Year

Workers Compensation Loss & LAE Reserves as of 12/31/2009 Private Carriers

\$ Billions

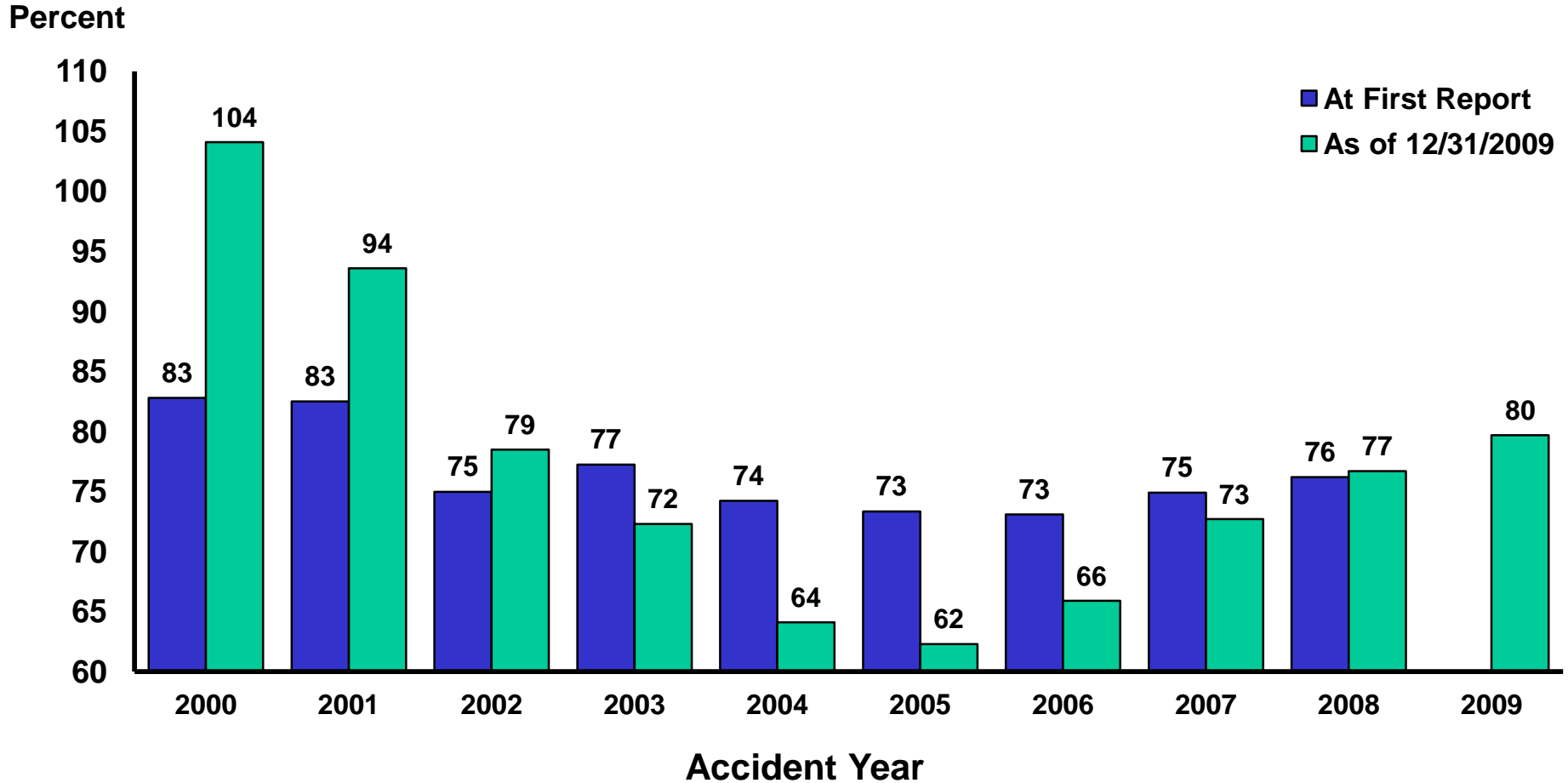


Deficiency considers all reserve discounts as deficient

Source: NAIC Annual Statement, Schedule P data as reported by Private Carriers

Workers Compensation Accident Year Net Loss & LAE Ratios

Countrywide—Private Carriers



Reported Loss and LAE reserves from Schedule P.

How Are Final Workers Compensation Premiums Determined?

ADVISORY ORGANIZATION

Advisory Loss Costs

Assigned Risk Rates

Experience Rating Values

Experience Mods

**Rating Plans and
Classifications**

INSURANCE COMPANY

Final Rate Determination:

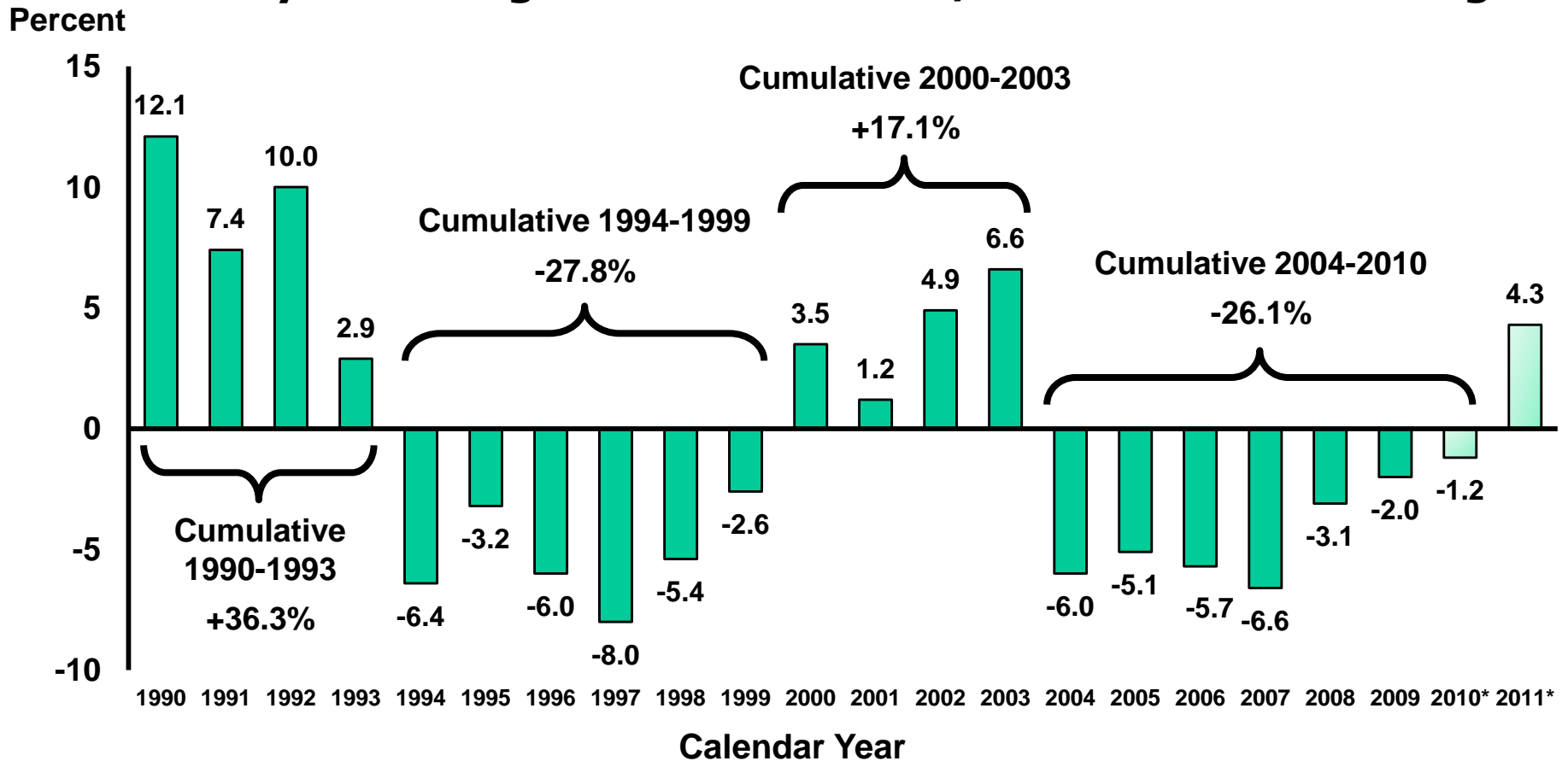
- **Expense Multiplier**
- **Loss Cost Deviations**

Individual Risk Modifications:

- **Schedule Rating**
- **Retrospective Rating**

Average Filed and Approved Bureau Rate/Loss Cost Turning Positive in 2011

History of Average WC Bureau Rate/Loss Cost Level Changes

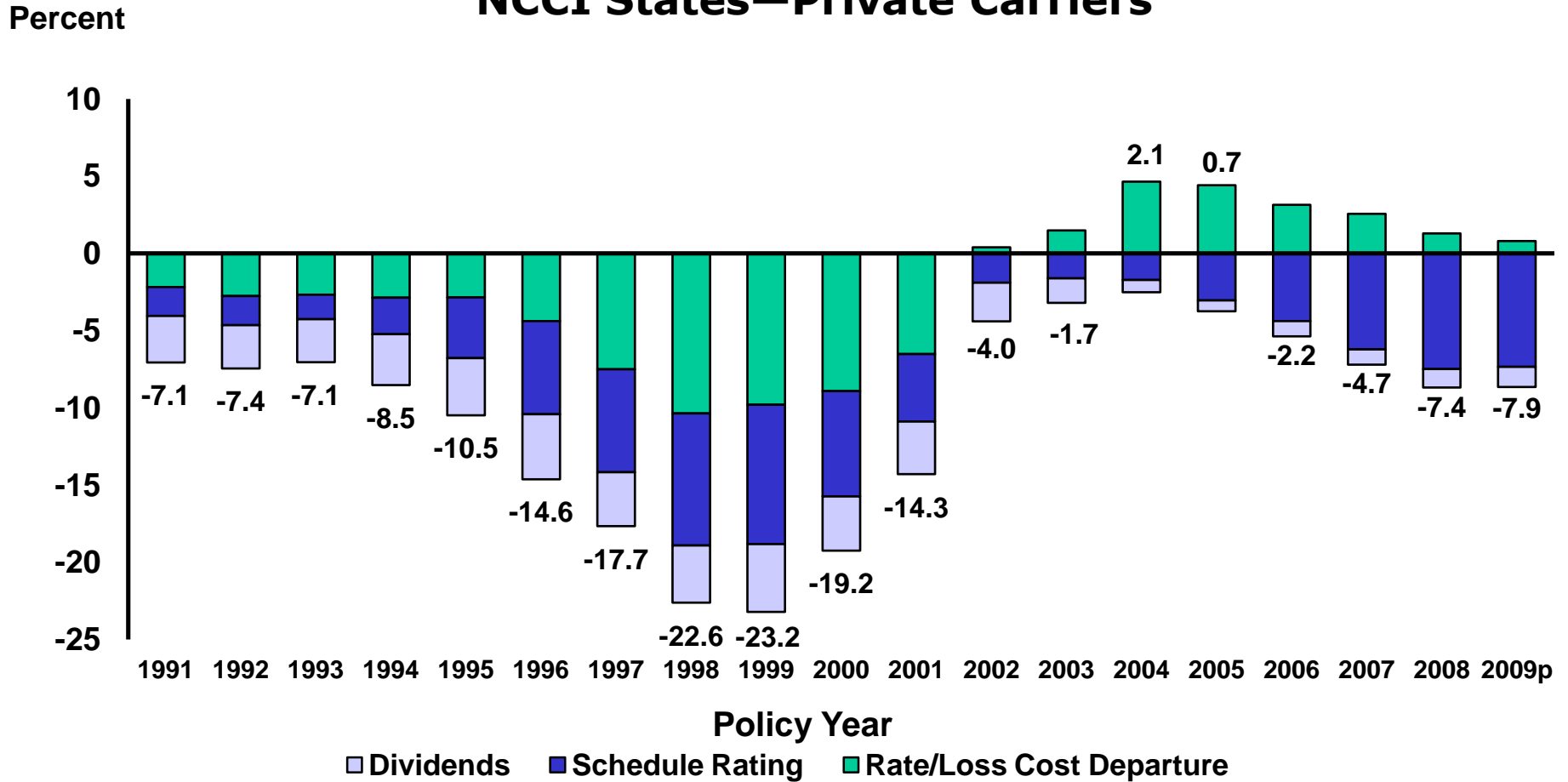


* States filed or approved through 10/8/2010

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

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers



p Preliminary

Dividend ratios are based on calendar year statistics

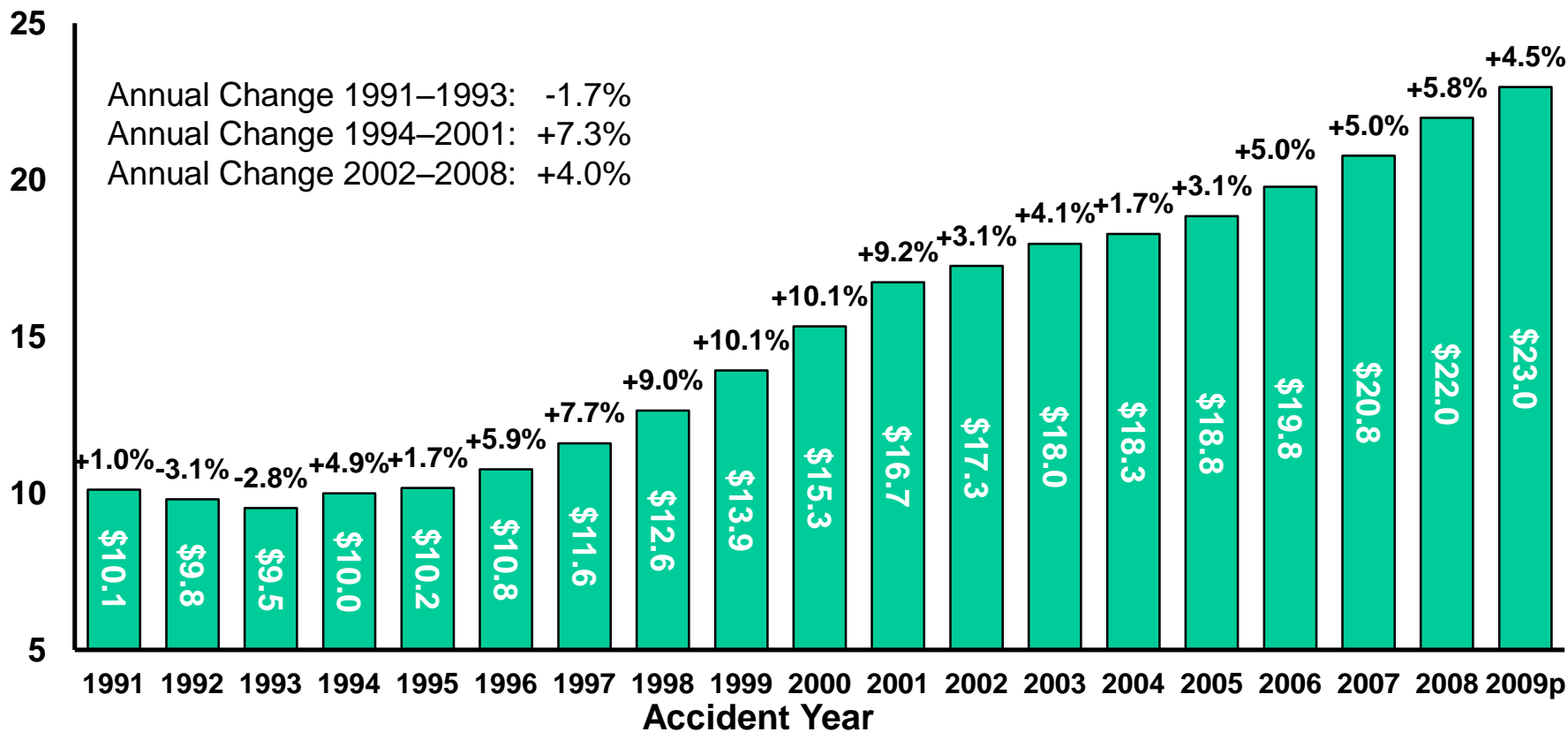
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2009 for the states where NCCI provides ratemaking services

The Rate of Change in Workers Compensation Indemnity Claim Costs Have Moderated

Lost-Time Claims

Indemnity Claim Cost (000s)



2009p: Preliminary based on data valued as of 12/31/2009

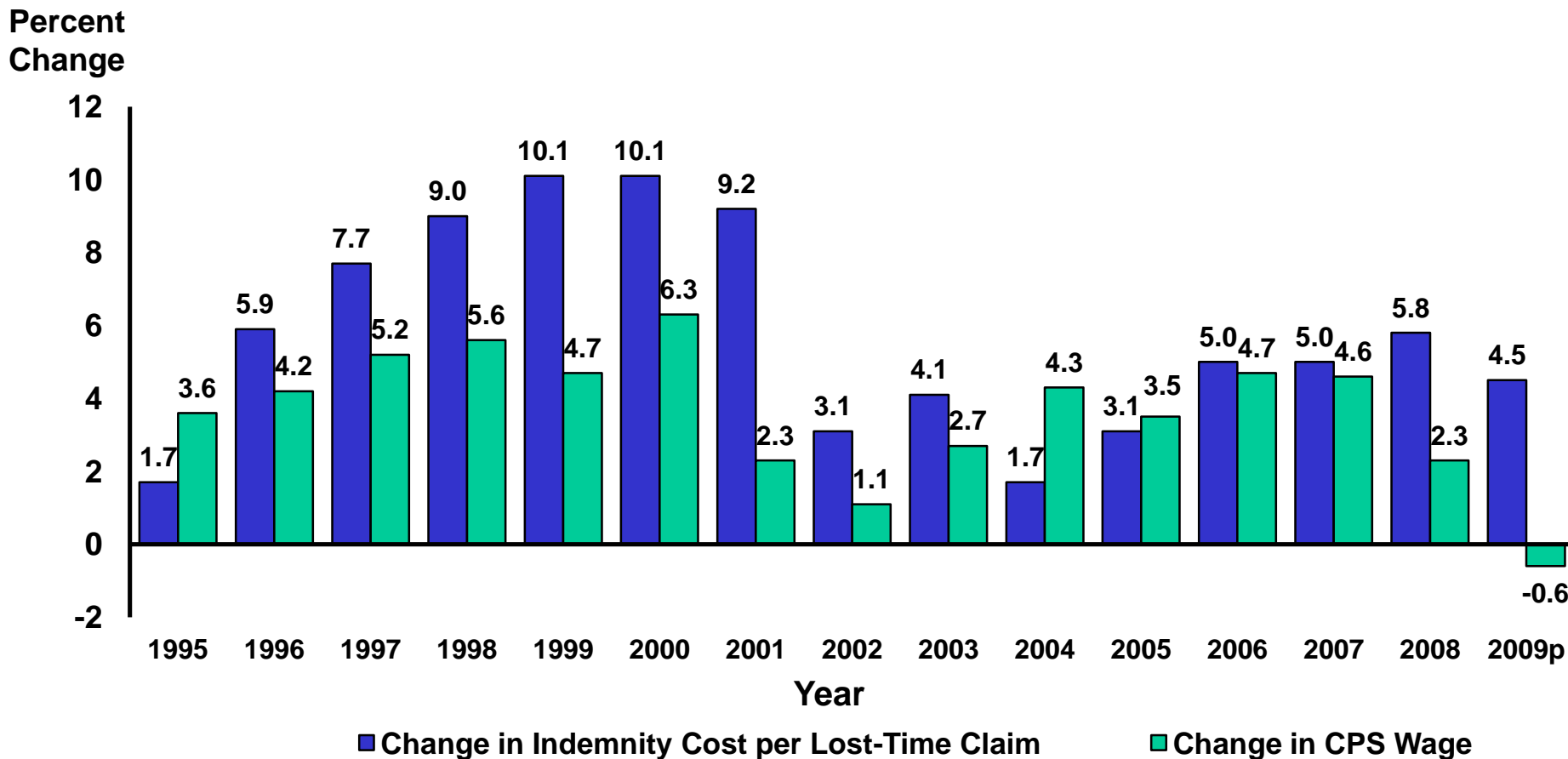
1991–2008: Based on data through 12/31/2008, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds

Excludes high deductible policies

Workers Compensation Indemnity Severity vs Wage Inflation

Lost-Time Claims



Indemnity severity 2009p: Preliminary based on data valued as of 12/31/2009

Indemnity severity 1995–2008: Based on data through 12/31/2008, developed to ultimate

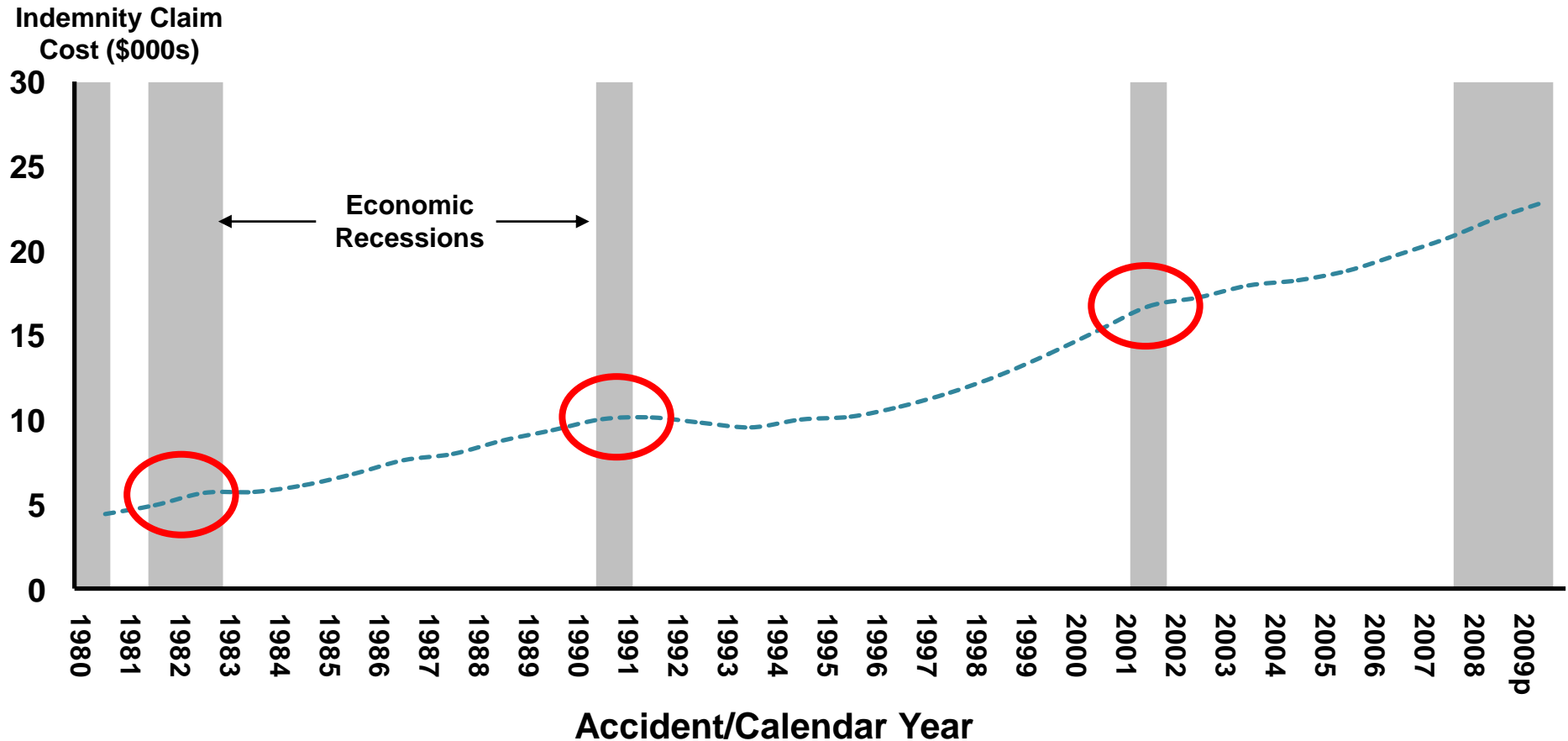
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Average Weekly Wage 1995–2009: Quarterly Census of Employment and Wages

Accident year indemnity severity—NCCI states, NCCI

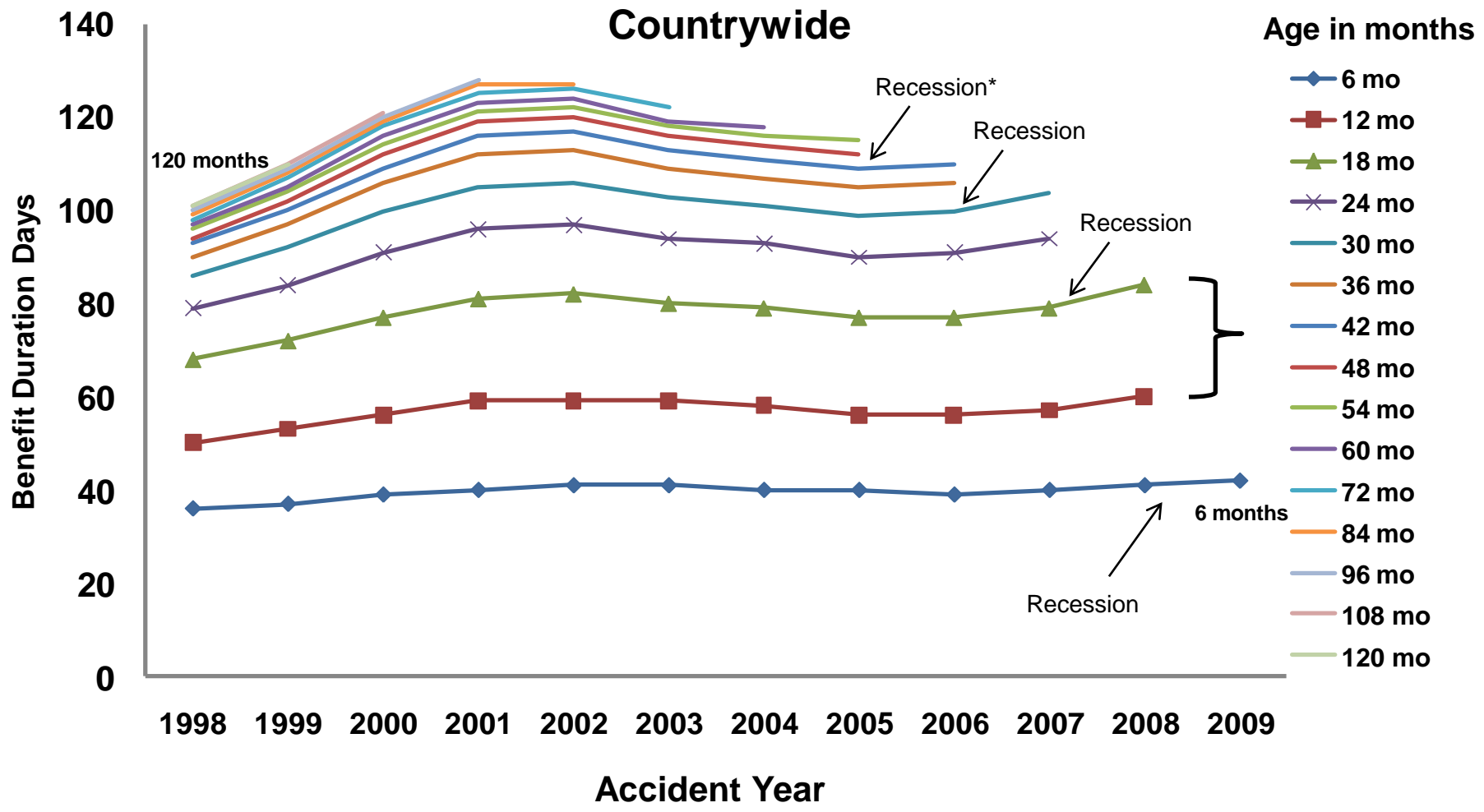
The Growth in Indemnity Severity Has Eased During Prior Recessions

Lost-Time Claims



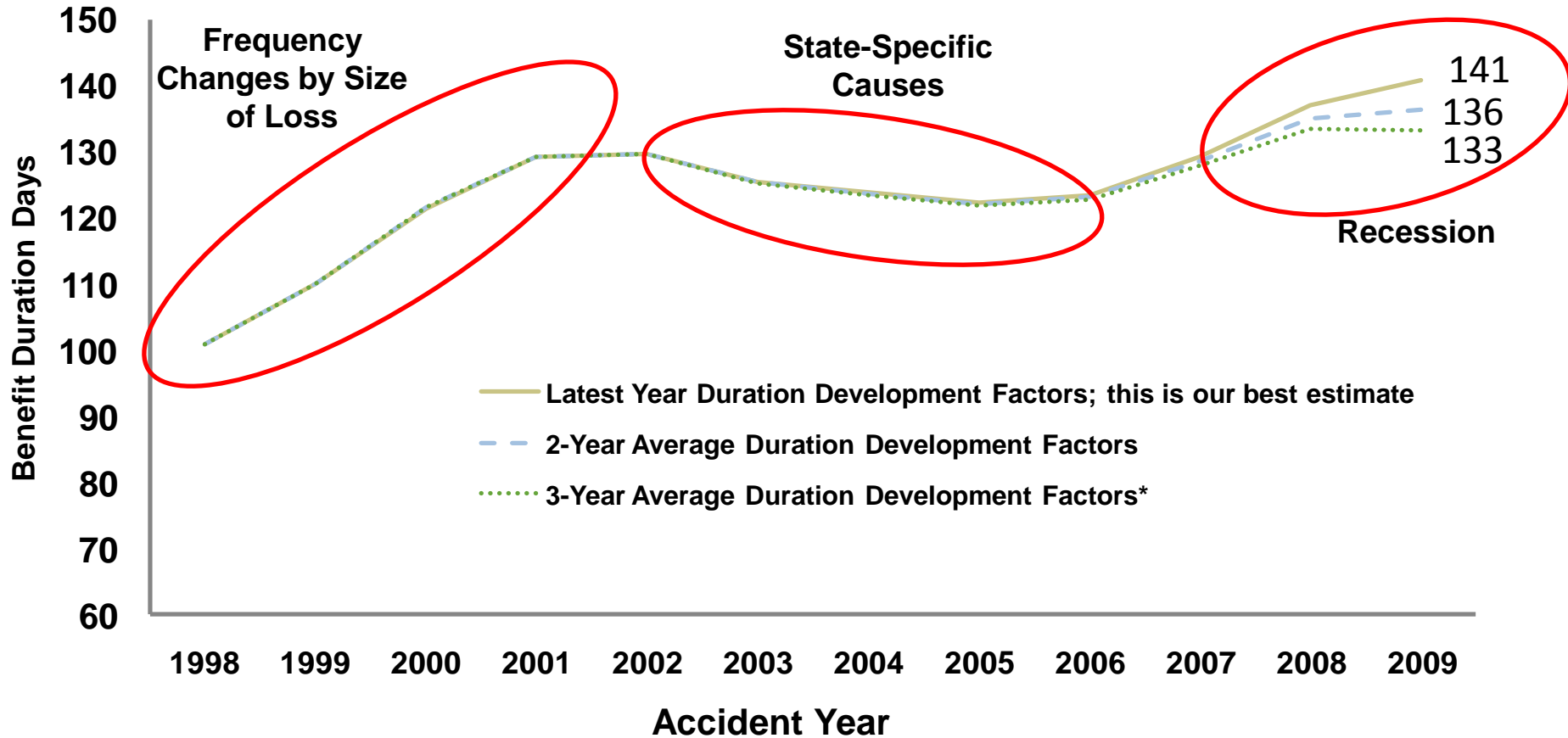
2009p: Preliminary based on data valued as of 12/31/2009
1991–2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds
Excludes high deductible policies

Temporary Total Indemnity Benefit Duration Accelerated Between Dec 2008 and Jun 2009



* Recession began December 2007
States where NCCI provides ratemaking services

Countrywide Estimated Ultimate Temporary Total Indemnity Benefit Duration Likely to Increase

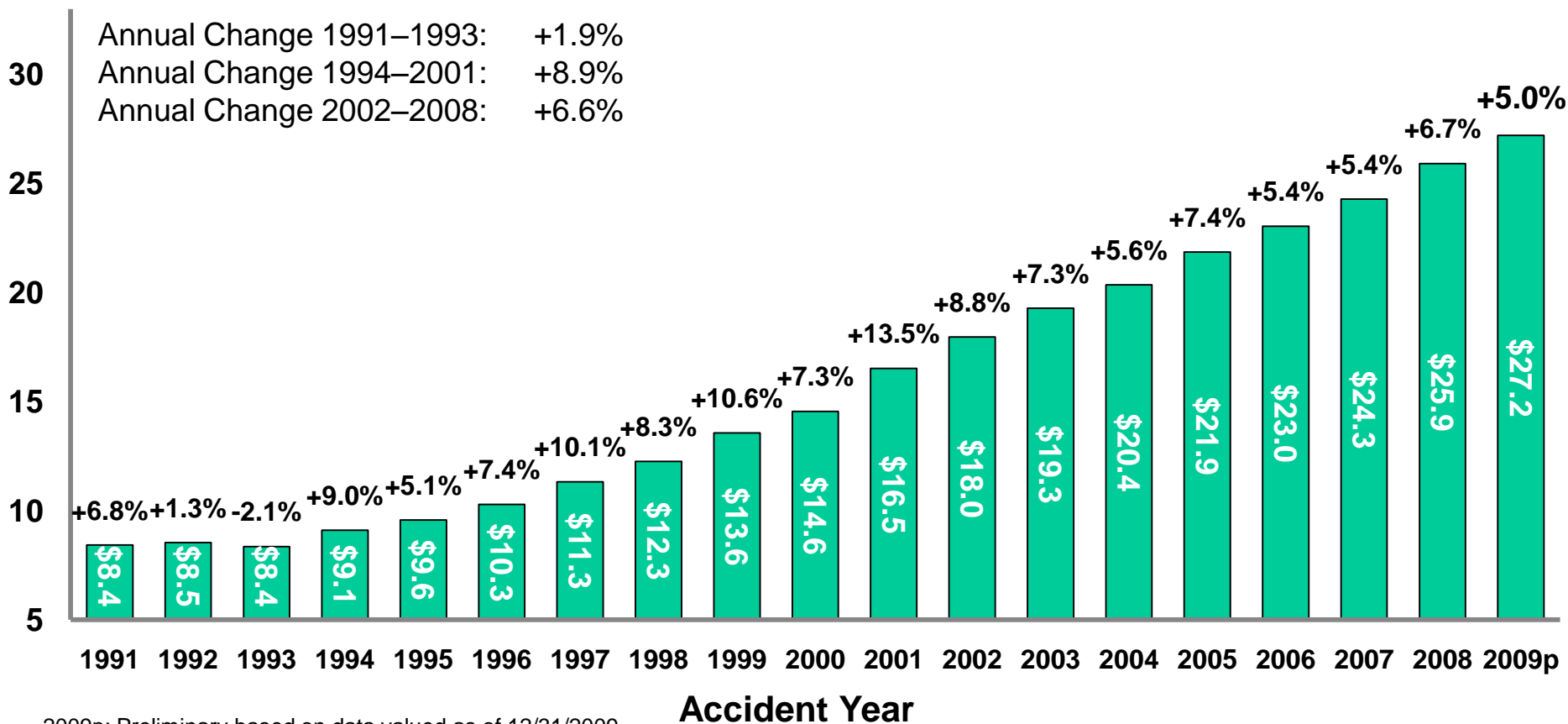


* Previous study based on a 3-year average of duration development factors
States where NCCI provides ratemaking services

Workers Compensation Medical Claim Cost Trends Have Moderated

Lost-Time Claims

Medical
Claim Cost (000s)



2009p: Preliminary based on data valued as of 12/31/2009

1991–2008: Based on data through 12/31/2008, developed to ultimate

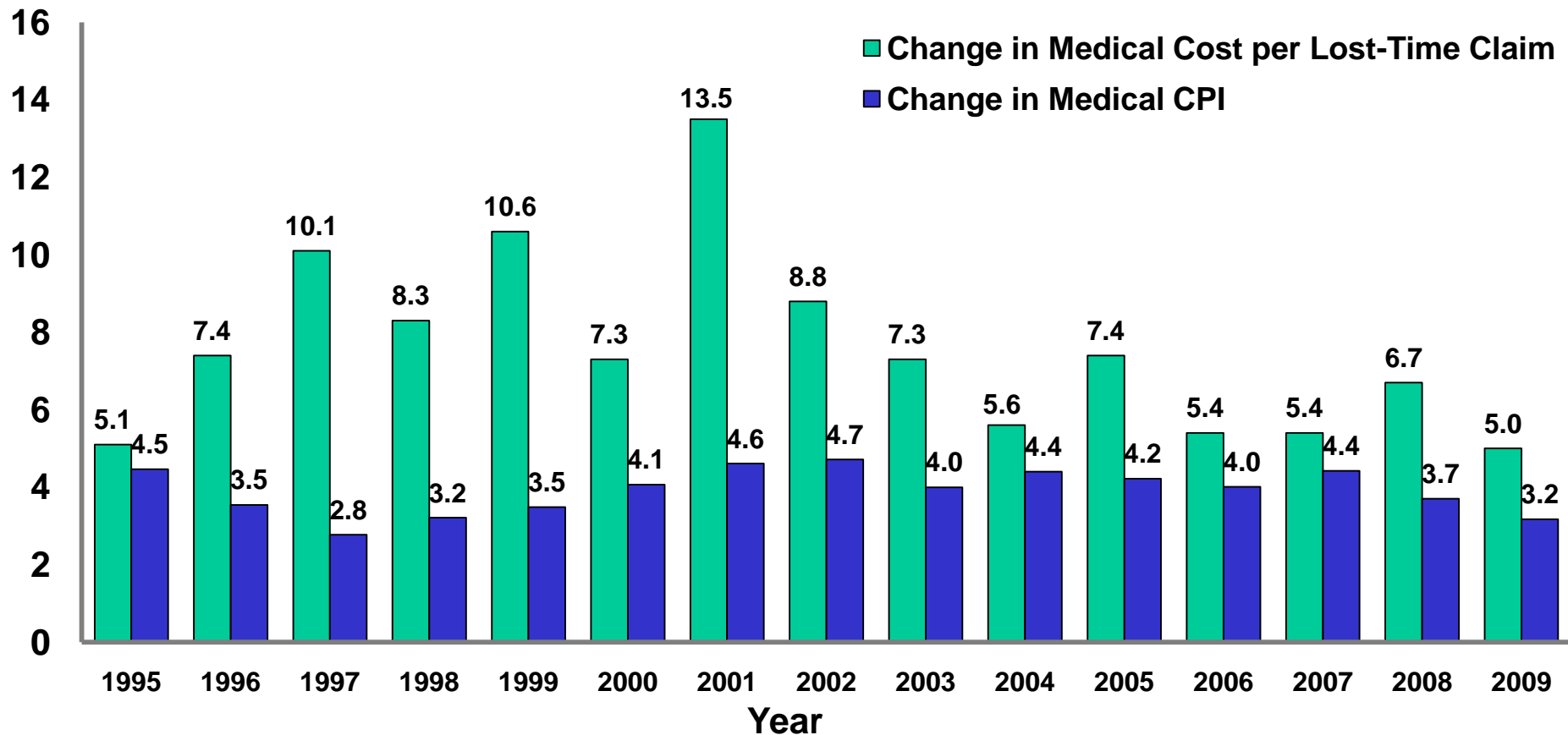
Based on the states where NCCI provides ratemaking services, including state funds

Excludes high deductible policies

Workers Compensation Medical Severity vs Medical CPI

Lost-Time Claims

Percent Change



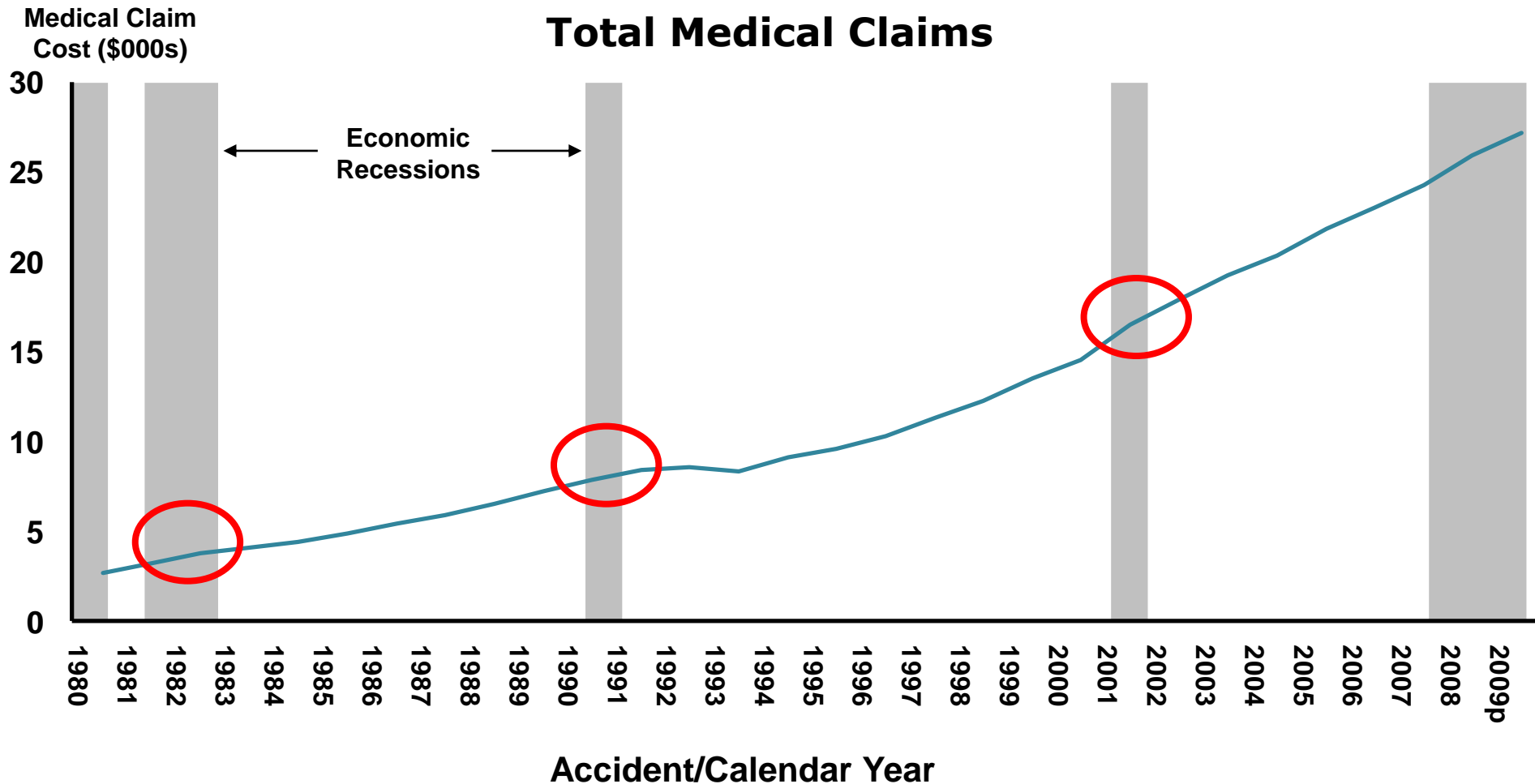
Medical severity 2009p: Preliminary based on data valued as of 12/31/2009

Medical severity 1995–2008: Based on data through 12/31/2008, developed to ultimate

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

Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

Medical Claim Costs Increased During Prior Recessions



2009p: Preliminary based on data valued as of 12/31/2009

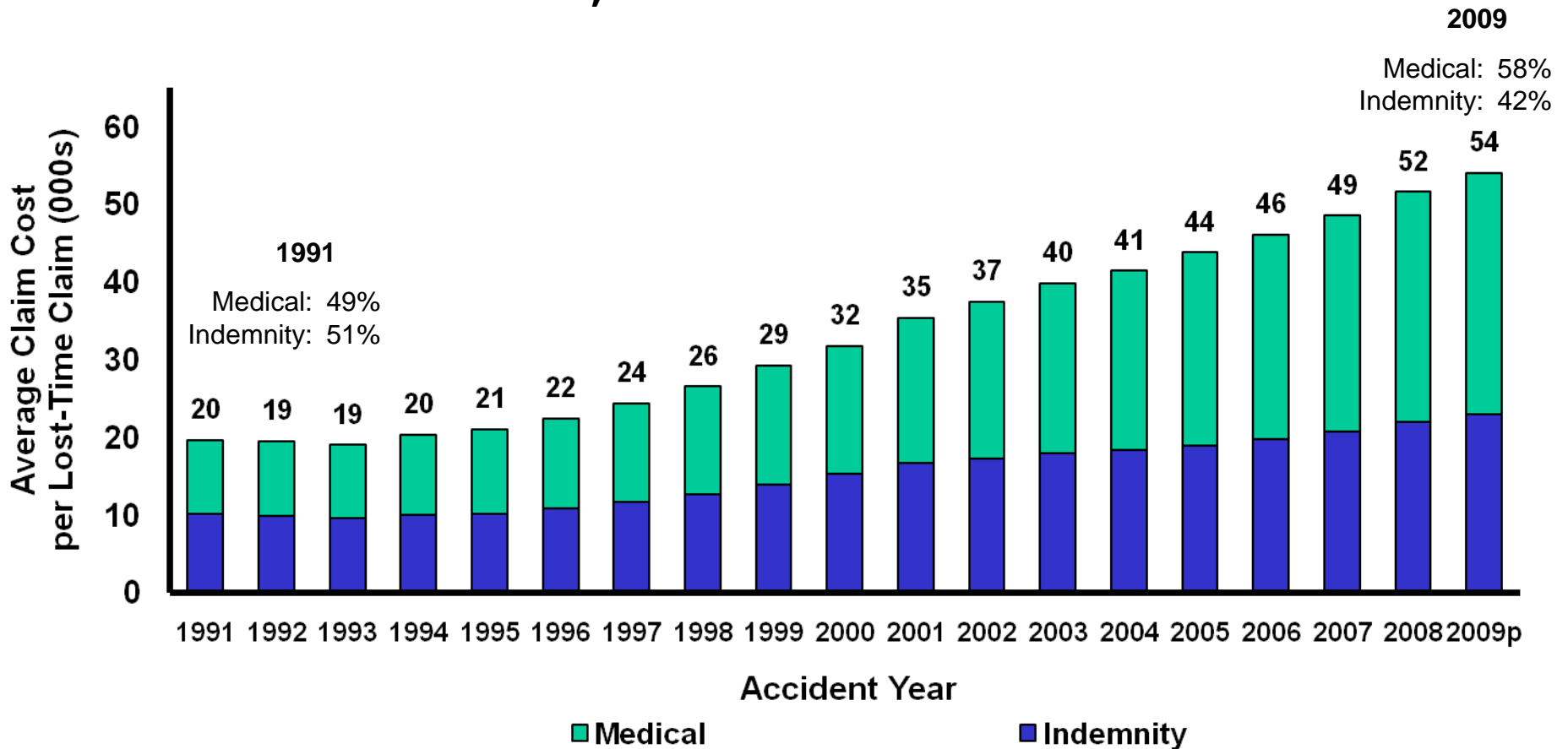
1991–2008: Based on data through 12/31/2008, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds

Excludes high deductible policies

WC Medical Losses Are Near 60% of Total WC Losses

All Claims, NCCI States—Private Carriers



2009p: Preliminary based on data valued as of 12/31/2009

1991–2008: Based on data through 12/31/2008, developed to ultimate

Based on the states where NCCI provides ratemaking services, including state funds

Excludes high deductible policies

The Impact of Inflation is More Sensitive on Excess Policies

	<u>Year 1</u>	<u>Year 2</u>	<u>Change</u>
Gross Loss	\$360,000	\$385,200	7%
Deductible	\$250,000	\$250,000	-
Excess Loss	\$110,000	\$135,200	23%

With Medical Technology, How Big Can a WC Claim Become?

- Consider a 25-year old quadriplegic
- Indemnity benefits of \$23,500 a year
- 24-hour attendant care costs of \$135,000 a year
- Other medical costs of \$72,500 a year
- These costs continue until death

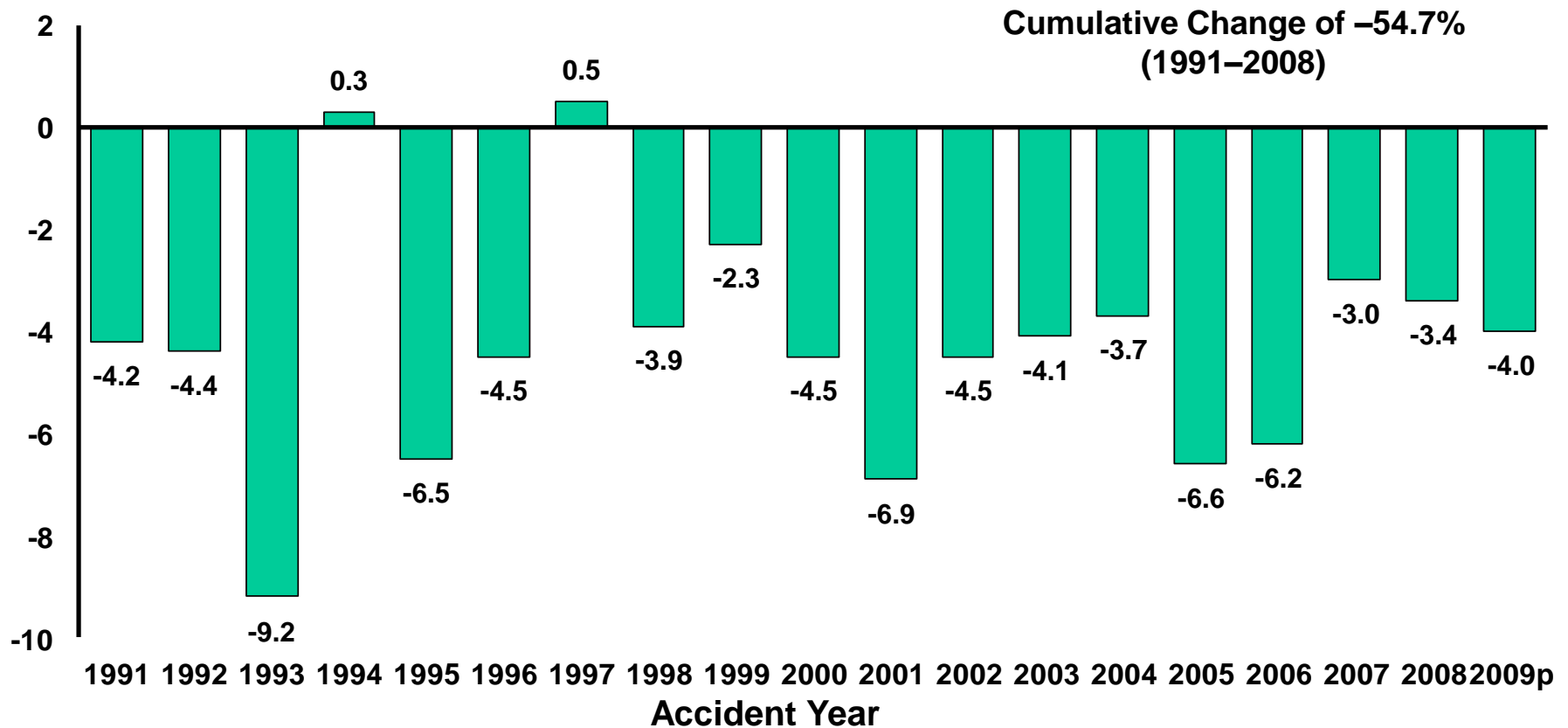
Age at Death	Medical Inflation Rate		
	5%	7%	9%
45	\$7	\$8	\$8
60	\$16	\$20	\$27
75	\$33	\$49	\$82
90	\$64	\$118	\$266

\$ amounts are in millions.
Attendant care assumed to increase at 3% per year

Workers Compensation Lost-Time Claim Frequency Continued to Fall

Frequency per 100,000 Workers

Percent Change



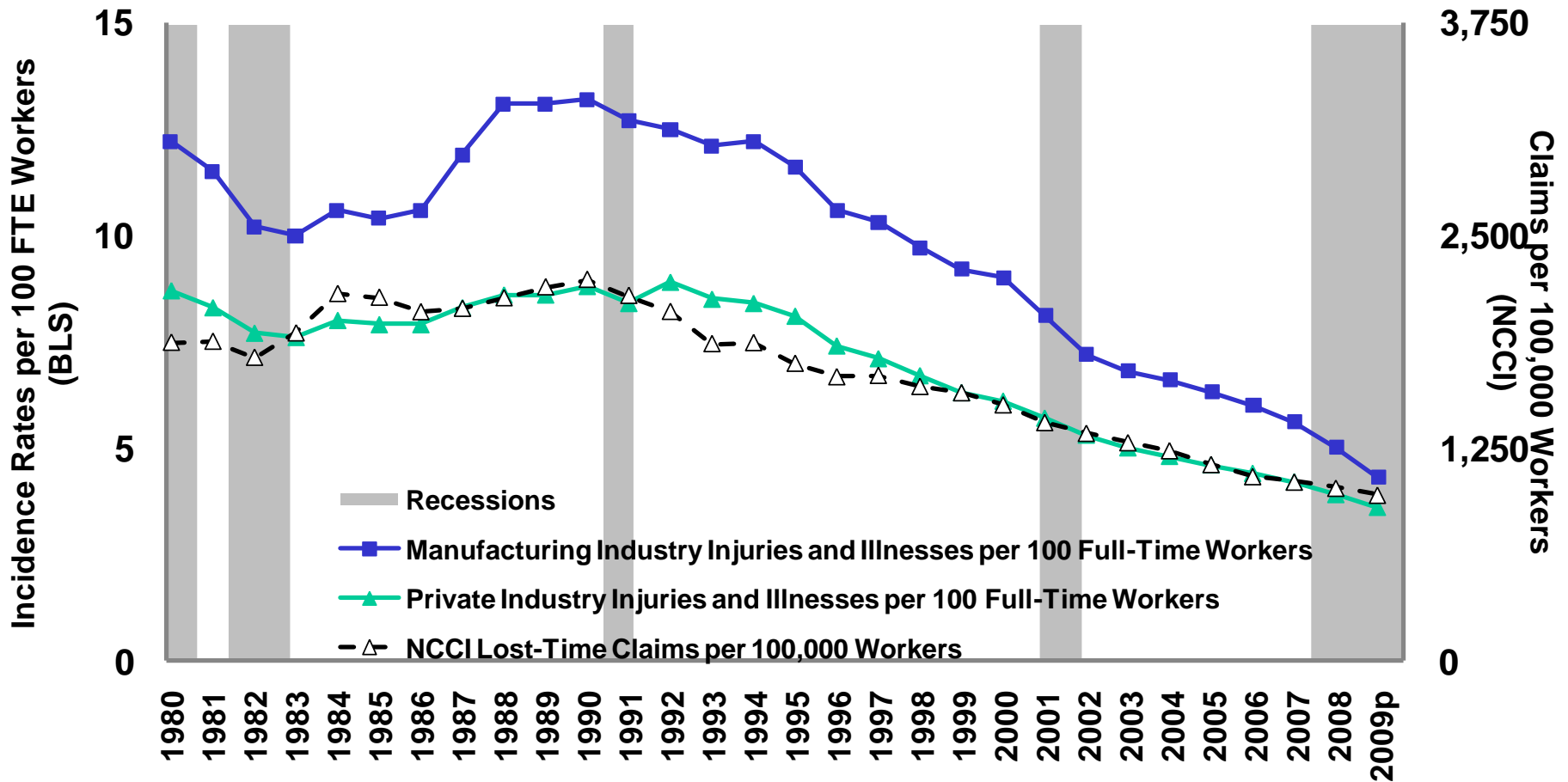
2009p: Preliminary based on data valued as of 12/31/2009

1991–2008: Based on data through 12/31/2008, 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 100,000 workers as estimated from reported premium

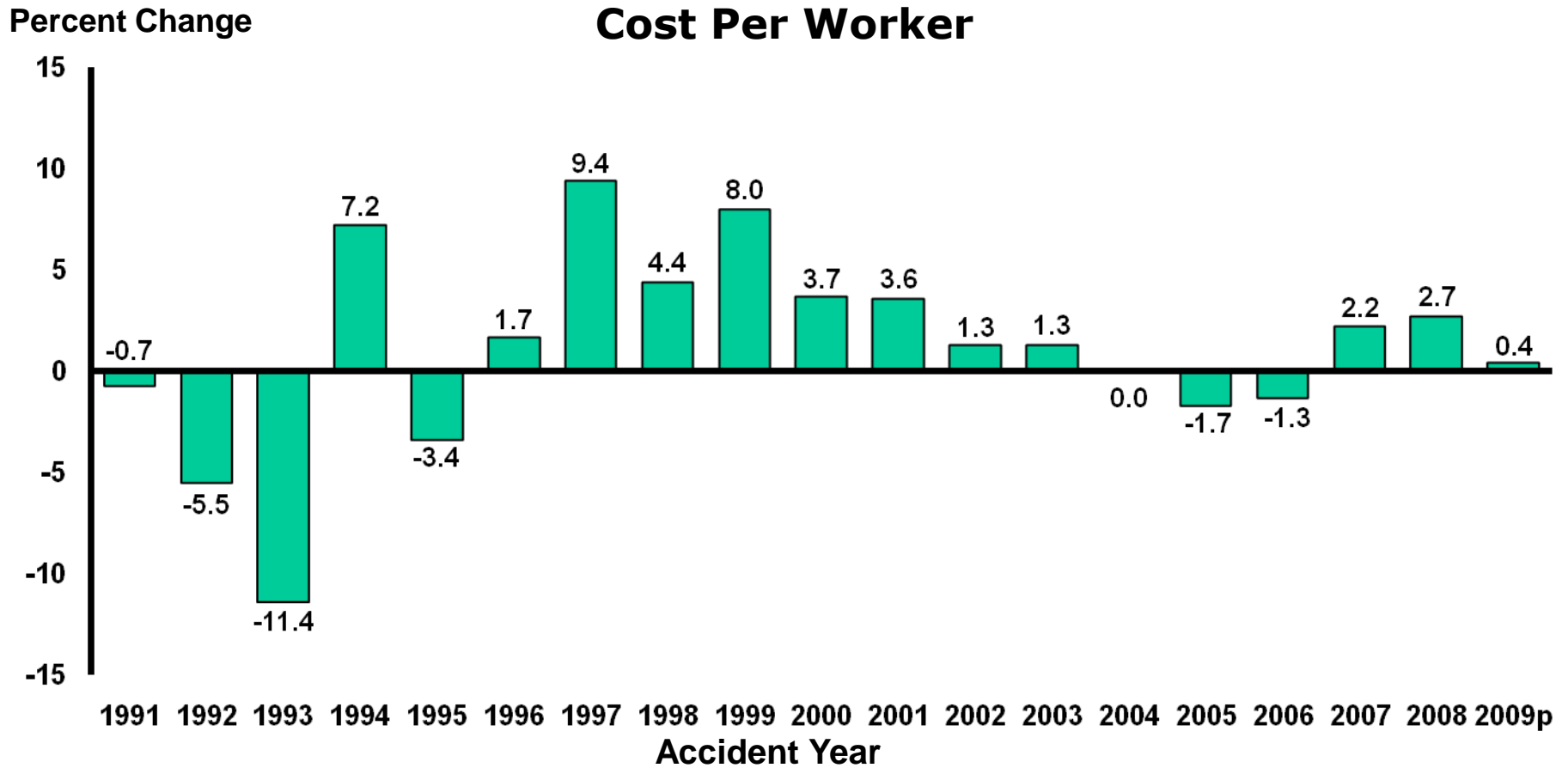
Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



p Preliminary

Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research NCCI Frequency and Severity Analysis; based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies.

The Annual Change in Lost-Time Claim Costs per Worker Has Remained Steady



2009p: Preliminary based on data valued as of 12/31/2009

1991–2008: Based on data through 12/31/2008, 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 100,000 workers as estimated from reported premium

What Are Today's Key Issues in Workers Compensation?

- Impact of Economic Downturn
- Underwriting Cycle
- WC Medical Inflation
- Reserve Levels
- Legislative Issues
- Developments in Ratemaking

National Health Care Bill

Implications for Workers Compensation Insurance

The Patient Protection and Affordable Care Act*

Direct Impacts

1. Changes to Federal Black Lung Benefit Entitlement Provisions**

- a. Reinstates the 15-year rebuttable presumption of total disability for benefits
- b. Eliminates the requirement to prove that death of miner was due to occupational disease for survivor benefits

2. Changes to Medicare reimbursement levels; potential impacts will depend on:

- a. Potential modifications to Medicare reimbursements
- b. How the states react to those potential changes

*HR3590 as amended by HR4872

**Section 1556: Federal Coal Mine Health and Safety Act

National Health Care Bill

Implications for Workers Compensation Insurance

The Patient Protection and Affordable Care Act*

Provisions Worth Watching:

- **Increased health care coverage in general population**
- **Wellness initiatives**
- **Consumer access to more generic drugs**
- **New taxes on medical devices, pharmaceutical manufacturers, and health insurance companies**
- **Fraud and abuse provisions**

Other Areas of Interest:

- **Electronic transaction standards**
- **Coordination, subrogation, and reimbursement issues**
- **Medicare as a secondary payer**

*HR3590 as amended by HR4872

Legislative Update

Issues and Trends

2010 Key Themes—Medical Fee Schedule Proposals

- **Flat to modest increases for physician fees**
- **Flat to modest increases to hospital and ambulatory surgical center (ASC) fees**
- **Repackaged/re-labeled drugs going from charged amount to percentage of average wholesale price**
- **Implants going from discount off charges to percentage above actual cost**

Legislative Update Issues and Trends

2010 Key Themes—Indemnity Proposals

- **Permanent Partial Disability Benefit Increases**
 - Maximum weekly benefits (AL, MT, RI)
 - Duration (MT)
 - Elimination of schedule (NM)
 - Other (CO, KY)
- **Other Benefits Increases (IA, KY, NM)**
- **Attorney Fees (MT, VT)**

Legislative Update

California Court Cases

- **WCAB en banc decisions on Guzman, Almaraz, and Olgilvie court cases impact determination of PPD benefits**
- **Appeal of Guzman en banc decision affirmed by 6th district**
- **Still awaiting rulings on appeals of Almaraz and Olgilvie decisions**
- **These decisions allow more subjectivity in application of impairment guidelines and diminished future earning capacity modifiers used in determination of PD ratings**
- **WCRIB of California included 5.8% in 1/1/2010 pure premium filing and is continuing to use this estimate in their 1/1/2011 filing**

Legislative Update

Enacted Legislation

- **Arizona Med Fee Change, effective 10/1/2010**
 - Change in fees for physicians, overall impact +0.3%
- **Arkansas Med Fee Change, effective 1/1/2010**
 - Change in fees for physicians, overall impact +0.1%
- **Colorado Senate Bill 187, effective 7/1/2010**
 - Eliminates retirement and disability offsets to PPD indemnity benefits, overall impact +0.2%
 - Implements an annual adjustment to the PPD benefit caps, effective for injuries occurring on or after 1/1/2012
- **Colorado Med Fee Change, effective 1/1/2010**
 - Change in physician and outpatient/ambulatory surgical center fee schedules, overall impact +0.6%

Legislative Update

Enacted Legislation (cont'd)

- **Connecticut Med Fee Change, effective 7/15/2010**
 - Change in physician fee schedule, overall impact +0.5%
- **Florida Staffmark Court Decision, 8/12/2010**
 - Apportionment of pre-existing conditions, overall increase expected to be minimal
- **Hawaii Med Fee Change, effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.3%
- **Idaho Med Fee Change , effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.4%
- **Illinois Med Fee Change, effective 1/1/2011**
 - Increase in physician and hospital services, overall impact +0.7%

Legislative Update

Enacted Legislation (cont'd)

- **Kansas Bergstrom Court Decision, 9/4/2009**
 - Eliminates Good Faith requirement, overall impact +0.6%
 - Tyler v. Goodyear (2/26/2010) is related to Bergstrom; whether wage loss is related to injury is inconsequential
- **Louisiana Senate Bill 639, multiple effective dates**
 - Changes to SIF reimbursement thresholds (7/1/2010), eligibility requirements (1/1/2011), and claim acceptance (1/1/2015)
- **Maryland Med Fee Change, effective 1/1/2010**
 - Increase in physicians and ASC Med Fee Schedules, overall impact +0.8%
- **Mississippi Med Fee Change, effective 7/1/2010**
 - Changes to the physician and pharmaceutical fee schedules, overall impact +0.1%

Legislative Update

Enacted Legislation (cont'd)

- **Montana Med Fee Change, effective 1/1/2010**
 - Change in physician and hospital fee schedules, overall impact +0.8%
- **Nebraska Med Fee Change, effective 6/1/2010**
 - Change in physician fee schedule, overall impact -0.3%
- **Nevada Med Fee Change, effective 2/1/2010**
 - Change in physician and hospital fee schedules, overall impact +1.3%
- **New Mexico Med Fee Change, effective 12/31/2009**
 - Change in physician fee schedule, overall impact +1.1%

Legislative Update

Enacted Legislation (cont'd)

- **New York**

- **Fee Schedule Changes**

- Inpatient hospital fee schedule enacted Dec, 2009—moved from a Diagnostic Related Group (DRG) basis to a new pricing system reflecting All Patients Refined Diagnostic Related Groups (ARP-DRG)
 - Physician fee schedule for Evaluation & Management services increased 30% effective 12/1/2010.
 - WCB intends to revise the fee schedule for chiropractic services effective 12/1/2010, changing billing to be by modality rather than per visit

- **7/1/2007 Reforms**

- Medical treatment guidelines for 4 body parts go into effect 12/1/2010
 - Impairment guidelines being finalized – to be used in determining caps on weeks of benefits for nonscheduled PPD claims

- **Workplace Safety and Loss Prevention Incentive Program (WSLPIP)**

Legislative Update

Enacted Legislation (cont'd)

- **Rhode Island Senate Bill 2083, effective 1/1/2012**
 - Increases minimum and maximum weekly benefits for additional compensation on specified injuries and increases the number of weeks payable for hearing loss; overall impact +1.4%
- **South Carolina Med Fee Change, effective 7/1/2010**
 - Change in physician fee schedule, overall impact +0.5%
- **South Dakota House Bill 1118, effective 7/1/2010**
 - Raises maximum burial expense benefit from \$7.5K to \$10K, overall impact < +0.1%
 - Addresses out-of-state reimbursement rules for medical services, overall impact is minimal
- **Texas Med Fee Change, effective 1/1/2010**
 - Change in physician fee schedule, overall impact +0.8%

Legislative Update

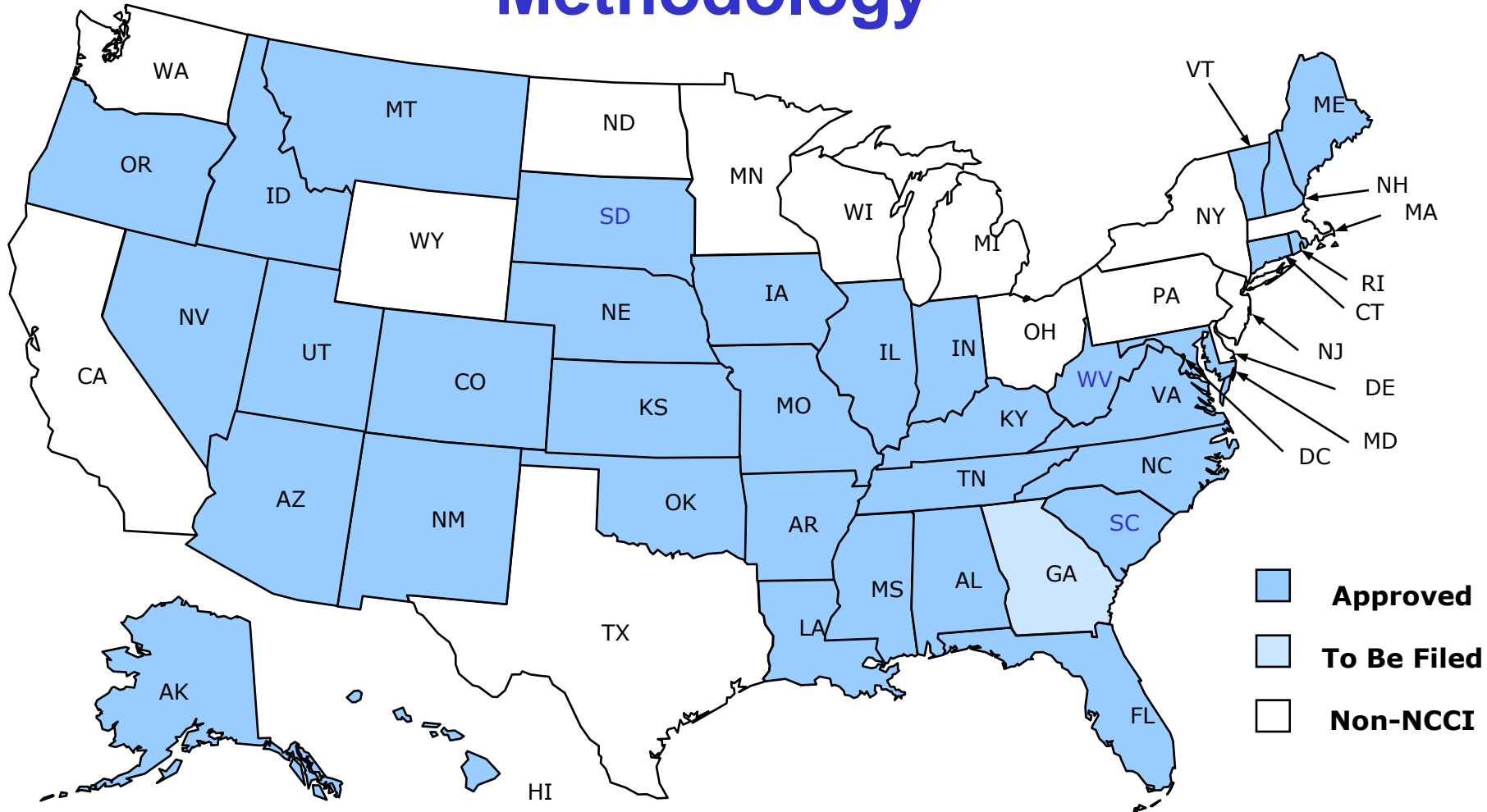
Enacted Legislation (cont'd)

- **Texas Healthcare Certified Networks, 1/1/2011**
 - House Bill 7 (HB 7) required any current healthcare network that provides healthcare services to injured workers to be certified by the Texas Department of Insurance
 - House Bill 473 states that as of January 1, 2011, informal or voluntary networks may no longer be used
- **Utah Med Fee Change, effective 12/1/2010**
 - Change in physician fee schedule, overall impact +0.4%
- **Vermont Attorney Fee Rule 10, effective 6/15/2010**
 - Increase in attorney fee hourly rate and maximum payable, overall increase expected to be minimal
- **Vermont House Bill 647, effective 6/1/2010**
 - Changes in how evidence to discontinue TTD benefits is considered, plus other administrative changes, overall impact is expected to be an increase, but magnitude is not quantifiable

NCCI Developments in Ratemaking Methodology

- **NCCI conducted a comprehensive review of all class ratemaking methodologies**
- **Implemented with filings effective October 1, 2009**
- **The goal of NCCI's new class ratemaking methodology is to improve accuracy, class equity, and loss cost stability**
- **The new methodology has been approved in all states to date**

Adoption of New Class Ratemaking Methodology

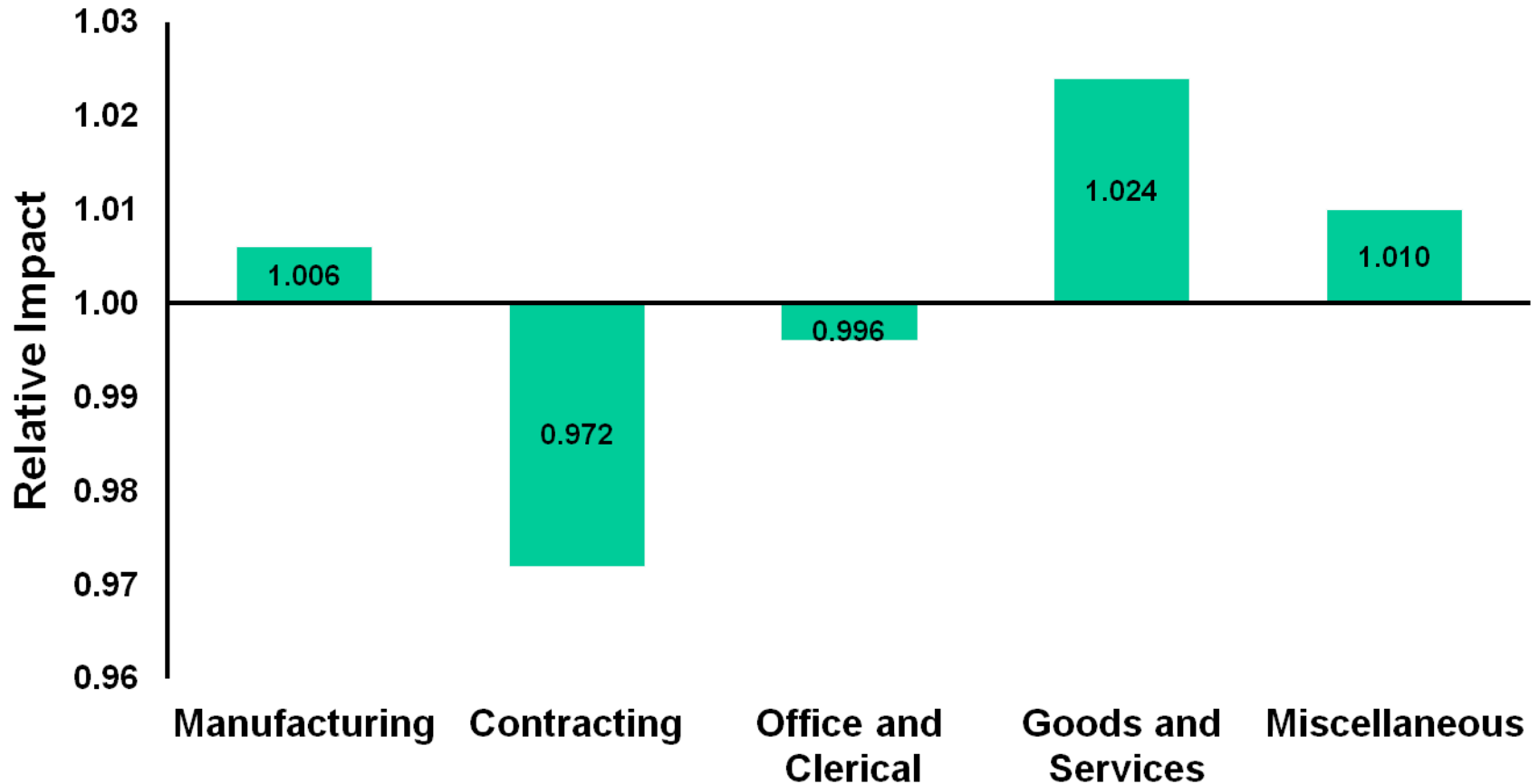


Areas Impacted by Class Ratemaking

- **Lower loss limits**
- **Revised loss development to include body part**
- **Replaced use of serious and non-serious partial pure premiums with indemnity partial pure premiums**
- **Revised excess loss treatment to incorporate ELPPFs**
- **Maintaining industry group differentials**
- **Adjusted class credibility to accommodate new partial pure premiums**

Industry Group Impact Relative to Statewide Loss Cost Changes

Distribution of State Industry Group Differentials



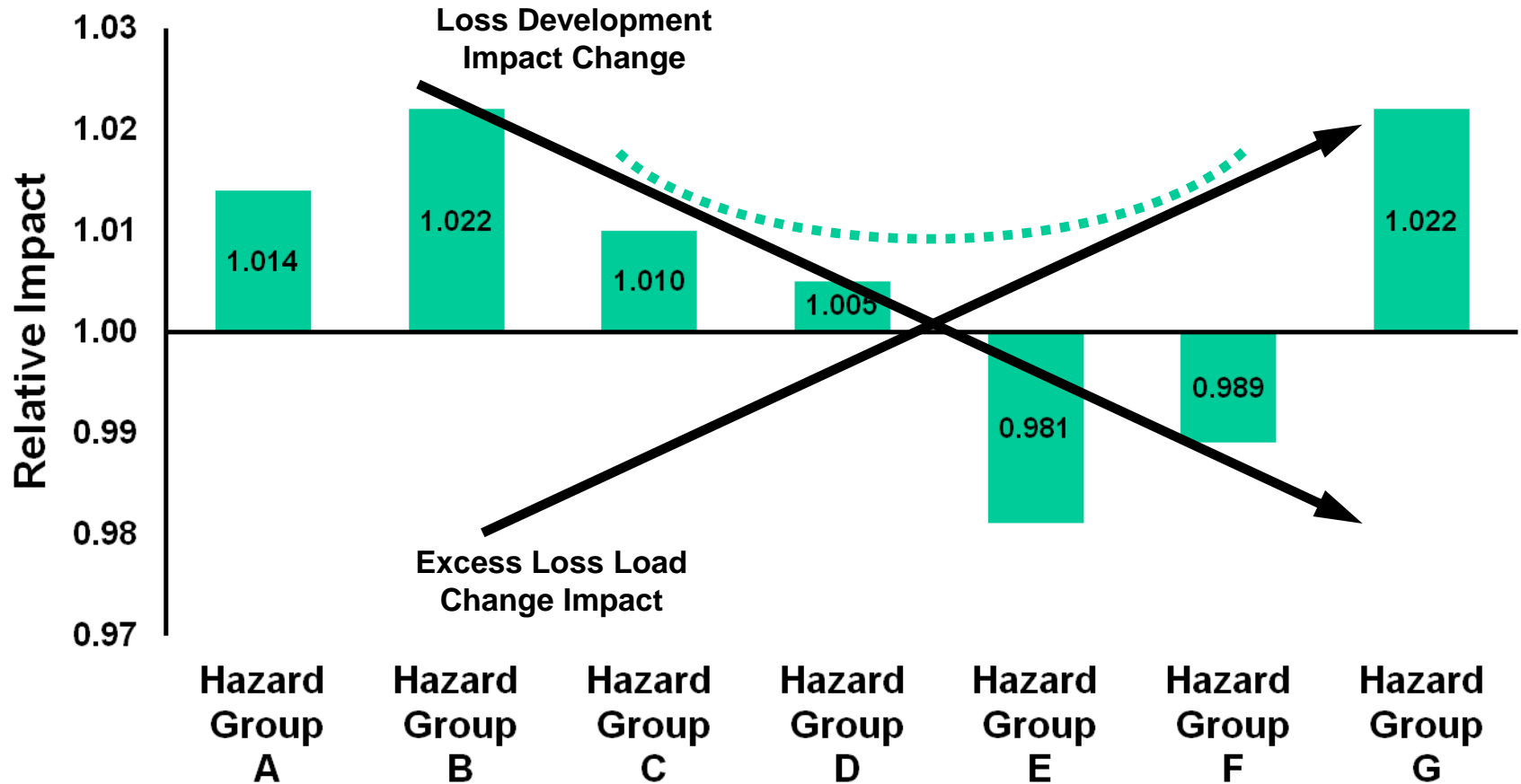
Impact in loss costs relative to statewide average

Note: Results exclude F-Class codes

Source: NCCI analysis

Hazard Group Loss Cost/Rate Changes Relative to Statewide Average

Distribution of State Hazard Group Relativities



Impact in loss costs relative to statewide average

Note: Results exclude F-Class codes

Source: NCCI analysis

Experience Rating Plan Methodology Review

- **Experience rating plan showed excellent results overall in performance testing for prior years**
- **An extensive review is underway**
- **Key areas of analysis:**
 - Split point
 - Eligibility
 - Primary and Excess Credibility
- **Number of years in the plan will remain the same**

More Information

- **NCCI.com for research and results analysis**
 - Also Agenda and Minutes of Actuarial and IRRWG committees (affiliates only)
- **Session C-32 Workers Compensation Research**
 - Obesity (Schmid)
 - Temporary Total Duration Trends (Porter)
- **CAS Webinar November 17**
 - “What’s Shaking in Workers’ Comp Ratemaking” (Burton and Daley)

Key Issues for the Future

- Impact of the economic recovery
- Premium growth
- Premium returns on audits
- Frequency changes as we emerge from the recession
- Medical severity changes
- Impact of earnings pressures on reserve levels
- Impact of economic pressures on reforms
- The underwriting cycle

WORKERS COMPENSATION CURRENT ISSUES (SESSION C-31)

Q & A