



Workers Compensation Claim Frequency

Presented by
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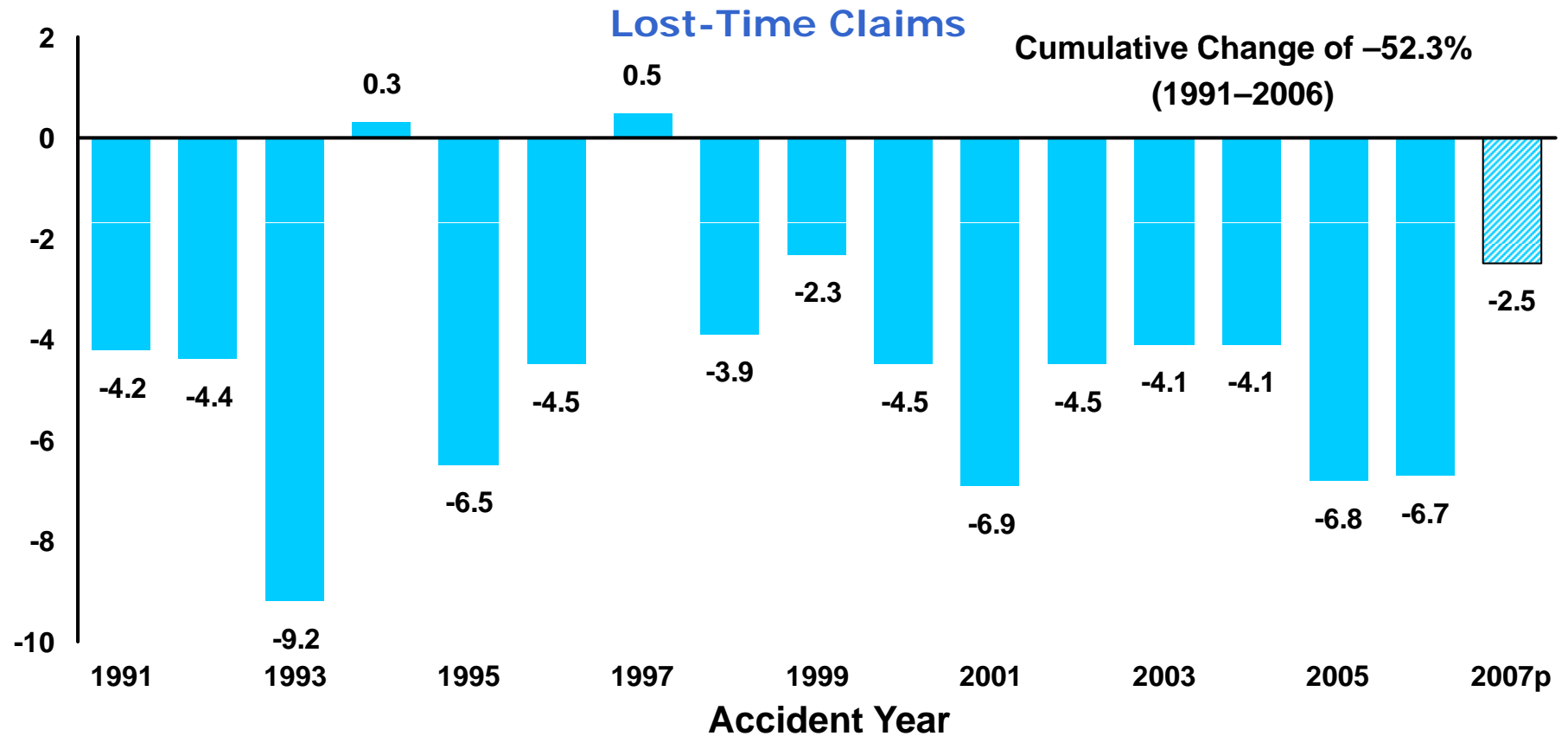
2009 CAS
Ratemaking and Product Management Seminar
Las Vegas, NV
March 9-11, 2009



Background

Countrywide Workers Compensation Lost-Time Claim Frequency Continues to Decline

Percent Change

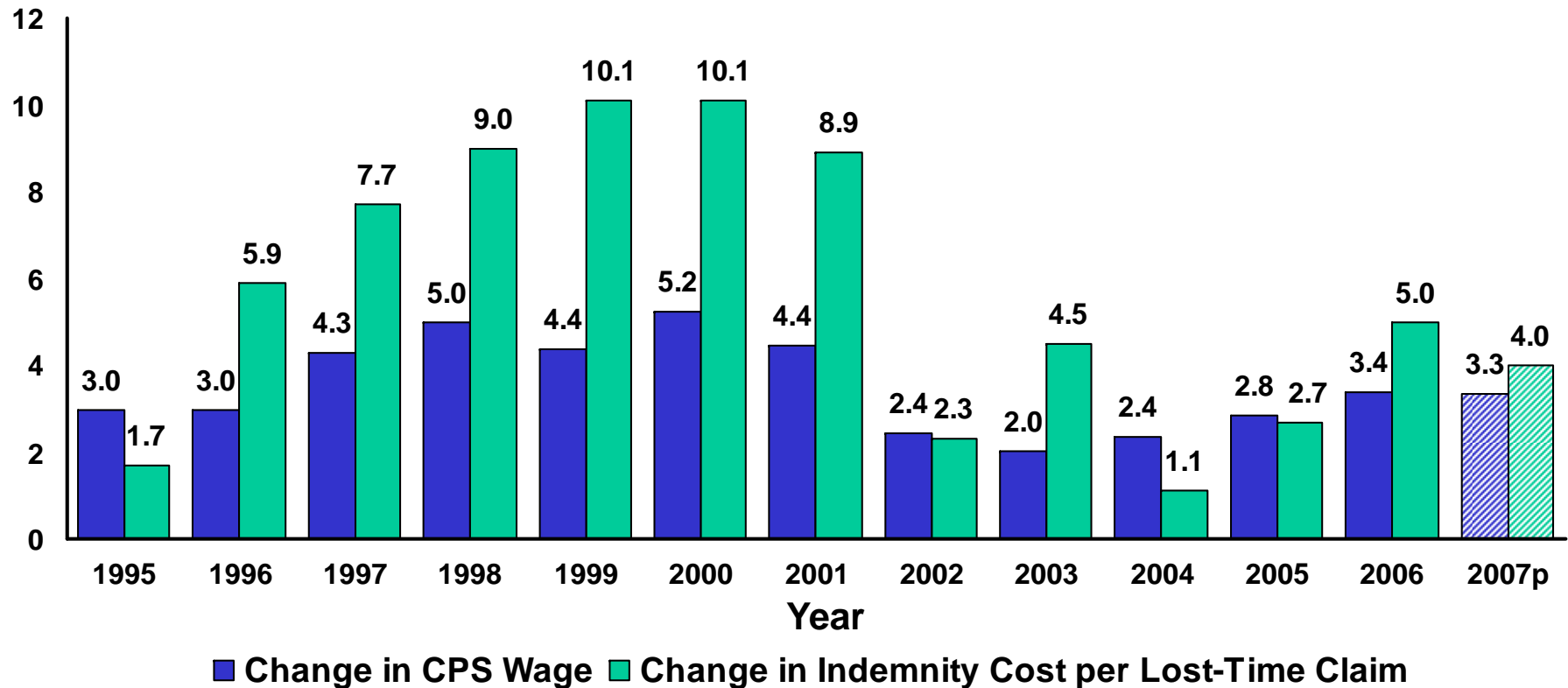


2007p: Preliminary based on data valued as of 12/31/2007
 1991-2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes the effects of deductible policies

Countrywide Indemnity Severity

Lost-Time Claims

Percent Change

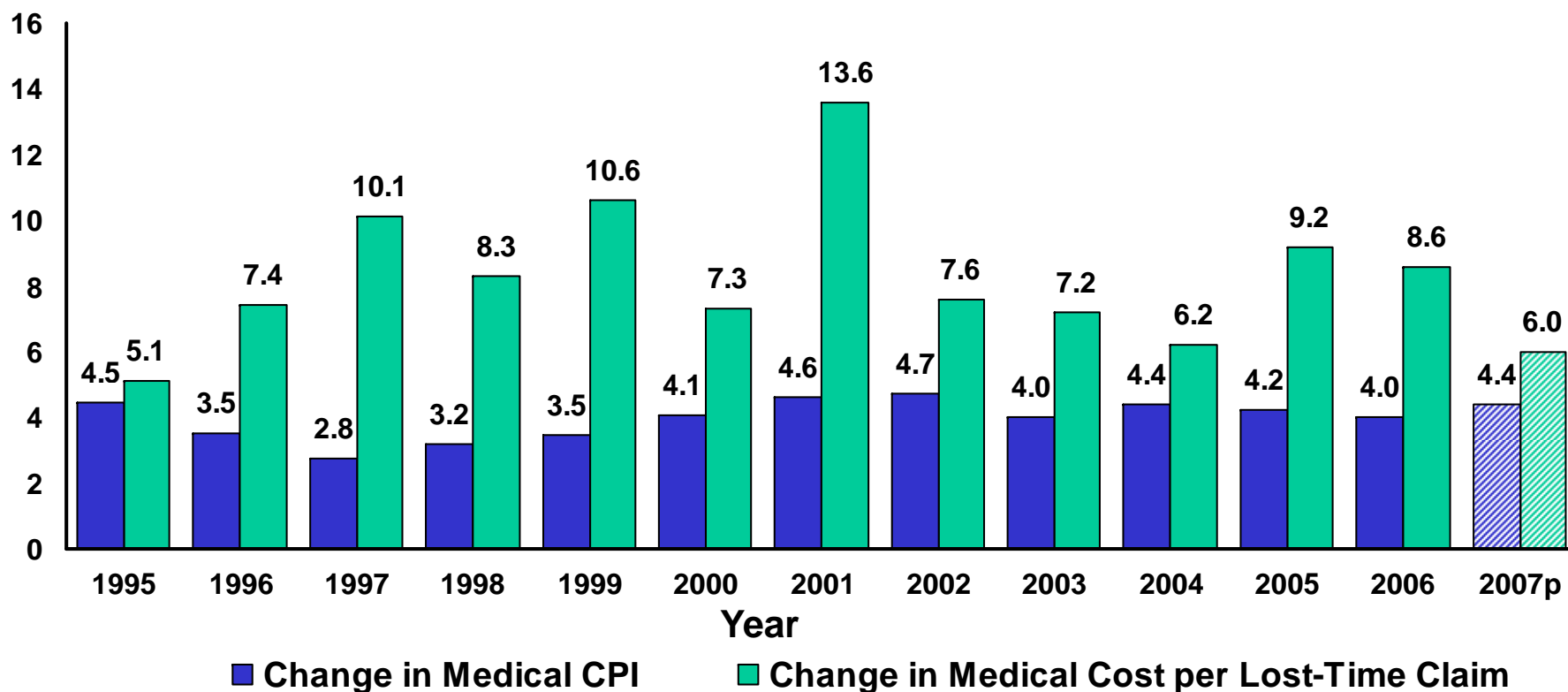


Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007
 Indemnity severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: CPS Wage—All states (Current Population Survey), Economy.com;
 Accident year indemnity severity—NCCI states, NCCI

Countrywide WC Medical Severity

Lost-Time Claims

Percent Change



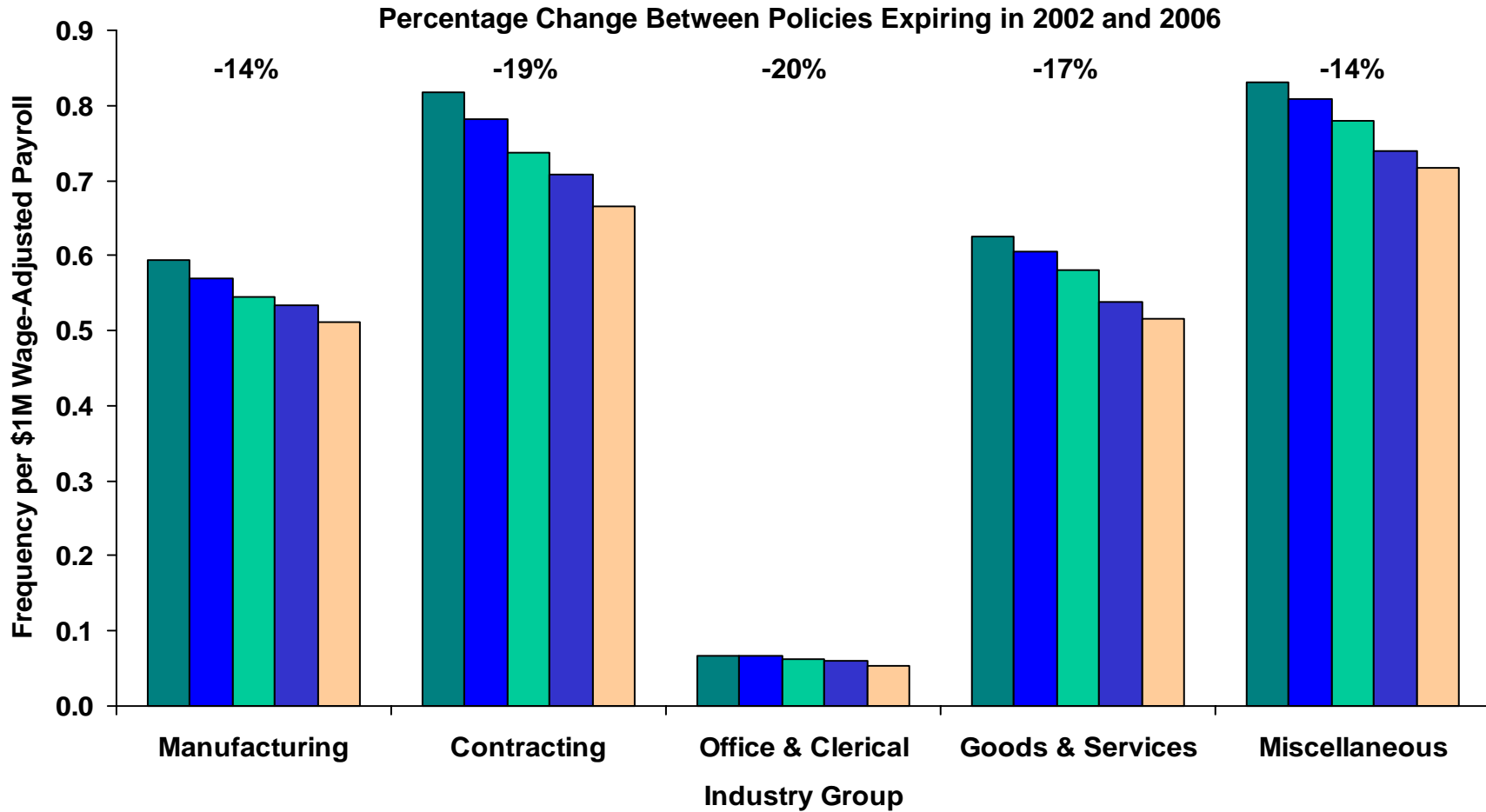
Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
 Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
 Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
 Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI



**Claim Frequency Declines
That Have Been Consistent
In Every Updated Study**

Countrywide Lost-Time Claim Frequency by Industry Group

Frequency at First Report

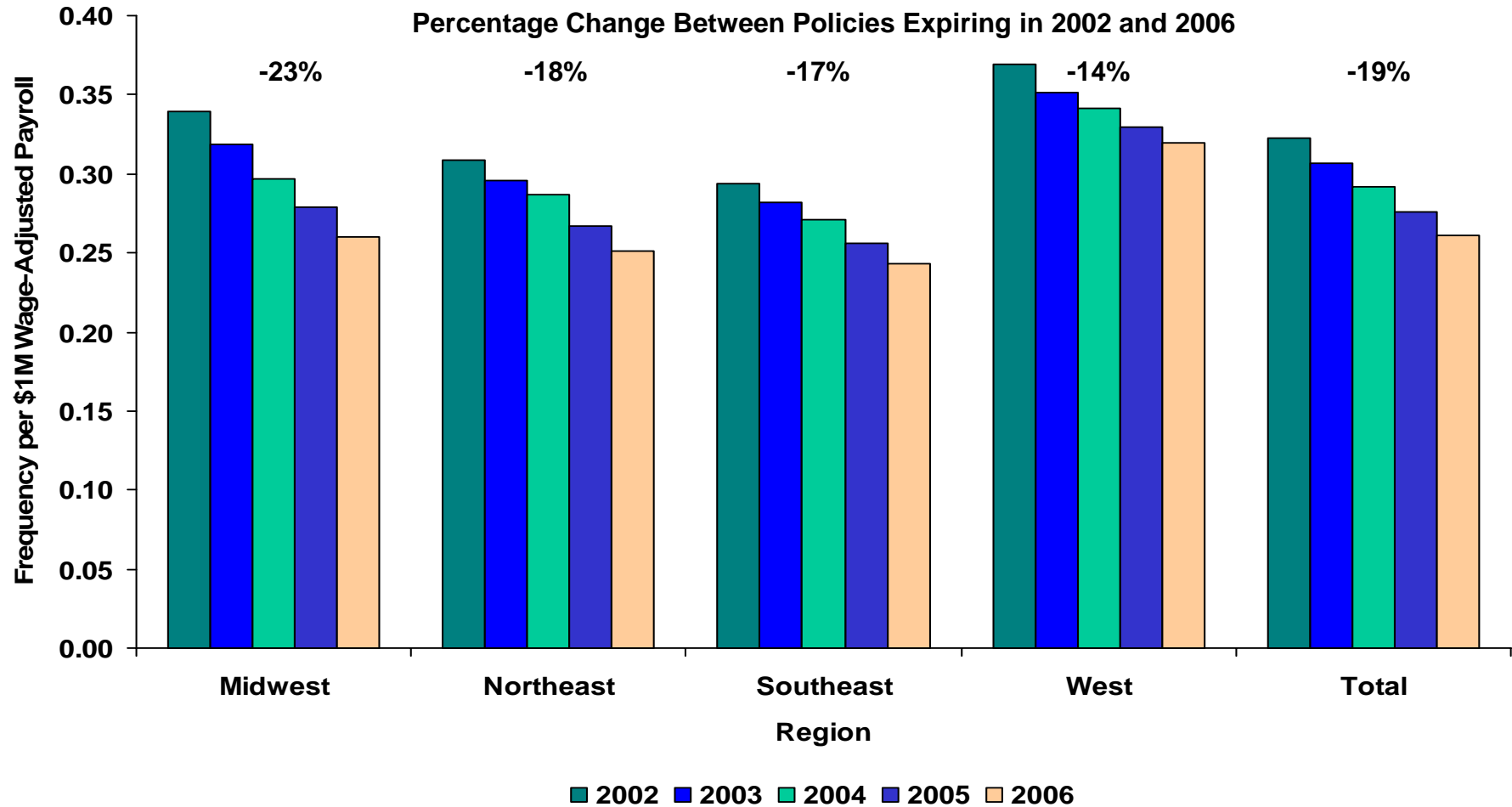


All NCCI states, except NV, TX

■ 2002 ■ 2003 ■ 2004 ■ 2005 ■ 2006

Lost-Time Claim Frequency by Region

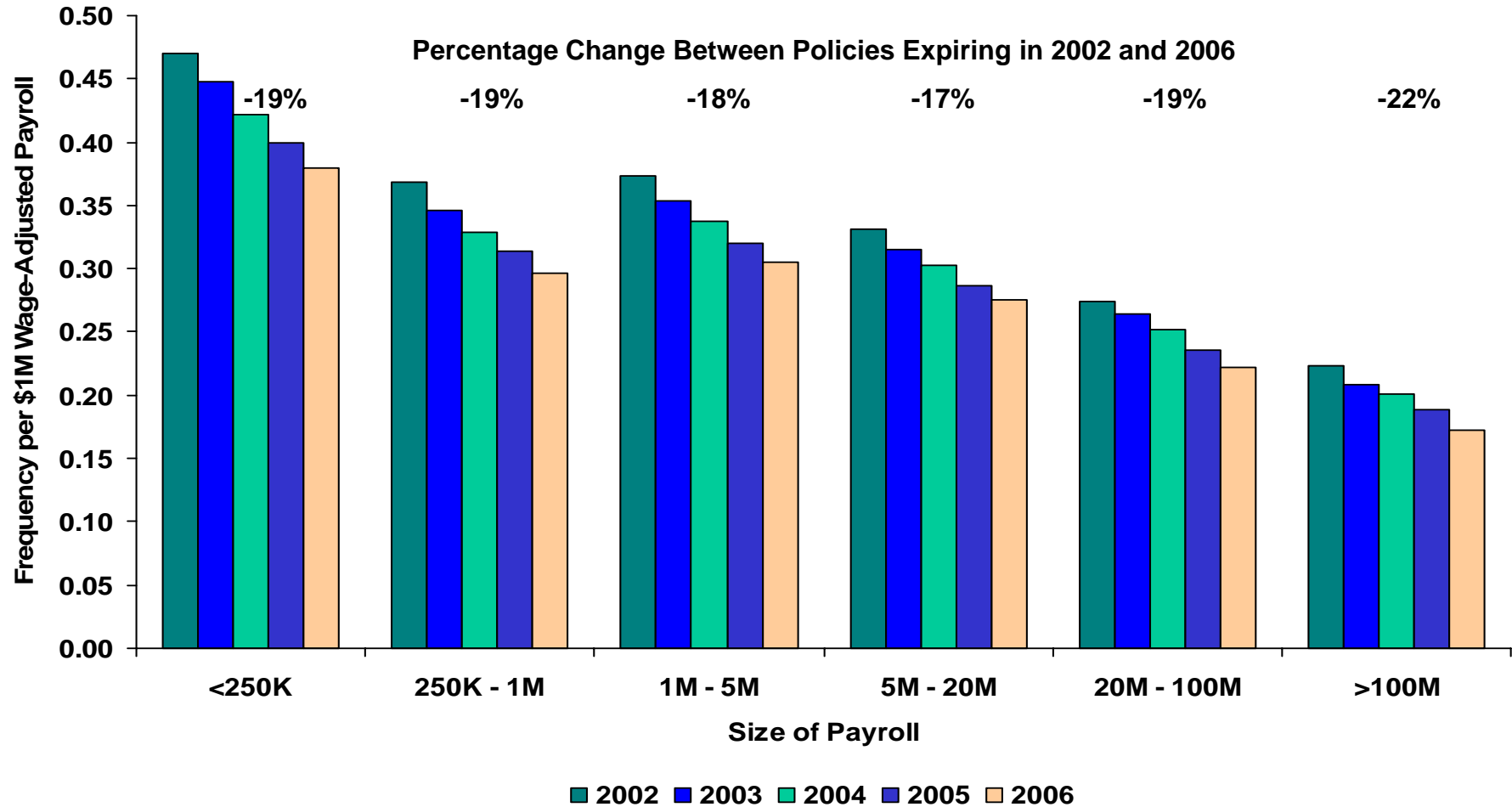
Frequency at First Report



All NCCI states, except NV

Countrywide Lost-Time Claim Frequency by Size of Payroll

Frequency at First Report



All NCCI states, except NV

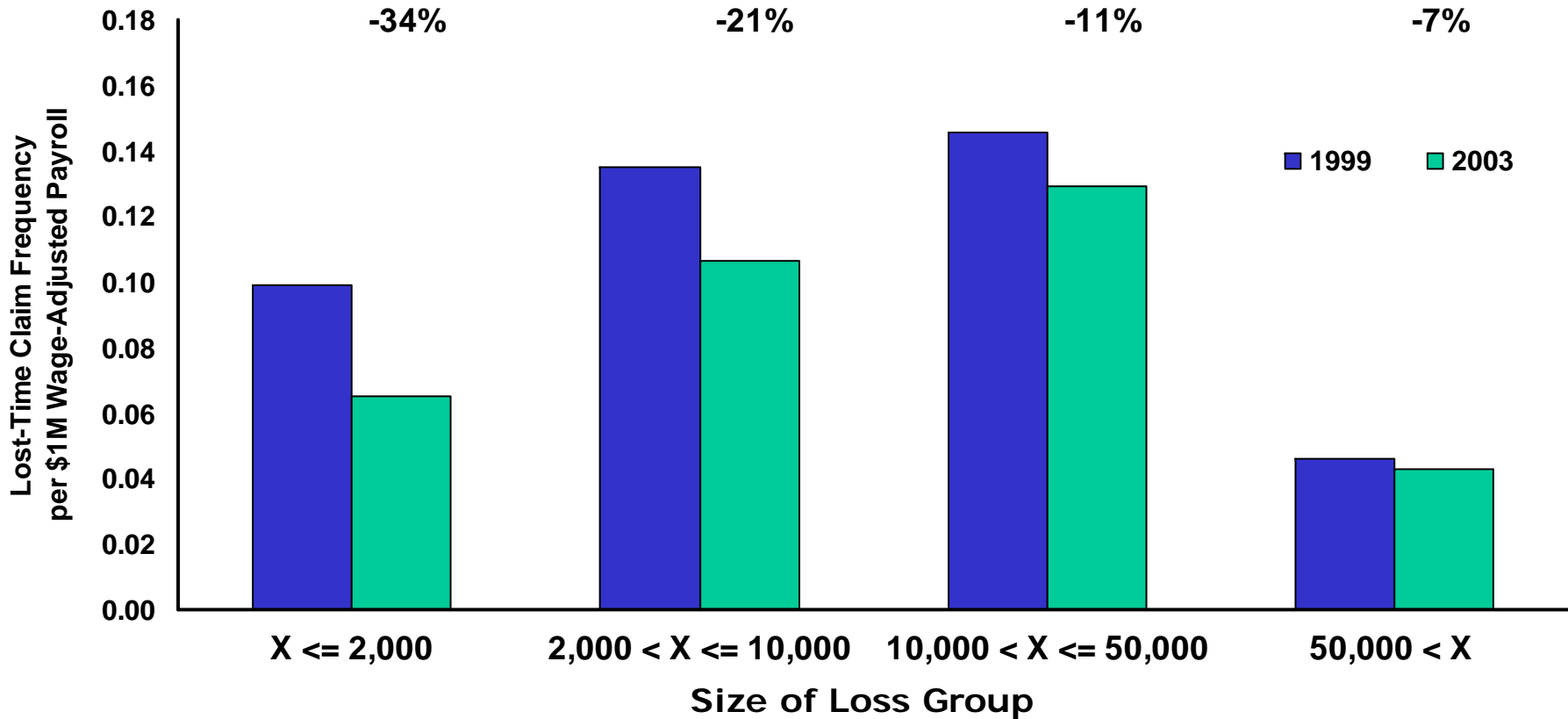


Claim Frequency by Size of Loss

1999 - 2003

Lost-Time Claim Frequency by Size of Loss

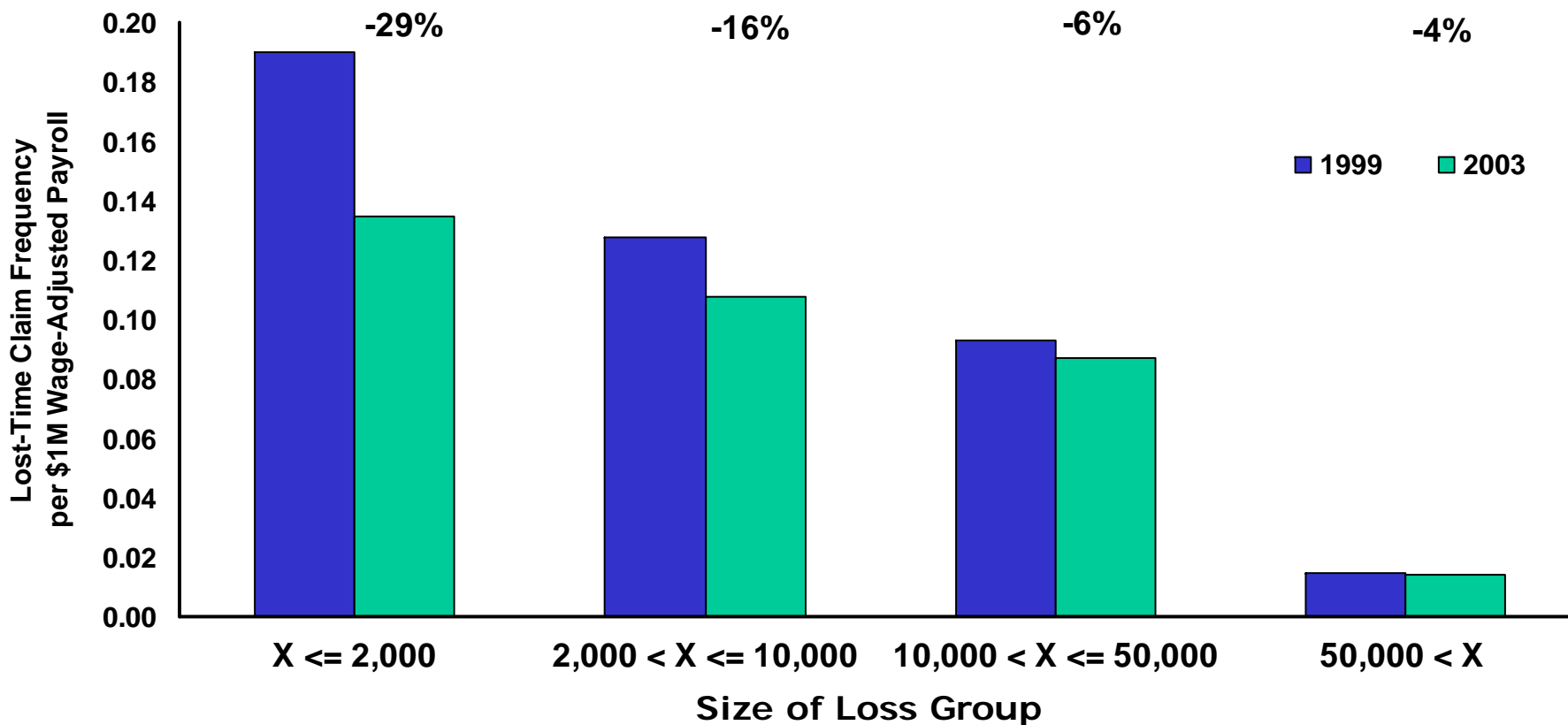
Five-Year Change Between Policies Expiring in 1999 and 2003



Annual Loss Size Adjustments: 4.2% Indemnity, 7.4% Medical
 Frequency = Lost-time claims / payroll; Payroll adjusted for inflation
 Claim count determined at first report
 NCCI states, excluding Texas

Lost-Time Claim Frequency by Size of *Indemnity* Loss

Five-Year Change Between Policies Expiring in 1999 and 2003



Annual Indemnity Loss Size Adjustment: 4.2%

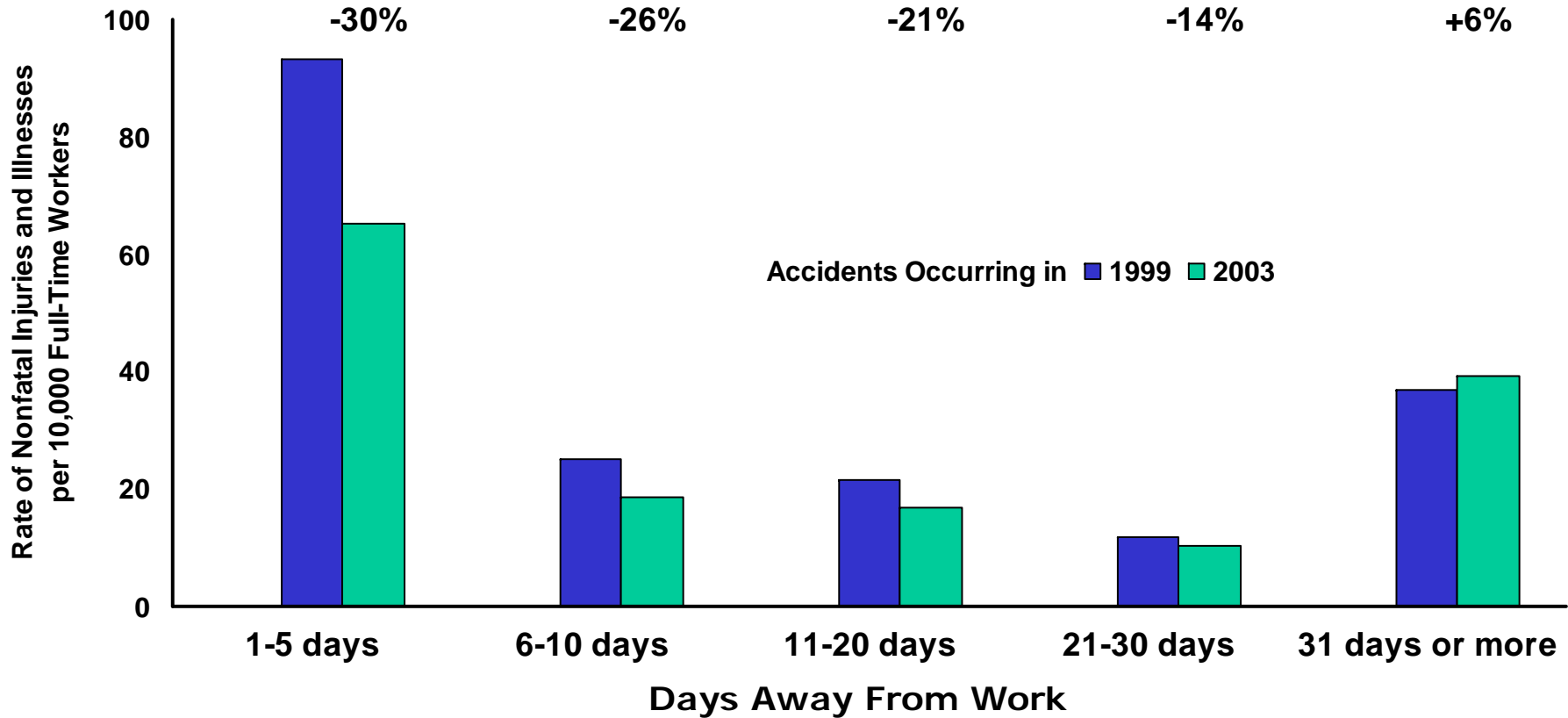
Frequency = Lost-time claims / payroll; Payroll adjusted for inflation

Claim count determined at first report

NCCI states, excluding Texas

Lost-Time Claim Frequency by Days Away From Work

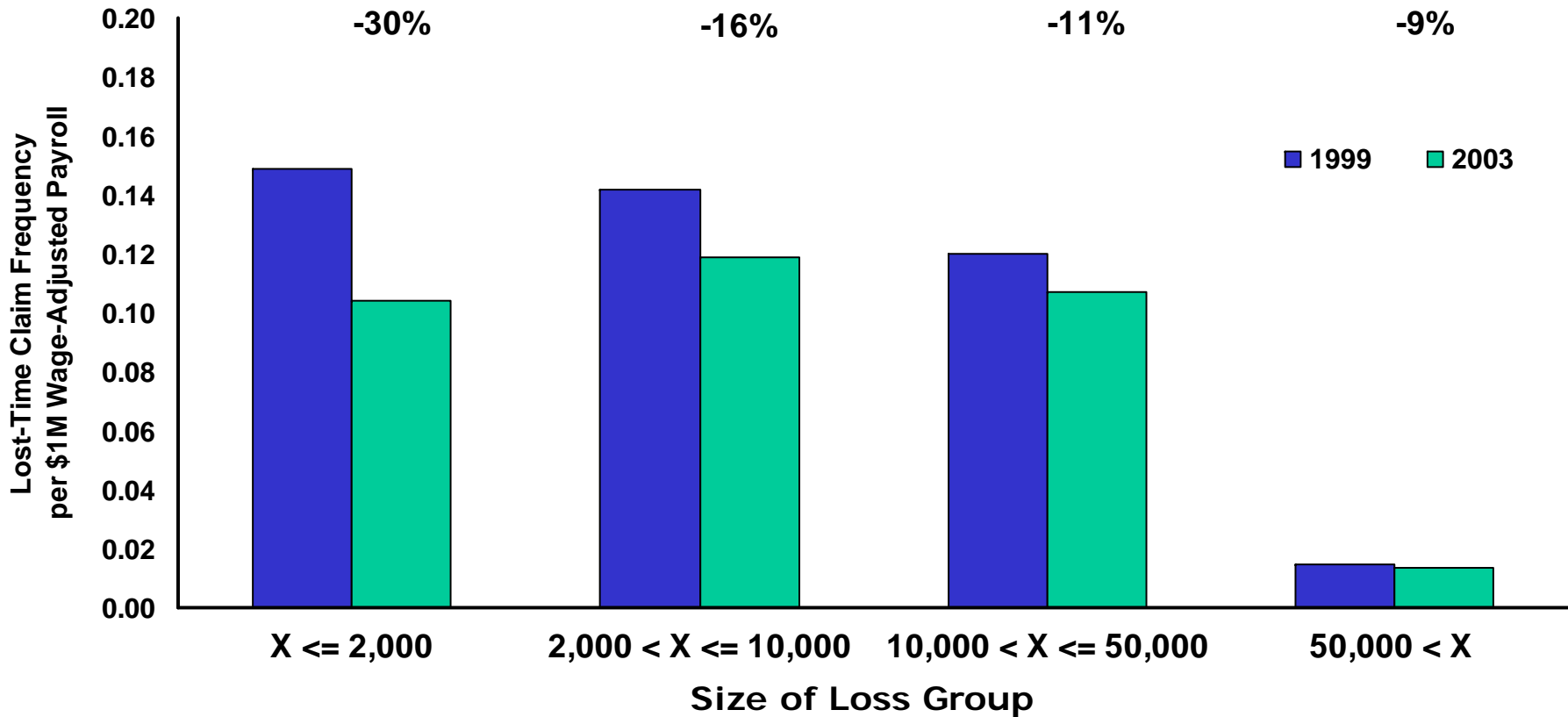
Five-Year Change Between Accidents in 1999 and 2003



Source: Bureau of Labor Statistics

Lost-Time Claim Frequency by Size of *Medical Loss*

Five-Year Change Between Policies Expiring in 1999 and 2003



Annual Medical Loss Size Adjustment: 7.4%

Frequency = Lost-time claims / payroll; Payroll adjusted for inflation

Claim count determined at first report

NCCI states, excluding Texas

Frequency Change by Size of Loss: Impact on Severity

Average Annual Changes Between 1999-2003

	Severity Change*	Frequency Change Impact	Adjusted Severity Change
Indemnity	7.2%	3%	4.2%
Medical	9.4%	2%	7.4%
Combined	8.4%	2.5%	5.9%

*** Average annual severity change underlying WCSP data**



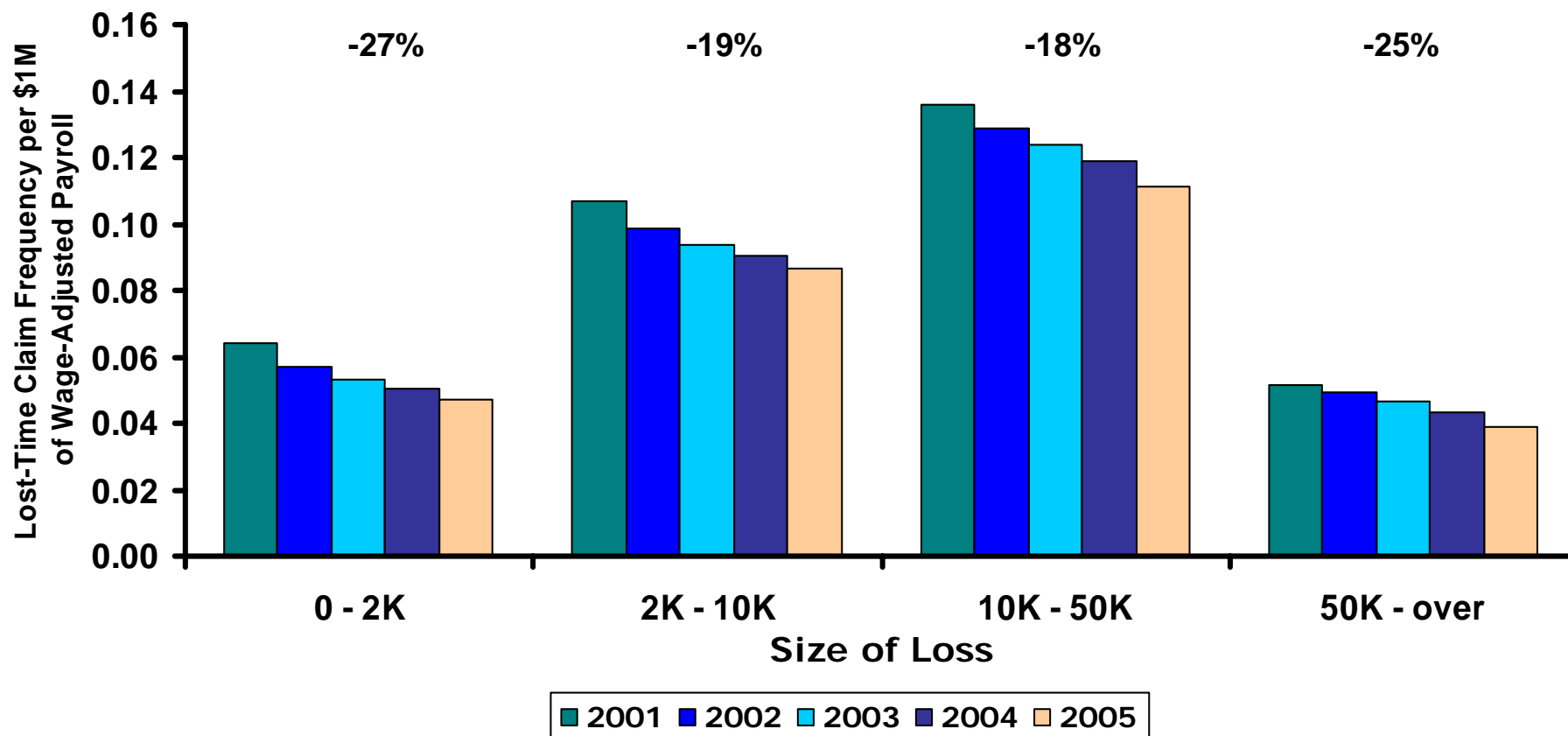
Claim Frequency by Size of Loss

2001 - 2005

Lost-Time Claim Frequency by Size of Loss

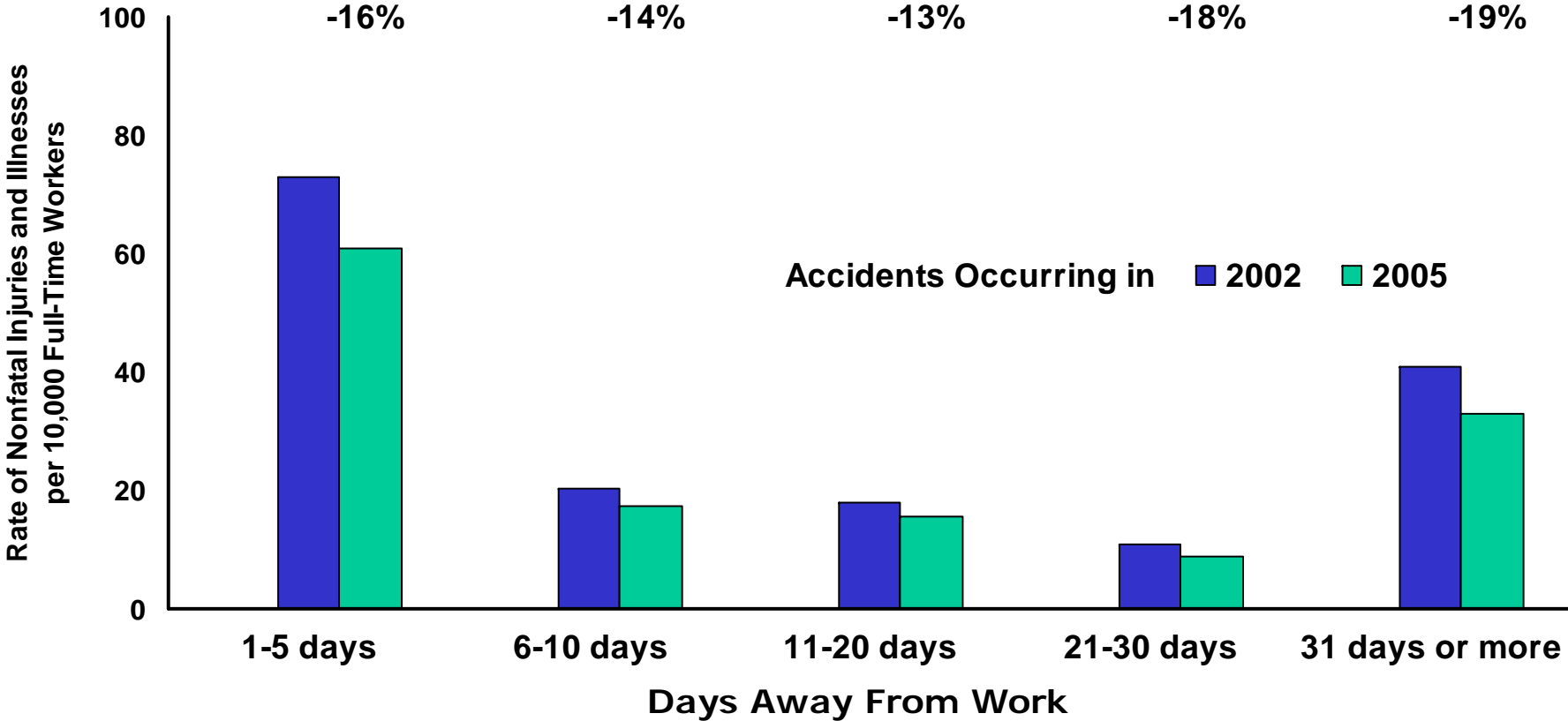
Frequency at First Report

Lost-Time Frequency Change Between Policies Expiring in 2001 and 2005



Claim Frequency by Days Away From Work

Four-Year Change Between Accidents in 2002 and 2005



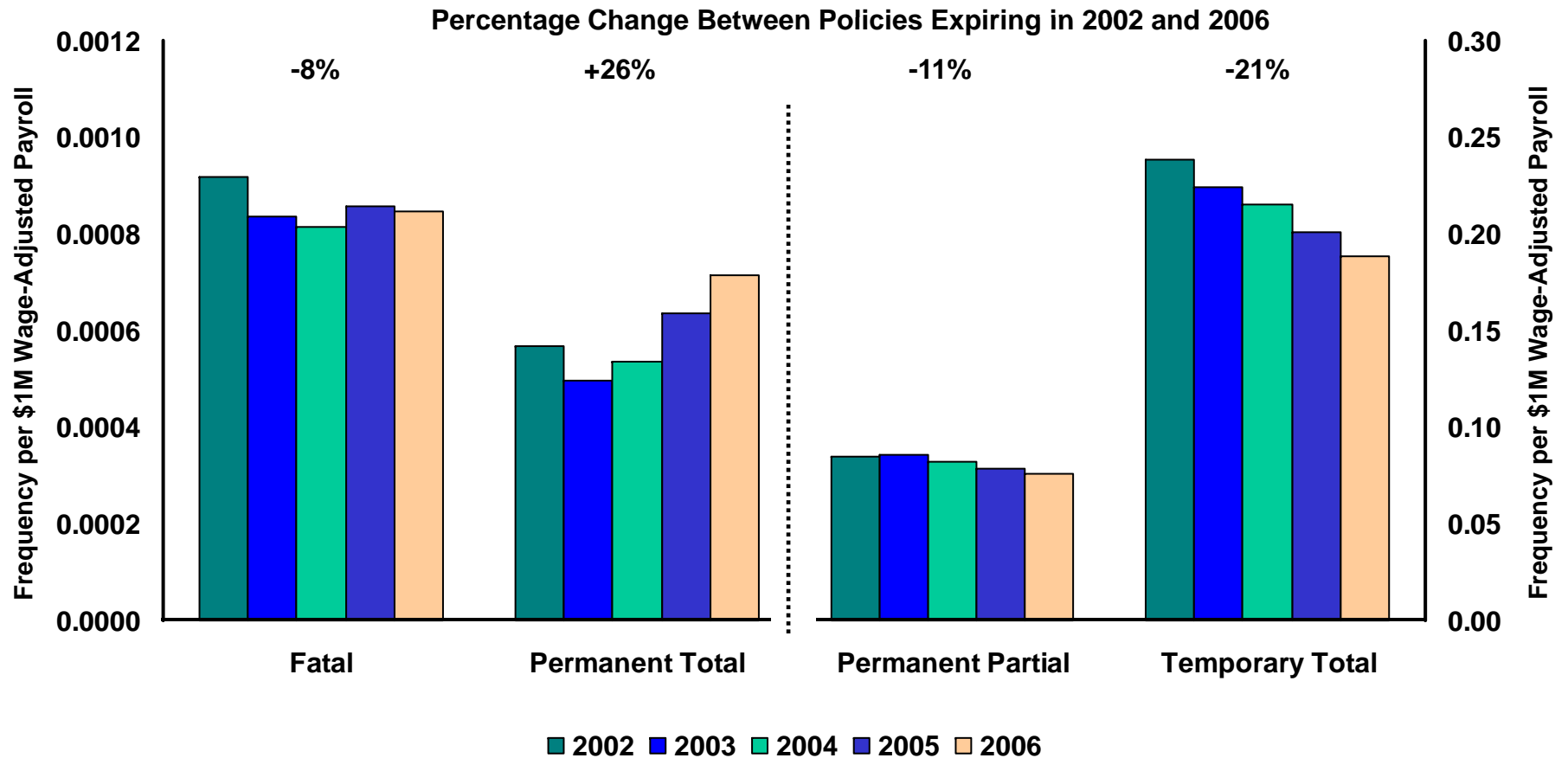
Source: Bureau of Labor Statistics



Recent Increases in PTD Claims

Countrywide Lost-Time Claim Frequency by Injury Type

Frequency at First Report

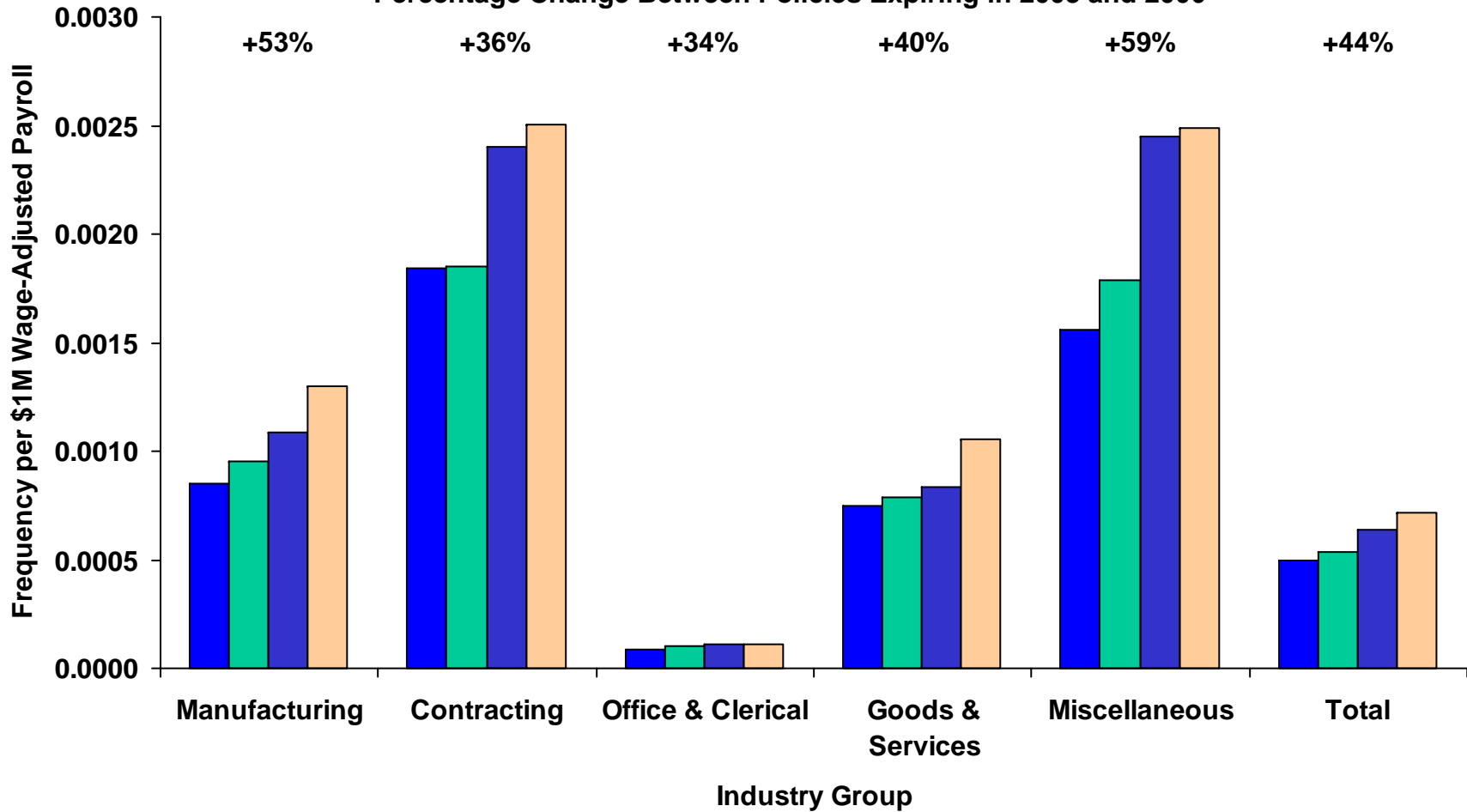


All NCCI states, except NV, TX

Countrywide PT Frequency by Industry Group

Frequency at First Report

Percentage Change Between Policies Expiring in 2003 and 2006

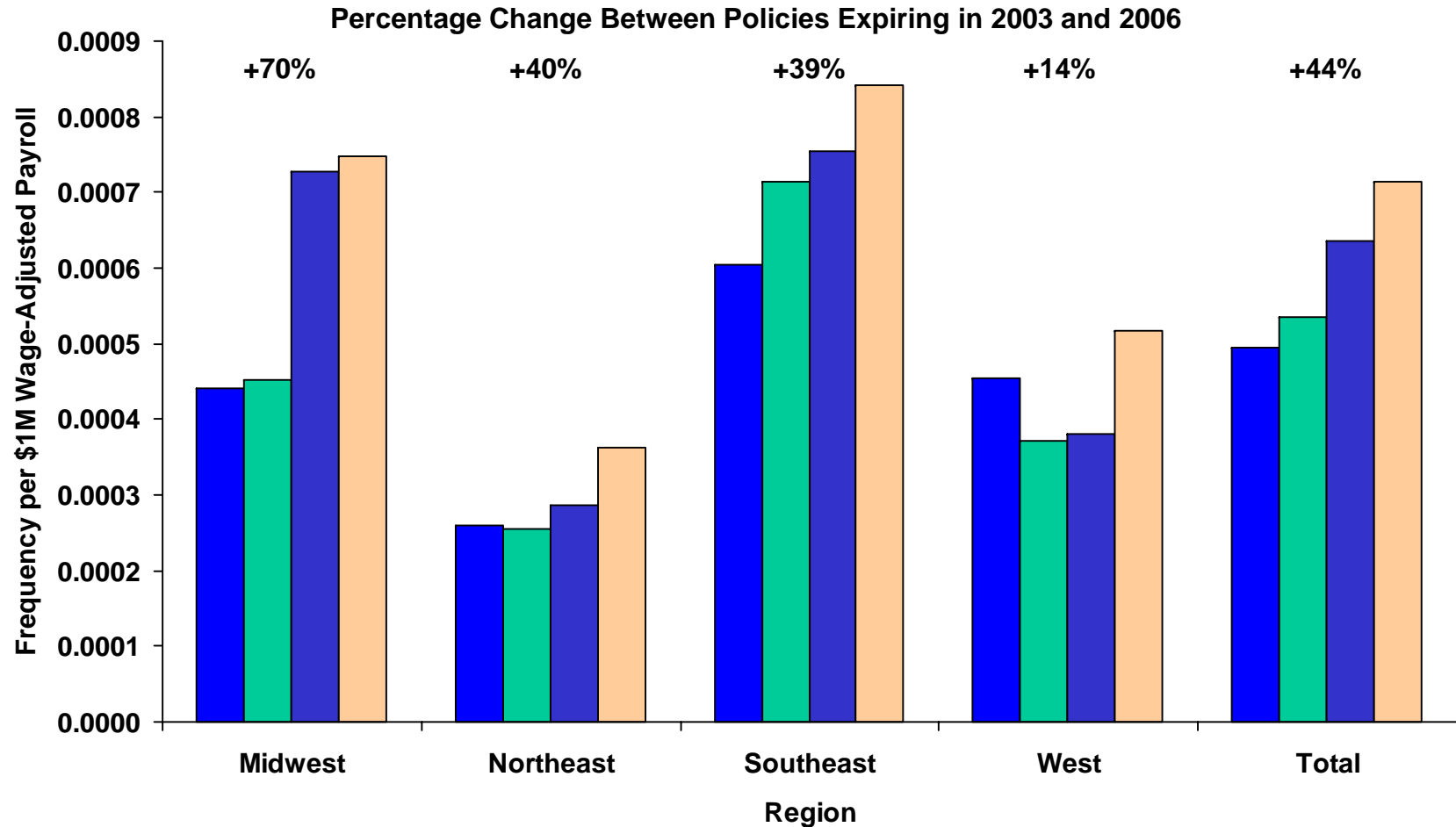


All NCCI states, except NV, TX

■ 2003 ■ 2004 ■ 2005 ■ 2006

PT Claim Frequency by Region

Frequency at First Report

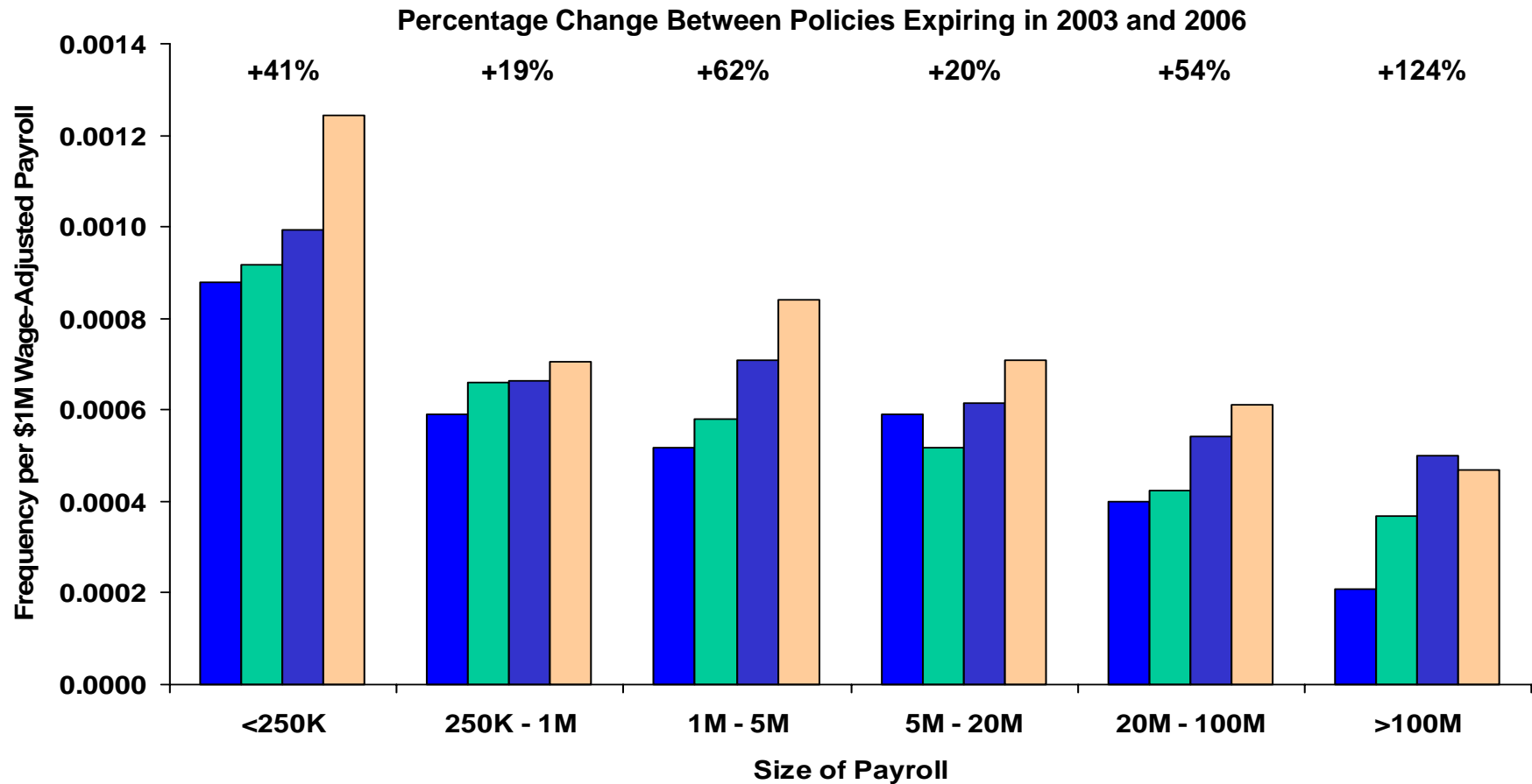


All NCCI states, except NV, TX

■ 2003 ■ 2004 ■ 2005 ■ 2006

Countrywide PT Claim Frequency by Size of Payroll

Frequency at First Report



All NCCI states, except NV, TX

■ 2003 ■ 2004 ■ 2005 ■ 2006

Impact of PTD Increase

- The recent relative increase in PTD claims has caused upward pressure on lost-time severities
- On the following slides, the impact on lost-time (L-T) severities was estimated using the simplified formula below, separately for indemnity and medical:

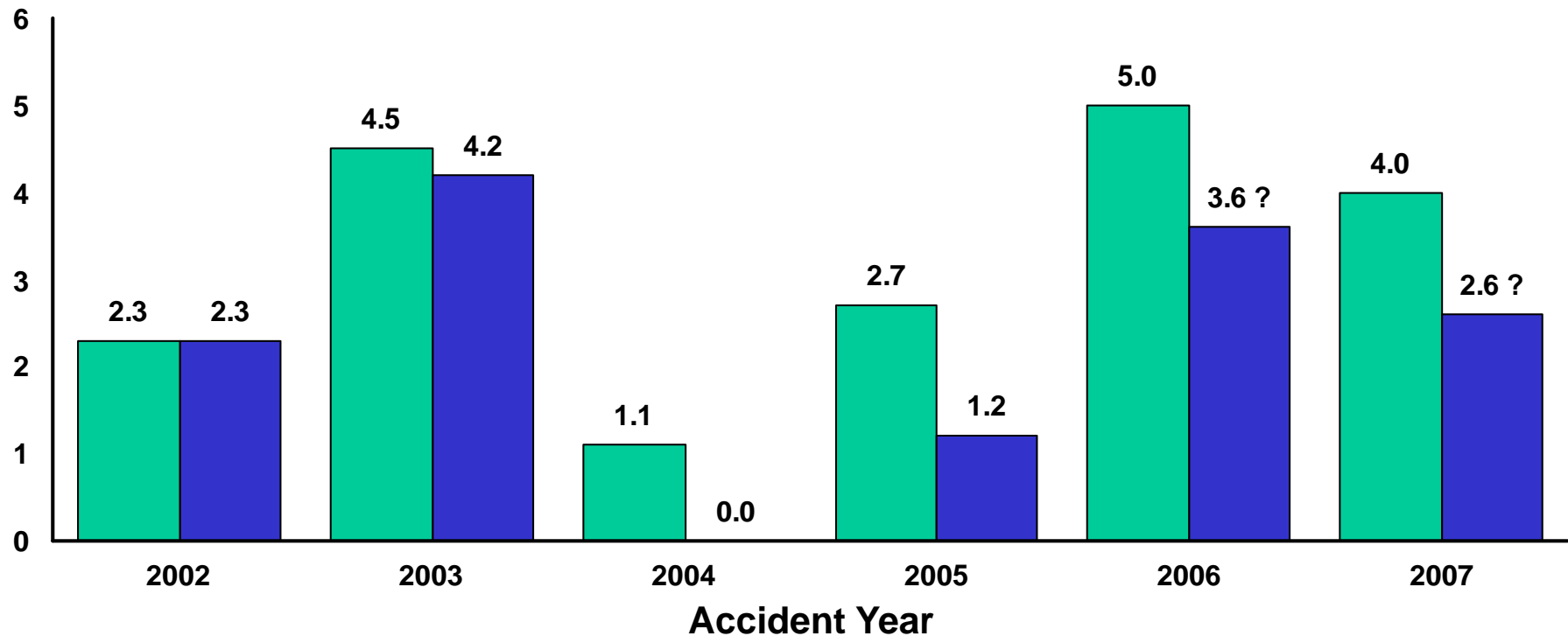
$$\begin{aligned} & \text{Impact on L-T severity} \\ & = [\text{PTD proportion of L-T costs}] \times [\text{PTD relative increase}] \end{aligned}$$

Countrywide Indemnity Severity

Before and After Estimated Impacts of PTD Increase

Lost-Time Claims

Percent Change



■ Change in ACTUAL Indemnity Cost per Lost-Time Claim
■ Change in ADJUSTED Indemnity Cost per Lost-Time Claim

Indemnity severity 2007p: Preliminary based on data valued as of 12/31/2007

Indemnity severity 2002–2006: Based on data through 12/31/2006, developed to ultimate

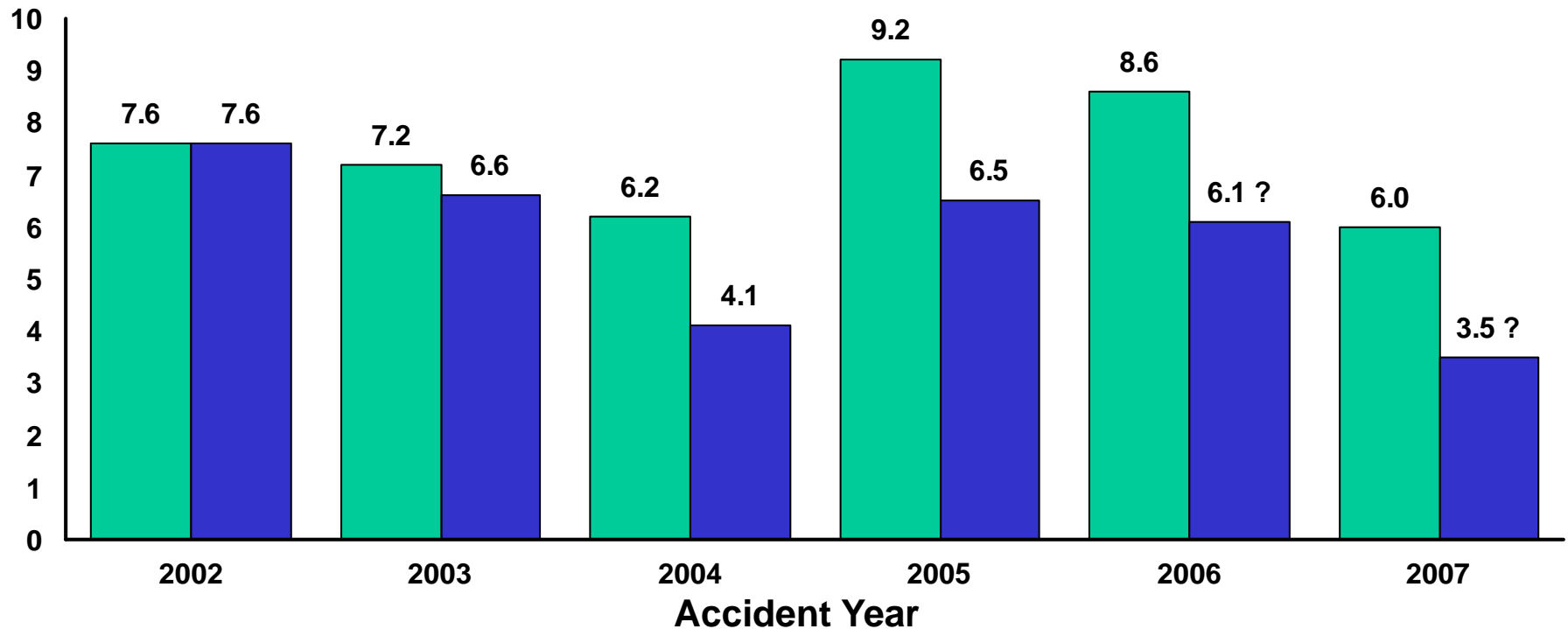
Accident year indemnity severity—NCCI . Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies

Countrywide WC Medical Severity

Before and After Estimated Impacts of PTD Increase

Lost-Time Claims

Percent Change



■ Change in ACTUAL Medical Cost per Lost-Time Claim
■ Change in ADJUSTED Medical Cost per Lost-Time Claim

Medical severity 2007p: Preliminary based on data valued as of 12/31/2007

Medical severity 2002–2006: Based on data through 12/31/2006, developed to ultimate

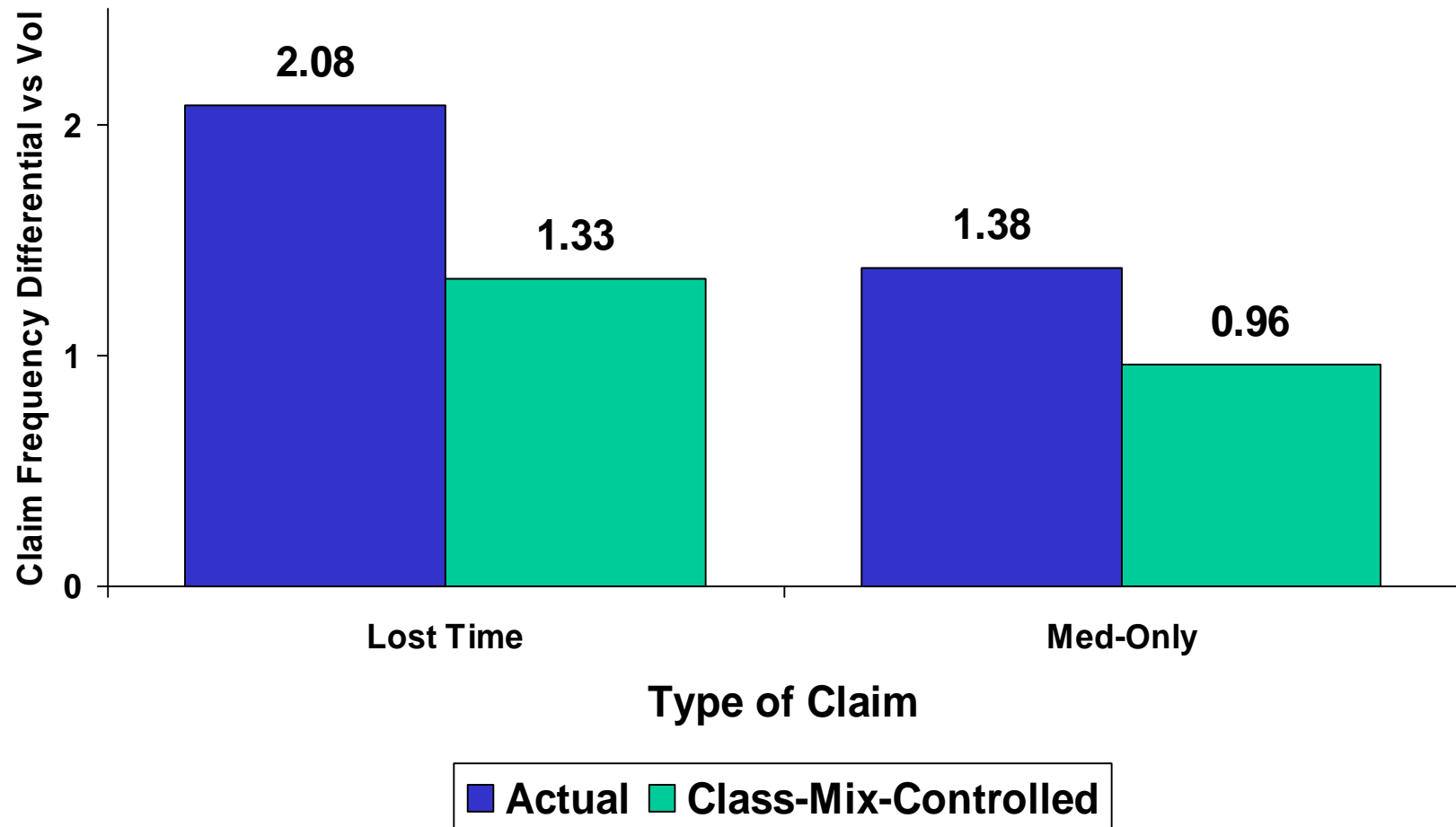
Accident year medical severity—NCCI . Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies



An Analysis of Assigned Risk Claim Frequency

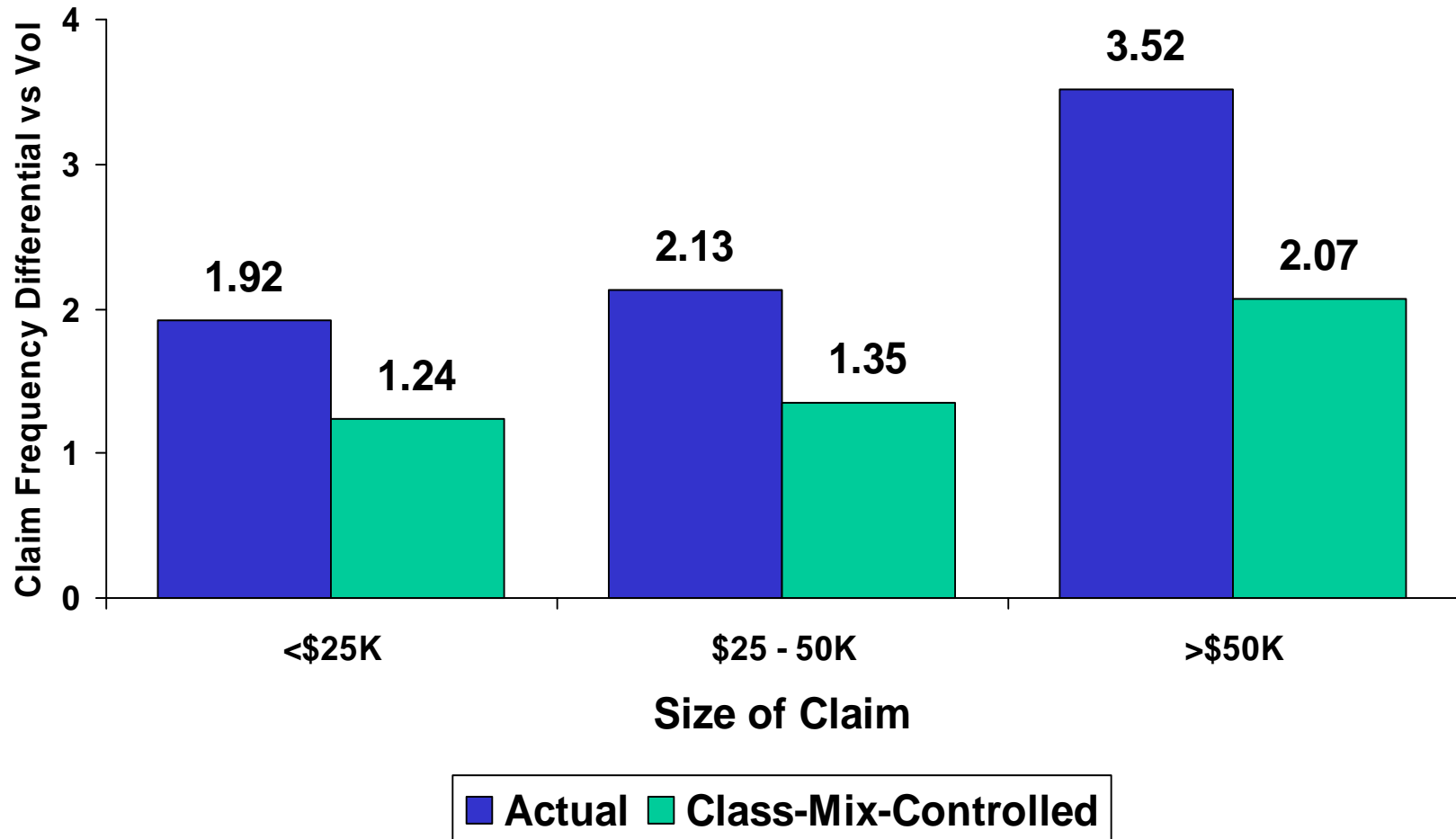
Assigned Risk Claim Frequency Expressed Relative to Voluntary Market = 1.00

Frequency at First Report



Assigned Risk Claim Frequency Expressed Relative to Voluntary Market = 1.00

Lost-Time Frequency and Severity at First Report, Undeveloped



Drivers of Claim Frequency

- Business Cycle—Employment growth
- Age of workforce
- Long-Term Downtrend—Key factors

Frequency of Injuries - Experience Matters

Inexperienced Have a Disproportionately High Share of Total Injuries

Time With Current Employer	Share of Employment ('04)*	Share of All Injuries ('04)**	Relative Difference Share of Injuries vs Employment
Less Than 1 Year	23.0%	33.4%	45.3% Higher
1 Year to 5 Years	38.3%	35.5%	-7.3% Lower
5 Years or More	38.8%	30.4%	-21.6% Lower

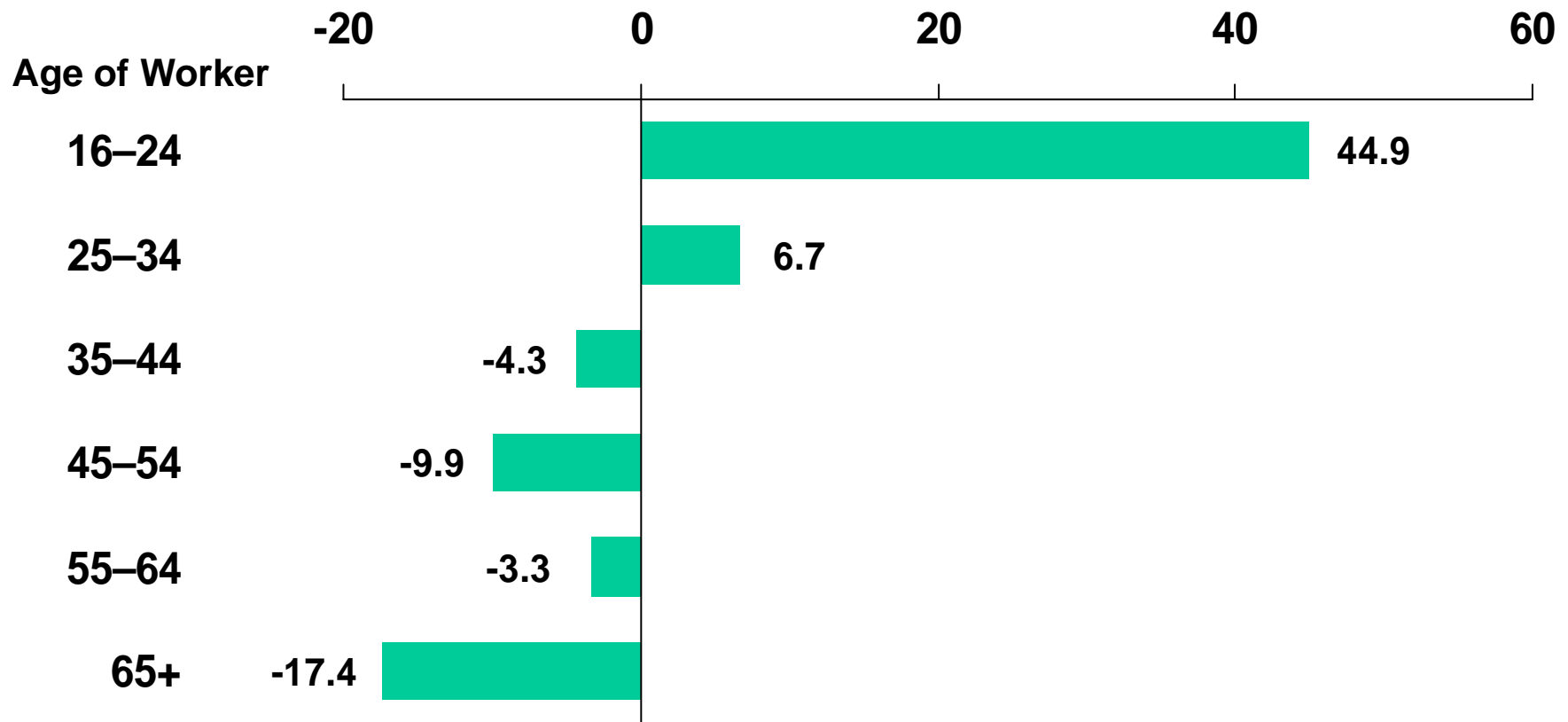
* As reported by the BLS

** Not reported = 0.7%

Source: U.S. Bureau of Labor Statistics

BLS Incidence Rates by Age of Worker

Percentage Above or Below the Average Manufacturing Incidence Rate in 2001 (Countrywide Data)



Source: U.S. Bureau of Labor Statistics

Long-Term Impacts on Claim Frequency

- Competitive labor markets require continuing improvement in working conditions and productivity
- Impact of global competition
- Technology
- Indirect impacts of OSHA

Claim Frequency Study Summary

- The decline in the frequency of workers compensation claims continues to span all industry groups, geographic regions and payroll sizes.
- In the late 1990's, smaller claims experienced more of a decline than larger claims. This placed upward pressure on average indemnity and medical costs per claim.
- Over the last several years, the claim frequency decline appears to be just as strong for the medium and large claims as for the small lost-time claims. This is corroborated by BLS data showing claim frequency by days away from work.

Claim Frequency Study Summary

- The frequency of PTD injuries, however, increased over the latest 3 years.
- The rise in PTD claims is generally evident across industries, regions and payroll sizes.
- From AY 2004-2006, the increase in PTD claims may have increased lost-time indemnity severities by approximately 1%-1.5%/yr and lost-time medical severities by approximately 2%-2.5%/yr.

Claim Frequency Study Summary

- The assigned risk market has a higher frequency of lost-time claims than the voluntary market, especially for the larger claims. This is true even after controlling for class-mix differences between the two markets.
- A shift in occupational mix is a minor contributor to the decline in claim frequency.
- The business cycle, an aging workforce, technological advances and increased competition are some of the many factors that have contributed to the claim frequency decline.