



WC-3:

Workers Compensation – State of the Market

Presented by:

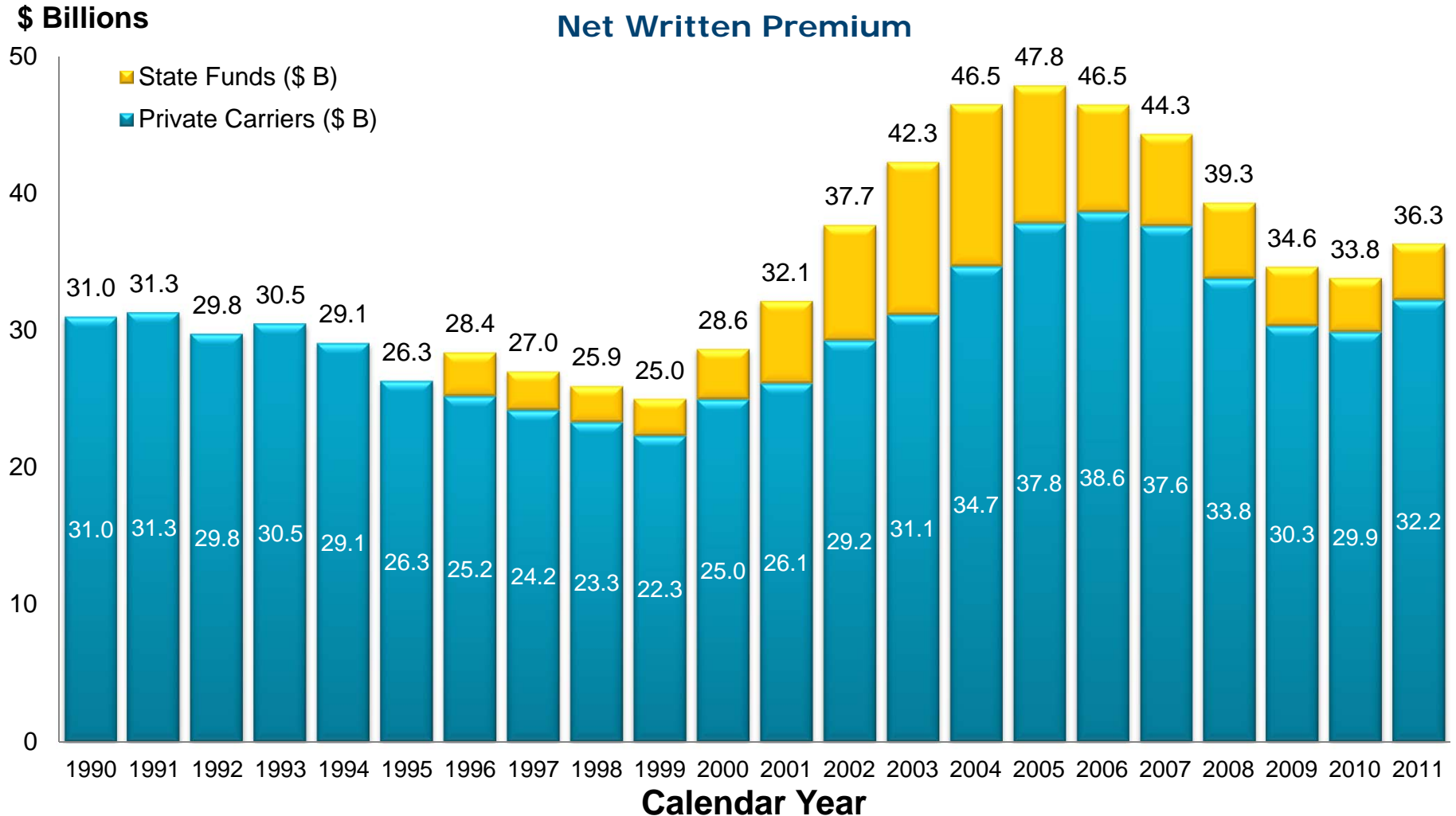
***Tony DiDonato, FCAS, MAAA
Director & Senior Actuary, NCCI***

CAS RPM Seminar
March, 2013
Huntington Beach, CA



Workers Compensation Countrywide Premium

Countrywide Workers Compensation Premium—First Increase in Years



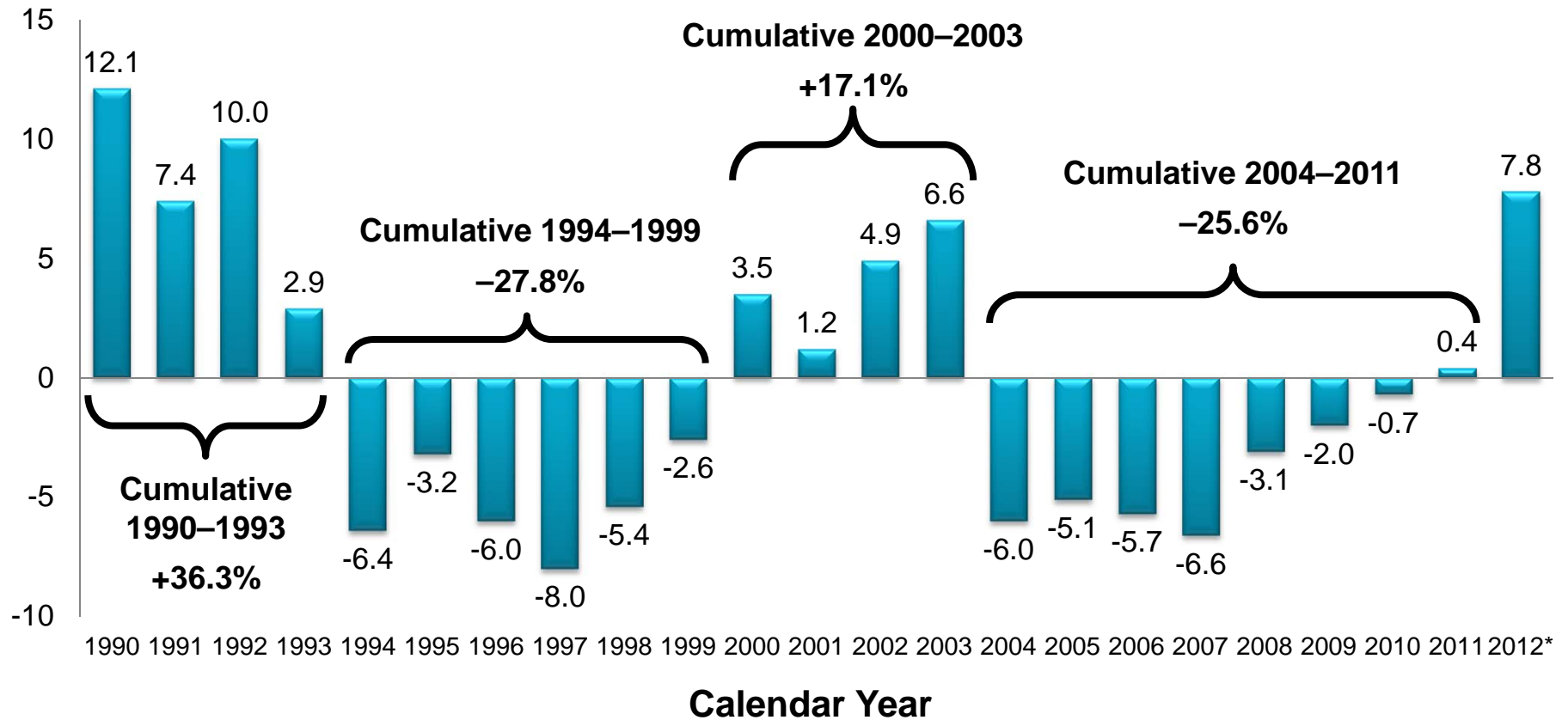
Source: 1990–2010 Private Carriers, Annual Statement Data; 2011, NCCI
 1996–2011 State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 State Funds available for 1996 and subsequent



Countrywide Average Approved Bureau Rates/Loss Costs

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

Percent



* Preliminary

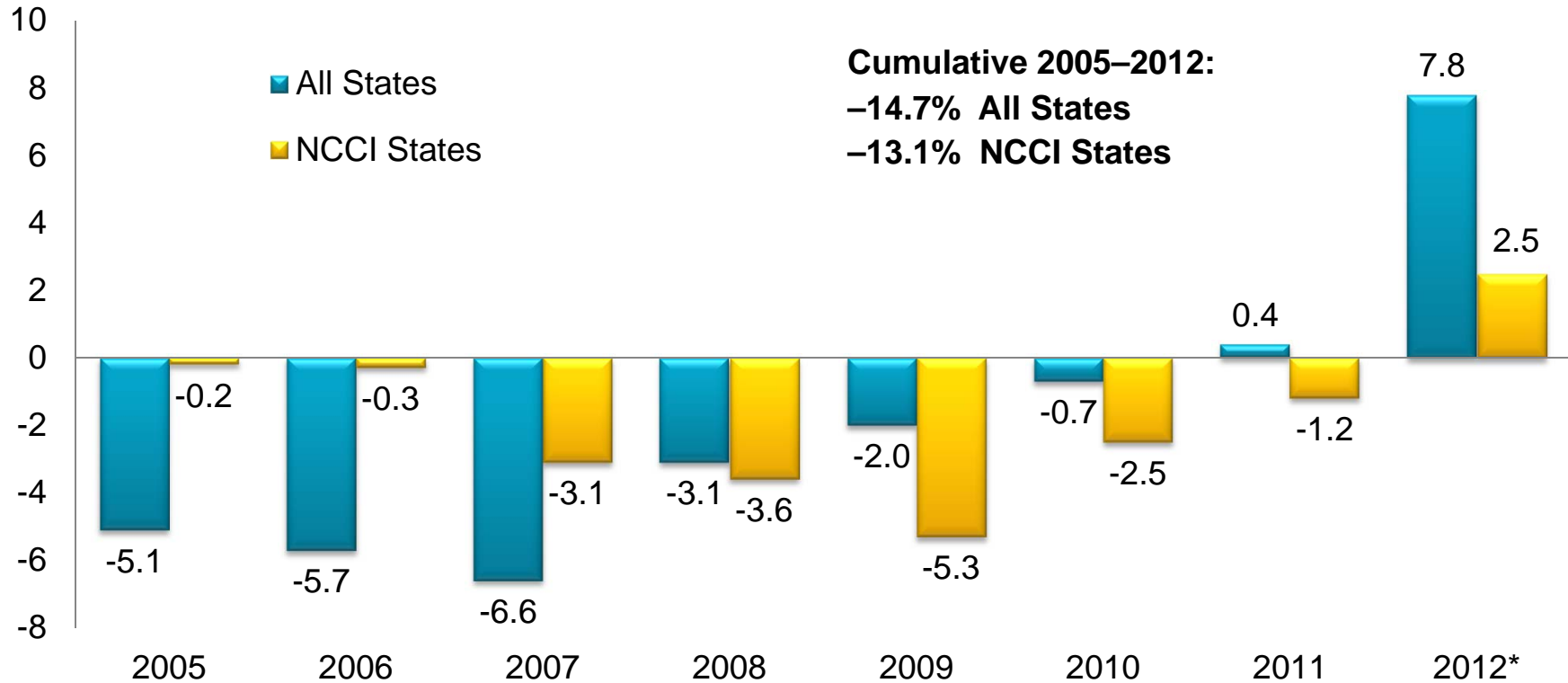
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously filed rates



Countrywide Average Approved Bureau Rates/Loss Costs

All States vs. NCCI States

Percent



Calendar Year

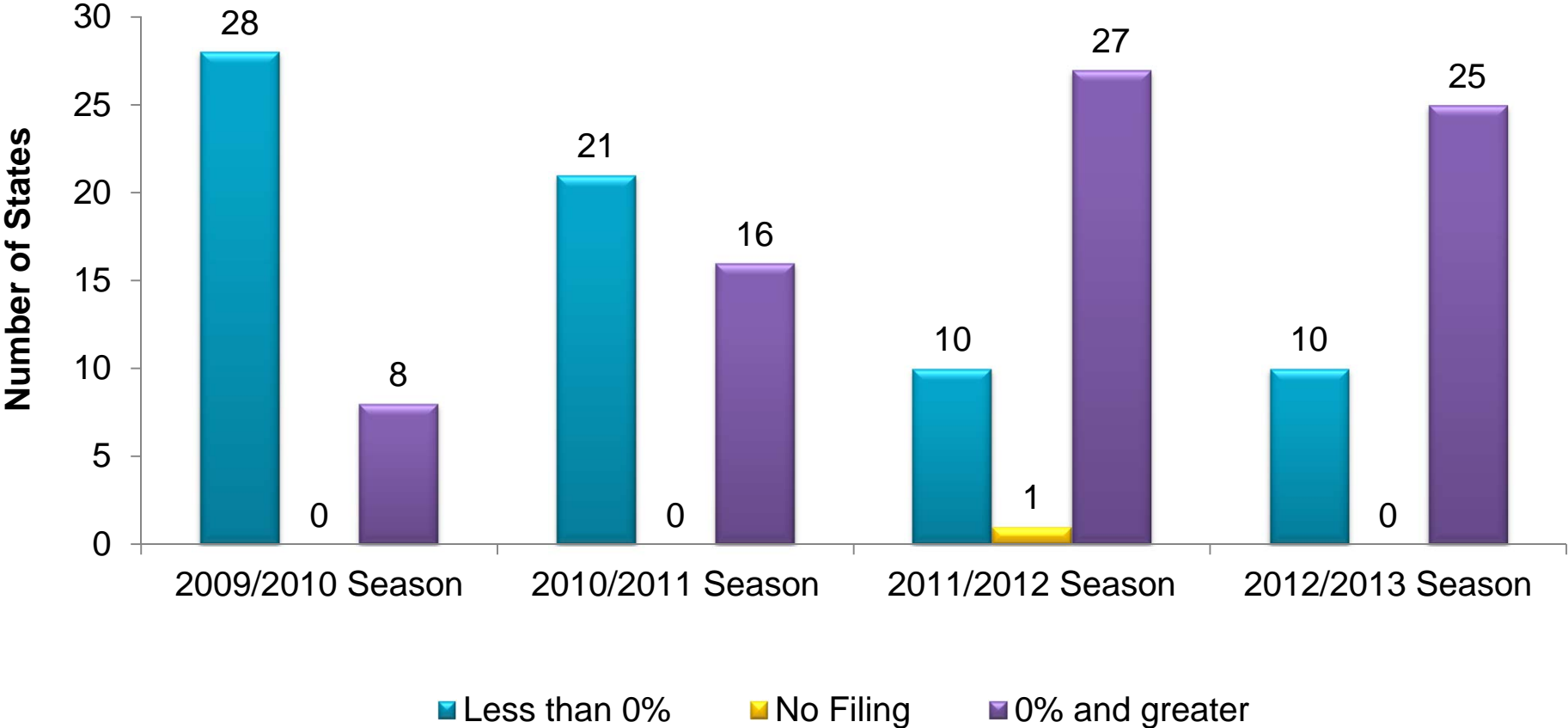
* Preliminary

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

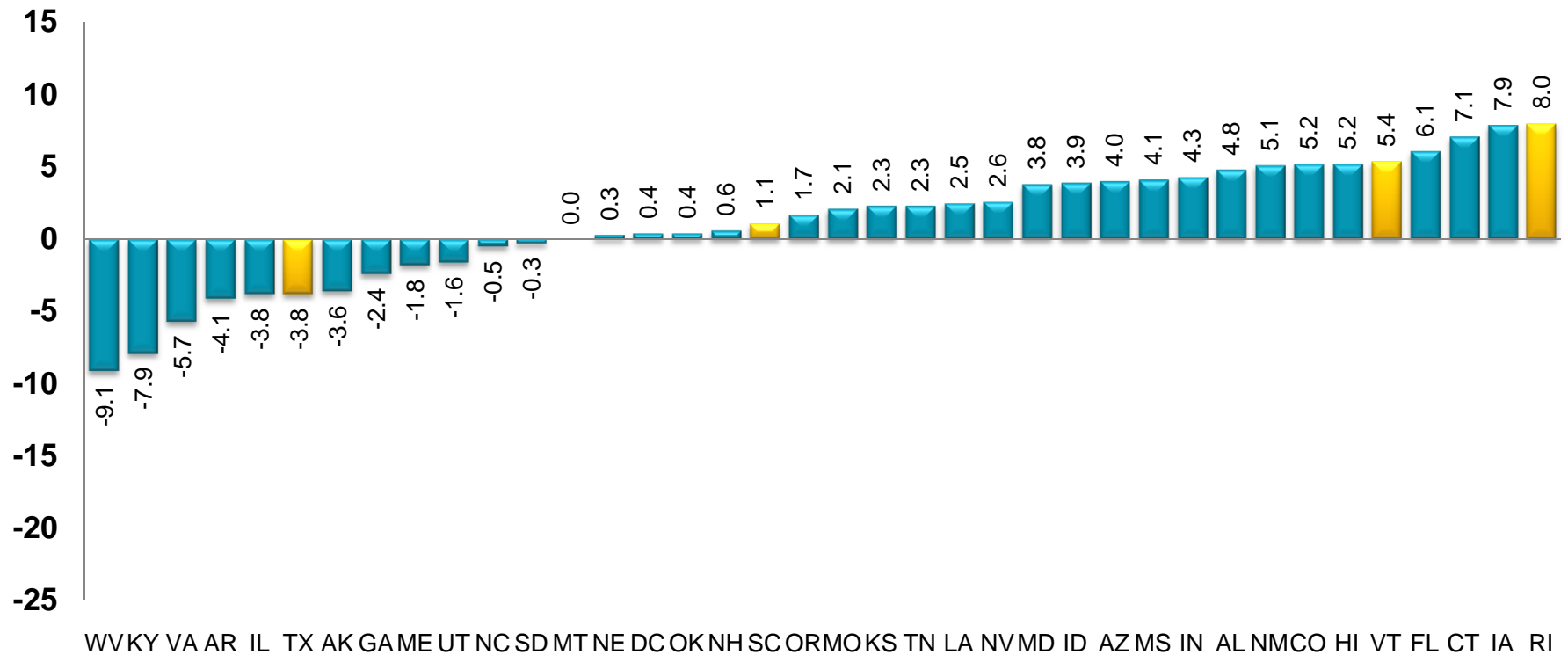
Voluntary Market Filings



Current NCCI Voluntary Market Rate/Loss Cost Level Changes

Excludes Law-Only Filings

Percent



■ Approved ■ Pending

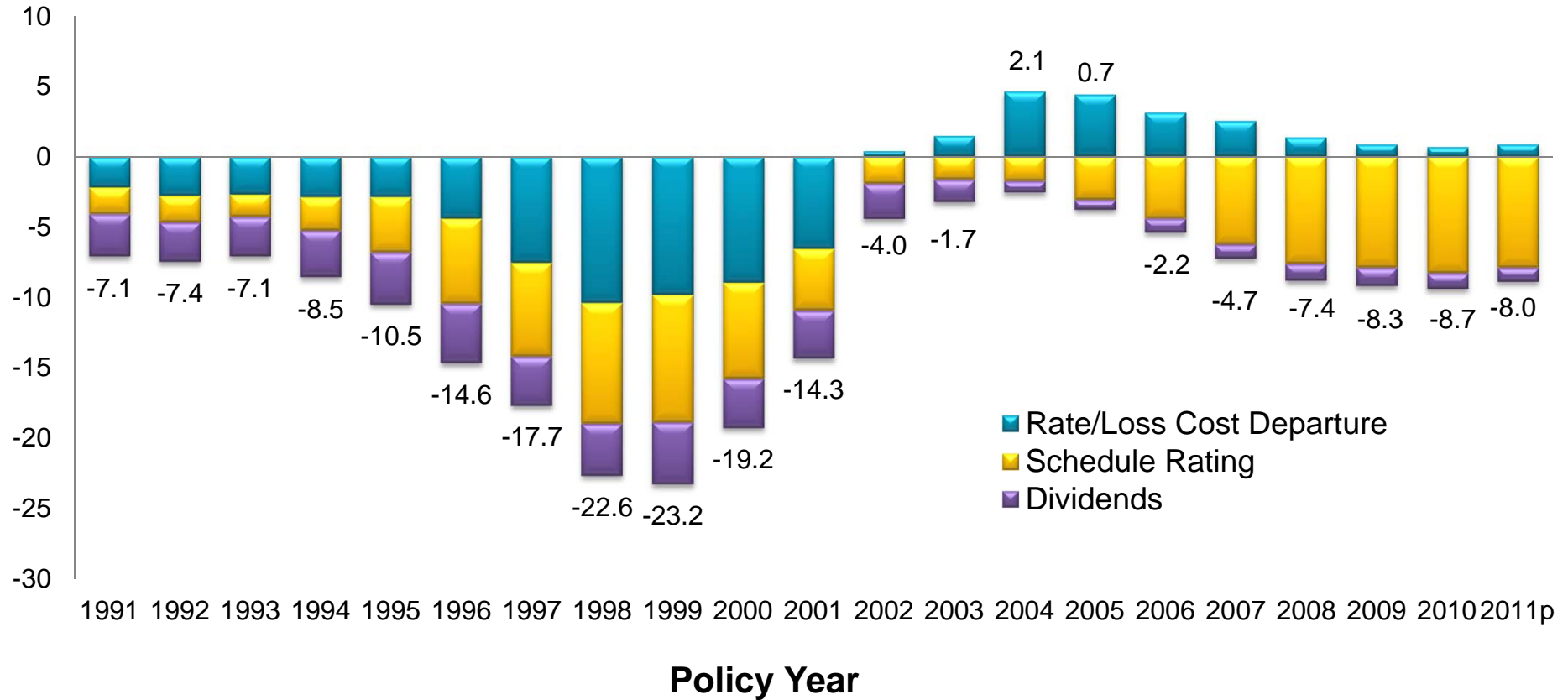
Reflects the most recent experience filing in each jurisdiction



Countrywide Impact of Discounting on Workers Compensation Premium

Percent

NCCI States—Private Carriers

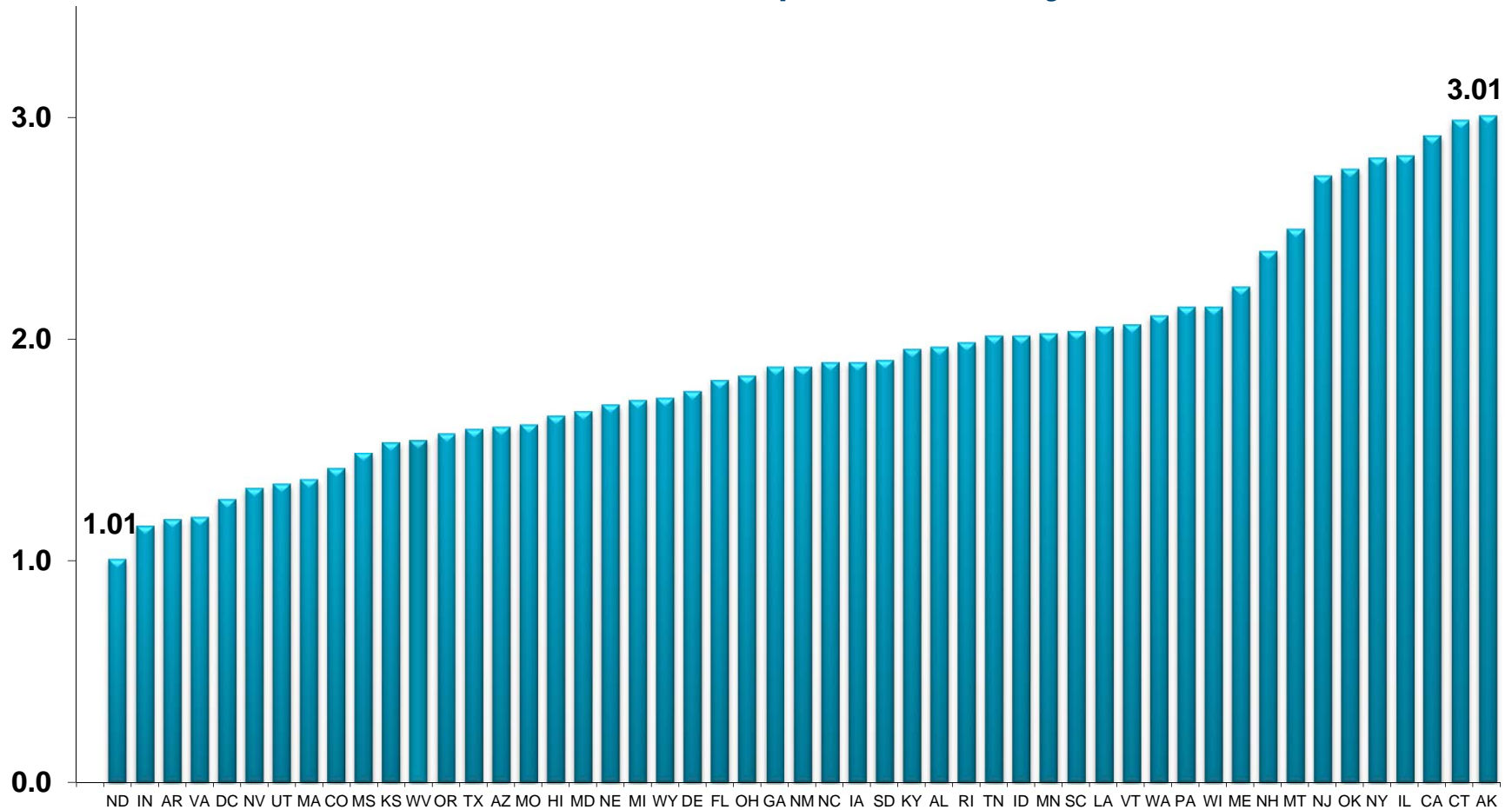


p Preliminary
 Dividend ratios are based on calendar year statistics
 NCCI benchmark level does not include an underwriting contingency provision
 Based on data through 12/31/2011 for the states where NCCI provides ratemaking services



Workers Compensation Premium Rate Ranking

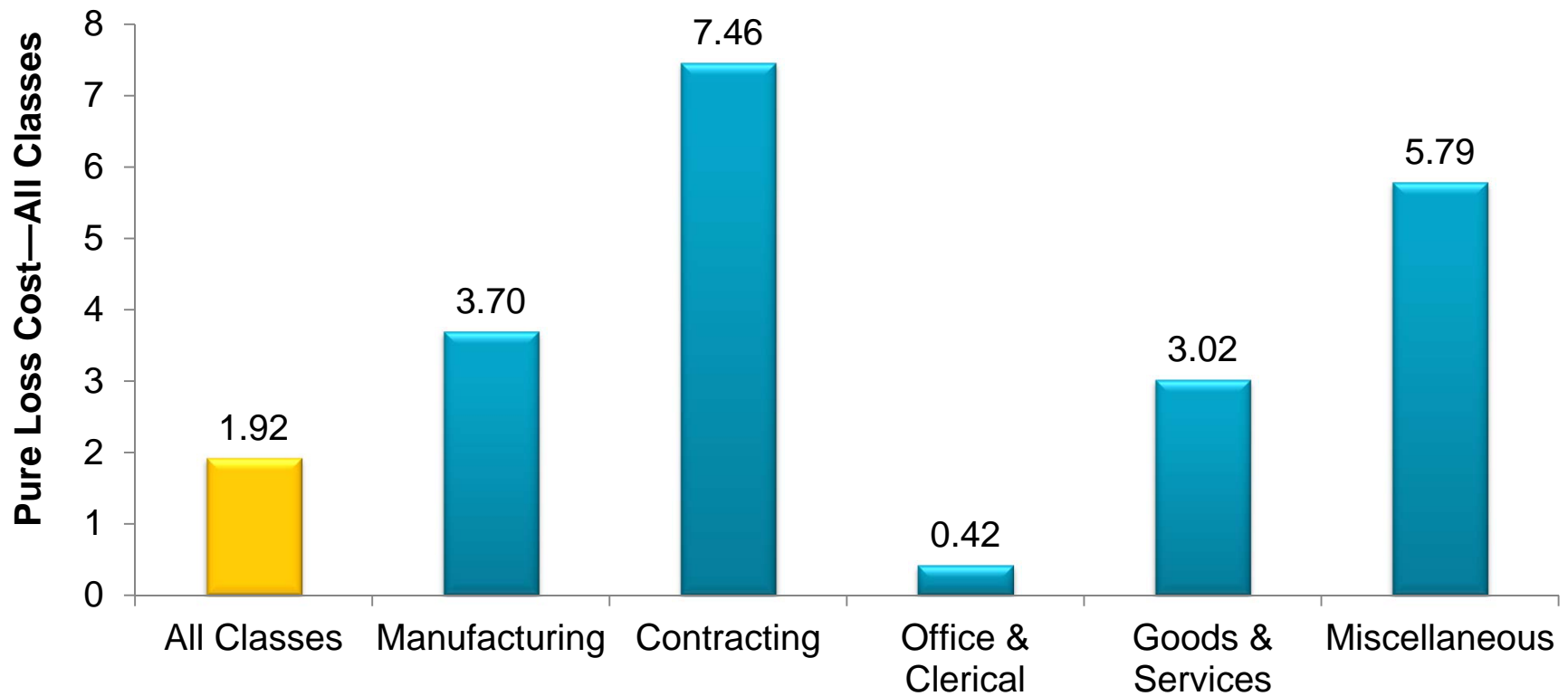
Premium Rate Index per \$100 of Payroll



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



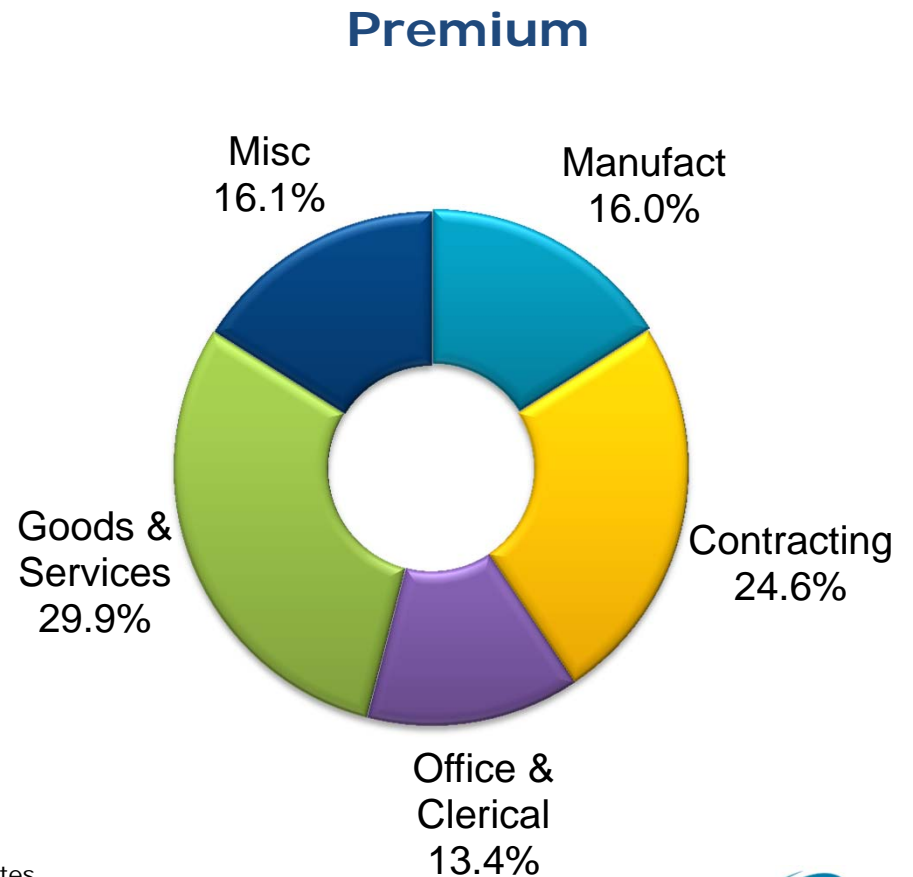
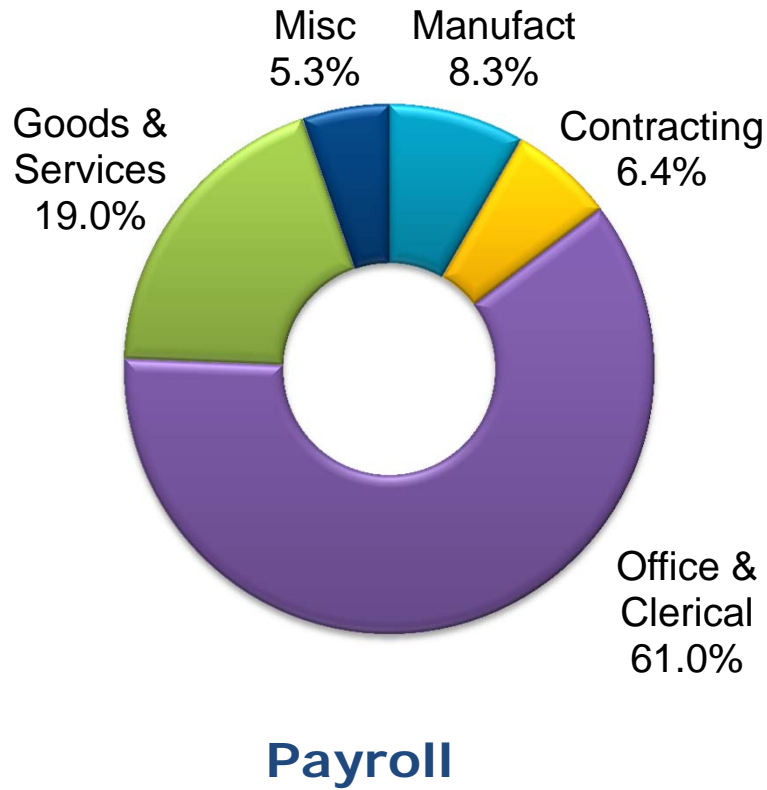
Countrywide Average Rates by Industry Group



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



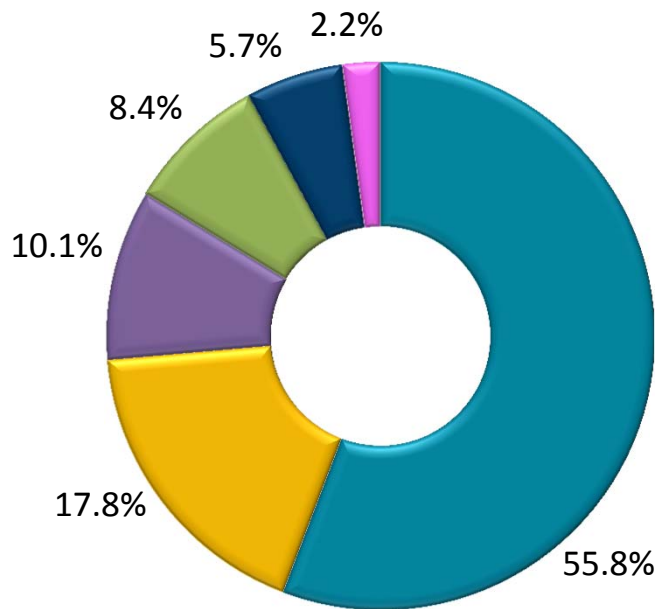
Countrywide Distribution of Payroll and Premium by Industry Group



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

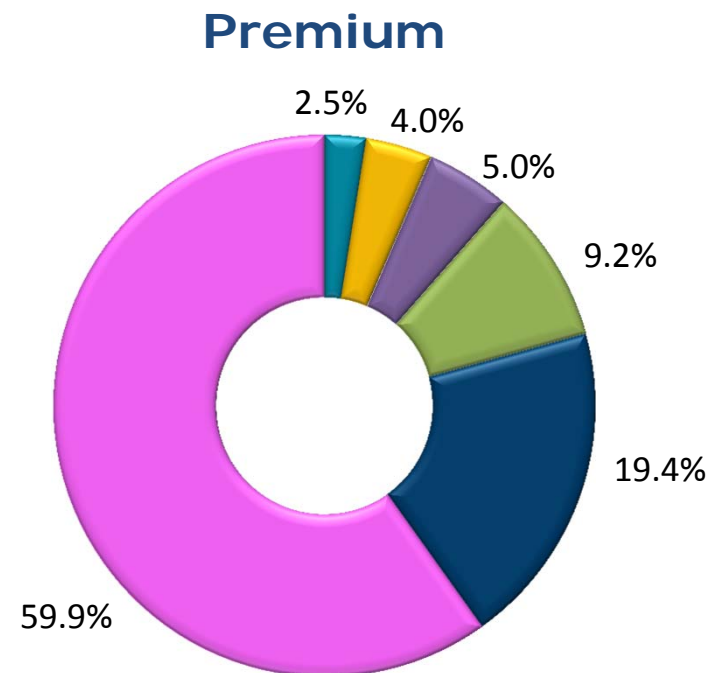


Countrywide Policy Size Comparison by Policy Count and Premium



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



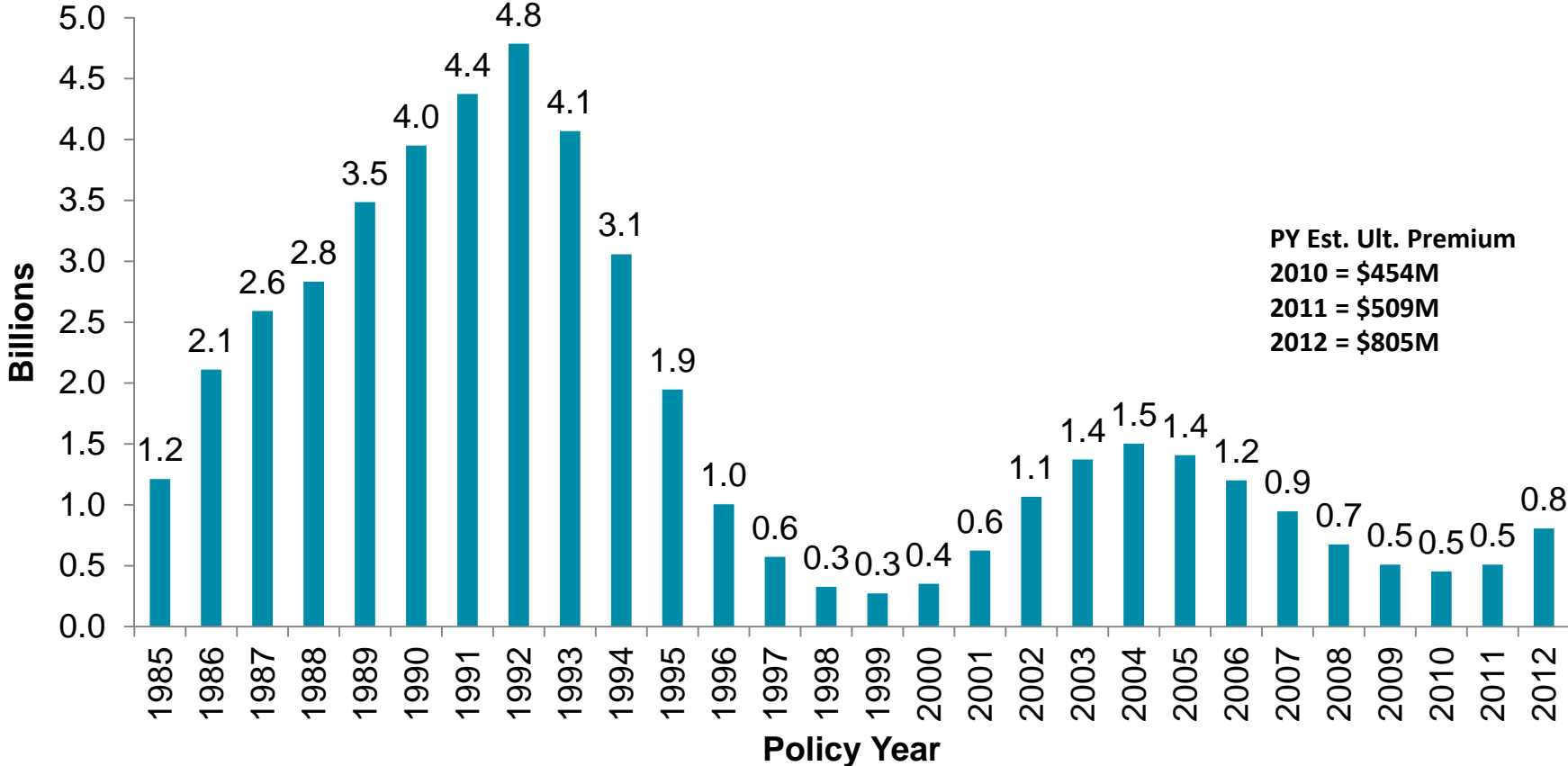
Premium

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.



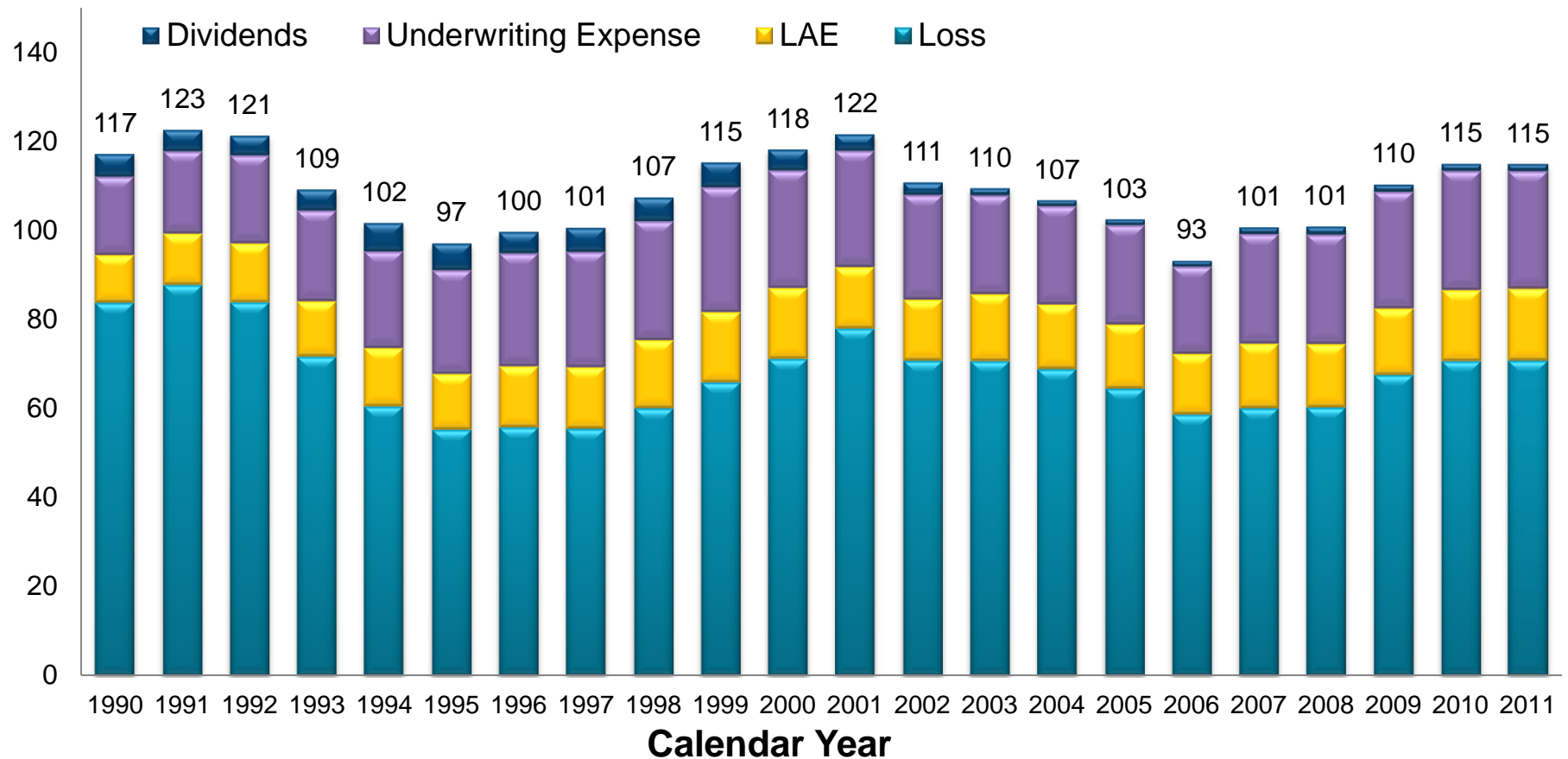


Workers Compensation Combined Ratios

Countrywide Workers Compensation Calendar Year Combined Ratio Remains High

Private Carriers

Percent



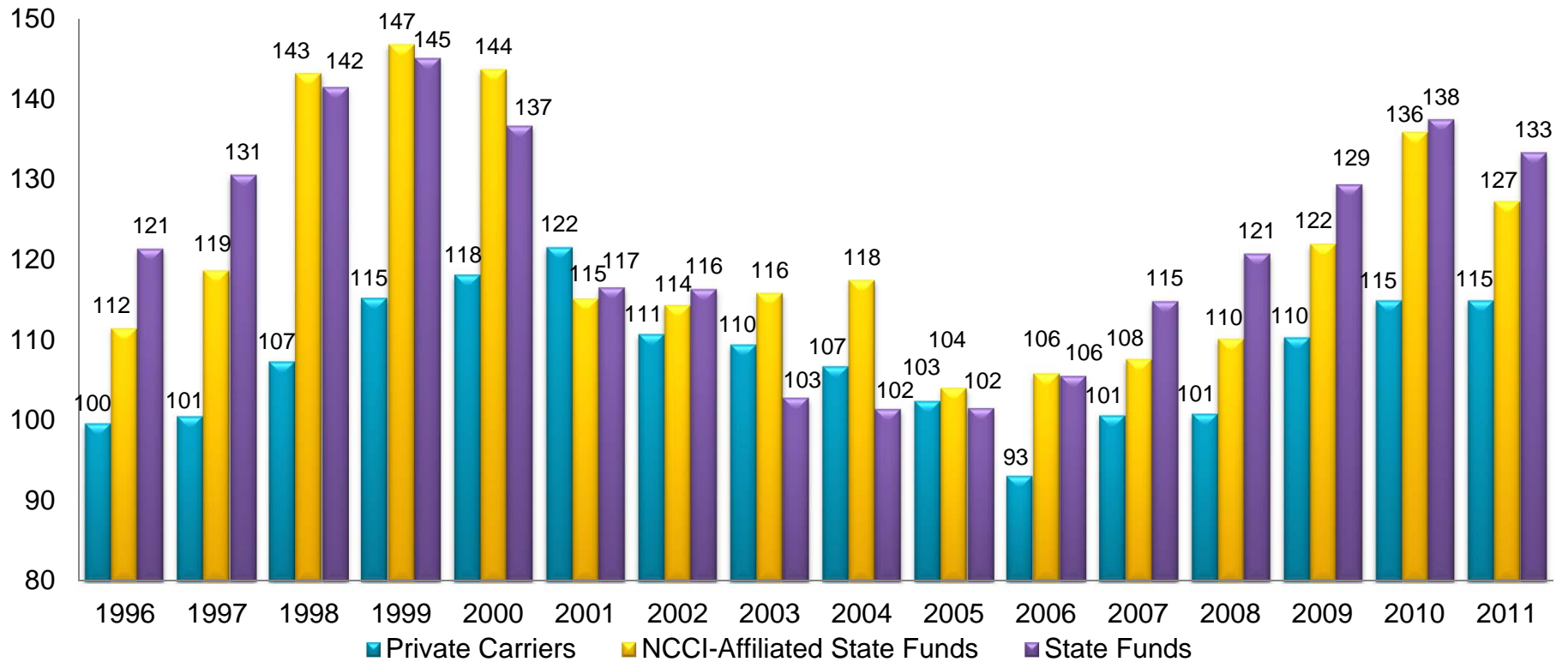
Source: 1990–2011, Annual Statement Data



Countrywide Workers Compensation Calendar Year Net Combined Ratios

Private Carriers and State Funds

Percent



Calendar Year

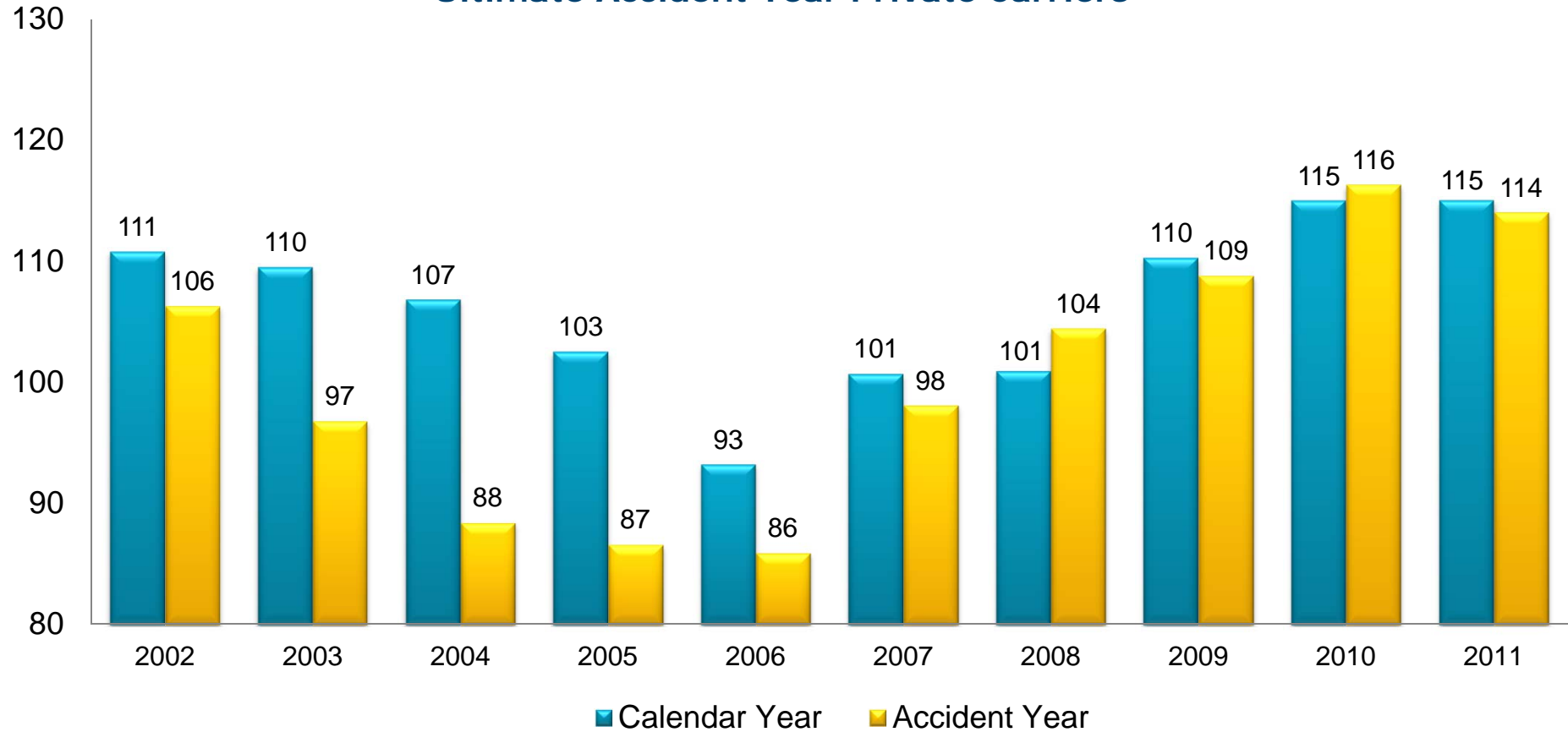
Source: 1996–2011 Private Carriers, Annual Statement Data
 1996–2011 NCCI-Affiliated State Funds: AZ, CO, HI, ID, KY, LA, MO, MT, NM, OK, OR, RI, UT Annual Statements
 1996–2011 State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements



Countrywide Accident Year Net Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year Private Carriers

Percent

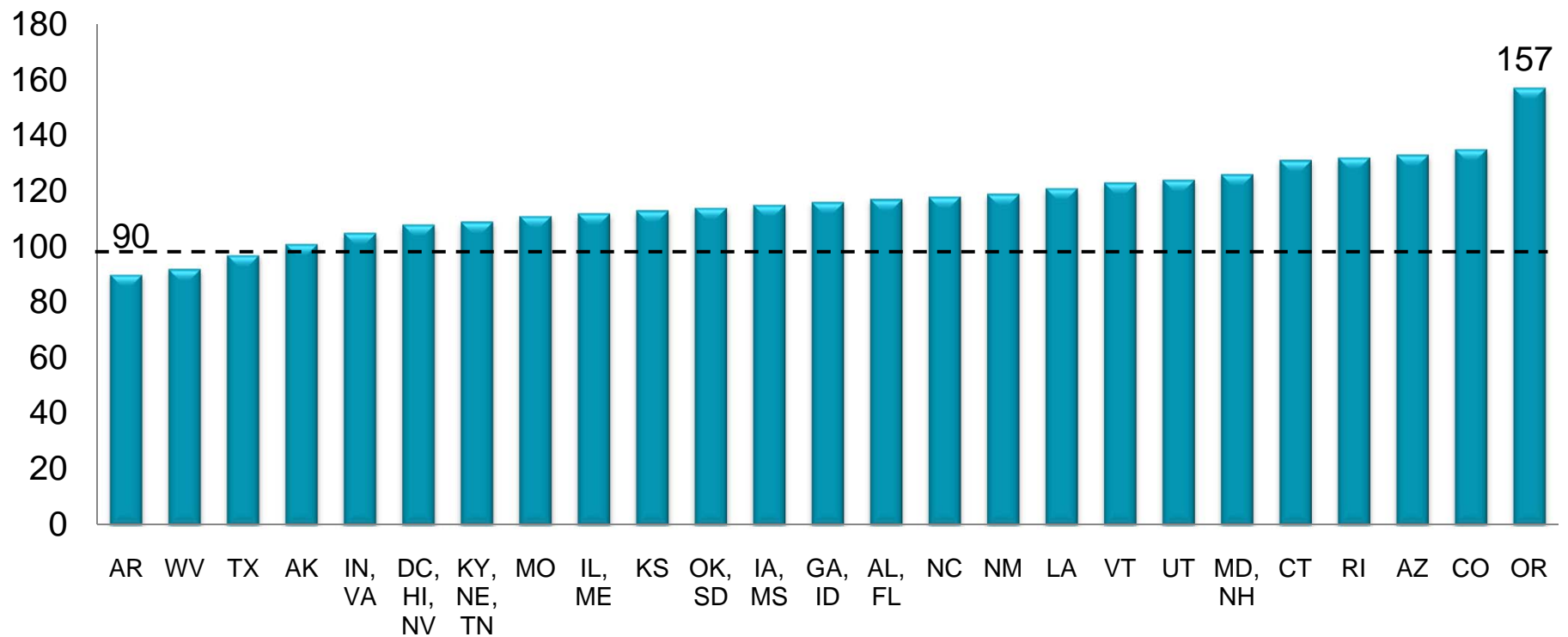


Accident Year data is evaluated as of 12/31/2011 and developed to ultimate
 Source: Calendar Years 2002–2011, Annual Statement Data;
 Ultimate Accident Years 2001–2011, NCCI analysis based on Annual Statement Data
 Includes dividends to policyholders



Results Vary From State to State

Accident Year 2011 Combined Ratios



Data is evaluated as of 12/31/2011



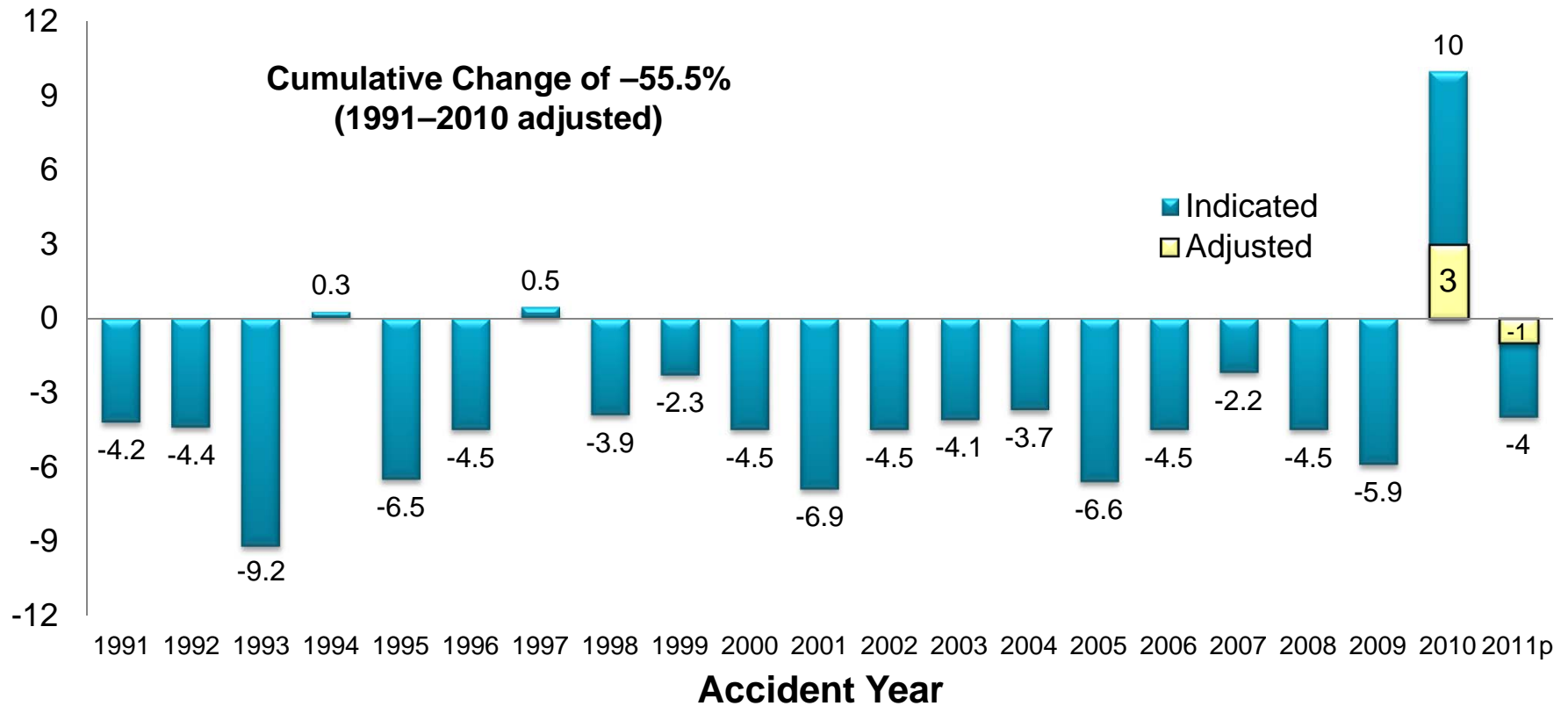


Claim Frequency

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



Adjustments to Indicated Change in Lost-Time Claim Frequency

Accident Year 2010 & 2011

Estimated Adjustments to Frequency Change

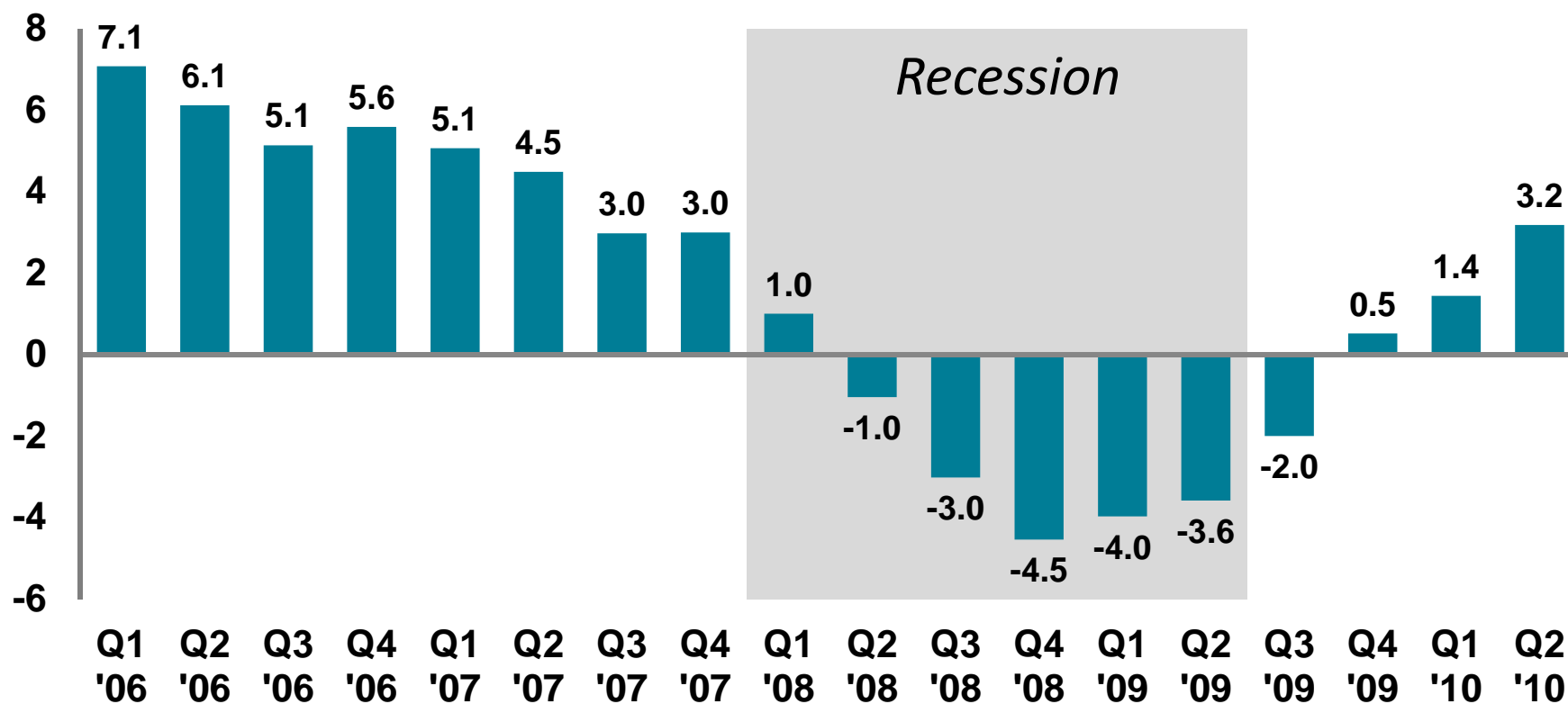
	2010	2011
Unadjusted Frequency Change	+10%	-4%
CY Premium Adjustment	-6%	+4%
Workweek and Industry Group Mix	-1%	-1%
<hr/>		
Adjusted Frequency Change	+3%	-1%



The Recession Impacted Premium Audits

Final Premium vs. Estimated Premium by Policy Effective Quarter

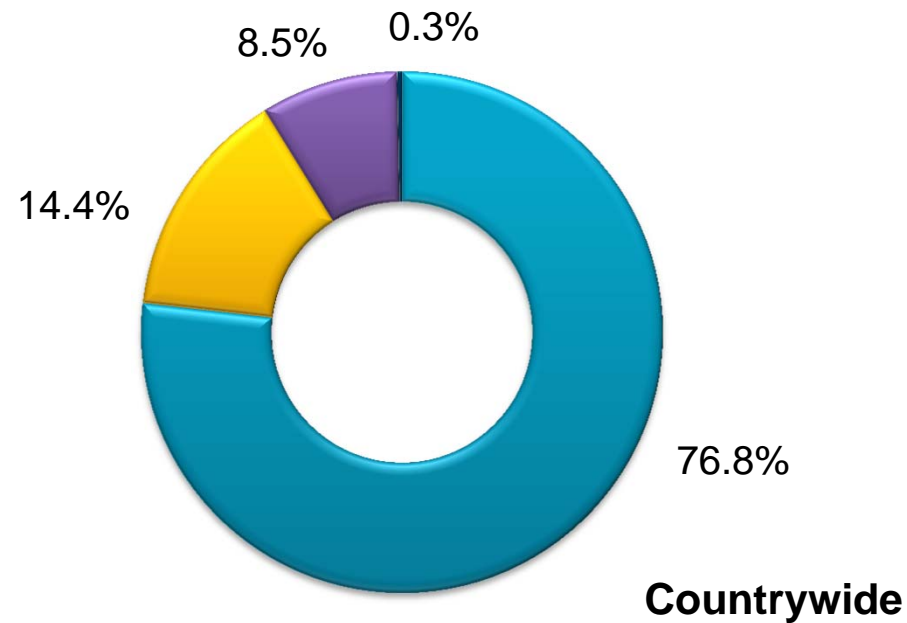
Percent



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



Countrywide Distribution of Claims by Injury Type



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

Based on NCCI's *Statistical Plan* data



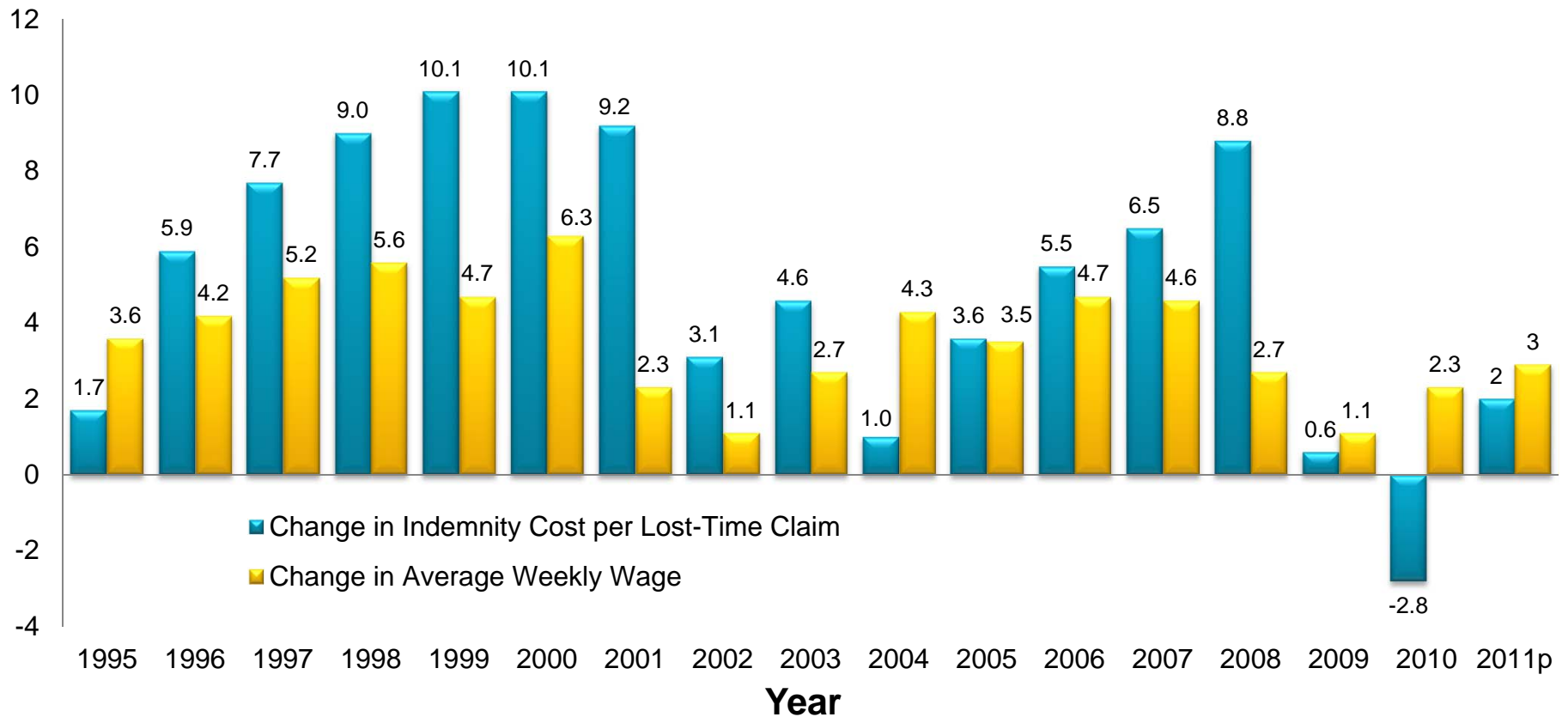


Indemnity Severity

Countrywide Workers Compensation Indemnity Severity— Modest Increase in 2011

Percent Change

Average Indemnity Cost per Lost-Time Claim



p Preliminary

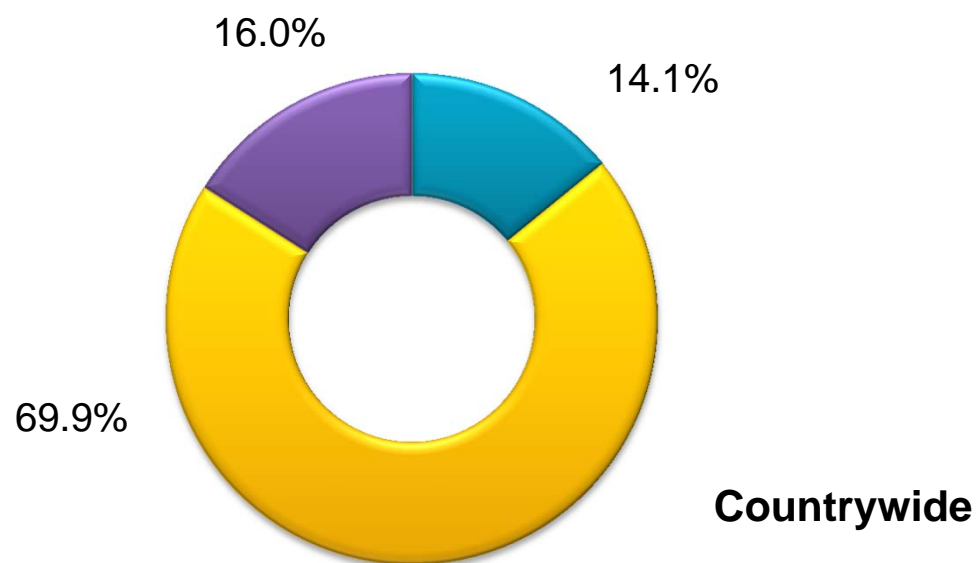
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

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



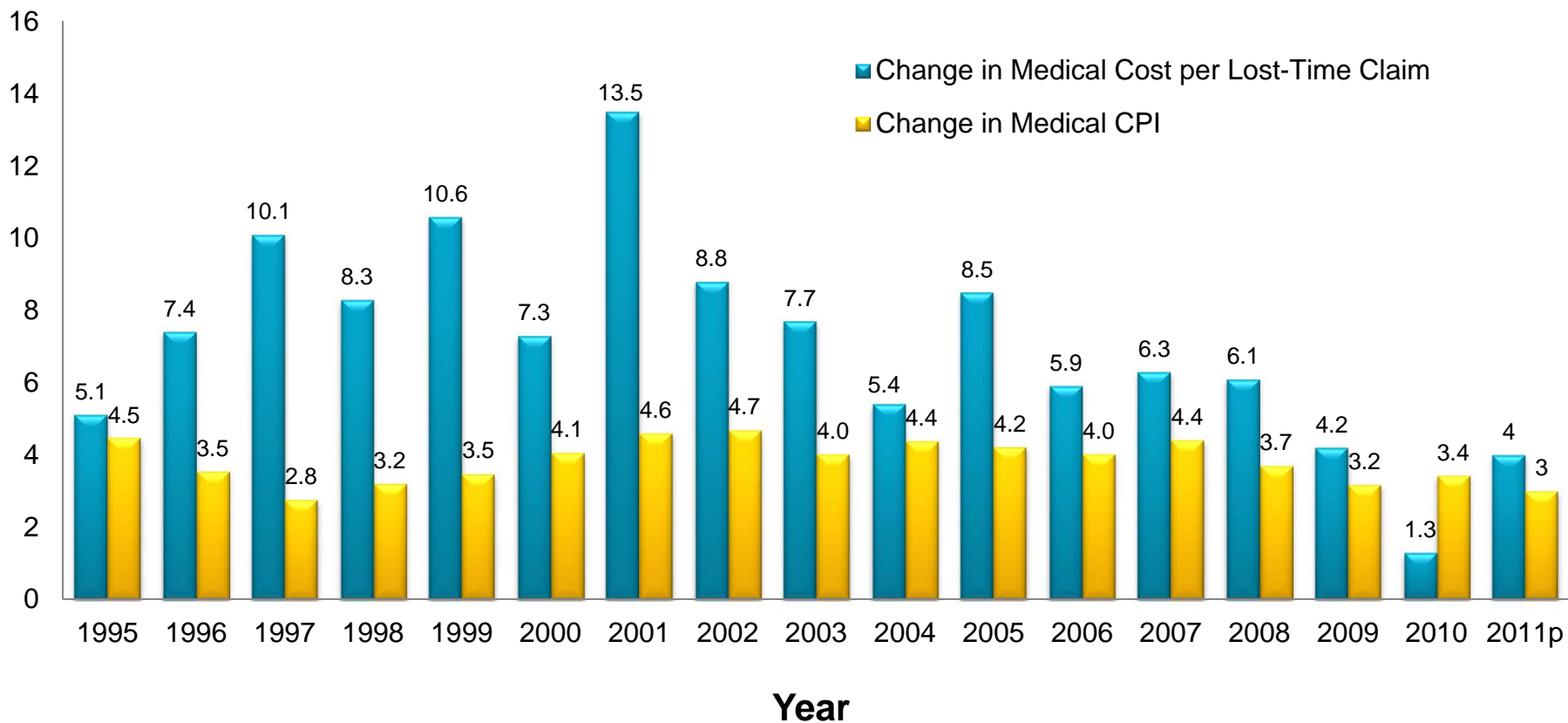


Medical Severity

Countrywide Workers Compensation Medical Severity—Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Percent Change



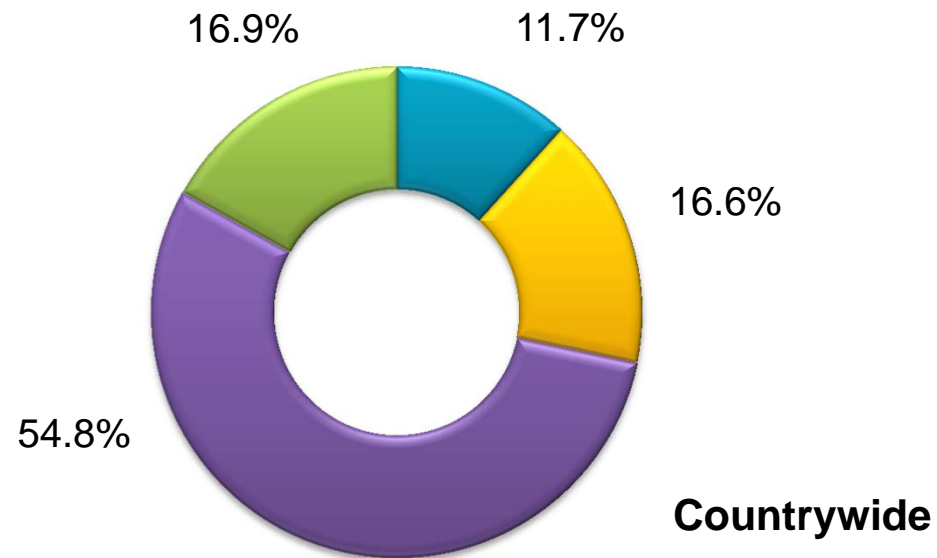
p Preliminary

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: Initial Split Point Results

Background

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



Preliminary Mods and Final Mods

- In 2012, Preliminary mods are computed using:
 - 3-years of updated actual losses for employers
 - Current approved split point (\$5,000)
 - Current approved Expected Loss Rates (ELR)
 - Current approved D-ratio, Weights, & Ballasts
- Upon approval, Final mods are 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





Thank You!