



WC-3:

Workers Compensation – State of the Market

Presented by:

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Director & Senior Actuary, NCCI*

CAS RPM Seminar
March 31, 2014
Washington, D.C.

Agenda

- Premium
- Combined Ratios
- Claim Frequency
- Indemnity Severity
- Medical Severity
- 2014 Issues



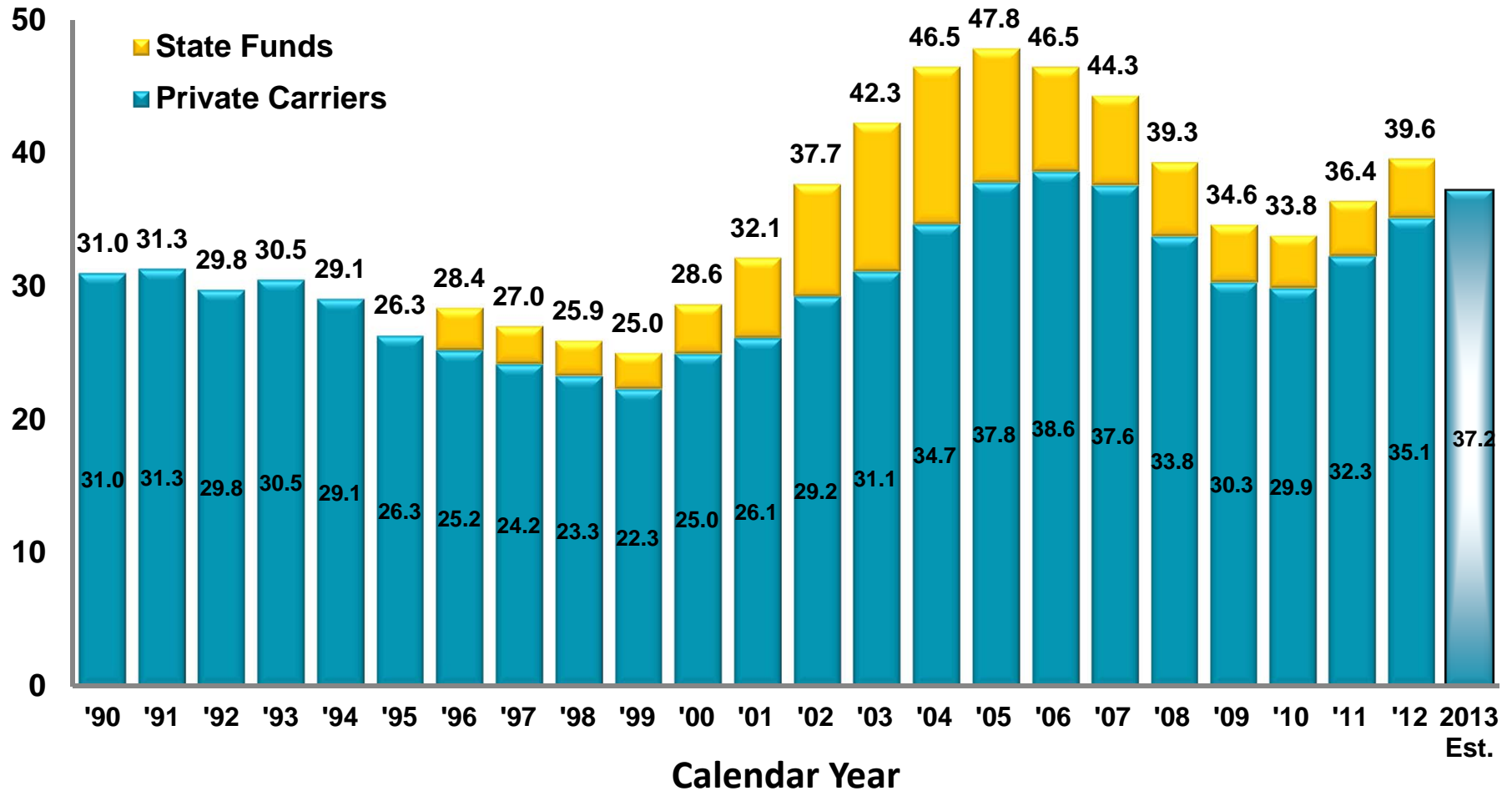


Workers Compensation Countrywide Premium

Workers Compensation Premium Continued Growth for 2013

Net Written Premium

\$ Billions

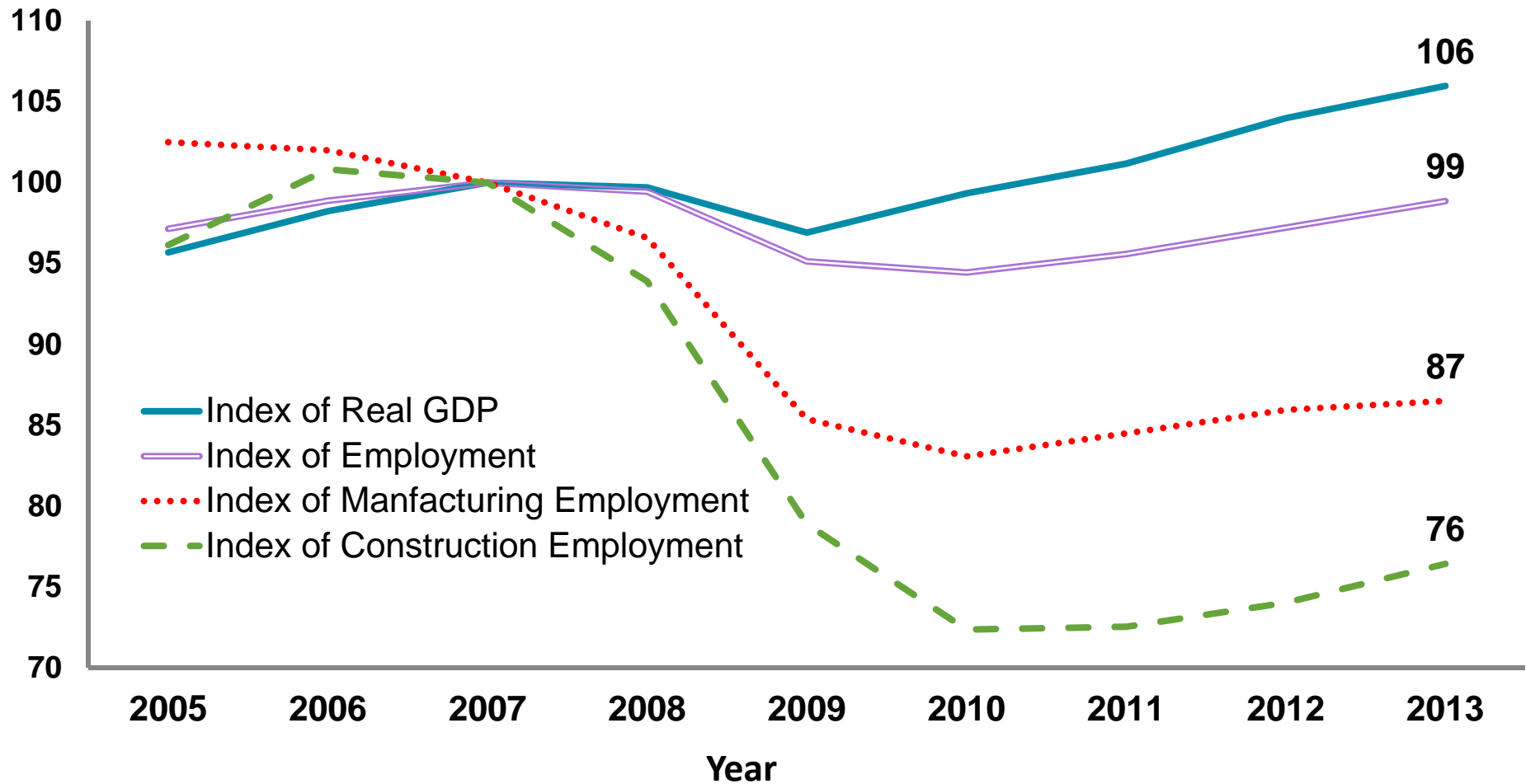


Source: 1990–2012 Private Carriers, Annual Statement Data
 1996–2012 State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
 2013 Est, NCCI estimate based on statutory data reported as of 2nd Quarter 2013



Employment Still Below Prerecession Levels

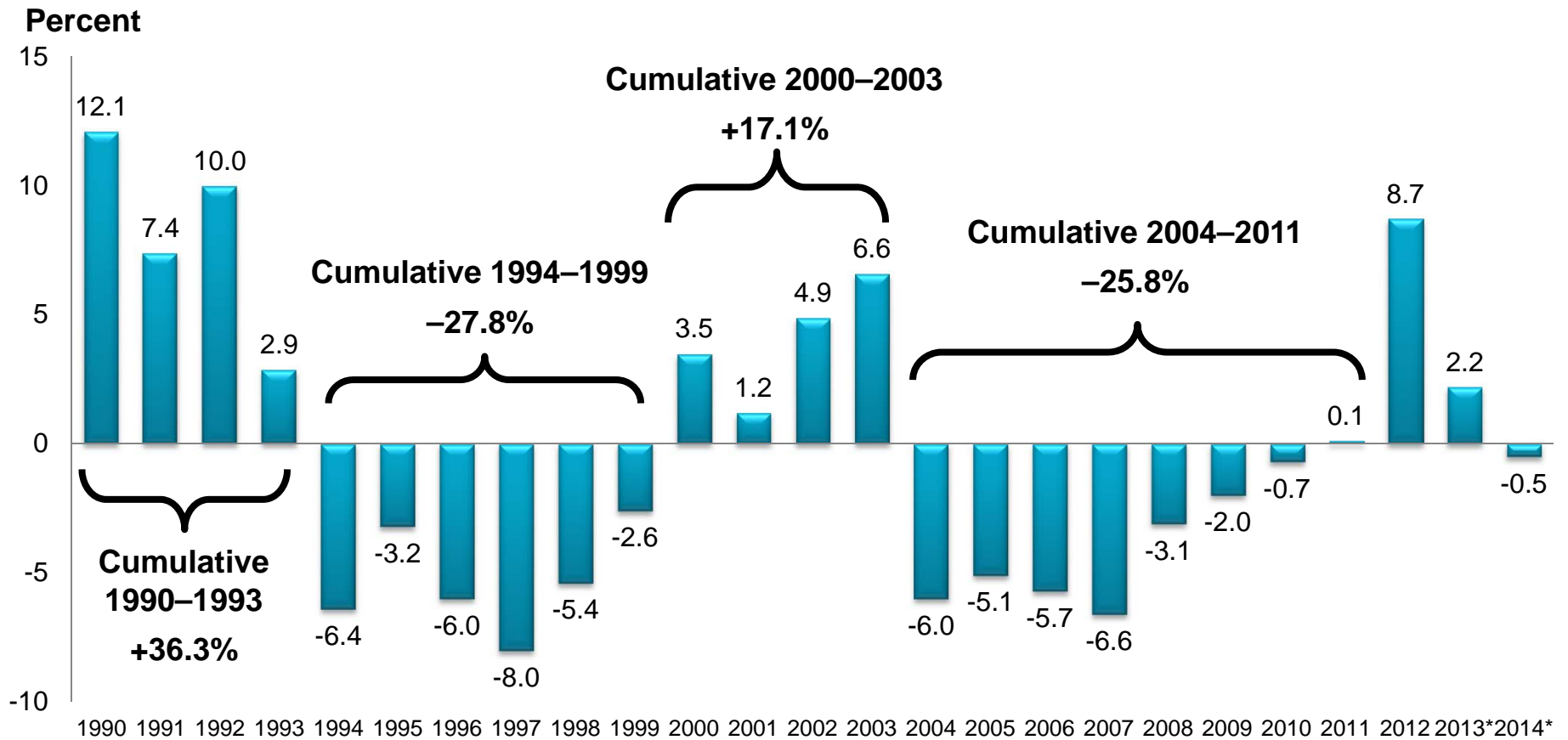
Index: 2007 = 100



Source: Bureau of Labor Statistics (BLS); Bureau of Economic Analysis (BEA).



Countrywide Average Approved Bureau Rate/Loss Cost Level Changes



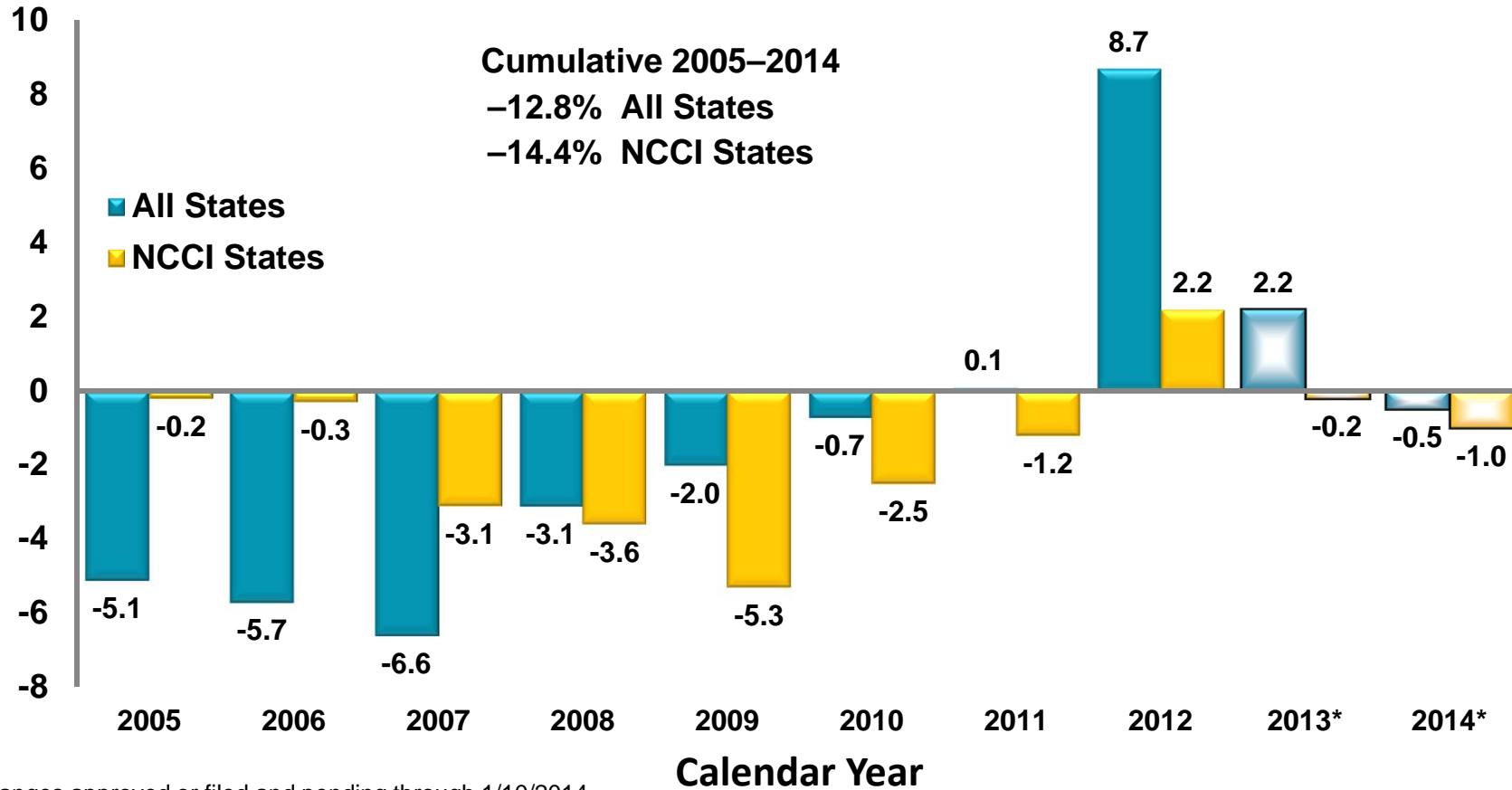
* Changes approved or filed and pending through 1/10/2014
 Countrywide changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization relative to the previously-filed rates



Average Filed Bureau Rates/Loss Costs

All States vs. NCCI States

Percent



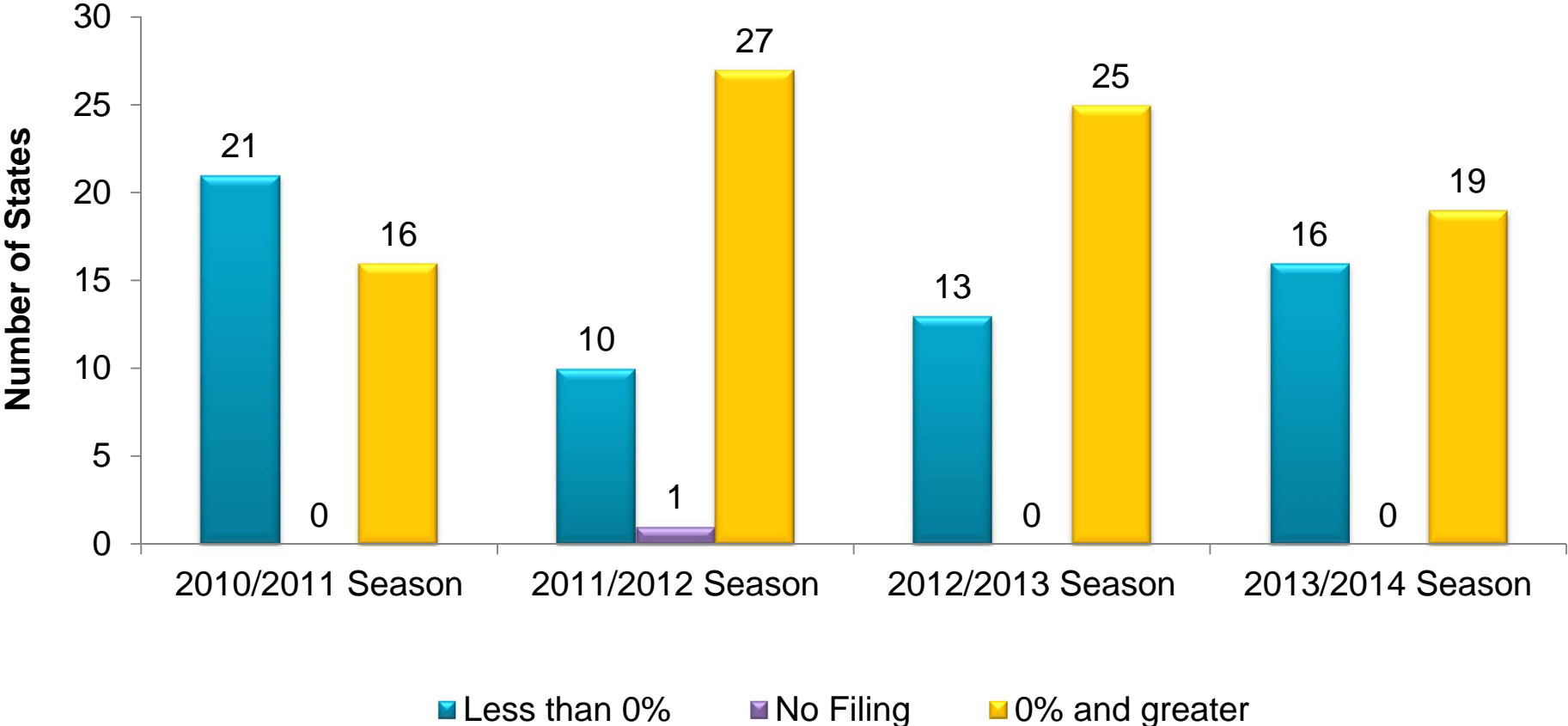
*Changes approved or filed and pending through 1/10/2014

Countrywide 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

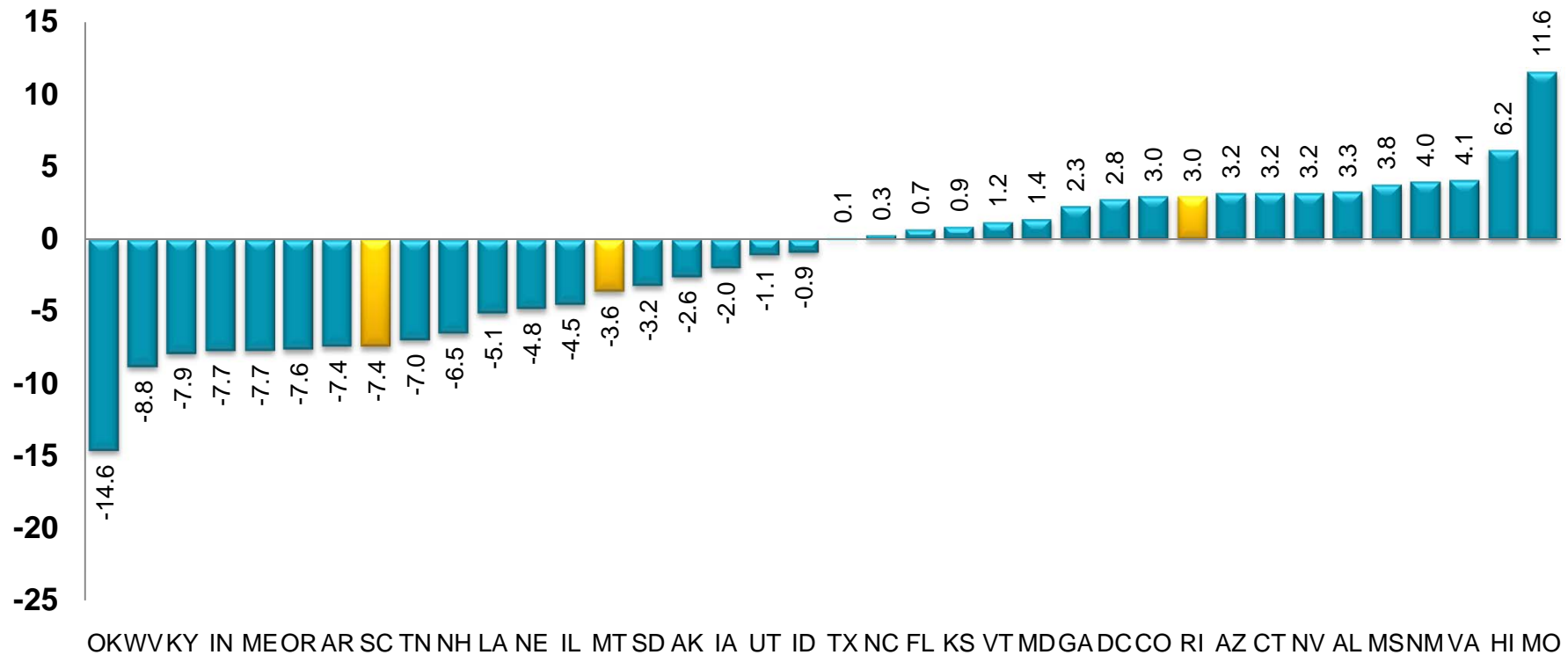
Voluntary Market Filings



Current NCCI Voluntary Market Rate/Loss Cost Level Changes

Excludes Law-Only Filings

Percent



■ Approved ■ Pending

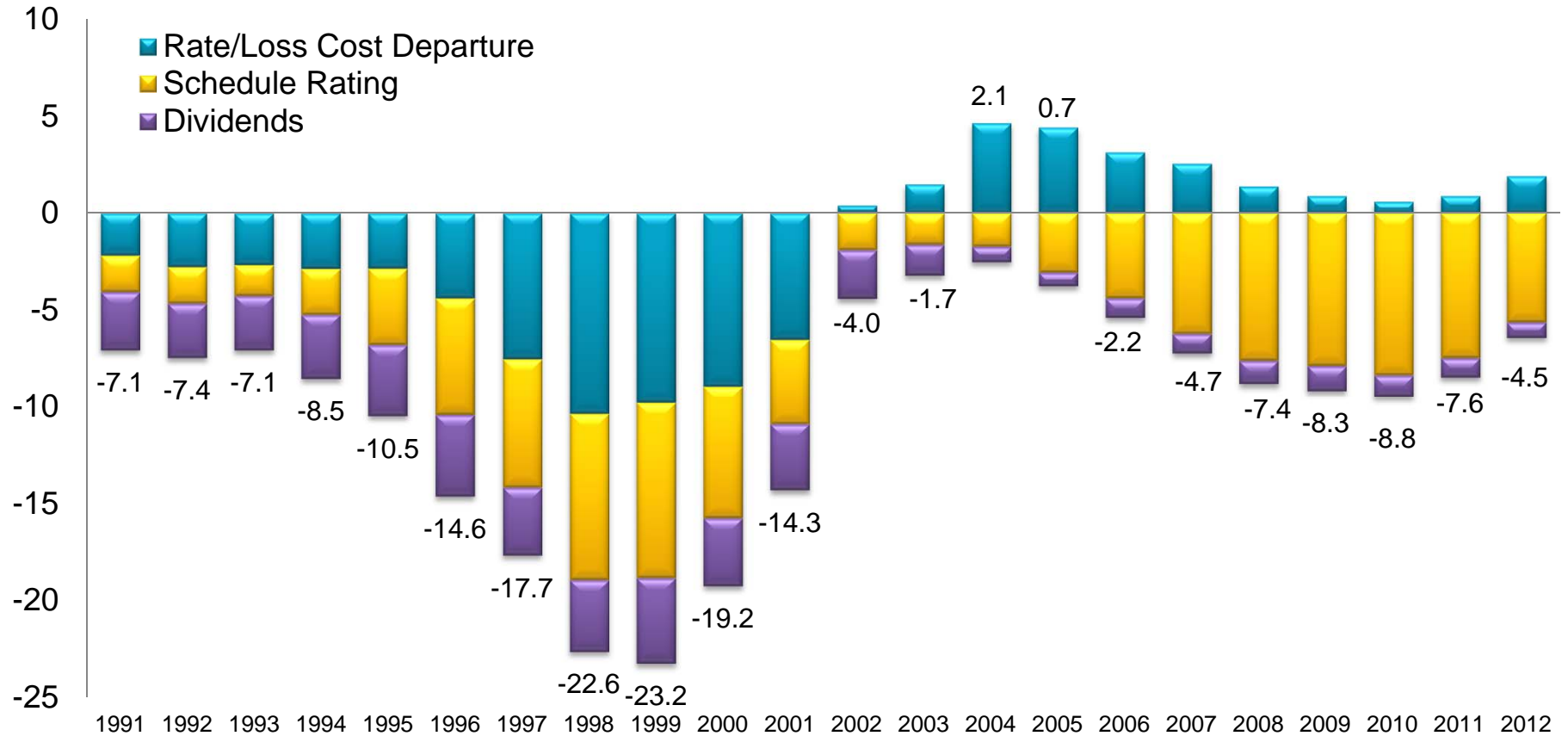
Reflects the most recent experience filing in each jurisdiction



Countrywide Impact of Discounting on Workers Compensation Premium

Percent

NCCI States—Private Carriers



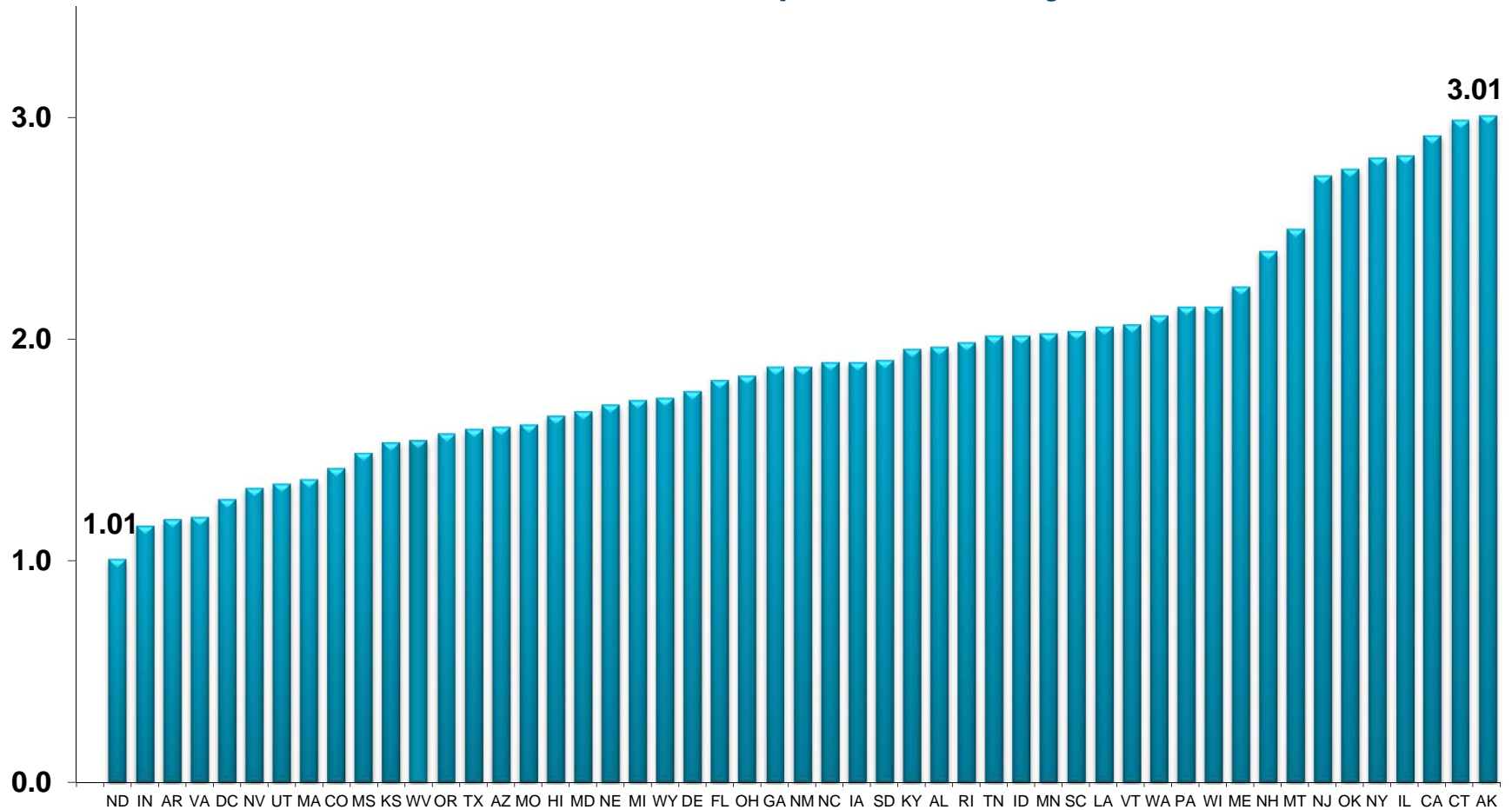
Policy Year

Dividend ratios are based on calendar year statistics
 NCCI benchmark level does not include an underwriting contingency provision
 Based on data through 12/31/2012 for the states where NCCI provides ratemaking services (excludes TX)



Workers Compensation Premium Rate Ranking

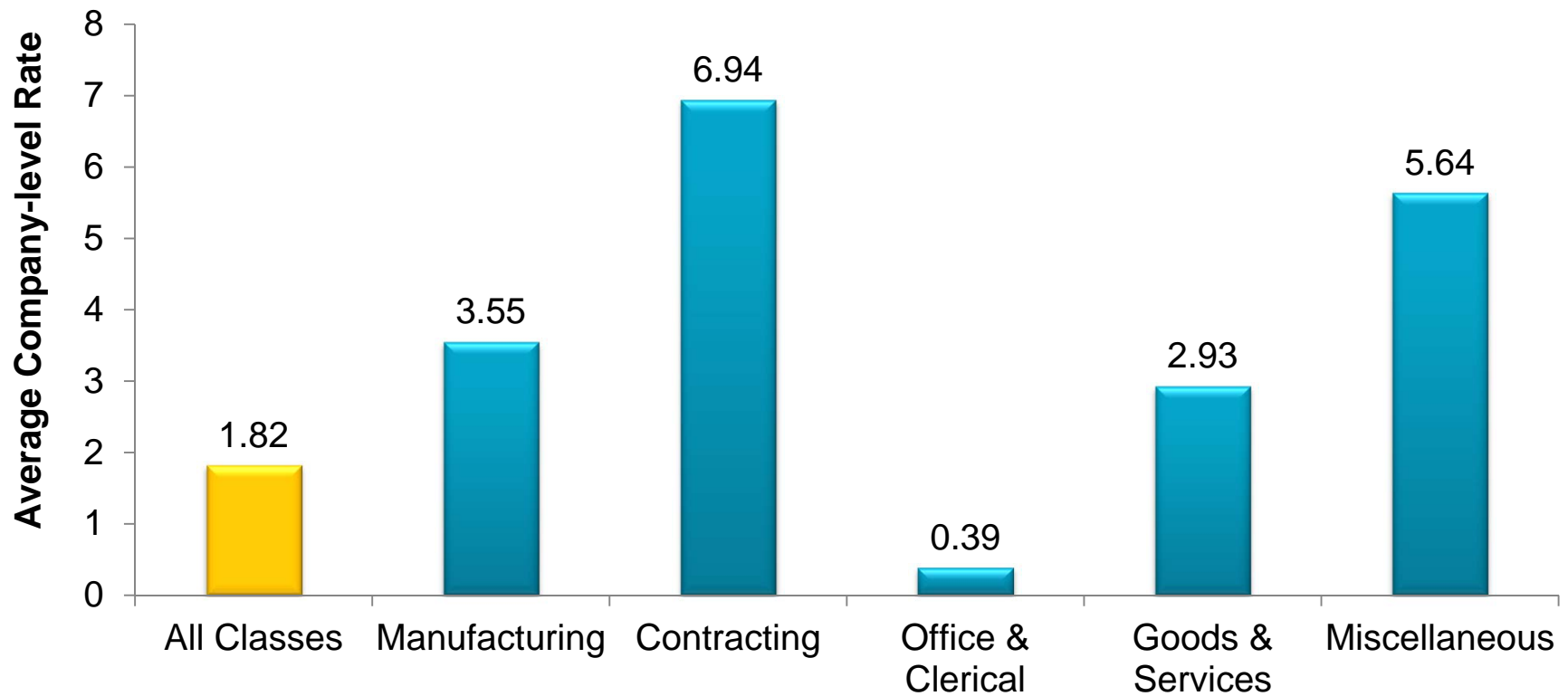
Premium Rate Index per \$100 of Payroll



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



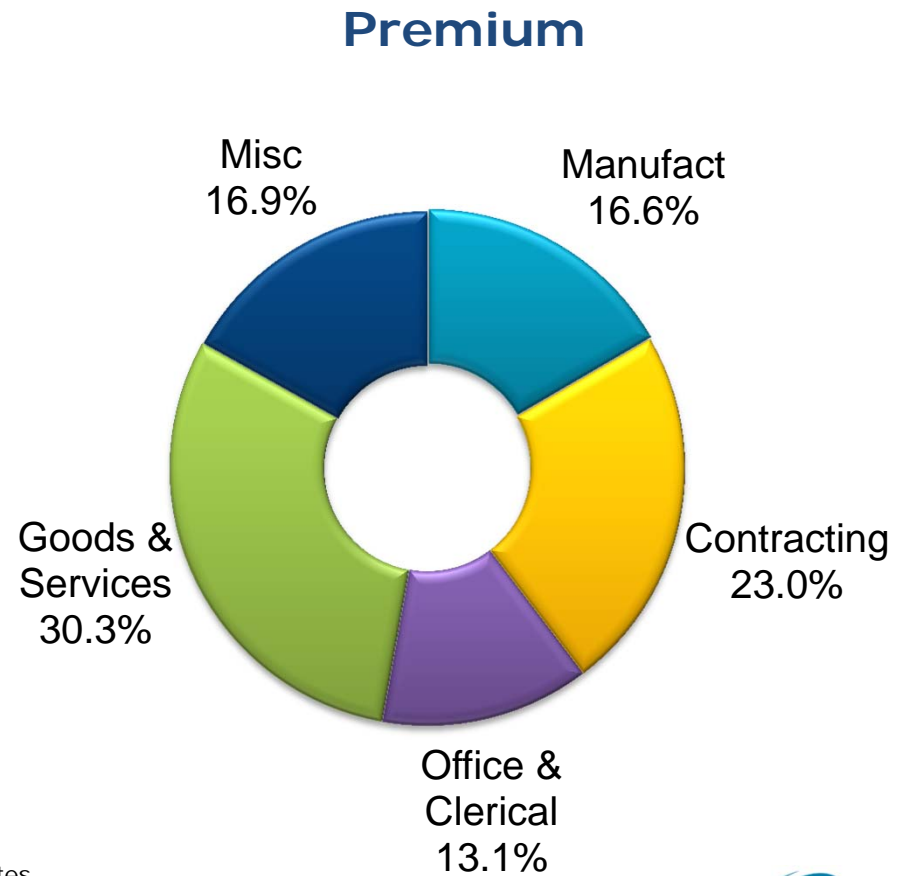
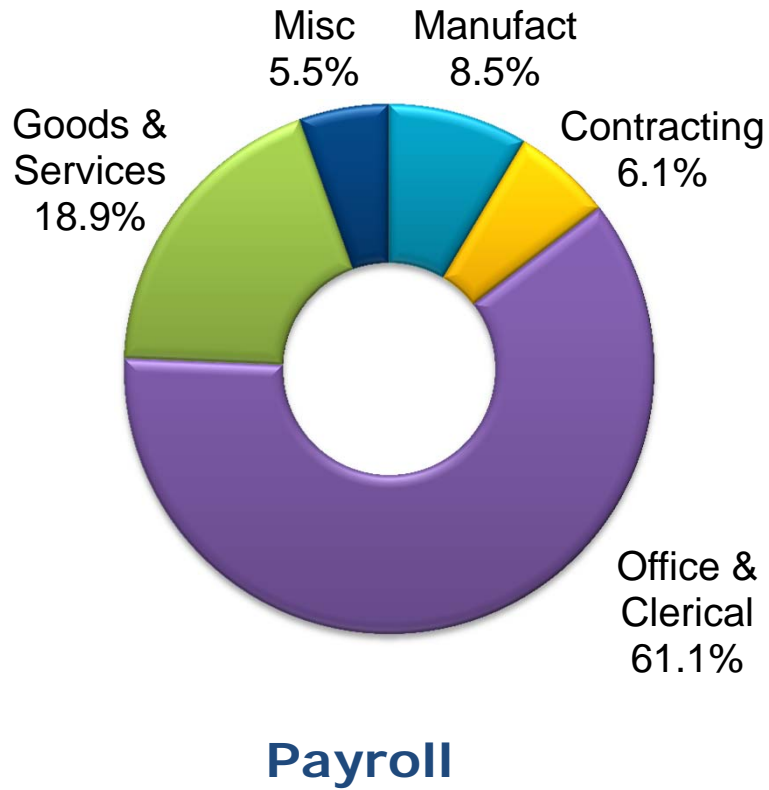
Countrywide Average Rates by Industry Group



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



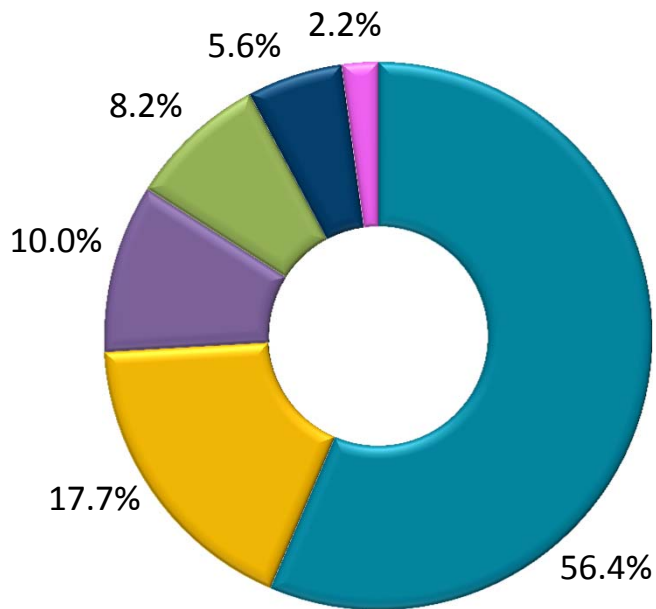
Countrywide Distribution of Payroll and Premium by Industry Group



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

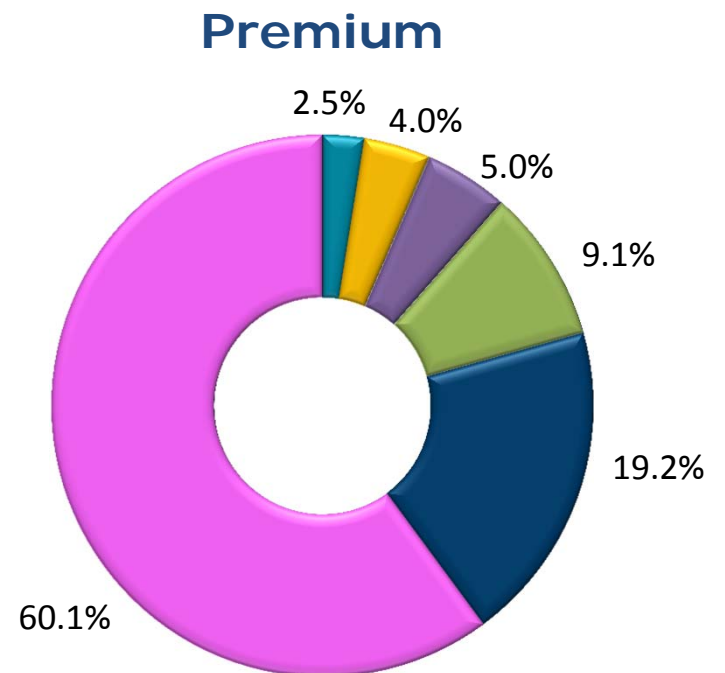


Countrywide Policy Size Comparison by Policy Count and Premium



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

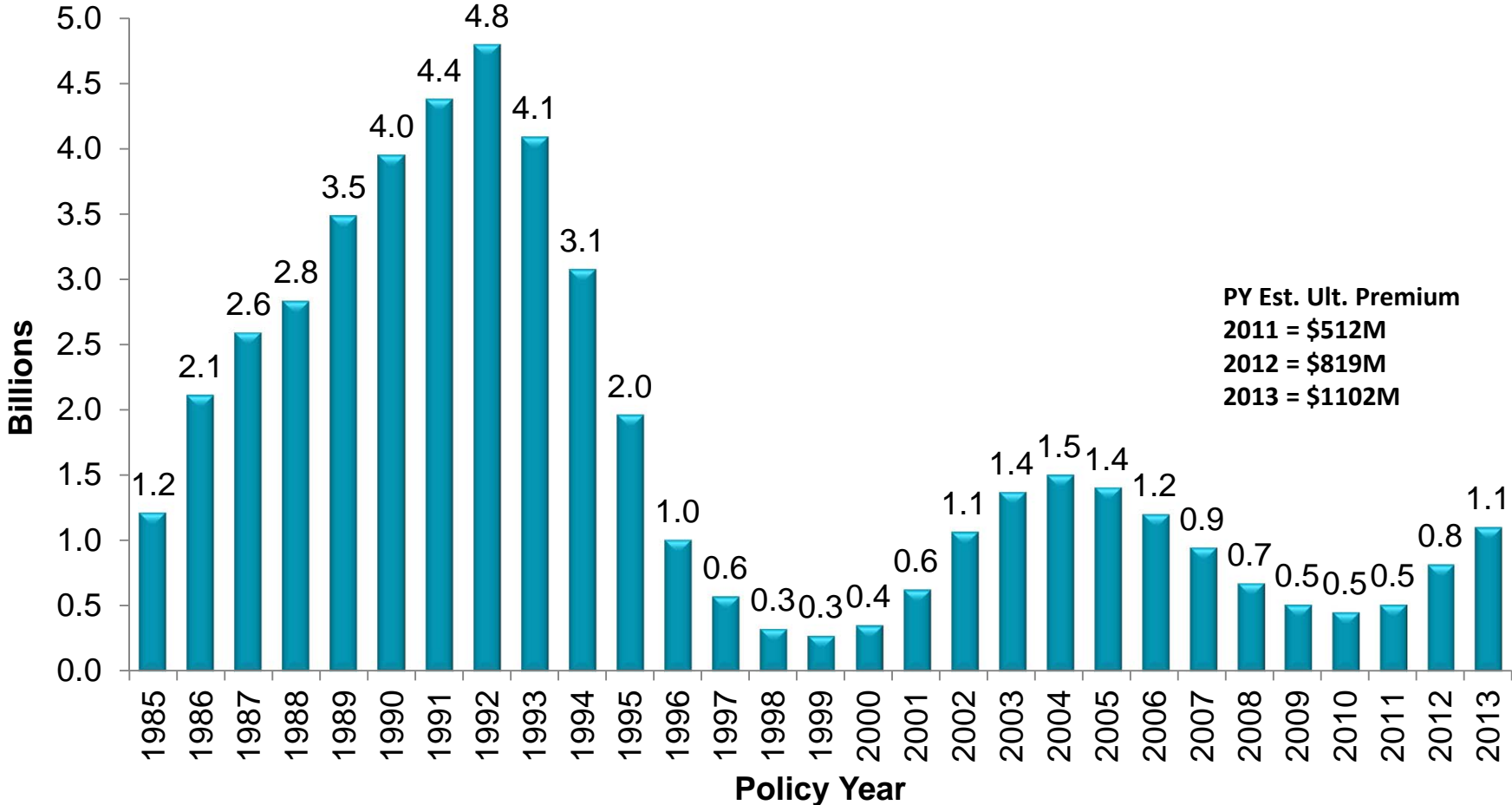


Premium

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



Estimated Ultimate Premium All Pools Combined



NCCI residual market pool data valued as of 9/30/13, which excludes direct assignment policy premium.

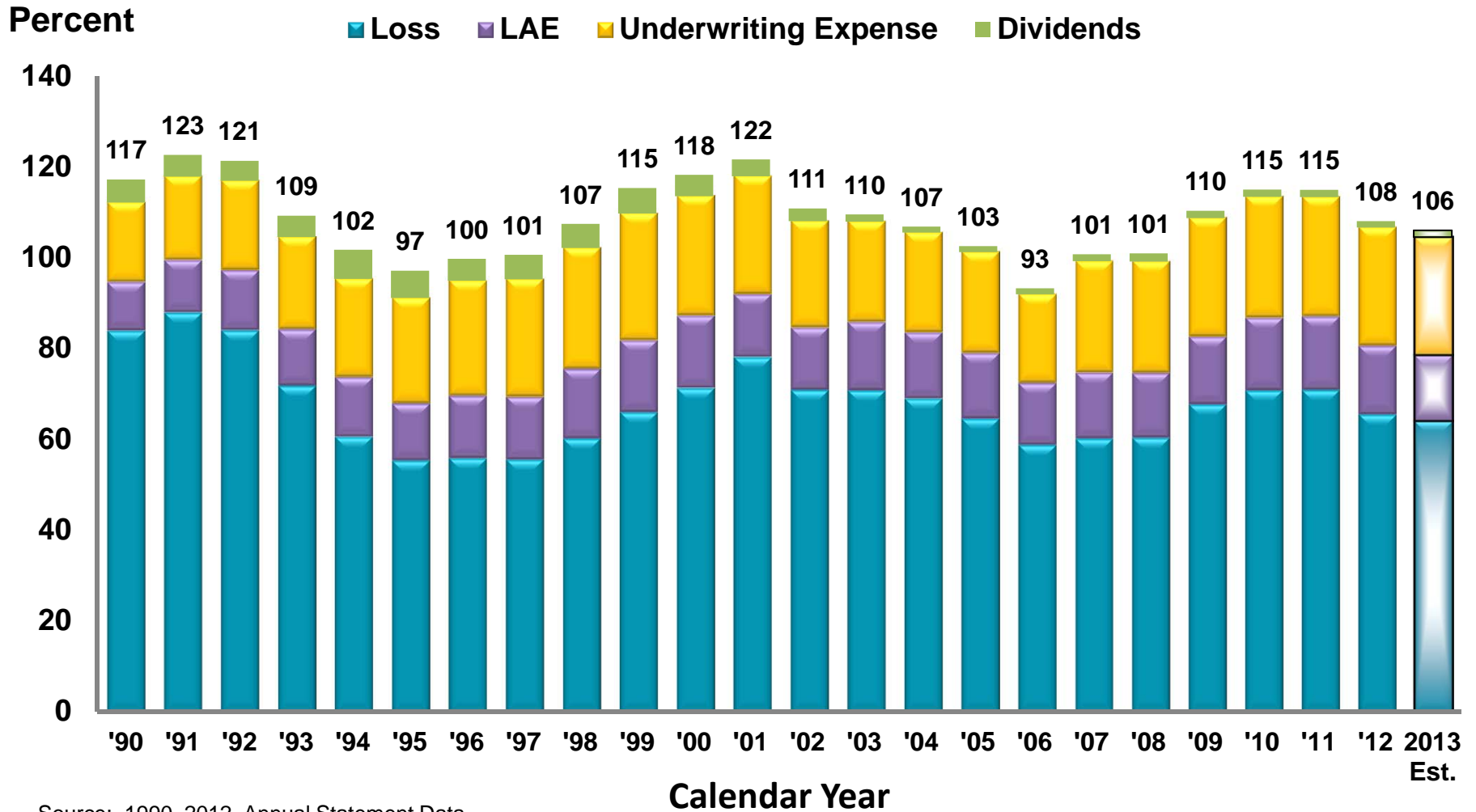




Workers Compensation Combined Ratios

Workers Compensation Combined Ratio Modest Decline for 2013

Private Carriers



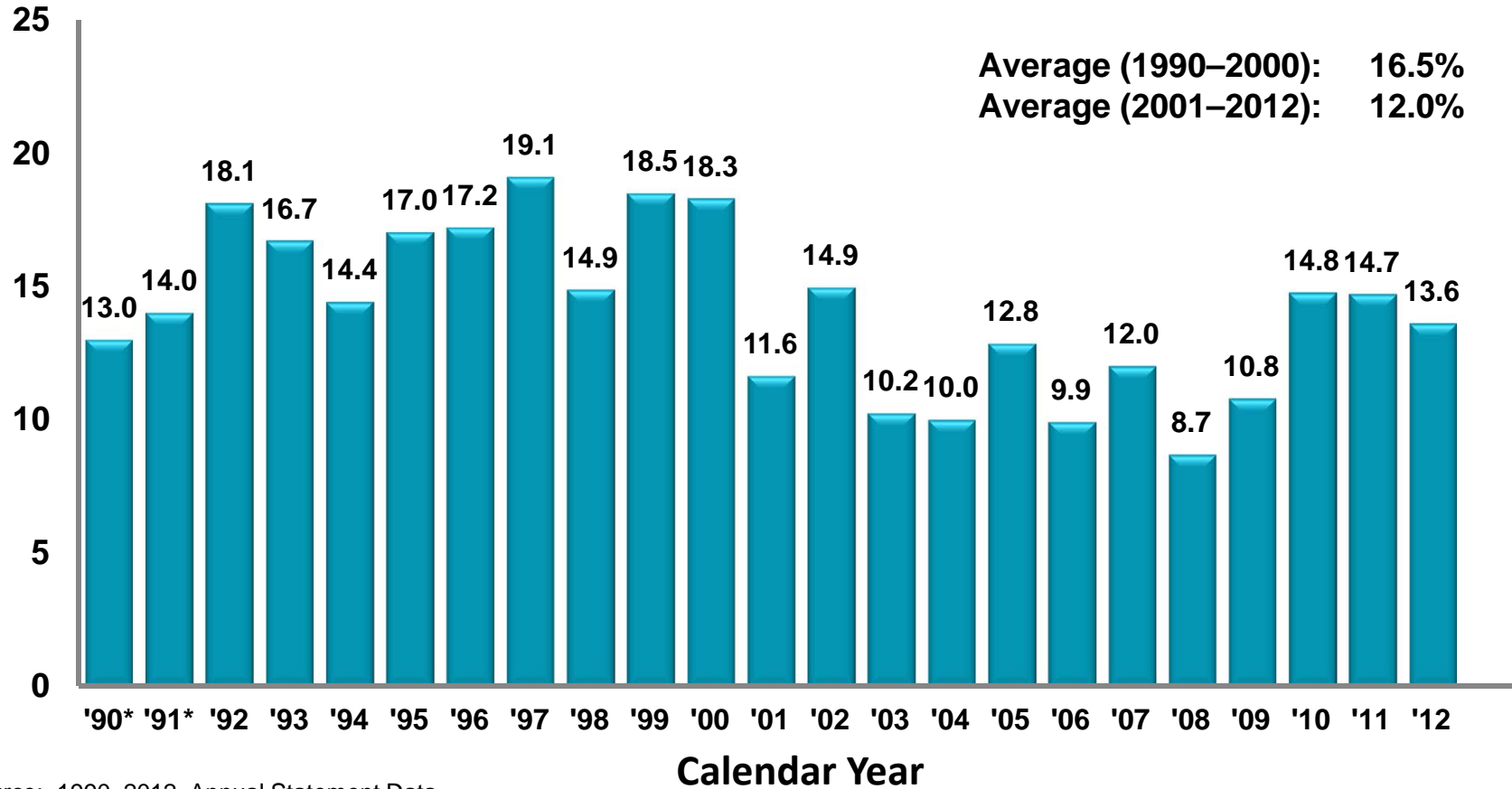
Source: 1990–2012, Annual Statement Data
2013 Est, NCCI estimate based on statutory data reported as of 2nd Quarter 2013



Workers Compensation Investment Returns

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

Percent



Source: 1990–2012, Annual Statement Data

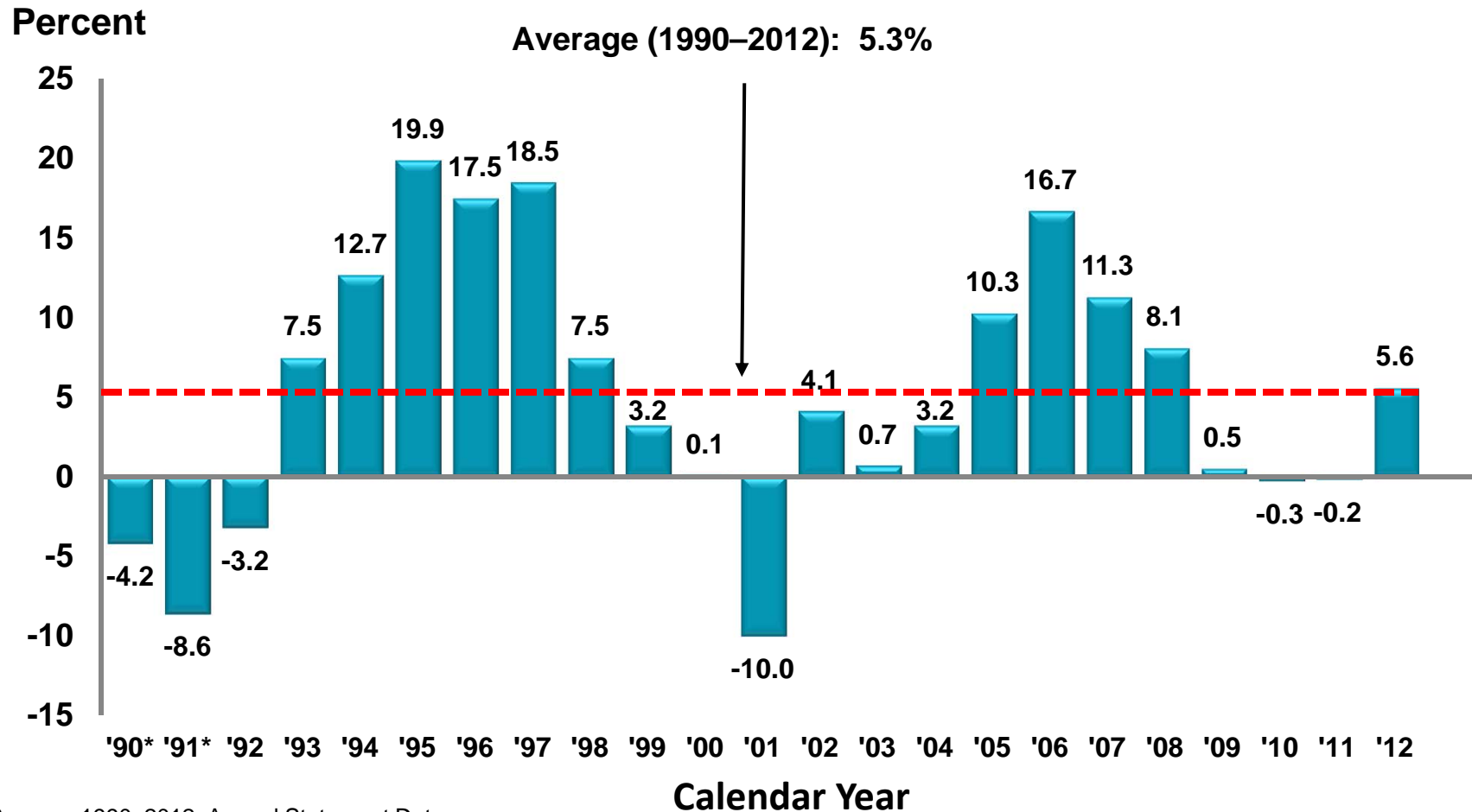
Investment Gain on Insurance Transactions includes Other Income

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



Workers Compensation Operating Results Improved

Pre-Tax Operating Gain Ratio—Private Carriers



Source: 1990–2012, Annual Statement Data

Operating Gain Equals 1.00 minus (Combined Ratio Less Investment Gain on Insurance Transactions and Other Income)

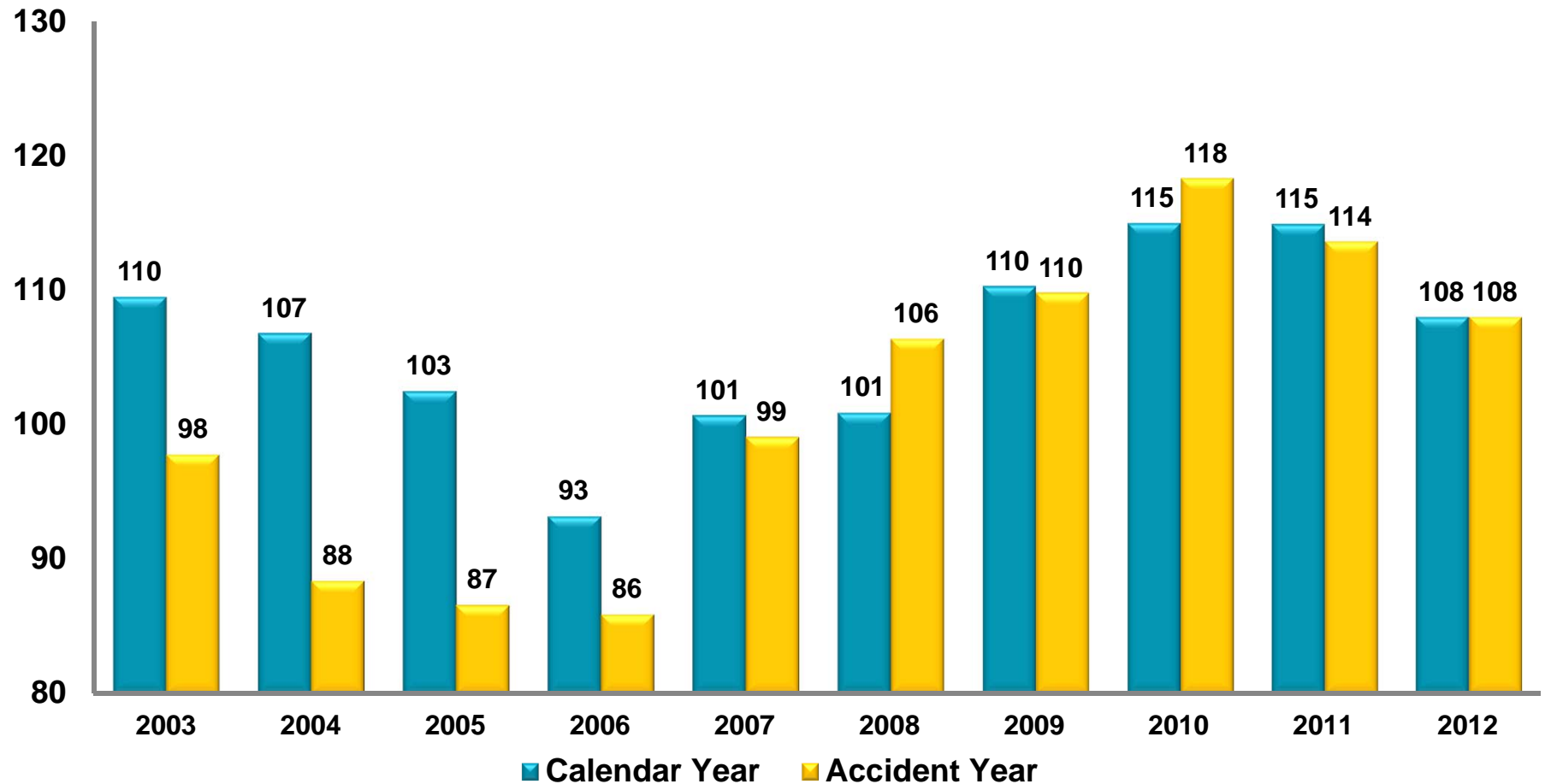
* Adjusted to include realized capital gains to be consistent with 1992 and after



Accident Year Net Combined Ratio

Workers Compensation Calendar Year vs. Ultimate Accident Year
Private Carriers

Percent

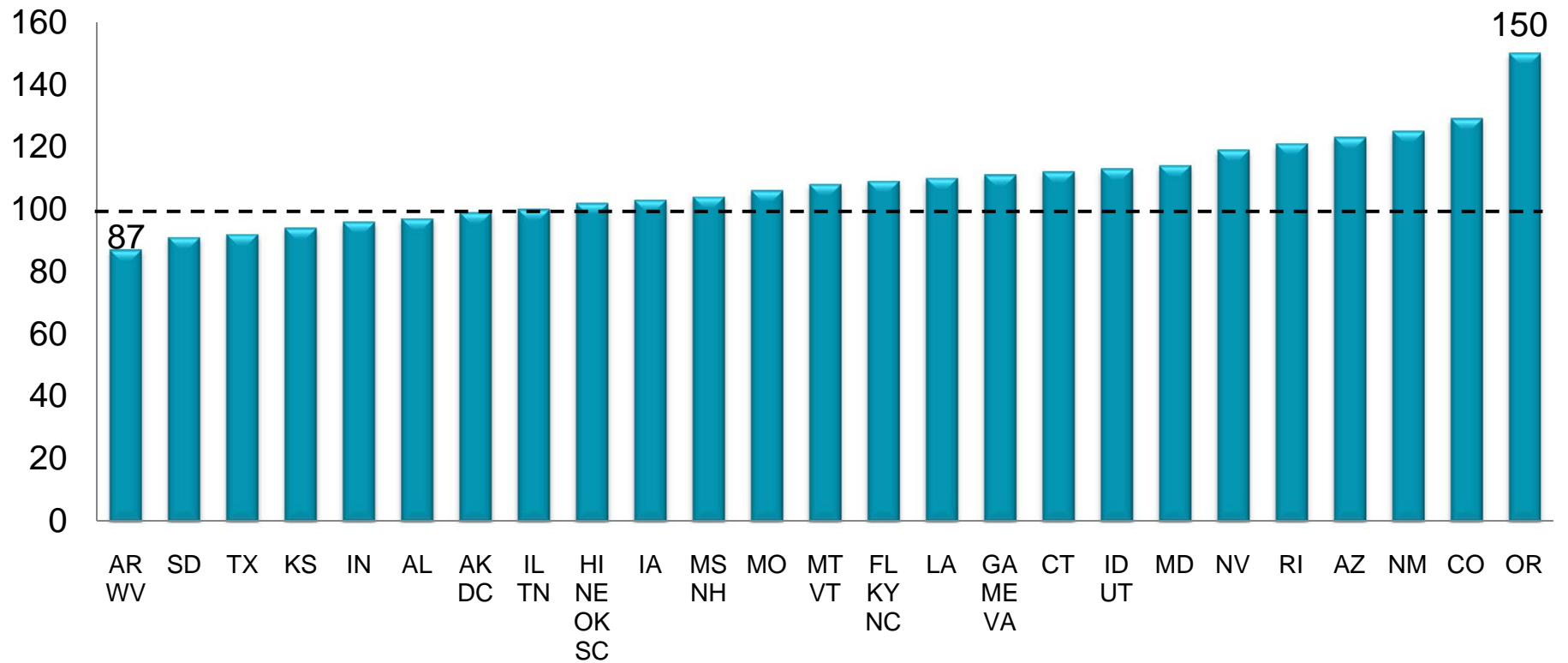


Accident Year data is evaluated as of 12/31/2012 and developed to ultimate
Source: Calendar Years 2003–2012, Annual Statement Data;
Projected Ultimate Accident Years 2003–2012, NCCI analysis based on Annual Statement Data



Results Vary From State to State

Accident Year 2012 Combined Ratios



Data is evaluated as of 12/31/2012

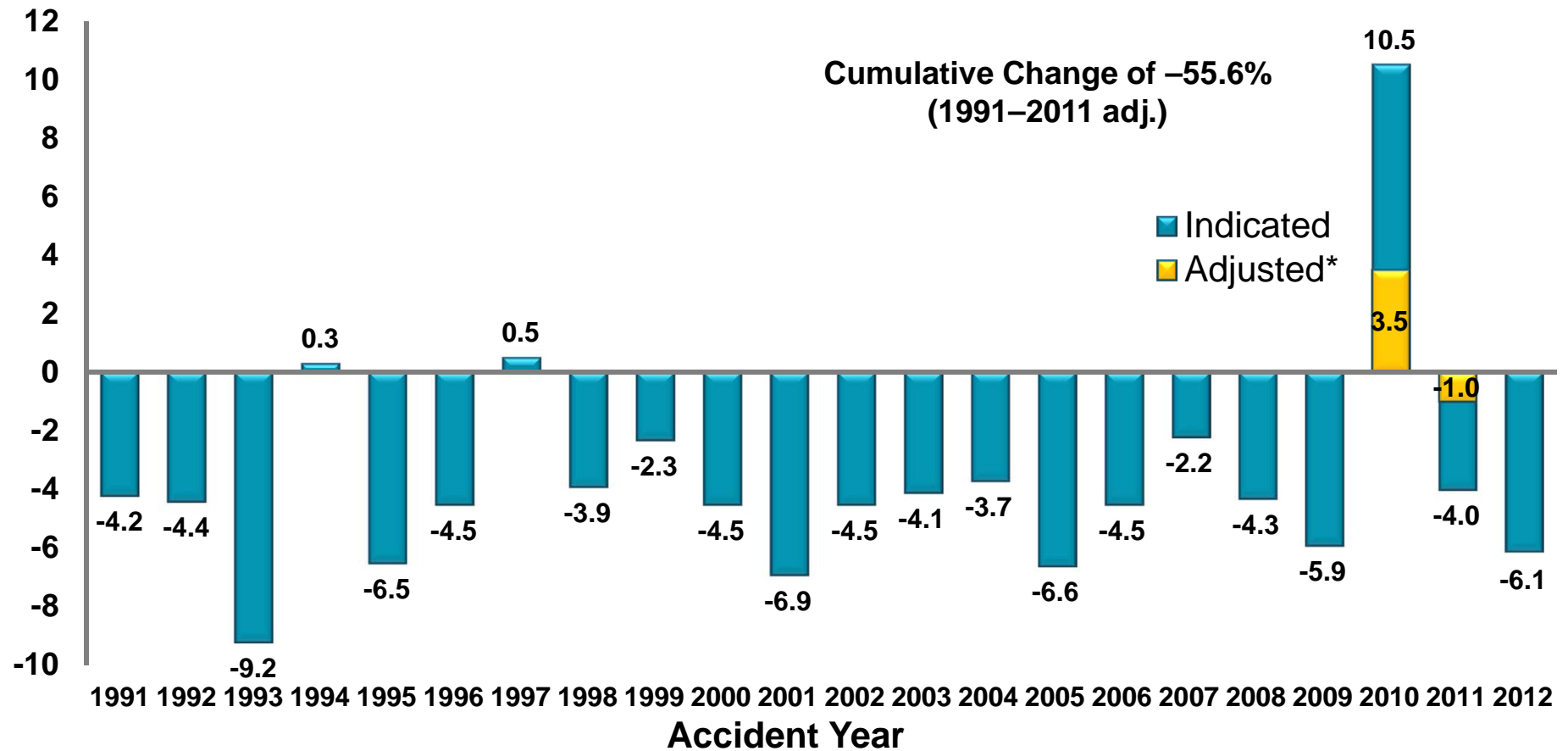




Claim Frequency

Workers Compensation Lost-Time Claim Frequency Resumes Historical Downtrend

Percent

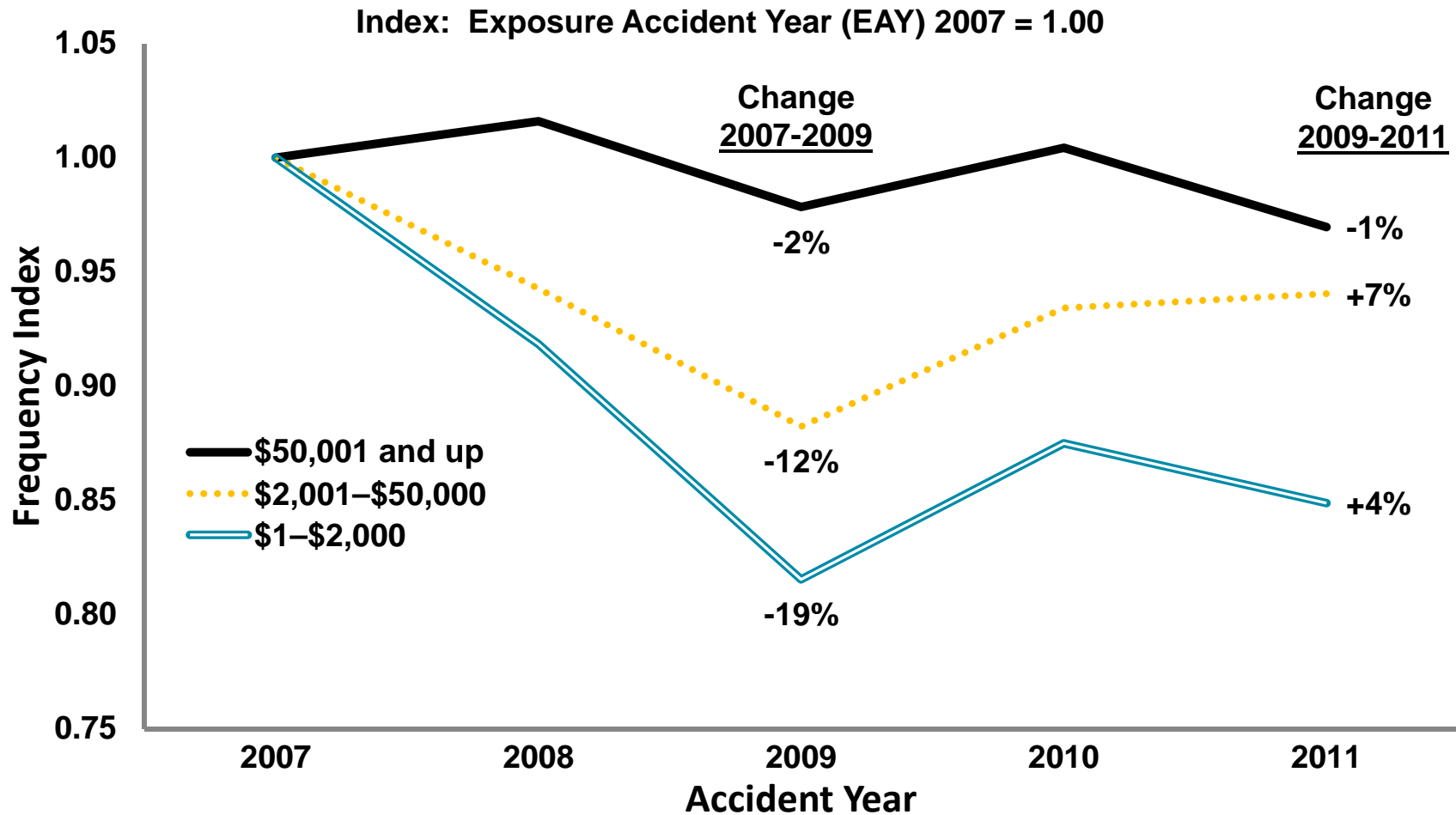


*Adjustments primarily due to significant changes in audit activity

1991–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies
 Average frequency for the states where NCCI provides ratemaking services, excluding WV; including state funds
 Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level



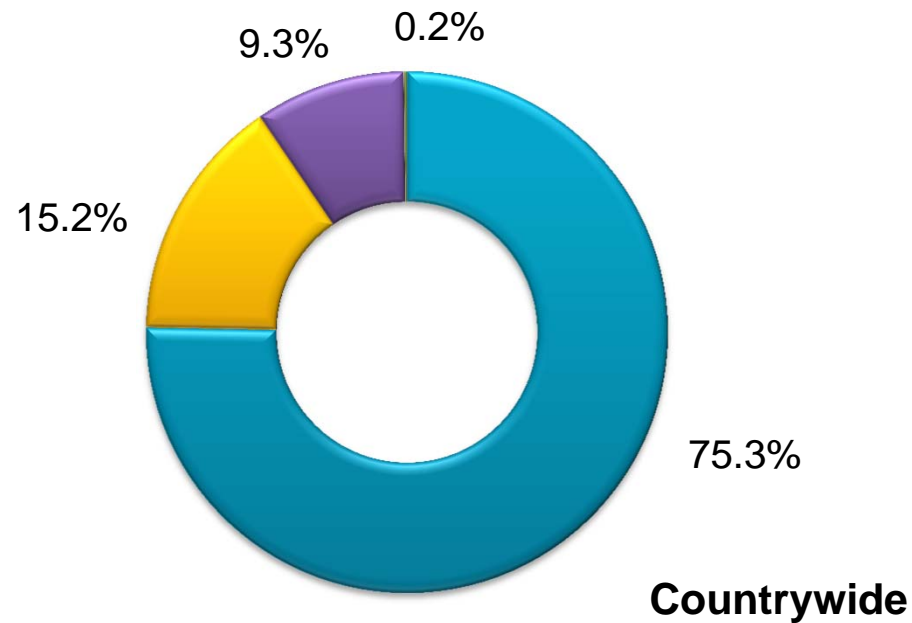
Workers Compensation Lost-Time Claim Frequency Changes by Total Size of Loss



Lost-Time Claim Frequency at 1st report per \$M wage adjusted on-leveled premium, Statistical Plan data
 Premium is on-leveled to average carrier rate by state/class and wage adjusted by state to EAY 2011
 Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation to EAY 2011
 Average frequency for the states where NCCI provides ratemaking services, excluding WV



Countrywide Distribution of Claims by Injury Type



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

Based on NCCI's *Statistical Plan* data



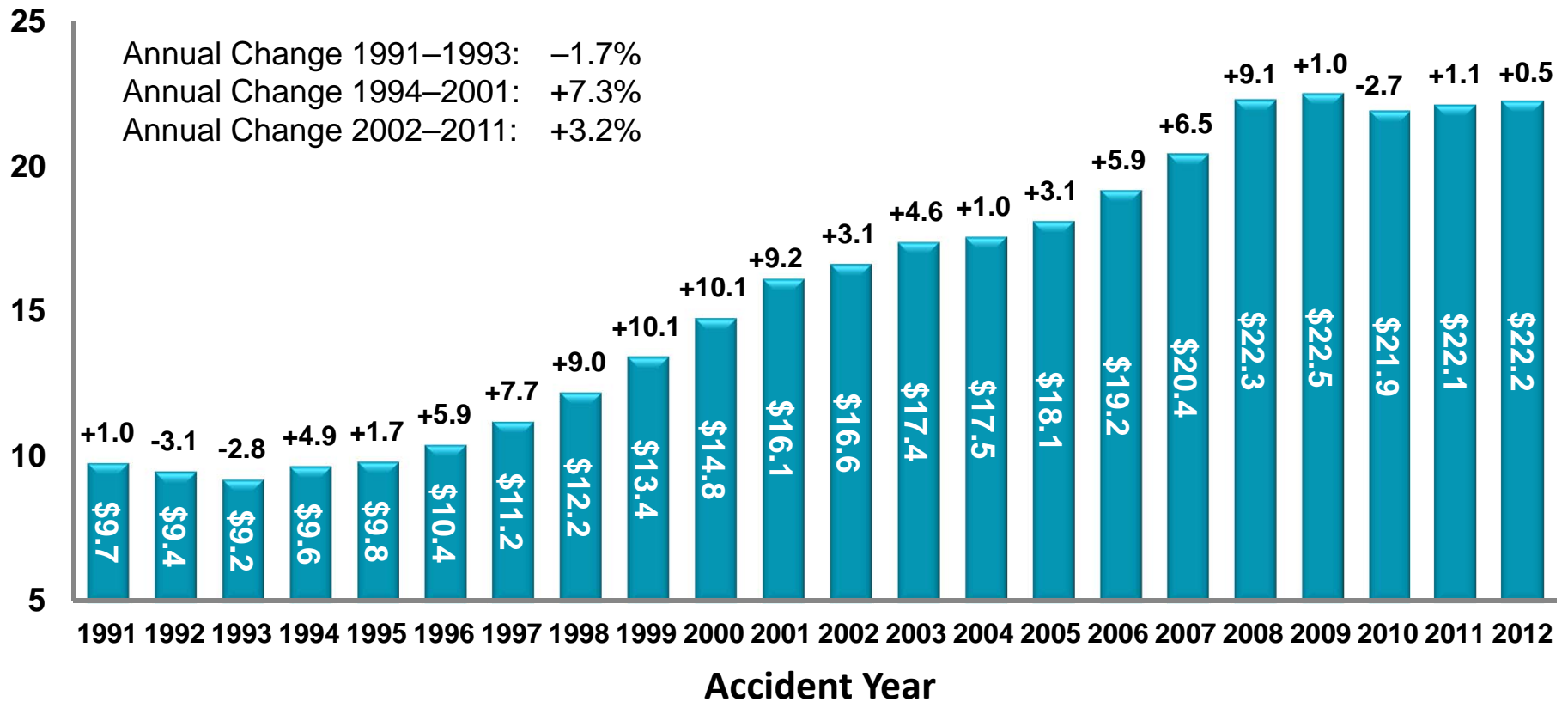


Indemnity Severity

Workers Compensation Indemnity Claim Costs—Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost (000s)



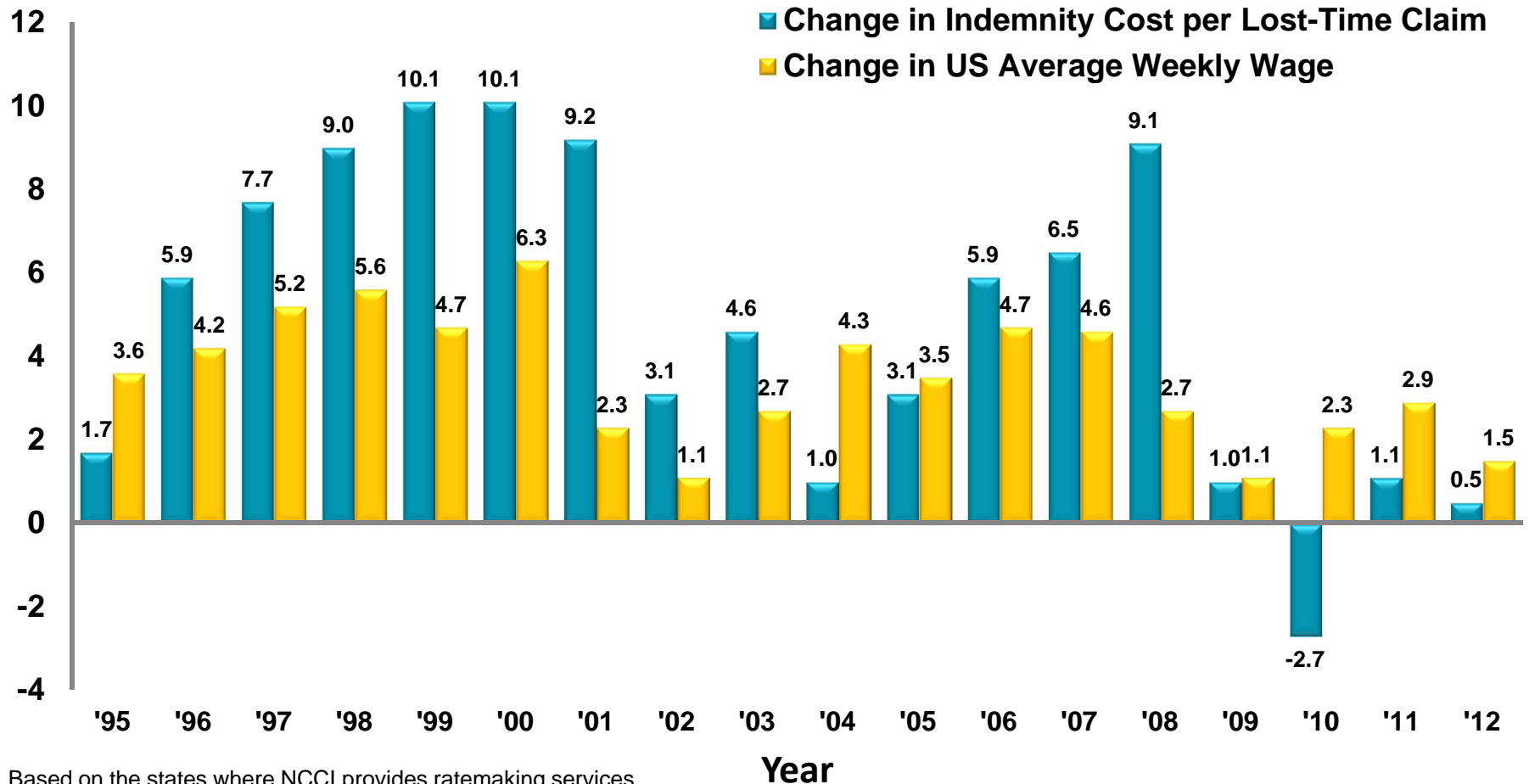
1991–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies
 Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV



Workers Compensation Indemnity Severity— Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim

Percent Change



Based on the states where NCCI provides ratemaking services

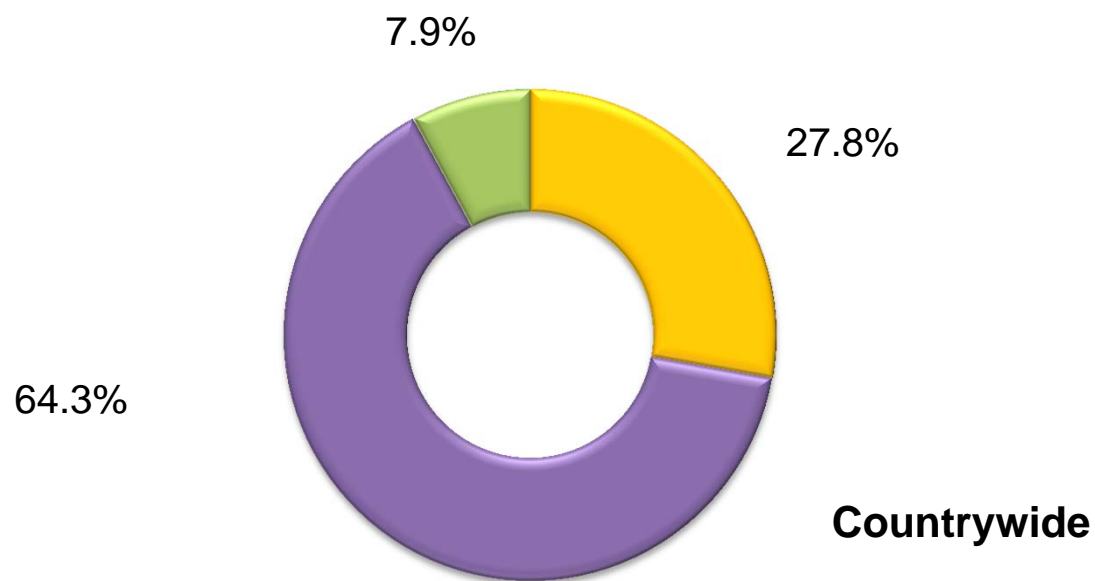
Includes state funds; excludes high deductible policies

Source: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Economy.com; 2009–2012, 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



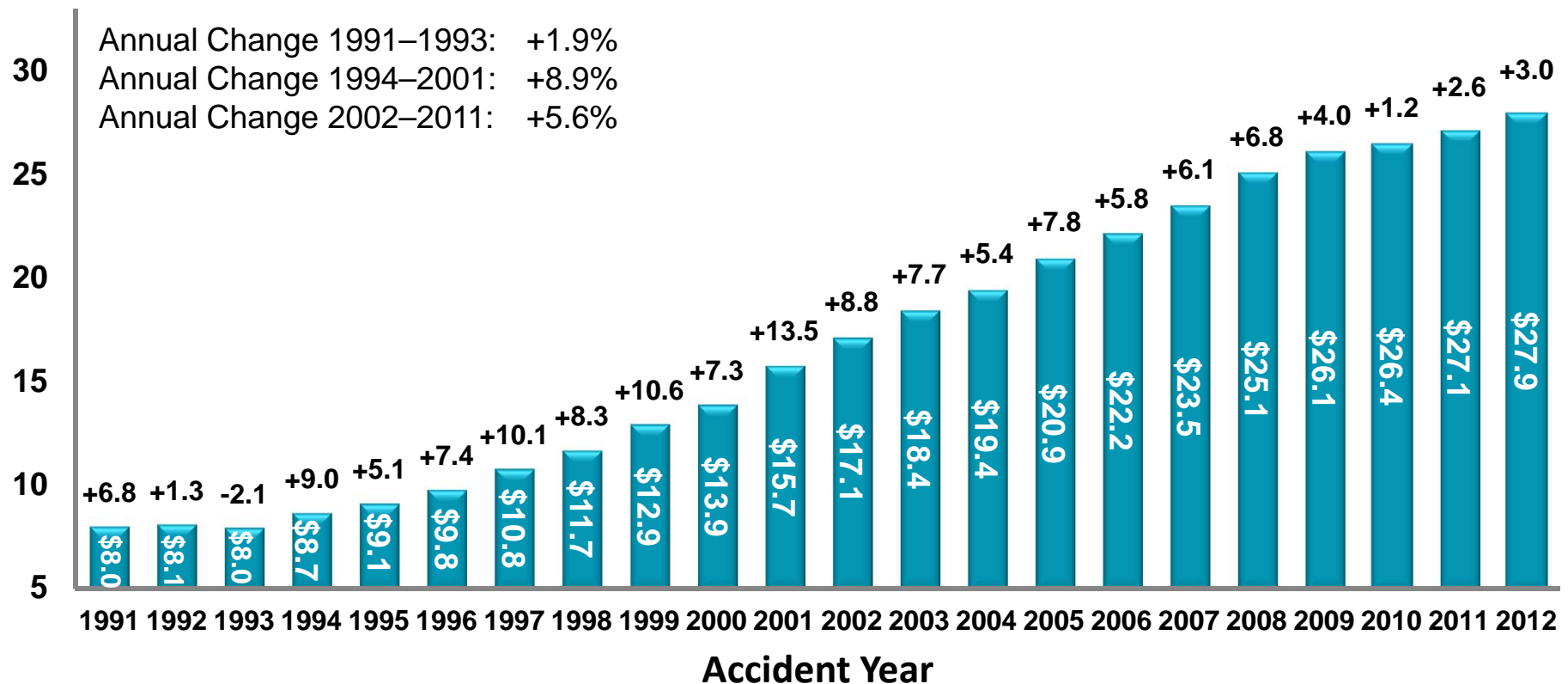


Medical Severity

Workers Compensation Medical Severity— Modest Increase in 2012

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (000s)



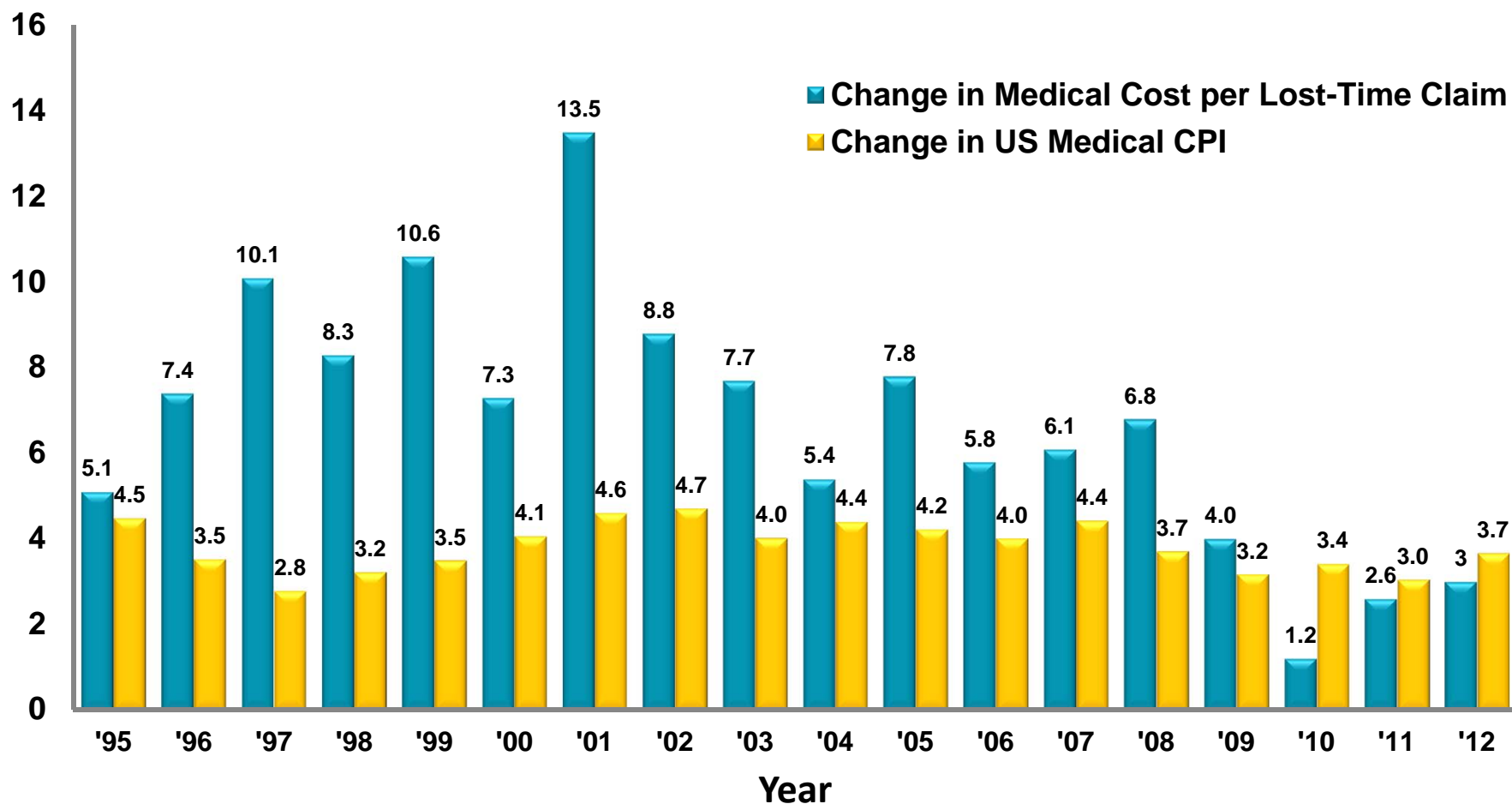
1991–2012: Based on data through 12/31/2012, developed to ultimate; excludes high deductible policies
Average severity for the states where NCCI provides ratemaking services, including state funds; excluding WV



Workers Compensation Medical Severity— Modest Increase in 2012

Average Medical Cost per Lost-Time Claim

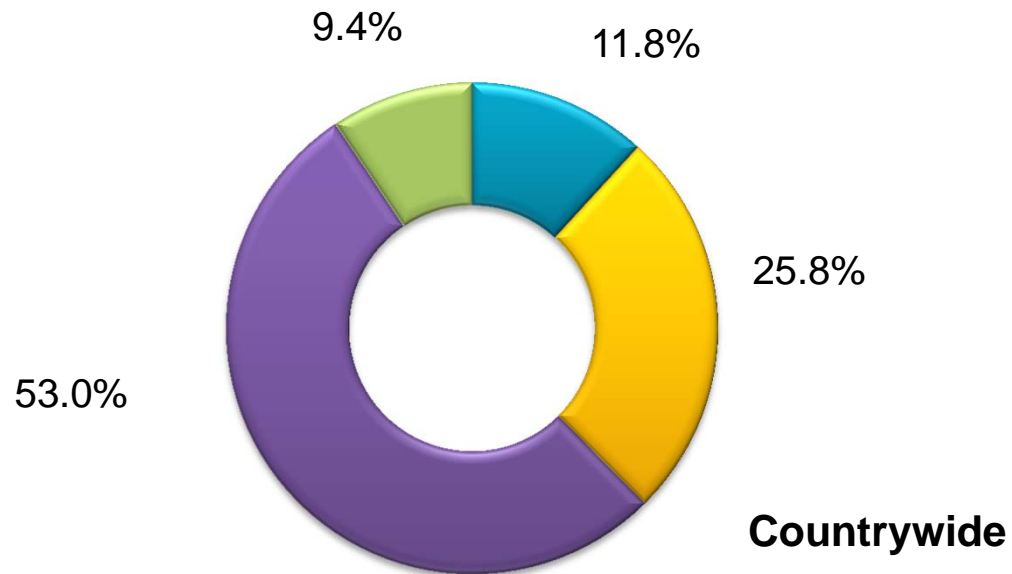
Percent Change



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 excl. WV, NCCI



Countrywide Medical Loss Distribution by Injury Type



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

Based on NCCI's *Statistical Plan* data





2014 Issues

2014 Issues

■ Affordable Care Act

- Will increased demand for a fixed supply of health care coverage cause access-to-care problems, treatment delays and ultimately longer RTW and higher indemnity costs?
- Or will a decreased incentive to file questionable WC claims lead to lower WC costs?
- Longer term, will ACA result in a healthier population that ultimately leads to lower WC costs?

■ TRIPRA

- Endorsements filed
- Will monitor for rate impact

■ NCCI Research

Research and other information on numerous WC topics can be found at ncci.com

The screenshot displays the ncci.com website interface. At the top, there is a navigation bar with links for Home, My Preferences, About NCCI, Careers, and Contact Us, along with a search box and an Advanced Search link. Below this is a secondary navigation bar with categories: Services & Tools, Industry Information, Data Reporting, Residual Markets, Events, and Education. The main content area is titled "Research & Outlook" and features several news items:

- NCCI's Research and Outlook initiative offers latest workers compensation market information, studies and analysis on a wide array of factors influencing the industry.**
- Submit Questions**: Please feel free to e-mail questions or feedback on our Research section.
- E-Mail Notifications**: Sign up for e-mail notifications of the latest Research updates.
- Current | Archive**
- NCCI Webinar: Trends and Cycles in Property and Casualty Insurance**: NCCI recently partnered with National Underwriter to produce an online webinar, "Trends and Cycles in Property and Casualty Insurance." The webinar is available now for viewing at no charge to participants. Posted Date: November 14, 2013
- NCCI Publishes New Research on Prescription Drug Expenditures**: With medical expenditures growing at a faster rate than indemnity benefits in workers compensation, NCCI has once again re-examined prescription drug (Rx) costs, which are a significant driver of medical costs. Posted Date: September 26, 2013
- Workers Compensation Claim Frequency—2013 Update**: This study provides NCCI's latest frequency change estimate for Accident Year 2012 and examines the effect of the recession on frequency changes. Posted Date: September 12, 2013
- Workers Compensation Temporary Total Disability Indemnity Benefit Duration—2013 Update**: Average benefit durations have risen or fallen in step with the national unemployment rate. Posted Date: August 29, 2013
- The Impact of Physician Fee Schedules in Workers Compensation**: New research reports analyze the impact of physician fee schedules on prices and utilization. Posted Date: August 16, 2012; Updated: May 29, 2013
- News From Annual Issues Symposium 2013**: Updated News from Annual Issues Symposium 2013—CEO Steve Klingel's presentation video is now available. Posted Date: July 15, 2013
- Medical Services for Claims 20 or More Years Old**: In a new research report, NCCI examines workers compensation medical services provided more than two decades years after the initial injury. Posted Date: January 21, 2013

On the left side of the page, there is a sidebar with a "Log In" section, a "Forgot User Info?" link, and a "My Services & Tools" link. Below this is a "Industry Information" menu with options like Terrorism Risk Insurance, NCCI Videos, Research & Outlook, Actuarial Information, Underwriting Information, Regulatory Activities, Industry Reports, Industry Links, and Professional Employer Organizations. At the bottom of the sidebar, there is a section titled "NCCI and Workers Compensation: A Rich History" with an image of a historical document.





Thank You!