

WC-3: Workers' Compensation in the United States

*The Carrier Perspective: Some challenges facing WC carriers
and a look into several independent bureau states.*

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CAS RPM Seminar
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Agenda

Industry Challenges from a carrier perspective:

- What are some of the challenges facing the WC industry?
- How will healthcare reform, interest rates and economic trends impact Workers' Compensation?

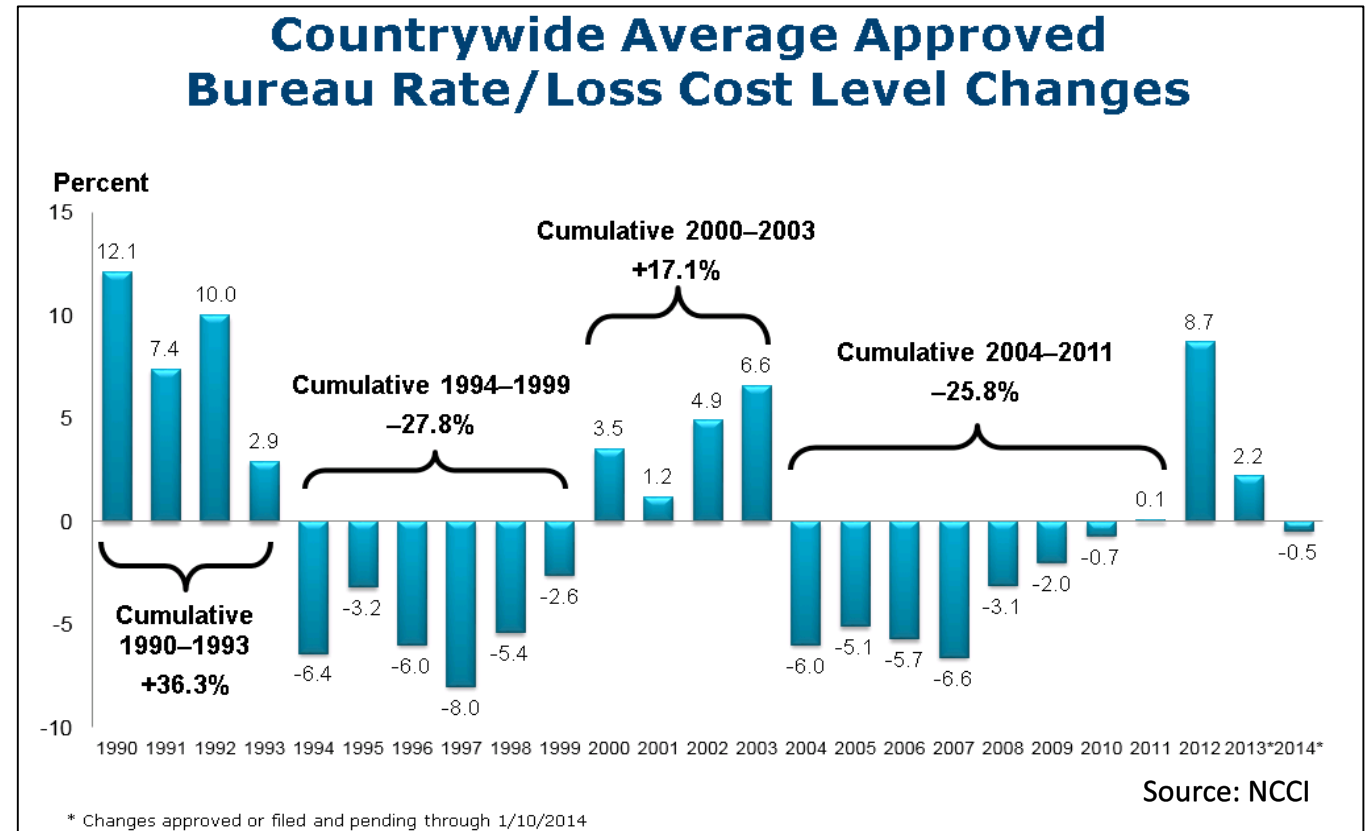
A look at a few independent WC bureau states:

- What are the WC results in some of the independent WC bureau states? What are some of the trends/changes seen within these states?
- What interaction do these states typically have with NCCI?



What are Some Challenges Facing the Industry?

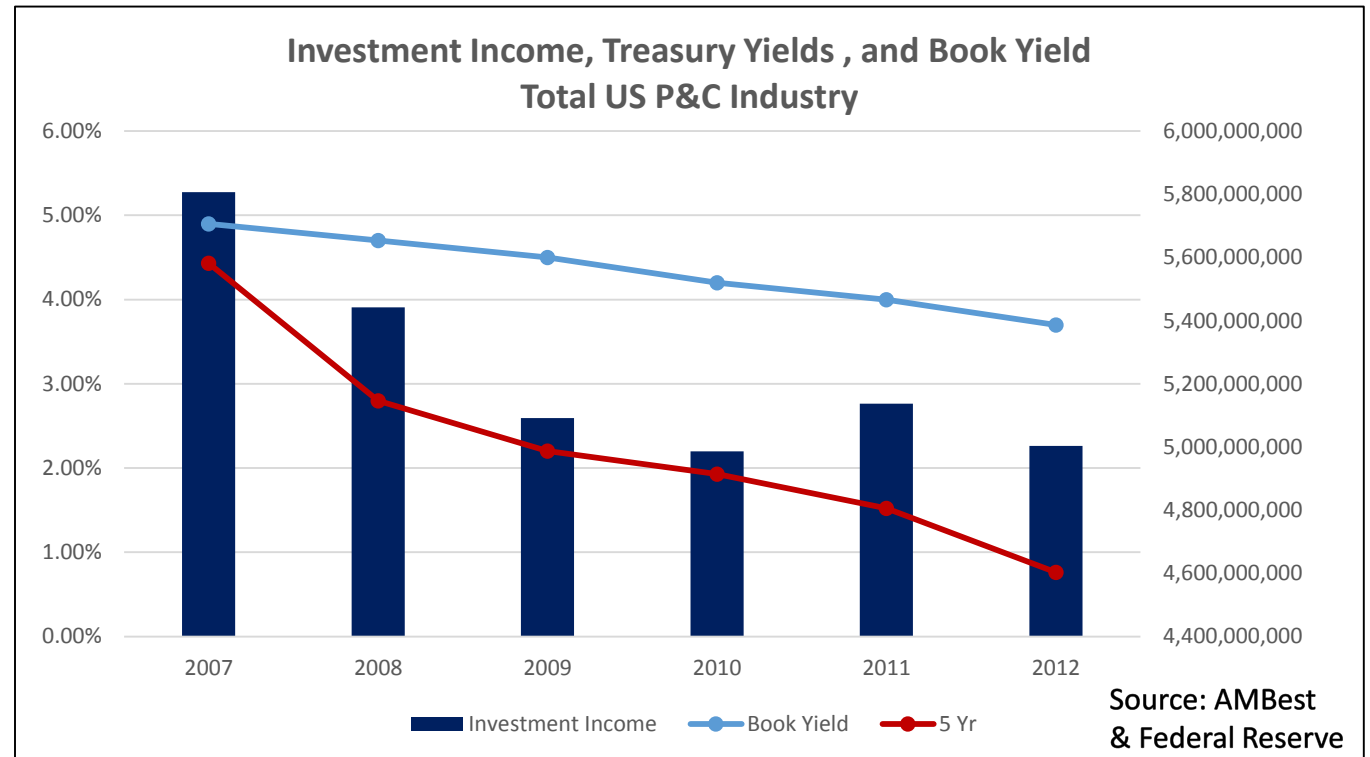
- Economic factors
 - Investment income
 - Payroll trend
- Healthcare Reform
- Underwriting Fundamentals



Economic Factors – Investment Income

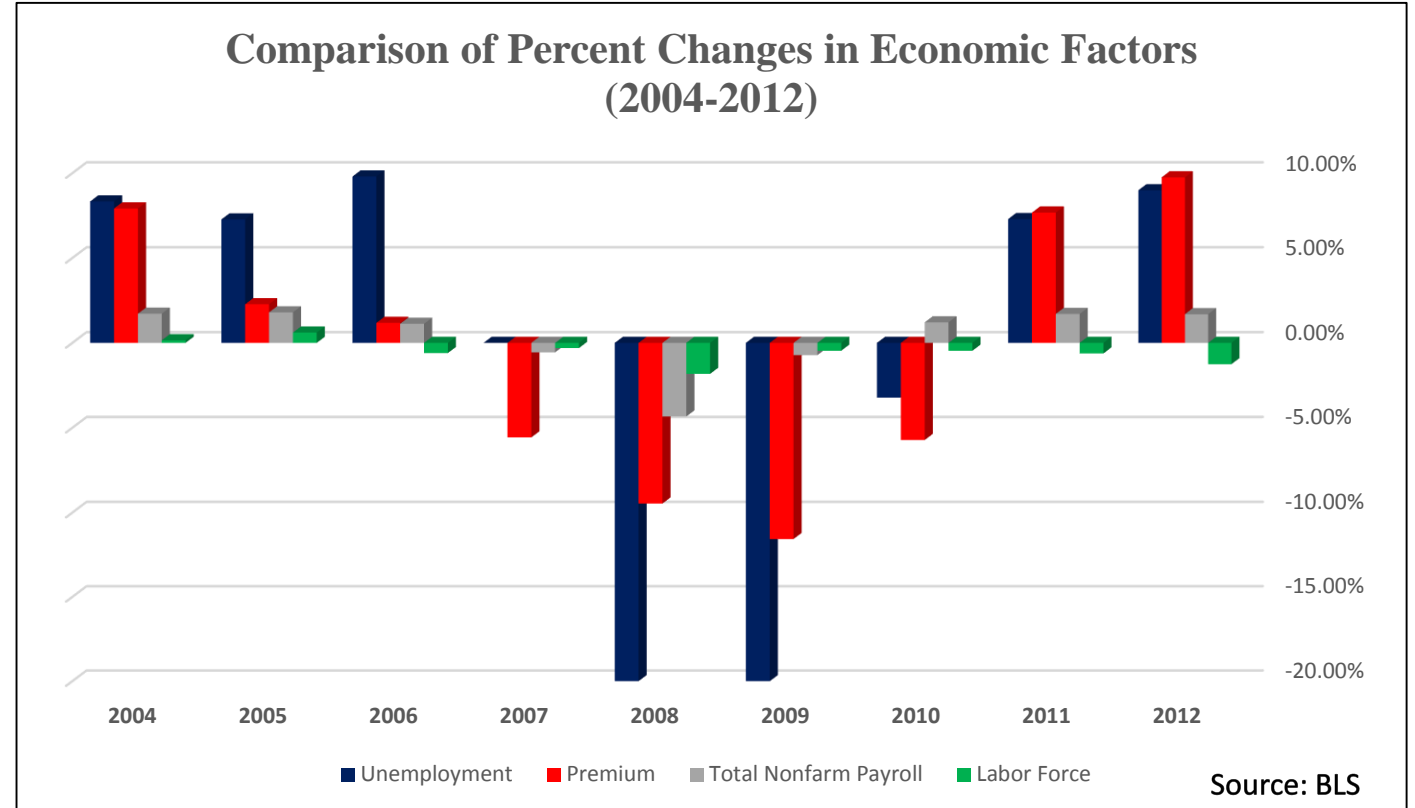
Balancing Act

- Investment Income:
 - As interest rates drop, markets typically harden
- Lower interest rates intended to lower the unemployment
 - Increases payroll



Economic Factors – Payroll Trend

- Payroll trends seen today:
 - Average weekly hours almost back to number before the “Great Recession”
 - Average hourly wage and payroll has risen significantly
 - Labor force participation rate shrinking rapidly

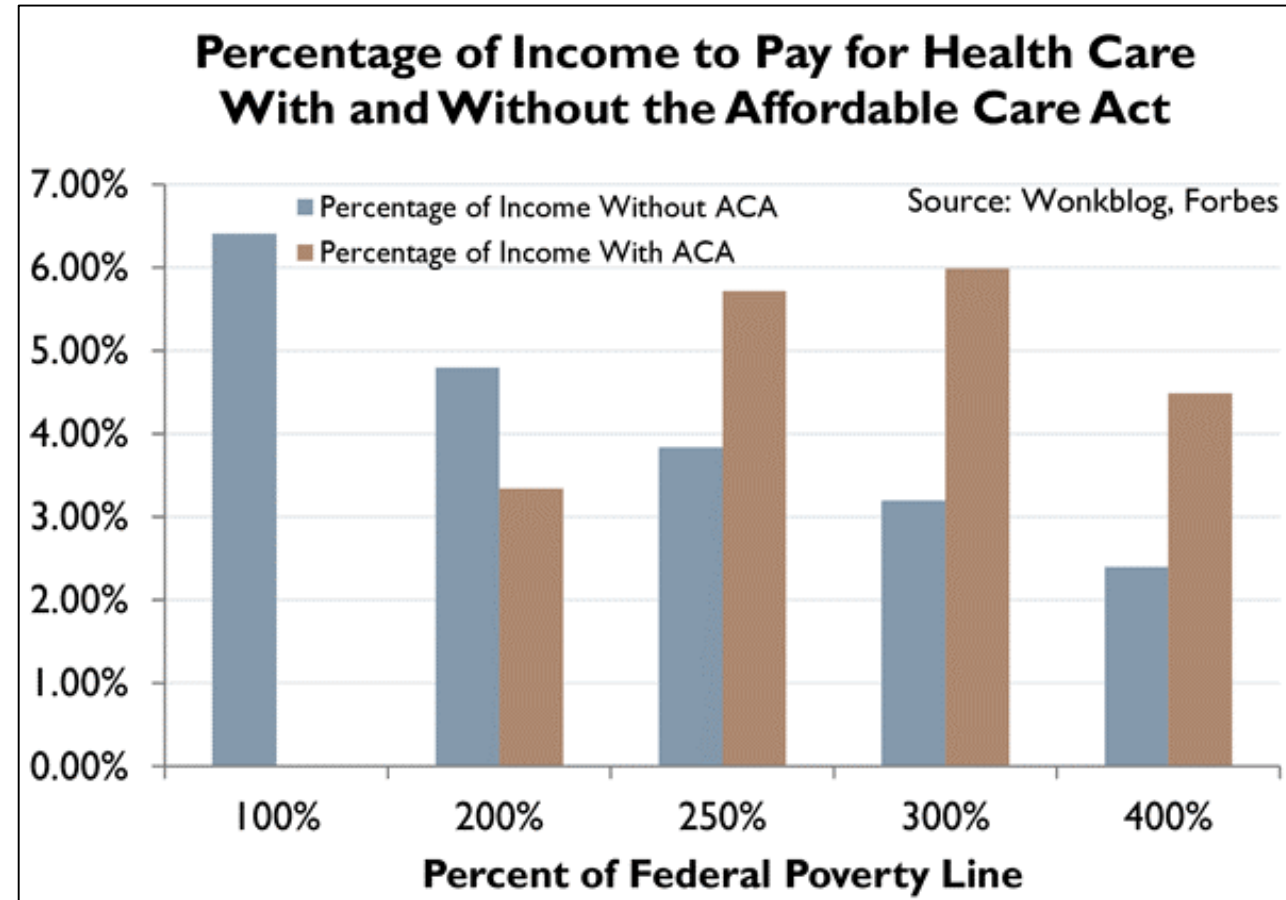


* Changes were capped at -20%. The actual unemployment change in 2008 was -26% and in 2009 was -60%.



Healthcare Reform

- Decrease in uninsured
- Shortage of doctors
 - Increased use of non-physician practitioners
- Accountable Care Organizations
- Adoption of Health Care IT
 - Centralized System
- Value-Based Payment Models
- Other



Source: Taxfounddation.org



Underwriting Fundamentals

- Moving away from more traditional industries into more service centered industries (eg healthcare)
- Underwriting profit becomes more important with less investment income
- Dealing with methodology/pricing changes (eg the new Emod split point)

Impact of Split Point Change on WC Experience Modifications

Change in Mod	Typical Annual Mod Change ¹	Mod Change Due to Split Point Change ²
Decrease more than 15%	4.5%	0.1%
Decrease 5% to 15%	8.5%	11.9%
Within plus or minus 5%	74.7%	76.0%
Increase 5% to 15%	7.2%	11.3%
Increase more than 15%	5.1%	0.7%
	100%	100%

Based on 31 States

1. The change from one year's mod to the next due to updated loss experience and rating values.

2. Change from preliminary 2013 mod to actual 2013 mod (loss experience same; split point and rating values updated).

Source: NCCI

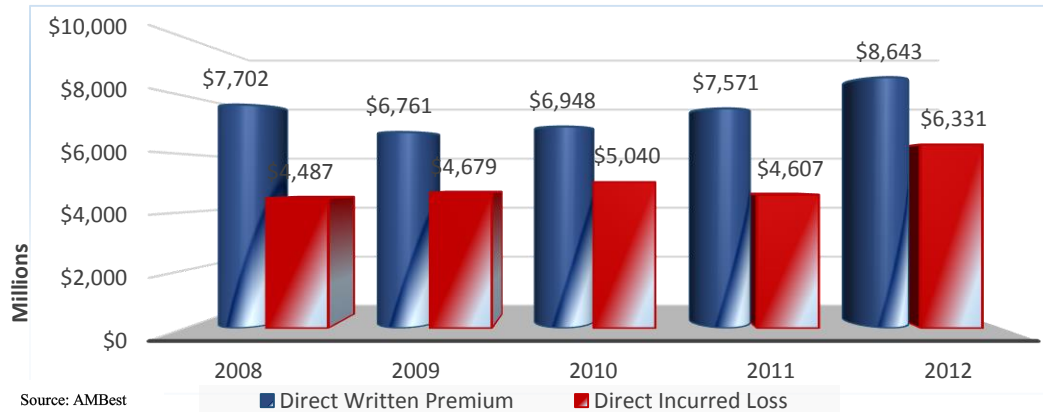


A Look into WC Independent Bureau States

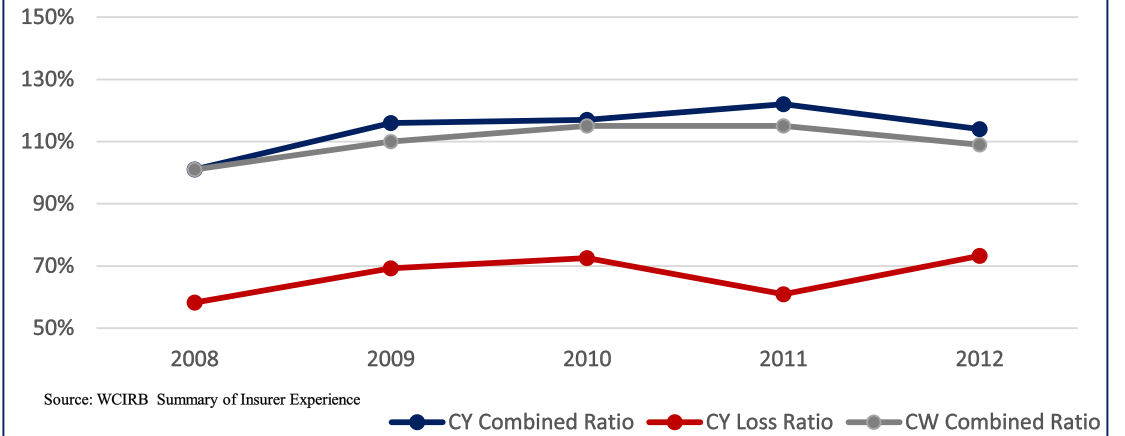


California (WCIRB)

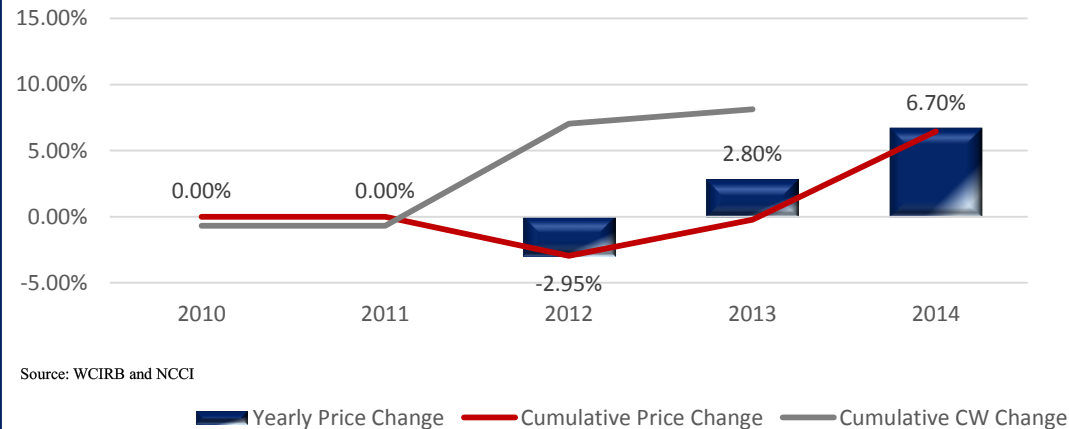
California Direct Earned Premium and Direct Incurred Losses



California Loss Ratios



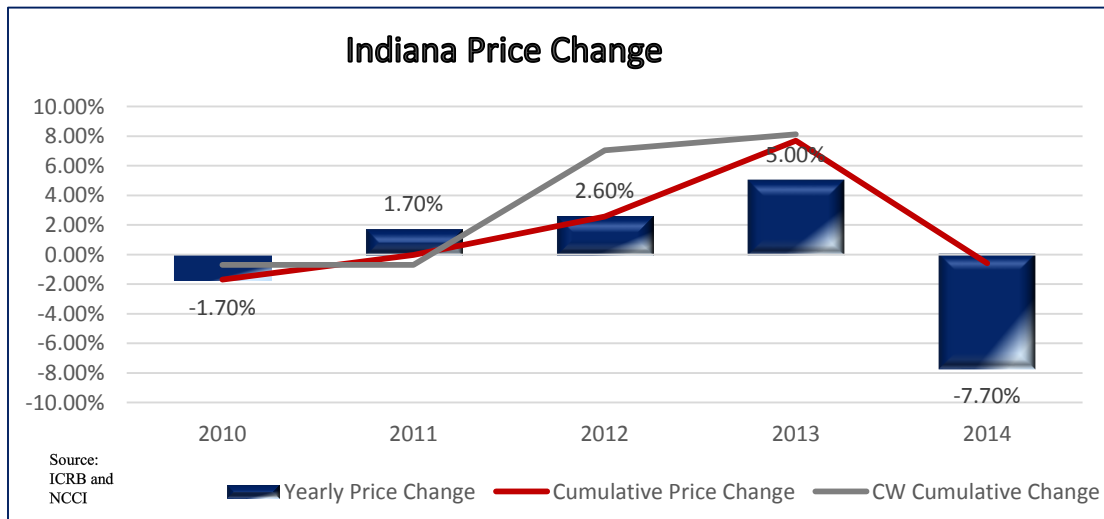
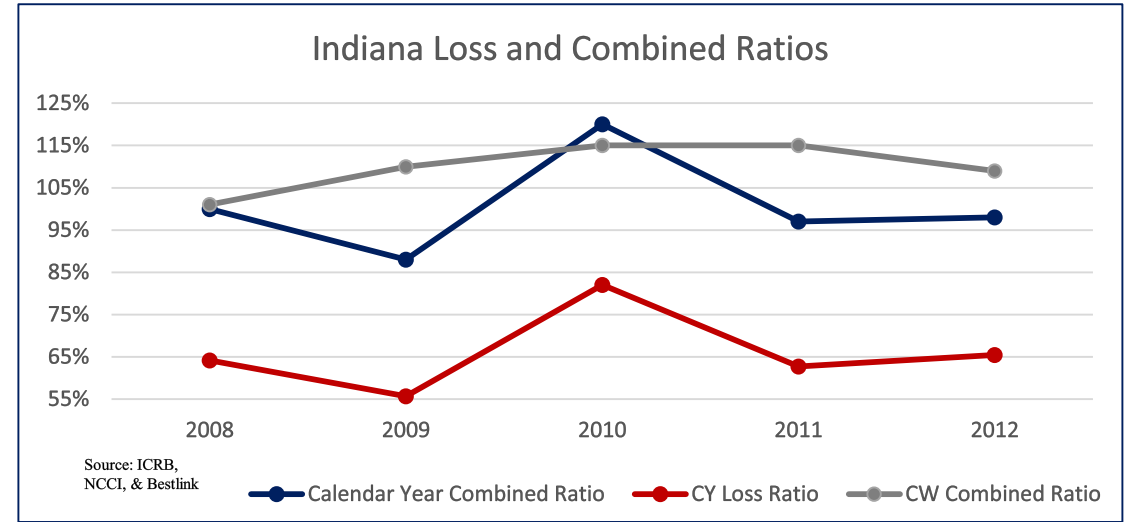
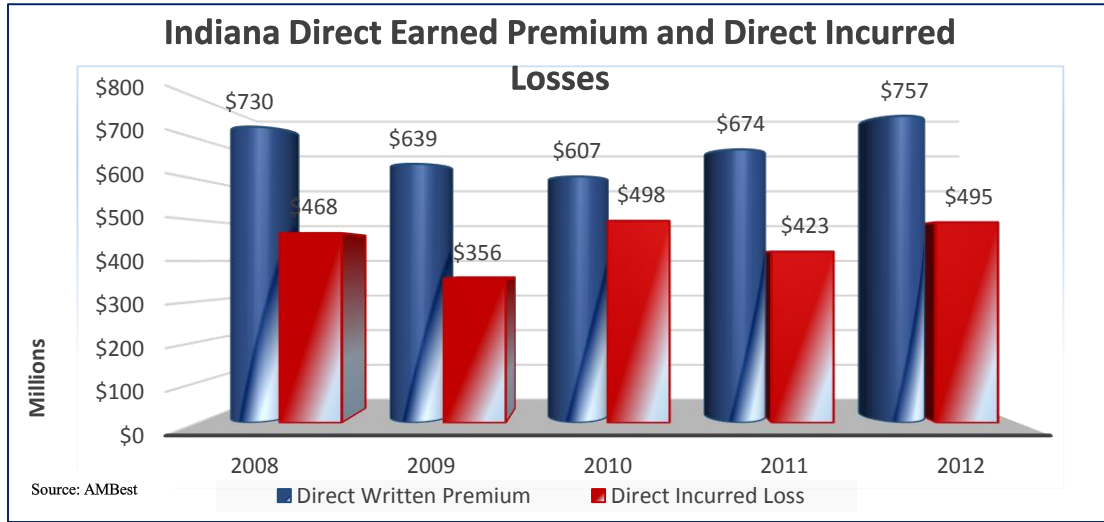
California Price Change



- Pattern of Insurance Commissioner not taking recommended increases in full
- California SB 863 has been a hot topic
- Experience rating split point is \$7,000 established January 1, 2010



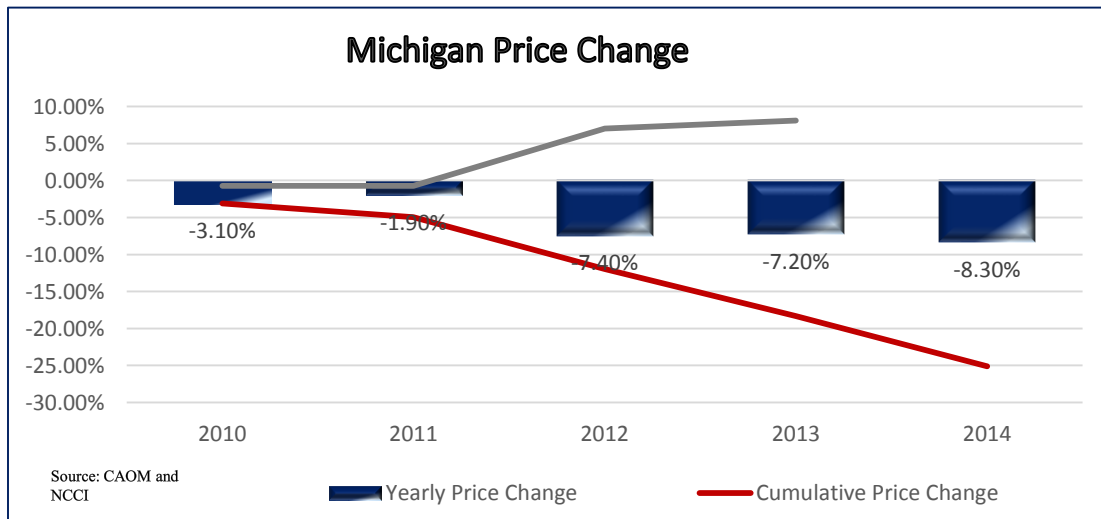
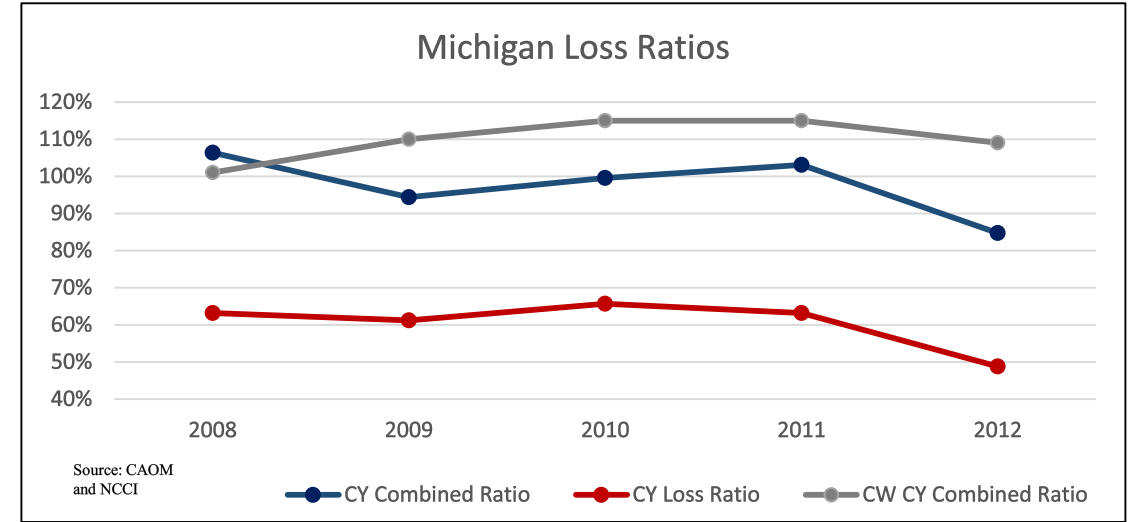
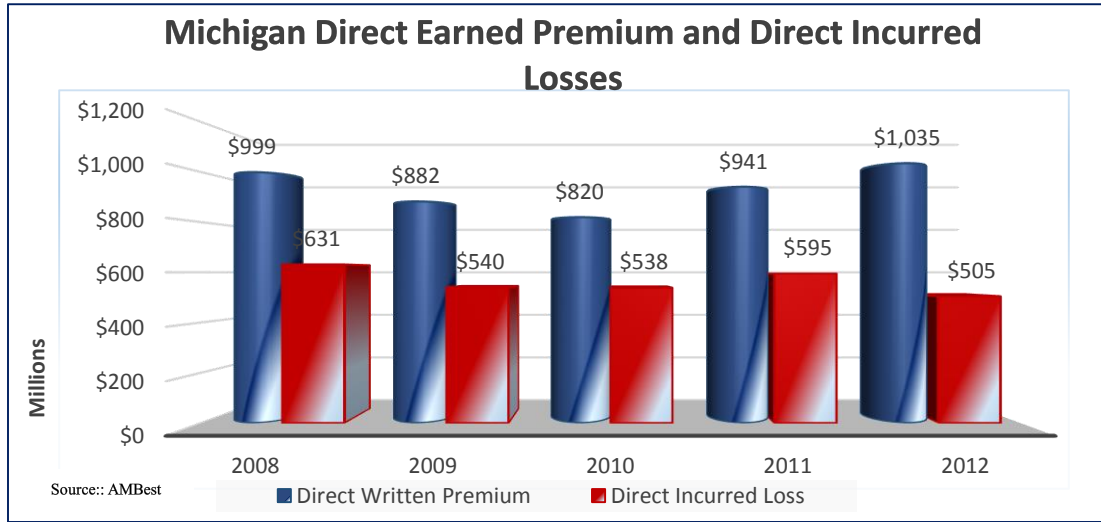
Indiana (ICRB)



- Recommended changes typically approved by the DOI.
- House Enrolled Act 1320 with changes to:
 - Medical fee schedule
 - Repacked drugs
 - Benefit increases phased in over 3 years
- Split point for experience rating changed from \$10,000 to \$13,500.



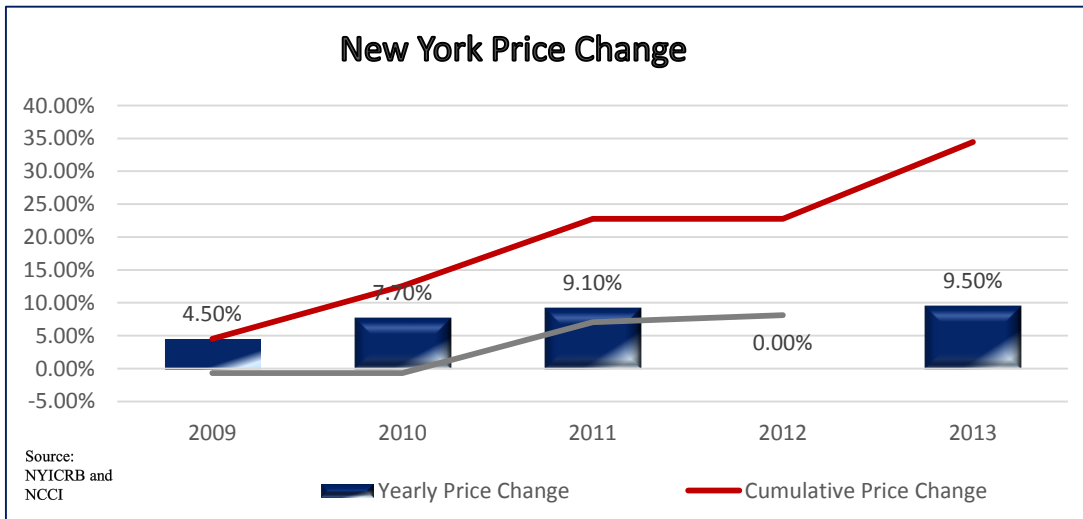
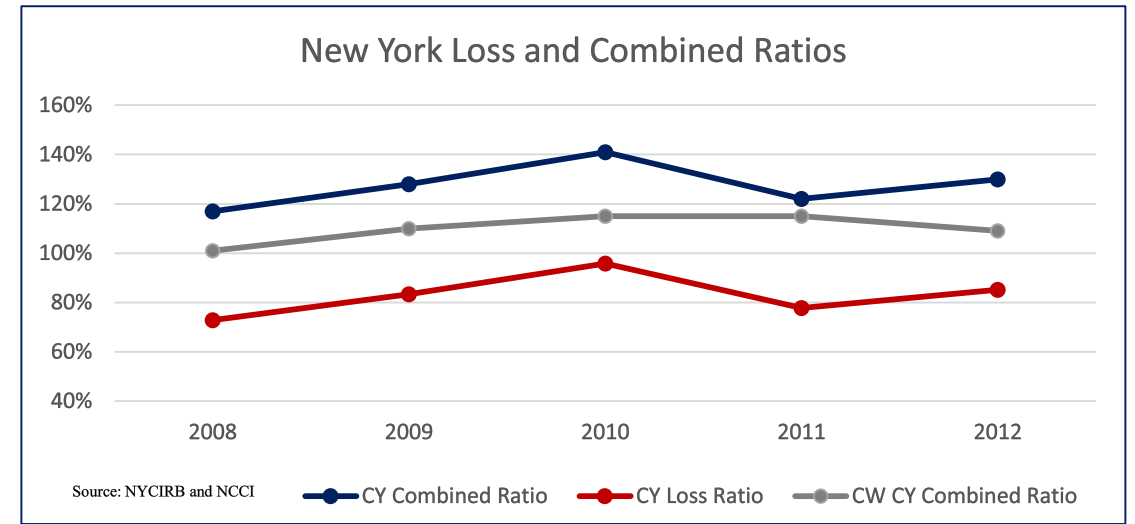
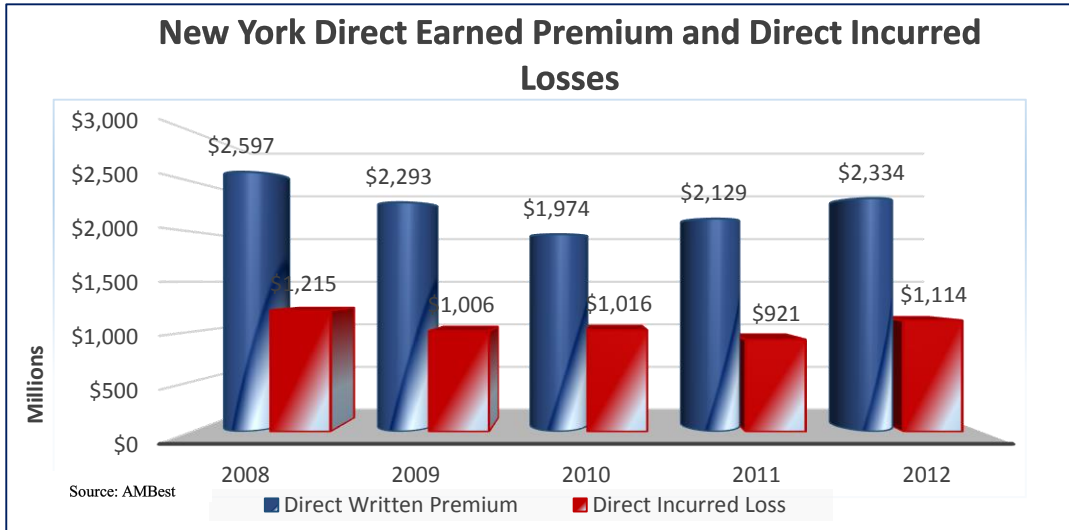
Michigan (CAOM)



- Recommended changes typically approved by OFIR.
- Public Act 266 (HB 5002) enacted in 2011
 - Intended to stabilize and modernize WC Act.
- Adopting excess split point change from NCCI over 3 years



New York (NYCIRB)

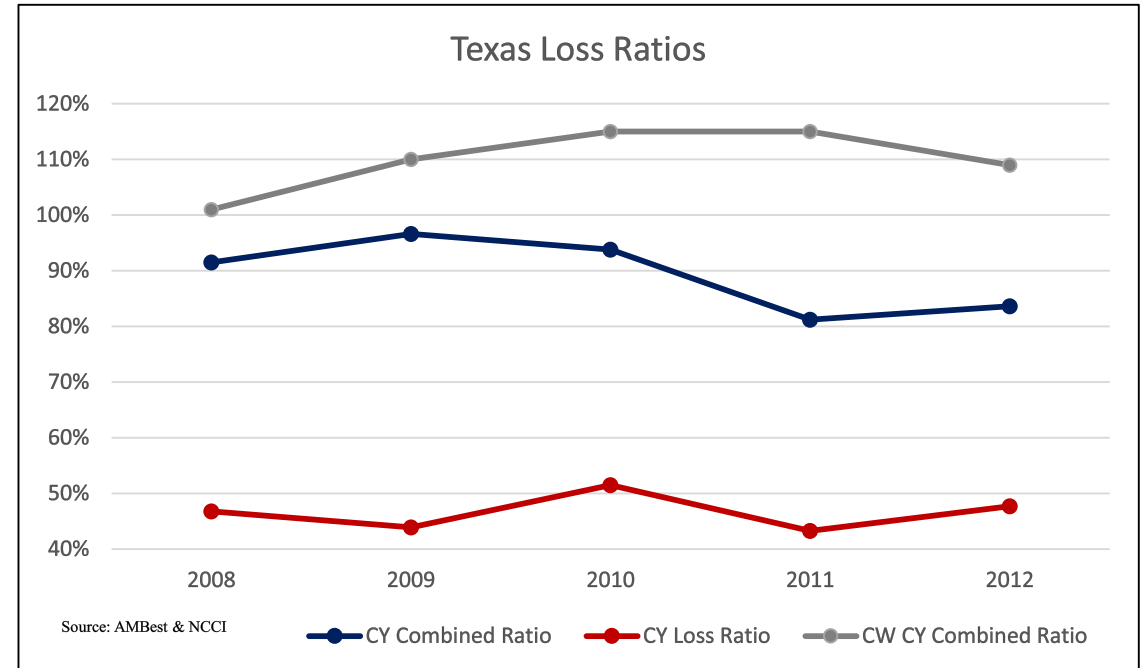


- Recommended rates are often not approved by DOI.
- Business relief act
 - Taxes done as one unified assessment determined by the Workers' Compensation Board
- Moved excess loss split point to \$10,000
 - Will move further to \$13,500 effective 10/1/2014



Are there any states that have both an independent bureau and NCCI?

- In Texas, carriers have used TDI relativities, carrier-specific loss costs, or NCCI loss costs
 - NCCI's first accepted loss costs were effective 6/1/2011
- In January 2014, TDI adopted NCCI's Basic Manual for Workers Compensation and Employers Liability Insurance



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