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WC-HC-1:

Workers Compensation— State of the Market

March 28, 2017

Jay Rosen, FCAS, MAAA

Director and Senior Actuary, NCCI

Property/Casualty (P/C) Industry Results

P/C Industry Net Written Premium

All Major Lines Increased

Private Carriers

Line of Business	2014 (\$B)	2015p (\$B)	% Change From 2014
Personal Auto	183.4	192.5	4.9
Homeowners	76.8	79.4	3.3
Other Liability (Incl Prod Liab)	47.8	49.3	3.1
Workers Compensation	38.5	39.7	2.9
Commercial Multiple Peril	34.3	34.6	1.0
Fire & Allied Lines (Incl EQ)	27.1	26.2	-3.4
Commercial Auto	25.7	27.6	7.3
All Other Lines	63.7	64.6	1.6
Total P/C Industry	497.3	513.8	3.3

p Preliminary

Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers

Includes carrier data available as of 4/14/2016

P/C Industry Net Combined Ratio Overall Underwriting Gain

Private Carriers

Line of Business	2014 (%)	2015p (%)	Difference From 2014
Personal Auto	103	105	2
Homeowners	93	92	-1
Other Liability (Incl Prod Liab)	99	103	4
Workers Compensation	100	94	-6
Commercial Multiple Peril	100	95	-5
Fire & Allied Lines (Incl EQ)	88	86	-2
Commercial Auto	104	109	5
All Other Lines	84	84	0
Total P/C Industry	97	98	1

p Preliminary

Source: Annual Statement data for individual carriers prior to consolidation of affiliated carriers

Includes carrier data available as of 4/14/2016

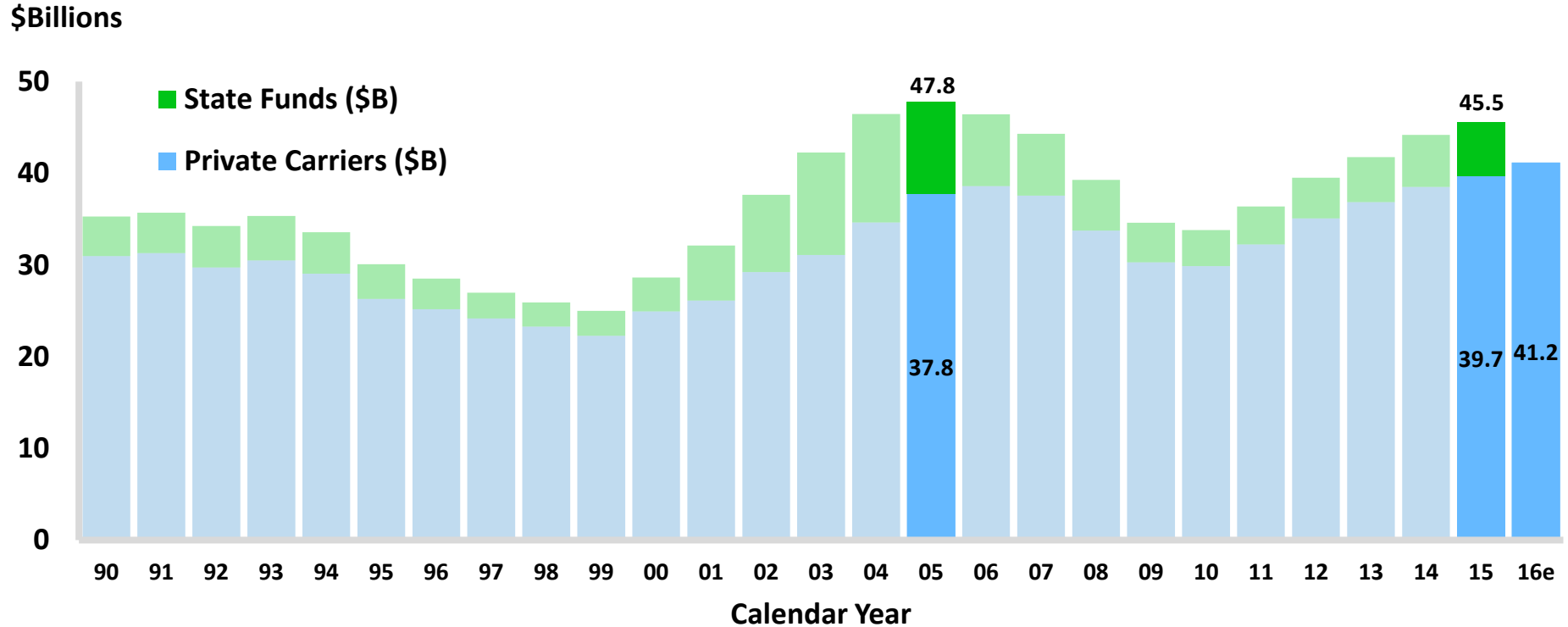
State of the Workers Compensation Market

- Combined ratios: Underwriting gains were achieved on both calendar year and accident year bases
- Net written premium volume increased for the fifth consecutive year
- Lost-time claim frequency again decreased
- Lost-time claim severity changes were small—increasing for indemnity and decreasing for medical

Workers Compensation (WC) Premium

WC Net Written Premium—Growth Continued

Private Carriers and State Funds



16e, NCCI estimate based on statutory data reported through 2nd Quarter 2016

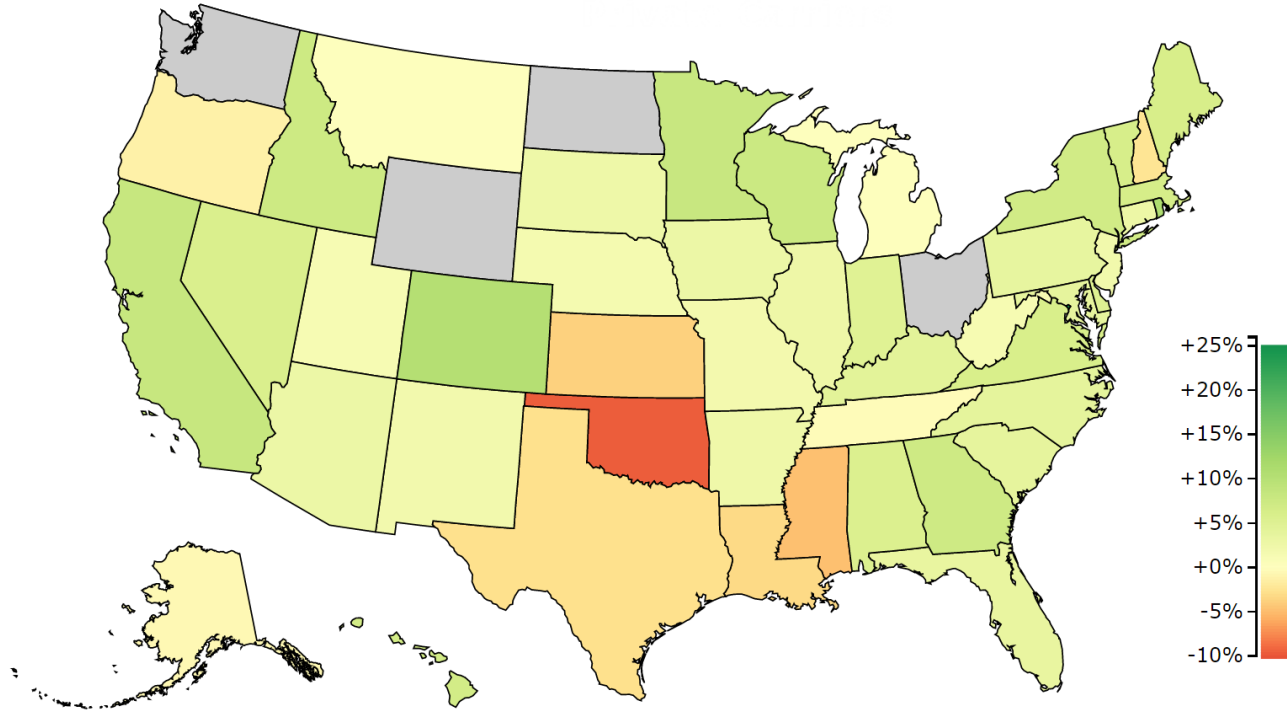
Source: Annual Statement data

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

Each calendar year total for state funds includes all funds operating as a state fund in that year

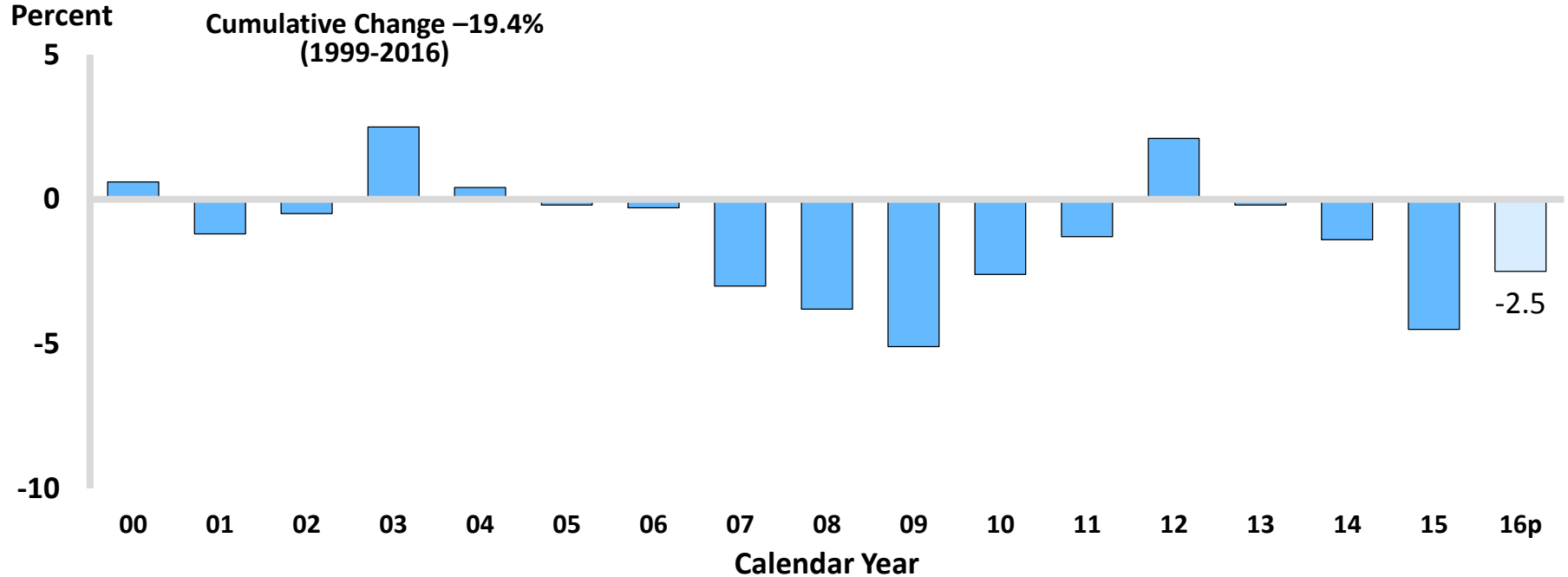
WC Direct Written Premium Growth

Private Carriers



WC Approved Changes in Bureau Premium Level

By Effective Year for NCCI States



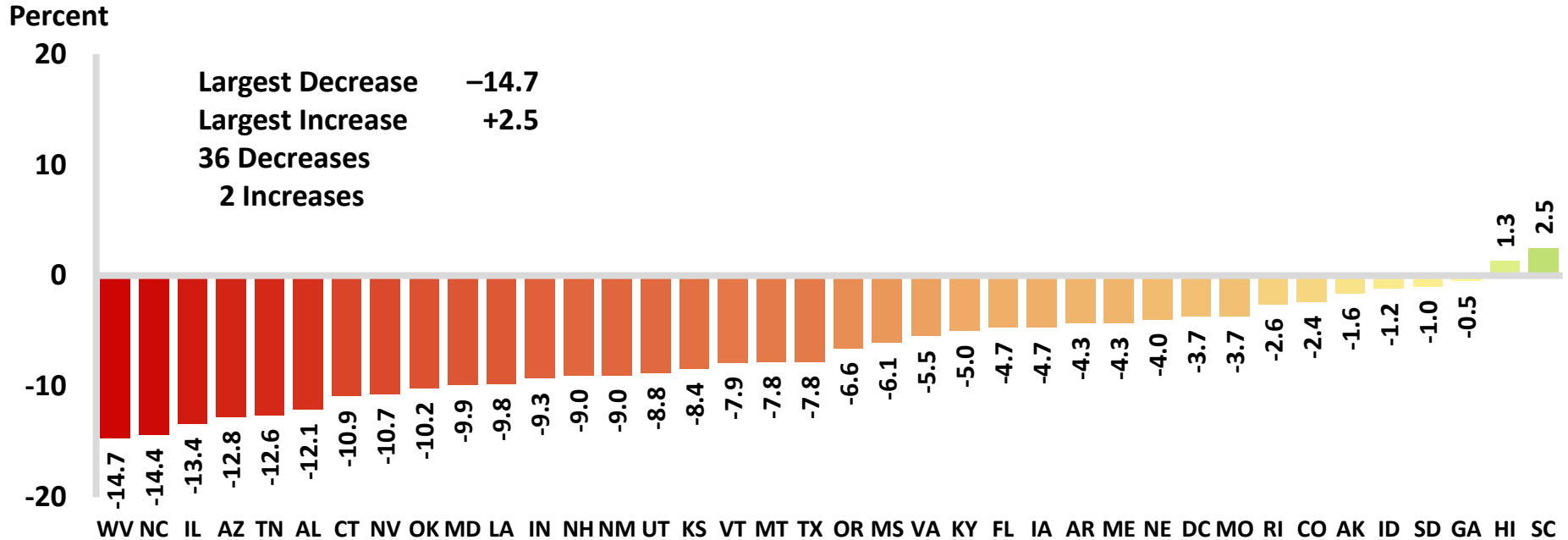
p Preliminary

Bureau premium level changes reflect approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 3/3/2017, relative to those previously approved in NCCI states only

IN and NC are filed in cooperation with state rating bureaus

Latest Changes in Bureau Premium Level

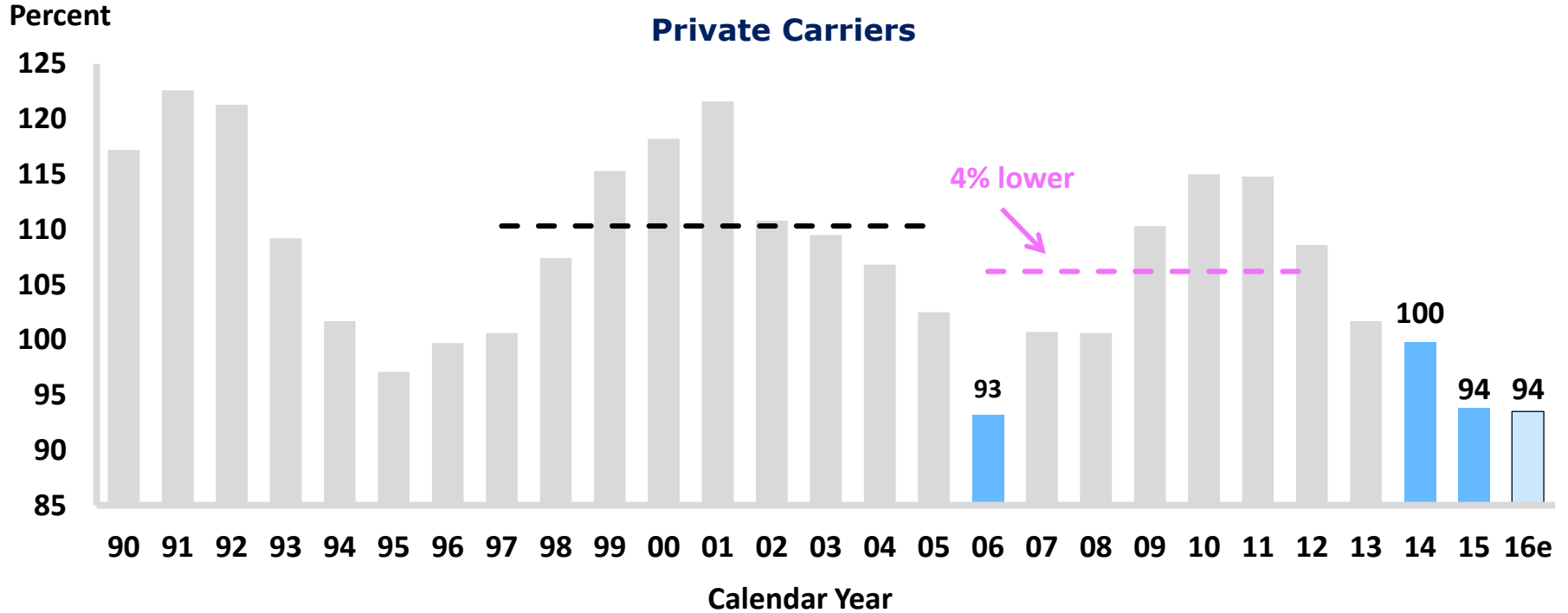
Voluntary Market – Excludes Law-Only Filings



Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 3/3/2017, as filed by the applicable rating organization, relative to those previously approved
 RI and SD are filed and pending
 IN and NC are filed in cooperation with state rating bureaus

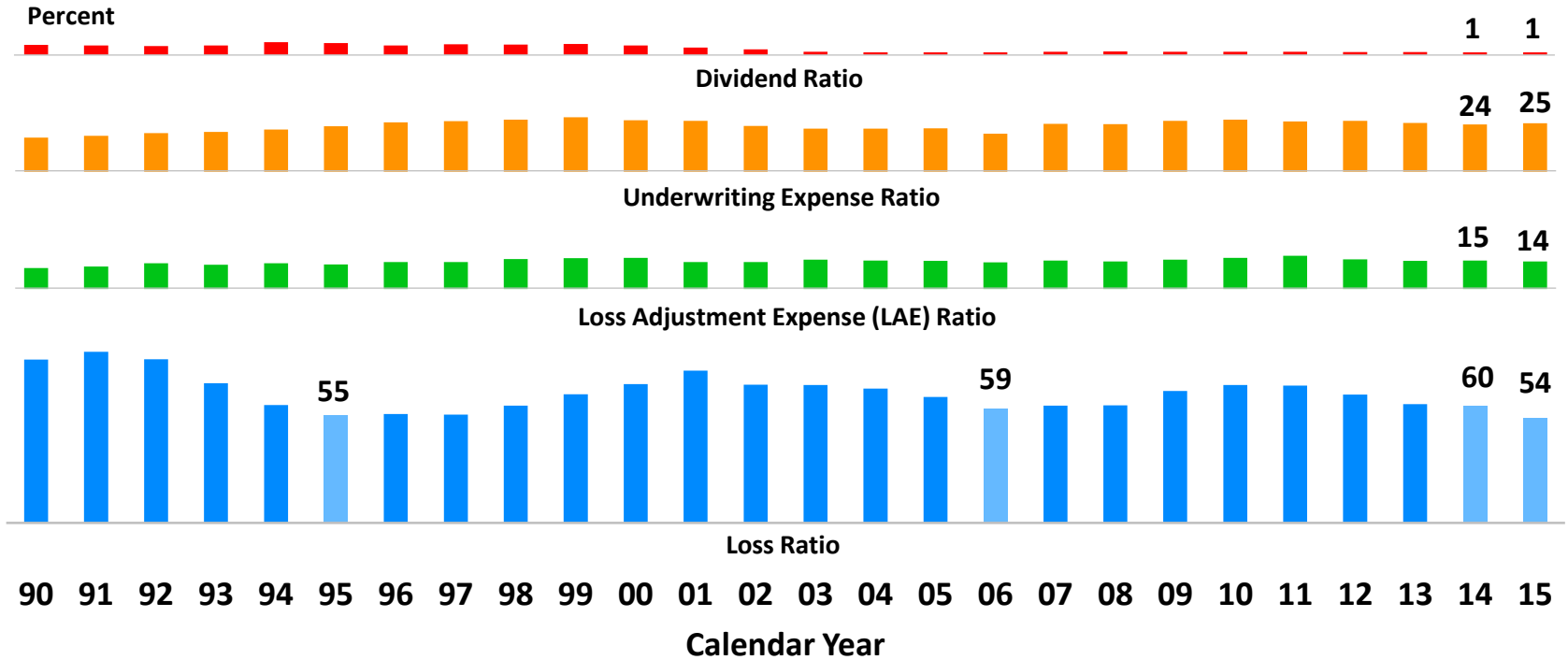
Workers Compensation Results

WC Combined Ratio Underwriting Gain Achieved



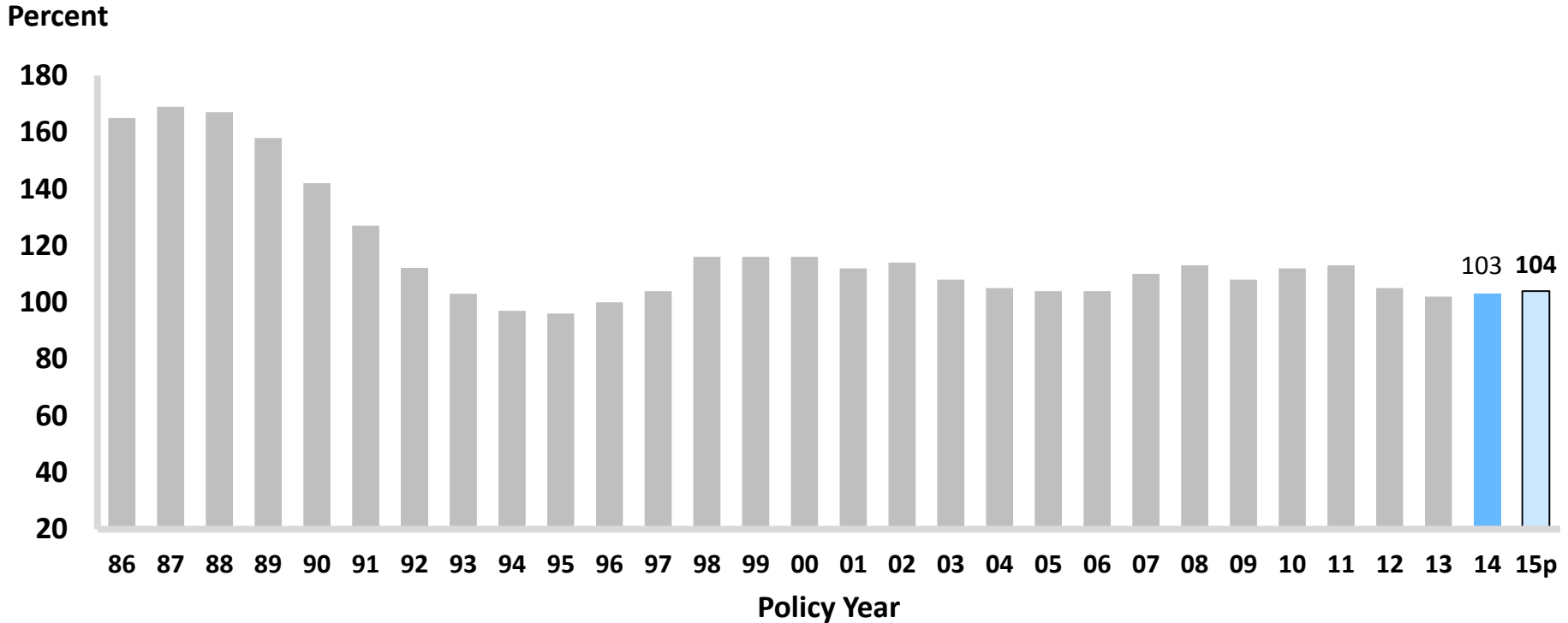
WC Combined Ratio Components

Private Carriers



WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools



p Preliminary, incomplete policy year projected to ultimate

Includes pool data and Plan expenses for pool members for all NCCI-serviced WC residual market pool states valued as of 9/30/2016

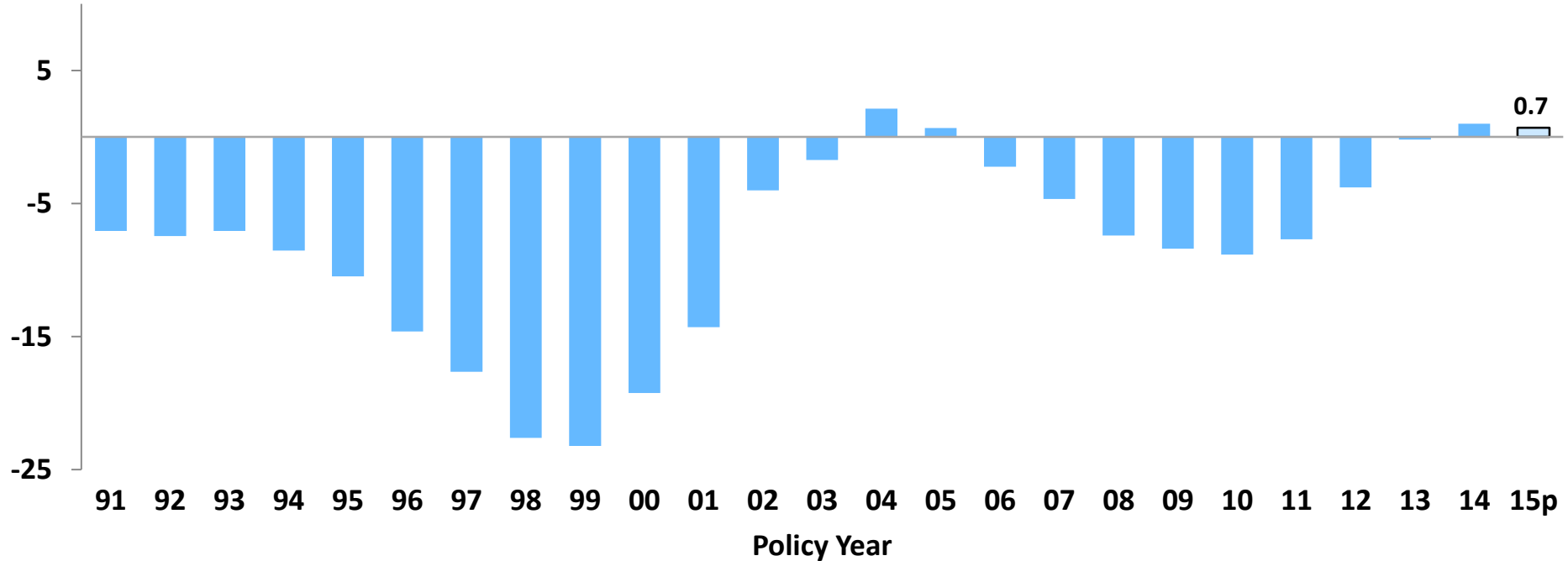
Tennessee Reinsurance Mechanism experience is not included in the combined ratios

Source: NCCI, *Residual Market Quarterly Results*

WC Impact of Discounting on Premium

Private Carriers – NCCI States

Percent



p Preliminary

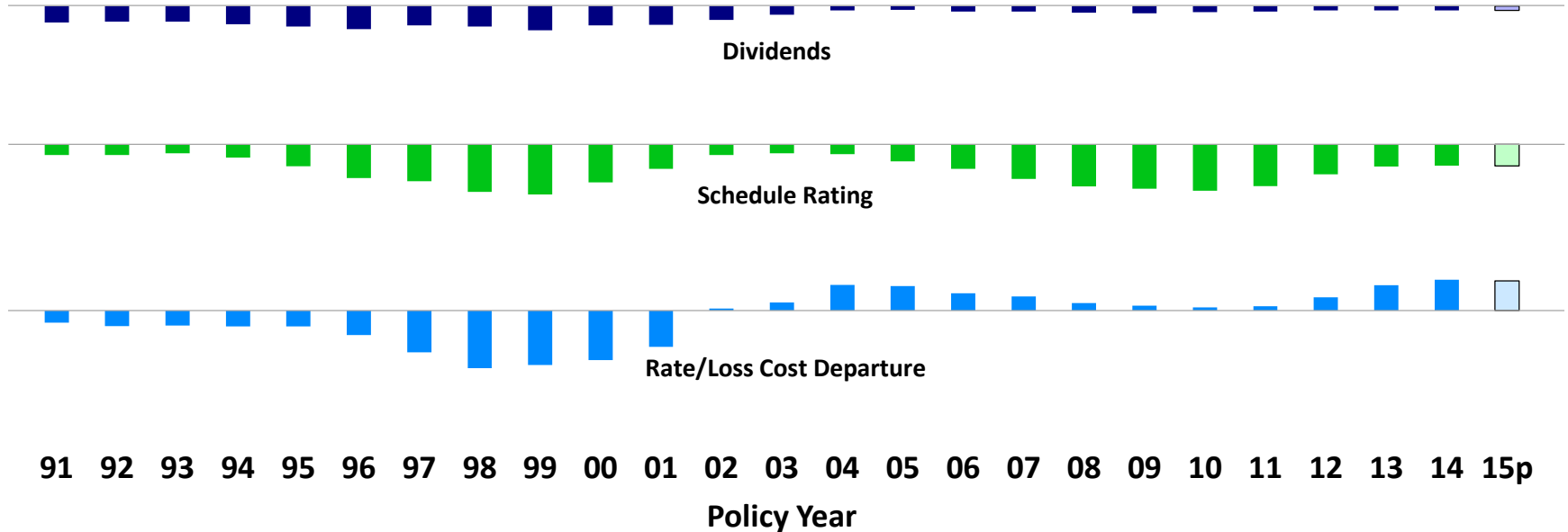
Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data

NCCI benchmark level does not include a profit and contingency provision

Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking services, excluding TX

WC Impact of Discounting on Premium

Private Carriers – NCCI States



p Preliminary

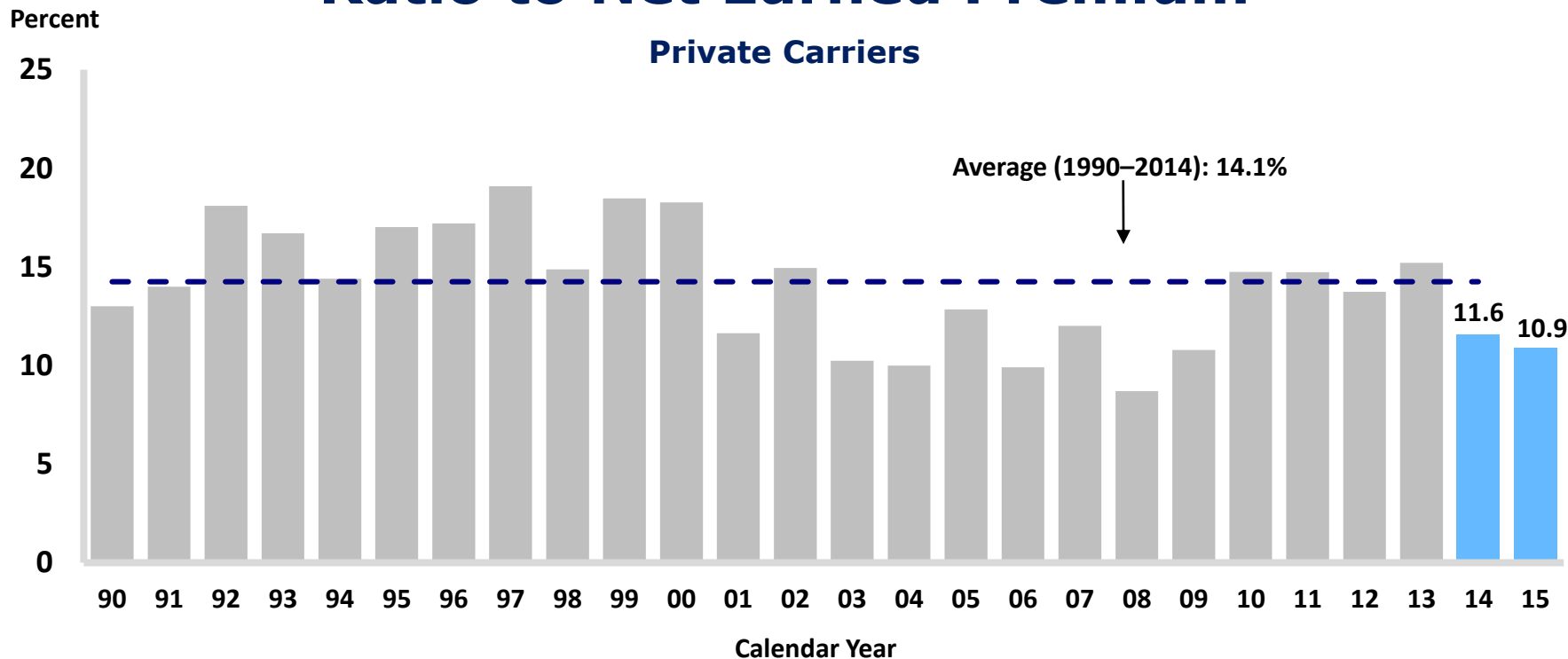
Sources: Annual Statement Statutory Page 14 and NCCI Financial Call data

Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include a profit and contingency provision

Based on data valued as of 12/31/2015 for all states where NCCI provides ratemaking services, excluding TX

WC Investment Gain on Insurance Transactions Ratio to Net Earned Premium



Source: Annual Statement data

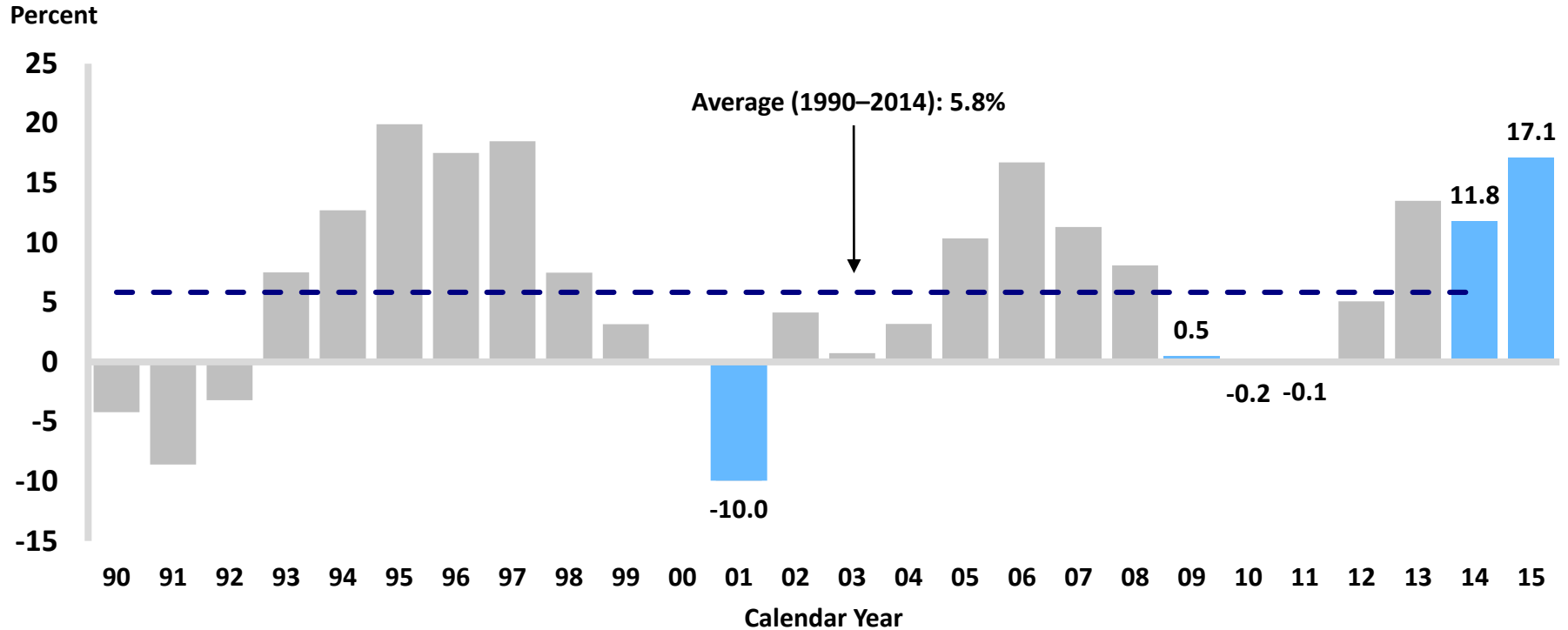
Investment Gain on Insurance Transactions includes Other Income

1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent

2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4

WC Pretax Operating Gain

Private Carriers



Source: Annual Statement data

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

1990 and 1991 adjusted to include realized capital gains to be consistent with 1992 and subsequent

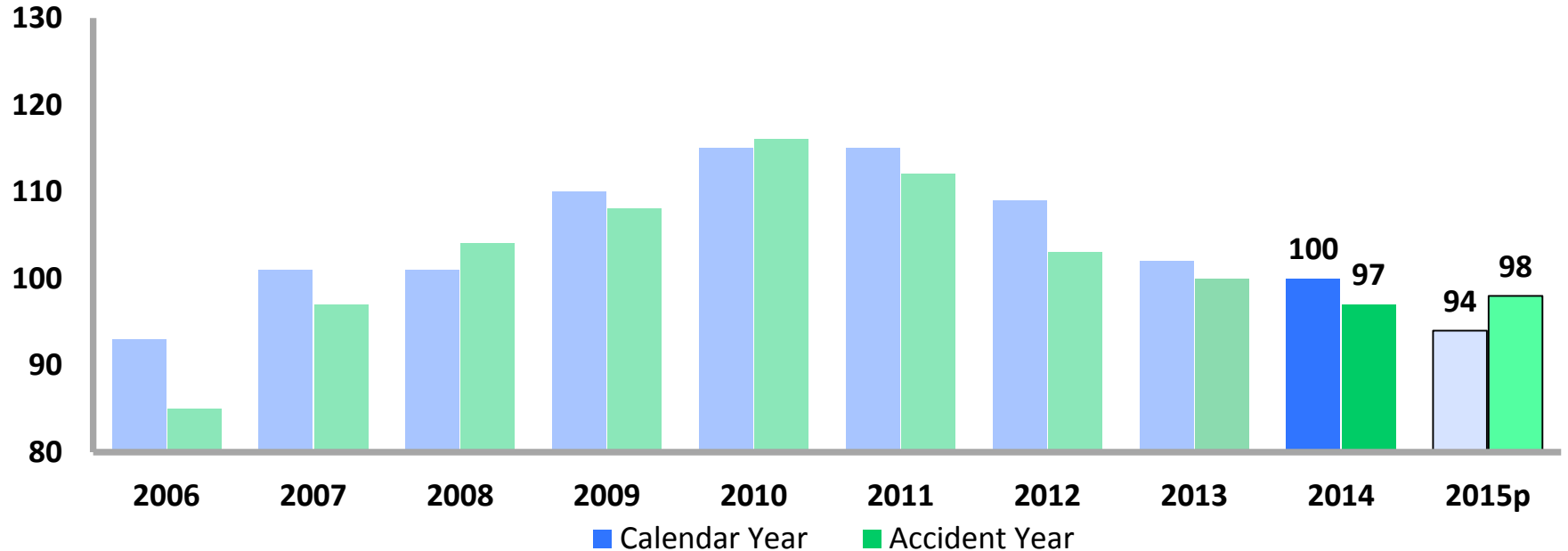
2013 adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; the unadjusted value is 17.7

Workers Compensation Accident Year Results and Reserve Estimates

WC Net Combined Ratios— Calendar Year vs. Accident Year as Reported

Private Carriers

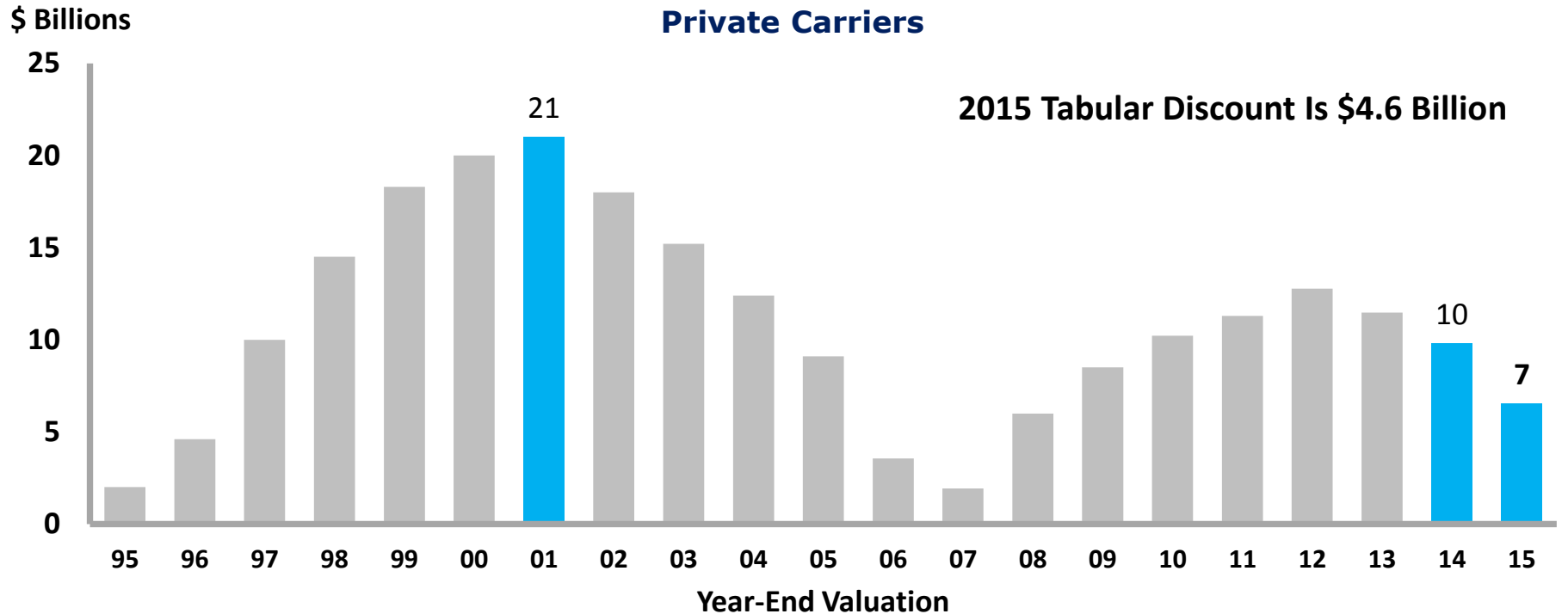
Percent



p Preliminary

Source: NCCI analysis based on Annual Statement data
Accident Year information is reported as of 12/31/2015
Includes dividends to policyholders

Estimated WC Loss and LAE Net Reserve Deficiencies

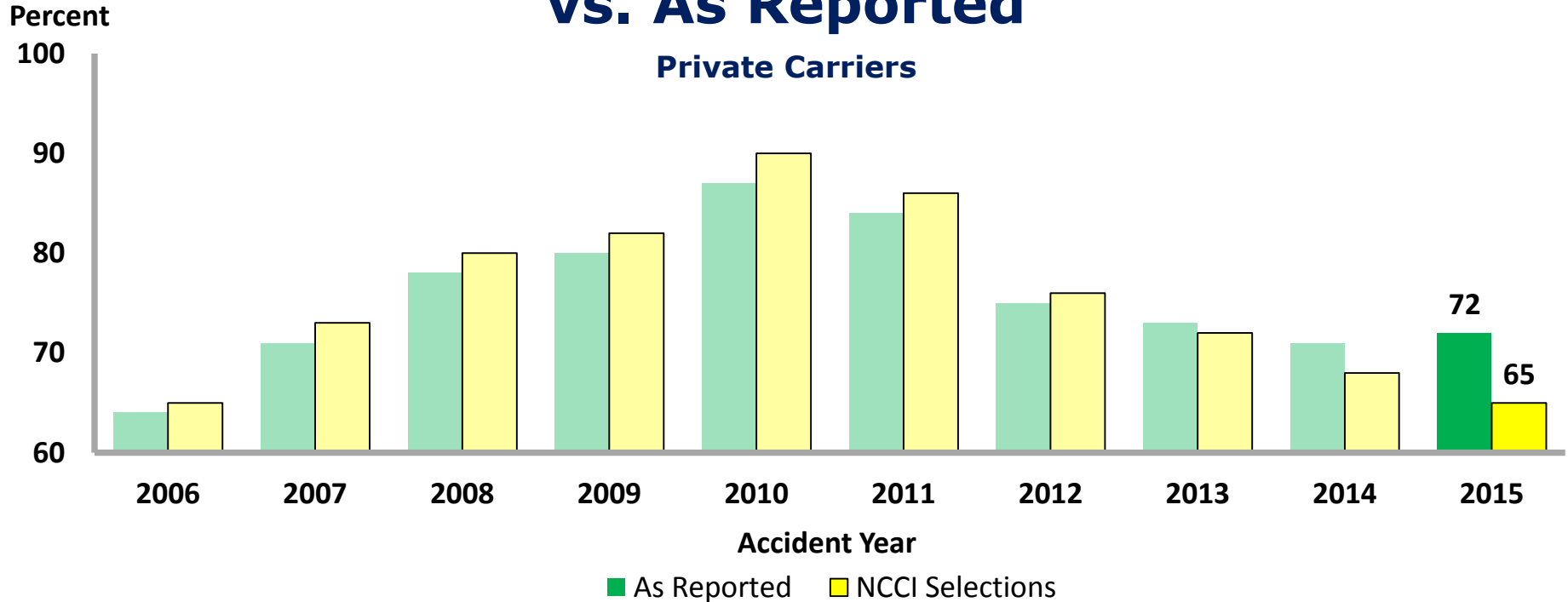


Source: NCCI analysis based on Annual Statement data

Considers all reserve discounts as deficiencies

Estimated reserve deficiencies include the tabular discount (i.e., the statutorily allowed reduction in carried reserves for lifetime pension cases)

WC Net Loss and LAE Ratios— NCCI Ultimate Accident Year Selections vs. As Reported



Sources: As Reported: Annual Statement Schedule P—Part 1D data as of 12/31/2015

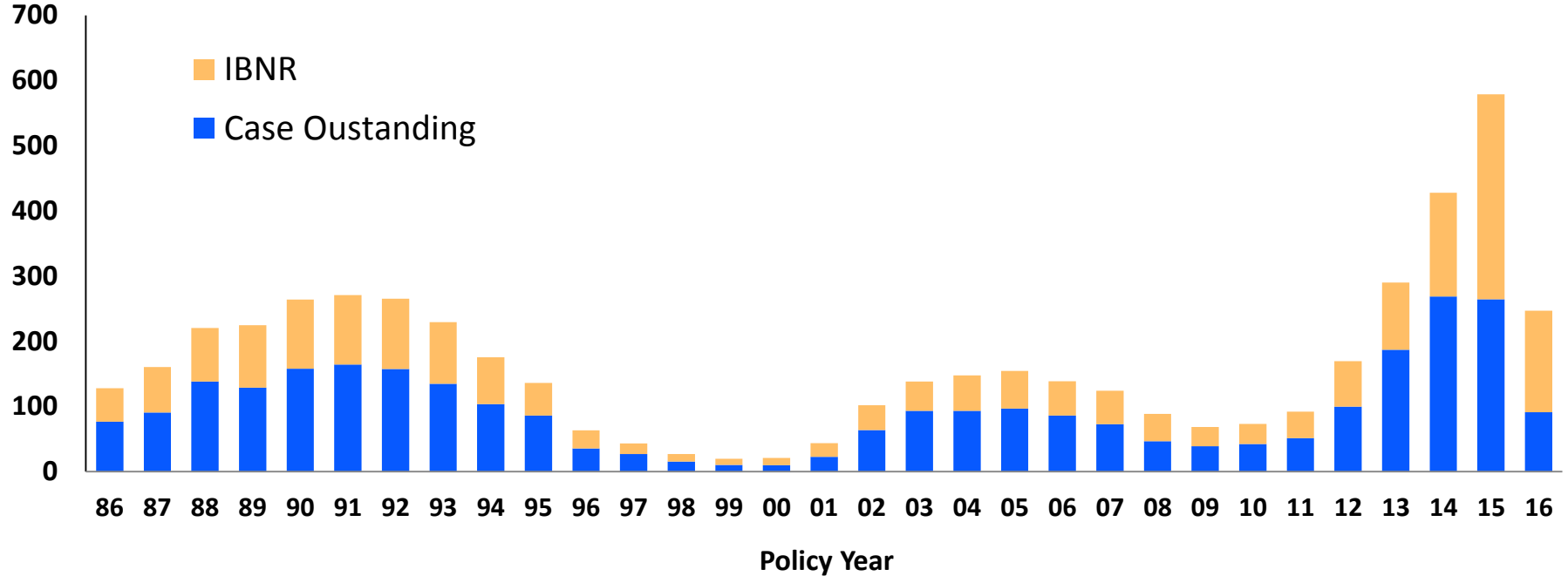
NCCI Selections: NCCI analysis based on Annual Statement data

As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

Residual Market Booked Loss Reserves

All Pools Combined

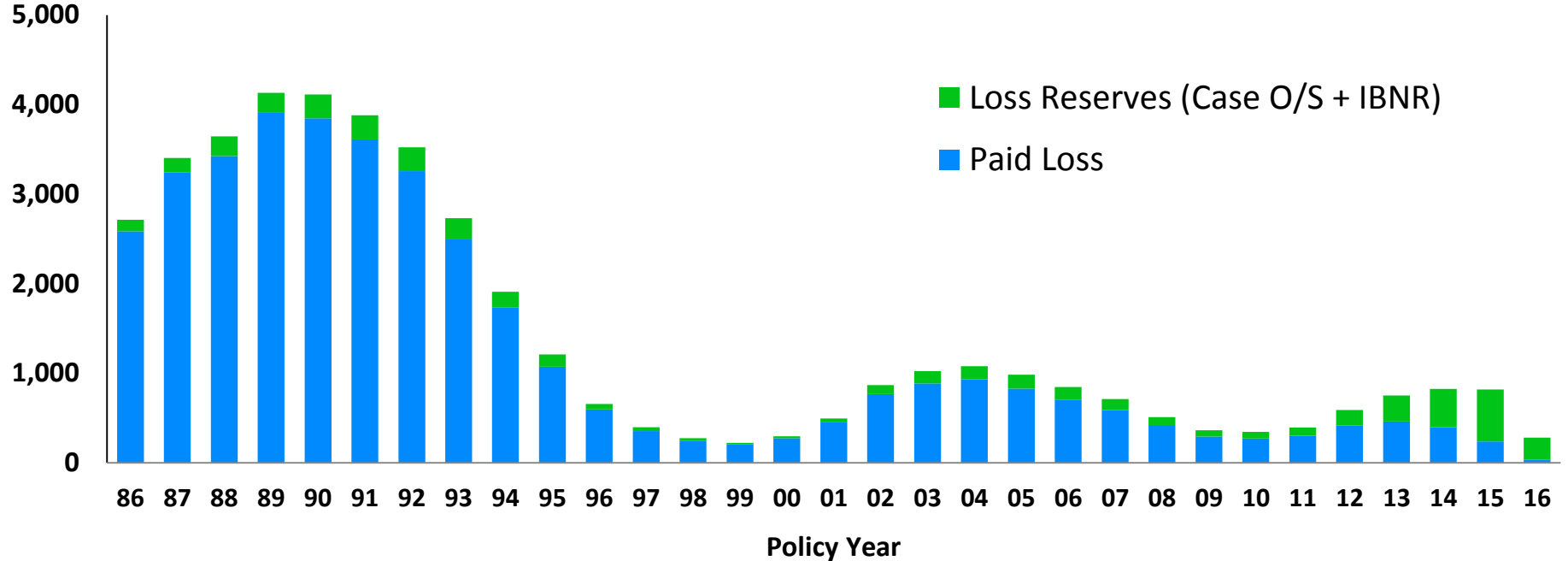
\$Millions



Residual Market Ultimate Loss Projections

All Pools Combined

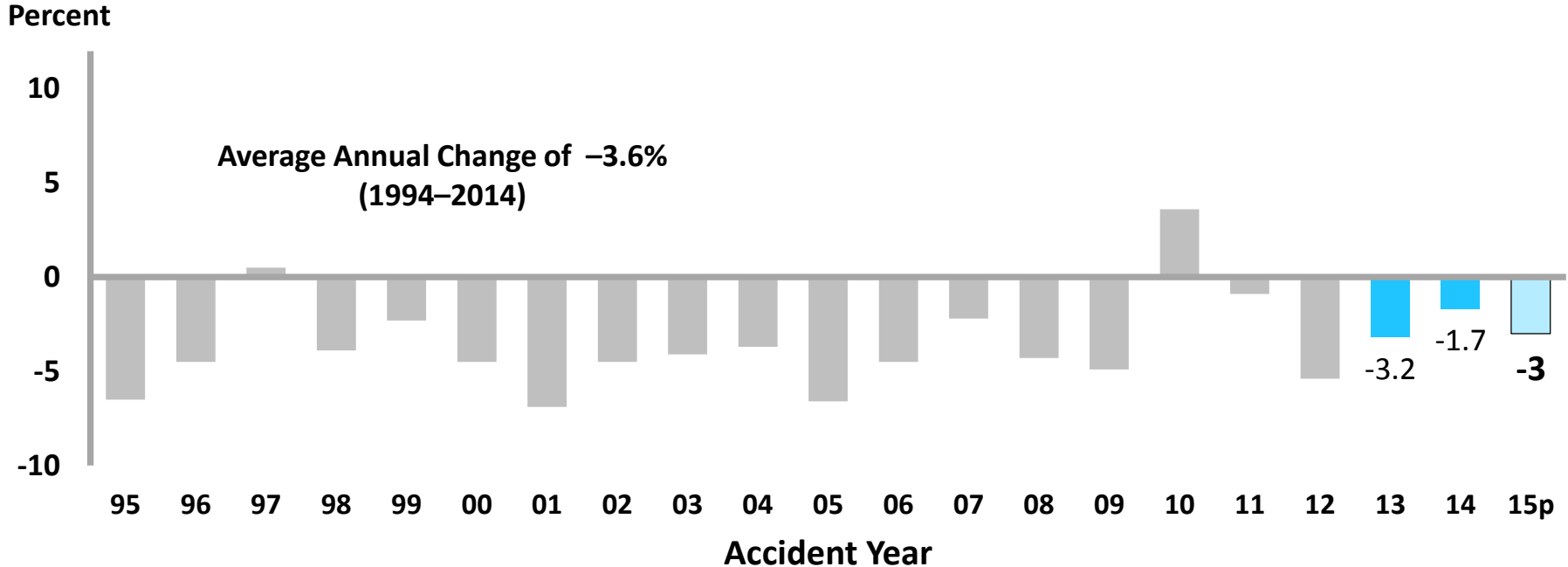
\$Millions



Workers Compensation Loss Drivers

WC Lost-Time Claim Frequency— Change in Lost-Time Claims per \$1M of Pure Premium

Private Carriers and State Funds – NCCI States



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary based on data valued as of 12/31/2015

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level, excludes high deductible policies;

1994–2014: Based on data through 12/31/2014

Includes all states where NCCI provides ratemaking services; WV is excluded through 2014, but included in 2015

WC Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2015

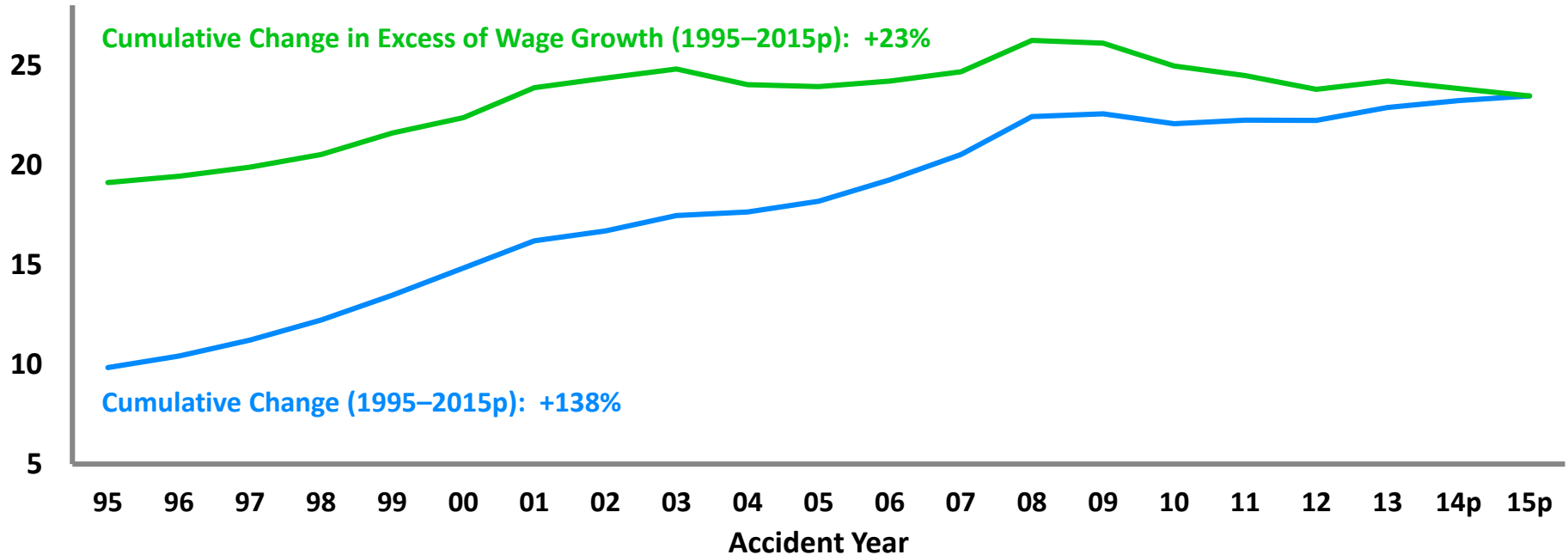
Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

WC Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2015

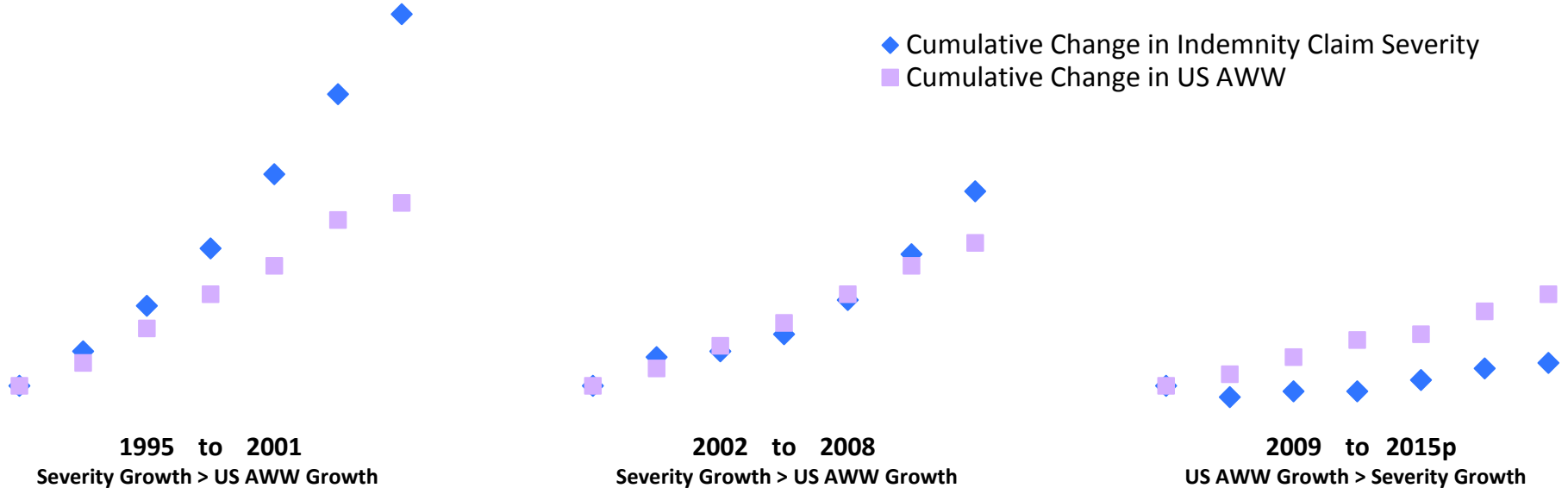
Sources: Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994-2013: Based on data through 12/31/2014

US Average Weekly Wage: 1994-2007 and 2012-2014, Quarterly Census of Employment and Wages; 2008-2011, NCCI; 2015p, NCCI and Moody's Economy.com

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

Relative Growth Rates Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds – NCCI States



p Preliminary based on data valued as of 12/31/2015

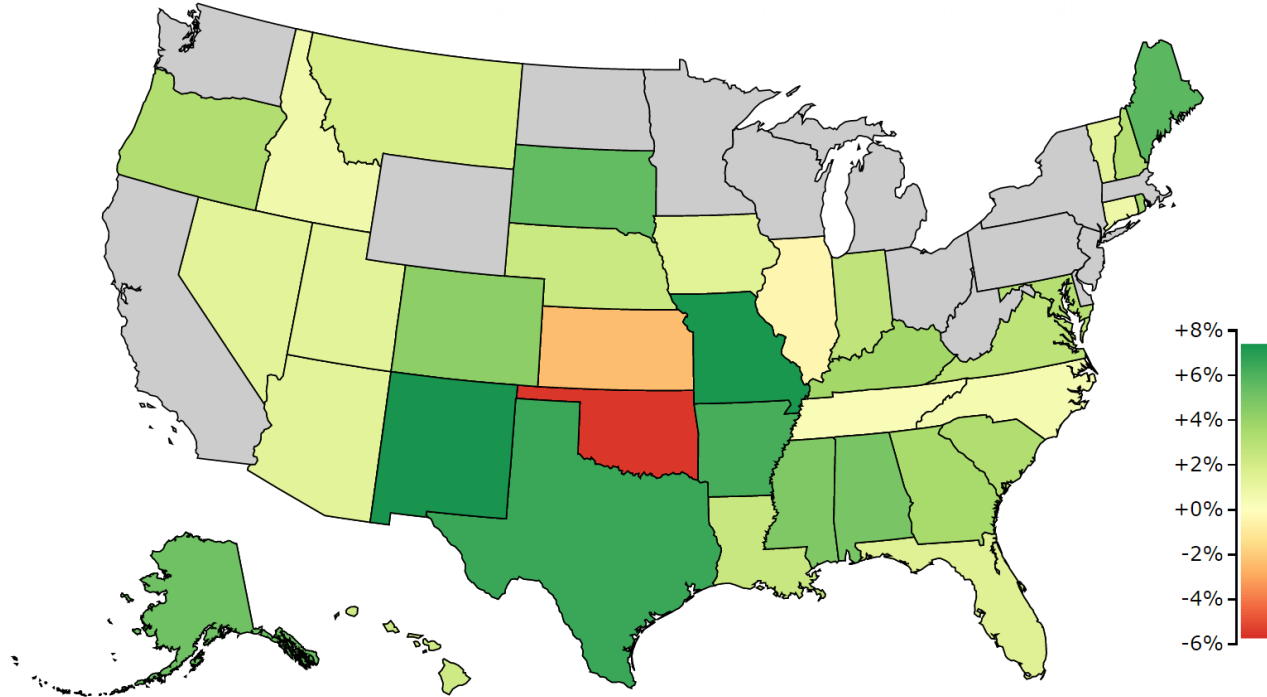
Sources: Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014

US Average Weekly Wage: 1994–2007 and 2012–2014, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2015p, NCCI and Moody's Economy.com

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

WC Indemnity Claim Severity

Average Annual Change 2010-2014

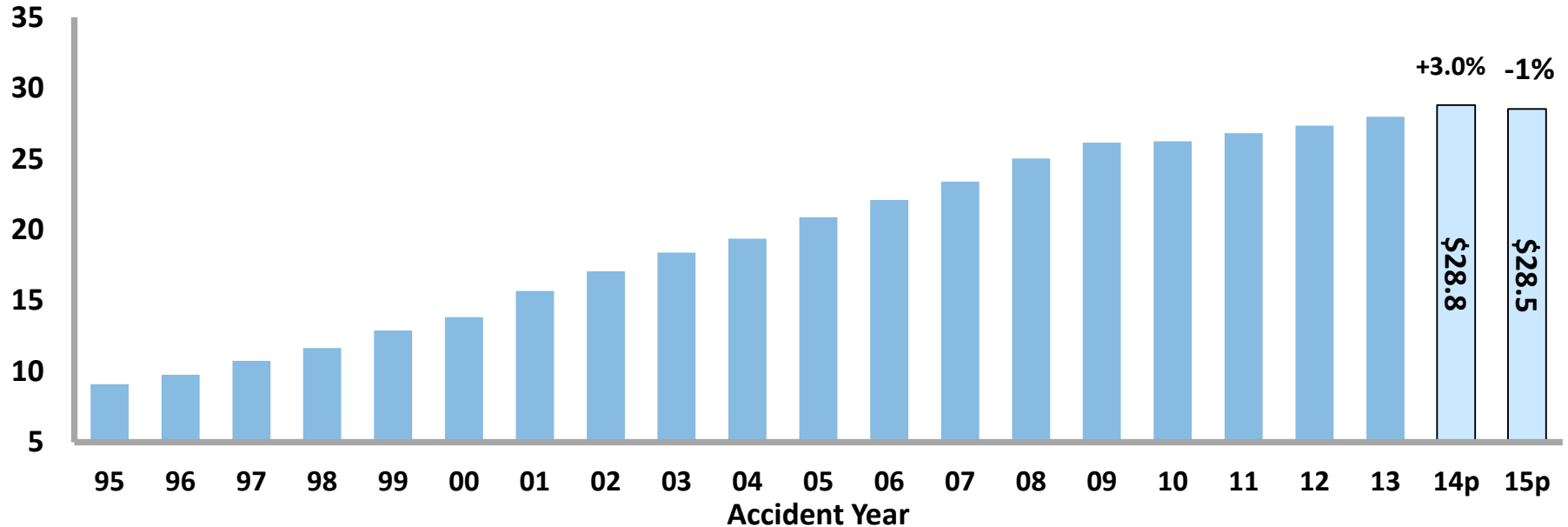


Source: "NCCI Countrywide Frequency and Severity Analysis Using Data Valued as of 12/31/2014" on ncci.com
Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services, excluding WV

WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2015

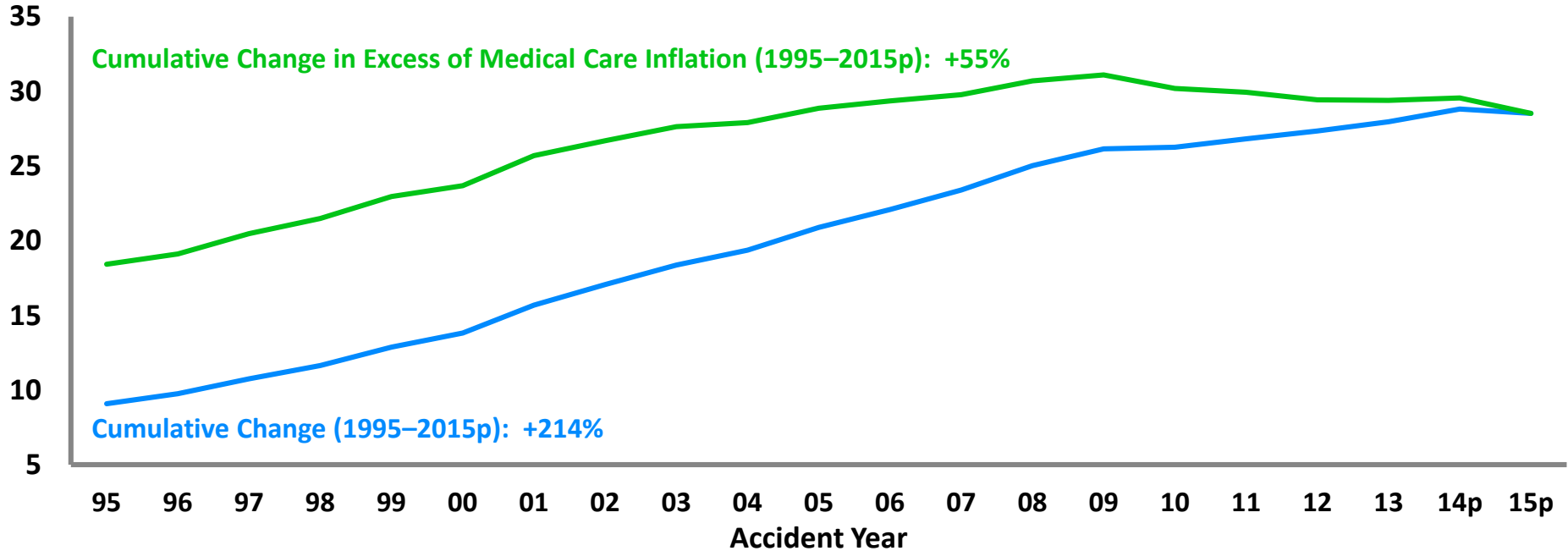
Source: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds – NCCI States

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2015

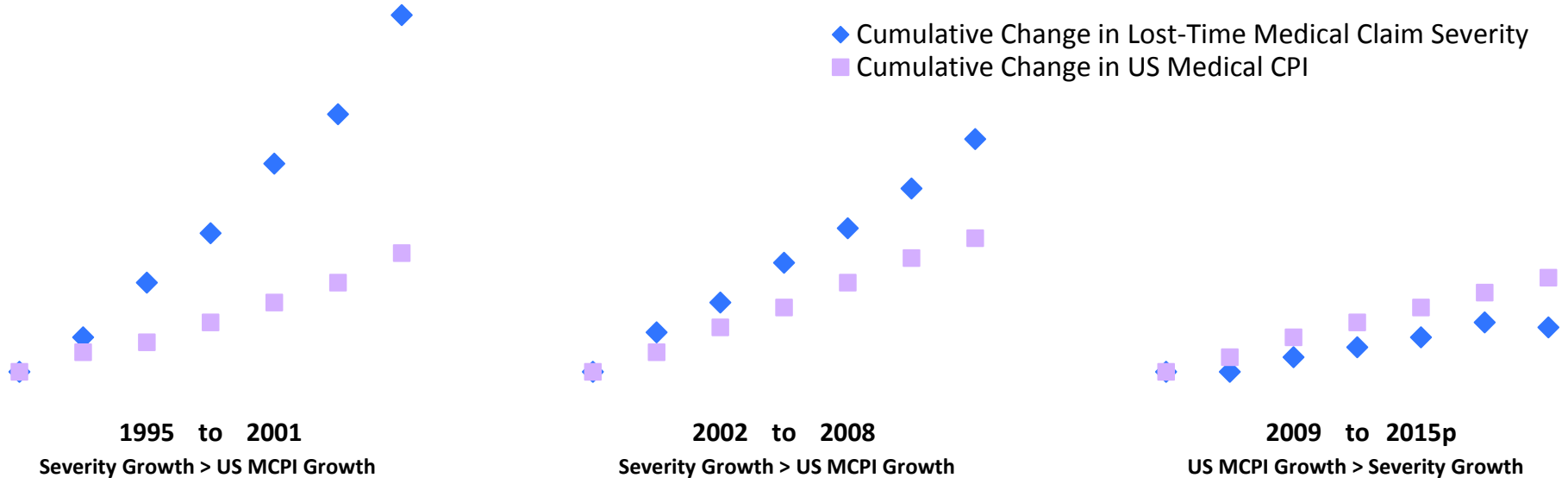
Sources: Severity: NCCI Financial Call data, developed to ultimate, excludes high deductible policies; 1994–2013: Based on data through 12/31/2014

US Medical CPI: US Bureau of Labor Statistics

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

Relative Growth Rates Medical Severity vs. Medical Care Inflation

Private Carriers and State Funds – NCCI States



p Preliminary based on data valued as of 12/31/2015

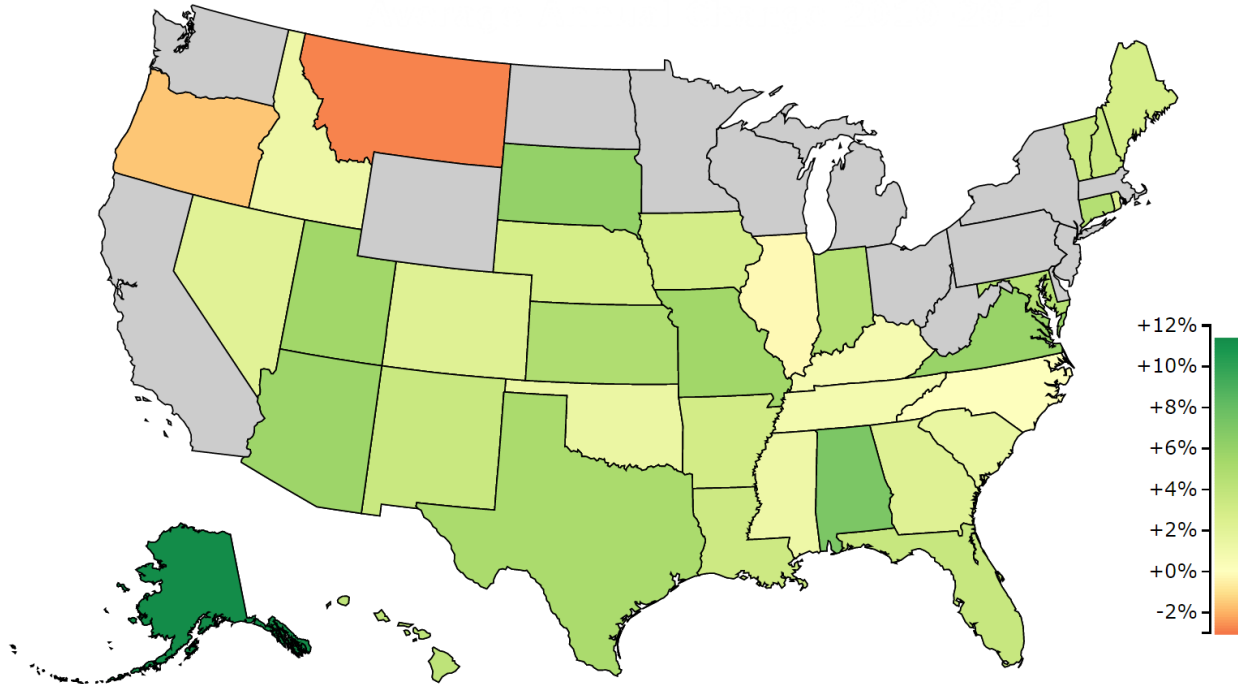
Sources: Severity: NCCI Financial Call data, developed to ultimate; excludes high deductible policies; 1994–2013: Based on data through 12/31/2014

US Medical CPI: US Bureau of Labor Statistics

Includes all states where NCCI provides ratemaking services; WV is included in 2014 and subsequent

WC Lost-Time Medical Claim Severity

Average Annual Change 2010-2014



Source: "NCCI Countrywide Frequency and Severity Analysis Using Data Valued as of 12/31/2014" on ncci.com
Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
For all states where NCCI provides ratemaking services, excluding WV

In Summary

- Workers compensation underwriting gains were achieved in recent years
- The overall reserve position for private carriers has improved in recent years
- Lost-time claim frequency again decreased
- Lost-time claim severity changes were moderate
- Residual market combined ratios have remained manageable