



901 Peninsula Corporate Circle  
Boca Raton, FL 33487-1362  
800-NCCI-123 (800-622-4123)  
**ncci.com**



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# 2014 ANNUAL REPORT HIGHLIGHTS



Stephen J. Klingel,  
CPCU, WCP  
President and CEO  
NCCI

## A LETTER FROM THE PRESIDENT

Our industry enjoyed another positive year of results in 2014.

In fact, 2014 was a good year for both the property/casualty (P/C) industry and the workers compensation line of business. More specifically:

- The workers compensation line posted its first underwriting gain since 2006
- Workers compensation lost-time claim frequency continued its long-term decline, partially offsetting observed modest increases in claim severities
- The P/C industry remained well capitalized

At NCCI, we, too, enjoyed a solid year of results. We met or exceeded all of our corporate goals for the year. And, for a second straight year, we

were able to realize an exceptional result by achieving a 0.0% difference between filed and approved loss costs in NCCI states.

We also saw improved results in the residual markets that NCCI manages. The industry operating loss as a percentage of voluntary premium was held to just 0.4%.

NCCI is also expanding the geographical reach of the services we provide. In July 2015, NCCI became the new residual market Plan and Pool Administrator for the state of Tennessee. This new arrangement follows closely on the heels of our successful collaboration with Texas officials and market stakeholders to manage the full transition of Texas to an NCCI state.

NCCI is the nation's most experienced provider of workers compensation insurance information. We gather data, analyze industry trends, and prepare objective insurance rate and loss cost recommendations. These activities, together with our research, analytical services and tools, and overall commitment to excellence, help foster a healthy workers compensation system. Visit [ncci.com](http://ncci.com).



While these achievements highlight just a few brief examples of NCCI's successful efforts on behalf of the industry during 2014, I think that they are representative of our long-established commitment to offer outstanding service. I invite you to read on for a more complete summary of NCCI's 2014 accomplishments.

So what does a good year for both the industry and NCCI mean for future results?

While I would like to be optimistic about continuing good results for our industry, years of experience have proven that ours is a cyclical business. Unfortunately, warning signs are already on the horizon.

Even now, we are seeing troubling new developments, such as:

- A series of press reports decrying perceived imbalances in the workers compensation system
- Several ongoing state legal challenges to exclusive remedy provisions
- A rapidly evolving workplace that is challenging traditional notions of defining who is an employee and what/where is a proper workplace



- The risk of calls for increased benefits without related cost adjustments

In short, we are seeing too many significant challenges to anticipate anything other than bumpy times ahead.

That's to be expected. And while we cannot always avoid the negative consequences caused by external forces, we can be aware and prepared for how our industry will respond and react. As the saying goes, "forewarned is forearmed."

We've been here before, and I am confident that we will successfully work our way through any new challenges.

In closing, I want to note that 2015 will be my last full year as president and CEO at NCCI. Earlier this year, I notified our Board of Directors that I would be retiring in early 2016.

In leaving, I can state unequivocally that being NCCI's president and CEO has been the most rewarding career experience that anyone could imagine. It has been the perfect culmination of my 42 years in the business.

Today, NCCI is executing its mission incredibly well. That's due to our unbelievably dedicated, experienced, and talented people. I have every confidence that my presence is not required for each one of them to continue to deliver results at an extraordinarily high level.

I want to thank NCCI's employees for their trust and willingness to follow my lead. I also want to thank the many outstanding Board members who have advised and mentored our senior management team during my tenure.

Finally, thanks to all who participate in our system for your willingness to listen to what NCCI has to say, as

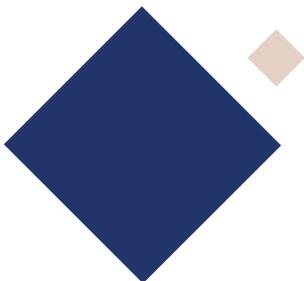
well as your support in giving us the feedback we need to hear.

We appreciate your advice and partnership.

We encourage you to visit **ncci.com** for our in-depth workers compensation industry analysis and frequent updates on NCCI activities. And, as always, we will do our best to surpass your expectations for a successful 2015.



Stephen J. Klingel, CPCU, WCP  
President and CEO



Today, NCCI is executing its mission incredibly well. That's due to our unbelievably dedicated, experienced, and talented people.



NCCI's ability to operate at peak efficiency and effectively manage the critical infrastructure that underpins so much of the workers compensation industry continues to be paramount.

#### **Year in Review**

As America's economy continues to recover and thousands of new jobs are created, NCCI's ability to operate at peak efficiency and effectively manage the critical infrastructure that underpins so much of the workers compensation industry continues to be paramount.

In 2014, NCCI performed exceptionally well in support of key performance metrics established by its Board of Directors, starting with some outstanding loss cost adequacy results. For the second year in a row, NCCI realized a loss cost inadequacy of 0.0% in 2014—an outstanding achievement.

We also saw improved results in the residual markets that NCCI manages. The industry operating loss as a percentage of voluntary premium was held to just 0.4%, compared to a corporate target of a 1.5% burden—an improvement from the 2013 burden of 0.7%. Further, despite significant premium volume growth in the Pools, operating losses remain low.

Significantly, and in the face of stiff competitive challenges, NCCI maintained its residual market franchise in all states. In fact, as noted previously, the company's franchise expanded in July 2015 when NCCI became the new Plan and Pool Administrator for Tennessee.

This is a very positive development. The capability to maintain and expand this line of business speaks to the industry's ongoing confidence in NCCI's unsurpassed experience as a professional and capable manager.

Besides achieving excellent loss cost adequacy results and protecting the residual market franchise, NCCI also successfully managed the final and full transition of Texas to an NCCI state in 2014.

This effort meant securing approvals for the entire NCCI infrastructure, including the **Statistical Plan**, the Experience Rating Plan, and the adoption of **Basic Manual** updates, among other changes. It also involved working closely with stakeholders across our industry, including agents, carriers, trade associations, and the Texas Department of Insurance.

## NCCI'S EXPENSE TO THE INDUSTRY

PER \$100 OF DIRECT WRITTEN PREMIUM



The Texas transition is a welcome change because it adds further infrastructure uniformity and seamlessness to our industry.

### Success on Other Fronts

NCCI was active and successful on a number of other fronts during 2014.

NCCI acted as a valuable resource to several states on initiatives related to developing and revising medical fee schedules. NCCI's Actuarial & Economic Services Division evaluated many proposed fee schedule changes and provided useful information to help regulators make informed decisions. Efforts like these serve to reinforce the value of NCCI's Medical Data Call and the invaluable information that it has produced.

NCCI also gained approval of a new Excess Loss Factor (ELF) filing in every NCCI state. This success represents the culmination of several years of research into a new and improved ELF methodology. ELFs are used in NCCI's Retrospective Rating Plan premium formula, aggregate ratemaking, and class ratemaking. Among other benefits, the new ELF methodology will provide more stability from year to year.

At the federal level, NCCI played an important role in one of the most critical industrywide initiatives of 2014 and early 2015—extending the Terrorism Risk Insurance Act (TRIA).

NCCI was instrumental in educating various federal groups in support of the renewal of TRIA. We also worked

extensively with the National Association of Insurance Commissioners' Terrorism Insurance Working Group and joined other industry stakeholders in helping to underwrite a RAND Corporation study on the reasons to renew TRIA and the potential impact on workers compensation.

Finally, NCCI worked closely with other stakeholders when the TRIA extension failed, at first, to pass in late 2014—and after it *did* pass in early 2015—to ensure that the proper endorsements, filings, and other critical industry infrastructure were in place as quickly as possible.

### Meeting Corporate Goals on Data Availability

Apart from our successful government affairs work, NCCI is perhaps the most important industry touchpoint when it comes to data collection and analysis. To maintain that leadership role, we need to work with stakeholders across the industry to support data accuracy and availability.

In 2014, NCCI once again exceeded corporate goals on data availability, with 99.1% of unit reports available by the due date and 100% of states meeting the financial data threshold.

NCCI's data providers appreciated our efforts to make data accurate



Moody's cited NCCI's "dominant market position" and "increasingly lean organization." Moody's also recognized management's efforts to contain expenses and improve operating efficiency.

and available and expressed their overwhelming satisfaction in customer surveys. Those customers also responded positively to NCCI's improved and growing **Data Educational Program**, designed to help build better partnerships and communication with data providers.

While NCCI has a long-standing reputation for technical expertise in the traditional data collection and analysis fields, last year we expanded our technical capabilities to develop our first mobile app for our **Workers Compensation Coverage Verification** product.

The new app allows users—typically injured workers, doctors, lawyers, medical claims processors, and general contractors—to determine the status of a particular employer's workers compensation coverage on a particular date in a particular state. Users can instantly access all 32 Proof of Coverage states from the mobile app—a significant increase in customer convenience in a mobile world.

This is a major step forward, and NCCI will continue to move applications toward mobile platforms in the future.

#### **Responsible Fiscal Management**

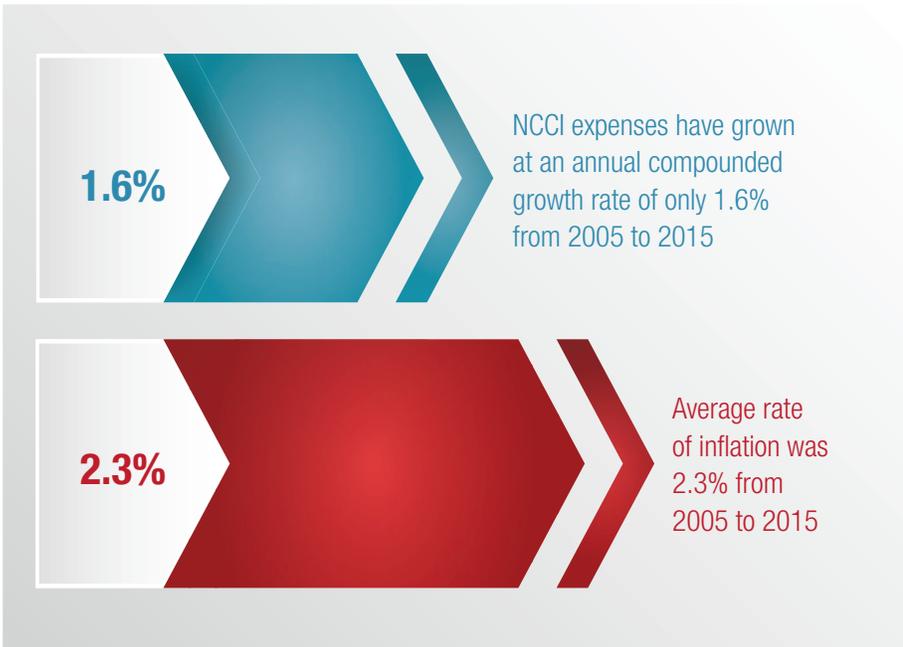
NCCI's financial results for 2014 were strong once again. Gross revenue before credits exceeded the plan by \$2.3 million, and expenses were below budget by \$4.2 million.

Every year, company leadership and the Board seek to limit NCCI's financial burden to the industry by only collecting the revenue needed to manage operations. In 2014, the total amount of fees collected by NCCI from its customers was \$7.7 million lower than in the prior year. This is a testament to our ongoing effort to manage expenses, and it offers proof of the solid financial stewardship that NCCI exercises throughout the year.

That leadership was recognized again when Moody's released its A2 credit rating for NCCI. In publishing its rating, Moody's cited NCCI's "dominant market position" and "increasingly lean organization." Moody's also recognized management's efforts to contain expenses and improve operating efficiency.

## MAINTAINING FISCAL DISCIPLINE 2005 TO 2015

NCCI EXPENSES HAVE GROWN WELL BELOW INFLATION RATE



Because we operate in a dynamic market, NCCI's not-for-profit operating philosophy periodically requires us to review the revenue structure and make adjustments to best align revenues with expenses. In fact, NCCI recently completed the last phases of a multiyear effort to implement a new pricing structure.

NCCI's ability to constantly scrutinize and update its management of financial resources, while limiting its industry burden, is central to our ongoing success.

### Maintaining Customer Satisfaction

NCCI's key customers, including carrier executives, regulators, data providers, and others, are surveyed annually to gauge their level of satisfaction. That feedback informs action

items for future process and service improvements.

Last year, NCCI's broad customer constituency voiced its strong satisfaction through high scores—in some cases, historically high scores—in virtually all of the surveyed areas.

Part of that positive customer response is due to the successes already mentioned. But there's much more, including new technology initiatives, such as:

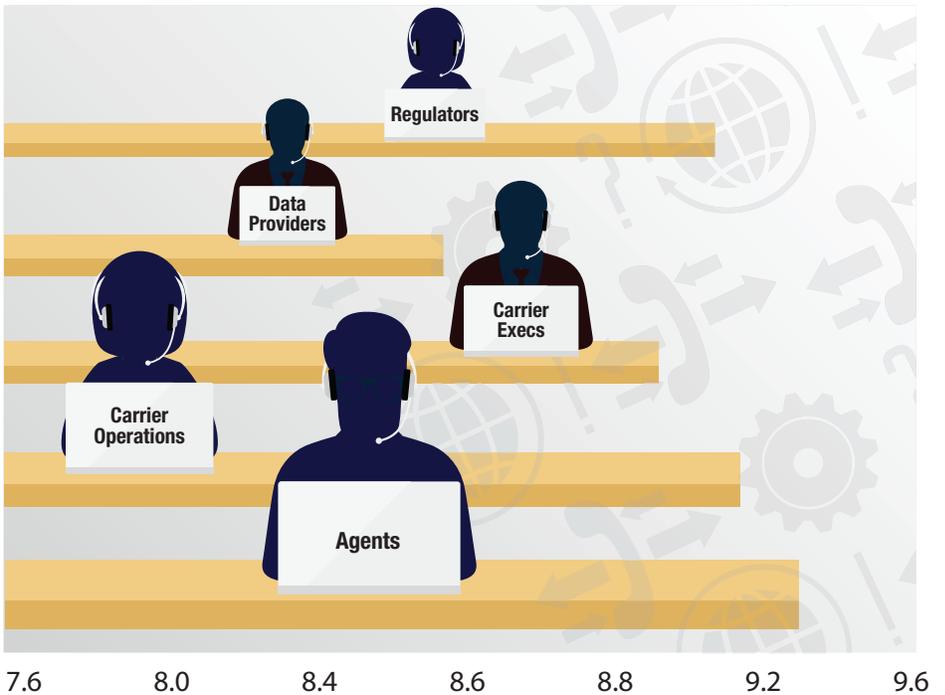
- New **Policy Data Collection** tools in both **DCA Access® Online** and **Data Manager Dashboard**
- The release of a new **Riskworkstation™** tool
- The introduction of a new Online Reference Library



NCCI regularly hosts open houses, workshops, educational seminars, and hundreds of one-on-one meetings. These events enable us to hear regularly from customers and learn what is most important to them.

## EXCELLENT CUSTOMER SERVICE IN 2014

ACTUAL SURVEY RESULTS



These tools replaced outdated predecessors and better utilize current technological platforms, including offering mobile access to some of NCCI's most accessed products and services. These innovations have been welcomed by our constituents for both their form and function.

In education and research, NCCI continued to be an industry leader, publishing exclusive information on topics such as the price impact of physician fee schedules, Medicare Set-Asides, claimant age and medical costs, and report lag and severity. These research studies are delivered to the public at no charge

and can be downloaded from NCCI's website, [ncci.com](http://ncci.com), at any time.

Finally, and perhaps most importantly, NCCI continued to engage directly with key stakeholders across all industry interests and disciplines.

This effort culminates each year at our **Annual Issues Symposium (AIS)**. **AIS** is broadly recognized as a must-attend event for influential industry leaders who benefit from its thought-provoking material and invaluable networking opportunities. According to attendees, no other industry event provides such insightful, relevant content. In fact,

surveyed audience members have given the symposium a satisfaction score above 9 (out of 10) for the past six consecutive years.

In addition to **AIS**, NCCI regularly hosts open houses, workshops, educational seminars, and hundreds of one-on-one meetings. These events enable us to hear regularly from customers and learn what is most important to them.

### The Year Ahead

Looking forward to the remainder of 2015 and beyond, we are hopeful that the recent positive industry results will continue, but we know that ours is a cyclical business and we stand ready to adapt to any new challenges.

In the meantime, NCCI remains focused on delivering outstanding services in support of the industry, specifically:

- Ensuring the adequacy of loss costs and rates across all NCCI jurisdictions
- Collecting timely, high-quality, and relevant data for use in core services
- Managing the residual markets effectively
- Delivering highly accurate legislative pricing
- Building the company's reputation for thought leadership
- Maintaining fiscal discipline and best management practices

In addition, NCCI will continue to monitor and report on any unexpected developments that appear capable of negatively affecting industry results.

While we fully expect to once again be challenged to maintain a high level of accomplishment and success in 2015, NCCI remains confident that the company has the institutional knowledge, the long industry experience, and the leadership required to enjoy a long and successful future.



# INSIGHTS

INTO OUR

# SUCCESS

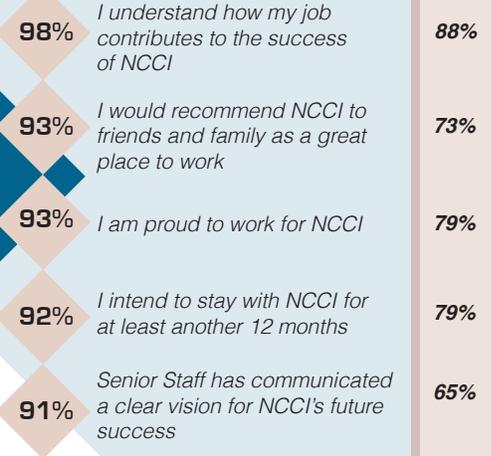
Take a glimpse at the core of NCCI and you will find employees who are motivated by the opportunity to do challenging and interesting work. They also feel rewarded to work for the best and do their best work every day.

Employees are dedicated to our mission to foster a healthy workers compensation system. They are focused on industry needs and seek ways to serve our customers better. No two employees are alike, but they work in concert to achieve the high standards that have made NCCI an industry leader.

## An Employer of Choice

Our success is based on a culture of integrity, respect, quality and excellence, responsibility, and commitment. These values dictate our approach to everything we do. In fact, a recent Employee Engagement Survey, conducted by an outside firm, confirmed a strong connection between employees and the organizational values. Employee responses represent important reasons why they choose to work and stay at NCCI. Our scores exceed the national benchmarks.

### EMPLOYEE SURVEY SCORES



NCCI employees  
Kim Helwig, Jim Murray, and Nadege Bernard-Ahrendts

## People Make the Difference

Ambition and a thirst to learn new things led **Kim Helwig** to participate in a rotational program in the Finance Division. She will spend 18 months in the Tax, Financial Planning and Procurement, and Treasury Departments. Kim will gain extensive knowledge of NCCI's financial operations along the journey, which positions her for future leadership opportunities.

As NCCI's Corporate Information Security Executive, **Jim Murray** is responsible for securing NCCI's data center systems, networks, and 150 terabytes of data. Starting in our Customer Service Center 20 years ago, Jim has carved his own niche in Information Security—one class, one certification at a time.

Since joining the company 15 years ago, **Nadege Bernard-Ahrendts**, director and actuary, has passed all of the required actuarial exams to advance her career. Today, she is the lead for class ratemaking and oversees the production of class loss costs/rates for all NCCI states. She is also the state actuary for Missouri and Louisiana, and she manages a team that produces the year-to-year change (rate indications) for those states.

## Living Responsibly

We embrace our people, practices, community, and environment through adherence to our values and strong Corporate Social Responsibility program.



We seek to bring out the best in our **people**



We honor a high code of ethics and transparency in our **practices**



We connect people who care with causes that matter in the **community**



We support sustainable practices that enrich the **environment**



## Nationally Recognized for Excellence

Top-notch employees want to work for great companies.

And NCCI has much to shout about. Awards validate NCCI's achievements and recognize outstanding talent, innovation, and leadership. National and local organizations recognized our efforts in information technology, community engagement, and marketing communications. A few awards include:

- **The Ultimate CIO Award** from the *South Florida Business Journal*
- **Leadership in Community Service Award** from *Communitas*
- **Leader in CSR practices** from *PR News*
- **Excellence in Print Award** from *APEX*



## In the News

NCCI is recognized as one of the most innovative thought leaders in the industry, which draws trade media seeking information from NCCI. We answer questions and provide market insight regularly—from our cutting-edge research reports, to the industry outlook provided each year at the **Annual Issues Symposium**, to queries on rate filings, and even requests for informative op-eds.

Our activities and leadership in the community also create news and social media buzz. NCCI appeared in more than 130 articles and photos spotlighting the company's best practices and community impact.

## Driving Change by the Numbers

**476**

Pairs of shoes donated to In Jacob's Shoes

**240**

Pounds of candy collected for our troops overseas

**112**

Runners on NCCI's team for Lynn Cancer Institute's Run for the Ribbons

**1st Place**

Award presented to NCCI at YMCA's Corporate Cup Challenge

**Top 5**

NCCI's ranking for one of the most successful United Way of Palm Beach County campaigns

## Annual Issues Symposium Highly Valued

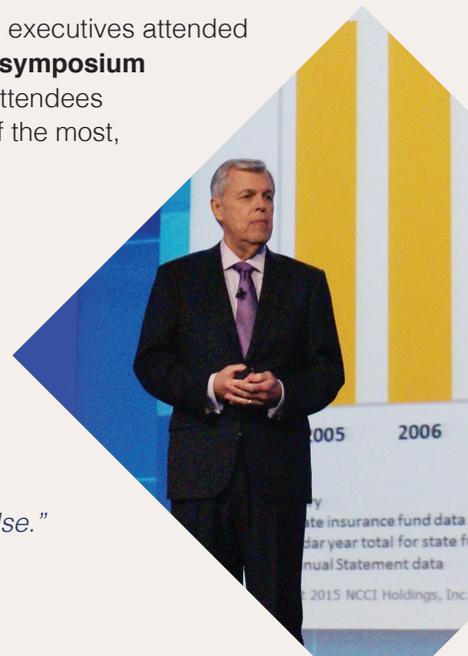
Our **Annual Issues Symposium (AIS)** is the industry's premier event to learn what's happening in workers compensation—through exclusive reports on industry trends, outlook, and research.

More than 800 senior workers compensation executives attended **AIS** in 2014 and gave it the **highest valued symposium rating** to date (9.15 out of 10), with 97% of attendees agreeing that the event is the most, or one of the most, valuable in the industry.

*"The presentations are the best in the industry."* Carrier, COO

*"It was great. It is valuable to stay aware of the topics that come up each year and to get NCCI's assessment of the projections in the industry."* State Insurance Commissioner

*"The research sessions are cutting edge. You can't get that information anywhere else."* Reinsurer, VP



# Consolidated Condensed Balance Sheets

NCCI Holdings, Inc. and Subsidiaries  
 December 31, 2014 and 2013  
 (in thousands)

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Current assets	\$ 42,458	\$ 45,210
Property and equipment—net	57,831	61,114
Investment securities—deferred compensation plans	13,189	11,844
Investment securities—held to maturity	16,215	16,319
Retirement plan asset—net	4,395	7,109
Goodwill	5,265	5,850
Deferred income tax asset	8,407	6,452
Other assets	3,298	3,402
<b>TOTAL</b>	<b>\$151,058</b>	<b>\$157,300</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Current liabilities	\$ 27,564	\$ 29,476
Accrued pension and postretirement benefit obligations	23,723	26,331
Senior unsecured notes	40,000	40,000
Other noncurrent liabilities	17,050	15,626
<b>Total Liabilities</b>	<b>108,337</b>	<b>111,433</b>
<b>MEMBERS' EQUITY:</b>		
Members' capital contribution	10,053	10,053
Retained earnings	39,483	41,499
Accumulated other comprehensive loss	(6,815)	(5,685)
<b>Total Members' Equity</b>	<b>42,721</b>	<b>45,867</b>
<b>TOTAL</b>	<b>\$151,058</b>	<b>\$157,300</b>

*A full financial report, including an audited statement, is available for members on [ncci.com](http://ncci.com).*

# Consolidated Condensed Statements of Operations

NCCI Holdings, Inc. and Subsidiaries  
For the Years Ended December 31, 2014, 2013, and 2012  
(in thousands)

	Years Ended December 31		
	2014	2013	2012
<b>NET SALES</b>	\$152,609	\$160,322	\$154,489
<b>OPERATING EXPENSES:</b>			
Salaries and payroll taxes	95,276	92,705	90,304
Employee and postretirement benefits	22,287	23,631	22,394
Depreciation and amortization	10,565	10,928	11,400
Computer hardware and software expenses excluding depreciation	7,202	8,835	9,348
Occupancy expenses excluding depreciation	4,809	4,760	4,640
Other operating expenses	15,352	14,814	14,371
<b>Total Operating Expenses</b>	155,491	155,673	152,457
<b>(LOSS) INCOME FROM OPERATIONS</b>	(2,882)	4,649	2,032
<b>INTEREST AND OTHER INCOME (EXPENSE)</b>	93	(3,212)	(1,527)
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	(2,789)	1,437	505
<b>INCOME TAX (BENEFIT) PROVISION</b>	(773)	835	490
<b>NET (LOSS) INCOME</b>	\$ (2,016)	\$ 602	\$15

# Consolidated Condensed Statements of Cash Flows

NCCI Holdings, Inc. and Subsidiaries  
For the Years Ended December 31, 2014, 2013, and 2012  
(in thousands)

	Years Ended December 31		
	2014	2013	2012
<b>Operating Activities Cash Flows</b>			
Net (loss) income	\$ (2,016)	\$602	\$ 15
Noncash adjustments	9,908	8,559	14,084
Changes in operating assets and liabilities	(4,679)	4,764	380
Cash flows from operating activities	3,213	13,925	14,479
<b>Investing Activities Cash Flows</b>			
Purchases of property and equipment	(3,184)	(5,400)	(2,697)
Capitalized internally developed software	(3,424)	(5,052)	(4,174)
Purchases of investment securities	(9,590)	(10,343)	(16,480)
Maturities and sales of investment securities	7,398	10,150	7,489
Other cash provided from investing activities, net	4	115	1
Net cash used in investing activities	(8,796)	(10,530)	(15,861)
<b>Financing Activities Cash Flows</b>			
Proceeds from borrowings	—	40,000	—
Payments on notes payable	—	(55,000)	—
Payments on deferred financing costs	—	(195)	—
Net cash used in investing activities	—	(15,195)	—
Net Decrease in Cash and Cash Equivalents	(5,583)	(11,800)	(1,382)
Cash and Cash Equivalents—Beginning of Year	23,420	35,220	36,602
Cash and Cash Equivalents—End of Year	\$ 17,837	\$ 23,420	\$ 35,220

# NCCI'S BOARD OF DIRECTORS

[AS OF MAY 2015]

**Russell M. Johnston**

President, Casualty Americas  
AIG

**W. Robert (Rob) Berkley, Jr.**

President and Chief Operating  
Officer  
W. R. Berkley Corporation

**C. Allen Bradley Jr.**

Executive Chairman  
AMERISAFE, Inc.

**Michael Dinkins**

Executive Vice President & CFO  
Greatbatch

**Douglas D. Dirks**

President and CEO  
Employers Holdings, Inc.

**Linda S. Hall**

**Laurence A. Hubbard**

President/CEO  
Montana State Fund

**Russell Huffer**

**Craig A. Johnson, CPA, MBA**

President and Chief Executive  
Officer  
FCCI Insurance Group

**Stephen J. Klingel**

President and Chief  
Executive Officer  
NCCI Holdings, Inc.

**William C. Malugen**

EVP, National Accounts  
and First Party  
The Travelers  
Companies, Inc.

**Ernest J. Mrozek**

Retired Vice-Chairman  
and President  
The ServiceMaster Company

**Steven R. Pozzi**

Executive Vice President,  
Chubb & Son  
COO, Chubb Commercial  
Insurance  
Chubb

**John (Jack) C. Roche**

Executive Vice President  
President—Business  
Insurance & Field Services  
The Hanover Insurance  
Group

**Tracy A. Ryan**

Executive Vice President  
& Chief Product Officer  
Commercial Insurance Liberty  
Mutual Insurance

## SENIOR MANAGEMENT

[AS OF MAY 2015]

**Stephen J. Klingel**

President and Chief  
Executive Officer

**Cheryl Budd**

Chief Communications  
Officer

**Steve Sibner**

Interim General Counsel  
and Chief Legal Officer

**Alfredo T. Guerra**

Chief Financial Officer

**Bradley Kitchens**

Chief Human  
Resources Officer

**Kathy Antonello**

Chief Actuary

**Mark Mileusnic**

Chief Customer  
Operations Officer

**Michael B. Spears**

Chief Information Officer  
and Chief Data Officer

**Helen J. Westervelt**

President—Regulatory  
Services Division

# NCCI'S VALUES STATEMENT

**The following ethical and performance values guide our behavior and decision making at NCCI. We believe that the commitment of each employee to these values will continue to make NCCI a success.**

## Integrity

Our actions are guided by the principles of honesty, fairness, and professionalism. We abide by all laws, regulations, and corporate policies. We foster an open environment and behave ethically in all we do.

## Respect

We show consideration for all people, value the differences among us, and deal with each other in a courteous way.

## Quality and Excellence

We strive constantly to improve our processes and products to remain the industry's unimpeachable source for accurate, objective workers compensation information. We draw upon our individual strengths and collaborate to consistently meet and exceed the highest expectations of our stakeholders.

## Responsibility

We honor our commitments and are personally answerable for our actions. We actively give back to the communities in which we live and work.

## Commitment

We are driven to achieve our business objectives. We exhibit passion, focus, and intensity of effort in our work while simultaneously striving to achieve work/life balance.

