



2016 Annual Report Highlights

*NCCI stays relevant
by adapting to
tomorrow's challenges*

A hand in a dark suit jacket is pointing towards a glowing lightbulb icon. The lightbulb is surrounded by concentric circles, suggesting a bright idea or innovation. The word "ADAPTING" is overlaid on the lightbulb in a bold, sans-serif font. The letters "ADAP" are in blue, and "TING" is in green. The background is a blurred image of a person in a suit, split vertically by a dark line.

ADAPTING

MISSION

To foster a healthy workers compensation system

VISION

A recognized leader and trusted source of information

VALUES

Integrity ■ Respect ■ Quality and Excellence

Responsibility ■ Commitment

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A Letter From the President and CEO



Bill Donnell, CPCU
President and CEO
NCCI

NCCI, much like the workers compensation system itself, has been around a long time—nearly 100 years. And we wrapped up a successful year in 2016, just as in years past—with a long list of accomplishments of which we certainly feel proud. I fully expect 2017 will be similar in that regard.

But even so, things are changing. Technology is moving us ever more quickly down the path. The regulatory landscape is shifting constantly. Our environment—particularly the makeup of the US workforce—is evolving right before our eyes. Clearly, things are not the same as they were 100 years ago. And that’s a good thing.

Change is good because it means we are evolving and adapting. Consider the standards for safety in US workplaces today compared to the 1800s, early 1900s, or even the 1950s—not that long ago. The workers compensation system can be proud of the effect it’s had in protecting workers and enabling US businesses to succeed.

Change is inevitable, and those who choose to ignore or resist it get left behind. They become *irrelevant*. And that is something that the workers compensation system—and NCCI as a proud system partner—have avoided. Despite a world of change and evolution, we remain *highly* relevant, perhaps more so now than ever.

As I prepared for my yearly address at NCCI’s *Annual Issues Symposium (AIS)*, I spent a lot of time thinking about the importance of being relevant. I pondered the lessons learned by watching big, proud organizations suddenly become irrelevant because they did not fully recognize the impact that change would have on their seemingly unassailable position in the market.

This led me to the selection of this year’s “word”—Adapting. As a system, we have survived and thrived because we adapted to major shifts in our environment. We originated at a time when agriculture was still the leading industry. We adapted to a big shift toward manufacturing in the 1950s. We remain relevant today, at a time when service industry jobs dominate payrolls. And the evolution won’t stop there. From driverless vehicles to the widespread use of robotics, the workplace of tomorrow will be very different from today’s.

At NCCI, we are adapting to remain relevant as the leader in providing data, insights, tools, and services to foster a healthy workers compensation system. We are adapting our research, our technology, and even our internal operating model to be more agile and to enable swift delivery of value to our stakeholders.

Still, with all this talk of change and adaptation, I would be remiss if I didn’t emphasize what remains the same: our commitment to providing accurate, objective, and timely tools and services to you, our constituents. We’ve been there for you in the past, and we will be there in the future as *the* source you trust.

Change can be a wild ride, but when you are prepared for it, the ride can be thrilling. I’m in my second year on this ride and very happy to share it with all of you.

Best,

A handwritten signature in black ink that reads "Bill Donnell". The signature is fluid and cursive.

Bill Donnell

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2016 Year in Review

Loss Cost Inadequacy

1/10 of 1% in 2016

Preventing loss cost inadequacy is one of NCCI's most critical objectives. This annual measure compares loss cost filings to loss cost approvals. In 2016, NCCI again exceeded this important goal.

Residual Market Burden*

3/10 of 1%

* 2015 policy year in states where NCCI proposes assigned risk rates

Achievements in the Residual Market:

- ✓ Successful transition of TN to an NCCI Plan state, including the reinsurance mechanism
- ✓ Won the Plan Administration Services contract in AZ through an RFP process
- ✓ Renewed Plan Administration Services contracts in the NCCI states of AR, MS, and NM (which also included successful Pool Administration contract renewal)
- ✓ Renewed Plan Services contracts in the independent bureau states of DE, IN, NC, and WI
- ✓ Successful completion of servicing carrier bids in nine states

Data Availability

99.4% 2016 unit reports available by due date

Comprehensive data collection and analysis is one of the most important services that NCCI provides to the industry. In 2016, NCCI exceeded corporate goals on data availability, with 99.4% of unit reports available by the due date and 100% of states meeting financial data thresholds. These are the best results ever for data availability from NCCI.

Stakeholder Survey Results

9.21 for carrier executives

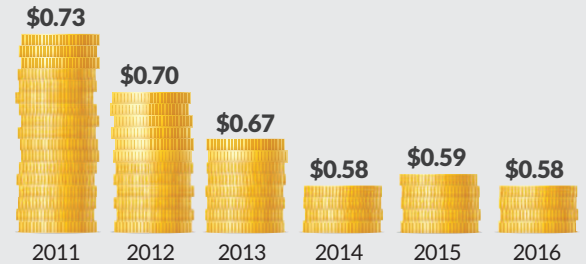
9.10 for regulators

2016 survey results, on a scale of 1-10. Measures the value and quality of NCCI's service.

NCCI Expense to the Industry

per \$100 of direct written premium

Our constant efforts to manage company expenses have allowed NCCI to limit the financial burden to the industry, even through a period of service expansion.



Engagement With Members and Key Stakeholders

NCCI continually looks for ways to engage with affiliates, regulators, and other industry influencers to collaborate, educate, and improve its service offerings. It's how we stay relevant in support of the evolving needs of our workers compensation industry partners.

In 2016, this included:

Formation of Technology Committee

NCCI's new Technology Committee brings together high-level technology executives from member companies to work with NCCI's team on a broad range of topics from governance, to benchmarking best practices, to future IT strategy.



Introduction of Utilization Reviews

Ensuring that our customers maximize the value of all of the tools, services, and engagement opportunities that NCCI offers is an important goal for us. In 2016, we created a new informational tool that illustrates for customers the range of services they are currently utilizing and, more importantly, highlights additional opportunities they may want to consider in order to realize further value from their relationship with NCCI.

Hosting of Industry-Leading Events

NCCI enhanced its already well-received outreach and education events for the workers compensation industry, including:


- Annual Issues Symposium (AIS)
- Assigned Carrier Conference
- Data Educational Program
- 38 State Advisory Forums
- 6 Open Houses
- 5 Producer Workshops



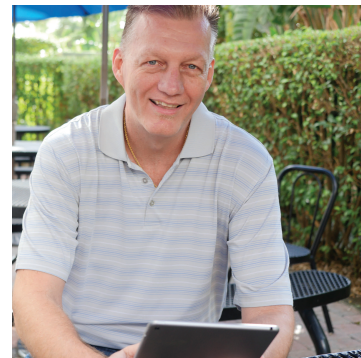
Our People ... Our Strength

Since 1922, NCCI has been committed to fostering a healthy workers compensation system. We are the source you trust for accurate and objective workers compensation information.

At NCCI, we recognize that our employees are the reason our legacy endures today. We're motivated by the opportunity to do challenging and interesting work, and our Total Rewards package attracts top talent. Our employees care about each other and the communities in which they live and work. Our values of integrity, respect, quality and excellence, responsibility, and commitment guide our success.

A portrait of Freddie J., a woman with dark hair wearing a red top, smiling. The background shows an outdoor area with palm trees and a building with the NCCI logo.

Freddie J.
Customer Operations



Tim S.
IT Application
Development
Services

910 employees with an
average tenure of **13 years**
4.6% voluntary turnover rate



Kelly B.
Data Collection
Systems



Charlene L.
Marketing
Communications
& Events



Sean C.
Actuarial &
Economic Services

80% of employees advanced their knowledge through NCCI's new eBusiness Library.



NCCI Cares

NCCI's charitable efforts impacted more than **130 organizations.**



NCCI's community outreach efforts strongly impacted the community and next generation of industry leaders.



Wellness Wins

NCCI employees put wellness first by participating in National Nutrition Month, local health-focused runs, and more.



NCCI Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2016 and 2015

(in thousands)

	2016	2015
ASSETS		
Current assets	\$ 43,113	\$ 67,566
Property and equipment—net	53,874	57,491
Investment securities—Deferred compensation plans	9,445	9,010
Investment securities—Held-to-maturity	5,685	10,990
Retirement plan asset—net	610	—
Goodwill	4,095	4,680
Deferred income tax asset	6,299	3,555
Other assets	2,324	3,073
TOTAL	\$125,445	\$156,365
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Current liabilities	\$ 30,591	\$ 48,882
Accrued pension and postretirement benefit obligations	5,879	12,805
Senior unsecured notes and term loan	29,848	39,868
Other noncurrent liabilities	12,812	12,156
Total Liabilities	79,130	113,711
MEMBERS' EQUITY:		
Members' capital contribution	10,053	10,053
Retained earnings	41,847	42,468
Accumulated other comprehensive loss	(5,585)	(9,867)
Total Members' Equity	46,315	42,654
TOTAL	\$125,445	\$156,365

A full financial report is available for members on ncci.com.

NCCI Holdings, Inc. and Subsidiaries

Consolidated Statements of Operations

For the Years Ended December 31, 2016, 2015, and 2014

(in thousands)

	Years Ended December 31		
	2016	2015	2014
NET SALES	\$166,794	\$166,110	\$152,609
OPERATING EXPENSES:			
Salaries and payroll taxes	100,310	99,249	95,276
Employee benefits	29,288	23,927	22,287
Depreciation and amortization	10,665	10,257	10,565
Computer hardware and software expenses excluding depreciation	6,320	6,170	7,202
Occupancy expenses excluding depreciation	4,766	4,791	4,809
Other operating expenses	15,588	15,975	15,352
Total Operating Expenses	166,937	160,369	155,491
(LOSS) INCOME FROM OPERATIONS	(143)	5,741	(2,882)
INTEREST AND OTHER (EXPENSE) INCOME	(307)	(310)	93
(LOSS) INCOME BEFORE INCOME TAXES	(450)	5,431	(2,789)
INCOME TAX PROVISION (BENEFIT)	171	2,446	(773)
NET (LOSS) INCOME	\$ (621)	\$ 2,985	\$ (2,016)

NCCI Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016, 2015, and 2014

(in thousands)

	Years Ended December 31		
	2016	2015	2014
OPERATING ACTIVITIES CASH FLOWS:			
Net (loss) income	\$ (621)	\$ 2,985	\$ (2,016)
Non-cash adjustments	21,236	8,612	9,908
Changes in operating assets and liabilities	(25,896)	3,577	(4,679)
Net cash (used in) provided by operating activities	(5,281)	15,174	3,213
INVESTING ACTIVITIES CASH FLOWS:			
Purchases of property and equipment	(3,050)	(5,394)	(3,184)
Capitalized internally developed software	(3,620)	(3,360)	(3,424)
Purchases of investment securities	(3,263)	(2,655)	(9,590)
Maturities and sales of investment securities	7,628	8,570	7,398
Other cash provided from investing activities—net	658	319	4
Net cash used in investing activities	(1,647)	(2,520)	(8,796)
FINANCING ACTIVITIES CASH FLOWS:			
Proceeds from debt	20,000	—	—
Repayments of debt	(30,000)	—	—
Debt issuance costs	(26)	—	—
Net cash used in financing activities	(10,026)	—	—
Net (Decrease) Increase in Cash and Cash Equivalents	(16,954)	12,654	(5,583)
Cash and Cash Equivalents—Beginning of Year	30,491	17,837	23,420
Cash and Cash Equivalents—End of Year	\$ 13,537	\$30,491	\$17,837


NCCI by the Numbers 2016

Each year, we collect and analyze:

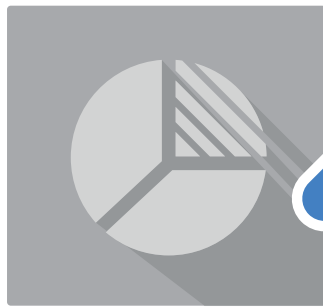


approximately
4.6 million
unit statistical
reports

about
3 million policies



combined insurer
financial
information
representing about
\$28.6
billion
in premium



80 million medical data
transactions



residual market
financial transactions
representing approximately
\$1.2 billion
annual written and earned premium
\$5.7 billion
current loss reserves
(in 2015)



detailed information
for about **210,000**
new claims

NCCI's Board of Directors

[AS OF APRIL 2017]

Tracy A. Ryan, Chair
Executive Vice President &
Chief Claims Officer
Commercial Insurance
Liberty Mutual Insurance

W. Robert Berkley, Jr.
President and CEO
W. R. Berkley Corporation

Stephanie C. Bush
Executive Vice President
Small Commercial
The Hartford Financial Services
Group, Inc.

Michael Dinkins
Retired Executive Vice President &
CFO
Integer

Douglas D. Dirks
President and CEO
EMPLOYERS

Bill Donnell
President and CEO
NCCI Holdings, Inc.

Richard Gergasko
President and CEO
Texas Mutual Insurance Company

Linda S. Hall
Former Director of the Alaska Division
of Insurance

Russell Huffer
Retired Chairman of the Board and
CEO
Apogee Enterprises, Inc.

Craig A. Johnson
Chairman of the Board
President and CEO
FCCI Insurance Group

Barbara A. Klein
Retired Senior Vice President and CFO
CDW Corporation

William C. Malugen
EVP and President, National Accounts
and First Party
The Travelers Companies, Inc.

Steven R. Pozzi
Senior Vice President, Chubb Group
Division President, North America
Commercial Insurance
Chubb

John C. Roche
Executive Vice President
President—Hanover Agency Markets
The Hanover Insurance Group

Executive Team

[AS OF APRIL 2017]

Bill Donnell
President and Chief Executive Officer

Kathy Antonello
Chief Actuary

Susan L. Donegan
Chief Regulatory Officer

Alfredo T. Guerra
Chief Financial Officer

Bradley Kitchens
Chief Human Resources Officer

Mark Mileusnic
Chief Customer Operations Officer

Steven J. Sibner
General Counsel and Chief Legal Officer

Michael B. Spears
Chief Information Officer and Chief
Data Officer




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