



NCCI's 2015 Annual Issues Symposium

State of the Line

Analysis of Workers Compensation Results

Kathy Antonello, FCAS, FSA, MAAA
NCCI Chief Actuary

FLASH FORWARD

A Glimpse into the Future of Workers Comp

AIS
Annual Issues Symposium
2015

Workers Compensation Outlook Recap

Evolving Workplace

Premium Growth in the Latest Year

Underwriting Results Improved Again

Frequency Continues to Decline

Economic Recovery

Property/Casualty (P/C) Results

P/C Industry Net Written Premium All Major Lines Increased

Private Carriers

Line of Business	Calendar Year (\$ Billions)			Change (%)
	2012	2013	2014p	2013– 2014p
Personal Auto	\$ 168.0	\$ 174.9	\$ 183.2	4.7%
Homeowners	\$ 66.9	\$ 71.9	\$ 76.9	6.9%
Other Liability (Incl Prod Liab)	\$ 41.7	\$ 45.6	\$ 47.6	4.3%
Workers Compensation	\$ 35.1	\$ 36.9	\$ 38.5	4.6%
Commercial Multiple Peril	\$ 31.4	\$ 33.2	\$ 34.3	3.4%
Fire & Allied Lines (Incl EQ)	\$ 25.9	\$ 27.0	\$ 27.1	0.5%
Commercial Auto	\$ 22.1	\$ 23.9	\$ 25.6	7.1%
All Other Lines	\$ 65.8	\$ 63.9	\$ 63.6	-0.5%
Total P/C Industry	\$ 456.8	\$ 477.3	\$ 496.9	4.1%

p Preliminary

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

Includes carrier data available as of 4/16/2015

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P/C Industry Net Combined Ratio Overall Underwriting Gain

Private Carriers

Line of Business	Calendar Year		
	2012	2013	2014p
Personal Auto	102%	102%	102%
Homeowners	104%	90%	92%
Other Liability (Incl Prod Liab)	104%	100%	102%
Workers Compensation	109%	102%	98%
Commercial Multiple Peril	107%	98%	99%
Fire & Allied Lines (Incl EQ)	103%	84%	87%
Commercial Auto	107%	107%	103%
All Other Lines	98%	83%	84%
Total P/C Industry	103%	96%	97%

p Preliminary

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

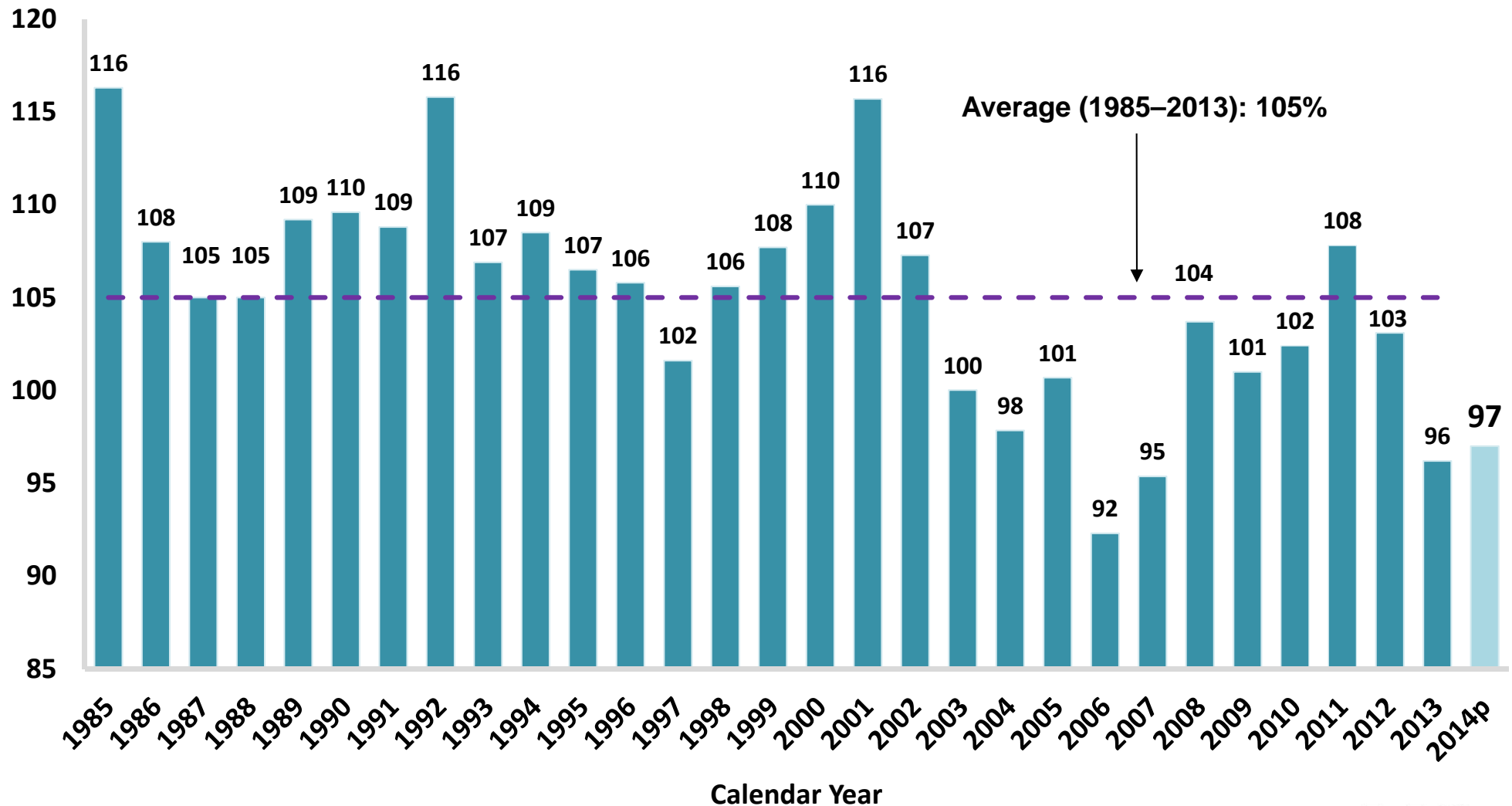
Includes carrier data available as of 4/16/2015

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P/C Industry Net Combined Ratios

Private Carriers

Percent



p Preliminary

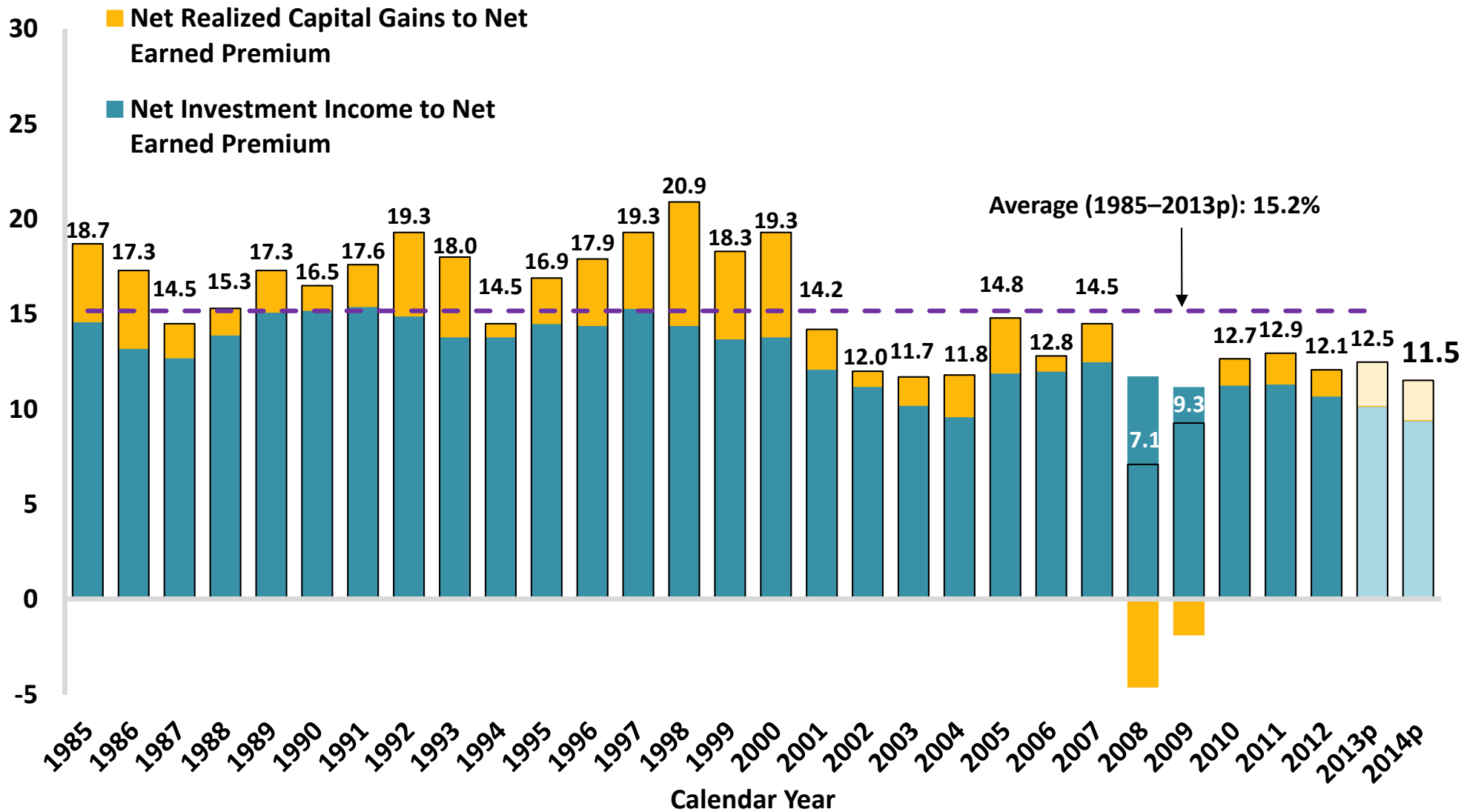
Sources: 1985–2007, 2012–2014p, Annual Statement data
2008–2011, ISO

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P/C Industry Investment Gain Ratio

Private Carriers

Percent

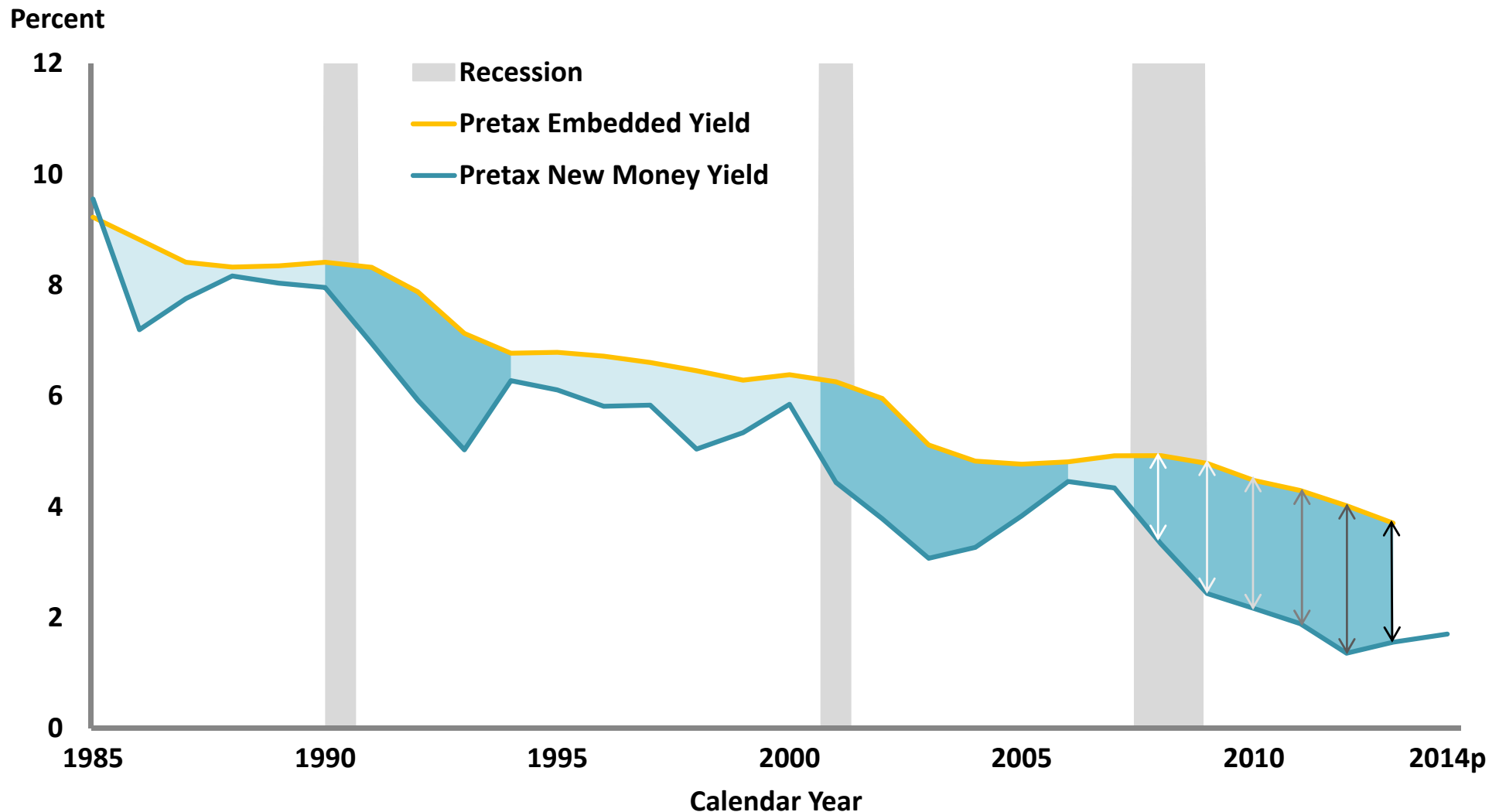


p Preliminary

Sources: 1985–2007, 2013p–2014p, Annual Statement data
2008–2012, ISO

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P/C Industry Embedded Yield Remains Higher Than New Money Yield



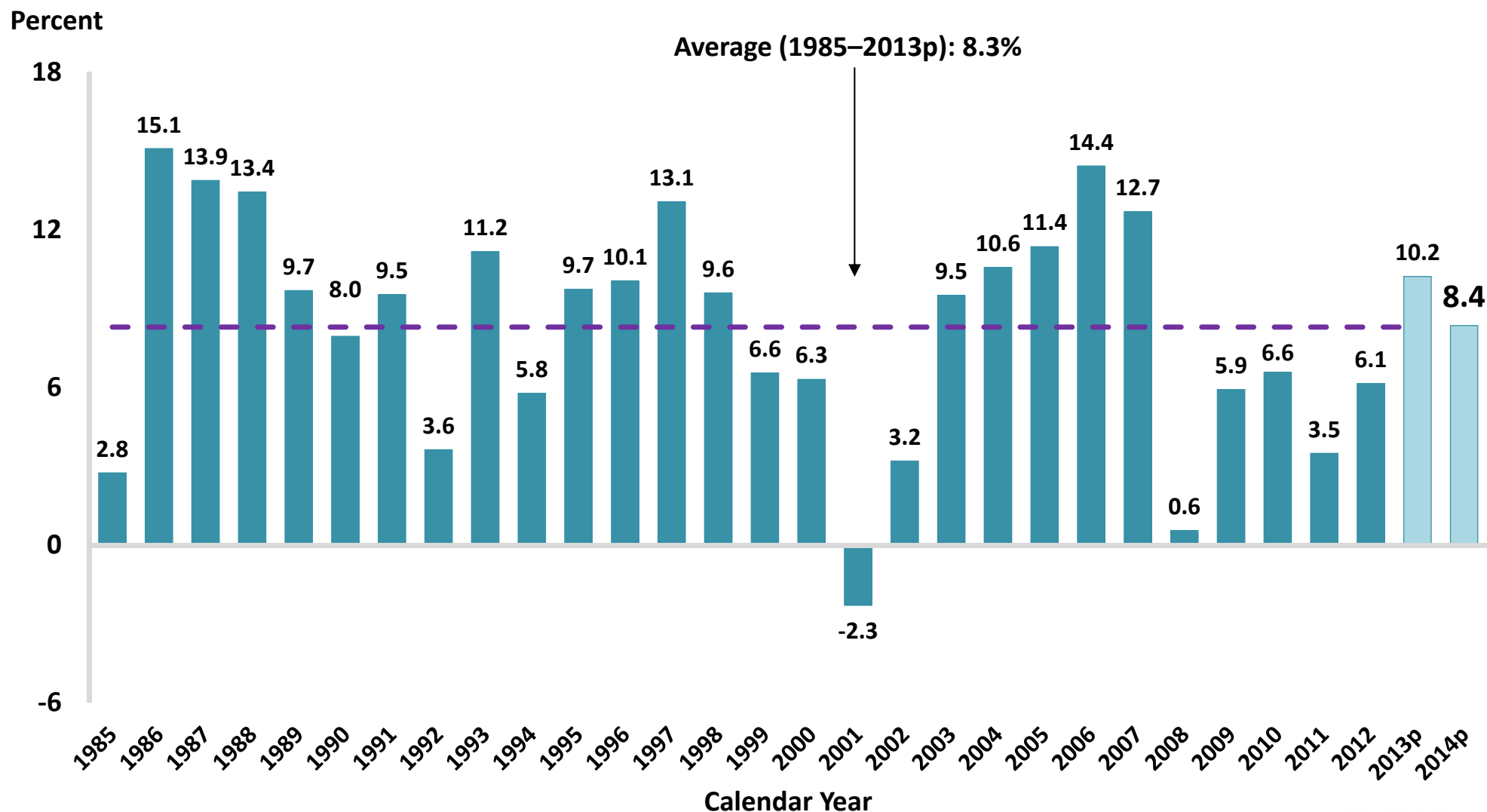
p Preliminary

Sources: NCCI, *Best's Aggregates & Averages*, Federal Reserve Bank, Value Line, TreasuryDirect, Barron's
 Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments
 New Money Yield is the pretax yield on bonds

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P/C Industry After-Tax Return on Surplus

Private Carriers



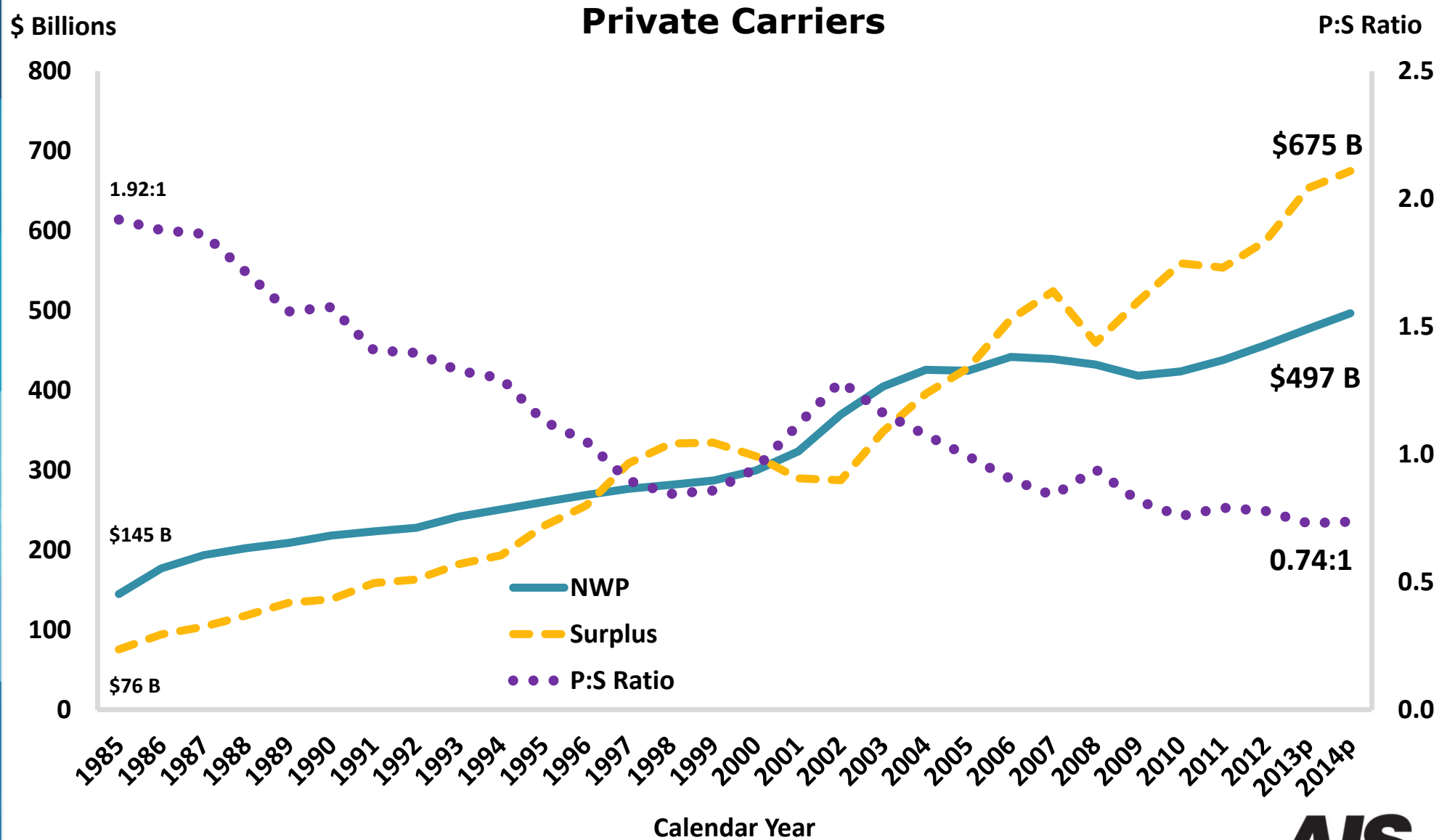
p Preliminary

Sources: 1985–2007, 2013p–2014p, Annual Statement data
2008–2012, ISO

After-tax return on average surplus, excluding unrealized capital gains

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P/C Industry Premium-to-Surplus Ratio At Historic Low



p Preliminary

Sources: 1985–2007, 2013p–2014p, Annual Statement data
2008–2012, ISO

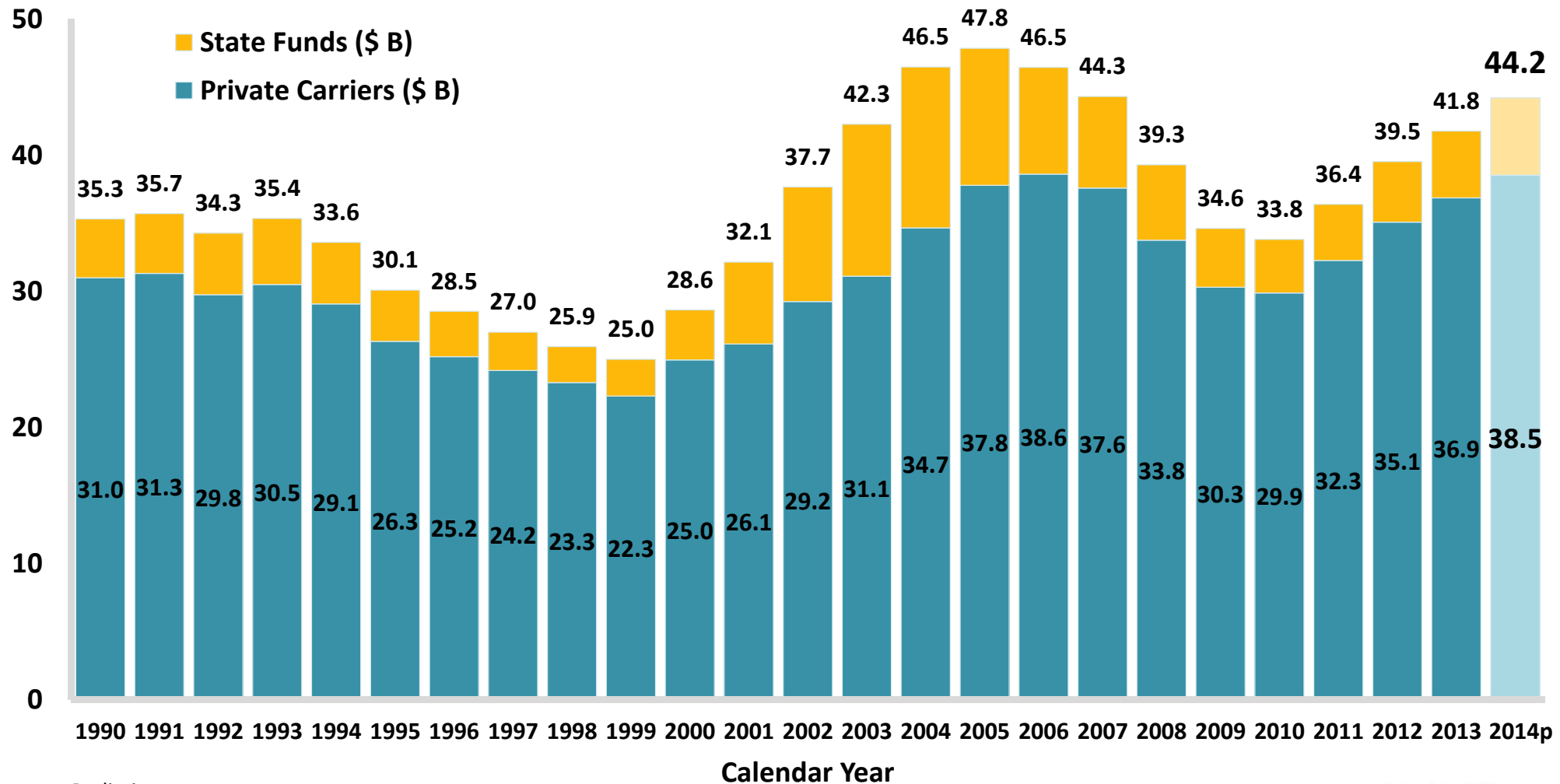
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Workers Compensation (WC) Results

WC Net Written Premium Growth Continued

Private Carriers and State Funds

\$ Billions



p Preliminary

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

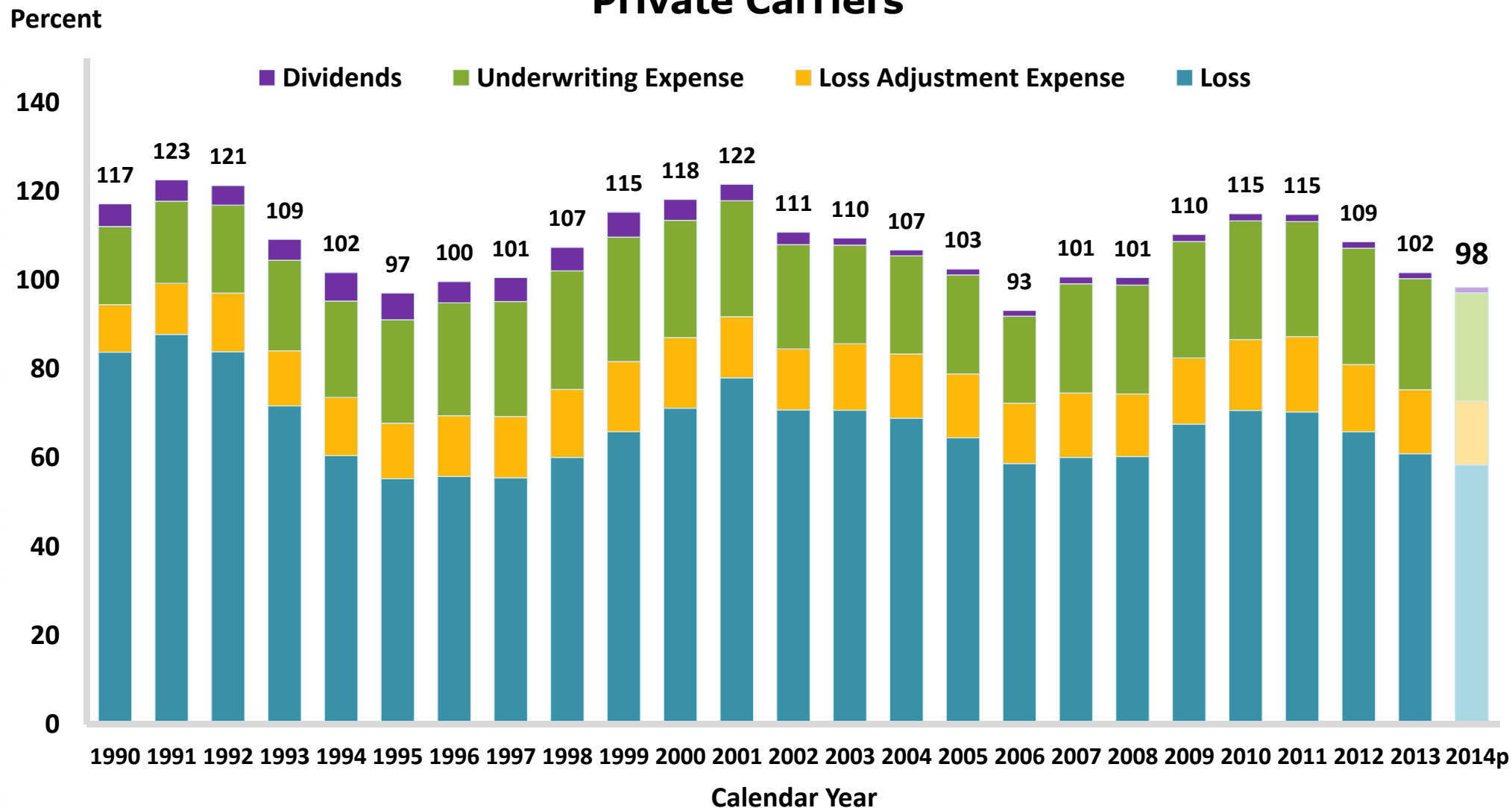
Each calendar year total for state funds includes all funds operating as a state fund in that year

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WC Combined Ratio

Underwriting Gain Achieved

Private Carriers



p Preliminary

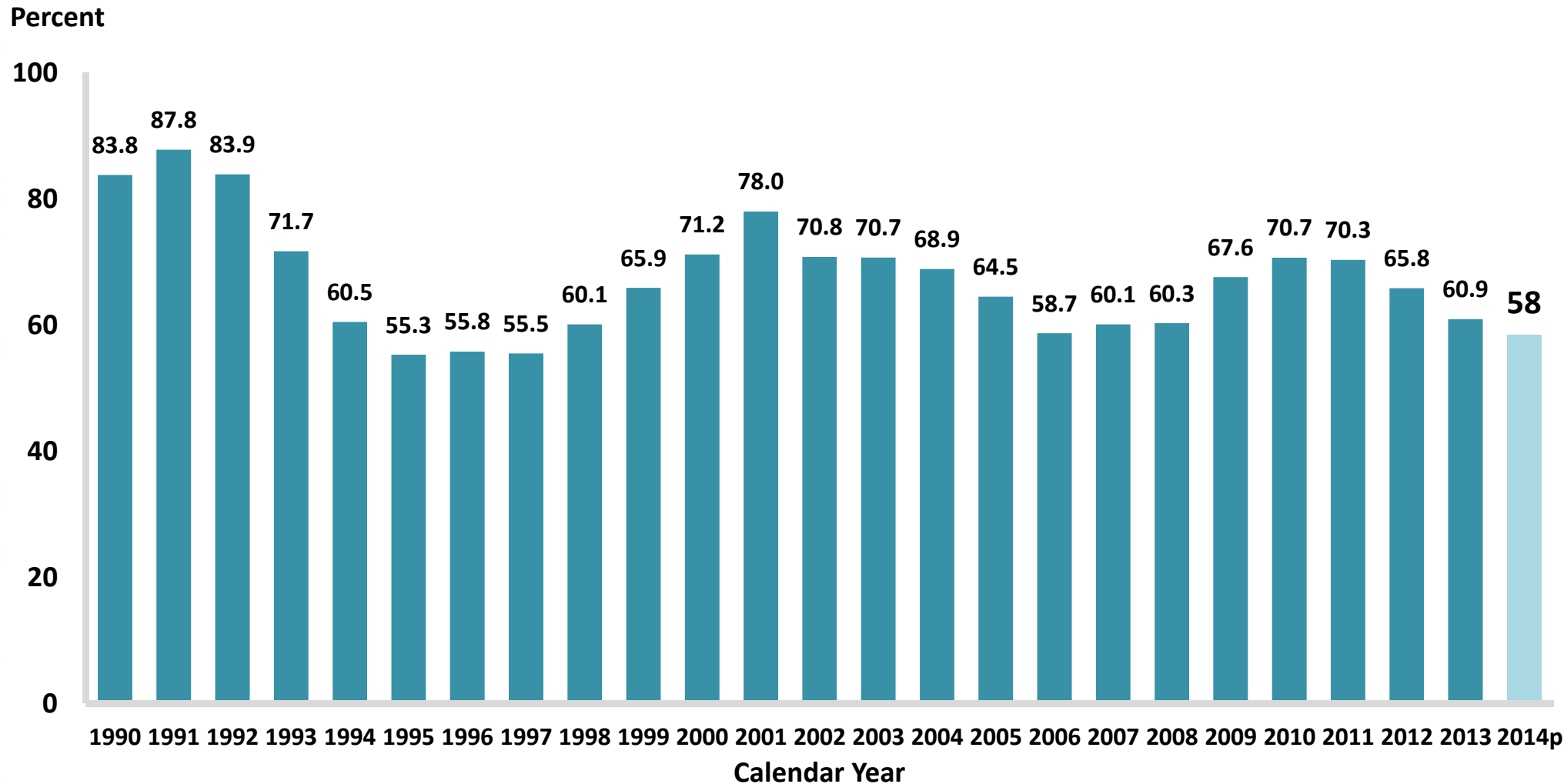
Source: Annual Statement data

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WC Loss Ratio

Net Incurred Losses to Earned Premium

Private Carriers



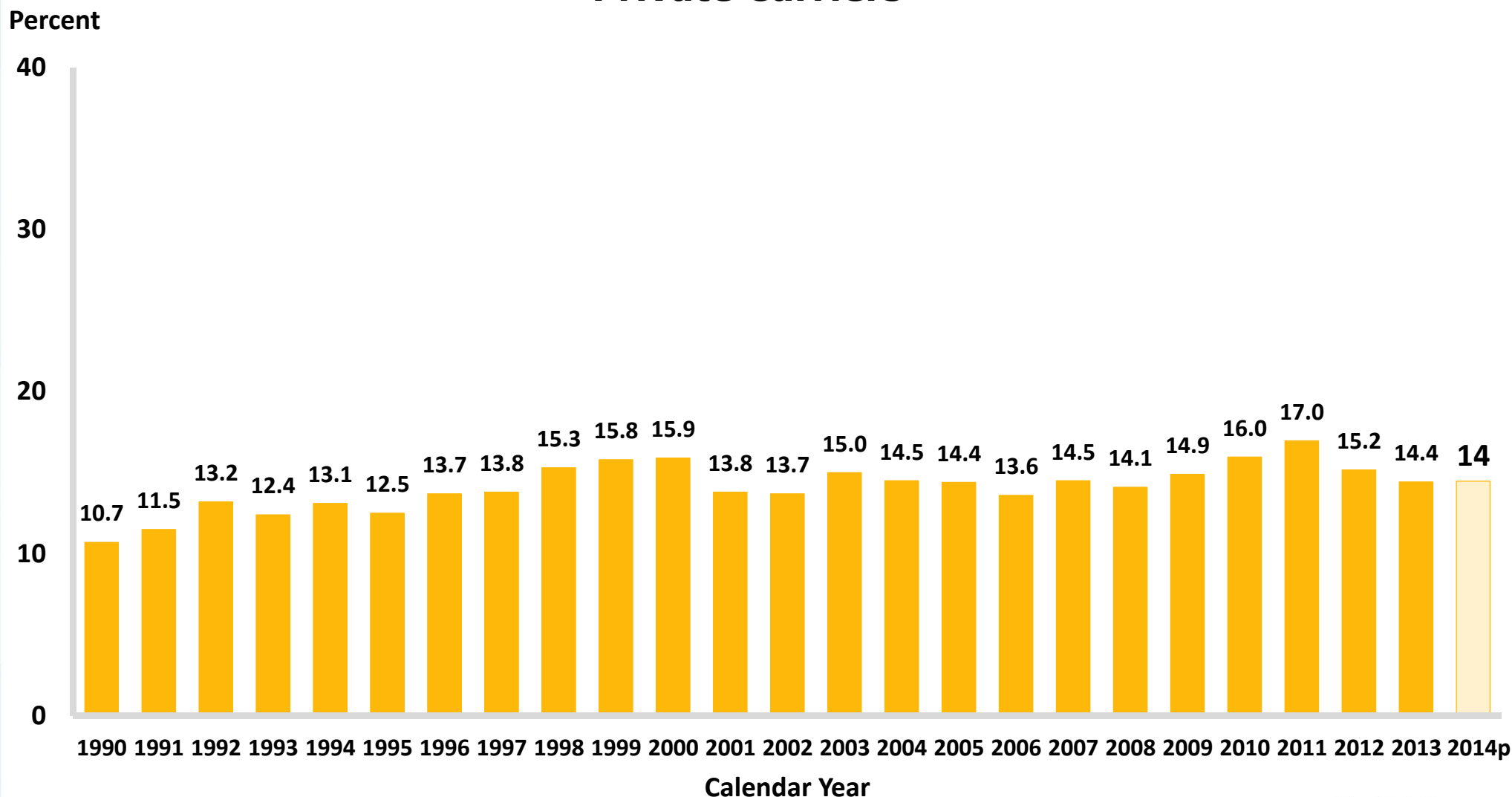
p Preliminary

Source: Annual Statement data

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WC Loss Adjustment Expense (LAE) Ratio Net Incurred LAE to Earned Premium

Private Carriers



p Preliminary

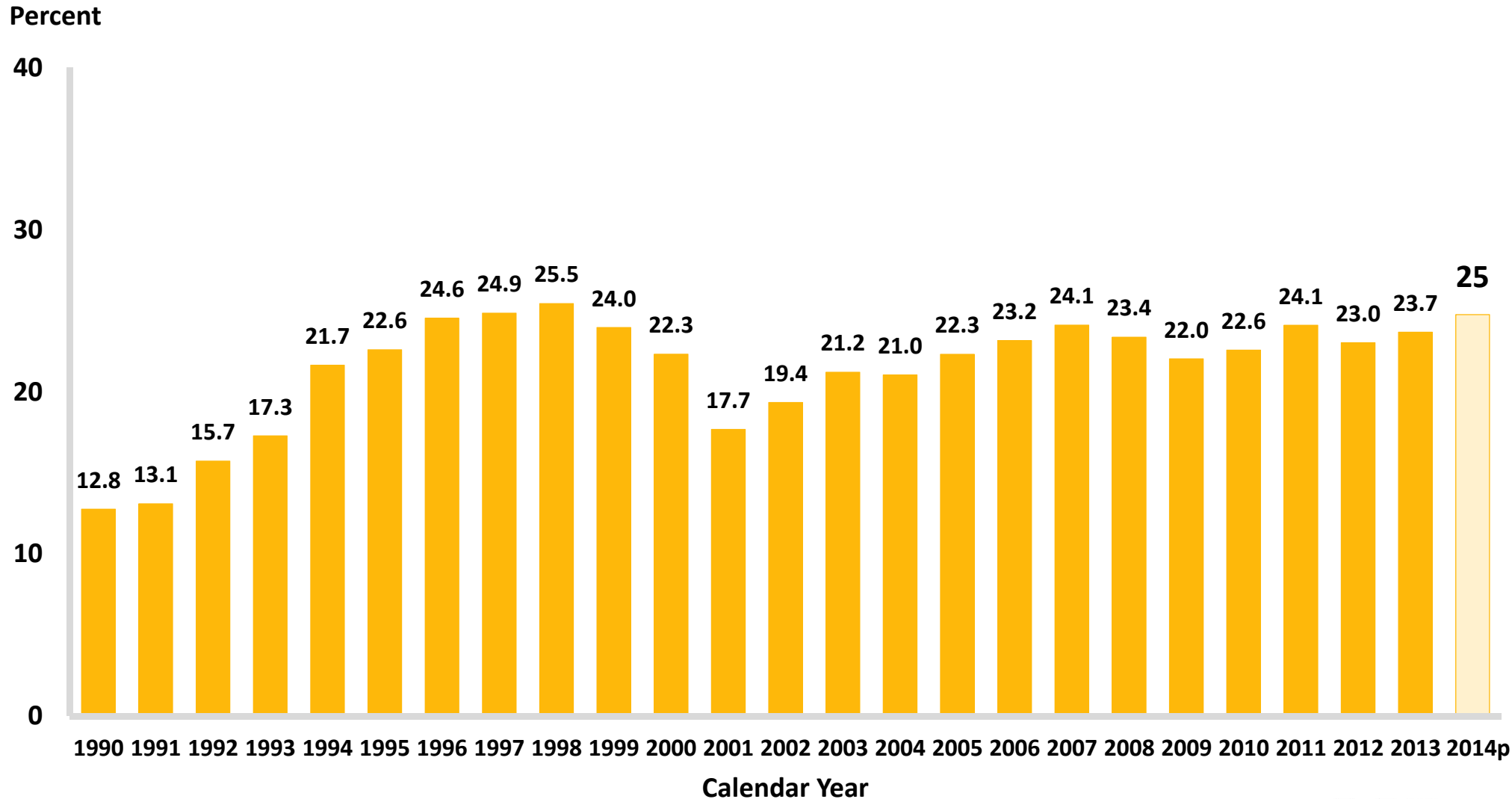
Source: Annual Statement data

LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense

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WC LAE to Loss Ratio Net Incurred LAE to Incurred Losses

Private Carriers



p Preliminary

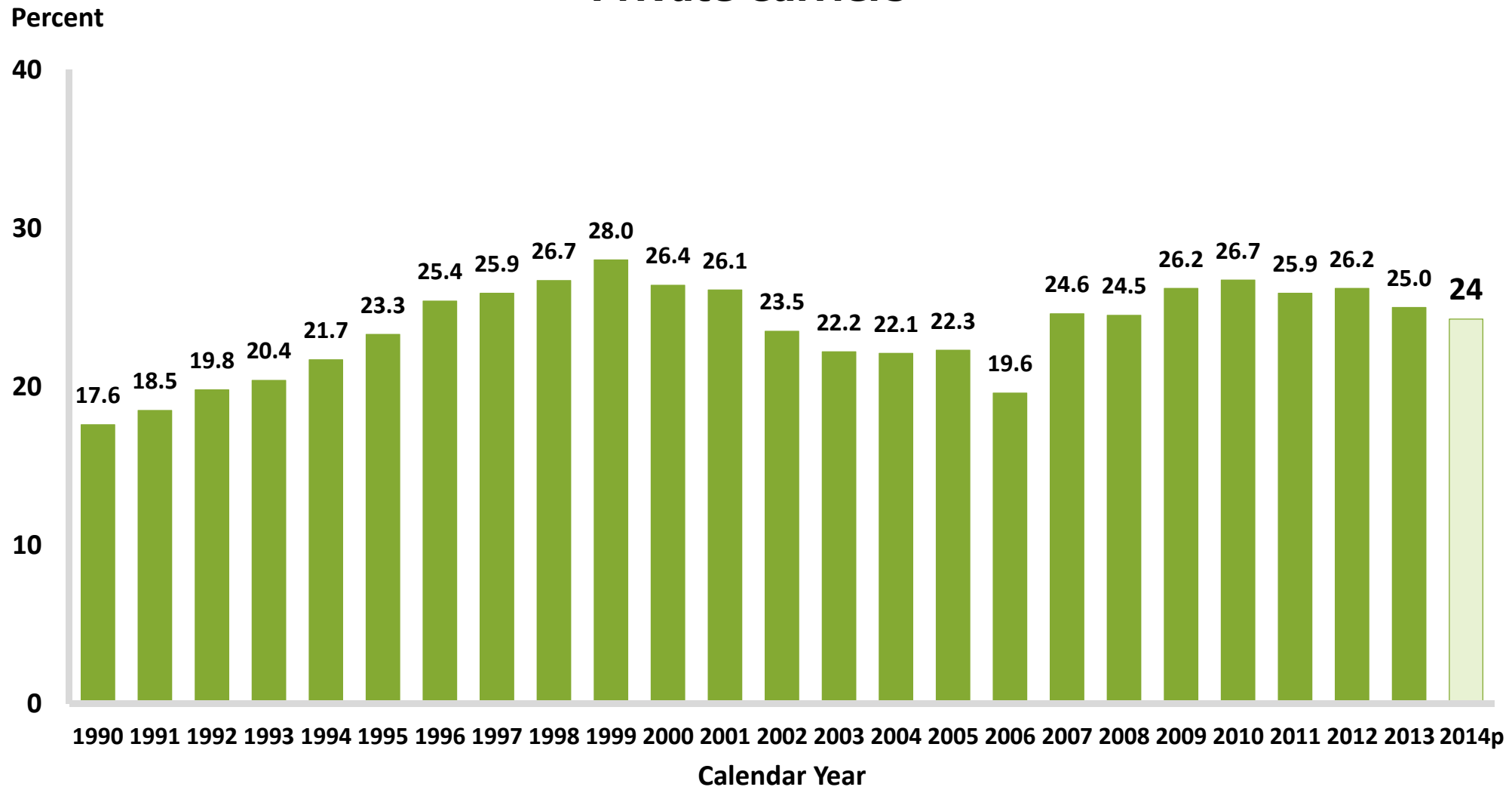
Source: Annual Statement data

LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense

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WC Underwriting Expense Ratio Net Underwriting Expenses to Written Premium

Private Carriers



p Preliminary

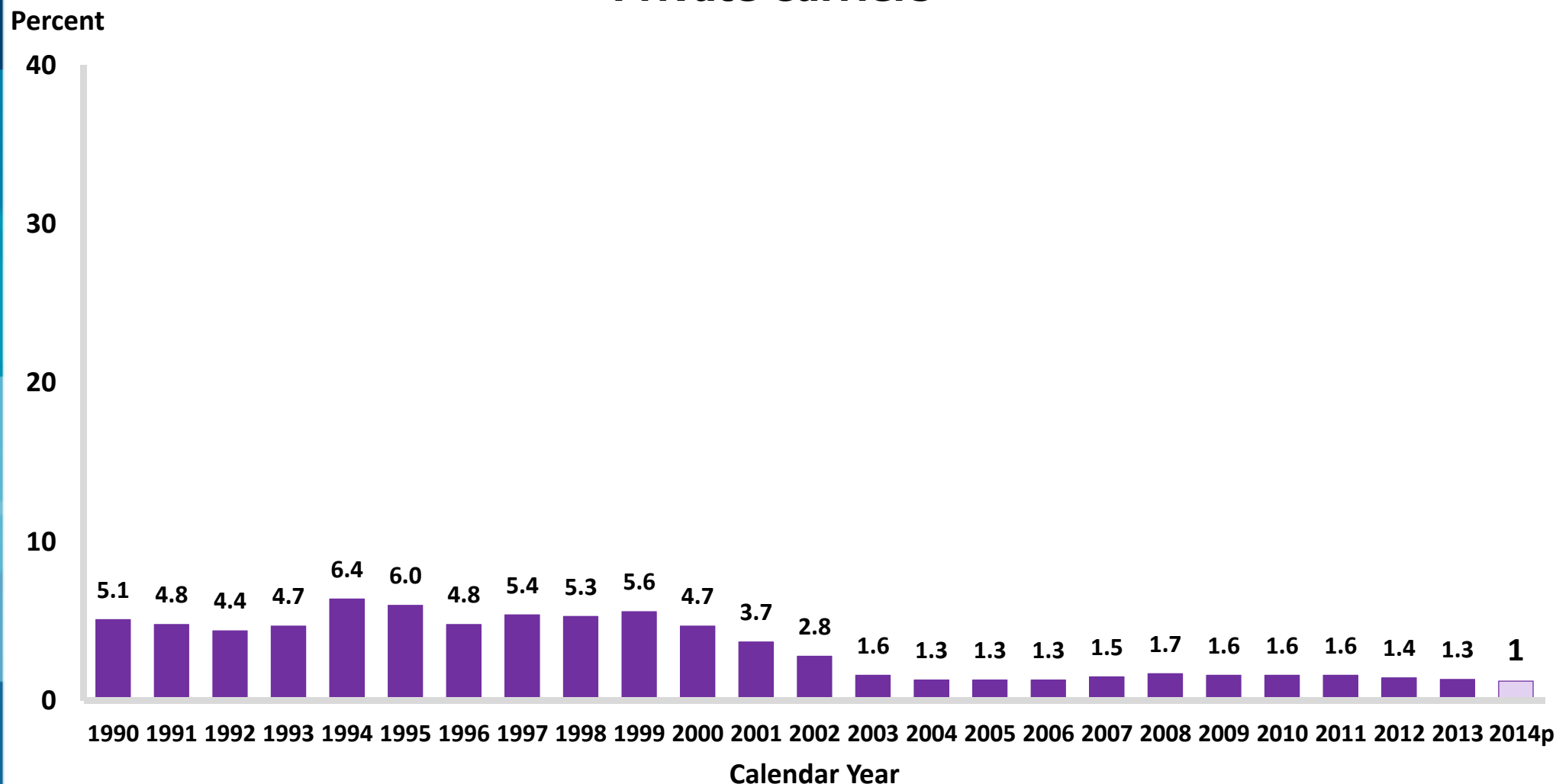
Source: Annual Statement data

Underwriting Expenses include Commission and Brokerage Expenses, Taxes, Licenses and Fees, Other Acquisition, and General Expenses Incurred

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WC Policyholder Dividend Ratio Policyholder Dividends to Earned Premium

Private Carriers

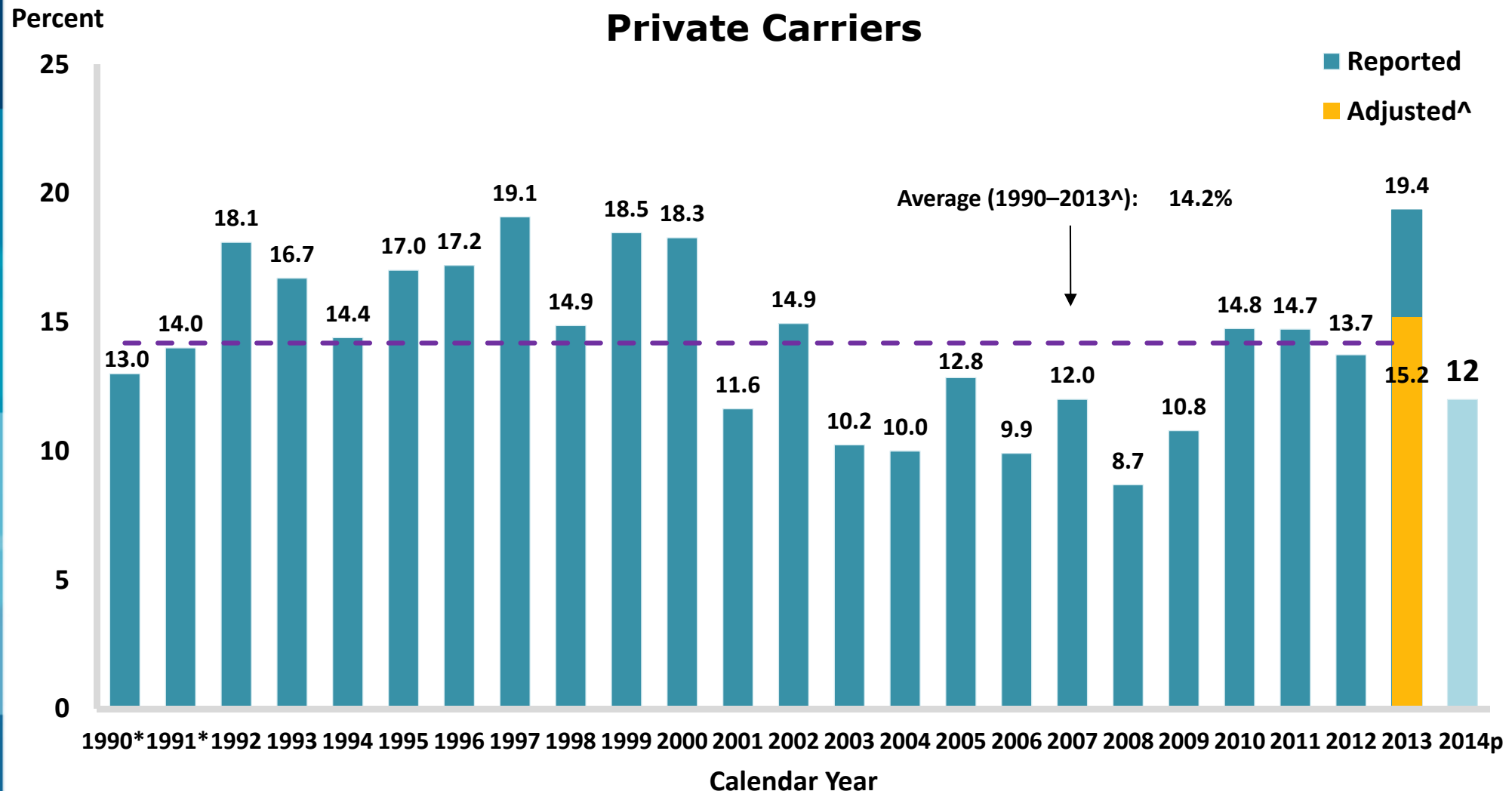


p Preliminary

Source: Annual Statement data

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WC Investment Gain on Insurance Transactions Ratio to Net Earned Premium



p Preliminary

Source: Annual Statement data

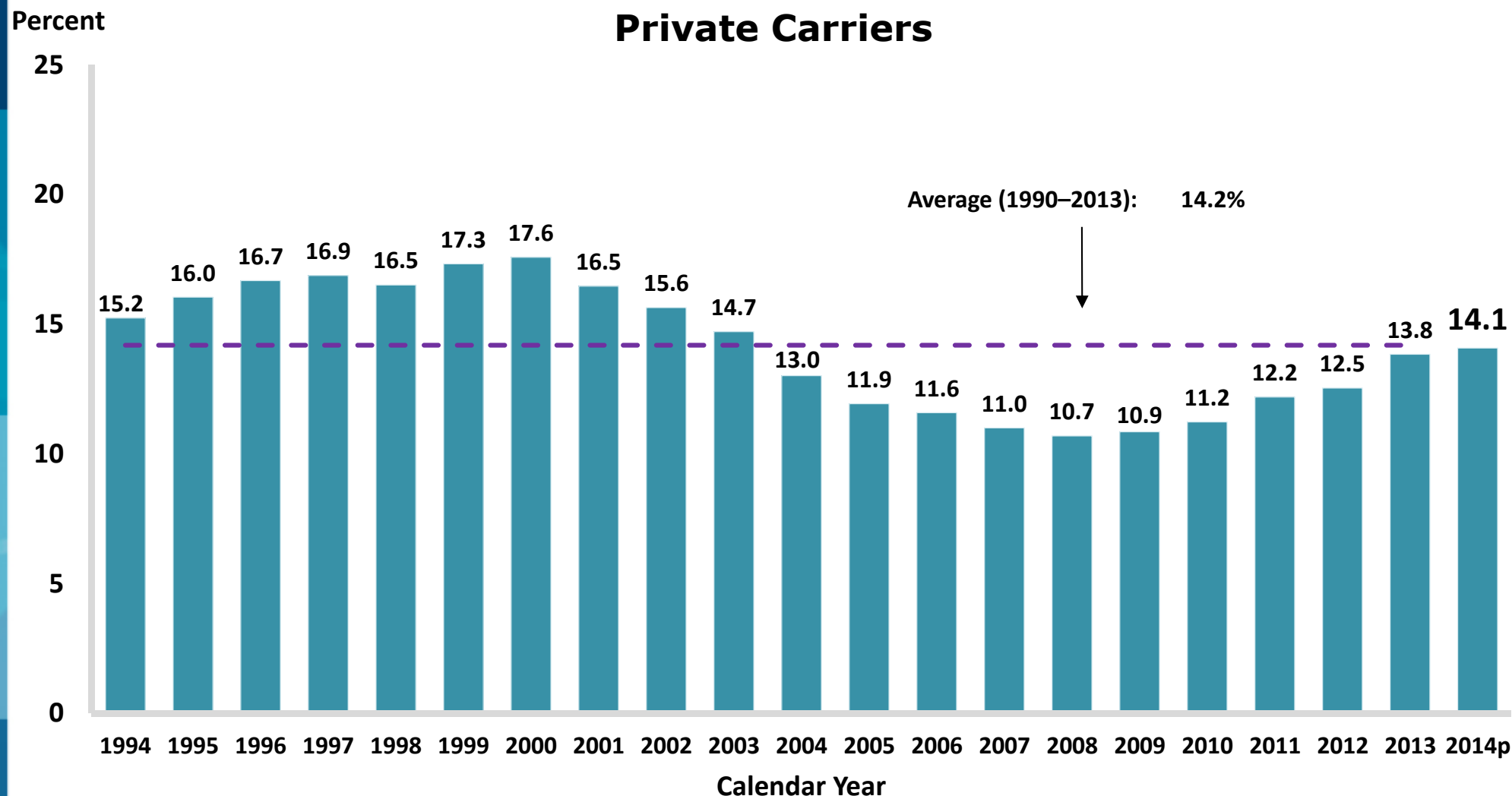
Investment Gain on Insurance Transactions includes Other Income

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

^2013 adjusted value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

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WC Investment Gain on Insurance Transactions Five-Year Moving Average



p Preliminary

Source: Annual Statement data

Investment Gain on Insurance Transactions includes Other Income

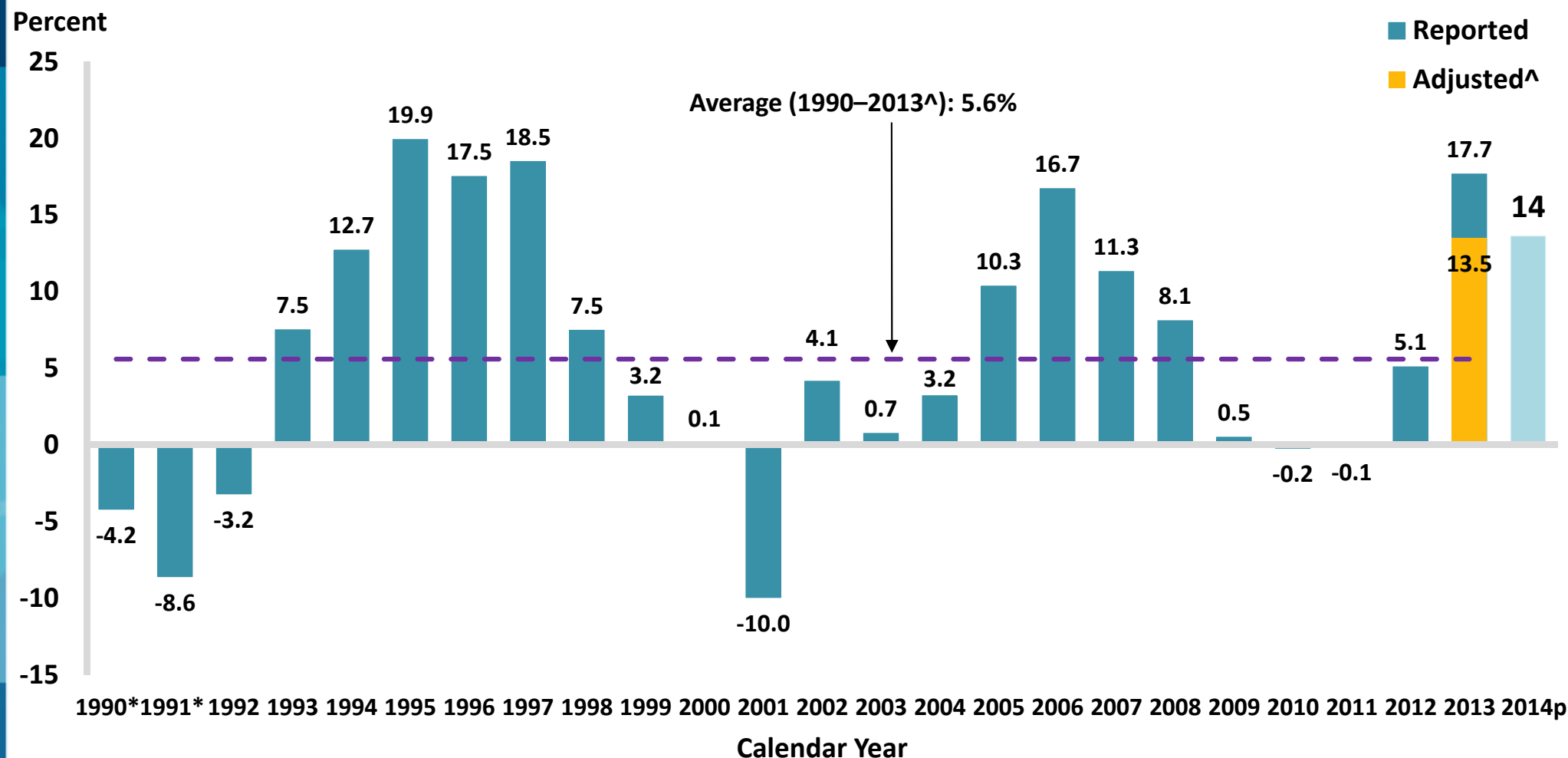
Averages reflect the following adjustments:

1990, 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

WC Pretax Operating Gain

Private Carriers



p Preliminary

Source: Annual Statement data

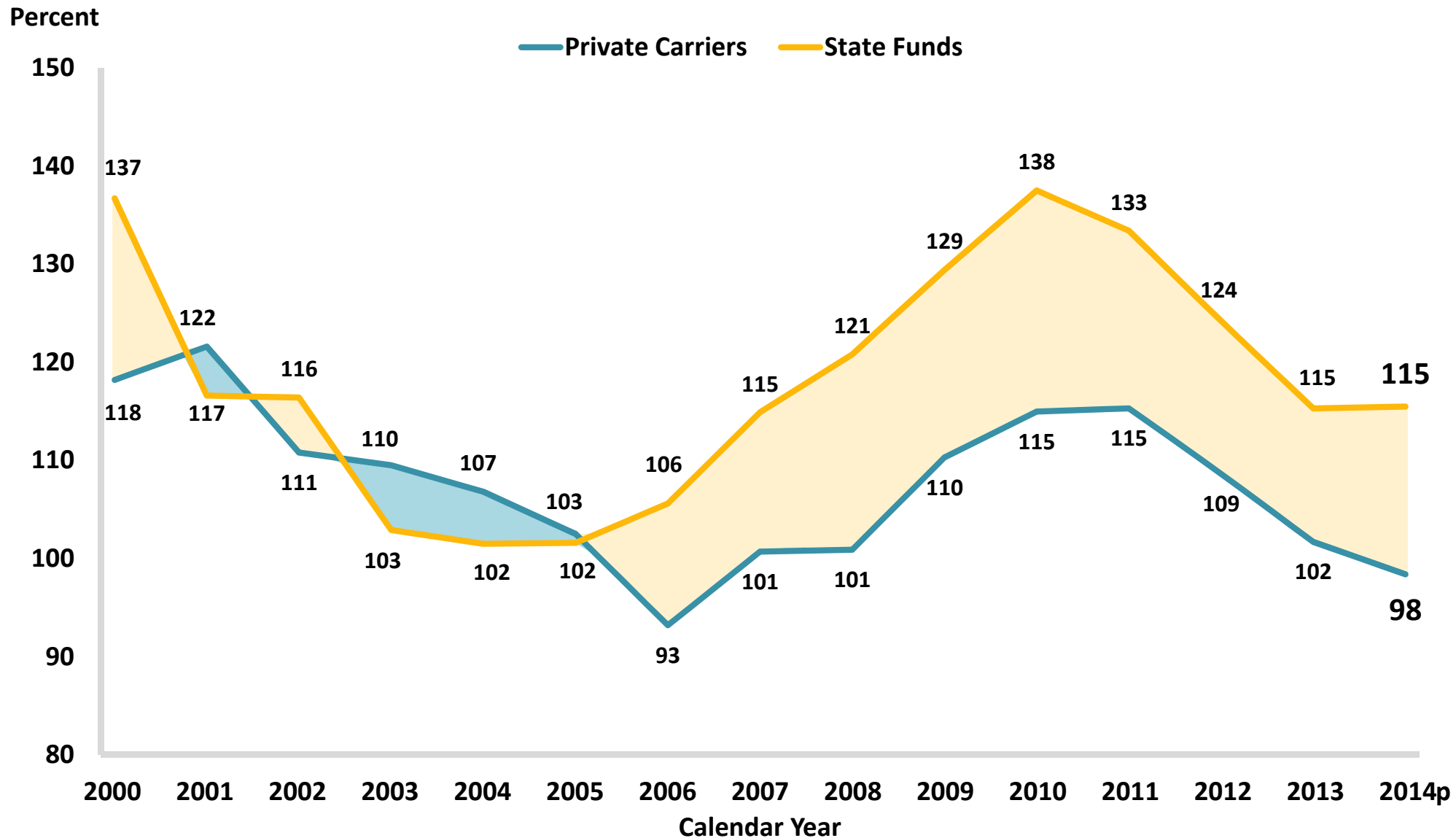
Operating Gain Equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)

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

^2013 adjusted value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

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WC Net Combined Ratios



p Preliminary

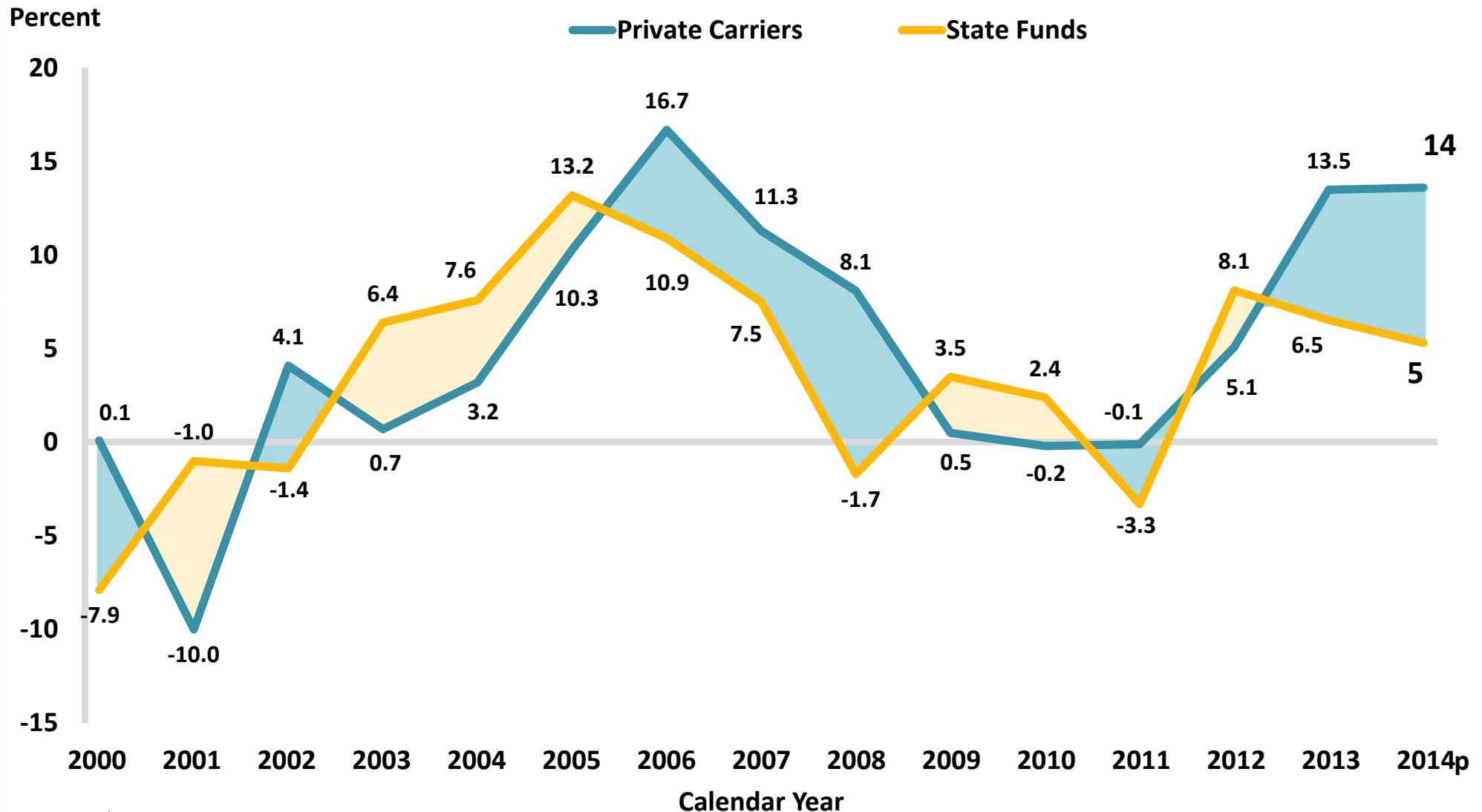
Source: Annual Statement data

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

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WC Pretax Operating Gain Ratios



p Preliminary

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

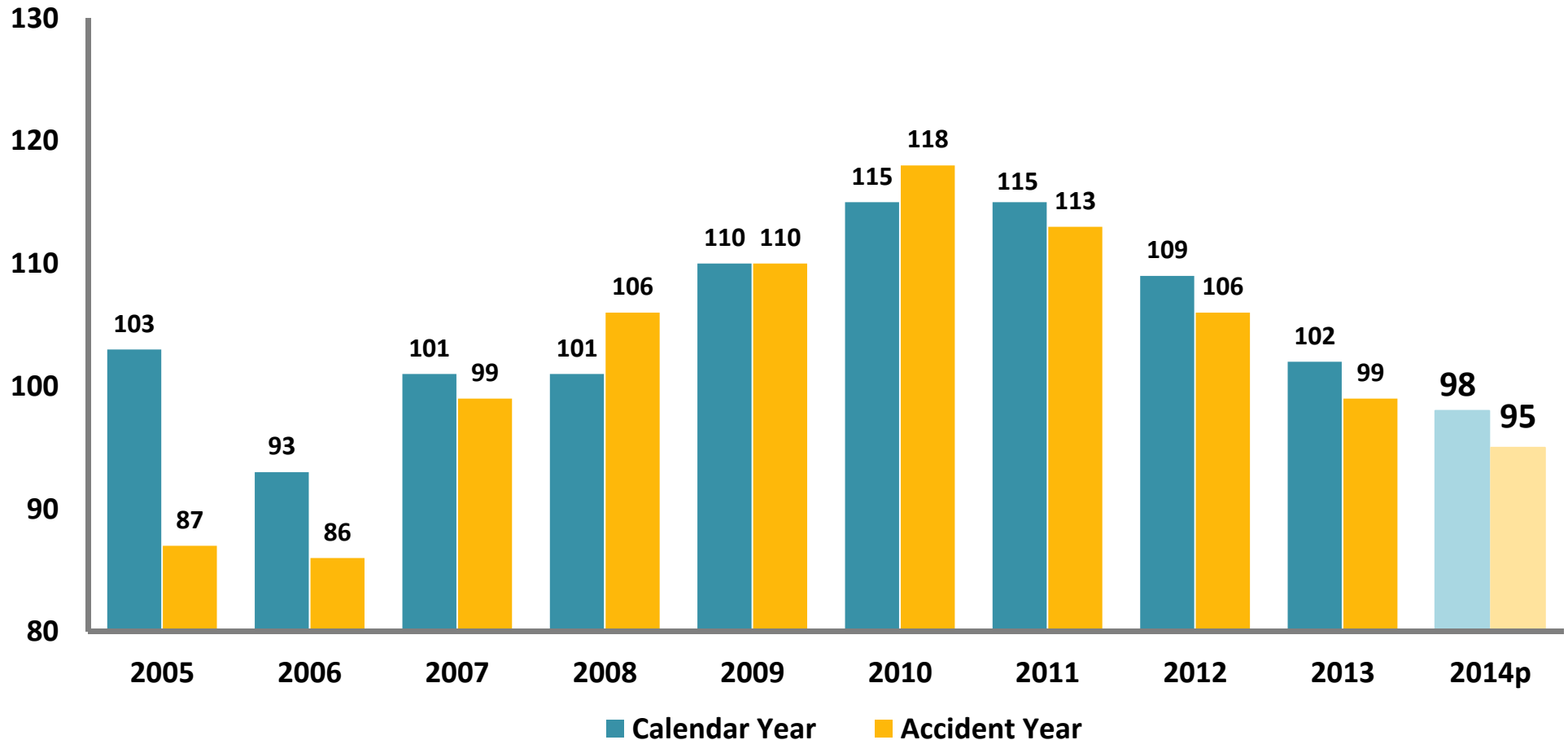
2013 private carrier value excludes a material realized gain resulting from a single company transaction that involved corporate restructuring

Workers Compensation Accident Year Results and Reserve Estimates

WC Net Combined Ratios Calendar Year vs. Ultimate Accident Year

Private Carriers

Percent



p Preliminary

Source: NCCI analysis based on Annual Statement data

Accident year data is evaluated as of 12/31/2014 and developed to ultimate

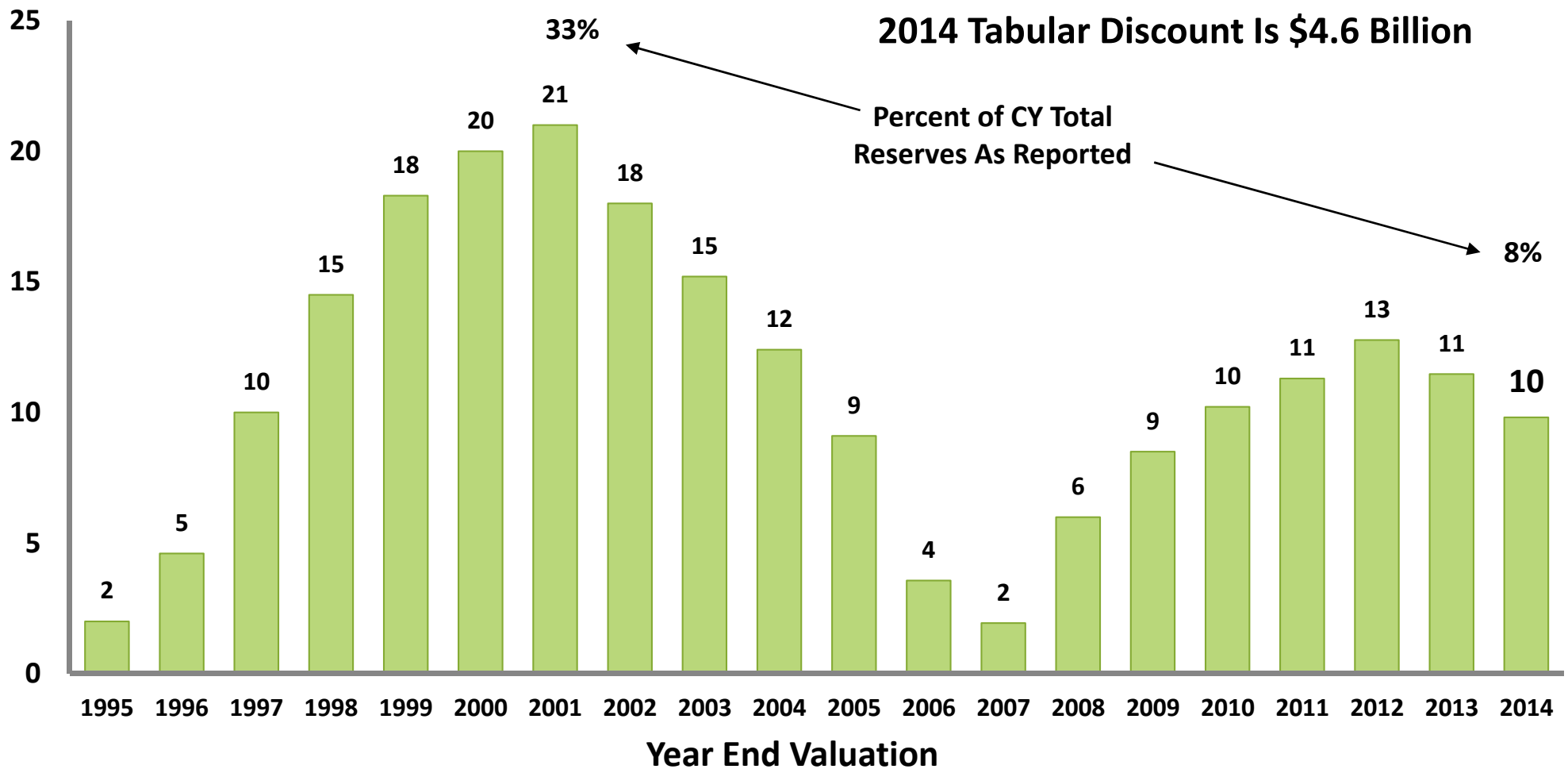
Includes dividends to policyholders

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WC Loss and LAE Net Reserve Deficiencies

Private Carriers

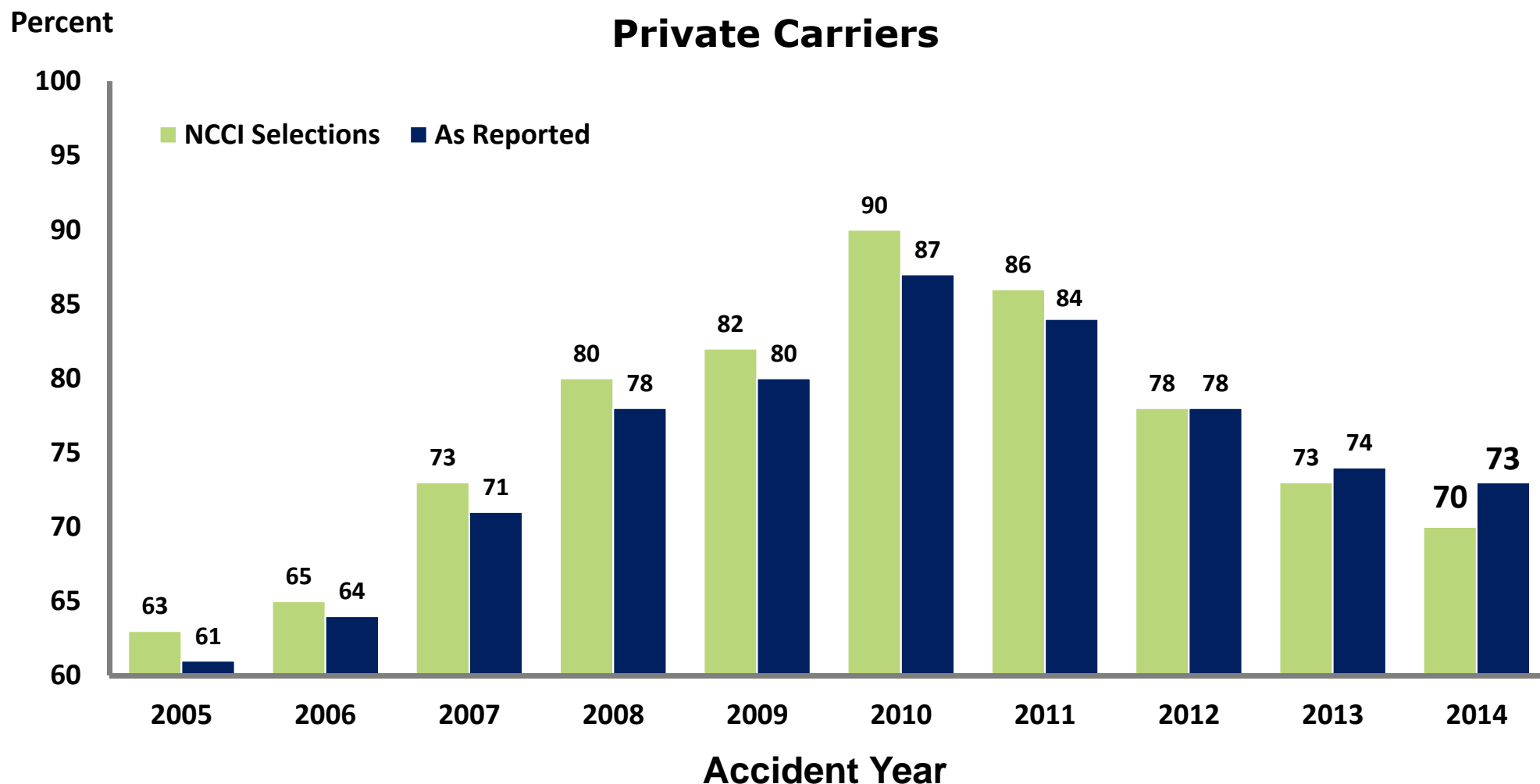
\$ Billions



Source: NCCI analysis based on Annual Statement data
Considers all reserve discounts as deficiencies

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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 12/31/2014

NCCI Selections: NCCI analysis based on Annual Statement data

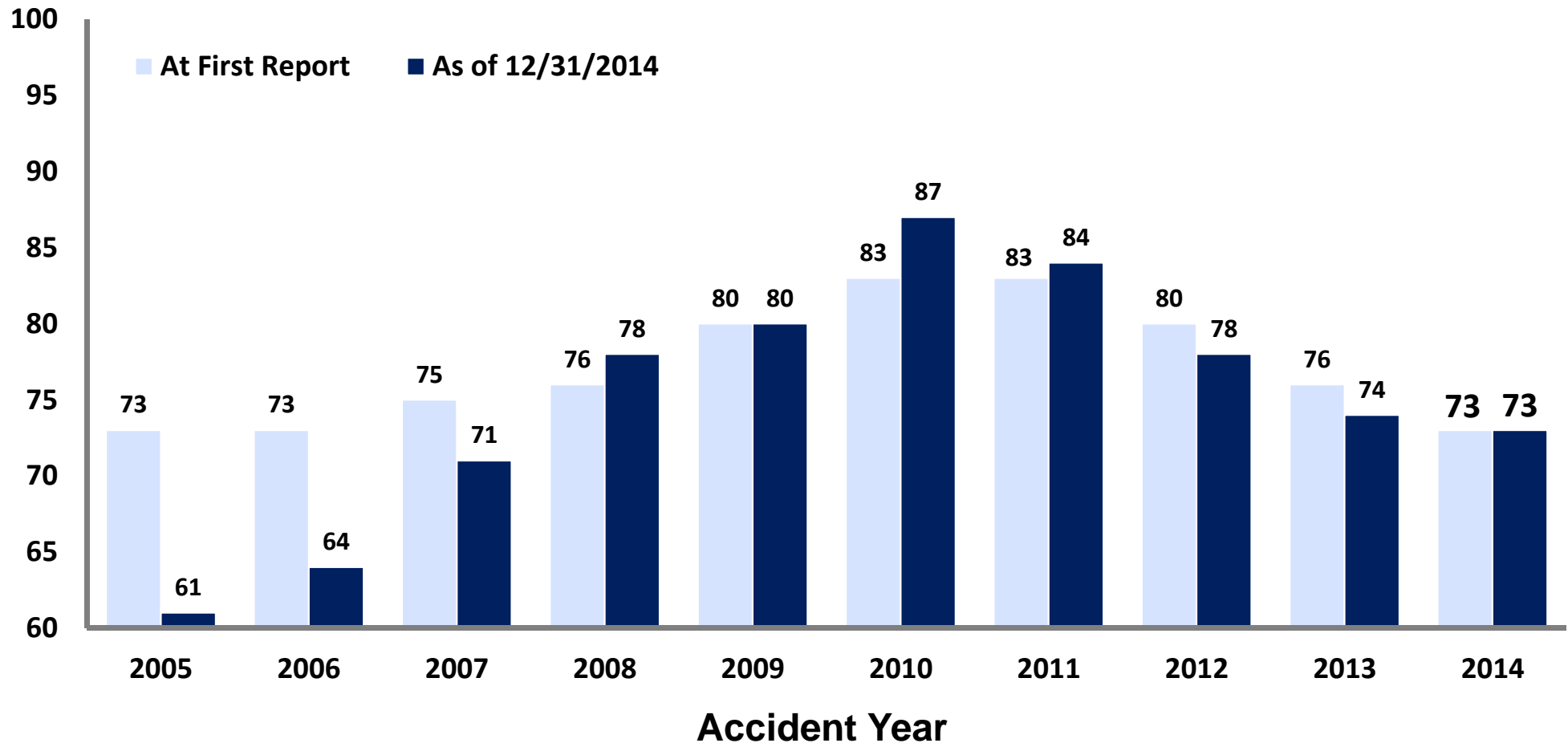
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts

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WC Net Loss and LAE Ratios Accident Year As Reported

Private Carriers

Percent



Source: Annual Statement Schedule P Part 1D data

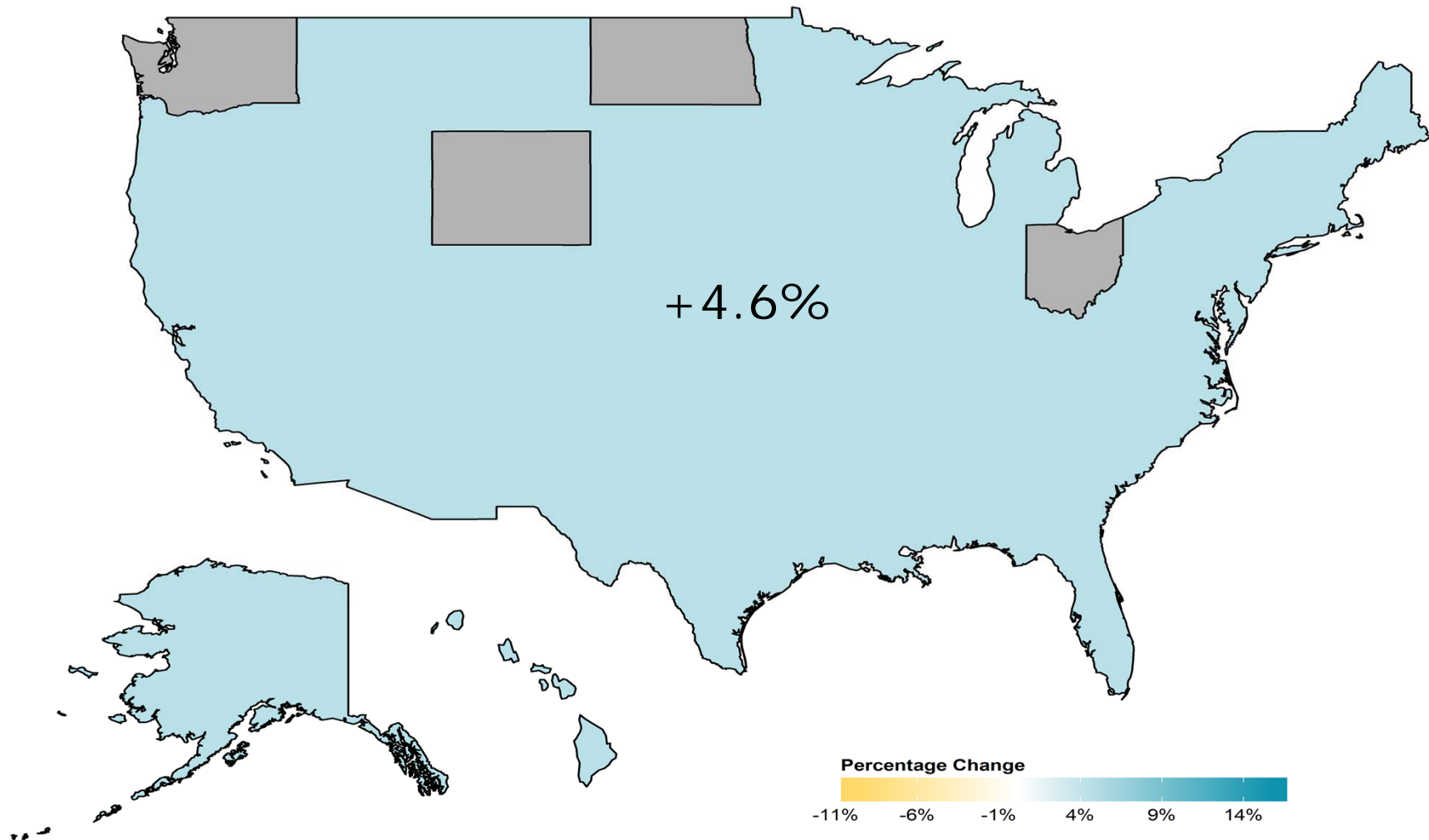
Loss and LAE ratios are net of tabular reserve discounts and gross of non-tabular reserve discounts

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Workers Compensation Premium Drivers

WC Direct Written Premium 2014 Countrywide Growth

Private Carriers

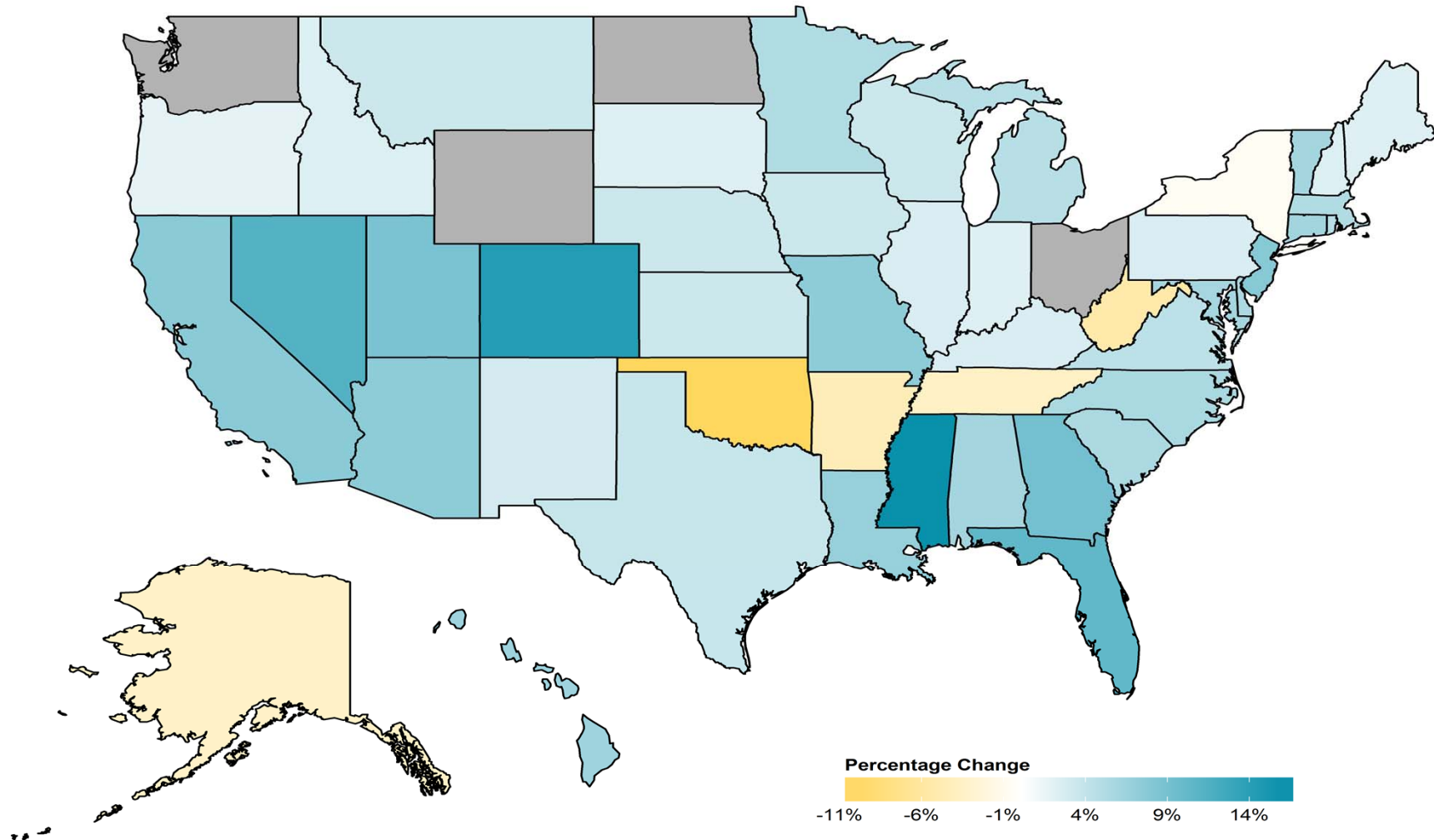


Source: 2014, 2013, Annual Statement Statutory Page 14

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WC Direct Written Premium 2014 Growth by State

Private Carriers



Source: 2014, 2013, Annual Statement Statutory Page 14

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WC

Components of Written Premium Change

Private Carriers

Written Premium Change From 2013 to 2014

Net Written Premium—Countrywide	+4.6%
Direct Written Premium (DWP)—Countrywide	+4.6%
Direct Written Premium (DWP)—NCCI States	+4.5%
Components of DWP Change for NCCI States:	
Change in Carrier Estimated Payroll	+4.7%
Change in Bureau Loss Costs and Mix	–1.4%
Change in Carrier Discounting	+0.4%
Change in Other Factors	+0.8%
Combined Effect:	+4.5%

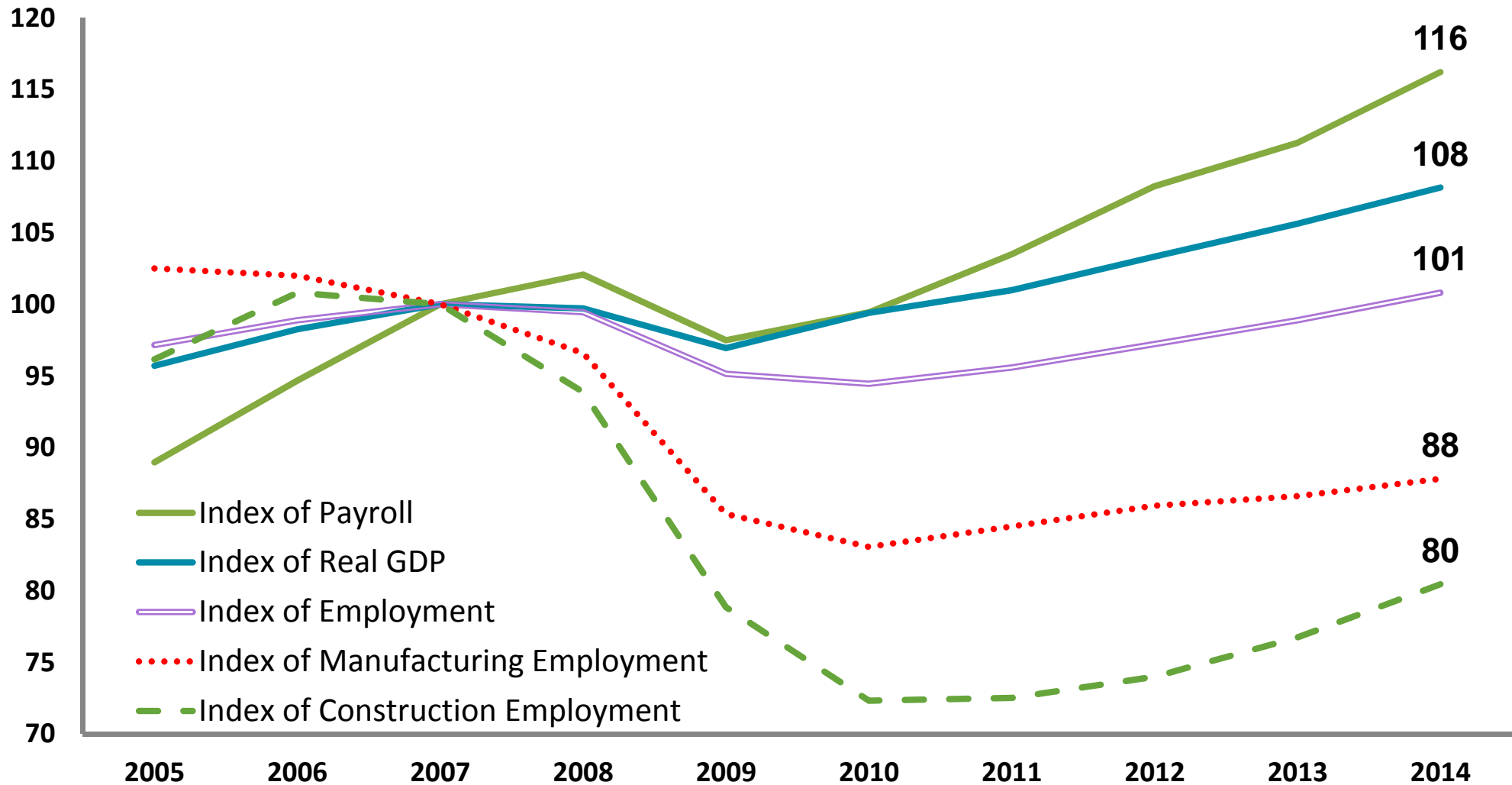
Sources: Countrywide: Annual Statement data

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services

Components: NCCI Policy data

US Employment Levels

Index: 2007 = 100

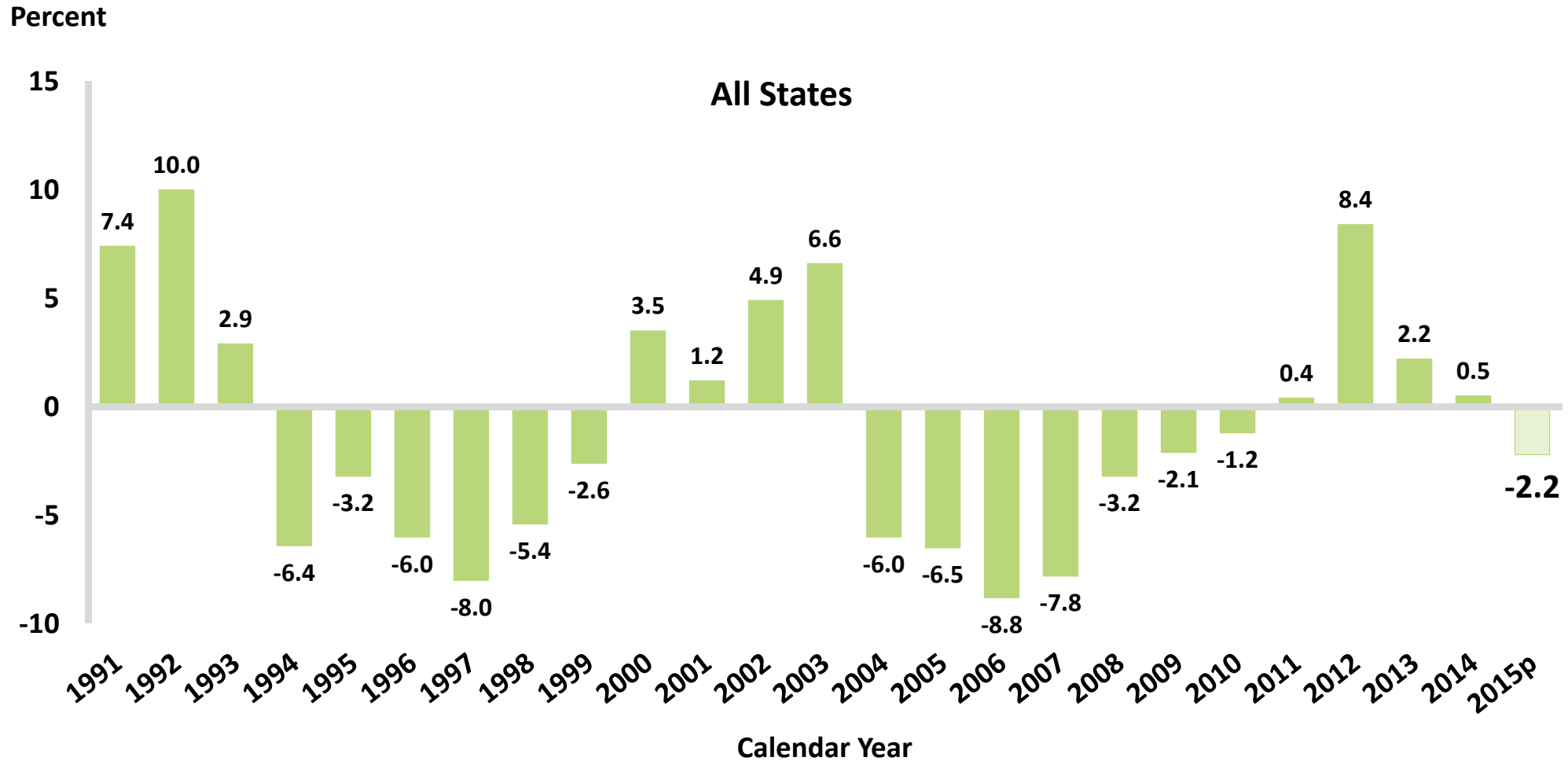


Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis

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WC Approved Changes in Bureau Premium Level

By Effective Date for Total Market



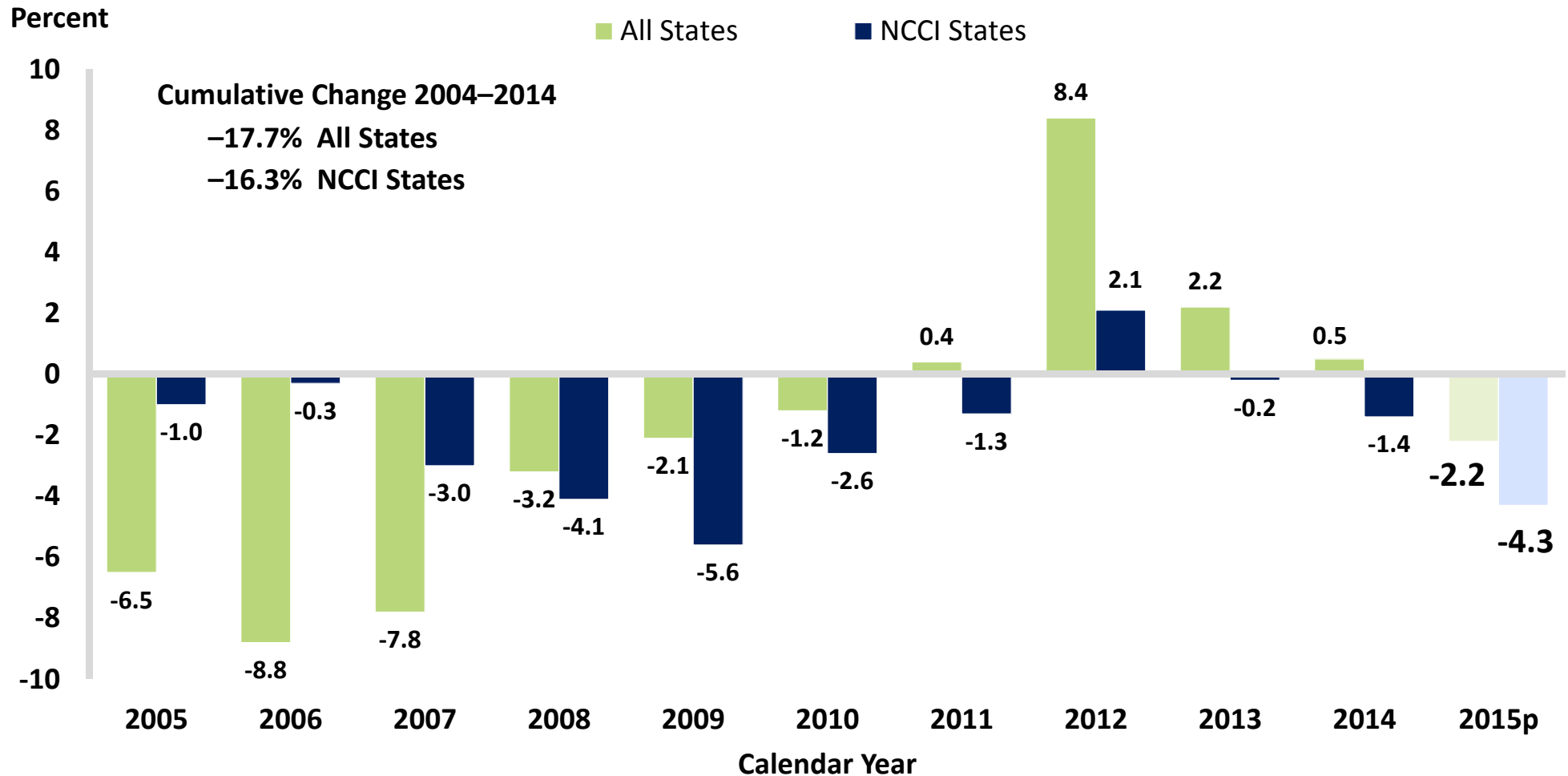
p Preliminary

Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

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WC Approved Changes in Bureau Premium Level

By Effective Date for Total Market



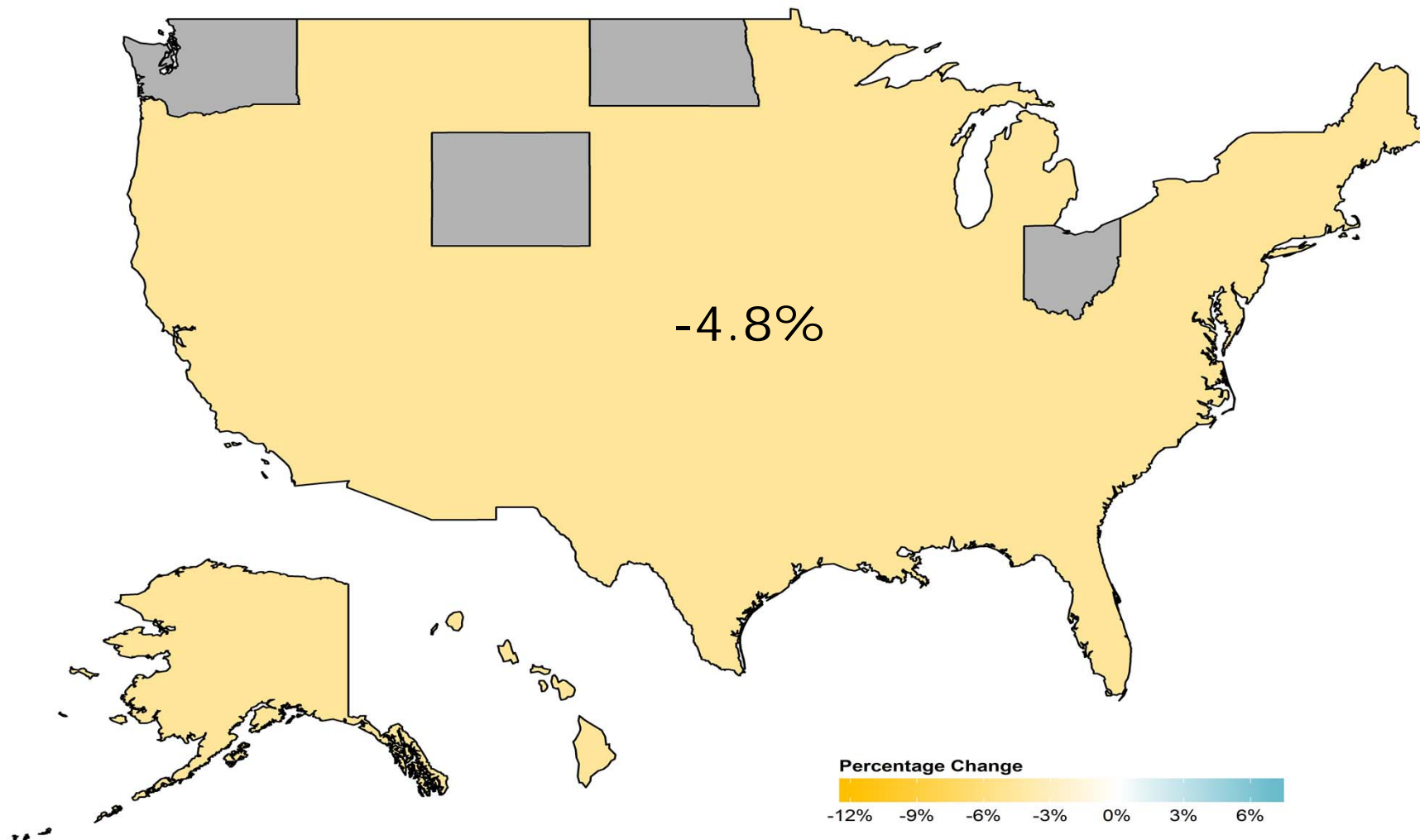
p Preliminary

Bureau premium level changes are countrywide approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

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WC Approved or Filed and Pending Change in Bureau Premium Level

Latest Change for Voluntary Market

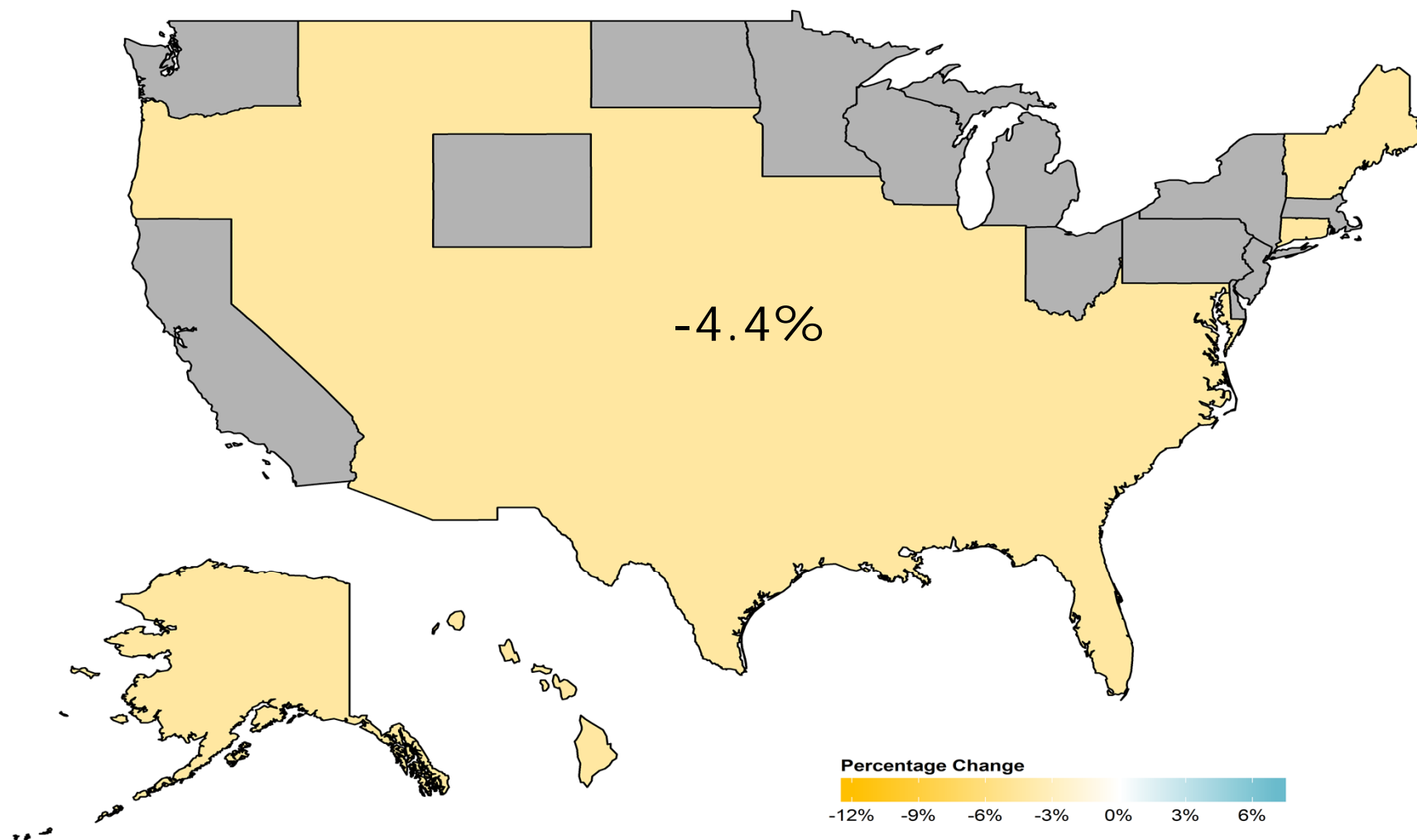


Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

CA, SC are filed and pending

WC Approved or Filed and Pending Change in NCCI Premium Level

Latest Change for Voluntary Market



Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

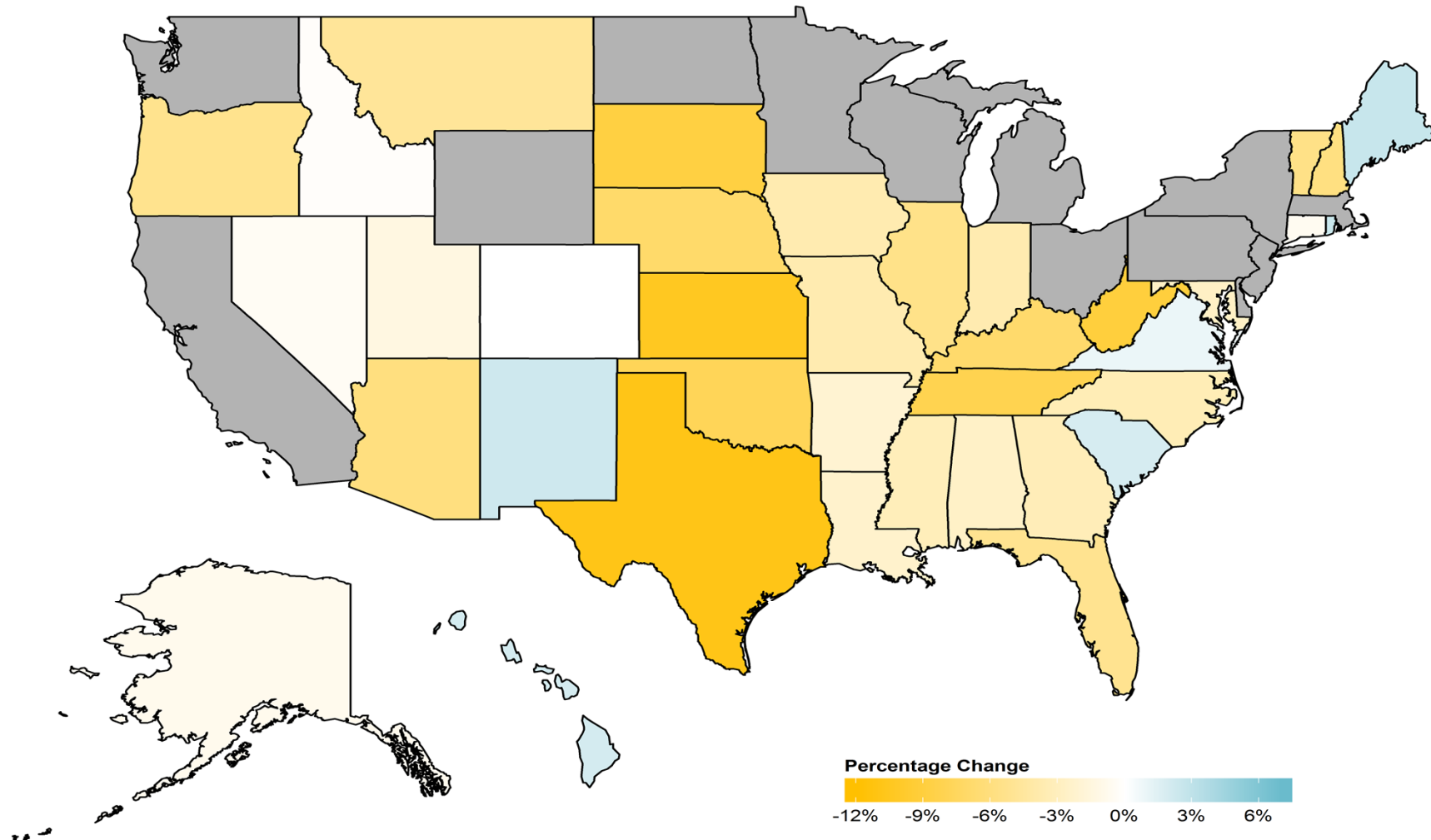
SC is filed and pending

IN and NC are filed in cooperation with state rating bureaus

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WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for Voluntary Market



Premium level changes are approved or filed and pending changes in advisory rates, loss costs, and rating values, as of 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

SC is filed and pending

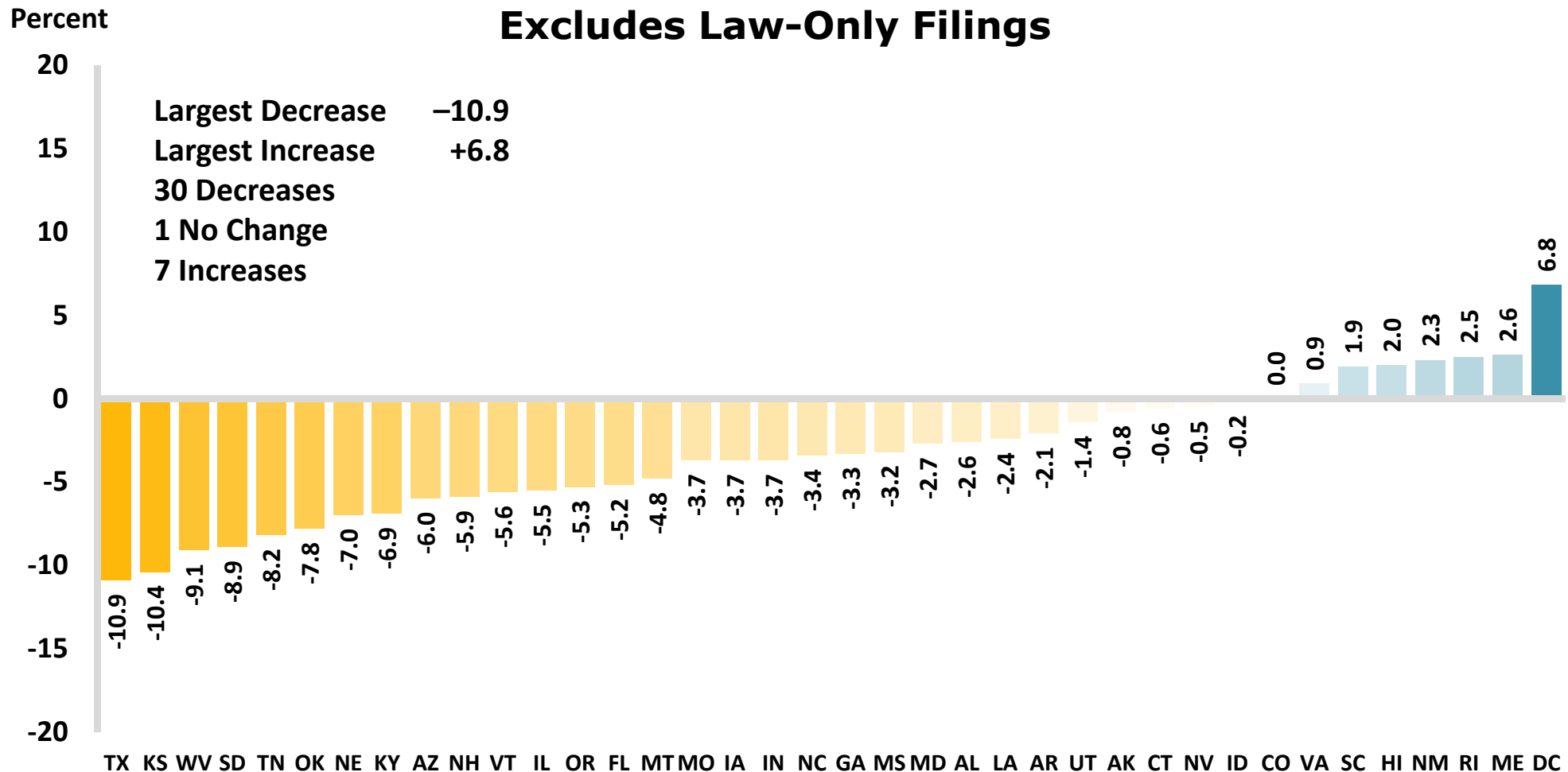
IN and NC are filed in cooperation with state rating bureaus

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WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for 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 4/24/2015, as filed by the applicable rating organization, relative to those previously approved

SC is filed and pending

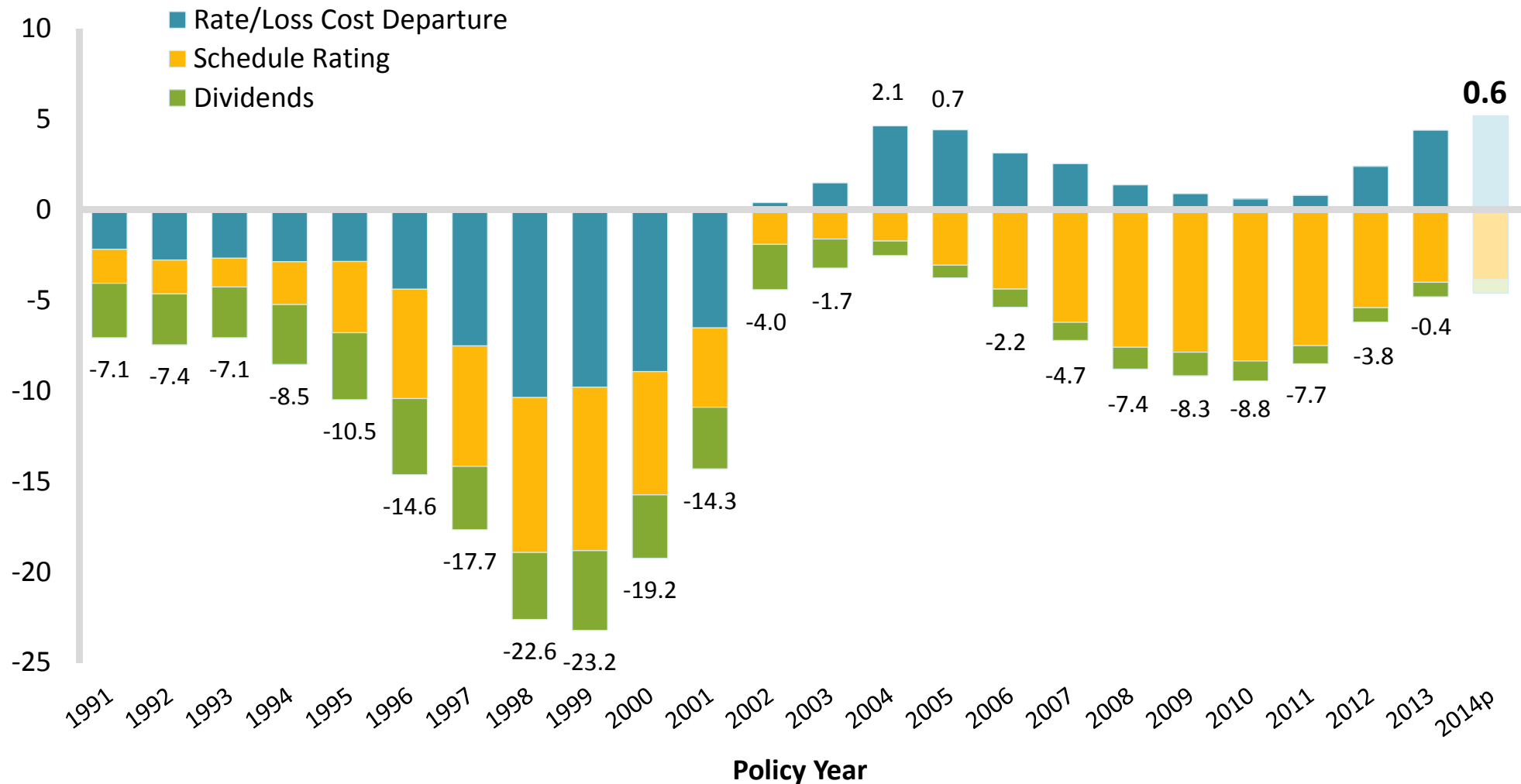
IN and NC are filed in cooperation with state rating bureaus

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WC Impact of Discounting on Premium NCCI States

Percent

Private Carriers



p Preliminary

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

Dividend ratios are based on calendar year statistics

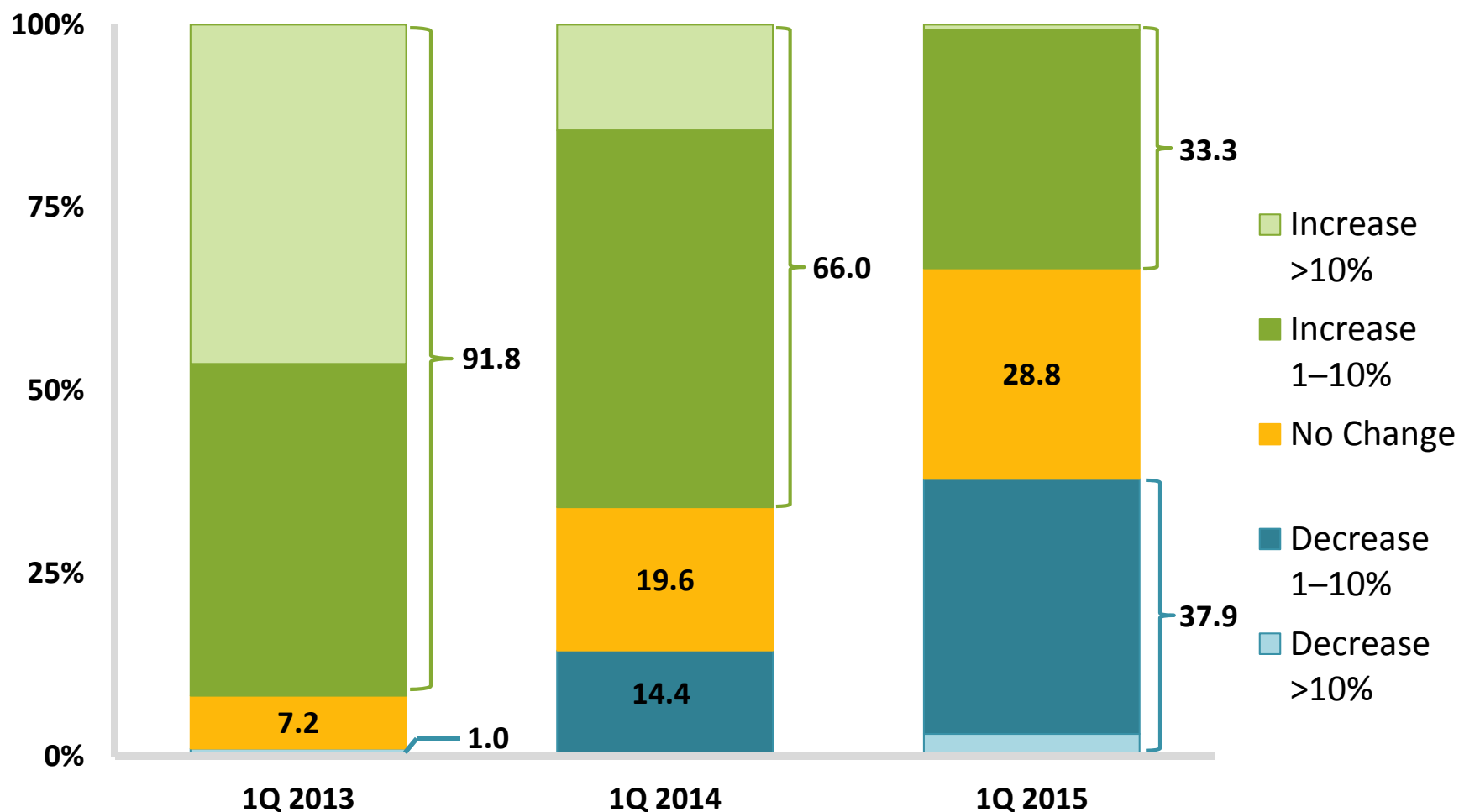
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2014 for all states where NCCI provides ratemaking services, excluding TX

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WC Price Increases Continue to Ease

Percentage of Respondents



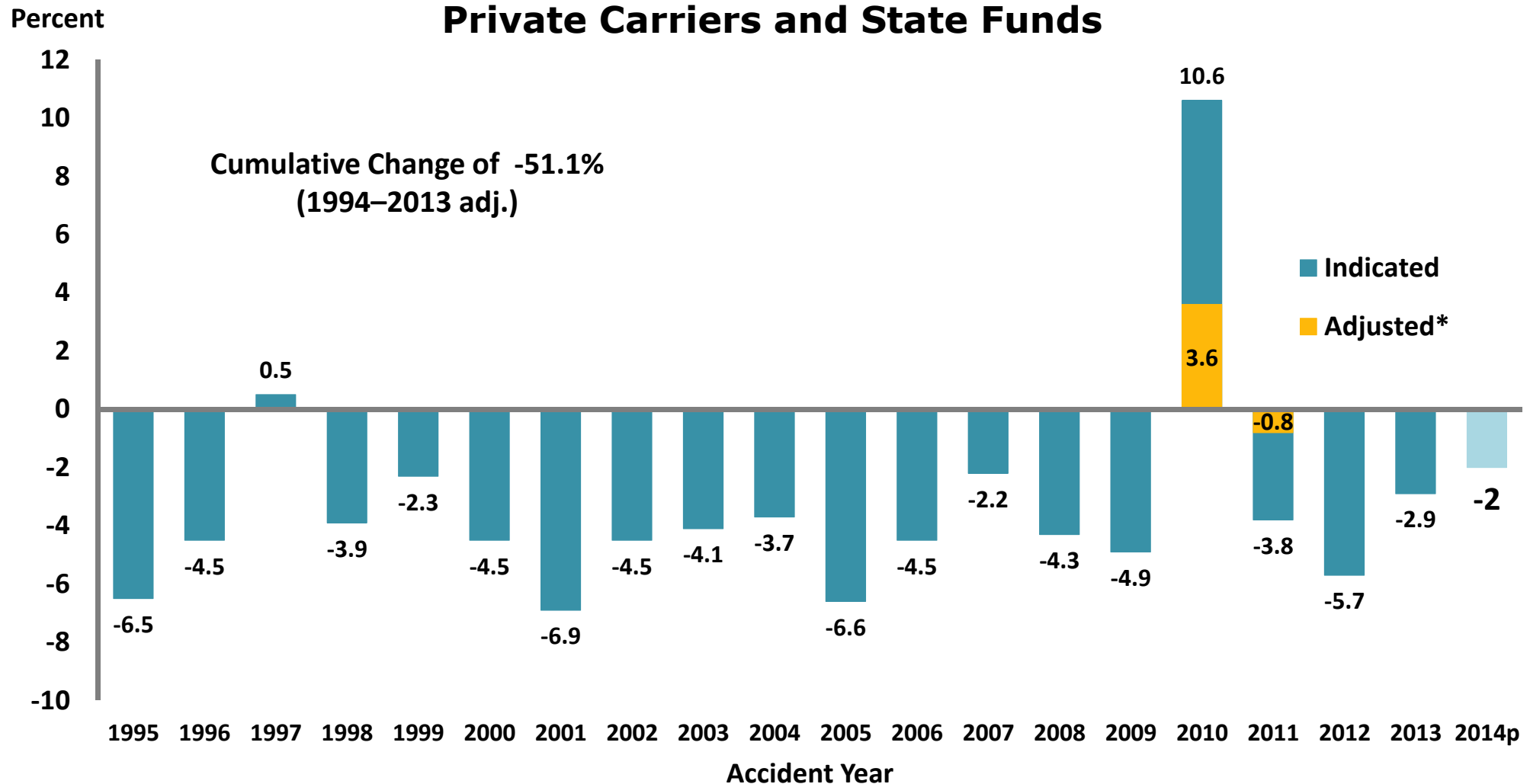
Sources: The Council of Insurance Agents & Brokers, "Commercial P/C Pricing Declined in First Quarter of 2015"
 "Commercial P/C Pricing Increases Continue Easing in First Quarter of 2014"
 "Commercial P/C Pricing Continued Upward Trend in First Quarter (of 2013)"
 Results for "All Regions"

Workers Compensation Loss Drivers

WC Lost-Time Claim Frequency

Change in Lost-Time Claims per \$1M Pure Premium

Private Carriers and State Funds



*Adjustments primarily due to significant changes in audit activity

p Preliminary based on data valued as of 12/31/2014

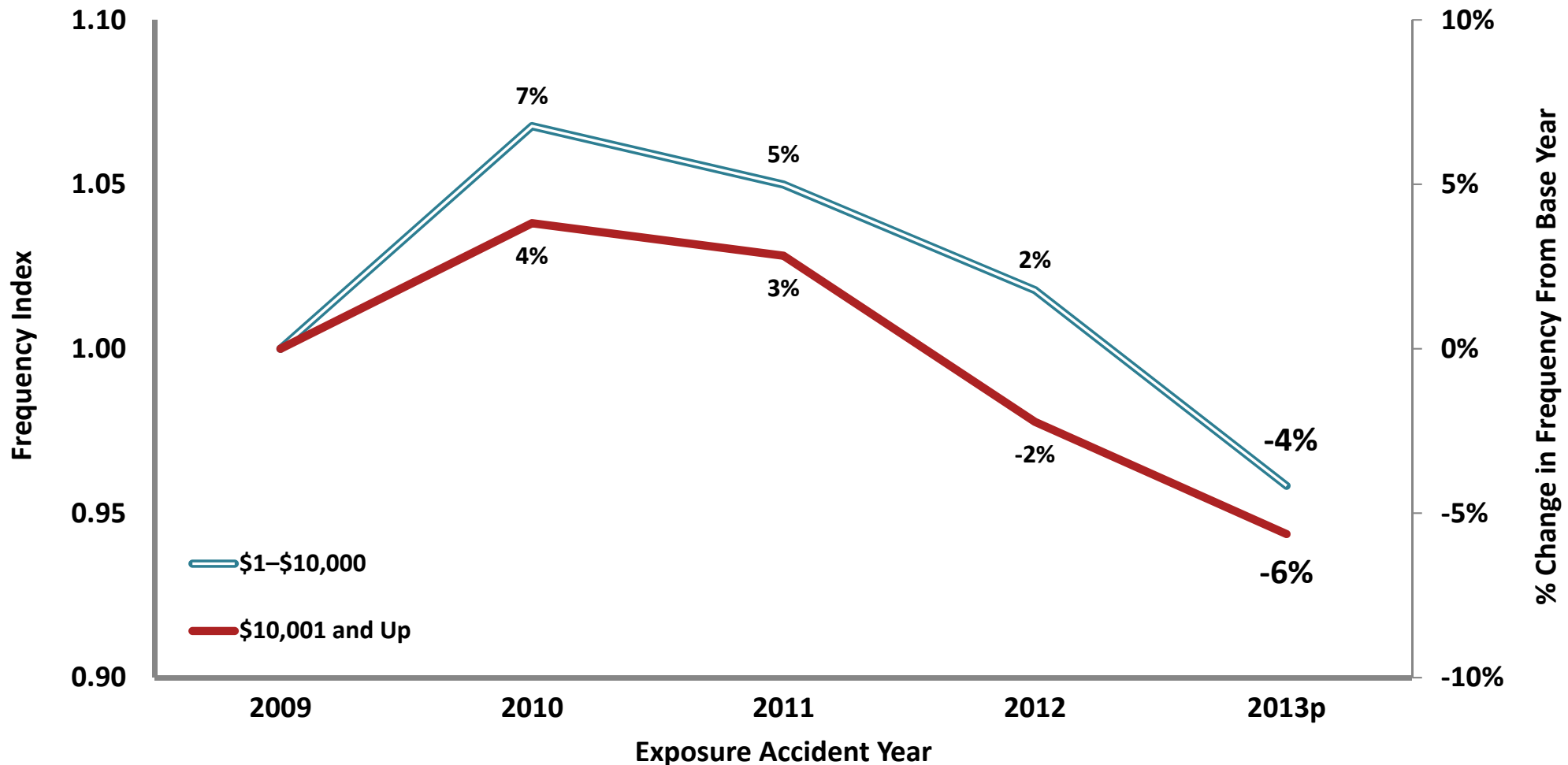
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; excludes high deductible policies; 1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

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WC Lost-Time Claim Frequency Changes by Total Size of Loss

Index: Exposure Accident Year 2009 = 1.00



p Preliminary

Source: NCCI Unit Statistical Plan data

Frequency is the number of lost-time claims at 1st report per \$1M premium at current wage and average carrier rate level

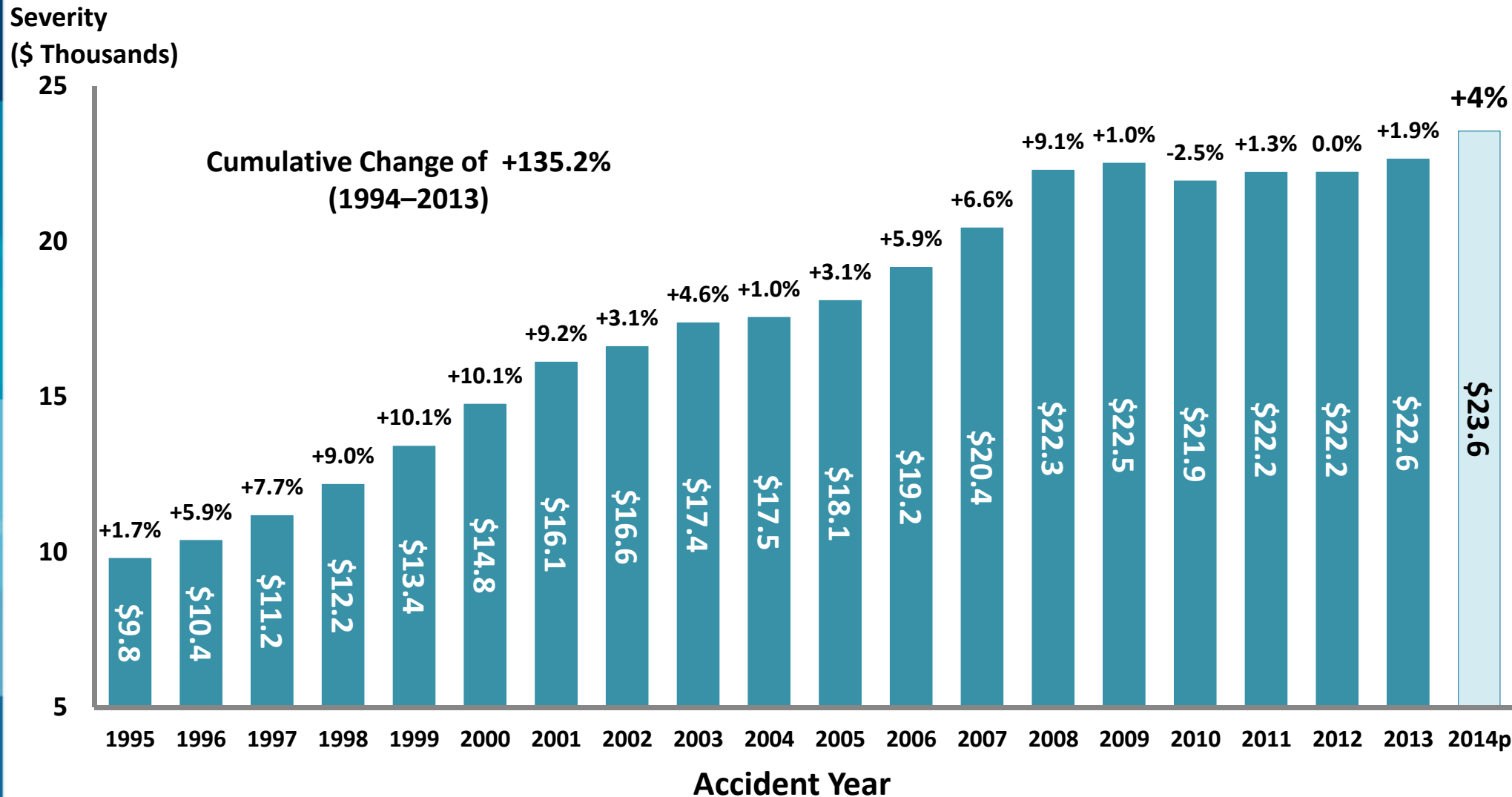
Prior to assigning individual claims to size of loss groupings, reported loss amounts are adjusted for inflation through 2013

For all states where NCCI provides ratemaking services

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WC Average Indemnity Cost per Lost-Time Claim

Private Carriers and State Funds



p Preliminary based on data valued as of 12/31/2014

Source: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

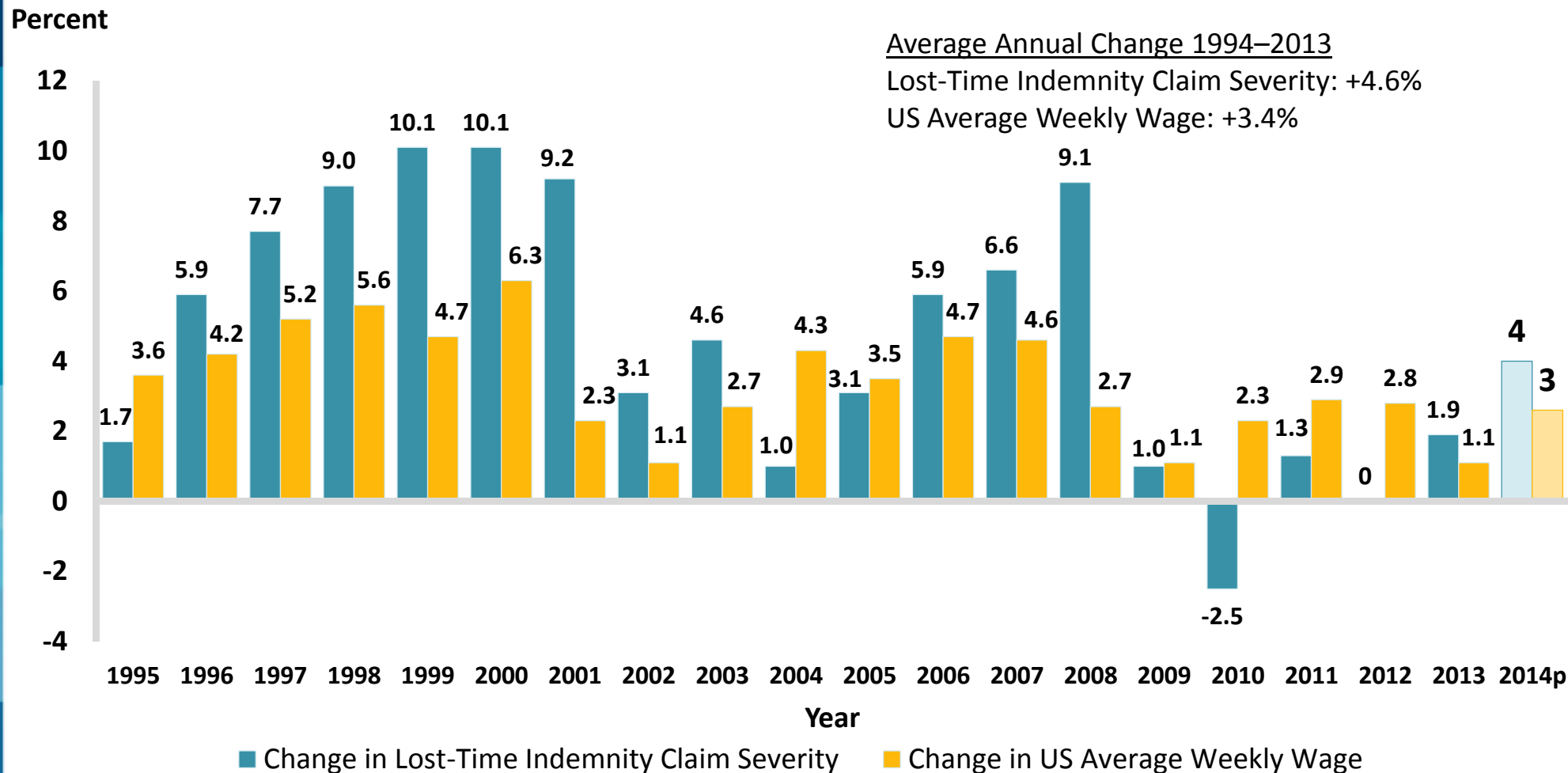
1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

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WC Change in Indemnity Claim Severity Comparison to Change in Average Weekly Wage

Private Carriers and State Funds



p Preliminary based on data valued as of 12/31/2014

Sources: Severity: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

1994–2013: Based on data through 12/31/2013

US Average Weekly Wage: 1994–2007, 2012–2013, Quarterly Census of Employment and Wages

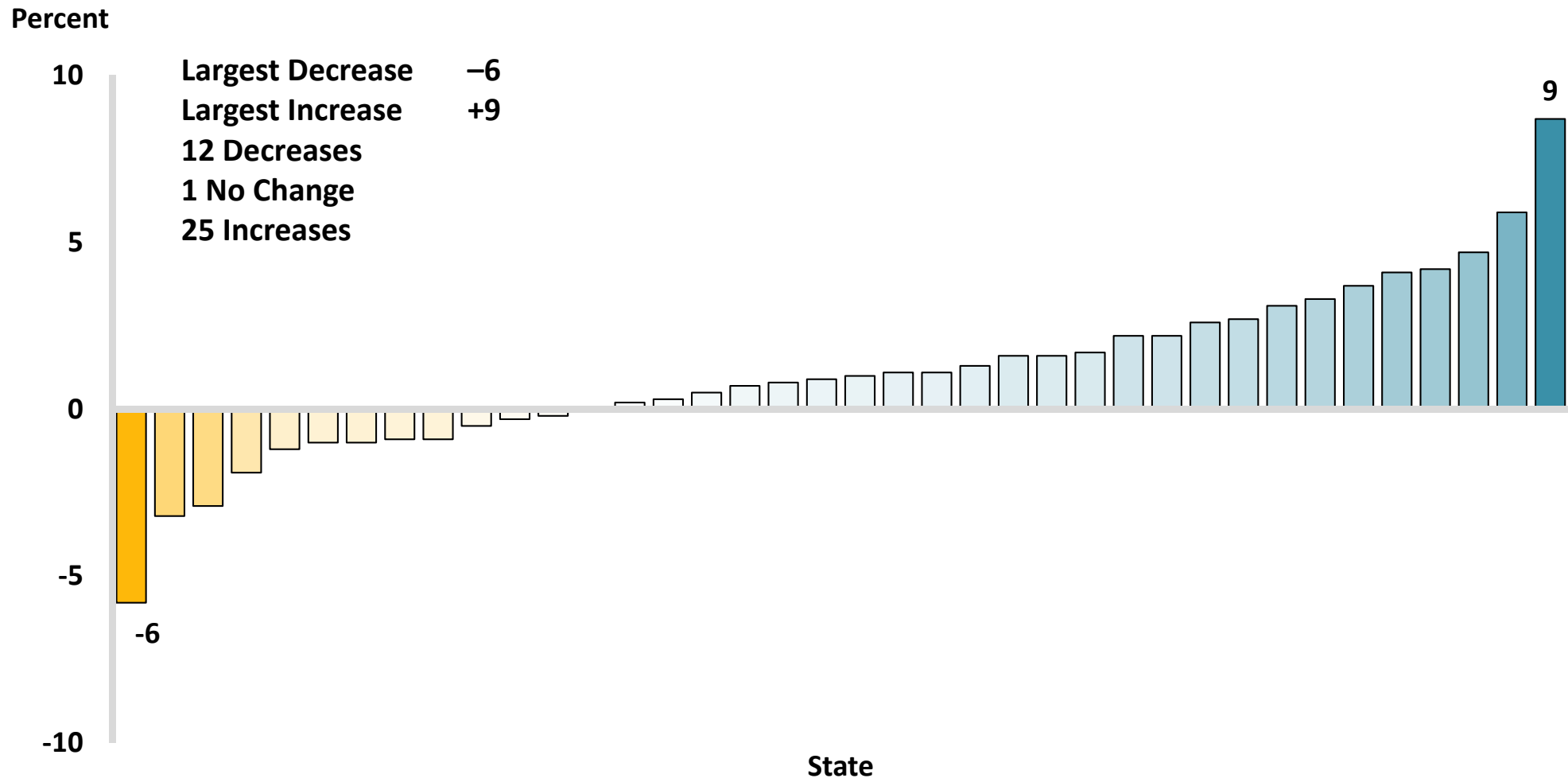
2008–2011, NCCI; 2014p, NCCI, Moody's Economy.com

Severity: For all states where NCCI provides ratemaking services, excluding WV

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WC Change in Indemnity Claim Severity by State

Average Annual Change 2009-2013

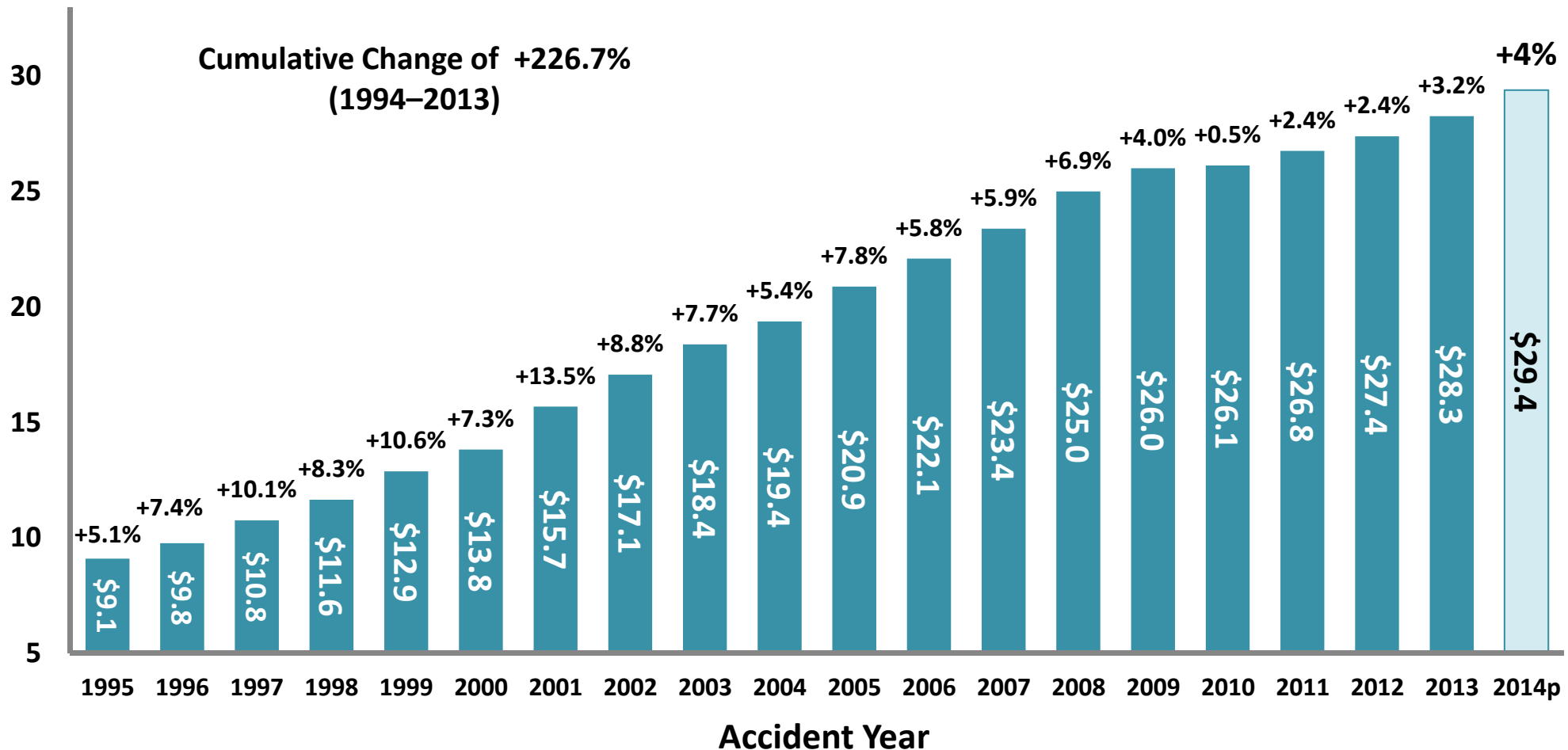


Source: NCCI's Analysis of Frequency and Severity of Claims Across the Country as of 12/31/2013 on ncci.com
 Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
 TX change includes 2010-2013

WC Average Medical Cost per Lost-Time Claim

Private Carriers and State Funds

Severity
(\$ Thousands)



p Preliminary based on data valued as of 12/31/2014

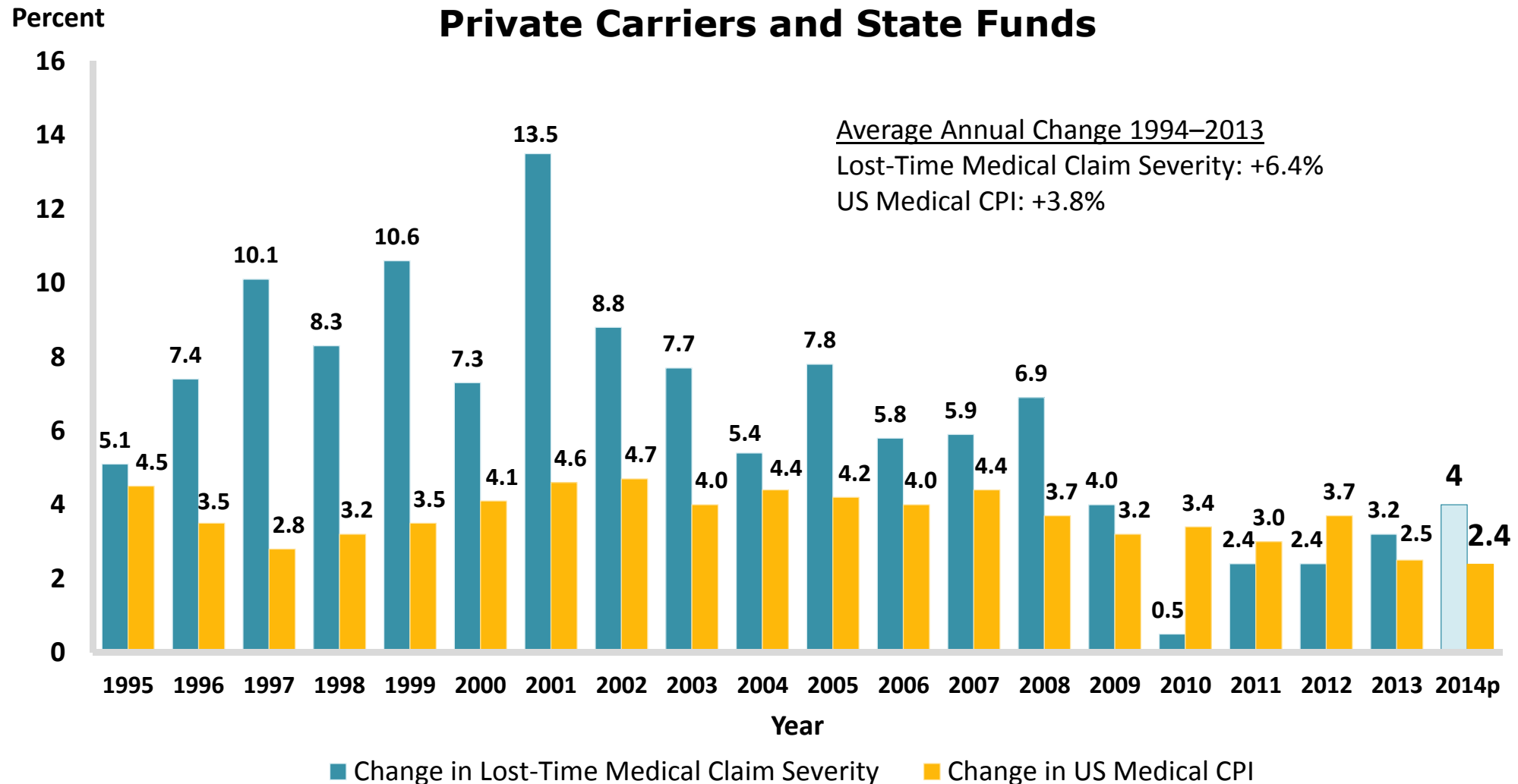
Source: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

1994–2013: Based on data through 12/31/2013

For all states where NCCI provides ratemaking services, excluding WV

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WC Change in Medical Severity Comparison to Change in Medical Consumer Price Index (CPI)



p Preliminary based on data valued as of 12/31/2014

Sources: Severity: NCCI Financial Call data, developed to ultimate; excludes high deductible policies

1994–2013: Based on data through 12/31/2013

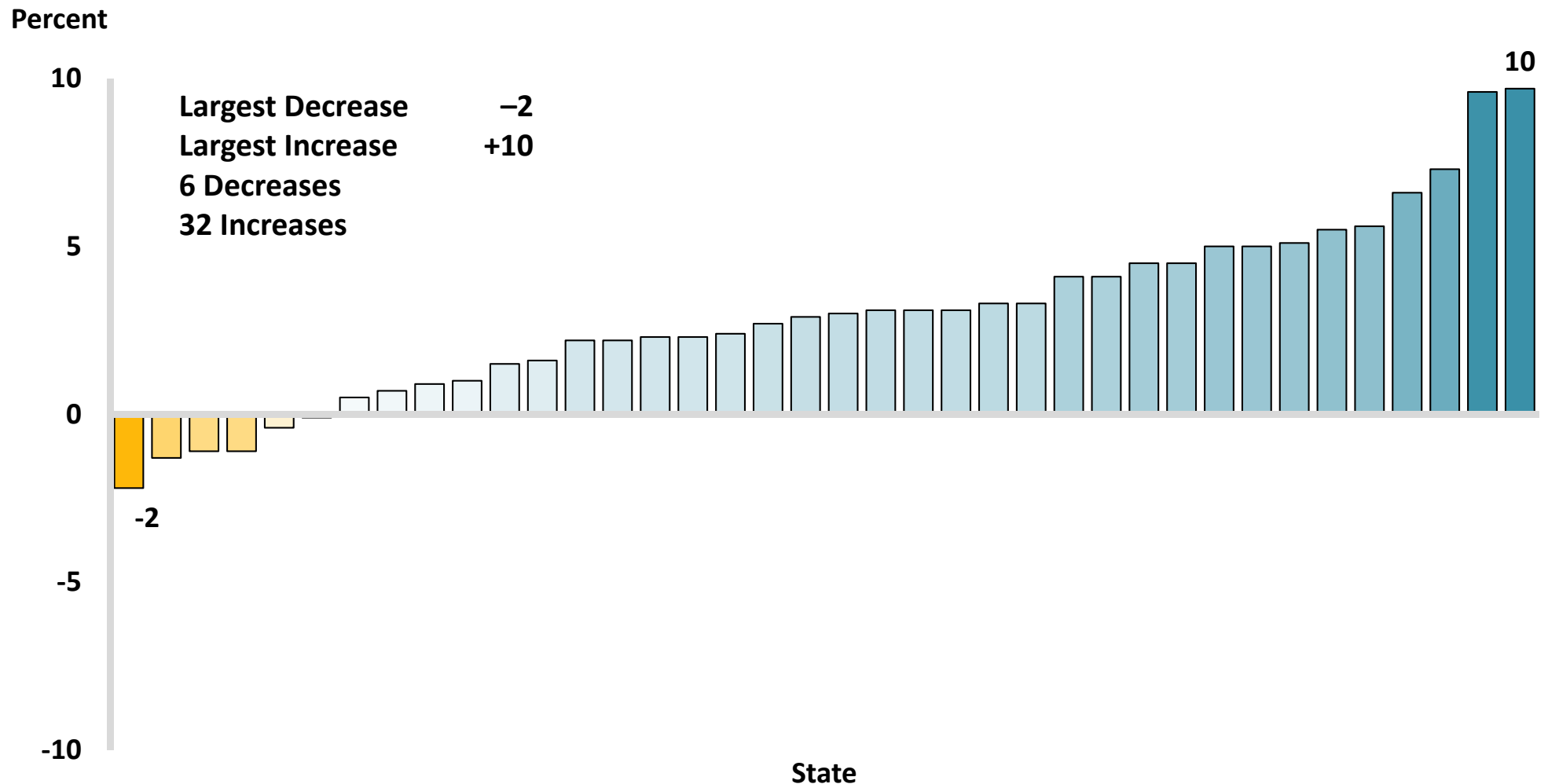
US Medical CPI: US Bureau of Labor Statistics

Severity: For all states where NCCI provides ratemaking services, excluding WV

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WC Change in Medical Claim Severity by State

Average Annual Change 2009-2013



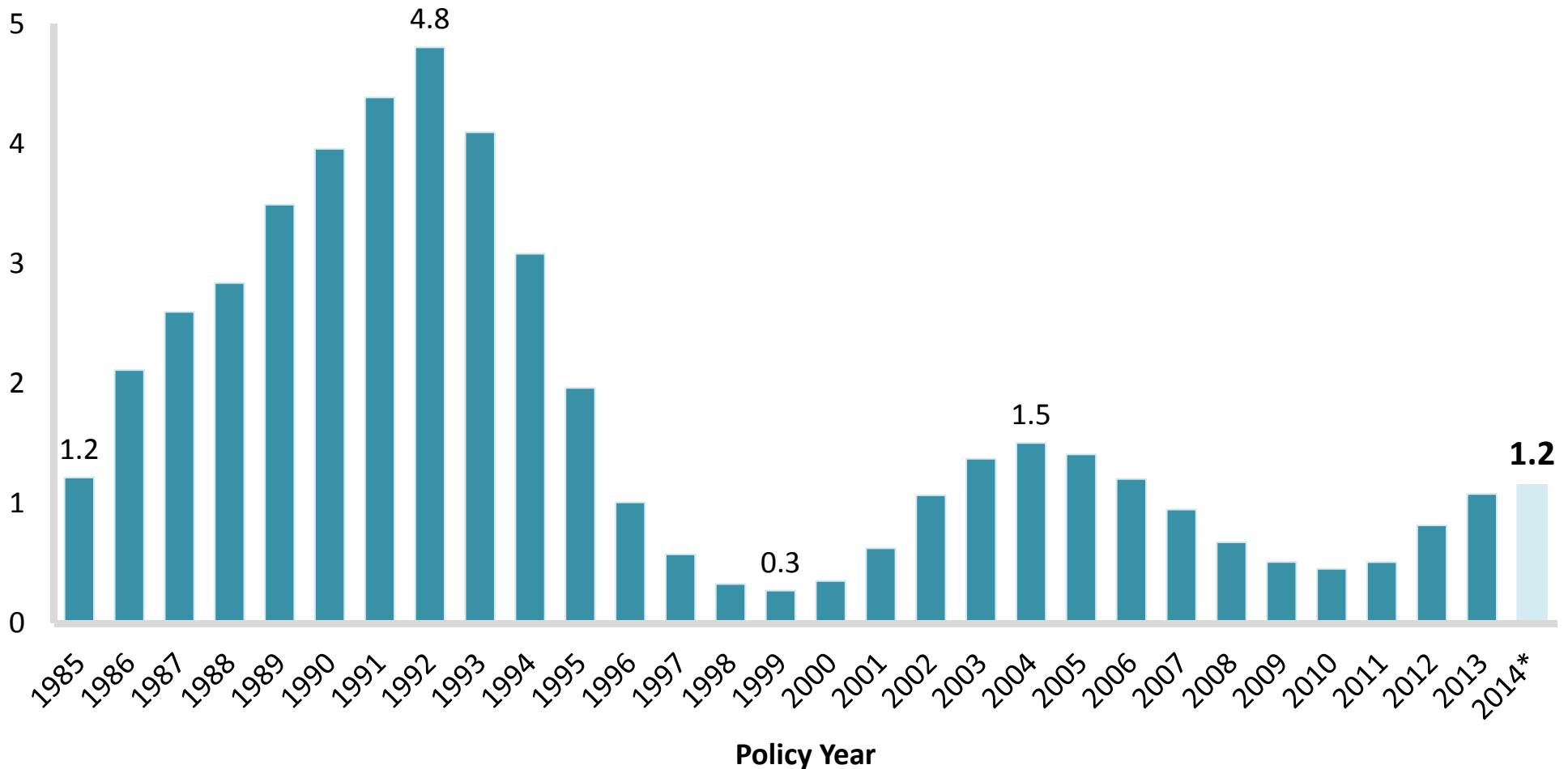
Source: NCCI's Analysis of Frequency and Severity of Claims Across the Country as of 12/31/2013 on ncci.com
 Values displayed reflect methodology and state data underlying the most recent rate/loss cost filing
 TX change includes 2010-2013

Workers Compensation Residual Market

WC Residual Market Premium

NCCI-Serviced WC Residual Market Pools

\$ Billions



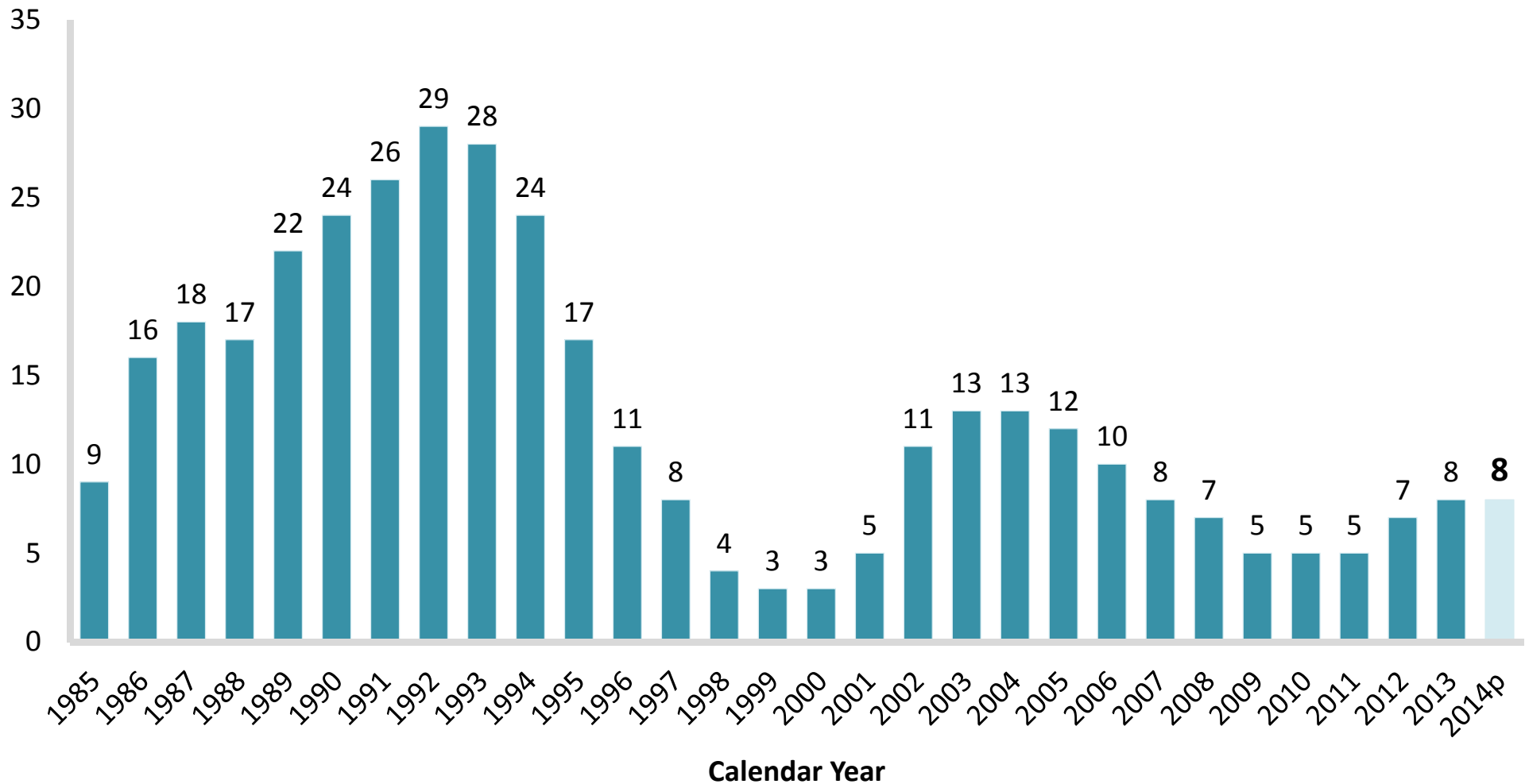
*Incomplete policy year projected to ultimate
Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states
Source: NCCI, *Residual Market Quarterly Results*

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WC Residual Market Share

NCCI-Serviced WC Residual Market Pools

Percent



p Preliminary

Includes pool and direct assignment data for all NCCI-serviced WC residual market pool states

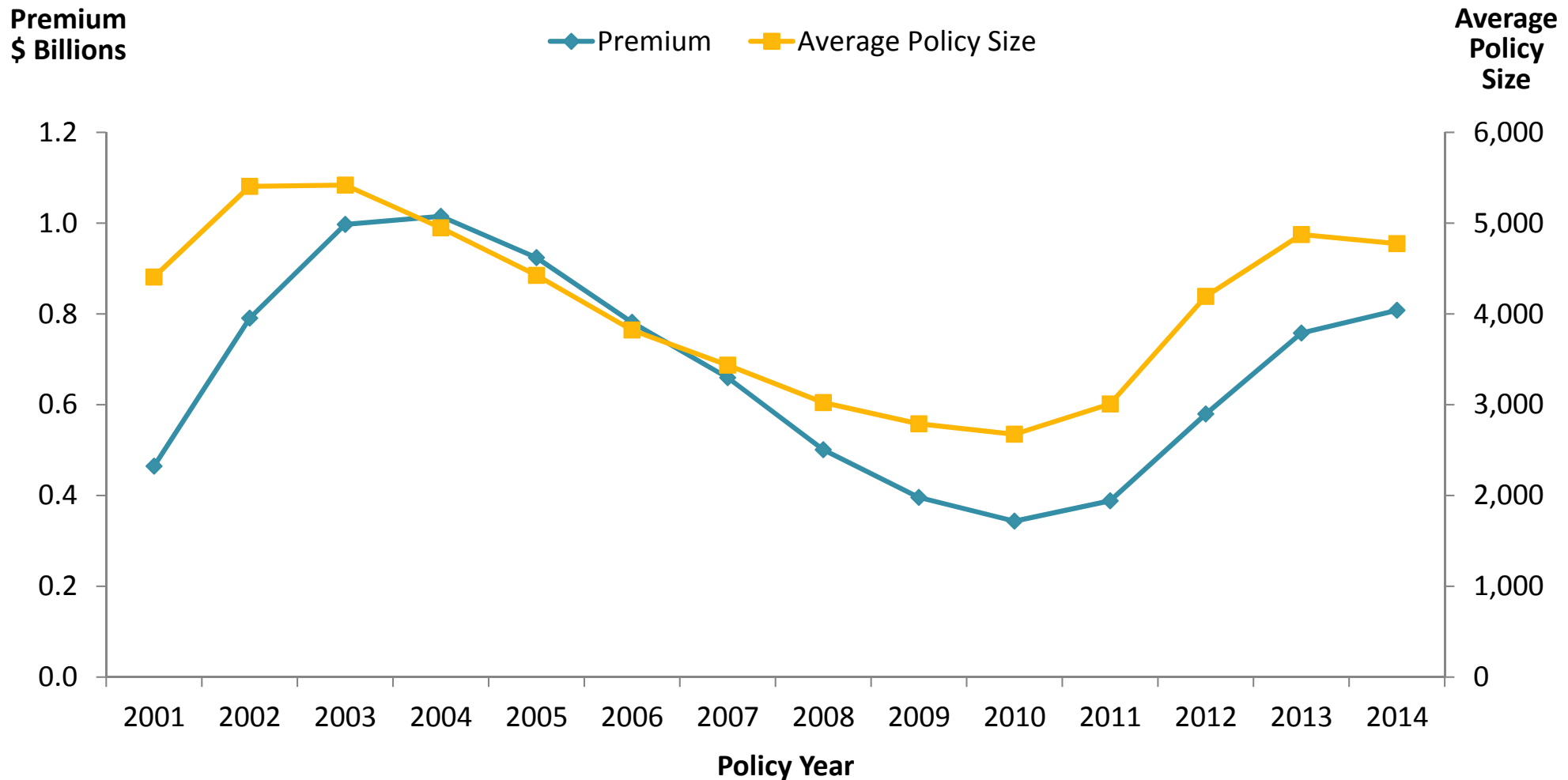
Source: NCCI, **Residual Market Management Summary**

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WC Residual Market

Residual Market Premium vs. Average Policy Size

NCCI-Administered WC Residual Market Plan States



Total estimated annual premium
Includes pool and direct assignment data for all NCCI-administered WC residual market plan states

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WC Residual Market Growth at First Quarter

NCCI-Administered WC Residual Market Plan States

Size of Risk				Q1 2014	Q1 2015	Change
\$	0	–	\$ 2,499	\$ 28.5M	\$ 30.1M	6%
\$	2,500	–	\$ 4,999	\$ 16.6M	\$ 17.1M	3%
\$	5,000	–	\$ 9,999	\$ 24.0M	\$ 24.4M	2%
\$	10,000	–	\$ 49,999	\$ 73.5M	\$ 68.4M	-7%
\$	50,000	–	\$ 99,999	\$ 30.2M	\$ 28.6M	-6%
\$	100,000	and	Over	\$ 50.0M	\$ 38.4M	-23%
Total				\$ 222.9M	\$ 206.9M	-7%

Total estimated annual premium

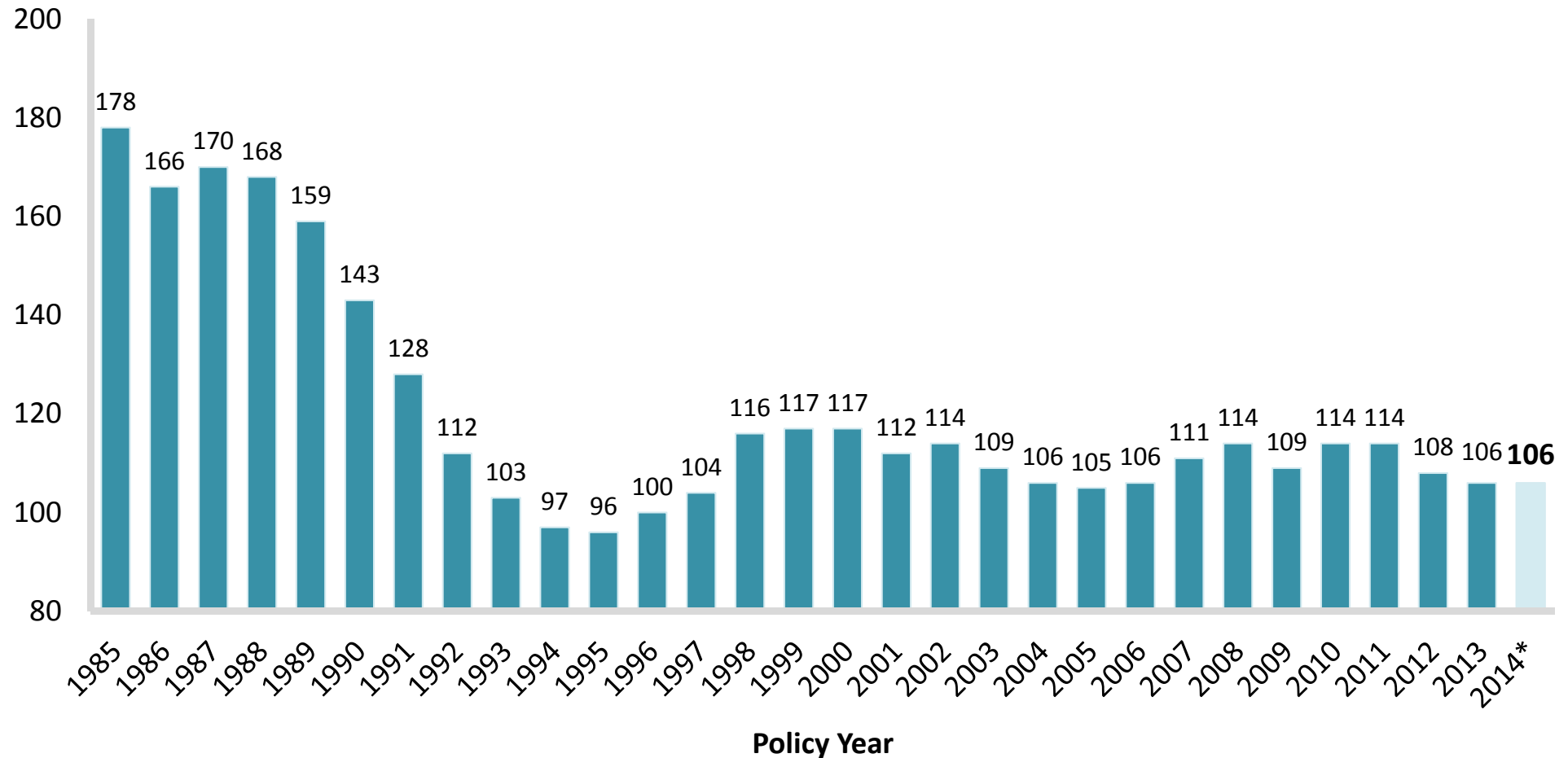
Includes pool and direct assignment data for all NCCI-administered WC residual market plan states

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WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools

Percent

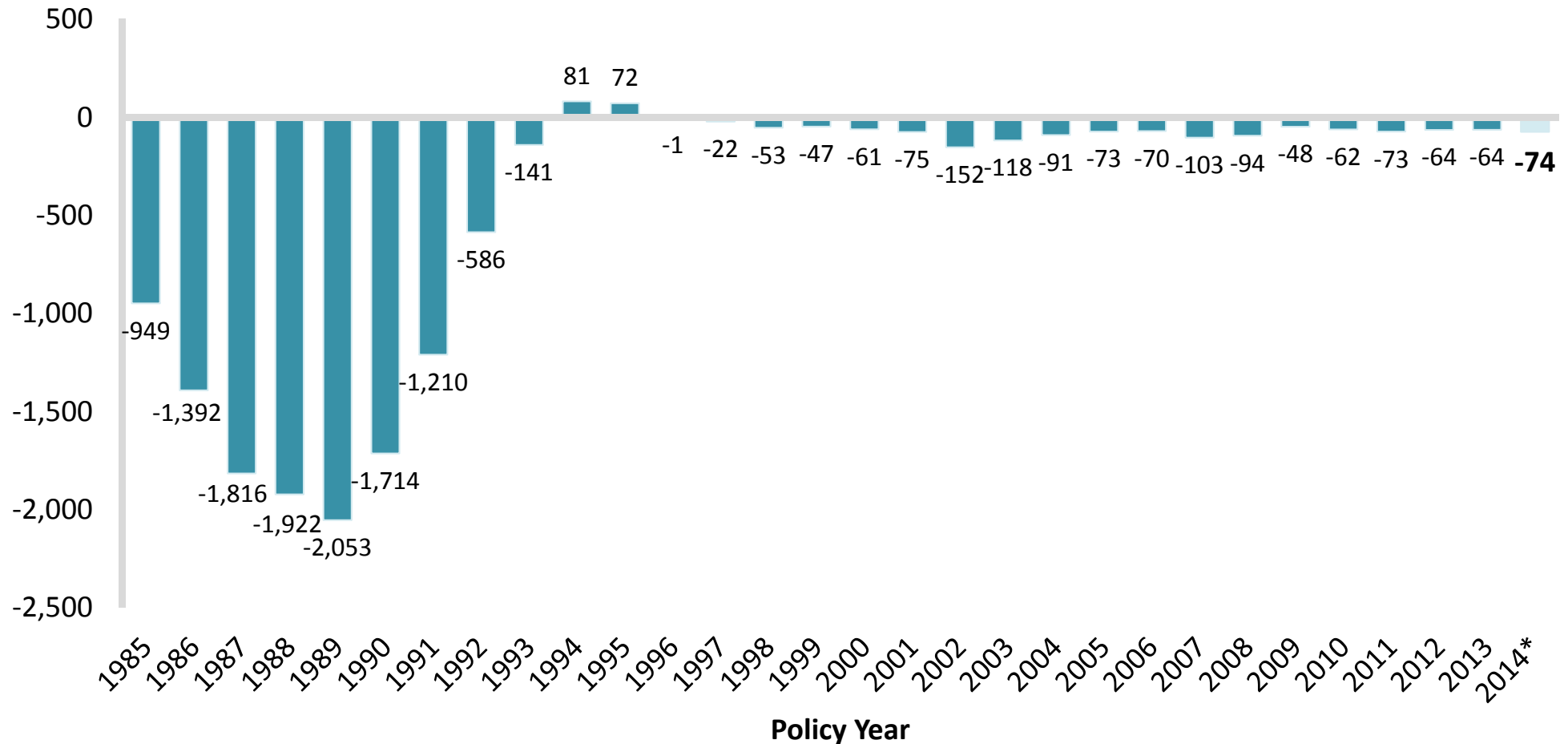


*Incomplete policy year projected to ultimate
 Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states
 Source: NCCI, *Residual Market Quarterly Results*

WC Residual Market Underwriting Results

NCCI-Serviced WC Residual Market Pools

\$ Millions



*Incomplete policy year projected to ultimate

Includes pool data as of 12/31/2014 for all NCCI-serviced WC residual market pool states

Source: NCCI, *Residual Market Quarterly Results*

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Concluding Remarks

NCCI Highlights

- Indexing the Experience Rating Premium Eligibility Thresholds
- The Impact of Claimant Age on Late-Term Medical Costs (*October 2014*)
- Medicare Set-Asides and Workers Compensation (*September 2014*)
- The Price Impact of Physician Fee Schedules (*April 2014*)

Preview—Today's Research Breakout

- State Differences in the Treatment of Joint Injuries
- The Impact of Workers Compensation Rx Fee Schedules
- Time From Injury to Treatment in Workers Compensation
- Reporting Lag and Claim Severity

Questions and More Information

Meet the Experts—Immediately following this session.

Questions on the State of the Line presentation?
Email us at stateoftheline@ncci.com.

Download the complete presentation materials and watch a video overview of the State of the Line at **ncci.com**.