The Source You Trust

2018 State of the Line Guide Addendum

2018 State of the Line Guide Addendum—Introduction

NCCI's annual **State of the Line** presentation provides an exclusive review of trends, cost drivers, and significant developments shaping the workers compensation industry. This Addendum to the Guide provides a slide-by-slide examination of the key takeaways, data sources, and background information underlying topics related to the **State of the Line** presentation.

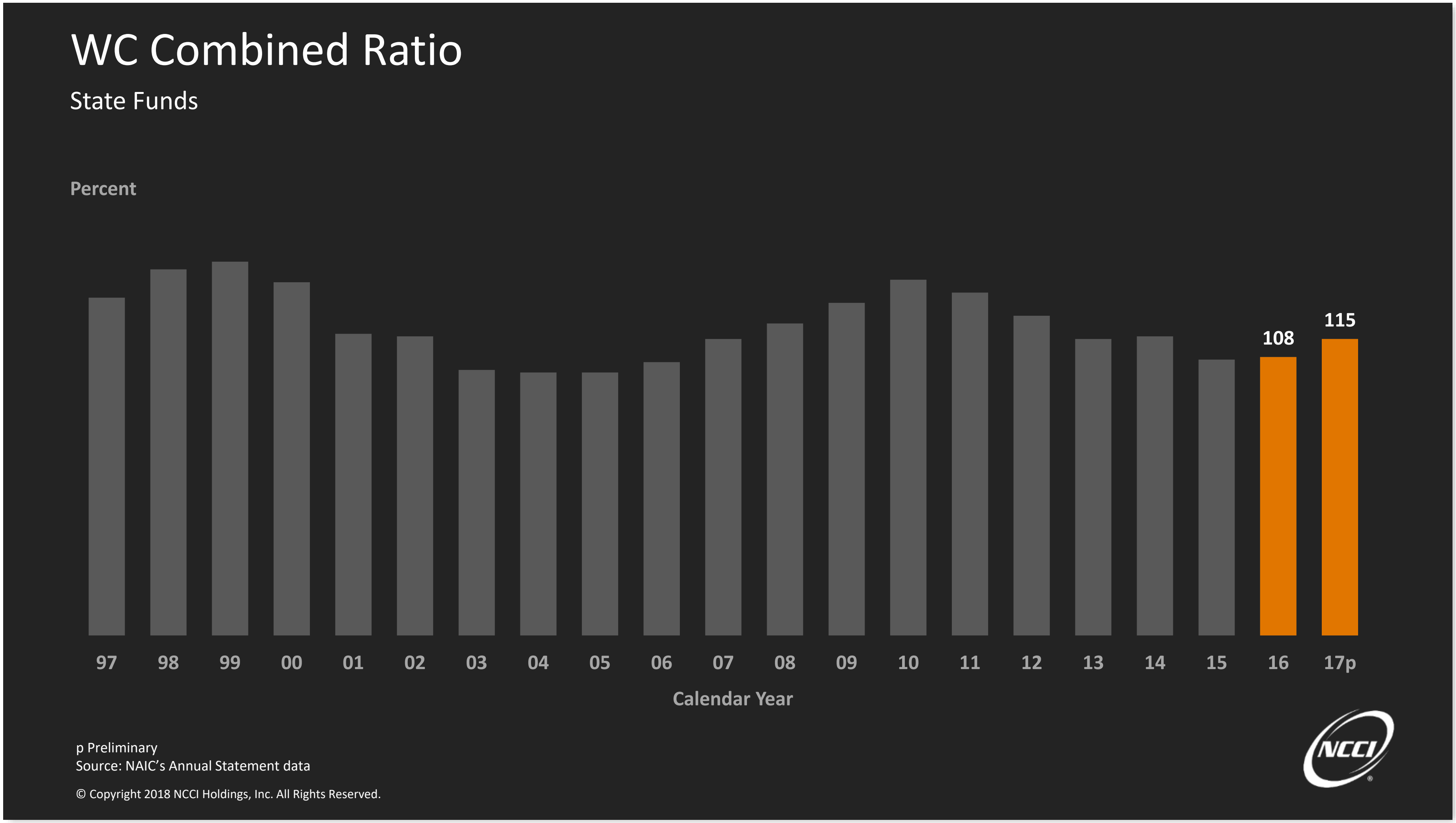
The ***2018 State of the Line Guide Addendum*** will be updated throughout the year as related topics arise.

TOC	Select this icon to return to the Table of Contents
i	Select this icon to view the slide's background information and data sources
	Select this icon to view the slide's underlying data
←	Select this icon to return to the applicable slide
Hyperlink	Click to go to the definitions and/or formulas located in the Appendix

2018 State of the Line Guide Addendum—Table of Contents

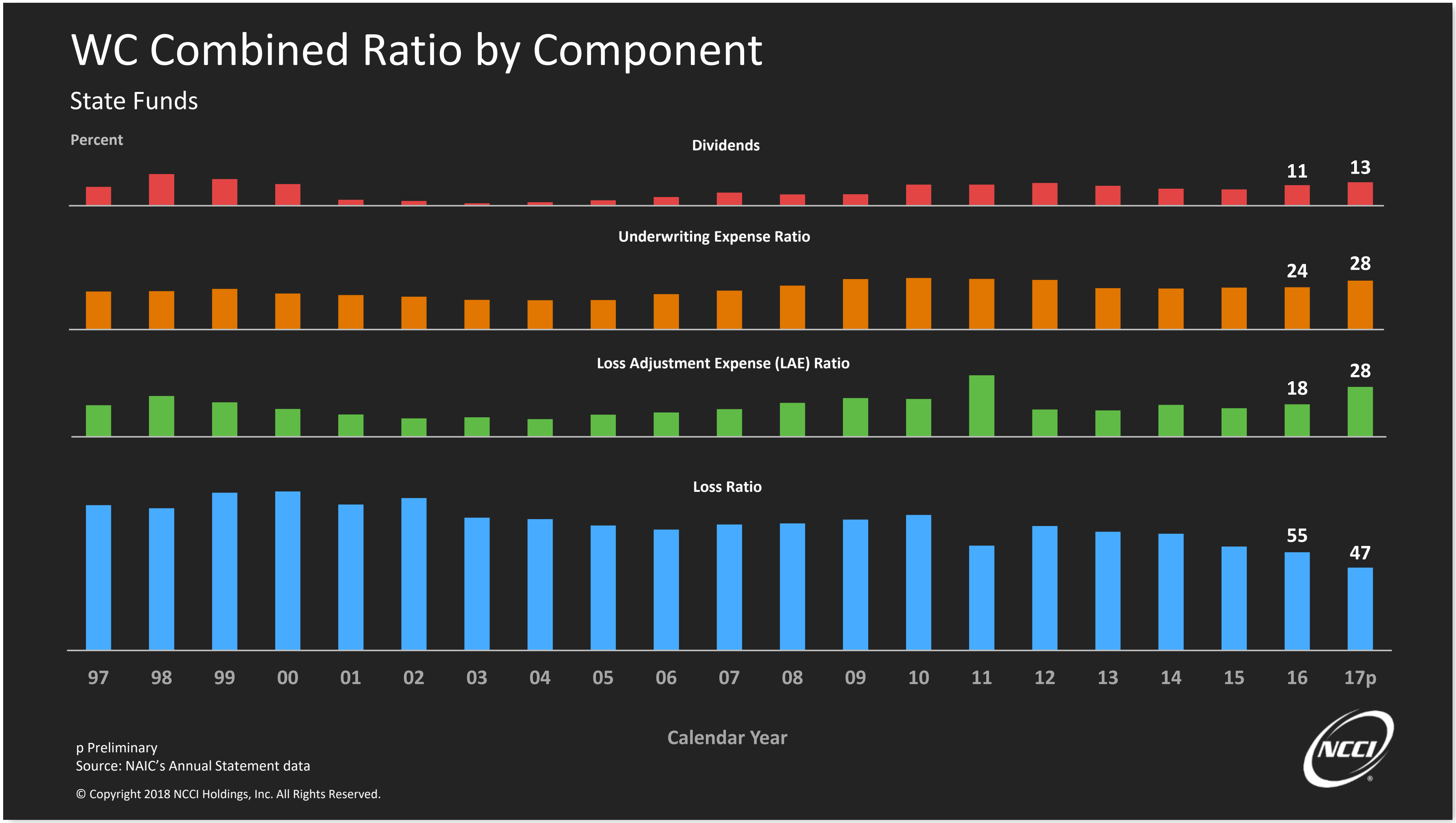
Workers Compensation Results

TOC



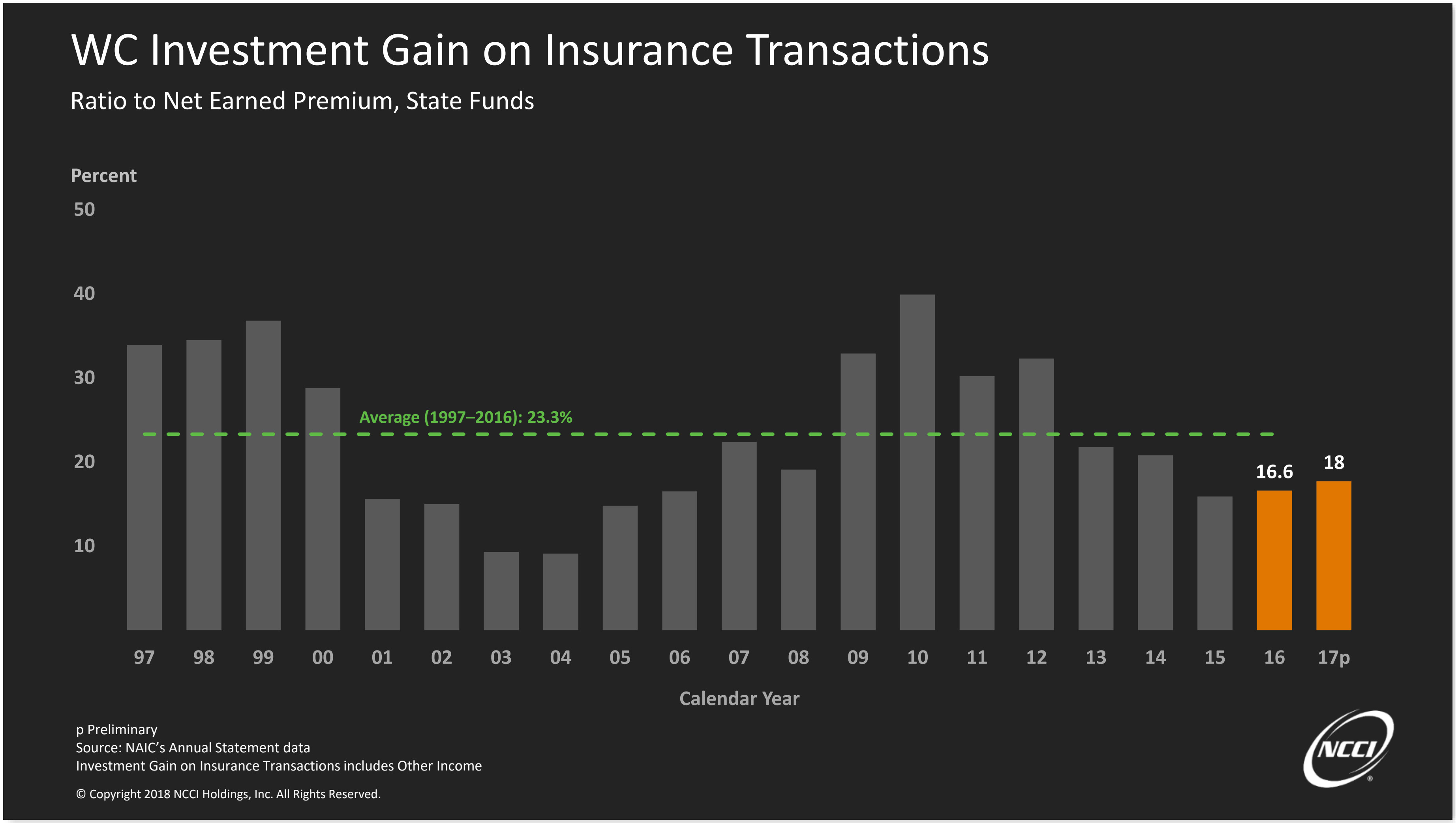
Key Takeaway

- The 2017 state fund combined ratio was 115. This represents a seven-point increase from the prior year.



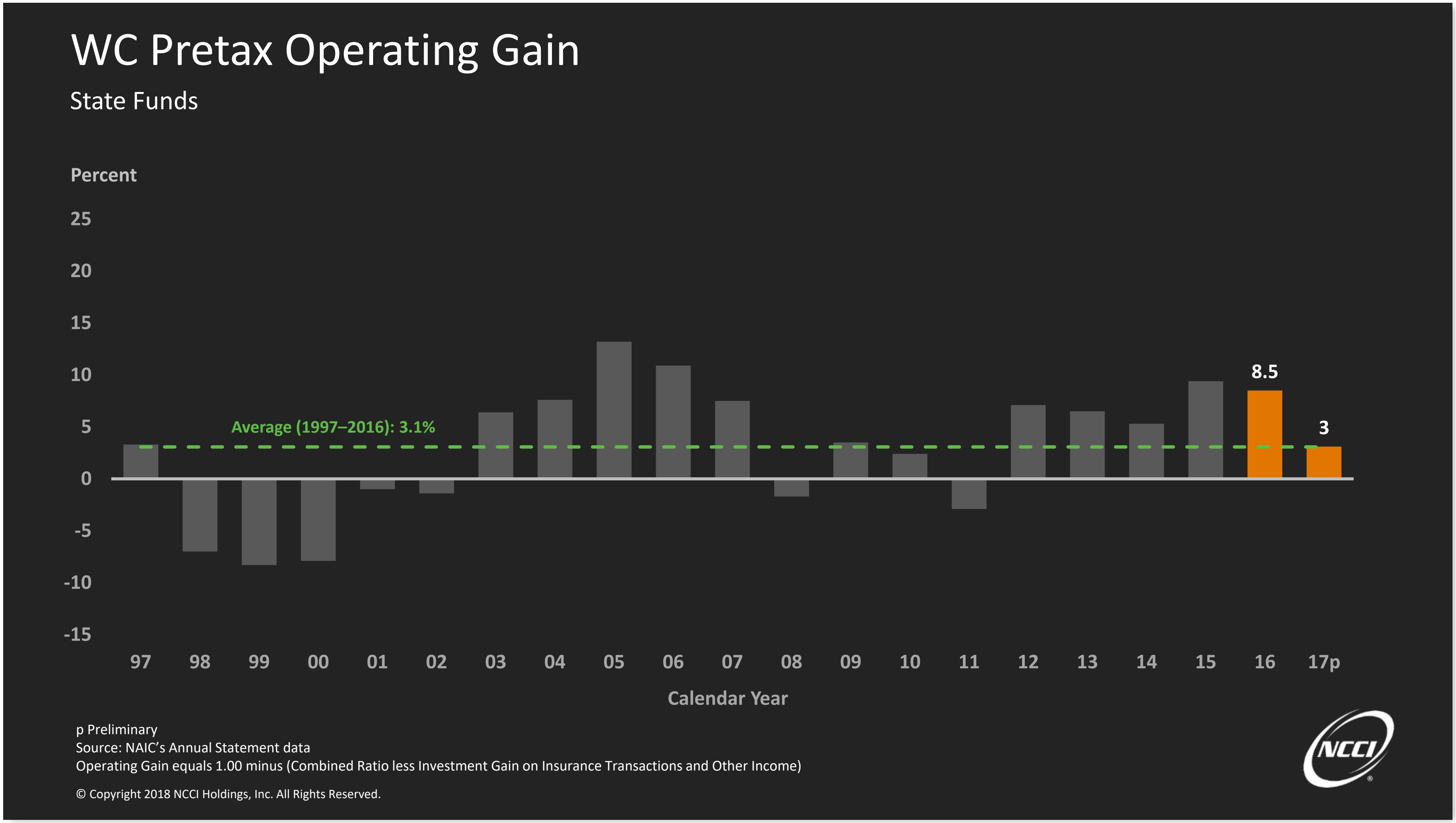
Key Takeaways

- Improvement in the underlying loss ratios continued in 2017, with state funds reporting an eight-point decline versus 2016.
- Offsetting the improved state fund loss ratio experience in 2017 were increases in the dividend, underwriting expense, and loss adjustment expense ratios.



Key Takeaways

- The Investment Gain on Insurance Transactions (IGIT) is typically better for state funds than for private carriers, with the long-term average almost ten points higher.
- State funds typically hold higher average reserves, and that bolsters the balance sheet, driving the IGIT higher. Also, state funds are usually monoline workers compensation carriers, and their investment portfolio can solely reflect the long-term nature of the workers compensation contract.



Key Takeaway

- The 2017 underwriting loss of 15% was offset by the Investment Gain on Insurance Transactions of 18%, resulting in an operating gain of 3%, on average, for state funds.

Background and Data Sources

Slide 1: ←
WC Combined Ratio—State Funds

Background

This slide shows workers compensation combined ratios prior to the consideration of investment and other income. A combined ratio is the sum of the loss ratio, the loss adjustment expense (LAE) ratio, the dividend ratio, and the underwriting expense ratio. The loss, LAE, and dividend ratios are calculated as ratios to earned premium. The underwriting expense ratio is calculated as a ratio to written premium to provide a better match of the timing of the numerator and denominator.

Data Sources

- NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers
- Insurance Expense Exhibit Part II—Allocation to Lines of Business Net of Reinsurance

The value for the most recent year is preliminary because additional data submissions may still be received by the NAIC.

Slide 2: ←
WC Combined Ratio by Component—State Funds

Background

This slide shows the components of the workers compensation combined ratios for state funds. The loss ratios in this slide compare net incurred losses to net earned premium. The loss ratio is the largest component of the combined ratio.

The loss adjustment expense (LAE) ratio compares net incurred LAE to net earned premium. LAE includes both defense and cost containment expenses (DCCE) and adjusting and other expenses.

The underwriting expense ratio compares the costs associated with writing insurance to net written premium. The underwriting expenses included in the ratio are:

- Commission and brokerage expenses
- Taxes, licenses, and fees
- Other acquisition expenses
- General expenses

Policyholder dividends are the smallest component of the combined ratio and are compared to net earned premium.

Data Sources

- NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers
- Insurance Expense Exhibit Part II—Allocation to Lines of Business Net of Reinsurance

The value for the most recent year is preliminary because additional data submissions may still be received by the NAIC.

Slide 3: ←

WC Investment Gain on Insurance Transactions—State Funds

Background

The overall investment gain is allocated by line of business according to the NAIC-prescribed allocation procedure.

The WC Investment Gain on Insurance Transactions (IGIT) ratio measures investment performance by comparing investment income allocated to the WC line of business to WC earned premium.

Data Sources

- NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers
- Insurance Expense Exhibit Part II—Allocation to Lines of Business Net of Reinsurance

The value for the most recent year is preliminary because additional data submissions may still be received by the NAIC.

Slide 4: ←

WC Pretax Operating Gain—State Funds

Background

The pretax operating gain in this slide measures the overall financial performance of the workers compensation line, considering both underwriting income and investment income. Pretax operating gain excludes direct changes to surplus, including, but not limited to, changes in:

- Unrealized capital gains
- Unrealized foreign exchange gain
- Net deferred income tax
- Nonadmitted assets
- The provision for reinsurance
- Surplus notes

Data Sources

- NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers
- Insurance Expense Exhibit Part II—Allocation to Lines of Business Net of Reinsurance

The value for the most recent year is preliminary because additional data submissions may still be received by the NAIC.

Data Tables

Slide 1: ←
WC Combined Ratio—State Funds

Combined ratios in the following table are shown in percentages.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017p
131	142	145	137	117	116	103	102	102	106	115	121	129	138	133	124	115	116	107	108	115

Slide 2: ←
WC Combined Ratio by Component—State Funds

Values in the following table are shown in percentages.

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Dividend Ratio	10.1	17.3	14.5	11.7	2.9	2.2	0.9	1.5	2.6	4.4	6.9	5.9	6	11.4	11.4
Underwriting Expense Ratio	21.4	21.6	22.9	20.3	19.4	18.5	16.7	16.5	16.6	19.9	21.9	24.7	28.4	29	28.5
LAE Ratio	17.6	22.8	19.2	15.5	12.4	10.2	10.8	9.8	12.3	13.5	15.4	18.9	21.6	21.1	34.4
Loss Ratio	81.5	79.8	88.5	89.2	81.9	85.5	74.5	73.7	70.1	67.8	70.7	71.3	73.4	76	58.8
Combined Ratio	131	142	145	137	117	116	103	102	102	106	115	121	129	138	133

Year	2012	2013	2014	2015	2016	2017p
Dividend Ratio	12.3	10.7	9.1	8.7	11.1	13
Underwriting Expense Ratio	27.9	23.3	23.1	23.6	23.8	28
LAE Ratio	15.2	14.7	17.8	15.9	18.1	28
Loss Ratio	68.8	66.6	65.5	58.3	55.1	47
Combined Ratio	124	115	116	107	108	115

SLIDE 3: ←
WC INVESTMENT GAIN ON INSURANCE TRANSACTIONS—STATE FUNDS

Investment gain ratios in the following table are shown in percentages.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017p
33.9	34.5	36.8	28.8	15.6	15	9.3	9.1	14.8	16.5	22.4	19.1	32.9	39.9	29.8	32.3	21.8	20.8	15.9	16.6	18

SLIDE 4: ←
WC PRETAX OPERATING GAIN—STATE FUNDS

Pretax operating gains in the following table are shown in percentages.

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017p
3.3	–7.0	–8.3	–7.9	–1.0	–1.4	6.4	7.6	13.2	10.9	7.5	–1.7	3.5	2.4	–3.3	8.1	6.5	5.3	9.4	8.5	3